



PORTS PRICE REVIEW PROGRESS REPORT

May 2003

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REQUEST FOR SUBMISSIONS

The Essential Services Commission of SA (ESCOSA) invites written submissions from interested parties in relation to the issues raised in this paper (particularly in Chapters 4 and 5). Written comments should be provided by **16 July 2003**. It is highly desirable for an electronic copy of the submission to accompany any written submission.

It is ESCOSA policy to make all submissions publicly available via its website (www.escosa.sa.gov.au), except where a submission either wholly or partly contains confidential or commercially sensitive information provided on a confidential basis and appropriate prior notice has been given.

ESCOSA may also exercise its discretion not to exhibit any submission based on their length or content (for example containing material that is defamatory, offensive or in breach of any law).

Responses to this paper should be directed to:

Ports Price Review: Progress Report

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Public Information about ESCOSA's activities

Information about the role and activities of ESCOSA, including copies of latest reports and submissions can be found on the ESCOSA website at www.escosa.sa.gov.au.

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OVERVIEW

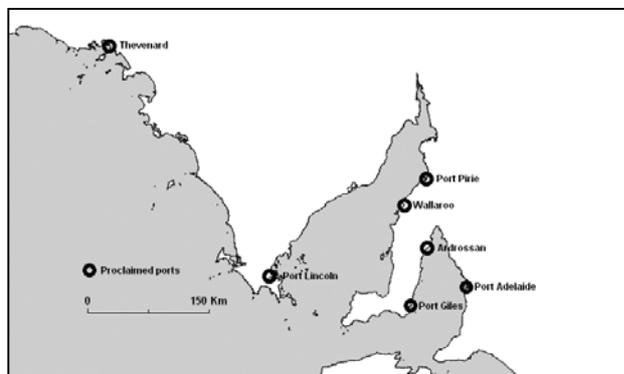
The Essential Services Commission of South Australia (ESCOSA) has completed the first stage of its review of price regulation of seven commercial ports. The first stage looked at whether price regulation, which currently involves a system of price caps (or maximum prices) for a range of specific port services, should continue beyond 2004.

ESCOSA released a Discussion Paper, "Should Price Regulation Continue?" in November 2002. Seven submissions were received.

Price regulation applies to Essential Maritime Services at Proclaimed Ports. These services are (mostly) the basic infrastructure services that a ship operator or cargo importer/exporter (shipper) needs to use a port, such as channels, navigational aids, berths and wharves, but excluding pilotage, towage and stevedoring.

There are seven Proclaimed Ports:

- ▲ Port Adelaide;
- ▲ Port Giles;
- ▲ Wallaroo;
- ▲ Port Pirie;
- ▲ Port Lincoln;
- ▲ Thevenard; and
- ▲ Ardrossan.



Flinders Ports Pty Ltd operates the first six ports. AusBulk Ltd operates the port at Ardrossan. Price regulation began on 31 October 2001, following privatisation of the first six ports¹, which were formerly owned by SA Ports Corporation.

ESCOSA is of the opinion that there may be sufficient grounds to consider the continuation of price regulation. These arise because there is some opportunity for port operators to have, and possibly misuse, market power. This opportunity derives from the bottleneck position a port often holds in export and import supply chains.

However, ESCOSA recognises that the situation varies for different cargoes and for different locations, depending on, for example:

- ▲ whether the shipper has alternative choices:
 - such as with high value / mobile cargoes (eg. containerised cargoes) which can often be moved through interstate ports;
 - where domestic market options exist; and
 - where the cargo itself is traded on markets with thin margins, resulting in little extra value for a port operator to extract;

¹ An additional port, Klein Point, was also sold but it is not a Proclaimed Port.



- ▲ whether port charges form a smaller or larger proportion of the cargo value (where port charges are insignificant there could be opportunity for surreptitious price gouging); and
- ▲ whether the port user (shipping line or shipper) has bargaining power, such as the command of large volumes or the ability to switch operations (part or all) to other locations (or states).

ESCOSA recognises that, in general, market power misuse concerns are greater for port users dealing in commodity bulk cargoes (particularly grain) and for Eyre Peninsula port users, who have fewer economic alternatives.

Second stage

ESCOSA will now progress to the second stage of the review, which will look at the forms of price regulation that could be applied to Essential Maritime Services from 31 October 2004.

At present there is a series of maximum prices that a port operator can charge. These increase each year by CPI, with the exception of the Cargo Services Charge for grain, which is fixed until 31 October 2004.

Beyond 31 October 2004 ESCOSA may elect to apply a new form of price regulation, if that is what is required.

There are no limitations on what that form might be. Price regulation could range from merely requiring port operators to publish their prices (with no direct controls), to complex arrangements where ESCOSA sets every charge, with various options in between.

ESCOSA expects that this second stage will involve:

- ▲ identifying the various forms of price regulation that are available;
- ▲ considering the characteristics and implications of each form;
- ▲ assessing the ability of each form to address market power issues;
- ▲ assessing the practicality of each form in terms of Essential Maritime Services;
- ▲ assessing the compliance and administration costs that each form will create; and
- ▲ selecting a form of price regulation that most effectively addresses the market power issues identified in the most efficient manner possible.

It is important to note that the second stage will include a benefit-cost assessment of any proposed form of price regulation to ensure that any price regulation applied can produce a net benefit to South Australians.

Failure to achieve a net benefit would mean that price regulation would not be consistent with the *Essential Services Commission Act 2002*.

This might arise, for example, if the costs of administering and complying with price regulation were to be higher than the economic benefits it produced. Therefore, although ESCOSA has concluded that there are grounds for further considering price regulation, it is still possible that “no price regulation” could result.

ESCOSA invites submissions (by July 16) on the form of price regulation that should apply to Essential Maritime Services from 31 October 2004.

1. INTRODUCTION

In November 2002 the Essential Services Commission of South Australia (ESCOSA) released a Discussion Paper “Should Price Regulation Continue?” The Discussion Paper marked the beginning of the Ports Price Review, a review of the price regulation of Essential Maritime Services under the *Maritime Services (Access) Act 2000* (the MSA Act).

The Discussion Paper set out the reasons for the review and sought comment on the issues that ESCOSA would need to consider through the review, particularly the first stage. The Discussion Paper also flagged that ESCOSA would release this Progress Report, as an intermediate step in the conduct of the review. As envisaged, this Progress Report sets out ESCOSA’s conclusions thus far on the first stage of the Ports Price Review: Should Price Regulation Continue?

This Progress Report also summarises the rationale behind these conclusions. The Draft and Final Reports, due August and November 2003 respectively, will set out ESCOSA’s complete assessment on all aspects of the review.

While ESCOSA is of the opinion that there may be grounds for further considering price regulation of Essential Maritime Services, it has not, at this stage, concluded that price regulation must continue. Whether price regulation continues depends upon whether a suitable form of price regulation exists that can both:

- ▲ deal with the competition issues identified herein; and
- ▲ do so in a manner that satisfies the benefit-cost requirements under the price regulation part (Part 3) of the *Essential Services Commission Act 2002* (the ESC Act).

