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| Container stevedoring monitoring report no.17 |
|  |
| October 2015 |



ISBN 978-1-922145-64-2

Australian Competition and Consumer Commission

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The ACCC would like to thank NSW Ports for providing the front cover image.

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# Glossary

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|  |  |
| ABS | Australian Bureau of Statistics |
| ACCC | Australian Competition and Consumer Commission |
| ACS | Australian Customs and Border Protection Service |
| ASC | automated stacking crane |
| Asciano | Asciano Limited |
| ASX | Australian Securities Exchange |
| AutoStrads™ | automated straddle carriers technology |
| BITRE | Bureau of Infrastructure, Transport and Regional Economics |
| CEFs | container examination facilities |
| CCA | *Competition and Consumer Act 2010* |
| COAG | Council of Australian Governments |
| CPI | Consumer Price Index |
| DP World | DP World Australia Ltd, jointly owned by DP World (25 per cent) and Citi Infrastructure Investors (75 per cent) |
| EBA | enterprise bargaining agreement |
| EBITA | earnings before interest, tax and amortisation |
| Elapsed crane time | Elapsed crane time is the crane time allocated by the stevedores. It is computed as the total allocated crane hours less operational and non-operational delays. Elapsed crane time is an input to calculating the ‘net crane rate’. |
| Elapsed labour rate | The elapsed labour rate is an indicator of labour productivity. The elapsed labour rate is computed as the number of containers handled divided by the elapsed labour time. See below for definition of ‘elapsed labour time’. |
| Elapsed labour time | The elapsed labour time is the elapsed time between labour first boarding the ship and labour last leaving the ship, less any time when the labour has not worked, including non-operational delays. Elapsed labour time is an input to calculating the ‘elapsed labour rate’. |
| ESC | Essential Services Commission of Victoria |
| FACT | Flinders Adelaide Container Terminal Pty Ltd, the sole container stevedore at Port Adelaide |
| GDP | gross domestic product |
| Hutchison | Hutchison Ports Australia, a member of Hutchison Port Holdings Group |
| Net crane rate | The net crane rate is an indicator of capital productivity and reflects the intensity to which quay cranes are worked. It is measured by dividing total number of containers or TEUs handled by the elapsed crane time. See above for definition of ‘elapsed crane time’. |
| Patrick | Patrick Terminals and Logistics, a division of Asciano Ltd |
| PBLIS | Port Botany Landside Improvement Strategy |
| PC | Productivity Commission |
| Real terms | A value expressed in the money of a particular base time period (e.g. 2012–13 dollars). Values in real terms remove the impact of inflation and provide for better comparison of values over time. |
| S&P | Standard & Poors |
| Ship rate | The ship rate is an indicator of labour and capital productivity while the ship is being worked. It is calculated by multiplying the net crane rate by crane intensity. Crane intensity is defined as the total number of allocated crane hours divided by the elapsed time from labour first boarding the ship to labour last leaving the ship. |
| Tangible assets | The physical infrastructure used by the stevedores to provide container stevedoring services. |
| TEU | 20-foot equivalent unit. TEU is the standard unit of measurement for shipping containers. One TEU is equivalent to one 20-foot shipping container. One 40-foot shipping container is equivalent to two TEUs. |
| VBS | vehicle booking system |
| VICTL | Victorian International Container Terminal Ltd which is owned by International Container Terminal Services Inc. |

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| Key messagesIndustry improvements are being driven by increased competition in container stevedoring The monitoring results for 2014–15 were generally positive:   * average stevedoring prices fell by the largest amount observed over the history of the monitoring program * investment in terminals continued * productivity remained close to record high levels * service levels generally improved.   These results build on improvements observed last year and significant gains since the waterfront reforms of 1998. But new entrants to Australian stevedoring face challenges While increased competition is delivering benefits, new entrants to Australian stevedoring face challenges in establishing their industry presence.  Some of these are likely to be within a stevedore’s control, while others are not.  If shipping lines are impeded or dissuaded from switching to new stevedores due to existing arrangements or service preferences (for example, for a national stevedoring contract), the shipping industry and new entrants may be able to develop innovative and flexible solutions.  It is critical that any obstacles to switching are overcome if improvements recently observed in stevedoring are to continue into the future. Change is needed elsewhere in the supply chain For improvements in stevedoring to flow to Australian consumers and exporters, measures are needed to improve the efficiency of the container supply chain.  The ACCC is particularly concerned that the existence of entrenched and inadequately regulated monopoly port operators is adding costs to the economy and effectively amounts to a tax on consumers and exporters into the future.  Further efforts to improve the efficiency of the supply chain beyond stevedoring, for example through road reform, would benefit Australian consumers and businesses by way of cheaper prices and more competitive exports. |

# Summary

Australian container stevedoring continued to show signs of increased competition in , as the industry transitions from the long-held duopoly at the major ports.

Average prices fell, investment continued, productivity remained close to record levels, and service levels reportedly improved.

While these are positive results, new entrants face challenges in seeking to establish themselves in the market.

#### New entrants to Australian stevedoring face challenges

Hutchison Ports Australia, the third stevedore in Brisbane and Sydney, has been operational since 2013 but is yet to attract adequate market share. This suggests new entrants face significant challenges. Some of the factors contributing to this may be within a stevedore’s control, while others are not.

Entering a well-established, capital intensive industry like container stevedoring inevitably comes with challenges. It requires large and lumpy upfront capital investment. Coupled with this, opportunities to tender for business may be relatively infrequent as shipping lines can be contracted to rival stevedores for up to five years.

Exacerbating these challenges may be specific arrangements or characteristics unique to Australian stevedoring. For example, some shipping lines are understood to prefer a national stevedoring service, which a new entrant operating in just one or two ports may not be able to provide, at least until a third terminal is available in Melbourne.

If there are obstacles to shipping lines switching to new stevedores, the ACCC considers that the shipping industry—which for so long called for improved stevedoring performance in Australia—may have a role in overcoming these.

For example, if shipping lines are impeded or dissuaded from switching due to existing arrangements with stevedores or service preferences (for example, for a national stevedoring service), the shipping industry may be able to work with new stevedores to develop innovative and flexible commercial arrangements.

It is critical that any obstacles to switching are overcome if improvements recently observed are to continue into the future.

New entrants, for their part, need to carefully assess and plan for market characteristics that may be unique to the local market in order to optimise their investments.

#### Increased competition is continuing to drive performance improvements

The monitoring results for 2014–15 show that, while challenges are faced by new entrants, increased competition in the industry is delivering benefits to service users.

##### Average prices fell

Unit stevedoring revenues (which the ACCC uses as a proxy for average prices) fell by the largest amount observed over the history of the monitoring program in 2014–15.

Nominal unit stevedoring revenue for 20-foot containers fell by 2.3 per cent, from $221.48 in 2013–14 to $216.50 in 2014–15. Nominal unit stevedoring revenues for 40‑foot containers fell by 1.7 per cent, from $111.57 to $109.69.

This is the second consecutive year that unit revenues have declined. This is a significant result as it may indicate greater pricing pressure in the industry. Prior to this, unit stevedoring revenues had risen in most years by around 1 per cent on average per year.

##### There are reports of improved customer service

The ACCC has received feedback from industry that the stevedores’ customer service levels have generally improved. In particular, service users reported that the stevedores are more receptive and looking to offer a broader range of services.

##### Productivity remained close to record levels

Productivity on the wharves remained largely unchanged in 2014–15 following an increase last year to record high levels.

Capital productivity, as measured by the net crane rate, decreased slightly from 30.8 to 30.6 containers per hour in 2014–15. A key driver of this was a significant fall at Port Botany towards the end of the year as Patrick transitioned to its semi-automated terminal system. Such declines are expected to be temporary.

Labour productivity, as measured by the elapsed labour rate, also decreased slightly, from 45.6 to 45.3 containers per hour in 2014–15.

##### Significant investment was undertaken at most ports

Investment continued, with the industry’s asset base increasing by 14.0 per cent in 2014–15. Over the last three years, the industry asset base has more than doubled. Investment by incumbents has represented a significant proportion of this.

A key investment in 2014–15 was Patrick’s semi-automation of its Port Botany terminal. Flinders Adelaide and DP World installed new quay cranes, while Hutchison continued to develop its new terminals.

Recent investments are significant as they are expected by the stevedores to deliver operating efficiencies and improve productivity in future years.

##### Industry profitability was reasonably high, given substantial asset expansion

Mostly due to the expansion of the industry’s asset base, industry profitability as measured by rate of return on average tangible assets fell to 10.4 per cent in 2014–15, from 13.2 per cent last year.

Even removing the effect of Hutchison (since the recognition of new terminal assets will deflate the industry return on assets measure), the rate of return would have fallen considerably from its peak of 29.2 per cent in 2011–12.

Industry profitability is now closely aligned with the benchmark used in the report—the average rate of return for industrial-related companies in the S&P/ASX 200. In 2014–15, the rate of return for the Industrials Index was 9.5 per cent.

#### Recent improvements build upon historical achievements in industry performance

Recent improvements in industry performance build upon significant achievements since the Government’s reform package to reduce the cost and improve the productivity of the waterfront was introduced in 1998.

Since 1998–99:

* **Volumes** handled have more than doubled from 2.9 million 20-foot equivalent units (TEUs) to 7.1 million TEUs.
* Real **unit costs** have fallen by 42.2 per cent, assisted by economies of scale.
* Real **unit revenues** have fallen by 39.8 per cent, indicating that the benefits of lower costs have been shared with users through lower prices.
* **Productivity** has improved. Capital productivity has risen from 19.6 to 30.6 containers per hour. Labour productivity has more than doubled, from 22.4 to 45.3 containers per hour.
* Substantial **investment** in capacity and productivity has occurred.

#### Focus should now be placed on other parts of the supply chain to improve container freight flows

To date, considerable reform effort has been focused on the stevedoring industry. The first wave of reform came in 1998. The second wave of reform came more recently by way of opportunities for new entry. This is now yielding results.

Of concern, though, is that improvements in stevedoring could be negated by inefficiencies elsewhere in the supply chain—in particular, by the existence of inadequately regulated monopoly ports, and impediments to transporting containers within Australia efficiently.

##### Inadequately regulated monopoly port operators pose risks to the supply chain

Port operators are the landlords of container stevedores and also impose charges on shipping lines. Monopoly ports require appropriate economic regulation to constrain their operators from exercising pricing power.

Rather than regulating pricing and access upfront, state governments have to date generally opted for price monitoring regimes, with the potential for regulation in the future at the discretion of the government. The ACCC considers such arrangements are insufficient to adequately constrain monopoly power and are not a substitute for upfront economic regulation.

In the ACCC’s view, an effective regulatory model would be a negotiate‑arbitrate framework, which provides for commercial negotiation in the first instance, with the fall-back of arbitration by an independent regulator where negotiations fail. Such a model can be used to better balance the bargaining power of access seekers (for example, stevedores and shipping lines) with access providers (port operators).

The ACCC encourages governments to establish sufficient regulatory constraints at the time of privatising monopoly assets. An example of the danger of privatising assets without appropriate regulatory controls is illustrated by recent developments at the Port of Newcastle—the world’s largest coal export port. The Port of Newcastle was leased in 2014 with effectively no regulatory oversight.[[1]](#footnote-1) The Port of Newcastle has since increased its prices and revalued its assets without any independent check on the appropriateness of those charges.

The ACCC is therefore encouraged by the intended approach of the Victorian Government to strengthen the arrangements to apply to the Port of Melbourne once it is privatised. The proposed amendments include capping certain charges to CPI for at least 15 years, regular reviews by the Essential Services Commission of Victoria (ESC) of the lessee’s compliance against strengthened pricing principles, and the ability for more direct forms of regulation to be imposed. The ACCC considers the proposed amendments move the dial towards a more robust regulatory regime to apply post-privatisation, and are more rigorous than measures in place at other major Australian container ports.

