AWB
LIMITED

16 July 2003

Mr. Lewis W Owens
Chairperson
Essential Services Commission of SA
GPO Box 2605
Adelaide, SA 5001

By Email: escosa@escosa.sa.gov.au

Dear Mr Owens

Ports Price Review: Progress Report
May 2003

AWB appreciates the opportunity to comment on the "Ports Price Review: Progress Report May 2003"

AWB strongly supports the review of the uniform pricing as part of stage two which will look at the forms of price regulation that could be applied to Essential Maritime Services from 31 October 2004. The areas of particular concern to AWB include the cross subsidisation between the different ports and lack of recognition awarded to the larger grain customers. At present a client exporting 1 canola cargo can achieve the same rate as all other customers regardless of volume.

Whilst we accept the current regulation provides for maximums without any commercial competitive pressures we are not necessarily able to achieve a negotiated outcome and AWB becomes a price taker.

ESCOSA'S Assessment

4.3 Misuse?

ESCOSA notes in the review that the grain industry is conspicuous in the absence of any contractual arrangement for the Cargo Services Charge. ESCOSA should also note that the Port operator charges the maximum allowable rate under the pricing control.

Competition for grain volumes from interstate ports is limited. Western Australian Ports offer no competition to Thevenard, the most westerly positioned port in South Australia. Portland, Victoria being the closest interstate port to South Australia, would experience a small increase to its volumes if Port charges were increased in South Australia. As an example, $1.50, equates to approximately 30km of rail distance in rail transport cost. Therefore the catchment area for South Australia bordering with Victoria may reduce by approximately 30km. This is subject to the efficiency of the grain storages in this competitive zone. Grain volumes within this zone have historically been low and therefore the impact on total volumes for the state would be minimal.

The potential for the misuse of market power will exist whilst there is ineffective competition. The current operator of the ports has an obligation to maximise shareholder value. To increase income from its port operations it can offer to marginal cargo interests reduced port charges to ensure the port obtains increased throughput and yet may increase charges on those cargoes that have no alternative supply chain.

The comment that because South Australia has more grain ports than other states which results in lower volumes per port and hence higher per tonne costs can be considered correct subject to some clarification. South Australia does have seven grain ports (6 currently utilised for wheat) whereas Western Australia has 4, Victoria and Queensland have 3 and New South Wales has 2 (see table 1). When we look at the 5 year average wheat exports shipped through each of the states, Queensland has the lowest volume per port

Table 1

State	Total annual wheat exports 5 year average	No of Ports	Average tonnes per port
SA	3,018,424.22	6	503,070
WA	6,719,409.45	4	1,679,852
VIC	2,333,664.82	3	777,888
QLD	1,073,023.21	3	357,674
NSW	3,245,734.23	2	1,622,867

Of the 6 wheat export ports in SA, 85% of AWB's wheat exports in the state are shipped from only 3 of these (see table 2. below). Therefore one could assume the per tonne cost for these 3 ports is relatively low and the other 3 ports being considerably higher.

Table 2.

SA Wheat port	5 year average wheat exports
Adelaide	1,100,245.49
Port Lincoln	1,055,491.48
Wallaroo	398,598.31
Port Giles	242,291.65
Port Pirie	115,087.99
Thevenard	106,709.30

When we look at all the ports as just grain export facilities Thevenard would seem to be an inefficient port due to volumes shipped. It is also considered as being inefficient as the port has restricted access for larger vessels and therefore attracts a higher per tonne sea freight rate. We would assume that the operational costs of Thevenard are being subsidised by other more efficient ports. If this port was closed, operational cost savings could be passed on to Port Lincoln for example with those savings subsidising transport of the grain from the Thevenard area to Port Lincoln.

The question now arises within the grain industry;
should grain underwrite other commodities?

4.4 Alternatives?

AWB wheat receivals are moved "on least cost principals". Each year we undertake least cost mapping in estimating grower returns at an upcountry location that take into account all supply chain costs. Based on these calculations approximately 1% to 2% of AWB average receivals in South Australia move to Victorian Ports. This figure is unlikely to change significantly in the near future. Based on pure rail distances, the sites are closer to a South Australian Port rather than an interstate competitor. Without accounting for any efficiency gains of a new port (rail and shipping), the current spreads between rail/road costs to alternative ports mean that a significant increase in port charges would have little or no impact on volume shipped from competitor ports. This is in part a reflection that the majority of supply chain costs are related to transport, storage, handling and loading of the wheat.

In summary under the charging structures from all supply chain service providers we do not have realistic alternatives available for the majority of wheat exports.

4.5 Entry?

Competitive entry into the Bulk grain export market has been explored by AWB Limited. The business cases explored to date (Port Stanvac/Myponie Point) have shown significant savings could be made in the supply chain through development of alternative export facilities albeit the capital costs of establishing a "green fields" port are substantial. AWB continues to explore commercial opportunities within the state.