ESCOSA is seeking comment from interested parties on these matters. Specific issues and questions are raised throughout this Progress Report (especially in Chapters 4 and 5) that should prompt thought and comment. ESCOSA acknowledges that some of the submissions have already addressed issues of form of price regulation, but encourages interested parties to consider whether further information or views may be offered.

1.1 Structure of this Report

The remainder of this report is set out as follows.

Chapter 2 clarifies some issues of coverage raised in the Discussion Paper.

Chapter 3 sets out the assessment criteria ESCOSA has used.

Chapter 4 sets out ESCOSA’s assessment of Essential Maritime Services against the criteria and hence the conclusion thus far.

Chapter 5 sets out some of the issues that ESCOSA will need to address in the next stage of the review and seeks comment from interested parties on these.

Chapter 6 sets out the next steps for the Ports Price Review.

Appendix A lists the submissions received.



Appendix B outlines price regulation in other jurisdictions.

Appendix C presents information in respect of estimates of the share of Essential Maritime Services in total cargo value.

2. COVERAGE ISSUES

In the Discussion Paper, ESCOSA raised the issue of coverage, noting that there was some doubt over the coverage of certain services – were they Essential Maritime Services or not?

Section 4 of the MSA Act defines Essential Maritime Services as consisting of:

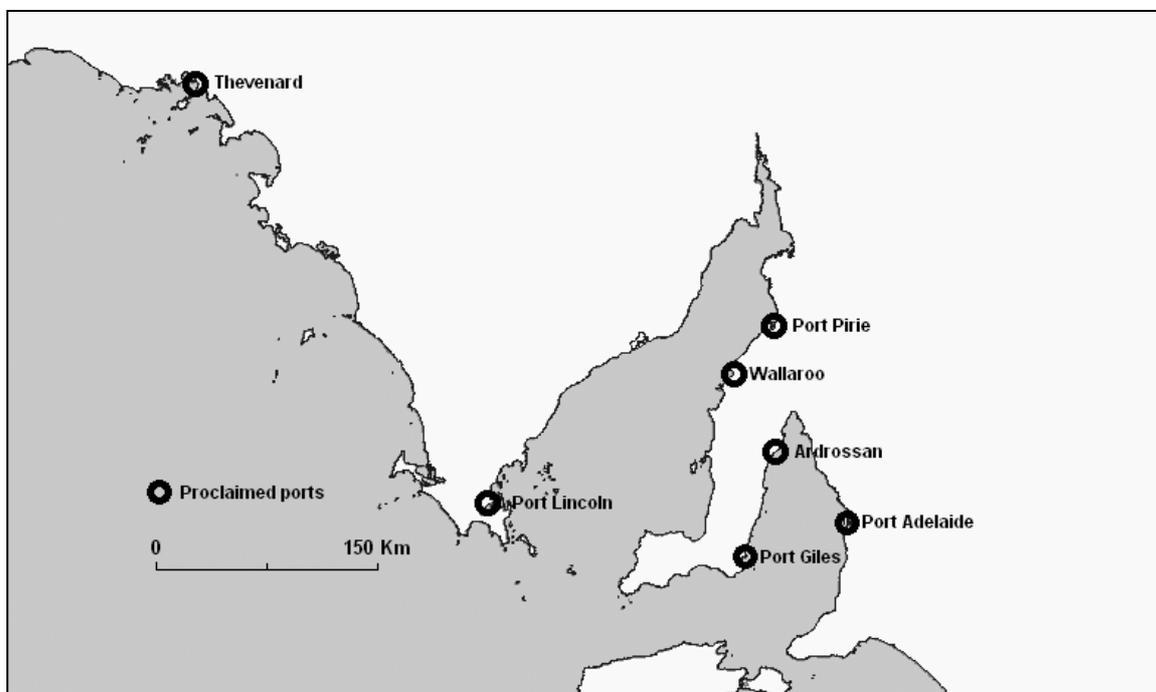
- ▲ providing or allowing for access of vessels to a proclaimed port; or
- ▲ providing port facilities for unloading or unloading vessels at a proclaimed port; or
- ▲ providing berths for vessels at a proclaimed port.

There are seven Proclaimed Ports, as shown in Figure 1 below:

- ▲ Port Adelaide;
- ▲ Port Giles;
- ▲ Wallaroo;
- ▲ Port Pirie;
- ▲ Port Lincoln;
- ▲ Thevenard; and
- ▲ Ardrossan.

Flinders Ports Pty Ltd operates the first six ports. AusBulk Ltd operates the port at Ardrossan.

Figure 2.1 Proclaimed Ports



Note that there are other major commercial ports in South Australia that are not proclaimed, (and hence not regulated by ESCOSA), these being Whyalla, Port Bonython and Port Stanvac.



2.1 Essential Maritime Services

In the Discussion Paper ESCOSA set out the services that it understood to be covered by the three charges, and hence which may be Essential Maritime Services. At present, Essential Maritime Services are covered under 3 charges, being the:

- ▲ Navigation Services Charge;
- ▲ Harbour Services & Mooring Charge; and
- ▲ Cargo Services Charge.

The three charges, in aggregate, cover the suite of Essential Maritime Services. It is less clear whether each of the three charges covers each of the three components of the definition of Essential Maritime Services listed above. However, there is no requirement for each charge to correspond to each component of the definition.

Flinders Ports provided some comment on the services that should be included under Essential Maritime Services. In part, they argued that the definition should be linked to essential infrastructure as applies under the Competition Principles Agreement². ESCOSA notes that much of Flinders Port's argument related to considering whether a service should be regulated.³ Further, the definition of Essential Maritime Services (particularly the first component) does not directly limit itself to infrastructure.

Beyond that, Flinders Ports discussed the definitions of the three charges as provided in the Information Memorandum that was prepared as part of the sale process. The descriptions there vary from those listed in the Discussion Paper.

It is apparent to ESCOSA that there are varying terms applying to the same services in ports and that the creation of a complete and exhaustive list of services covered by Essential Maritime Services may not be feasible. ESCOSA also faces such issues in regulation in other industries, where the preparation of exhaustive lists of regulated services is often infeasible and, in a practical sense, unnecessary.

However, to provide a clear indication of ESCOSA's understanding for the purposes of this review, Essential Maritime Services include the services provided by:

- ▲ navigational aids;
- ▲ harbour control⁴ (but not pilotage or towage);
- ▲ channels;
- ▲ berths;

² One of the agreements forming the National Competition Policy.

³ It should be noted that this section has only sought to clarify which services fall within the definition of Essential Maritime Services. The question of whether each, every or any of those services should continue to be subject to price regulation is a separate matter.

⁴ ABB Grain used the words "efficient and safe rotation of vessels into and out of Port" to describe their understanding of this part of the service (ABB Grain, p.2).

- ▲ wharves;
- ▲ cargo loading and unloading (marshalling) areas (but not loading or unloading itself);
- ▲ jetties;
- ▲ berth pockets;
- ▲ fenders;
- ▲ mooring structures;
- ▲ mooring and unmooring (see below);
- ▲ provisioning connections (but not provisioning).

In the main the list suggests a focus on infrastructure services. However, as the discussion below indicates, the definitions do not automatically limit Essential Maritime Services to infrastructure services only.