##### When privatising assets, governments should protect opportunities for competition where possible

The ACCC also urges governments to protect any opportunities for future competition between port facilities—for example, by separating (rather than integrating) potentially competitive facilities and avoiding clauses that impede the development of competition. Sale clauses and market structures that limit competition between port facilities are poor outcomes from a competition policy perspective.

In this regard, the ACCC notes the NSW Government’s lease of Port Botany and Port Kembla to the same owner, the latter of which was identified by the NSW Government as the location for future container handling facilities shortly before the sale.

The Port of Fremantle is the last major container port in Australia proposed to be privatised. The WA government may wish to consider whether the forthcoming privatisation of the Port of Fremantle presents the opportunity to facilitate future competition, for example between existing container handling facilities in the Inner Harbour and possible new facilities in the Outer Harbour.

##### Opportunities exist to improve road, rail and sea connections to container ports

A number of impediments currently exist to transporting containers within Australia as efficiently as possible. Initiatives that can be undertaken to boost productivity in the freight sector and minimise infrastructure requirements include:

* **road reform** to improve signals for road investment as well as rail investment and use
* **coastal shipping reform**, to remove regulatory impediments to international shipping lines offering domestic freight shipping services
* possible **initiatives to align the stevedores’ commercial incentives** with the wider landside supply chain
* adequate **public sector planning and targeted project selection** to ensure that the infrastructure required is delivered at efficient cost and supports enhanced national productivity.

These initiatives are important for improving the efficiency of domestic transport connections to container ports, and therefore the choices that are made between transport modes.

With container volumes expected to more than double over the next 20 years, such efforts will help ensure Australia can handle future container volumes, and importantly, at efficient cost to Australian businesses and consumers.

1. Performance of Australian stevedoring, and supply chain challenges
   1. Introduction

Most consumer goods imported into Australia are handled by a container stevedore. Increased efficiency in stevedoring should, in a competitive market, eventually be passed onto consumers in the form of lower prices. Last year’s *Container stevedoring monitoring report* found that increased competition in container stevedoring was beginning to deliver benefits to users of stevedoring services and the wider Australian community. This report reveals that this trend is continuing, and that there is an increased focus on improving customer service.

While much has been done to improve the performance of the container stevedoring industry, there is a risk that the increased efficiency in stevedoring may be negated by inefficiencies elsewhere in the supply chain.

Port operators are the stevedores’ landlords and ports often exhibit monopoly characteristics. Where regulation is inadequate, there is a risk of monopoly pricing, so the benefits of increased efficiency in stevedoring could end up with the port operator rather than being passed down the supply chain to consumers. The ACCC urges governments to establish sufficient regulatory constraints on ports, and to protect opportunities for future competition at the time of privatising port assets.

The other area where the benefits from increased stevedoring efficiency may be lost is in domestic transport connections to container terminals. A number of impediments currently exist to transporting containers within Australia as efficiently as possible, including regulatory and policy settings which may distort market signals.

Text box 1.1: Industry background

### What is container stevedoring?

Container stevedoring involves lifting containerised cargo on and off ships. Container stevedores provide related services such as storage, maintenance and repositioning of containers. Stevedores also provide services that facilitate the landside movement of containers to and from the terminals by road and rail.

### Who provides container stevedoring in Australia?

In Australia, container stevedoring services are provided by specialist companies that own container handling equipment such as cranes and straddles. They lease port terminals, which includes berthing and yard space, from port operators.

There are currently four container terminal operators covered by the ACCC’s monitoring program. These are Patrick Terminals & Logistics (a division of Asciano Ltd) (Patrick), DP World Australia (DP World), Hutchison Ports Australia (Hutchison) and Flinders Adelaide Container Terminal (FACT).

Patrick and DP World operate container terminals at the Port of Brisbane, Port Botany (Sydney), Port of Melbourne and Port of Fremantle.

Hutchison recently entered the Australian stevedoring industry, commencing operations in Brisbane in 2012–13 and Sydney in 2013–14.

In Melbourne, a new operator, Victorian International Container Terminal Limited (VICTL), is scheduled to be ready for operation by the end of 2016.

FACT is the sole container stevedore at the Port of Adelaide.

### What is the ACCC’s role in relation to container stevedoring?

The ACCC is required to monitor prices, costs and profits of the container stevedores at the ports in Adelaide, Brisbane, Burnie, Fremantle, Melbourne and Sydney.[[2]](#footnote-2) This role is conducted pursuant to a ministerial direction under Part VIIA of the *Competition and Consumer Act 2010* (CCA).

As part of this role, the ACCC releases an annual *Container stevedoring monitoring report*. These reports provide information to governments and the community about the operating performance of the container stevedores, as well as the level of competition, investment and productivity in the industry. This is the ACCC’s 17th report.

* 1. Improvements in Australian stevedoring since 1998–99

The ACCC began monitoring the container stevedoring industry in 1998–99. The monitoring program was introduced at the time of the Australian Government’s reform package for the Australian waterfront, which set benchmarks agreed to by the stevedores to improve productivity and reduce costs across the waterfront supply chain, among others.

At this time, there were two dominant container stevedores operating at the four largest ports (Brisbane, Sydney, Melbourne and Fremantle): Patrick and P&O Ports (now DP World Australia).[[3]](#footnote-3) Market shares held by these two companies have varied over time but generally fluctuated between 45 and 55 per cent at each port.[[4]](#footnote-4)

In 1998, the Productivity Commission (PC) conducted an international benchmarking study of the Australian waterfront and found container stevedoring performance was significantly lower compared to other international ports. It found that “[c]ontainer stevedoring charges were higher than overseas, ship loading and unloading were slower, and services were less reliable”.[[5]](#footnote-5) Timeliness and reliability were found to be amongst the most significant problems, with delays experienced by about one-fifth of ships calling at the five largest ports. This put the reform priority on reversing this drain on consumer welfare.

The performance of the container stevedoring industry has improved markedly since that time, as documented by the ACCC’s monitoring program (see text box 1.2). The history of the monitoring program shows that reform has been an effective impetus to increasing waterfront productivity and encouraging investment in a more efficient stevedoring service.

The effect of improvements in stevedoring is expected to flow to Australian consumers and exporters by way of cheaper imports and more competitive exports.

Text box 1.2: Historical performance of the container stevedoring industry

The ACCC monitoring program has found that since 1998–99:

* **Significantly higher volumes** are now processed by container stevedoring terminals. Since 1998–99, the number of TEUs[[6]](#footnote-6) has increased by 147.5 per cent, from 2.9 million to 7.1 million TEUs in 2014–15.
* **Improved productivity by the stevedores**—the average net crane rate (a commonly used measure of capital productivity) for the five major ports has improved from 19.6 containers per hour in 1998–99 to 30.6 in 2014–15. The average elapsed labour rate (a commonly used measure of labour productivity) has also increased, from 22.4 containers per hour in 1998–99 to 45.3 in 2014–15.
* **Lower real unit costs and average prices**—costs per TEU for the stevedores have decreased in real terms[[7]](#footnote-7) by 42.2 per cent since 1998–99. Unit revenues (a proxy for average prices for users of stevedoring terminal services) are 39.8 per cent lower.
* **Increased investment in capacity and efficiencies**—the value of assets employed in container stevedoring has increased substantially since 1998–99, and has more than doubled since Hutchison commenced.
* **Industry profitability has fluctuated**—after rising significantly over the monitoring period, peaking in 2011–12 at 29.2 per cent, profitability levels have decreased and are now similar to those reported in 1998–99. The industry rate of return[[8]](#footnote-8) on average tangible assets[[9]](#footnote-9) in 2014–15 was 10.4 per cent compared to 10.6 per cent in 1998–99.
  1. Increased competition is delivering changes in the industry

In recent years, container stevedoring has been undergoing another period of significant change. The impetus for the change was the entry of a third stevedore, Hutchison, in Brisbane and Sydney in 2013.[[10]](#footnote-10) In Melbourne, another stevedore, VICTL, is scheduled to be ready for operation by the end of 2016.

In Fremantle, there have been other developments. Patrick’s market share has increased in recent years with the switching of two major shipping lines from DP World,[[11]](#footnote-11) and the port operator has put the leases for the container terminals to the market.

While there are signs of improvements in the industry resulting from increased competition, challenges exist for new operators seeking to establish themselves. Entering Australian stevedoring is not without its difficulties and it will take new stevedores time to embed their operations and attract shipping line customers. Hutchison is reported to be experiencing challenges, some of which may be within a stevedores’ influence or control while others are not. These issues are discussed further in section 1.3.7.

In Adelaide, there remains a single container stevedore, FACT. The Port of Adelaide is operated by FACT’s parent company, Flinders Ports. While there is only one stevedore at this port, it may face some limited competition from the Port of Melbourne, as it is understood that some South Australian trade is transported there by rail. In 2008, the South Australian port review under the Competition and Infrastructure Reform Agreement (CIRA) stated there was an agreement between the Minister, the port and stevedore at the time to not permit another container terminal at Outer Harbor until the current facility’s throughput exceeded 225 000 TEUs of full containers per year. Industry estimates were said to suggest that the minimum efficient scale to support two stevedores would be significantly larger than 225 000 TEUs.[[12]](#footnote-12) In 2014–15, total volume was about 366 000 TEUs (made up of 291 000 TEUs of full containers and 75 000 TEUs of empty containers).

At this stage there are no plans of which the ACCC is aware to expand the port to allow for competition from a second stevedore. Flinders Ports’ strategy is to expand FACT’s terminal to increase its capacity to 2.5 million TEUs per year.[[13]](#footnote-13) Given the common ownership of the port and it’s only container terminal, Flinders Ports would likely have little incentive to provide an opportunity for a second container stevedore to begin operating at the port. In light of these unique circumstances at the Port of Adelaide, especially the lack of intra-port stevedoring competition, the comments in this section about an increased competitive dynamic in the industry relate broadly to the other four major ports.

Increased competition in the industry today is likely being driven by two interrelated factors—spare capacity and new entry. Spare capacity has arisen directly from the new terminals in Brisbane and Sydney, and also as a result of investments and improved productivity by the incumbent stevedores. For example, in Fremantle, Patrick has been able to increase its productivity to service additional ships and trucks as a result of it gaining two major shipping lines which were previously with DP World.

In competitive markets, companies face pressure to lower prices and improve products in order to maximise sales. This creates incentives to innovate and seek ways of lowering costs and improving products. In this way, competitive markets improve the productivity of the economy, and increase prosperity and consumer welfare.

In the stevedoring industry, the benefits of increased competition are expected to flow directly to the stevedores’ quay-side customers, shipping lines. These benefits may take the form of reduced charges and/or better service—for example, the provision of more suitable berthing windows and a speedier service.

As a consequence, shipping lines may be able to improve the reliability and productivity of their own shipping services. For example, they may be able to reduce the frequency with which they need to ‘fast steam’ between ports if they can secure a more convenient stevedoring service.[[14]](#footnote-14) This may allow lines to reduce their operating costs and sea freight rates.

* + 1. There are reports the stevedores have improved their customer service

One of the ways the long term incumbents reacted to the entry of a third stevedore in Brisbane and Sydney was to make public announcements that they would improve their focus on customer service.

Patrick identified increased competition resulting from the entry of a third stevedore as a key business risk in August 2014,[[15]](#footnote-15) and indicated that it was taking steps to prepare for new entry:

[T]here is going to be a third player that is going to become quite dominant in this market over the years to come. So really our focus is on low cost and high levels of service and good relationships with our existing customers.[[16]](#footnote-16)

Similarly, DP World has stated that its expectation of an increased level of competitiveness in the market is reflected in its changes to its management team and investment in its business.[[17]](#footnote-17) Paul Scurrah, Managing Director and CEO of DP World Australia, reportedly said:

The vision is to establish ourselves as the Australian market leader… we will meet competition head on with a service focus.[[18]](#footnote-18)

Patrick is a formidable competitor, they’re very protective of their market share and they are increasingly getting better. Hutchison will absolutely get their act together.... so rather than hope that’s not going to happen we need to prepare for it.[[19]](#footnote-19)

These statements recognised that service levels needed to be improved in response to the changes occurring in the industry.