Alternative sites for an export facility are limited due to access to deep water, land and protection from prevailing weather. Proposals explored by AWB Limited have to date not received the support of the South Australian Government. At the request of the government, proposals like Myponie Point are currently on hold in favour of the preferred development of outer harbour at Adelaide. If the Government intervenes in developments such as these then to ensure the growers within the state are offered the most efficient, cost effective supply chain, the State Government needs to ensure costs are not escalated out of control due to a lack of competition.

The possible development of Ardrossan as a Panamax capable port for grain exports presents an opportunity to introduce some competition to the mix.

4.6 Variation?

ESCOSA suggests that the Essential Maritime services could be separated into segments within the state. Services supplied through ports located in the Eyre peninsula are less likely to experience competition than those located elsewhere in the state. As previously stated the competition from interstate ports for grain volumes is minimal. Therefore splitting the state into segments is not realistic.

4.11 Further information

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?
Historically, negotiations with Port Authorities have been unfruitful in obtaining cost savings through volume rebates etc. as per previous comments with regard to misuse of market power. Discussions with the port operator have indicated that revenue from the Cargo Services Charge needs to be maintained or increased to satisfy shareholders requirements. ESCOSA will note that charges at the port have increased this year. If the Cargo Service charge for grain had been subject to CPI increases and not held static under regulation, AWB and the growers would be paying additional per tonne costs at port. When considering alternative payment structures AWB has an obligation to ensure growers are not exposed to excessive risk of cost blow outs due to low volume years.

Form of Price Regulation Issues

5.1 Available forms of price regulation

The Essential Maritime Services should be split into two categories. Those services relating to the ship and charged to the ship owner/operator and those charges charged to the Shipper/Cargo interest.

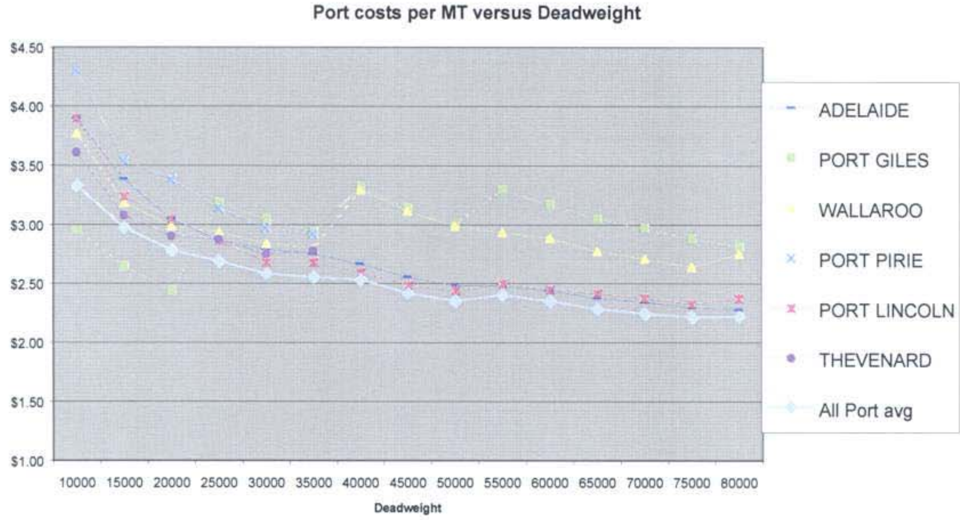
The charges levied against the ship could be compared/benchmarked against international best practice.

A simple pricing control could be adopted for the Cargo Services charge on a port by port basis. The current price regulation adopting capped charges is the least demanding administratively and should allow some flexibility for the Port Operator to exercise charging discretion through volume rebates. But being capped will also stop any misuse of market power through price gouging. Determining the level that the charges should be capped at should be determined through consideration of the cost of infrastructure and continuing maintenance and development of that infrastructure.

Appendix C: Essential Maritime Services Costs

Port Cost Comparisons for Essential Services of South Australia at Nominated South Australian Ports.

As part of AWB's review of port charges nationwide we requested our agents to calculate port charges levied against a range of vessels to load grain at all grain ports. We have included the 6 ports we currently export from in South Australia. We have also included an "all port average" This is the average National port cost per tonne levied against the ship as well as Harbour dues and Wharfage charged to the Shipper. The Cargo quantity loaded is based on 90% of vessels Deadweight. The Port costs include all charges levied on the vessel not just the Essential Maritime Services and include the Cargo Services charge. Some ports would not be able to load the larger vessels to 90% capacity due to port restrictions such as draft. Therefore those calculations are theoretical estimates.



As can be seen from the graph, Wallaroo and Giles are affected by the availability of Tugs for the larger sized ships.

With regard to the Port costs comparison table for grain within the Progress report, it should be noted the Loading rates and berth time utilised, equate to 6 hours for surveys and working 24 hour loading based on the load rates quoted. 24 hour loading at Port Adelaide is common however loading at Wallaroo on a 24hr basis is subject to port congestion and a requirement to load quickly, as overtime rates for Quarantine and terminal labour outweigh the costs for any possible despatch earnings.

We welcome any further questions and requests for information in assisting the ESCOSA in determining an appropriate outcome to the Port Price Review in South Australia. Please contact Nigel Borthwick, Port Operations Manager, on 03 9209 2551.

Yours sincerely

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