2.2 Mooring

Mooring services are currently included in the Harbour Services & Mooring Charge and are therefore currently regulated. However, ESCOSA raised some doubt as to whether this was an intended inclusion or an inclusion by oversight. As Flinders Ports pointed out in its submission, mooring need not be provided by the port operator and indeed is sometimes provided by other parties in other ports. The fact that mooring services are not provided by infrastructure created further uncertainty.

ESCOSA is of the view that mooring services fall within the definition of Essential Maritime Services, in that they are a necessary part of providing or allowing for access of vessels to a proclaimed port. That is, access is only meaningful when a ship is safely berthed at its allocated wharf – this requires mooring. ESCOSA also notes that the first component of the definition of Essential Maritime Services does not specify that the services must be infrastructure derived services only – which mooring services are clearly not.

In line with the previous section, at this point ESCOSA has sought to clarify only whether mooring services fall within the definition of Essential Maritime Services. Whether mooring should continue to be subject to price regulation is considered later.

2.3 Storage

As explained in the Discussion Paper, payment of a Cargo Services Charge may include the use of some limited storage capacity at the port for up to three days. However, the definition of Essential Maritime Services clearly excludes storage from price regulation.

In its submission, Flinders Ports makes the distinction between storage and marshalling, arguing that the 'storage' being offered with the Cargo Service Charge is more closely aligned with enabling the loading or unloading of a ship rather than being storage *per se*. Hence Flinders Ports suggests the term marshalling instead. Under this argument it is reasonable, Flinders Ports argues, that marshalling be included in the Cargo Services Charge.

The operation of the definitions in Section 4 of the MSA Act makes it clear that ESCOSA cannot, and hence will not, apply price regulation to storage. However, if price regulation



continues, then it may become necessary to require that the payment of a charge such as the Cargo Services Charge (or any relevant future regulated charge) not include any right to storage, however temporary or transitory in nature.

In practice, ESCOSA proposes that it would be reasonable for a charge such as the Cargo Services Charge to include the use of infrastructure for 'marshalling'. It would be impractical to separate marshalling out from the Cargo Services Charge, and it is offered (and accepted) only as an inherent service for cargoes that require more than instantaneous marshalling.

ESCOSA also recognises that it would generally not be in a port operator's interests to provide at no charge extended storage services for which it could otherwise charge. Indeed, Flinders Ports rents storage space and facilities to some customers as a separate, unregulated service.

3. ASSESSMENT CRITERIA

In the Discussion Paper ESCOSA set out the assessment criteria that it expected to apply in determining whether Essential Maritime Services should continue to be subject to price regulation. These were:

- ▲ Does the structure of the market for Essential Maritime Services suggest market power could exist?
- ▲ Does monopoly or market power exist?
- ▲ Is market power being exercised or is the potential there for it to be exercised?
- ▲ Do customers have alternative routes for their goods (indirect competition)?
- ▲ Is competitive entry possible?
- ▲ Does the answer vary between proclaimed ports and between the goods being moved (for example is the situation in grain different to that for container traffic)?
- ▲ Are Essential Maritime Services of sufficient importance to the South Australian economy to warrant economic efficiency concerns? This could occur either because Essential Maritime Services themselves are a significant industry or because they have a significant impact on the economics of other industries.
- ▲ Can price regulation fix the above matters or will it impose excessive additional costs and risks?

ESCOSA sought comment on these criteria and on whether any additional criteria should be considered. Two additional matters are discussed below.

Flinders Ports also raised some matters in the context of the above criteria, suggesting that:

- ▲ price regulation should be confined to essential infrastructure, in line with the Competition Principles Agreement; and
- ▲ the definition of markets is a key issue in applying the criteria, and there is merit in taking a broad view of this.

ESCOSA's view in respect of these issues is that:

- ▲ ESCOSA is not required to automatically limit itself to infrastructure, and the definitions of Essential Maritime Services are not limited to infrastructure. However, ESCOSA is of the view that, in general, non-infrastructure services are less likely to be candidates for price regulation in so far as they may be more contestable (unless there are other regulatory barriers to entry as may be the case with mooring); and
- ▲ ESCOSA agrees that the definition of markets is a key consideration. In the case of Essential Maritime Services, for example, ESCOSA considers that a supply chain view provides a more accurate representation of the drivers of Essential Maritime Services consumption decisions. Therefore, ESCOSA has considered supply chain competition.

Further, ESCOSA has also recast the third criterion to:

Is market power being misused or is the potential there for it to be misused?

This better reflects the words of the ESC Act, the point being that it is the misuse of market power that should be of concern, not its mere existence and, perhaps, inconsequential

exercise. Misuse of market power means market power applied by the wielding party (presumably in its interests) in a way that produces significant and ongoing (not transitory) economic costs and resource misallocations.⁵

3.1 Additional matters

Two additional matters arose that may have had implications for the assessment criteria:

- ▲ uniform pricing; and
- ▲ port regulation in other jurisdictions.

3.1.1 Uniform pricing

Under the current pricing structure the same nominal Cargo Services Charge applies to each type of cargo in each of the seven ports. Similarly, a common system of Navigation Services Charge applies. Differential charging applies to the Harbour Services & Mooring Charge between Port Adelaide and the regional ports.

A change in the system of price regulation, or its removal, would most likely remove any residual obligation for such uniform pricing, although ESCOSA could require its continuation.

While uniform pricing is a feature of the current price structure, its existence is neither evidence for nor against continuing price regulation. While it could be used to lock in cross-subsidy arrangements, it can also be characteristic of an efficiently simplified price structure.

ESCOSA also questions characterising the current price structure as uniform, for the following reasons:

- ▲ the Cargo Services Charge varies considerably between cargo types, even though the cargoes may place the same per tonne demands upon the port – not uniform pricing;
- ▲ the current regulated prices are maximums only, and some customers pay less than these under contractual arrangements – not uniform pricing; and
- ▲ the cost of using a port also includes pilotage and towage, the charges for which can vary considerably. By the time these are incorporated, very few port users will find their ‘total port costs’ to be uniform by any measure.

Several submissions, including those from ABB Grain, AWB Ltd and AusBulk, argued variously against mandatory uniform pricing as it removed incentives for optimising port selection and was not cost reflective of each port.

The issue of uniform pricing will be taken up in the second stage of the review, as necessary, but is not a significant consideration at this first stage.

⁵ Note that this is not necessarily the same as misuse of market power that would lead the Australian Competition and Consumer Commission to take action under the *Trade Practices Act 1974*.

3.1.2 Port regulation in other jurisdictions

In the Discussion Paper, ESCOSA noted that it would look at port regulation in Victoria, the only other Australian jurisdiction with economic regulation of ports similar to South Australia (at this time). One of the reasons for doing so was to consider the scope for promoting consistency with regulation in other jurisdictions, set out as a matter to have regard to under Section 6(1)(b)(vii) of the ESC Act.

In Appendix B, ESCOSA has also listed the approach to ports price control in other Australian jurisdictions. These are also relevant, as an absence of regulation in most jurisdictions would suggest that uniformity would be best served by its removal in South Australia (if uniformity were the only objective).