The ACCC has received feedback from industry stakeholders that the stevedores’ customer service levels have generally improved since those statements were made. Some stakeholders communicated a view that the stevedores are generally more responsive to shipping lines and are looking to offer a broader range of services. This is a positive development as there was general consensus that previously, customer service was well below expectations.

Improved customer service may have enhanced the incumbents’ ability to retain customers in the face of competition from new terminal operators, and in some cases attract customers from each other. While improved customer service is certainly a positive development, it has likely increased the challenge for new stevedores of gaining market share. In July 2015, Grant Gilfillan (the CEO of Sydney Ports Corporation at the time it awarded the terminal lease to Hutchison) commented:

[D]uring the period when Hutchison could have been more convincingly promoting their offering with a service-hungry shipping industry [from late 2009 to 2013], their competitors in DPW and Patrick were actively rising to the looming challenge and securing contracts, implementing automation and innovation and striving for higher standards of operational leadership.[[20]](#footnote-20)

The potential challenges facing new entrants are discussed in section 1.3.7.

* + 1. There is evidence of price competition in the industry

Increased competition also appears to have increased the level of pricing pressure in the industry.

While the ACCC monitoring program does not collect information on the actual prices charged for stevedoring services (as these are subject to private negotiation between shipping lines and stevedores), unit revenues[[21]](#footnote-21) can be used as a ‘proxy’ or indicator of average charges in the industry.

Unit revenue measures on a 20- and 40-foot basis are a better indicator of average charges in the industry than unit revenue measures overall. These measures remove the effect of changes over time in the proportion of 20- and 40-foot containers handled by the industry.

In 2014–15, nominal unit stevedoring revenues earned on 20-foot containers decreased by 2.3 per cent. Nominal unit stevedoring revenues earned on 40-foot containers also decreased, by 1.7 per cent. This follows declines in these measures in 2013–14, by 1.1 and 1.0 per cent respectively. These represent the largest annual declines observed over the course of the ACCC’s monitoring program. This is a noteworthy result as prior to these years these measures had increased in most years.[[22]](#footnote-22) The average increase each year was 1.3 per cent for 20‑foot containers and 1.1 per cent for 40-foot containers.

Declining unit revenues over the last two years indicates there may have been increased pricing pressure in the industry. There would likely be supply and demand drivers for any such pricing pressure. On the supply side, with increased competition and capacity, stevedores are expected to use price to try to maintain market share and win new business from shipping lines. On the demand side, shipping lines may have a heightened incentive to look for reduced charges from stevedores, given reports of over-capacity and weak demand in container shipping putting downward pressure on sea-freight rates and shipping profitability.[[23]](#footnote-23)

Even excluding Hutchison’s impact, unit stevedoring revenues would have declined by a significant amount. This indicates that the decline in unit stevedoring revenues is not solely attributed to new entrant’s average pricing.

* + 1. Stevedores are continuing to invest in new capacity and equipment, with a trend towards automation

A significant investment over the past three years has been the commissioning of Hutchison’s two new terminals in Brisbane and Sydney. Over the same period, the incumbent stevedores have also been investing, most significantly in automated terminal handling equipment.

A major capital investment by a container stevedore in 2014–15 was the completion of Patrick’s semi‑automation of its Port Botany terminal, which came online in the second half of the year. This is the same system as its Brisbane terminal, which was semi-automated in 2006, although it is twice as large.[[24]](#footnote-24)

The semi‑automation of DP World’s Brisbane terminal was completed last financial year and is now fully operational. VICTL’s terminal is under construction and according to the company will be fully automated from the gate to the quayside.[[25]](#footnote-25)

Two key types of automated equipment have been introduced in the industry—automated straddles (AutoStrads™) by Patrick and automated stacking cranes (ASCs) by Hutchison and DP World. AutoStrads™ transport containers between the quay crane and the yard, and the yard and trucks. Under an ASC model, containers are manually transported from the quay crane to the yard, and placed in front of a module or ‘stack’ serviced by an ASC. The ASC then automatically selects and loads containers onto trucks as they call at the terminal.[[26]](#footnote-26)

#### Costs and potential benefits of automation

The trend towards automation has required significant financial investment. However, it is expected by the stevedores to lead to a reduction in operating costs and other benefits, such as improved safety and productivity. Labour cost savings are also associated with automated equipment.

For example, Patrick reportedly spent $500 million redeveloping and automating its Port Botany terminal.[[27]](#footnote-27) This terminal can now reportedly operate 20 per cent quicker and with 30 per cent lower costs than DP World’s neighbouring terminal.

DP World spent $250 million automating its Brisbane terminal in 2013-14.[[28]](#footnote-28) According to DP World, within months the terminal was operating more efficiently, quicker and with improved safety.

The initial capital costs of introducing automated equipment are often exacerbated by implementation problems—a level of which is inevitable with such significant modal change. The experience of some stevedores has been that new technology does not initially work as planned, and internal and external users need to be educated on how to use the system. Automated equipment tends to be less flexible so both the stevedore and truck operators need to have good systems in place for them to operate efficiently.

It appears investment in automation will continue with DP World reportedly indicating it plans to eventually automate all its Australian ports.[[29]](#footnote-29) It will reportedly consider automating its Port Botany terminal when it is satisfied with the performance of its newly semi-automated Brisbane terminal.

The investments by the stevedores during 2014–15 and planned for the future are outlined in text box 1.3. This information is provided by the stevedores as part of the monitoring program.

Text box 1.3: Key investments undertaken and planned by the stevedores

##### Patrick

Patrick reported the following major investments for 2014–15 and plans for the future:

* The four new cranes ordered in 2013–14 were delivered and will be commissioned over 2015-16.
* Completion of redevelopment of the Port Botany terminal which cutover to automation in April 2015. The Port Botany redevelopment includes a new truck ramp entry point and new semi‑automated truck grids.
* Patrick has been implementing an optical camera recognition (OCR) system across some terminals with the aim of streamlining entry conditions and reducing truck turn‑around times. Patrick is assessing its remaining terminals for suitability for installation of the OCR system.
* In 2015-16, Patrick plans to complete commissioning of cranes at the “knuckle” area of Port Botany and in Brisbane.

##### DP World

DP World reported the following investments for 2014–15:

* Two new super post-panamax quay cranes were commissioned in Sydney and Fremantle in early 2015. These cranes provide terminals with additional capacity as well as reliability.

DP World reported the following planned investments for 2015–16 and beyond:

* Two new ASCs have been ordered for the semi-automated terminal in Brisbane. The new cranes will increase the fleet of ASCs to 16 bringing the number of modules servicing container trade to eight (increasing yard capacity). The two new ASCs will be installed in ‘Module One’ at the terminal.
* The addition of Module One in Brisbane is expected to deliver improved quay crane productivity and vessel schedule integrity. Module One will also increase the number of waterside exchange lanes from 28 to 32, allowing additional freight to be transferred between ASCs and straddle carriers at any time. The two new ASCs are expected to be handed over for use in January 2017.
* In Melbourne, a project is underway to expand the yard capacity by developing an unused area in the existing terminal. This civil project is expected to be completed in the third quarter of 2016. DP World is also looking to replace a number of the straddle carriers in its Melbourne fleet as part of an on-going equipment replacement program.

##### FACT

FACT reported the following investments for 2014–15:

* An additional 2.4ha hardstand,[[30]](#footnote-30) providing additional container stacking area.
* Two post-panamax (Liebherr) cranes.
* Finalise payment of ZPMC quayside crane.
* Five straddle carriers.
* Crane training simulator to train drivers for new cranes.
* Replacement of terminal operational vehicles and additional plant and equipment.

FACT reported the following planned investments for 2015–16 and beyond:

* Increase the size of the straddle fleet with two straddle carriers.
* Additional hardstand.
* Replace damaged rail spur at the rail intermodal.
* Replacement or upgrade of terminal systems, additional weight detection system, operational vehicles and additional plant and equipment.
* With the capital investment made and improvements implemented since 2012 (particularly over 2014–15), FACT considers the terminal has considerable capacity to accommodate future volume growth.

##### Hutchison

Hutchison reported the following investments were undertaken in 2014–15:

* In Sydney, Hutchison has added as part of its Phase 2 expansion an additional three ASC blocks to increase its landside capacity to meet container slot demands to match its quay-side capacity. This brings the number of ASC blocks at its Port Botany terminal to six. Hutchison has also added two more reach stackers to facilitate its rail and empty yard operations at Port Botany.
* In Brisbane, Hutchison commissioned two more quay cranes, in addition to its existing two quay cranes, and added a manual handling area to the terminal.

Hutchison reported the following planned investments for 2015–16 and beyond:

* In Sydney, further investment plans beyond Phase 2 will depend on market demand. Port Botany will, for the present, focus on building up its productivity and service offering after its first full start-up year of operations.
* In Brisbane, Phase 2 involving the completion of Berth 12 beyond the wharf strip will continue after the successful removal of a damaged quay crane.[[31]](#footnote-31) Phase 2 will add an additional three ASC blocks to the existing three blocks already at the terminal. The damaged quay crane is anticipated to delay Phase 2 expansion by at least 12 months.
  + 1. Productivity remained close to record high levels

In 2014–15, productivity, measured both in terms of the net crane rate and elapsed labour rate, was close to record high levels.

Long term productivity gains have come from a number of sources such as investments in new equipment like cranes and straddles and the roll-out of semi-automated terminal handling systems.

On a national basis, the net crane and elapsed labour rates dipped slightly in 2014–15, having increased to their highest levels observed over the history of the monitoring program in 2013–14. The average net crane rate decreased from 30.8 containers per hour in to 30.6 in 2014–15. Similarly, the average elapsed labour rate decreased from 45.6 to 45.3 containers per hour. Improvements in Fremantle and Adelaide were offset by falls at the other three ports—in particular, Port Botany.

Port Botany had the largest fall in productivity over the 2014–15 monitoring period. This is expected to be related to implementation issues and temporary disruptions associated with Patrick’s roll-out of AutoStrad™ equipment and transition to a semi‑automated terminal handling system. During this period, temporary arrangements were in place which saw Patrick subcontracting volumes to the two other terminals.

Fremantle and Adelaide had strong productivity improvements in 2014–15, where new capital equipment was commissioned during the monitoring period. In Fremantle, new quay cranes were installed. The tender process underway for the new terminal leases may also provide additional incentive for improved productivity performance, as both stevedores are understood to be seeking to be reappointed.[[32]](#footnote-32) In Adelaide, a new crane training simulator was acquired and a new enterprise bargaining agreement (EBA) was finalised, both of which may have contributed to improvements in productivity. Two new post-panamax cranes recently acquired by FACT may be a source of productivity improvements in the future.

Since 1998–99, productivity has increased significantly. Capital productivity, measured by the net crane rate has risen from 19.6 to 30.6 containers per hour. Labour productivity has more than doubled, from 22.4 to 45.3 containers per hour. This is in contrast to national multi-factor productivity which, from 1998–99 to 2013–14, fell slightly. Over the same period, multi-factor productivity in the electricity, gas, water and waste services industry sector, which like container stevedoring is generally heavily dependent on infrastructure, fell significantly (by 40.7 per cent).[[33]](#footnote-33) This is consistent with the findings of the Australian Energy Regulator which has found productivity across the electricity distribution sector declined over the past seven years.[[34]](#footnote-34)

More detailed information on the stevedores’ productivity is provided in chapter 2.

