

Shipping Australia Limited




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Presentation Overview

- ▶ Introduction – Shipping Australia Limited
 - ▶ SAL activities and membership
 - ▶ Status of liner shipping
 - ▶ Australian ports natural monopoly - PoMC market power
 - ▶ SAL relationship with PoMC
 - ▶ SAL members concerns
 - ▶ SAL comments and recommendations relating to ESC Draft Report, May 2014
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Shipping Australia Limited

- ▶ A peak national industry body comprising 37 shipping lines and shipping agents and 50 corporate associate members
- ▶ Shipping lines/agents involved with over 70% of Australia's container trade and car trade and over 60% of our bulk and break-bulk trade
- ▶ Our members employ around 3,000 staff in 250 offices in 41 Australian ports
- ▶ Involved with over 1,200 vessels each year
- ▶ Publish an industry magazine and free electronic newsletter



Subscribe at: www.shippingaustralia.com.au

SAL monitors industry related developments and engage with Government and private suppliers in areas of direct interest to our members

- ▶ Infrastructure, ports and intermodal
- ▶ Shipping trade innovation
- ▶ Environment
- ▶ Maritime security/piracy
- ▶ Industrial relations
- ▶ Increasing size of vessels
- ▶ Declining productivity
- ▶ Costs, charges, levies, gst
- ▶ Border agencies



We help Government develop and better policies

Shipping Australia Limited – full members

APL Lines (Australia)
A.P. Moller-Maersk A/S
Asiaworld Shipping Services Pty Ltd
Austral Asia Line Pte Ltd
BBC Chartering Australia Pty Ltd
CMA CGM
Evergreen Marine Australia Pty Ltd
Five Star Shipping & Agency Co Pty
Ltd
Gulf Agency Company (Australia)
Pty Ltd
Hamburg Sud Australia Pty Ltd
Hapag-Lloyd Australia Pty Ltd
Hetherington Kingsbury Shipping
Agency
Hyundai Merchant Marine
Inchcape Shipping Services

“K” Line (Australia) Pty Ltd
A.P. Moller-Maersk A/S
Mediterranean Shipping Co (Aust)
Pty Ltd
Mitsui OSK Lines (Australia) Pty Ltd
Monson Agencies Australia Pty Ltd
NYK Line (Australia) Pty Ltd
OOCL (Australia) Pty Ltd Pacific Asia
Express Pty Ltd
PB Towage
Royal Caribbean International
Seaway Agencies Pty Ltd
Ship Agency Services Pty Ltd
Svitzer Australia Pty Ltd
The China Navigation Company
Pte Ltd
Wallenius Wilhelmsen Logistics
Wilhelmsen Ships Service



Status of liner shipping

- Gross revenues flat over 12 months but costs rising continuously
 - Overcapacity in container, and car carrier sectors
 - Overcapacity likely to increase as ship sizes grow due to cost and environmental efficiencies and wider Panama canal
 - Shipping Companies struggling – only a few reporting profits
 - Rationalisations by merger, takeover or exiting sectors likely,
 - Coastal shipping review may lead to greater coastal volumes
 - Competition review – any changes to Part X exemptions could have serious impacts on shipping services
 - Rationalisation of volumes – 5% layup of global container fleet
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Port of Melbourne natural monopoly and market power

Australian capital city container ports are all effectively monopolies due to:

- separation distances of nearly 1000 kilometres (or more)
- limited landside connection networks (road and rail)
- no regional competition for containers or car trade

Whilst there is effective competition in the stevedoring industry, the common charges are controlled by the ports:

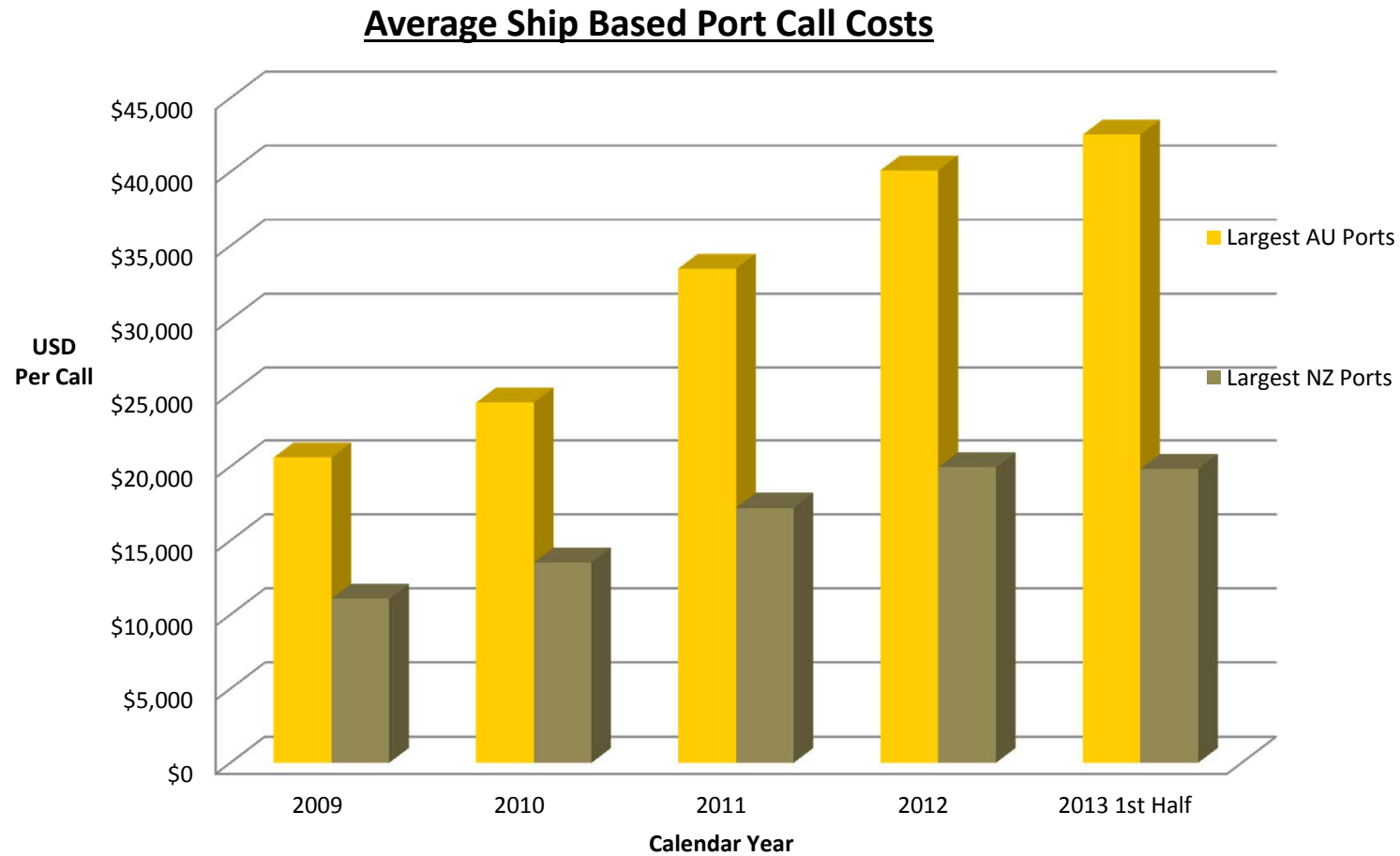
Ship Based: Navigation/channels, security, berth hire,

Cargo Based: wharfage, berth access, berth hire

Second order charges – port land and terminal rents

Shipping companies have no power to influence these charges

Aus / NZ Comparison (ship based costs only)



Aus up 106%

NZ up 79%

Container volumes in five Australian capital city ports in 2012/13 (x 1000 TEU)