As can be seen in the appendix, it is not true to say that there is no control in those other jurisdictions. Rather, the government ownership of port authorities provides various means for direct government intervention into port pricing – either through setting certain limits on price rises, or through Ministerial direction. Reported practice suggests that little formal use has been made of such powers of intervention. However, it may be that ‘informal approvals’ are sought from the relevant Ministers under such arrangements.

While promoting national consistency is not an end in itself, it is relevant, particularly in determining which form of price regulation should apply, as the efficiency and comprehension of a form of price regulation may be improved by using a form already known elsewhere. Therefore it will be considered further in the second stage of the Ports Price Review.



4. ESCOSA'S ASSESSMENT

This chapter presents ESCOSA's conclusions thus far for Essential Maritime Services in respect of each of the assessment criteria, and provides a *summary* of the rationale for each. A separate assessment is made for mooring services, because of their separability from port infrastructure services.

ESCOSA is seeking comment from stakeholders on the issues in this chapter and the next. ESCOSA has placed questions throughout this chapter to prompt and encourage responses in submissions. Stakeholders may also wish to address any other matters they consider relevant.

4.1 Structure?

Does the structure of the market for Essential Maritime Services suggest market power could exist?

In the seven Proclaimed Ports, the relevant port operator holds an exclusive Port Operating Agreement (POA) with the Minister for Transport. The effect of a POA is to give the port operator the sole right to provide Essential Maritime Services in that Proclaimed Port.

Any ship or shipper using a port can only do so by using Essential Maritime Services as provided by the port operator – it is not possible to use a port without using Essential Maritime Services. Therefore, at this level, the structural indications are that each port operator is a sole provider. To the extent that such a structure provides a basis for market power, the structure for Essential Maritime Services suggests that market power could exist.

However, ESCOSA does not consider it correct to view the market for Essential Maritime Services as existing within any one port only. The market for Essential Maritime Services reflects the range of port choices that a ship or shipper might have, and may reflect the broader choices available, including not sending goods through any port. These matters are discussed further below.

Structure conclusion

The structure of the market for Essential Maritime Services provides some suggestion that market power could exist.

4.2 Market power?

Does monopoly or market power exist?

ESCOSA indicated above that it considered that the definition of the market for Essential Maritime Services should take account of the choices available to consumers of Essential Maritime Services, including both the choice to consume Essential Maritime Services from alternative port operators and the choice to use alternatives to Essential Maritime Services altogether – where economically feasible.



The definition of a market can be significant in considering whether market power exists because the broader the definition, the more likely it is that the scope for market power will reduce. Flinders Ports went to some length in its submission to describe the breadth of matters that define the market for Essential Maritime Services, noting the range of possible options, alternatives and counters to market power. ESCOSA agrees in principle with this approach. Later discussions expand on these matters.

However, even if a broader market definition is adopted, and the scope for market power reduces, the ability to exercise it may increase. The demand for Essential Maritime Services is a derived demand, based on the demand for the goods being exported or imported. If Essential Maritime Services are only a small fraction of the value of that good, then it may be possible for a provider to raise prices without being noticed.

The Victorian Essential Services Commission, in its draft report on channel access⁶, set out its analysis of the demand for channel services in Melbourne. That analysis found that as channel charges were such a small proportion of the value of cargo, they showed a very inelastic demand. This indicated that the provider of those services may be able to raise prices without prompting much loss of custom – an indicator of the possible existence of market power.

The situation is the same for South Australian ports, even though Essential Maritime Services are a broader set of services, and hence charges, than channels. ESCOSA undertook some comparable analysis of the share of Essential Maritime Services costs in some South Australian cargoes. As the table below shows, the shares are very small other than for Gypsum, which is a very low value product on a per tonne basis.

Table 4.1 Essential Maritime Services cost shares*

Product	Indicative Cargo Value	Essential Maritime Services costs	Cost share
Wine cartons	\$160 per carton	9 cents per carton	0.06%
Vehicles	\$30,000 per car	\$46.07 per car	0.15%
Grain	\$250 per tonne	\$1.85 per tonne	0.74%
Gypsum	\$16 per tonne	\$1.50 per tonne	9.4%

*Note that the costs are based on notional (not necessarily average) load types, load rates and ship type, etc and are for indicative purposes only. The analysis also assumes full list rates are paid. Details are included in Appendix C. Cargo values are indicative only, they are not exact selling prices for any particular producer.

⁶ Essential Services Commission (2003) *Inquiry into Port Channel Access in Victoria*, Draft Report, February 2003. Note that the Final Report is expected shortly.

Based on such an analysis, there would be some concern for most products as all but the lowest value bulk commodities would have low resulting elasticities and hence suggestive of the scope to apply market power.

However, the use of derived demand estimates is only satisfactory if assumptions are already made that the service provider holds some monopoly position. If alternatives exist to that provider then it will not be able to make use of the low elasticity. Hence the veracity of this approach is limited if there is uncertainty surrounding the initial assumptions.

Further, while Essential Maritime Services may form only a small part of the total cargo value, they may form more significant proportions of the cost structure of parts of the supply chain. For example, the Harbour Services & Mooring Charge and Navigation Services Charge are levied on shipping lines and hence form part of the shipping fee. Unless these providers are able to pass on any and all charges as they like, they will have a direct interest in the level of the port fees charged by a port operator.

The Productivity Commission raised similar issues in its examination of the regulation of airport services⁷. While recognising that each service formed a very small part of total air travel costs, that report recommended against continued price regulation for many charges.

ESCOSA would also need to determine whether regulating such a small cost component, even if market power were present, would generate a net benefit (a second stage issue).

Market power conclusion

There are indications that market power exists in Essential Maritime Services.
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4.3 Misuse?

Is market power being misused or is the potential there for it to be misused?

One of the most important aspects of any decision to continue regulation relies on the potential for, or actual, misuse of market power. This is important because it is the misuse of market power that causes economic costs and misallocation of resources, not the mere existence of market power or its incidental use.

ESCOSA has found no definitive evidence of the misuse of market power in Essential Maritime Services, although it seeks further input from stakeholders on this matter. Of course, this may not be surprising as Essential Maritime Services are already regulated. Therefore ESCOSA must keep in mind whether the removal of price regulation would open the way for the misuse of market power.

The focus of the submissions was on the grain sector, and some raise issues with the cost of grain services, noting that the Cargo Services Charge for grain was higher than comparable

⁷ Productivity Commission 2002, *Price Regulation of Airport Services*, Report no. 19, AusInfo, Canberra.



charges interstate. ESCOSA also notes that the per tonne Cargo Services Charge for grain is higher than that for several similar bulk commodities (\$1.50 per tonne compared to \$1.15 per tonne for salt, gypsum, limestone and dolomite). ESCOSA notes further that the grain industry is noticeable in the absence of significant contractual arrangements (including volume rebates) for port users. As grain is a bulk cargo that has only limited domestic or alternative port options, this could indicate a misuse, or potential misuse of market power.