* + 1. The incumbent stevedores are looking to offer a broader range of services

With increased competition and lower returns in the industry, it is possible that investments outside of stevedoring have become more attractive. The stevedores may be seeking to increase their returns by offering a more integrated service between port and origin/destination.

During the monitoring period, both Patrick and DP World have invested (or invested further) in the landside container supply chain—in particular, seeking partnerships with established landside freight and logistics companies. There are a number of examples in this respect. These are outlined below.

In October 2014, DP World acquired a 50 per cent share of logistics and warehousing company AWH Pty Ltd.[[35]](#footnote-35) According to DP World this signalled the first step towards its ‘beyond the gate’ strategy. DP World further announced a partnership with SCT Logistics in May 2015, reportedly aimed at providing exporters from the Wimmera region of Victoria with the opportunity to use rail to directly access the stevedore’s container terminal in Melbourne.[[36]](#footnote-36)

In July 2015, DP World announced it was considering a joint venture with freight and logistics services company Toll Group.[[37]](#footnote-37) This joint venture will reportedly use rail to transport containers between Port Botany and an intermodal terminal in Villawood, with a direct rail connection to DP World’s staging facility next to the wharf. The media release by the companies said:

By using the expertise and existing assets of DP World Australia and Toll, this proposed joint venture will create new efficiencies and competition in the Sydney import-export (IMEX) supply chain.

DP World has indicated it is seeking to get ‘closer to the farm for exporters and closer to the end consumer for importers’.[[38]](#footnote-38)

On 1 August 2015, Patrick entered into a joint venture with Australian Container Freight Services (ACFS), combining their two landside logistics businesses. It is expected the joint venture will be one of the largest providers of container transport, and warehousing and distribution services in Sydney, Melbourne, Brisbane and Fremantle. The ACCC reviewed the proposed joint venture arrangements under section 50 of the CCA insofar as it provided for an acquisition of shares or assets.[[39]](#footnote-39) The ACCC concluded the acquisition was unlikely to lead to a substantial lessening of competition. The ACCC determined that, following the joint venture, Patrick and ACFS would continue to face competition from a number of alternative logistics providers (including Qube, Toll Extra, Swift, Chalmers and others).

The ACCC notes that of the stevedores operating at the four largest ports, Patrick is currently the only solely domestic operator—that is, without affiliated port operations overseas. Both DP World and Hutchison (as well as VICTL) have international connections through their foreign parent companies.

Comments by Asciano in May 2015 indicated that Patrick was looking to develop an alliance with an international company, possibly by selling a minority stake:[[40]](#footnote-40)

Our customers are global, all our competitors are global, and we are purely Australian, so if we can find some sort of strategic link that would allow us to participate in that world, potentially putting our toe in the water for growth with them, that would be attractive.[[41]](#footnote-41)

Since then, Asciano has received a proposal from a consortium assembled by Brookfield Infrastructure Partners L.P. (Brookfield) to acquire Asciano Limited (Asciano).[[42]](#footnote-42) Asciano holds interests in above rail freight services, as well as operating as a stevedore. Brookfield has interests in port and rail infrastructure globally, including 30 port terminals in North America, UK and across Europe, and rail freight networks in Western Australia.[[43]](#footnote-43) As a result, if Brookfield acquires Asciano, the vertical integration arising from the proposed acquisition will result in the merged entity having interests in stevedoring as well as above rail freight services and below rail infrastructure in Australia.

Vertical and conglomerate mergers will often promote efficiency by combining complementary or related assets or services which may benefit customers through increased convenience and reduced transaction costs. In the majority of cases, non‑horizontal mergers will raise no competition concerns. However, non-horizontal mergers may raise competition concerns where the merged entity has market power at one vertical level that can be leveraged to reduce or foreclose competition in the complementary (vertically related) market.

If a firm proposes to enter an upstream or downstream market by acquiring shares or assets, the ACCC can assess any anti-competitive effects under section 50 of the CCA. However, if a firm enters a market, or expands its presence, without acquiring any shares or assets, its conduct will fall outside the scope of section 50. Conduct may, however, raise competition concerns under other provisions of Part IV of the CCA, for example where a contract or arrangement results in a substantial lessening of competition.[[44]](#footnote-44)

* + 1. With a more competitive industry dynamic, Fremantle Ports is tendering its new stevedoring leases

In October 2014, Fremantle Ports put the leases over the two stevedoring terminals up for tender.[[45]](#footnote-45) Patrick and DP World currently have 21-year leases, which are due to expire in May 2017. This has the potential to be a positive development as Fremantle Ports has the opportunity to improve the capacity and performance of the terminals, including their interactions with the landside supply chain. The strategic objectives Fremantle Ports is seeking from the tender include to:

[M]aximise terminal throughput capacity by achieving efficiencies that are comparable to leading international container terminal operations; and

[E]nsure container terminal operators work proactively with supply chain participants (for example, shipping, rail and trucking companies) to develop efficiencies that will ensure sustainable growth within and beyond the port gate.[[46]](#footnote-46)

Fremantle Ports may be following other port operators who have taken advantage of the renegotiation of stevedoring leases to introduce benchmarks or incentives for performance.

For example, when Sydney Ports Corporation renegotiated its stevedoring terminal leases, the ACCC understands there was a performance based component of the rent, as well as other measures to improve efficiency, and targets for servicing road and rail.[[47]](#footnote-47) Another example is when the Port of Melbourne sought expressions of interest for a third terminal operator. It requested that bidders specified the average truck turnaround times they would achieve, their plans for increasing off-peak truck arrivals and other landside key performance indicators to which they would adhere.[[48]](#footnote-48)

If, as it appears, there is a trend toward performance based stevedoring leases, the ACCC believes this is a positive development if it leads to increased efficiencies at the terminals and along the supply chain.

Potential benefits, however, could be lost if bidders for new stevedoring leases are chosen based on price at the expense of competitive outcomes and improved terminal performance. This is particularly relevant in the context of the proposed privatisation of the Port of Fremantle, as this may provide a basis for inflating the value of the terminals and therefore the amount that bidders for the long term lease of the port are willing to put forward.

* + 1. There continue to be challenges for new entrants

While greater competition in the Australian stevedoring industry is delivering changes to the benefit of users of stevedoring services, challenges remain for new entrants. Hutchison has been operational since 2013 but is yet to attract adequate market share. Some of this may be internal to Hutchison, however, other issues relate to the industry more broadly.

Past monitoring reports have documented a number of factors likely to present challenges to new entrants. These included the need for economies of scale, the availability of contracts with shipping lines, differences in timing of new terminals and a preference of some lines for a national stevedoring service.[[49]](#footnote-49) Others included existing relationships between lines and stevedores, possible rebates and discounts offered by the incumbents based on national volumes and subcontracting arrangements between the incumbent stevedores.[[50]](#footnote-50) Many of these challenges are likely to still be relevant.

In relation to subcontracting, Hutchison previously expressed the view that:

[A]greements that automatically transfer overflow work to another stevedore are no longer appropriate in market where there are more than two suppliers.[[51]](#footnote-51)

It was further noted by Hutchison (in relation to the incumbent stevedores) that:

The prospect of helping a new entrant into the market by directing overflow work could be considered by them as a disincentive.

The ACCC notes that during 2014–15, Patrick subcontracted work to both DP World and Hutchison when it had reduced capacity as it installed and transitioned to its semi‑automated terminal system at Port Botany.[[52]](#footnote-52) It therefore appears there can be opportunities for new entrants to be included in subcontracting arrangements.

Other concerns raised by Hutchison upon entering the industry were around the nature of shipping lines’ agreements with stevedores.

For example, Hutchison previously expressed concern that where shipping lines are operating within a conference, staggered end dates of shipping lines’ agreements with stevedores make it difficult for conference services to go to the market. The ACCC has previously noted that this a commercial matter for shipping lines to consider in their negotiations with stevedores.

The need to be able to offer a national service to shipping lines has also been raised as a possible challenge for new entrants. A new stevedore operating in just one or two ports may not be able to offer a national service and therefore the advantages it may provide shipping lines. For example, national contracts may reduce transaction costs by allowing a shipping line to deal with a single stevedore rather than a different one at each port. Further, a stevedore that provides a national service may be able to offer lines incentives in terms of volume discounts, and coordinate its terminals so that a vessel that arrives late at a port can be brought back on schedule by the time it leaves Australia.

Feedback from stakeholders has been mixed on the extent to which the inability to offer a national service presents a challenge to new entrants. Some indicated it is not an issue by comparing Australia with other regions, for example, Europe, where lines generally use a different stevedore in each port. The increase in capacity may also mean it is now easier to get late ships back on schedule regardless of whether a national contract is in place. Further, heightened competition may mean that stevedores now have a stronger incentive to do so. Others believe national contracting remains an important factor, and therefore a challenge for new entrants. Hutchison reported that shipping lines prefer a three port stevedoring option on the east coast (i.e. Brisbane, Sydney and Melbourne) that is provided by the same company. Hutchison noted it does not have a presence in Melbourne and this is a challenge.

Related to national contracting is the challenge presented by differences in the timing of new entry across the three east coast ports. Differences in timing reflect each port’s decision about their individual requirements for capacity. However, it also means there will be some years where Hutchison is competing against the incumbent stevedores without a third terminal operator at Australia’s largest port in Melbourne. The significance of a third terminal in Melbourne is that it will provide additional choice (and capacity) to shipping lines at that port, and may also provide Hutchison with the opportunity to form an alliance. The third operator in Melbourne, VICTL, is due to be ready for operation by the end of 2016.

The ACCC notes VICTL may face its own challenges if, as reported, its rent is well above that being paid by the incumbents in Melbourne. If this is significant, it could limit VICTL’s ability to compete whilst earning a sustainable return.

The competitive responses of the incumbent stevedores to new entry have also likely increased the challenge of attracting market share. Two years on from Hutchison’s entry, there are strong indications the incumbents have responded positively to a more competitive environment and fought to retain market share. On top of this, it has been suggested by some stakeholders that Hutchison has had trouble responding. For example, that Hutchison did not fully account for some of the local market’s unique characteristics, and that it could have put more work into marketing and building relationships in the industry earlier on. This has also been suggested in some media reports.[[53]](#footnote-53)

Since commencing, Hutchison has acquired some shipping services including the Auspac consortium, Kiwi International Express (KIX) service, Panama (PAD) service and South East Asia Australia Lane (ASAL) service.[[54]](#footnote-54) During 2014–15, press reports indicated Hutchison also acquired ANL’s Tranztas service at Port Botany. This service also stops in Melbourne where it uses DP World.[[55]](#footnote-55)

If there are obstacles to shipping lines switching to new stevedores, the ACCC considers the shipping industry—which for so long called for improved stevedoring performance in Australia—may have a role in overcoming these. For example, if shipping lines are impeded or dissuaded from switching due to existing arrangements with stevedores or service preferences (for example, for a national stevedoring service), the shipping industry may be able to work with new entrants to develop innovative and flexible commercial arrangements.

It is critical that any obstacles to switching are addressed if improvements recently observed are to continue into the future.

* 1. Port operators pose risks to the supply chain

The ACCC considers it important that recent improvements in stevedoring are not negated by inefficiencies elsewhere in the container supply chain. This is to ensure that the benefits of improvements in stevedoring are passed through to Australian consumers and exporters.

As landlords of container stevedores, port operators are a key component of the supply chain. Port operators also set charges for port access by other parties such as shipping lines. The charges port operators levy and the services and facilities they provide can have a considerable impact on the supply chain.

* + 1. Port privatisations provide opportunities for state governments to mitigate the risks of monopoly power

#### There has been a trend of port privatisations

There has been a trend towards the privatisation of ports in Australia through the sale of long term leases by state governments. The first was in 2001 when the Port of Adelaide was acquired along with six other South Australian ports by Flinders Ports.