(Source: Bureau of Infrastructure, Transport and Regional Economics (BITRE), 2014, Waterline 53, statistical report, pages 14 to 19. BITRE Canberra, ACT)

	Brisbane	Sydney	Melbourne	Adelaide	Fremantle	Total
Full imports	479.8	1,064.0	1,134.6	127.0	329.9	3,135.3
Full exports	335.4	442.9	864.1	141.5	174.5	1,958.4
Empties	254.7	619.5	514.2	70.5	165.8	1,624.7
Total	1,069.9	2,126.4	2,512.9	339.0	670.2	6,718.4

Port of Melbourne continues to be Australia's largest container port
Only 2 Australian container ports in the world top 100 – Melb 53, Syd 64



Port of Melbourne natural monopoly and market power

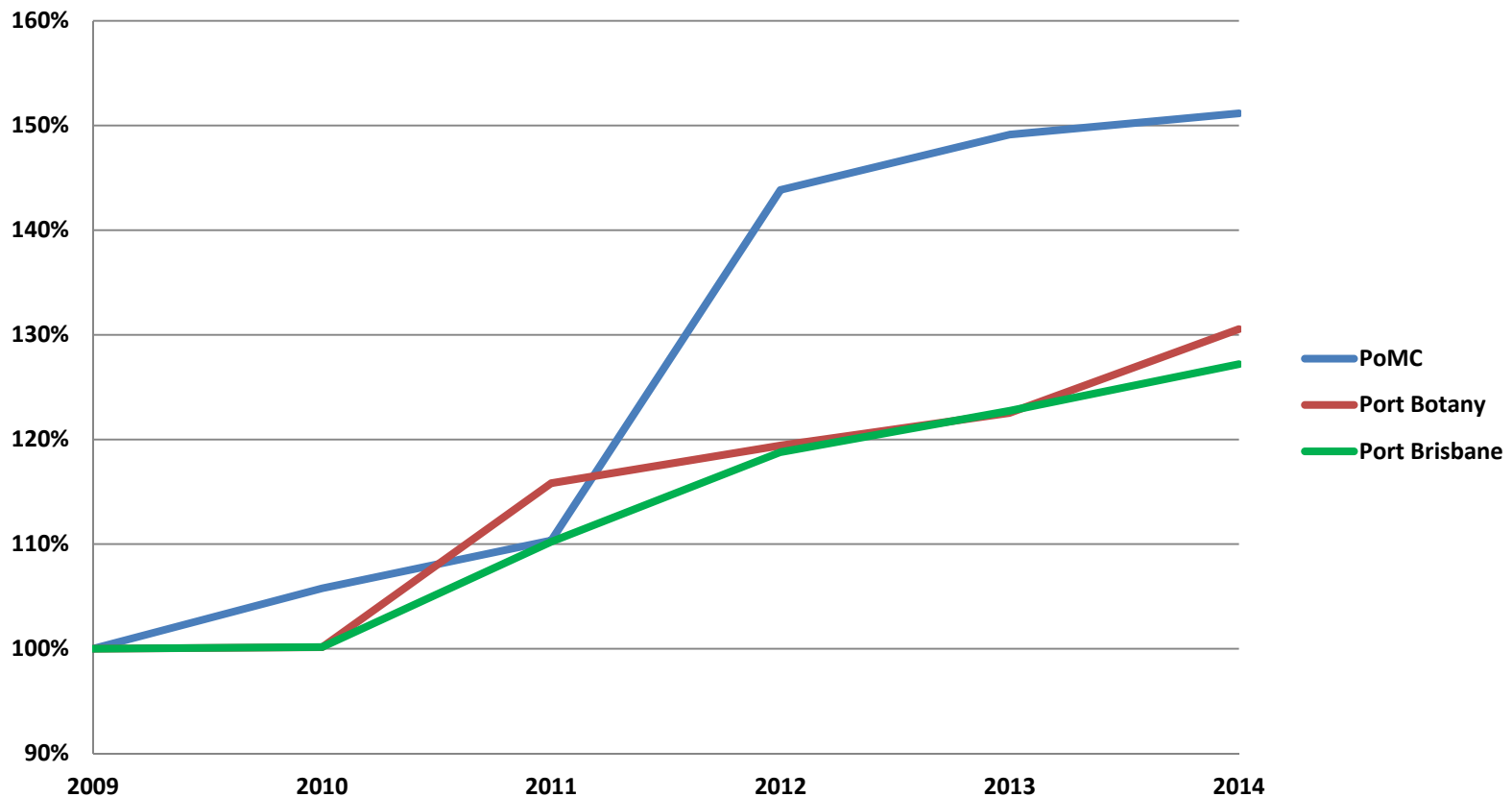
It would not be economical for international containers ships to **not call** at Port of Melbourne.