ESCOSA is seeking further comment on this matter, as it also recognises that counter arguments exist that may rationalise the above observations (to some degree), such as:

- ▲ South Australia has more grain ports than other states, which results in lower volumes per port and hence higher per tonne costs;
- ▲ the higher port costs are offset by lower road transport costs made possible by having more ports available – this may be a deliberate choice;
- ▲ South Australia's regional ports have been built to handle grain, the charges for other commodities handled may reflect the smaller share of port infrastructure dedicated to or demanded by those commodities; or
- ▲ ports strike a balance between charging cargo interests and shipping interests, and that balance varies between ports; hence, a higher Cargo Services Charge in South Australia could be offset by lower ship-based charges. As Meyrick and Associates explain in a report to the Victorian ESC⁸, it is difficult to settle on a correct balance in charges.

ESCOSA will need further definitive information from interested parties on whether there are real indicators of the misuse or potential for misuse of market power.

Misuse conclusion

There is some possible potential for the misuse of market power, but the indications are not uniform across commodities.

4.4 Alternatives?

Do customers have alternative routes for their goods (indirect competition)?

Earlier it was noted that a port user has no alternative to using the Essential Maritime Services supplied by the port operator – in that port. However, a port user, whether a ship or shipper, will often have a choice of port, or indeed a choice of whether to use a port at all. The alternatives arise in various forms:

- ▲ Containers are designed for mobility and can be readily moved by rail and truck, opening the possibility for movement to Melbourne, Fremantle and elsewhere. For example, Patrick

⁸ Meyrick and Associates 2002, *Channel Pricing – Issues & Practices*, Prepared for Essential Services Commission, Meyrick and Associates, Wollongong.

Corporation offers a container service in Adelaide, using its own train to its container terminal at the Port of Melbourne.

- ▲ Container services tend to be ship driven rather than cargo driven, meaning that the port operator needs to attract shipping services to attract cargoes. This results in active competition for a desirable mix of shipping liner calls into port.
- ▲ Many port customers are large corporations, sometimes with significant knowledge about logistics and commonly with significant volumes of traffic on offer. Indeed, a significant proportion of Flinders Ports' Essential Maritime Services revenue is subject to various forms of contractual arrangements, sometimes involving volume rebates, that have been entered into with major customers.
- ▲ As the port is only a small part of any supply chain, the choice of port may be driven by other aspects of the supply chain, meaning that the port operator may be a passive player in the choice of port decision. Customers can also make their own locational decisions, affecting port choice.
- ▲ Some products can be moved onto the domestic market instead of exported.
- ▲ Should a port operator, or anyone else in the supply chain, seek to price gouge, some operators will cease production. For example, gypsum is a low value, globally traded commodity. Operating on low margins, any move to price gouge would soon risk ceasing production – and the loss of all volume.

The feasible alternatives tend to arise in either high value, mobile cargoes, such as containers and vehicles. Bulk commodities have fewer options in most cases, although grain from areas near the Victorian border could be moved through Victorian ports. The existence of alternatives operates as a constraint to the exercise of market power.

Alternatives conclusion

Some port customers have economically feasible alternatives, although this is not uniform.
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4.5 Entry?

Is competitive entry possible?

ESCOSA noted earlier that competitive entry is not possible within a port, as the port operator has sole right to offer (or control the delivery of) Essential Maritime Services within its port.

It is possible to enter the market by building a new port, assuming that a site can be found and regulatory approval obtained. AWB Ltd is considering such a move at Myponie Point on the Yorke Peninsula, although the feasibility of that project is unknown. In general, new entry through a new port is unlikely to occur on a significant scale.

The range of cargoes offered under Essential Maritime Services could be expanded by an existing port. For example, AusBulk has announced a panamax capable upgrade to Ardrossan to recommence grain movements. AWB Ltd and ABB Grain sought to develop grain handling and loading facilities at Port Stanvac (currently an oil terminal).



Entry conclusion

Entry into Essential Maritime Services is not impossible but the scope is very limited.

4.6 Variation?

Does the answer vary between proclaimed ports and between the goods being moved (for example is the situation in grain different to that for container traffic)?

One of the most significant observations that ESCOSA has made thus far, which is repeated throughout, is the variation that exists between cargo types, especially between the high value containers (and automobiles), and the lower value and less mobile bulk commodities.

However, it should also be noted that even AWB Ltd and ABB Grain, operating in the grain market, should have some countervailing power given their volumes and the fact that some of their volumes are contestable, with delivery possible to Victorian ports.

It is also the case that alternatives reduce further west, as distance reduces the feasibility of finding alternative transport options. Eyre Peninsula port users have little alternative, with only limited transport options, a very small local market and the two Proclaimed Ports owned by the one operator.

The implication is that an analysis of Essential Maritime Services could be fully separated into a number of different segments. The case for price regulation would then vary across those segments reflecting the differing competition intensities.

Variation conclusion

There is significant variation between ports and cargoes, with the greater market power concerns arising in respect of the Eyre Peninsula, and bulk cargoes, especially grain.

4.7 Significance?

Are Essential Maritime Services of sufficient importance to the South Australian economy to warrant economic efficiency concerns? This could occur either because Essential Maritime Services themselves are a significant industry or because they have a significant impact on the economics of other industries.

Essential Maritime Services in South Australia account for around \$40 million of revenue annually, making it a very small industry in itself.

However, the Proclaimed Ports are involved in the export and import of billions of dollars worth of goods each year. For example, South Australia exported over \$9.1 billion worth of goods in

2002 and imported over \$5.6 billion⁹, the majority of which has moved through Proclaimed Ports. This gives Essential Maritime Services some reflective significance, which arouses interest in the cost of Essential Maritime Services and the potential need for price regulation.

Significance conclusion

Essential Maritime Services themselves are a small but significant part of the South Australian economy, affecting in a minor but crucial way the import and export of billions of dollars worth of cargoes annually.

4.8 Impact?

Can price regulation fix the above matters or will it impose excessive additional costs and risks?

Whether price regulation can address these matters raised earlier depends on:

- ▲ clarification of whether the observed market power issues are sufficiently significant to warrant action; and
- ▲ consideration of whether any particular form of price regulation can address those issues in a way that produces a net benefit.

These matters will be taken up in the second stage of the review. Note that ESCOSA recognises that while Essential Maritime Services may be small in aggregate, they may be regionally significant. Therefore it will also consider whether there are issues of regional importance. These may be significant given that market power concerns on the Eyre Peninsula were identified as a possible issue.

Impact conclusion

The small proportion that Essential Maritime Services make up in supply chain activities raises questions as to the benefit of their being subject to price regulation. This will be taken up in more detail in the second stage of the Ports Price Review.

4.9 Mooring services

Mooring services are part of Essential Maritime Services, and are currently included in the Harbour Services & Mooring Charge. However, unlike most of the services included in Essential Maritime Services, mooring is neither an infrastructure service nor a service critically linked to infrastructure ownership.

⁹ Australian Bureau of Statistics 2003, *International Merchandise Trade*, December Quarter 2002, Cat. No. 5422.0, 20 February 2003, Canberra.



A number of submissions pointed out that while mooring (and unmooring) services were a necessary part of accessing a port, they should be able to be made contestable either by allowing entry to multiple providers, or by port based tendering of the service.