The trend has increased in recent years, with a 99-year lease over the Port of Brisbane acquired by Q Port Holdings in 2010, and 99-year leases over Port Botany and Port Kembla acquired by NSW Ports in 2013.

More recently, the Victorian and Western Australian governments have announced their intention to privatise their respective container ports. The privatisation of the Port of Melbourne was announced last year, while the privatisation of the Port of Fremantle was announced in May 2015. If these processes go ahead as intended, soon all five mainland container ports will be privatised.

#### Privatisations executed correctly can unlock economic benefits

The ACCC considers the privatisation of assets, if implemented appropriately, is an effective way to promote the interests of users and the wider community. Through competition for capital, private ownership improves a firm’s productivity incentive. Privately owned firms have greater incentive and ability to be cost efficient and innovative compared to government owned enterprises. Proceeds from a sale can also be reinvested in new infrastructure, which depending on the project, may improve the welfare of Australians.

#### There is a tension, however, between short term budgetary considerations and longer-term competition goals

In the ACCC’s view, a privatisation process provides an opportunity for state governments to mitigate the risk of a private operator using their monopoly position to the detriment of consumers. There are two key considerations for governments in this respect—introducing appropriate pricing and access regulation, and ensuring the sale structure and conditions promote future competition where possible.

Budgetary pressures may, however, mean that governments do not take advantage of this opportunity and instead seek to maximise the sale price at the expense of competitive outcomes and adequate regulatory protections.

It is clear that leases to operate ports may attract high prices if bidders anticipate the ability to persistently earn monopoly profits and recover the price paid from port users. The ACCC is of the view that such a scenario effectively imposes a tax on Australian consumers for decades to come. The higher sale price is essentially a capitalisation of economic rent, with the return the port makes effectively a tax on consumers which is collected over the term of the lease by the port operator.

For example, the Port of Newcastle was privatised in May 2014 with effectively no regulatory oversight.[[56]](#footnote-56) As outlined in text box 1.4, the Port of Newcastle has since increased prices and revalued its assets without any independent check on the appropriateness of those charges.

##### Text box 1.4: Privatisation of the Port of Newcastle

* The Port of Newcastle was privatised in May 2014 with a 98-year lease from the NSW Government to Port of Newcastle Operations (PNO). PNO is a consortium jointly owned by Hastings Fund Management Group and China Merchants Group.
* The Port of Newcastle handles more than 25 different cargoes and 2,169 ship visits per year. The Port of Newcastle is the world’s largest coal export port, from which most of Australia’s thermal coal is exported. In 2014, 159 million tonnes of coal was exported through the port.[[57]](#footnote-57)
* PNO paid $1.75 billion for lease of the port assets, amounting to a multiple of 27 times earnings.[[58]](#footnote-58) The NSW government’s budgeted sale price was $700 million.
* After privatisation, in its 2014 Annual Trade Report released in April 2015, PNO published the value of its Port of Newcastle trade assets at $2.398 billion.[[59]](#footnote-59) PNO defines its trade assets as those assets which generate revenue excluding those assets which are associated with property leasing activities.
* On 1 January 2015, PNO implemented new charges, including raising the navigation service charges levied on vessels at the time of port entry. Based on the weighted average size coal vessel,[[60]](#footnote-60) the increase to navigation service charges is approximately 12.7 cents per tonne of coal and for all other charges a price increase of 3.9 per cent in 2015 and 2016.[[61]](#footnote-61)
* Users are concerned that additional price rises would be necessary if PNO were to seek full recovery of its published value of its trade assets of $2.398 billion.

#### Opportunities for future competition between ports should be left open

The market structure entrenched at the time of a privatisation can have serious implications for the state of competition in the future. Opportunities for competition between ports should be protected by governments where possible, for example by separating (rather than integrating) potentially competitive facilities and avoiding clauses from agreements with successful bidders that impede competition.

One way by which competitive outcomes can be compromised is where clauses are inserted into sale contracts which have the effect of limiting the impact, or eliminating the prospect of, future competition.

The ACCC notes that when the legislation for privatising of the Port of Melbourne was introduced to parliament in May 2015, it was reported that there will be a clause in the contract for compensation to be paid to the buyer if the port’s profits are undermined by the development of another port by the Victorian government within 50 years unless the Port of Melbourne is at capacity.[[62]](#footnote-62)

The ACCC notes that prior to the last state election, the then Victorian government’s policy was to develop a second container port at the Port of Hastings. The then government had indicated the second container port would be operational within 10 to 15 years.[[63]](#footnote-63) The Opposition at the time had expressed a preference for a port at ‘Bay West’, though its final decision was proposed to be subject to advice from Infrastructure Victoria. The timing and scale of any such development remains unclear.

Another way future competition can be compromised though the privatisation process is by the sale of potentially competing ports to the same operator. In this regard, the ACCC notes the NSW Government’s sale of Port Botany and Port Kembla to the same owner. Shortly before the sale, Port Kembla was identified by the NSW government as the location for the state’s second container handling facilities.[[64]](#footnote-64)

While the ACCC appreciates that governments have broader interests than competition policy to consider, sale clauses and market structures that limit competition are poor outcomes from a competition policy perspective.

In relation to the Port of Fremantle, the ACCC notes the forthcoming privatisation may present the WA government with an opportunity to facilitate future competition, for example between the existing facilities in Fremantle (the Inner Harbour) and possible new facilities in Outer Harbour.

Since the early 2000s, the WA government has identified Outer Harbour as the likely location for the state’s second container port once the existing port in Fremantle reached capacity.[[65]](#footnote-65) According to the WA Planning Commission, the decision was the result of extensive research and consideration of a number of alternative locations. Both the Inner and Outer harbours are currently operated by Fremantle Ports.

A number of subsequent reports have supported the development of additional container handling facilities at this location, most recently the Fremantle Ports 2014 Annual Report, which stated under the heading of “Outer Harbour port planning”:

Fremantle Port’s Inner Harbour container trade is expected to reach optimal capacity within the next 10 to 15 years, with the timing dependent on trade trends and other factors. When this occurs, additional facilities will be needed to cater for further growth.[[66]](#footnote-66)

#### Appropriate regulation prior to privatisation is needed to constrain monopolies

##### The case for regulation

Most major container ports are considered to be monopoly or near monopoly assets because the costs of using alternative facilities (as well as transportation networks) are generally significantly higher. Their operators, therefore, tend to have market power. Privatisation transfers this market power from the public to the private sector.

Appropriate price and access regulation of container ports is required to protect competition in upstream and downstream markets (which rely on port access), and the interests of consumers and businesses who rely on efficient port operations for affordable imports and competitive exports.

The ACCC does not consider price monitoring to be a substitute for price and access regulation. Such arrangements are in the ACCC’s view, insufficient to adequately constrain the monopoly or near monopoly power of most ports.[[67]](#footnote-67)

The privatisation process provides state and territory governments with the opportunity to consider the appropriate approach to regulating port operators. The need to undertake a review into the price and service regulations at the time of privatising a monopoly was recognised and agreed to by state and territory governments under the Competition Principles Agreement in 1995.[[68]](#footnote-68)

It is the ACCC’s view that ensuring there are adequate regulatory safeguards in place for the term of the lease is likely to have longer term implications for economic growth and productivity than the one-off payment for the rights to operate the port.

##### Current arrangements differ by port

The regulatory oversight arrangements currently in place for ports differ across states. However, there is a general preference amongst state governments for price monitoring/transparency arrangements rather than economic regulation, with the potential for economic regulation in the future (for example, for the Minster or state regulator to step in and impose economic regulation without such action requiring legislation to be passed through parliament).

In **NSW**, Port Botany is not subject to economic regulation but is subject to a price monitoring regime established by Part 6 of the *Ports and Maritime Administration Act 1995* (NSW). Port operators are required to publish information on charges, give advance notice of changes to charges including a rationale for any increases, and provide an annual report to the Minister each year with specified information on charges and revenue. The Minister may refer inappropriate pricing behaviour to the Independent Pricing and Regulatory Tribunal (IPART) for review, although the Minister is not bound by the recommendation or advice of IPART.

In **Queensland**, there is currently no economic regulation applying to the Port of Brisbane, however, the *Transport Infrastructure Act 1994* (Qld) requires that standard charges and conditions are published on the port’s website. If declared by the relevant Minister, Port of Brisbane operations may be subject to price and access regulation by the Queensland Competition Authority under the *Queensland Competition Authority Act 1997* (Qld).

In **South Australia**, essential maritime services (providing access of vessels, facilities for loading or unloading vessels, or berths for vessels) are subject to a price publication and monitoring framework administered by the Essential Services Commission of South Australia (ESCOSA). Additionally, certain ‘regulated services’[[69]](#footnote-69) are subject to a negotiate-arbitrate access framework under the *Maritime Services (Access) Act 2000* (SA). ESCOSA is required to keep maritime industries under review and determine whether regulation (or further regulation) is required under the *Essential Services Commission Act 2002* (SA).

In **Western** **Australia**, there is currently no formal access and pricing regulation but Fremantle Ports operations are subject to Ministerial oversight and direction. Ports in WA are not a ‘regulated industry’ for the purpose of the *Economic Regulation Authority Act 2003* (WA). However, the relevant Minister is able to direct the Economic Regulation Authority of WA to inquire into or report on non-regulated industries.

In **Victoria**, the Port of Melbourne is subject to limited price monitoring by the ESC. The monitoring applies to certain prescribed services specified under the *Port Management Act 1995* (Vic). The ESC also makes a pricing determination every five years that sets out pricing principles to guide a port operator in setting charges and can determine the form of regulation to apply, which is then subject to Ministerial approval.

However, with the Port of Melbourne planned for privatisation, the Victorian Government has proposed changes to the current regime (as set out under the Delivering Victorian Infrastructure (Port of Melbourne Lease Transaction) Bill 2015 and associated Pricing Order). These proposed changes include capping certain charges to CPI for at least 15 years, regular reviews by the ESC of the lessee’s compliance against strengthened pricing principles, and the ability for more direct forms of regulation to be imposed. The ACCC considers the proposed amendments move the dial towards a more robust regulatory regime to apply post-privatisation, and are more rigorous than measures in place at other major Australian container ports.

##### Price monitoring provides limited constraint on the exercise of market power

Monitoring regimes such as those in place in NSW and Victoria provide a level of transparency to stakeholders over certain charges set by port operators. Price monitoring is not a substitute for economic regulation and, in most cases, does not present an effective constraint on the exercise of market power.

A key issue is that detecting whether a port operator is exercising its market power, for example, by setting prices higher than would occur in a competitive market, is very difficult with limited accounting based information. Such an undertaking would typically involve judgements on the extent to which costs are efficient, and would require assets be valued on a consistent base over time.

The ACCC notes that price monitoring regimes in place today do not generally collect detailed cost and asset data, and are instead focused on a limited subset of prices (for example, wharfage charges) and exclude charges payable under terminal leases.

##### Benefits of a negotiate-arbitrate model and threat of declaration under Part IIIA

In the ACCC’s view, an effective regulatory framework for port operators would be a negotiate-arbitrate model,[[70]](#footnote-70) which can provide greater bargaining power to parties who rely on access to monopoly or near monopoly infrastructure. One of the advantages of a negotiate-arbitrate model is that the threat of regulatory intervention can support the primacy of commercial negotiations and avoid the need for the regulator to set access terms and conditions.

Where, however, policy decisions are such that appropriate regulatory constraints are not put in place, the only regulatory recourse available to users is to apply for declaration of port services under Part IIIA of the CCA (see text box 1.5). Declaration of a service enables the ACCC to arbitrate disputes over the terms and conditions of access including price.