Port of Melbourne charges have risen approx 51% since 2009 and has had the highest rises of East Australian ports (though the introduction of the Port Licence Fee in 2012 had a significant impact).



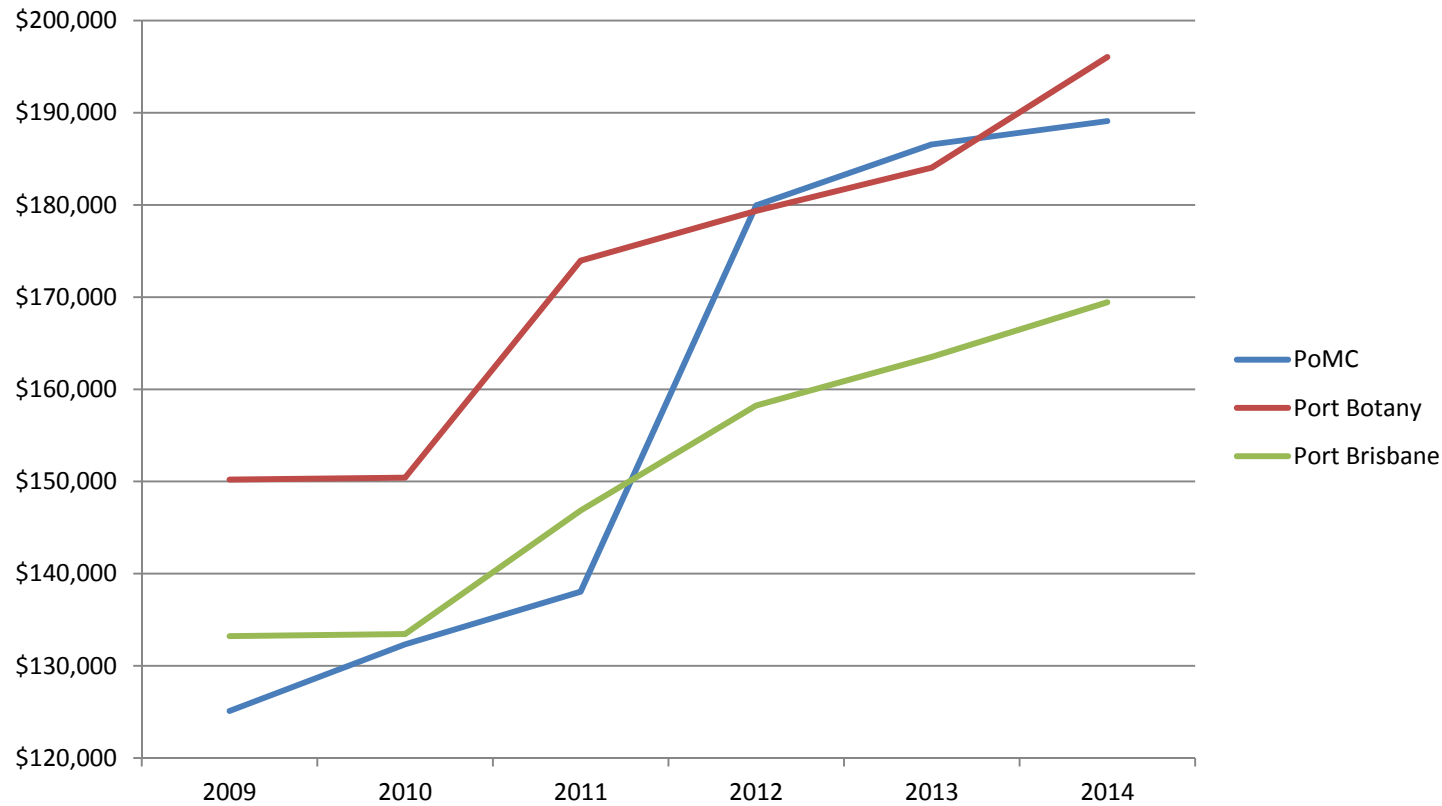
Based on a hypothetical 4500 TEU ship (40,700GRT) vessel exchanging 1000 full import TEU, 500 full export, 200 empty export TEU. The following index shows relative port charge changes since 2009.