For example, AWB stated:

Mooring facilities should be included within the definition, however the service of actually receiving and placing mooring lines and letting go should be open to competitive pricing provided the owner of the mooring facilities allows access by third parties. (AWB, p.3)

Similarly Dale Cole and Associates stated:

The barriers to entry for ... mooring gangs are reasonably low. DCAPL suggests that the most effective form of economic efficiency for these three essential services is contestable entry and, as a consequence, these three services should not be regulated. (DCAPL, p.4)

Flinders Ports also pointed out that mooring services can be provided by others, and often are in other ports.

ESCOSA agrees that mooring services do not have to be provided by a port operator, are not reliant on infrastructure ownership or control, and are potentially contestable. Furthermore, ESCOSA notes that the Productivity Commission (PC)¹⁰ has recently determined that there is no case for the economic regulation of mooring services (Australia wide), noting that entry barriers were low.

As a result ESCOSA would prefer that price regulation not apply to mooring services at all. It will maintain this conclusion if it is satisfied that the port operators have in place appropriate arrangements to allow for competitive entry or service tendering. That is, ESCOSA will need to be satisfied that while economic barriers to entry are low, so too are regulatory barriers.

An implication of this approach is that mooring services should not be bundled with the Harbour Services & Mooring Charge. Should some form of price regulation continue, provision will need to be made to separate out mooring charges.

Mooring conclusion

Mooring services should not be subject to any form of price regulation, unless regulatory barriers make entry impractical.

4.10 Overall preliminary conclusion

ESCOSA is of the opinion that there may be sufficient grounds to consider the continuation of price regulation of Essential Maritime Services in some areas.

¹⁰ Productivity Commission 2002, *Economic Regulation of Harbour Towing and Related Services*, Report no. 24, Canberra.

4.11 Further information

While ESCOSA has reached the above conclusion, there are some areas in which it would appreciate further information before it can confirm its conclusion:

- ▲ How practical is mooring contestability? Are there regulatory limitations?
- ▲ Why are there no/few contractual arrangements between the grain industry and port operators – noting that grain is one of the most significant port customers?
- ▲ Should Mobil's announced mothballing of Port Stanvac change ESCOSA's assessment?
- ▲ Should AusBulk's announced upgrade of Ardrossan change ESCOSA's assessment?
- ▲ Are there clear examples of misuse of market power in Essential Maritime Services in South Australian ports (these can be documented confidentially if desired)?



5. FORM OF PRICE REGULATION ISSUES

In the second stage of the Ports Price Review ESCOSA will answer the question of what form of price regulation should apply to Essential Maritime Services.

5.1 Available forms of price regulation

ESCOSA's price regulation powers arise under Part 3 of the ESC Act. Specifically, under Section 25(3), ESCOSA may make a price determination that regulates prices, conditions relating to prices or price-fixing factors in any manner it considers appropriate. The section also lays out some examples of what ESCOSA might do in a price determination:

- ▲ fixing a price or the rate of increase or decrease in a price;
- ▲ fixing a maximum price or maximum rate of increase or minimum rate of decrease in a maximum price;
- ▲ fixing an average price for specified goods or services or an average rate of increase or decrease in an average price;
- ▲ specifying pricing policies or principles;
- ▲ specifying an amount determined by reference to a general price index, the cost of production, a rate of return on assets employed or any other specified factor;
- ▲ specifying an amount determined by reference to quantity, location, period or other specified factor relevant to the supply of goods or services;
- ▲ fixing a maximum average revenue, or maximum rate of increase or minimum rate of decrease in maximum average revenue, in relation to specified goods or services; and/or
- ▲ monitoring the price levels of specified goods and services.

Section 25(4) sets out further that ESCOSA must have regard to (in addition to its general objectives as discussed in the Discussion Paper):

- ▲ the particular circumstances of the regulated industry and the goods and services for which the determination is being made;
- ▲ the costs of making, producing or supplying the goods or services;
- ▲ the costs of complying with laws or regulatory requirements;
- ▲ the return on assets in the regulated industry;
- ▲ any relevant interstate and international benchmarks for prices, costs and return on assets in comparable industries;
- ▲ the financial implications of the determination;
- ▲ any factors specified by a relevant industry regulation Act or by regulation under this Act; and
- ▲ any other factors that the Commission considers relevant.

Section 25(5) requires ESCOSA to also ensure that in making a price determination:

- ▲ wherever possible the costs of regulation do not exceed the benefits; and
- ▲ the decision takes into account and clearly articulates any trade-off between costs and service standards.



Collectively, these provisions give ESCOSA a very broad discretion in its choice of a form of price regulation. The examples included in the ESC Act range from very intrusive price fixing through to very light handed price monitoring. In some cases ESCOSA's discretion may be constrained by an industry regulation Act. For example, an industry regulation Act may require that ESCOSA use only a certain form of price regulation. However, in the case of Essential Maritime Services, the MSA Act (the relevant industry regulation Act here) sets no such restrictions.

As a result, one of ESCOSA's first tasks is to identify the variety of forms of price regulation that are available to it. ESCOSA will examine forms of price regulation applied across a number of industries in different jurisdictions, not only Australia, to ensure that it is aware of as broad a range of price regulation options as possible.

In a broad sense the forms of price regulation available may fall into several different categories (each with many variants) including:

- ▲ price or price movement control;
- ▲ revenue controls on prices;
- ▲ pricing principles based regulation;
- ▲ benchmark regulation;
- ▲ price notification; and
- ▲ price monitoring.

Available forms

What forms of price regulation should ESCOSA consider for application to the various parts of Essential Maritime Services? Have these forms been applied elsewhere? If so, where?

5.2 Selecting the appropriate form

ESCOSA will select the form (or forms) of price regulation that is most appropriate for ports. Given its objectives under the ESC Act and the MSA Act, as discussed in the Discussion Paper, ESCOSA will consider the:

- ▲ ability of any particular form to address the market power issues that have been identified in this Progress Report;
- ▲ practicality of the form being applied to the ports industry;
- ▲ cost of each form, in terms of compliance costs for the port operators, administration costs for ESCOSA and economic costs more generally;
- ▲ economic benefits of each form, for example, through removal of misuse of market power and the improved allocation of resources; and
- ▲ whether more than one form is required.

The effect of Section 25(5)(a) of the ESC Act is that ESCOSA must ensure wherever possible that any price determination it may eventually make in respect of ports produces a net benefit. This involves comparing the various costs that price regulation may impose with the benefits it will achieve.

A significant consideration for ESCOSA is that, since it has noted that the market power concerns in Essential Maritime Services are variable in degree, and since Essential Maritime Services are themselves only a small part of logistics costs, it should not apply a form of price regulation in a way that either:

- ▲ has a negative impact on already competitive areas; or
- ▲ applies regulatory solutions of a scale that are out of proportion with Essential Maritime Services and the port industry.

In short, ESCOSA will select a form of regulation that is tailored to the situation at hand. ESCOSA will not merely apply a form of price regulation out of convenience to itself. ESCOSA may also determine that different forms are required for different aspects of Essential Maritime Services.¹¹

Further, the focus is on the economic costs and benefits generated by regulation to South Australian consumers. As explained in the Discussion Paper, this involves looking at South Australians more generally, not just a port operator or a few port customers.