The ACCC notes the ability to initiate an application for declaration may provide port users with some bargaining power in their negotiations with port operators. This would be expected to depend on the likelihood of the declaration criteria being met, which is assessed on a case-by-case basis.

However, as noted in the ACCC’s submission to the Productivity Commission’s review of the National Access Regime, declaration is a potentially complex and time-consuming path to access. Recent experience suggests that applications for declaration can be a problematic path to ensuring appropriate regulation is in place. This supports the need for governments to establish adequate upfront regulatory regimes at the time of privatising monopolies.

Text box 1.5: The declaration process

Declaration is a pathway provided under Part IIIA of the CCA for parties to gain access to a service provided by way of a facility of national significance. It provides a process for determining whether services provided by a particular facility should be regulated.

Parties seeking access (or increased access) can apply to the National Competition Council (NCC) for a recommendation that the services be declared.[[71]](#footnote-71) In the case of an increased access situation, it can be that a party is seeking access on more reasonable prices.

The NCC considers whether the service should be declared against a set of criteria. The NCC then recommends to the designated Minister whether or not the service should be declared.

For the NCC to recommend declaration it must be satisfied that the following criteria are met:

(a) that access (or increased access) to the service would promote a material increase in competition in at least one market, other than the market for the service;

(b) that it would be uneconomical for anyone to develop another facility to provide the service;

(c) that the facility is of national significance,[[72]](#footnote-72)

(e) that the service is not already the subject of … an effective access regime; and

(f) that access (or increased access) to the service would not be contrary to the public interest.

Ministerial decisions on declaration applications are subject to review by the Competition Tribunal.

* 1. There are opportunities to improve road, rail and sea connections to container ports

The volume of container freight to pass through Australian ports has been forecast by the Bureau of Infrastructure, Transport and Regional Economics (BITRE) to more than double from 7.2 million to 19.4 million TEUs by 2032-33.[[73]](#footnote-73) This presents unique challenges to Australia with a relatively small population of 23 million and its three largest cities separated by almost 2,000 kilometres.

If Australia is to successfully meet this challenge, reform to the way that freight infrastructure is used and provided is needed to ensure that ports, roads and rail networks can cope with predicted growth.

In particular, there are opportunities to improve domestic transport connections to container terminals. A number of impediments currently exist to transporting containers within Australia as efficiently as possible. Such impediments may include commercial, regulatory and policy settings.

Billions of dollars are spent on logistics each year and the industry makes a major contribution to the economy. It is estimated to be worth 8.6 per cent of GDP, which in 2013 represented $131.6 billion of value added.[[74]](#footnote-74) The potential benefits from productivity improvements in freight transport are therefore significant.

The key findings of the PC’s study of the Australian waterfront in 1998 included:

The [p]ort-land interface is not operating effectively. There is a need for better coordination throughout the transport chain.

Poor performance increases costs to exporters, importers and other shippers both directly and indirectly.

Overall, there is significant scope for improvement.[[75]](#footnote-75)

The ACCC monitoring program has documented significant improvements in the productivity of stevedoring since that time. However, stevedoring is just one part of the container supply chain. For improvement in stevedoring to translate to lower freight costs, it is important that the focus is placed on improving domestic transport connections to container ports. Without this, the risk exists that improvements in stevedoring could be negated by inefficiencies elsewhere in the supply chain.

* + 1. Many parties have a role in efficient container flows

#### The container supply chain

From the dispatch of a container overseas to the receipt of that container at its end destination in Australia, and vice versa, many parties play a role in efficient container flows. These include stevedores, shipping lines, importers/exporters (shippers) (who may choose to engage an agent), road transport operators, rail operators, logistics service providers, intermodal terminal operators, port operators, empty container park operators and governments.

Diagram 1.1 shows the movement of containers along the supply chain and indicates where there are commercial relationships between container stevedores and other key parties.

There is a distinction between the relationship stevedores have with shipping lines and land transport operators. Unlike shipping lines, land transport operators do not have a choice of which terminal they access to collect or drop off a container (this is directly determined by the shipping line, and somewhat indirectly by the shipper or shipper’s agent choice of shipping line). Conversely, the ACCC understands that road transport operators gain access to the stevedores’ vehicle booking systems (VBS) (and therefore terminals) through standard access agreements, which set the stevedore’s terms and conditions of access for all road transport providers.

Diagram 1.1: Commercial relationships between stevedores and other key parties in the container supply chain

Port operator

Rail operators

Road transport operators

Shipping lines

Shippers or shipper’s agent

Container stevedores

VBS

Legend:

Movement of containers

Commercial relationship with stevedore(s) (arrows signify choice)

Notes: (1) This is a simplified representation of the container supply chain primarily focusing on interactions between stevedores and other parties. (2) There are commercial relationships between some of the other parties, for example charges are levied on shipping lines by the port operator.

#### Stevedores can influence the cost and efficiency of domestic transport modes

This section explores the stevedores’ incentives in servicing the landside. It recognises there are factors within a stevedore’s influence or control which can impact the cost and efficiency of providing transport services to/from container terminals.

The primary contractual customers of a container stevedore are shipping lines, who dock at the terminals and pay the stevedores for loading and unloading containers. They generate the majority of a stevedore’s revenue. Stevedores also control the terms and conditions of landside access to the terminals for road and rail operators, who rely on this access to provide a transport service to shippers.

Truck access to the terminals is arranged through the stevedores’ online VBS. Road transport providers are required to book a timeslot through the VBS to collect or drop-off a container. The stevedores charge fees to access their VBS. At some ports (where rail sidings extend to the stevedores’ terminals) stevedores provide access to trains via rail windows.

Because stevedores derive most of their revenue from servicing shipping lines, and land transport operators do not choose between terminals, this may affect a stevedore’s incentive to provide landside services that best meet the needs of road and rail operators and the wider supply chain. It is likely that the stevedores’ motivation in servicing the landside will generally be for operational reasons and to minimise costs, as road and rail transporters do not have a role in generating demand for a stevedore’s business.[[76]](#footnote-76) That said, stevedores will likely have an incentive to run their landside terminal interface relatively smoothly, so containers can be moved from terminals to free up space and resources for servicing ships.

There are a variety of factors within the stevedores’ influence that can impact on the cost and efficiency of domestic transport connections to container terminals. These factors may include the charges stevedores’ levy on road and rail operators, the speed and reliability of the stevedores’ landside service, and the number of slots made available to transport operators at each time period.

It is important to acknowledge there are cost and operational implications for stevedores of servicing different transport modes. For example, trucks can generally be loaded with one lift from the stack or yard, whereas containers taken by train may require an extra lift if they need to be taken to the rail siding and stored while waiting for a train to arrive. A further example is that a stevedore may allocate labour and resources to servicing a train, which then arrives late or with only a few containers loaded. Conversely, the ACCC understands trains have been delayed at stevedoring terminals on occasions for extended periods.

Consequently, a stevedore’s commercial interest may not always align with broader supply chain needs. Where this is the case, initiatives may be appropriate for aligning incentives and encouraging greater supply chain efficiency. This is discussed further in the following section.

#### Many parties have a role in facilitating better container flows

Many parties have a role in encouraging efficient container movements between the container terminals and their origin or destination in Australia. These include stevedores, ports, shipping lines, transport operators and infrastructure providers, empty container park operators, shippers and governments.

The ACCC considers that improved landside connections to container ports will best be facilitated by a joint effort by industry stakeholders and possibly government. In some cases, improvements may be driven by commercial contractual arrangements. In other cases there may be a role for regulation. Industry coordination is not necessarily precluded by the CCA where a ‘net public benefit’ of the conduct can be demonstrated.

Inefficiencies in one part of the chain can affect all parties, and ultimately result in delays and increased freight costs for shippers. Information asymmetries, commercial incentives, and policy and regulatory settings may contribute to such outcomes. Many of these may be avoidable with greater communication, coordination and the use of contractual arrangements to drive performance improvements.

In some cases port operators, governments and/or shipping lines may have a role in more closely aligning stevedores’ interests with those of broader supply chain. For example:

* Port operators may be able to use the leasing arrangements that are set with stevedores, such as by incorporating key performance indicators based on landside performance (as outlined in section 1.3.6).
* State governments may have a role with regulation which may have the effect of aligning financial incentives with landside performance. An example is the Port Botany Landside Improvement Strategy (PBLIS), whereby stevedores are fined if they service trucks late (and conversely trucks are fined if they arrive late at a terminal).
* Shipping lines have contractual arrangements with both the stevedores and importers/exporters (or their agents, such as freight forwarders). This may put them in the position of having the commercial power to exert pressure on the stevedores to improve landside transport access.
  + 1. Road reform to promote investment and efficient modal choice

#### Road reform to improve investment decisions

Despite their key role, roads have not been subject to the level of microeconomic reform that has occurred in other industries since the National Competition Policy Review in 1993.

The recent Australian Infrastructure Audit observed that the lack of transport user charges means it is unlikely governments will be able to maintain their current levels of spending in the sector. It also noted:

Current arrangements for the funding of land transport are deeply flawed and represent the most significant opportunity for public policy reform in Australia’s infrastructure sectors.[[77]](#footnote-77)

The Competition Policy Review panel and the PC in its Public Infrastructure inquiry have also voiced support for reform to the ways roads are funded and used in Australia.

The ACCC agrees that reform is needed in the road sector. Reform would support greater productivity in container supply chains, and ensure targeted investment occurs to meet expected growth in container volumes.

A critical issue with Australia’s road funding framework is that the funds raised from road user charges do not directly flow to the entities responsible for investing in roads. Rather, the funding for these entities’ investment in roads comes from a variety of sources including local rates, state general revenues and Commonwealth revenues. This is likely to result in sub-optimal decisions to invest in and maintain certain roads or groups of roads.

The ACCC considers that a practical starting point for reform is to establish a system that ensures that the revenue collected from road users is directed to the entities that build and maintain the roads.

A second focus of reform should be transition to a forward-looking approach to revenue requirements for roads. To date, total revenue requirements for Australia’s roads have been largely based on historical information. Shifting the focus from a historical cost approach to a forward-looking approach would promote better long term planning for road provision.

Such a system would bring roads in line with other infrastructure sectors, such as rail and telecommunications, where long term plans and demand forecasts are used to determine economic costs and annual revenue requirements, and funds collected from access charges generally flow directly to infrastructure providers.

Once the first two stages of reform are in place the focus could then turn to the role of price signals. This could involve adjusting existing pricing systems so as to more directly link the price paid by users to their individual use of roads.

#### Road charging and funding arrangements have implications for the competitiveness of rail

An implication of the current system for road charging and provision is that investment decisions in, and the use of, infrastructure for alternative modes of transport, such as rail, will be less than optimal.

Road users in Australia generally face the same charges regardless of which roads they use, the cost of those roads, and the time at which they are used. By contrast, rail usage charges are generally more closely related to infrastructure costs and location.

The ACCC considers that the signals for efficient rail use and investment can be improved by pricing roads correctly.

The ACCC notes that most state governments have policies aiming to increase rail freight and some have set targets for the proportion of containers to be transported by rail. In some cases, state governments support these policies by subsidising or capping rail charges, investing in rail freight connections, and/or encouraging the development of intermodal terminals to facilitate rail use. Industry is also investing in rail infrastructure, particularly in the Sydney metropolitan area where a number of intermodals terminals have or are being established (see text box 1.6).

A key reason governments cite for setting rail freight targets is to reduce congestion caused by trucks around ports and on major arterials which, given forecasts of continuing growth in container volumes, will only get worse.

In relation to the current system for road funding and investment, major investments in new road connections to container ports can in some cases make trucks more attractive than trains for freight, undermining state government rail targets by discouraging investment in rail.