Port Pricing Index



Based on a hypothetical 4500 TEU ship (40,700GRT) vessel exchanging 1000 full import TEU, 500 full export, 200 empty export TEU. The following compares actual port costs.


Port Costs - Hypothetical Ship/Cargo





Port of Melbourne natural monopoly and market power

Setting aside the PLF, until this year, PoMC Price increases have exceeded other east coast ports, even with the current price monitoring framework in place.



Brisbane Port Charges

Port	Service	1 July 2013 % Increase	2012 % Increase	2011 % Increase
Brisbane	Wharfage (avg)	2.3%	3.1%	3.0%
	Harbour Dues (avg)	2.8%	3.1%	3.0%
	Port Access Charge per TEU (avg)	4.7%	3.1%	\$7.83
	Common User Wharf Fees (avg)	2.5%	3.1%	2.9%
	Security Charges (avg)	4.8%	3.1%	3.1%
	Towage	3.5%	6.8%	6.5%
	Pilotage all services	3.0%	5.5%	10.0%
	Vessel Utility Charge (Water)	2.5%	New Charge 2012	N/A
	Transfere Bulk Liquid Application Fee	2.5%	New Charge 2012	N/A

Melbourne Port Charges

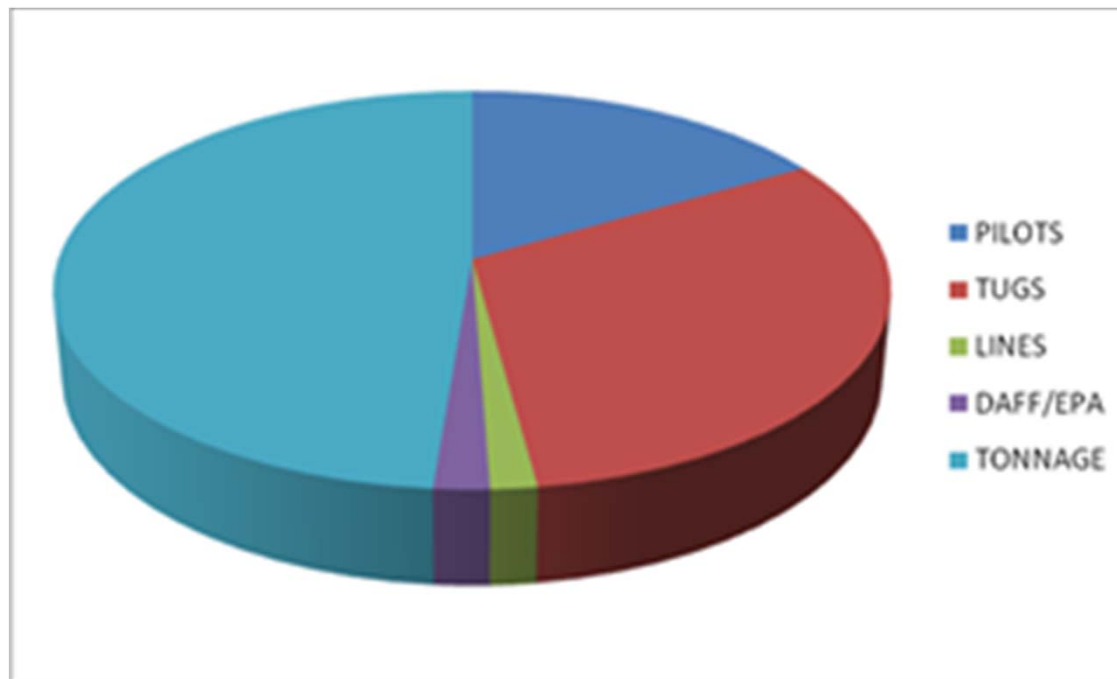
Port	Service	1 July 2013 % Increase	2012 % Increase	2011 % Increase
Melbourne	Wharfage Full Containers	5.2%	52.6%	4.4%
	Wharfage Empty Containers	5.3%	52.0%	4.2%
	Non-Containerised / General Cargo	5.2%	53.1%	4.7%
	Motor Vehicles	4.9%	53.0%	4.7%
	Dry Bulk	4.8%	52.8%	4.1%
	Bulk Liquid Cargo (avg)	13.3%	51.8%	4.3%
	Channel Fees (avg)	4.9%	43.7%	4.3%
	Berth Hire	5.2%	52.6%	4.5%
	Wharf Access	4.1%	54%	4.4%
	Area Hire (avg)	5.0%	52.6%	4.6%
	Towage	10.0%	10.0%	6.5%
	Security	5.0%	52.6%	4.1% avg