It also means that economic transfers are not sufficient. For example, reducing port prices would involve a wealth transfer from the port operator to the port customer (through lower prices). However, this transfer itself is not the point of economic regulation. The real aim is that the price change (in this case) would improve South Australia's use of its economic resources by removing an over-allocation of funds to ports and increasing overall wealth.

Selecting forms

What other considerations should ESCOSA include when selecting between forms of price regulation?

5.3 Price-service trade offs

Section 25(5)(b) of the ESC Act requires ESCOSA to consider service standards, and whether price regulation will involve any trade-off between costs and service standards.

ESCOSA understands that many service standards in ports are derived from international and/or maritime standards, and that many of these may be implicit. While this may have an historical basis, it does leave open the possibility that a port operator could meet regulated price levels by reducing standards.

Therefore ESCOSA is keen to hear from stakeholders about port service standards, about their derivation and understanding, and whether documented standards (a service charter for example) would have a place in documenting service standard expectations.

Service standards

¹¹ Note though that an excessive number of forms would, of itself, be undesirable.

How are port service standards understood and derived? Would documenting port service standards be practically achievable and helpful as part of price regulation?

5.4 Transitional arrangements

ESCOSA's final conclusion may involve moving to a new form of price regulation, or even to no price regulation. While a significant change may be desirable, it can give rise to questions of transitional effects. Moving away from the current form of regulation can place stress into the Essential Maritime Services market because of, for example:

- ▲ price shocks if prices and/or price structures suddenly change or are released from price regulation;
- ▲ resourcing burdens (on regulated businesses and regulators) created if new forms of price regulation create sudden informational demands;
- ▲ flow-on shocks if price changes cause changes in other charges, such as freight and shipping; or
- ▲ timing effects where price changes occur in an environment of long term contracts that are unable to respond to the changes.

An option in such circumstances is to prepare a transitional arrangement that glides from the current form of regulation to the new form(s) of (or no) regulation. A transition can take several forms, including:

- ▲ staged introduction of the new form(s) of price regulation over time;
- ▲ progression through intermediate steps over time;
- ▲ staged progression with intermediate reviews to confirm a move to a next stage; and/or
- ▲ sufficient lead times and notice before changes occur.

ESCOSA welcomes comment on the need for any transitional arrangements, particularly explanations of why Essential Maritime Services would warrant such treatment.

Transition

What type of transitional arrangements, if any, could be useful in the case of Essential Maritime Services? Why?

6. NEXT STEPS

The release of this Progress Report denotes the end of the first stage of the Ports Price Review. ESCOSA will now take the review into its second stage, looking at what form(s) of regulation should apply.

ESCOSA will consider the submissions already made, and any submissions made in response to this Progress Report. Submissions on this Progress Report are due by **July 16** (see page iii for details). ESCOSA will then release a Draft Report on the appropriate form(s) of regulation for Essential Maritime Services for public review and comment.

The end result will be a Final Report, which will contain ESCOSA's final conclusions on whether price regulation of Essential Maritime Services should continue and, if so, in what form(s). The Final Report will complete ESCOSA's obligations under Section 7 of the MSA Act.

The planned timings for these two reports are:

- ▲ Draft Report – August 2003; and
- ▲ Final Report – November 2003.

However, the Final Report will not mark the end of ESCOSA's activities on this matter. If price regulation is to continue, then ESCOSA will need to make a price determination under Part 3 of the ESC Act for Essential Maritime Services to replace the FPD, from or after 31 October 2004. Any new price determination will be based upon the conclusions in the Final Report.

ESCOSA will set out a timetable for that process in the Final Report, once the need for and nature of the price determination is known.



APPENDIX A: SUBMISSIONS

ESCOSA received seven submissions.

1. Shipping Australia Ltd
2. AusBulk Ltd
3. Transport SA
4. ABB Grain Ltd
5. Flinders Ports Pty Ltd
6. Dale Cole and Associates Pty Ltd
7. AWB Limited



APPENDIX B: REGULATION IN OTHER JURISDICTIONS

There are a variety of forms of control over commercial port prices in other Australian jurisdictions, as listed below (major ports only).

Table B1: Port price controls in other jurisdictions

Jurisdiction	Price control system
Queensland	Prices set by Port Authority Boards. Returns must comply with State Government investment criteria. State can over-ride a Board's pricing but must table the direction in Parliament and in the Port Authority's annual report. Private ports not regulated, but may become subject to access regulation under the Queensland Competition Authority Act.
New South Wales	Prices set by the relevant port authority, subject to Ministerial over-ride. Prices to be commercially based, not by reference to CPI.
Tasmania	Public ports corporatised in 1997. Minister retains power to regulate prices but has not done so to date. Private ports not regulated.
Western Australia	Public ports required to structure prices to meet government stated rates of return. The level of return varies between ports. The Minister can vary prices when each port submits their annual statement of corporate intent. The rationale for any such intervention to be tabled by the Minister in Parliament. Private ports not regulated.
Northern Territory	Price rises subject to Territory Government consent and limited to CPI.
Victoria	Prices subject to independent regulation under the Victorian Essential Services Commission.

Note: ports are potentially subject to regulation under Part IIIA of the *Trade Practices Act 1974*.



APPENDIX C: ESSENTIAL MARITIME SERVICES COSTS

**SUMMARY OF PORT COSTS
FOR SHIPMENTS OF
WINE IN CONTAINERS
FROM PORT ADELAIDE
FOR
ESSENTIAL SERVICES COMMISSION OF SOUTH AUSTRALIA**

Vessel: "Notional Container Ship"

GT: 50,300

NT: 27,000

DWT: 40,800

Departure Draft: F: 9.50m A: 10.50m

Total Number of Containers Loaded in 2002: 17,060

Total Number of Container Ship calls in 2002: 226

Average Number of Containers of Wine Loaded each Voyage: 75

Average Number of Wine Cartons in each t.e.u.: 1,250

Estimation of the Value of Wine in each t.e.u.: >\$A200,000 - \$A160.00 per carton

Berth Time to load 75 t.e.u.: 3 hours

Average Berth Time per Vessel Call: 15 hours

Thruster: Vessel fitted with bow thruster - pilots "normally" use two tugs "in", one "out"

Port Activity	Adelaide Export Wine
MSA Act - Included Essential Maritime Services:	
Harbour Services Charge	\$3,694.03
Navigation Service Charge	\$1,086.49
Cargo Service Charge	\$3,975.00
Total	\$8,755.52
Average Included Cost per t.e.u. Wine	\$116.74
Average Included Cost per Carton of Wine	\$0.09
Average Cost as a percentage of Value of one Carton	0.06%
MSA Act - Excluded Essential Maritime Services:	
Towage	\$12,033.00
Pilotage	\$3,900.00
Refuse Removal	\$60.00
Total	\$15,993.00
Average Excluded Cost per t.e.u. Wine	\$213.24
Average Excluded Cost per Carton of Wine	\$0.17
Average Cost as a percentage of Value of one Carton	0.11%
Total port costs per t.e.u. Wine	\$329.98
Average Cost per Carton of Wine	\$0.26
Average Cost as a percentage of Value of one Carton	0.16%