Text box 1.6: Intermodal terminal investment—Sydney metropolitan area

Intermodal terminals are inland transport and storage hubs, some of which have rail links to one or more ports. They have facilities to transfer freight between trucks and trains, including container storage areas such as yards and warehouses. These terminals may assist state governments to reach their targets for increasing the proportion of containers transported by rail instead of road.

In recent years, there has been significant investment in intermodal terminals in the Sydney metropolitan area. This has been driven by both governments and private companies. A driver of this development is that about 85 per cent of containers arriving at or leaving Port Botany travel within 40 kilometres of the port.[[78]](#footnote-78)

At Moorebank, a terminal precinct is being constructed by Sydney Intermodal Terminal Alliance (SIMTA), comprised of Qube Holdings and Aurizon. The precinct will include an import-export (IMEX) freight terminal with eventual capacity for up to 1.05 million containers per year, and an interstate freight terminal with capacity for up to 500 000 containers a year. The IMEX terminal is expected to start operations in late 2017 and the interstate terminal in approximately 2019.[[79]](#footnote-79) Part of the Government’s rationale for the terminal was to reduce road congestion with the aim of reducing freight costs and delays by freeing up traffic bottlenecks and reducing urban congestion.[[80]](#footnote-80)

At Chullora, Asciano is reportedly enhancing and expanding its intermodal terminal. In February it launched two new $30 million rail mounted gantry cranes, which the company believes will double capacity from 300 000 to 600 000 TEUs per year.[[81]](#footnote-81) Pacific National, the operator of the rail shuttle to Port Botany, is reportedly aiming to move up to 135 000 TEUs per year through the terminal.

At Enfield, the NSW Government commenced construction of an intermodal terminal in July 2011. Connected to Port Botany by a dedicated freight rail line, the plan was for it to be a distribution point for moving freight between storage facilities and importers/exporters in parts of south western Sydney. In April 2013, this facility was privatised along with other port assets including Port Botany, under a 99-year lease to NSW Ports (a consortium comprising the following private investors: Industry Funds Management, Australian Super, Tawreed Investments Limited, Cbus, HESTA and HOSTPLUS). According to the company, construction was largely completed in the middle of 2015, although Hutchison reportedly pulled out of operating the terminal to concentrate on stevedoring.[[82]](#footnote-82)

In July 2015, DP World and the freight and logistics provider Toll Group announced a proposed joint venture to connect an intermodal terminal at Villawood, 25km west of Sydney to a dedicated container staging zone at Port Botany. This joint venture will reportedly be able to move around 180 000 TEUs per year by rail. If the joint venture goes ahead, it is planned to start operating in 2017.[[83]](#footnote-83)

* + 1. Coastal shipping reform to reduce freight costs and reduce impediments to competition

While international shipping is fundamental to Australia’s import/export supply chains, coastal shipping plays a far less significant role in the domestic supply chain. Only a very small proportion of containers are transported domestically by ship. The vast majority are transported by road, and to a lesser extent rail. Coastal shipping can be an alternative to road and rail, but may not always be available or competitive for Australian domestic routes.

Restrictions on the ability of foreign vessels to compete for domestic coastal trade in Australia have long been in place. Additional restrictions were imposed in 2010 and 2012, by way of a temporary licencing system and a requirement that foreign vessels pay their foreign crew Australian wages and conditions when carrying domestic cargo along Australia’s coast.

The ACCC has previously expressed concern that such restrictions may discourage or prevent foreign lines from entering domestic shipping, or increase the administrative burden and cost of doing so. Of particular concern is where a foreign vessel could be discouraged or prohibited from carrying coastal trade on a journey it is already undertaking as part of an international service.

In May 2015, the Australian Government announced it would introduce new legislation which would allow foreign ships to more freely transport containers within Australia.[[84]](#footnote-84) According to the second reading speech for the Shipping Legislation Amendment Bill 2015, a single coastal shipping permit would be available to both Australian and foreign registered ships, and a foreign ship would only be subject to domestic workplace relations arrangements if it will be predominantly operating in Australia—that is, for more than 183 days of a 12-month permit.[[85]](#footnote-85)

The ACCC expects proposed changes to coastal shipping regulation will reduce the regulatory burden and cost for foreign shipping lines to operate along Australia’s coast.

A more efficient coastal shipping industry for freight could also help to relieve pressure on Australia’s road and rail networks, lowering transport costs and consequently prices, across the economy. This is particularly relevant at a time when there is spare capacity at container stevedoring terminals and, according to the industry, in shipping. This could be a relatively low-cost form of transport in some circumstances as much of the cost of the journey would be covered by the international container trade on board.[[86]](#footnote-86)

* + 1. Public-sector planning and targeted infrastructure expenditure can boost productivity

It has been well documented that Australia’s productivity performance has deteriorated since around 2000.[[87]](#footnote-87) As the Competition Policy Review report pointed out, this deterioration has coincided with a stalling in Australia’s microeconomic reform effort.

Meanwhile, Australia faces growing container volumes and an increased freight task. Adequate planning and project selection processes must be in place to ensure that the infrastructure required will be delivered at least cost to the Australian community. This is a critical factor if Australia is to receive the full benefits of reform and increased competition in container stevedoring. As the Australian Infrastructure Audit recently conducted by Infrastructure Australia observed:

Australia needs integrated infrastructure and land-use planning, across all levels of government… Improvements in long term infrastructure planning, project appraisal and project selection… are necessary if Australians’ expectations are to be realised.[[88]](#footnote-88)

In particular, there is an opportunity for planning at the state level to ensure that public-sector spending in the container supply chain is directed where it is needed most, and that the conditions exist for efficient investment by the private sector and innovation.

State-based port and freight plans communicate a vision to industry and can provide certainty to companies wishing to invest in the supply chain. An example of where public plans have supported private sector investment is in intermodal terminals in Sydney.

This is particularly important as the Infrastructure Audit found it is likely Australia will need an increasing level of private sector investment in infrastructure. It stated:

Government funding alone is unlikely to be sufficient to provide the infrastructure that Australia requires. Maintaining or strengthening conditions to facilitate private sector investment in and operation of Australia’s infrastructure networks is fundamentally important.[[89]](#footnote-89)

Long term plans can also provide a discipline on governments to think about opportunities for increased industry contestability and competition in the future, prior to selling key assets to the private sector.

In relation to project selection, the PC recently highlighted the important point that not all public infrastructure projects support productivity and generate economic growth and wellbeing.[[90]](#footnote-90) In its report on public infrastructure, the PC emphasised there are significant costs to the community from poor project selection. It stated:

There are many examples in Australia of poor project selection leading to highly inefficient outcomes. In such cases, investment in public infrastructure is a drain on the economy and tends to lower productivity and crowd out more efficient projects.[[91]](#footnote-91)

The ACCC considers there are advantages of independent bodies having a role in project selection based on rigorous and transparent analysis of infrastructure requirements. In this regard the ACCC notes the Victoria government’s recently created body, Infrastructure Victoria. According to the Victorian government:

Infrastructure Victoria will take short term politics out of infrastructure planning, and… be tasked with ensuring Victoria’s immediate and long-term infrastructure needs are identified and prioritised based on objective, transparent analysis and evidence.[[92]](#footnote-92)

Given the significant cost of large-scale infrastructure, it is important that caution is exercised when choosing between port and freight infrastructure projects to ensure spending is directed to its highest value use.

* 1. Conclusion

Container stevedores in Australia today face a more competitive environment as a result of new entry and increased capacity. Over recent years, there has been significant investment, improvements in customer service, lower average prices and a fall in the rate of return for the industry. Productivity has improved and the volume of containers through the stevedores’ terminals has increased.

That said, new entrants face challenges establishing their operations and attracting market share. The specific characteristics of the Australian industry need to be understood by new entrants, while the shipping industry—which for so long called for improved stevedoring performance—should do what it can to help overcome any barriers that exist to switching stevedores.

There are opportunities to ensure the benefits of the improved performance of the stevedores are passed onto consumers, and not lost along the supply chain. Port privatisations provide state governments with the opportunity to facilitate competition in the long term between existing and possible future port facilities. They also provide a chance to ensure there is appropriate access and pricing regulation in place.

Domestic transport connections to container ports present other opportunities to improve the supply chain. A key factor is removing pricing distortions between road, rail and sea, as well as encouraging efficient investment in infrastructure by improving planning and project selection processes.

This is particularly important with predictions of increasing containers volumes to be transported, particularly on roads. Along with governments, industry is also investing in rail connections to container terminals, particularly in Sydney.

Further efforts to improve the supply chain would ensure the benefits of increased stevedoring competition flow to consumers and Australian exporters by way of cheaper imports and more competitive exports.

1. Monitoring results: Productivity and throughput
   1. Introduction

This chapter examines the productivity of the stevedoring industry in servicing ships (quayside) and trucks (landside).

Changes in productivity are an important indicator of industry performance, as well as the quality of service provided to customers. For container stevedoring, productivity indicators partly reflect the quality of management and investment decisions made by the stevedores to offer a more efficient service. They also reflect the productivity of labour in working equipment and servicing ships.

Information is also presented in this chapter on the volume of containers processed through the terminals, as well as the size of the landside freight task. The size of the landside freight task includes the number of containers transported by road versus rail, as well as the amount of trucks accessing the terminals.

The ACCC uses productivity and throughput information collected by the Bureau of Infrastructure, Transport and Regional Economics (BITRE) for its *Waterline* publication series.

* 1. Quayside container stevedoring services

This section provides information on container volumes through the ports (section 2.2.1) and the stevedores’ productivity in servicing ships (section 2.2.2).

* + 1. Volume and shares by port

In 2014–15, total throughput at Australian container ports was 7.1 million TEUs, which is low by international standards. By comparison, volumes in Shanghai, the world’s largest container port, were 35.3 million TEUs in 2014.[[93]](#footnote-93)

Figure 2.1 shows:

* Total throughput volumes have increased every year since 1998–99, with the exception of 2008–09. The overall decline in throughput in that year was mostly due to the effects and subsequent recovery from the Global Financial Crisis (GFC).
* Before the GFC (between 1998–99 and 2007–08), the average annual growth in throughput was 8.6 per cent. Since then, the national average growth rate in throughput has been substantially lower, at 3.2 per cent.
* In 2014–15, national throughput increased by 2.8 per cent, which was broadly consistent with the national average growth rate in throughput since 2008–09. In 2014–15:
* Throughput increased at all ports, with the exception of Adelaide which fell by 4.4 per cent due largely to a decline in volumes associated with specific trade areas.
* The largest increase was in Fremantle (5.8 per cent). Volumes increased by a lesser amount in Sydney and Brisbane (both 3.8 per cent) and Melbourne (1.8 per cent).

Figure 2.1: Container throughput trends at designated ports, 1998–99 to 2014–15



Figure 2.2: Container throughput volumes and shares by port, 2014–15

Source: Figures 2.1 and 2.2: BITRE, *Waterline* (2014–15 from forthcoming publication no 57); TasPorts (Port of Burnie)

Note: Data in *Waterline* includes international and domestic cargo.

