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Lew Owens
Chairman
Ports Price Review: Should Price Regulation Continue?
Essential Services Commission of SA
GPO Box 2605
ADELAIDE SA 5001

Dear Lew

Discussion Paper number 1:
Should Price Regulation Continue? Ports Price Review.

In commenting on The Ports Prices Review Discussion Paper we suggest that price regulation should be maintained for an additional three years and then reviewed. In reaching this conclusion we have taken into account information provided below.

- Bulk products, particularly grain, tend to be shipped from the port nearest to the source of production and/or storage, [provided that port can provide suitable loading facilities and access to appropriate vessels].
- Currently developments in the SA grain industry appear to be aimed at increased vertical integration of competing supply chains
  -Ausbulk has expanded activities from grain storage into grain purchasing and processing, as well as port ownership - with its acquisition of Ardrossan. AWB Ltd is also increasing vertical integration of its supply chain by moving from grain marketing to loading, storage and potential port development [e.g. Myponie Point]. While competition is presently quite intense, vertical integration of supply chains in “thin” markets with a high cost of entry can ultimately lessen competition and in some instances lead to a monopoly situation and/or market failure. Accordingly there may be grounds to retain price regulation at the grain ports – at least until the industry becomes more settled.

- Strong competition exists in the container trades - particularly between the Port of Adelaide and the ports of Melbourne, Fremantle and to a lesser extent Sydney. The Port of Darwin will also become a competitor once the rail link is completed – [currently a major shipper is negotiating with both ports and the rail operator before deciding which port to use for the export of 100,000 tonnes of its mineral product p.a.].

- Charges taken into account by container shipping lines, when assessing calls at competing ports, include those applied to the ship such as navigation, harbour, mooring, pilotage and towage services. Cargo, stevedoring and land-bridging charges also influence their decision. Increased globalisation means that lines assessing

Adelaide as an option compare it with calls not only at Australian ports but other port call options overseas.

- In terms of understanding competition between the Port of Adelaide and other ports involved in container shipping we suggest that relative to its major competitor, the Port of Melbourne, the Port of Adelaide tends to have higher costs [due to lower economies of scale]. Moreover, recent events indicate that combined Melbourne port, rail, shipping and stevedoring interests, in an effort to stop a new container shipping service calling at Port Adelaide, are offering artificially low prices. In this context the Port of Adelaide has only limited countervailing power and therefore fair competition in this market is becoming distorted.

- Port price regulation is currently applied to two private port operators. As private companies they are bound to put returns to their shareholders above that of the interests of South Australia.

- Accordingly there may be instances where port operator commercial interests do not coincide with the interests of their customers or the State and this can be reflected in prices charged.

- One might reasonably expect that port operators will seek to increase shipping services through their ports to meet fixed costs, maximise revenue, return on investment and that competitive prices play a role in attracting the increased business. However, it may be equally argued that reducing shipping services can in some instances reduce costs and by raising prices on "captive" trades may return a greater profit to the company.

- In instances where there are market distortions resulting in services only remaining at a port because it is largely captive, then we may see prices rise and abnormal profits generated. Accordingly to minimise the risk of this occurring it is suggested that pricing regulation of charges affecting container and other shipping services be maintained for an additional three years and then reviewed.

- Furthermore, in the absence of price regulation, when the economy is buoyant and port throughput is high, competitive port pricing is most likely to eventuate. Conversely, in less buoyant times (ie: drought, economic downturn etc) prices may be set higher so as port revenue streams are maintained but SA exporters are disadvantaged.

We expect that industry will provide you with the specific information that you seek through the Discussion Paper. Nevertheless, should you require it; we can provide you with access to our export data base that has details of sea freight shipments per month by tonnes, FOB value, commodity, State of origin, port of loading, destination port and country.

For further information please contact Mr Ian Lovell, Freight Transport Coordinator or Mr Neil Murphy, Senior Project Officer – Freight on Tel: (08) 8343 2983 or Tel: (08) 8343 2085.

Yours Faithfully

Tim O'Loughlin
Chief Executive
DTUP