Notes and/or Assumptions:

1. All charges and rates are GST exclusive
2. The port time at Port Adelaide is considered reasonable for the average number of containers handled
3. Tug usage is considered reasonable - two tugs "in" and one tug "out"
4. Not all a vessel's port costs are listed above - outstanding charges include: agency fees, water, fuel
5. The "Notional Container Ship" has had its particulars rounded and is similar to an "average" container ship
6. Stevedoring costs have not been included
7. The above table assumes the client vessel pays the published tariff - no allowance for volume rebates/discounts
9. The above table assumes all wine cartons are exported on container ships
10. The above table assumes that none of the >23,000 unclassified export containers contain wine



**SUMMARY OF PORT COSTS
FOR SHIPMENTS OF
MOTOR VEHICLE EXPORTS
FROM PORT ADELAIDE
FOR
ESSENTIAL SERVICES COMMISSION OF SOUTH AUSTRALIA**

Vessel: "Notional Vehicle Carrier"

GT: 49,800

NT: 28,000

DWT: 15,500

Departure Draft: F: 8.25m A: 8.25m

Total Number of Units loaded in 2002: 52,468

Total Number of Car Carrier calls in 2002: 135

Average Number of Vehicles Loaded per Voyage: 389 units

Typical vehicles loaded for this ship size: 538 units

Volume of Individual Vehicles: 457 x (10 to <15) cubic meters & 81 x >15m cubic meters

Berth Time: 7 hours

Thruster: Vessel fitted with bow thruster - pilots "normally" use two tugs "in", one "out"

Port Activity	Adelaide Export Motor Vehicles
MSA Act - Included Essential Maritime Services:	
Harbour Services Charge	\$4,116.41
Navigation Service Charge	\$5,386.70
Cargo Service Charge	\$15,284.00
Total	\$24,787.11
Average Included EMS Costs per vehicle unit	\$46.07
MSA Act - Excluded Essential Maritime Services:	
Towage	\$12,033.00
Pilotage	\$3,900.00
Refuse Removal	\$300.00
Total	\$16,233.00
Average Excluded EMS Costs per vehicle unit	\$30.17
Total port costs per vehicle unit	\$76.25

Notes and/or Assumptions:

1. All charges and rates are GST exclusive
2. The port time at Port Adelaide is considered reasonable for the number of vehicles loaded
3. Tug usage is considered reasonable - two tugs "in" and one tug "out"
4. Not all a vessel's port costs are listed above - outstanding charges include: agency fees, water, fuel
5. The separation of vehicles on a cubic capacity basis mirrors the separation in 2002
6. The "Notional Vehicle Carrier" has had its particulars rounded
7. Stevedoring costs have not been included
8. The above table assumes the client vessel pays the published tariff - no allowance for volume rebates/discounts
9. The above table assumes all export vehicles are shipped on car carriers.

**PORT COSTS COMPARISON
FOR
ESSENTIAL SERVICES COMMISSION OF SOUTH AUSTRALIA
AT
NOMINATED SOUTH AUSTRALIAN PORTS**

Vessel: "Notional Handymax"

GT: 28,500

NT: 20,000

DWT: 45,000

Departure Draft: F: 11.25m A: 11.25m

Cargo Loaded: 40,000 tonnes

Berth Time: 60 hours at Port Adelaide and 72 hours at Wallaroo

Port Cargo	Adelaide Grain	Wallaroo Grain
MSA Act - Included Essential Maritime Services:		
Harbour Services Charge	\$10,038.50	\$10,750.80
Navigation Service Charge	\$3,437.75	\$3,437.75
Cargo Service Charge	\$60,000.00	\$60,000.00
Total	\$73,476.25	\$74,188.55
Included EMS Costs per tonne of Grain loaded	\$1.84	\$1.85
MSA Act - Excluded Essential Maritime Services:		
Towage	\$13,836.00	\$12,800.00
Pilotage	\$2,350.00	\$2,260.00
Radio Pratigue	\$830.00	\$830.00
Refuse Removal	\$300.00	\$300.00
Surveys	\$2,500.00	\$2,800.00
Total	\$19,816.00	\$18,990.00
Excluded EMS Costs per tonne of Grain loaded	\$0.50	\$0.47
Total port costs per tonne of Grain loaded	\$2.33	\$2.33

Notes and/or Assumptions:

1. All charges and rates are GST exclusive
2. Port times at Port Adelaide and Wallaroo are considered reasonable, but in reality varies from ship to ship
3. The quantity of Grain loaded is an "average" load for a vessel of 45,000 DWT
4. Tug usage is considered reasonable - Wallaroo one tug "in" and one tug "out", Port Adelaide two "in" and two "out"
5. Not all a vessel's port costs are listed above - outstanding charges include: agency fees, water, fuel
6. Loading rates used: Wallaroo 600 tonnes per hour, Port Adelaide 750 tonnes per hour
7. The above table assumes the client vessel pays the published tariff - no allowance for volume rebates/discounts
8. Cargo shipped as per an Australian Wheat Charter 1990 - loading costs shipper's responsibility
9. "Normally" all charges and dues levied on the cargo shall be for charterer's account and those levied on the vessel howsoever assessed shall be for owner's account



**PORT COSTS AGGREGATE
FOR
ESSENTIAL SERVICES COMMISSION OF SOUTH AUSTRALIA
SHIP LOADING GYPSUM AT
THEVENARD**

Vessel: "Notional Handymax"

GT: 17,900

NT: 12,700

DWT: 23,500

Departure Draft: F: 9.25m A: 9.25m

Cargo Loaded: 20,000 tonnes

Berth Time: 32 hours

Port Activity	Thevenard Gypsum
MSA Act - Included Essential Maritime Services:	
Harbour Services Charge	\$4,612.12
Navigation Service Charge	\$2,467.85
Cargo Service Charge	\$23,000.00
Total	\$30,079.97
Included EMS Costs per tonne of Gypsum loaded	\$1.50
MSA Act - Excluded Essential Maritime Services:	
Towage	\$11,190.00
Pilotage	\$2,260.00
Radio Pratigue	\$830.00
Refuse Removal	\$300.00
Surveys	\$2,800.00
Total	\$17,380.00
Excluded EMS Costs per tonne of Gypsum loaded	\$0.87
Total port costs per tonne Gypsum loaded	\$2.37

Notes and/or Assumptions:

1. All charges and rates are GST exclusive
2. The loading rate at Thevenard for Gypsum is 800 tonnes per hour
3. Port time at Thevenard is considered to be a reasonable average, but in reality varies from ship to ship
4. The quantity of Gypsum loaded represents an "average" cargo of Gypsum loaded at Thevenard
5. Towage charge based on the client vessel using one tug "in" and "out"
6. Not all a vessel's port costs are listed above - outstanding charges include: agency fees, water, fuel
7. The above table assumes the client vessel pays the published tariff - no allowance for volume rebates/discounts
8. Above table assumes cargo is sold FOB - there are no stevedoring costs
9. If cargo is sold FOB shipper/consignee maybe responsible for the cargo service charge