

10 October 2003



PASMINCO
PORT PIRIE
SMELTER

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

Dear Mr Owens

PORTS PRICE REVIEW – DRAFT REPORT SUMMARY 5 AUGUST 2003

We appreciate the opportunity to comment on the “Ports Price Review – Draft Report Summary 5 August 2003”.

The Pasminco Port Pirie Smelter (PPPS) is the world’s largest integrated lead and zinc producer, currently supplying 4% of the global demand for finished lead metal.

For over 100 years lead, zinc, copper, silver, gold and sulphuric acid have been produced and exported from the smelting operation at Port Pirie on the upper Spencer Gulf in South Australia. The Smelter is the largest employer in the region and is a significant contributor to the nation’s export earnings.

The smelting operation is situated alongside the Flinders Ports owned wharf in Port Pirie and relies on traffic across this wharf and common user berths in Port Adelaide for all of its exports and many of its inputs. PPPS rents a major portion of the Port Pirie wharf from Flinders Ports under a long-term lease Agreement. PPPS also has a Cargo Services Agreement with Flinders Ports that governs the cost of loading and unloading products within South Australia. This Agreement expires at the end of December 2004.

PPPS is extremely dependant on the wharfs at Port Pirie and Port Adelaide for many of its bulk inputs such as concentrates, coal, etc, and export of finished metal. Refer Annexure A for products and tonnages moved across the wharfs at Port Pirie and Port Adelaide. PPPS does not have an economically viable choice to use other Ports or other freight alternatives. We therefore agree with the assertion stated in 4.4 pp 17 of ESCOSA’s May 2003 report that “Bulk commodities have fewer options in most cases”. To that extent Flinders Ports have considerable market power, and hold a monopoly position in that no economically viable alternative exists to that provider.

We support ESCOSA’s *draft conclusion* set out in the Draft Report that light handed price regulation would be appropriate for Essential Maritime Services and that this should focus on removing the incentive for regulated operators to earn excess profits from those customers over whom they could exercise market power, without unduly hindering the striking of commercial agreements between the parties. We also support the view that new price regulation post 31 October 2007 should include clawback provisions, including retrospective price adjustment, where misuse of market power can be shown to have occurred. We also advocate the right of timely redress through the Commission where misuse of market power can be demonstrated prior to 31 October 2007.

However in determining its *final position* with respect to the form of price regulation post 31 October 2004, we invite the ESCOSA to consider PPPS's position regarding the following:

- its inability to source economically viable alternatives for bulk inputs and exports,
- the inability of shipping, other than relatively small tonnages, to access the channel and berths in Port Pirie,
- with Gladstone now the main receipt point for grain in the Pirie division, the potential that Port Pirie will revert to 2 principal users within the short to medium term, ie Pasminco and Perilya, and
- the potential that facilities maintenance and development may suffer in Port Pirie in deference to other Ports that offer better financial returns, or where the cost of maintenance and/or development can be spread across a larger user base.

PPPS is a price taker heavily influenced by LME metal prices. In increasingly competitive world markets PPPS cannot afford inefficient practices or cost regimes that impact on its competitiveness. The same can be said for its service providers. Accordingly we also invite ESCOSA to consider, in reaching its final determination, ways to ensure that Port Pirie and Port Adelaide are priced comparatively and competitively with similar Australian Ports through which similar commodity products are routed.

Yours sincerely



IVAN CAULEY
GENERAL MANAGER
(attach)

Annexure A

Tonnages – Port Pirie (July 2002 to June 2003)

Paragoethite Product	153,675 tonnes
Lead Concentrates	264,354 tonnes
Zinc Concentrates	300,586 tonnes
Finished Metal	90,131 tonnes
Coal	45,986 tonnes

Tonnages – Port Adelaide (Berth 29 - July 2002 to June 2003)

Finished Metal	131,000 tonnes
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