	Pilotage	3.0%	2.5%	5.0%
Infrastructure Charge	0.0%	3.0%	3.0%	

Newcastle, Sydney Port Hedland – Port Charges

Port	Service	1 July 2013 % Increase	2012 % Increase	2011 % Increase
Newcastle	Navigation Services	2.8%	NA	NA
	Pilotage	2.8%	NA	NA
	Site Occupancy	2.8%	NA	NA
	Wharfage	2.8%	NA	NA
	Wharfage, Containerised cargo	2.5%	3.2%	2.4%
Port Botany & Sydney Harbour	Wharfage, Non-Containerised Cargo	0.0%	3.2%	2.4%
	Nav. Charge (ex pax, bulk, liquid & gas)	2.5%	3.2%	2.4%
	Navigation: Pax, bulk, liquid & gas	2.3%	3.2%	2.4%
	Pilotage (avg)	2.4%	3.0%	2.4%
	Towage	3.5%	6.0%	7.5%
Port Hedland	Tonnage	5.0%	59.4%	5.0%
	Wharfage	5.0%	5.0%	5.0%
	Berthage	5.0%	5.0%	5.0%
	Temporary Storage	7.7%	NA	NA

Port of Melbourne natural monopoly and market power

Almost 50 per cent of ship based port call costs are dictated by the port: Eg. On a call to Port of Melbourne for a 55 GT ship:



A substantial proportion (approx 30%) of **cargo based charges** are also dictated by the port and are not subject to competition.




SAL Relationship with PoMC

SAL members acknowledge an excellent relationship with Port of Melbourne Corporation

- Appropriate points of contact at the port operations level
- Willingness to engage with stakeholders
- POMC hosts stakeholder fora regarding port capacity development plans and user requirements
- POMC representation at SAL Victorian State Committee meetings

SAL members have no complaints regarding the level of consultation however, members are not always satisfied with outcomes.


Examples include:

- Members request to have PLF changes identified separate from other charges
 - Pricing Policy (PPS 1 July 2010) of future rises at CPI +1.5%
 - Level of tariff increase in 2013/14 RTS
- 



SAL Relationship with PoMC

SAL members acknowledge that on occasions PoMC **has** acted in accordance with stakeholders input through consultation, notably:

- Not applying a CPI rise to the Infrastructure Levy in 2013/14 RTS
 - The 2014/15 RTS indicating only 0.7- 0.9% price increases on most charges (except Infrastructure Levy @ 2.5%, wharf access fee at 28% and liquid bulk exports 17-24%)
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Members Concerns

- ▶ Monopoly power is a fact of life for PoM and some level of independent monitoring or control is appropriate and should be continued
- ▶ PoMC Pricing Policy Statement of CPI +1.5% in future price growth is out of step with economic reality and should be revised
- ▶ Members are concerned that with both sides of politics committed to privatisation of the port there may be pressure on increasing PoM revenues to increase the sale value of the port. Therefore there should be extra vigilance on port pricing for the immediate future
- ▶ Members **note with pleasure** that in the 2014 RTS, PoMC has shown price restraint and responded in good faith to members concerns

Members Concerns

- ▶ Whilst outside the scope of this review, SAL members seek assurance that the terms and rate of recover of the Infrastructure Levy (channel deepening) and the Port Licence Fee are clearly defined in port privatisation process to ensure that there is no confusion and double charging as occurred in Sydney following lease of the port.
- ▶ Members note that the light handed price monitoring regime that has been in place since 2009 has not prevented PoM prices rising at a greater rate than other east coast ports until this year. Members have some concern that the lower rises in the 2014 RTS **may** have been influenced by the current ESC process in order to avoid recommendation for a stronger form of monopoly oversight.



SAL Comments and Recommendations on Essential Services Review - Draft Report May 2014

- ▶ SAL considers that the Draft Report represents a comprehensive and fair assessment of the situation relating to Port of Melbourne in relation to:
 - ▶ Shipping Channels including shared shipping channels with the Port of Geelong,
 - ▶ Berths, buoys and dolphins for the berthing of ships carrying container or motor vehicle cargoes, and
 - ▶ Short term storage and marshalling facilities for container and motor vehicle cargoes at the port of Melbourne
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SAL Comments and Recommendations on Essential Services Review - Draft Report May 2014

- ▶ SAL agrees the draft findings relating to market power in relation to the channels PoMC manages and adds that it would not be environmentally or physically possible to duplicate such channels.
- ▶ SAL agrees the draft findings that PoMC holds significant market power in relation to container and motor vehicle trades
- ▶ SAL agrees the draft recommendation that the current prescribed services continue to be subject to economic regulation and oversight, and
 - ▶ That a reduction in the routine regulatory burden is appropriate.



SAL Comments and Recommendations on Essential Services Review - Draft Report May 2014

- SAL agrees the recommendations relating to a new price monitoring framework, but **would also like to see some regulatory levers in place to allow independent review and intervention if stakeholders are not satisfied that price increases exceeding CPI are sufficiently justified.**
- SAL strongly supports the Commission's proposals relating PoMC's pricing obligation reporting.

In relation to service quality, SAL recommends that,

- % vessels delayed should relate to 'on window arrivals'
 - SAL agrees the proposed complaint notification requirement
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Summary

- The PoMC has substantial market monopoly power,
- PoMC maintains an excellent level of consultation with its stakeholders and customers,
- The light handed price monitoring regime in place since 2009 has not prevented PoMC from raising prices at higher levels than other east coast capital city ports (until this week)
- The price restraint shown by PoMC in its 2014 RTS is welcomed by industry and restores equivalence with other ports, the reasons for this change are unclear; Listen to customer feedback? ESC inquiry? Loss of market share? L
- A price regulation regime should continue and such regime would preferably have more effective levers to prevent un-justified price increases that are out of step with CPI or prevailing economic conditions



Thank you