Figures 2.1 and 2.2 together show:

* Melbourne continued to be Australia's largest national container port in 2014–15, processing 2.6 million TEUs.
* Melbourne’s share of national TEUs has declined since 1998–99, from 39.0 per cent to 36.2 per cent in 2014–15.
* Sydney continued to be Australia’s second-largest container port, with 2.3 million TEUs processed in 2014–15.
* Since 1998–99, Sydney’s share of national TEUs has increased from 30.6 per cent to 32.2 per cent. This is its highest share over the history of the monitoring program.
* Brisbane was the third-largest port in terms of container volumes, processing 1.1 million TEUs in 2014–15.
* Brisbane’s share of national TEUs has increased since 1998–99, from 12.5 per cent to 16.0 per cent.
* Fremantle was Australia’s fourth-largest container port, processing 743 600 TEUs in 2014–15.
* Fremantle’s share of national TEUs has increased from 9.6 per cent in 1998–99 to 10.4 per cent.
* Adelaide had the lowest throughput in 2014–15, processing 365 900 TEUs.
* Since 1998–99, Adelaide’s share of national volumes has increased from 4.2 per cent to 5.1 per cent.
  + 1. Productivity trends in quayside stevedoring

BITRE reports on changes in capital and labour productivity in container stevedoring operations in the five mainland ports. The three key indicators of quayside productivity are: net crane rate; elapsed labour rate; and ship rate. These are defined below:

* *Net crane rate*—this is a broad indicator of capital productivity and reflects the intensity to which quay cranes are worked and measures the number of containers or TEUs exchanged per crane hour while that quay crane is operating.[[94]](#footnote-94)
* *Elapsed labour rate*—this is a broad indicator of labour productivity and measures the number of containers or TEUs exchanged for the period of time that labour is aboard the ship.[[95]](#footnote-95)
* *Ship rate*—this reflects the productivity of labour and capital while the ship is being worked by measuring the average number of containers or TEUs exchanged in an hour.[[96]](#footnote-96)

These indicators measure the productivity of capital and labour that are allocated to working ships. They therefore do not measure amounts of spare capacity—the amount of labour and capital that is available but not actively working a ship.

Quayside productivity trends measuring containers per hour and TEUs per hour are shown in figures 2.3 and 2.4 respectively.

Figure 2.3: Productivity indicators (containers/hour), quarterly five-port average, Dec 1995 to Jun 2015



Source: BITRE, *Waterline* (2014–15 from forthcoming publication no 57), ‘Averages for ports of Brisbane, Sydney, Melbourne, Adelaide and Fremantle’

Note: Data for the ELR in the December quarter 1996 is not available due to the absence of Sydney’s data. See BITRE *Waterline* issues no 10 and 11.

Figure 2.4: Productivity indicators (TEUs/hour), quarterly five-port average, Mar 1992 to Jun 2015



Source: BITRE, *Waterline* (2014–15 from forthcoming publication no 57), ‘Averages for ports of Brisbane, Sydney, Melbourne, Adelaide and Fremantle’

Notes: Data for all three measures are not available for December 1992 to June 1993 as these periods occurred between the cessation of the Waterfront Industry Reform Authority monitoring and the commencement of the BITRE *Waterline* publication series (see BITRE *Waterline* issue no 1).  
Data for the five-port ELR is not available for December 1996 and March 1998 to June 1999 due the absence of individual container ports’ data (see BITRE *Waterline* issues no 10 and 21).

Movements in the key productivity indicators shown in figures 2.3 and 2.4 show that:

* The five-port average annualised **net crane rate**, measured in terms of containers per hour, decreased marginally from 30.8 containers per hour in 2013–14 to 30.6 in Measured on the basis of TEUs per hour, it was unchanged at 45.8 TEUs per hour. Overall, this measure of productivity has been improving over time.
* The five-port average **elapsed labour rate**, measured on the basis of containers and TEUs per hour, also decreased slightly in 2014–15 from 45.6 to 45.3 containers per hour. Despite this, in 2014–15 this measure was at its second-highest level since the ACCC’s monitoring began. The long term improvement is likely to be partly due to moves to more flexible labour arrangements since 1998.
* The five-port average **ship rate** was also on average slightly lower in 2014–15 when compared to 2013–14, falling from 54.2 to 53.9 containers per hour.
* For all three productivity measures, significant increases in Fremantle and Adelaide were offset by decreases at the other three ports.
* The significant productivity increases in Fremantle and Adelaide may be partly explained by the following factors:
* In Adelaide, the improvement in the elapsed labour rate may be related to the finalisation of FACT’s new EBA, which came into effect on 1 July 2014. Also, FACT’s crane training simulator has, according to the company, increased productivity since it began operating in March 2015.[[97]](#footnote-97)
* In Fremantle, new quay cranes have been installed and there may also be an incentive for further productivity increases provided by the current tender process for the new stevedoring leases. It has been reported that both stevedores are seeking to be reappointed.[[98]](#footnote-98) Patrick’s increase in market share at this port may also be related to recent productivity gains as it meets the challenge of servicing additional demand.
* For observations on productivity in Melbourne, Sydney and Brisbane see figure 2.6.

#### ACCC observations about long term quayside stevedoring productivity

Australian stevedoring productivity levels, in terms of both labour intensity and capital intensity, have vastly improved since the waterfront reforms of 1998 (figure 2.5).

Figure 2.5: Net crane rate and elapsed labour rate (containers/hour), annual five-port average, 1998–99 to 2014–15



Source: BITRE, *Waterline* (2014–15 from forthcoming publication no 57), ‘Averages for ports of Brisbane, Sydney, Melbourne, Adelaide and Fremantle’, converted to annual average by the ACCC

Figure 2.5 shows that stevedoring labour has delivered significant and sustained improvements in productivity since 1998–99. The average elapsed labour rate has more than doubled, from 22.4 to 45.3 containers per hour. After a fall during 2011–12, which coincided with industrial action during EBA negotiations affecting some terminals, the elapsed labour rate increased in 2012–13 and to record levels in 2013–14.

Figure 2.5 also shows the five-port average net crane rate has generally increased since 1998–99. There have been a number of ‘step-ups’ in crane productivity—the biggest one occurred in 2000–01, but other smaller increases occurred in 1999–00, 2003–04, 2008–09, 2009–10, and in 2013–14. Since 1998-99, the monitoring program has shown that the incumbent stevedores have invested in new equipment and undertaken productivity enhancing initiatives. Significant levels of new investment occurred in 2004–05 with capital replacement and, then from 2012–13 to 2014–15 with investment in new terminals and automation in Brisbane and Sydney.

During the four-year period of 2009–10 to 2012–13, the five-port average net crane rate plateaued (in year-average terms) at just below 30 containers per hour. Last year, the average net crane rate increased to be above 30 and the highest level observed over the ACCC’s monitoring program.

Recent improvements in quayside productivity may be explained by investments by the stevedores in new technologies and equipment and potentially the move away from the long‑held duopoly in Australian stevedoring. These factors are expected to drive further productivity improvements in future years.

#### Capital productivity has varied over time at the three largest ports, though this has been more aligned in recent years

Figure 2.6 below shows trends in the net crane rate (expressed as containers per hour in year average terms) for each of the three largest container ports, as well as the five-port average as a comparison point. It shows that individual ports’ productivity performances have varied considerably (particularly in 2006–07) but have been more aligned in recent years.

Figure 2.6: Net crane rates (containers per hour)—Melbourne, Sydney, Brisbane and five-port average, 2000–01 to 2014–15



Source: BITRE, *Waterline,* forthcoming publication no 57. Annual average data has been calculated by the ACCC based on quarterly data available in *Waterline.*

Key observations from figure 2.6 are:

On an individual port basis:

* *Melbourne*—Of the three largest container ports, Melbourne has generally recorded the highest net crane rates. However, between 2010–11 and 2012–13, rates declined. This turned around with a significant increase in 2013–14. In 2014–15, Melbourne recorded the highest average net crane rate of the three largest ports with 31.7 containers per hour. This represented a 1.1 per cent decrease compared to 2013–14.
* *Sydney*—Productivity levels have historically been below the five-port average since 2000–01. This suggests that the gains associated with increased capital productivity following waterfront reforms and capital investment did not materialise in Sydney to the same extent that they did for other ports. In 2012–13, rates increased significantly and in 2013–14 were above the five-port average for the first time over the period. In 2014–15, there was a 6.5 per cent decrease to 29.0 containers per hour—well below the five-port average of 30.6 containers per hour.
* This decrease would have been related to integration of new automated equipment at Patrick’s terminal. As outlined in chapter 1, there were issues with the changeover from the previous system, which is to be expected with such significant modal change. In the medium to long term, the implementation of new equipment and reconfiguration of the existing terminal would be expected to drive improvements in quayside productivity.
* *Brisbane*—The largest improvement in productivity levels of any of the largest container ports in Australia over a three year window occurred in Brisbane following the semi-automation of Patrick’s terminal in 2005–06.
* While capital productivity temporarily fell below the benchmark rate in 2006–07 and 2007–08 as the technology was embedded, there were significant gains in productivity levels in subsequent years.
* However, rates have declined in recent years. In 2014–15, rates fell by 2.3 per cent to 27.9 containers per hour. As with Sydney, this may have been related to issues with converting to automated equipment at DP World’s Brisbane terminal. Construction was completed in 2013–14, with the automated site fully operational in 2014–15.

Actions taken by the stevedores to improve crane intensity rates remain important to providing a more productive quayside service.

* 1. Landside container stevedoring services
     1. Size of the landside freight task

BITRE publishes a range of landside performance indicators. These relate to the size of the landside task at port terminals, general performance, and activity in VBS.

Figure 2.7 displays three indicators of the size of the landside task across the five mainland container ports between the September quarter 2014 and the June quarter 2015:

* total number of trucks
* total number of containers transported to and from a port by road
* total number of containers transported by rail.

Figure 2.7: Size of the landside task by major container port, 2014–15

Source: BITRE, *Waterline,* forthcoming publication no 57

Figure 2.7 shows:

* The size of the landside task follows container throughput patterns. This is expected as the amount of transport activity at a container terminal is ultimately a function of the number of containers being exchanged. The size of the landside task is greatest in Melbourne and Sydney, Australia’s two largest container ports.
* For all of the ports, the movement of containers is dominated by road.

While the number of containers transported by rail is currently low, rail freight use is becoming an increasing focus for managing future container flows in and around Australia’s major ports, most notably in Sydney.

In Sydney, a number of initiatives underway or recently completed are expected to facilitate the transfer of some containers from road to rail in the longer term. These include the Southern Sydney Freight Line, a dedicated freight line, which has been completed, as well as the ongoing investment in intermodal freight terminals (refer to text box 1.6). Construction of intermodals is expected to facilitate greater use of port shuttle services in the future. Rail access rules that improve coordination of freight paths and windows as well as rail pricing solutions are also important to maximising the use of rail infrastructure and offering a viable substitute in some cases to road transport.

* + 1. Productivity in landside stevedoring services

#### Truck turnaround times

Truck turnaround times are an indicator of landside productivity and show how fast a stevedore processes trucks within a terminal. Figure 2.8 shows average truck turnaround times for each of the major container ports and the five-port average.

Figure 2.8: Average quarterly truck turnaround times, major ports and five-port average, 2007–08 to 2014–15



Source: BITRE, *Waterline* (2014–15 from forthcoming publication no 57)

Note: Data provided by BITRE has been revised so is not exactly comparable to previous container stevedoring monitoring reports.

Figure 2.8 shows:

* In 2014–15, on an annual basis, average truck turnaround times increased in Melbourne (11.4 per cent to 33.5 minutes), Sydney (4.9 per cent to 39.4 minutes) and Fremantle (9.8 per cent to 30.7 minutes). Only two ports recorded improvements in truck turnaround times—Adelaide (down 19.7 per cent to 28.5 minutes) and Brisbane (3.6 per cent to 38.1 minutes).
* A driver of Brisbane’s improvement would have likely been DP World’s terminal overcoming its implementation problems following its conversion to semi-automation in 2013–14.
* A factor in Sydney’s increase in turnaround times would have been issues with conversion to semi-automation at Patrick’s terminal.
* Over the seven years since 2007–08, average truck turnaround times have fluctuated significantly.
* The five-port average has decreased, from 38.3 minutes in 2007–08 to 35.5 minutes in 2014–15 (a 7.5 per cent improvement) on an annual basis. Most of this occurred in the earlier years, largely before 2010–11. It subsequently plateaued, before increasing by 4.7 per cent in 2014–15.
* The greatest improvement in truck turnaround times since 2007–08 has occurred in Adelaide, decreasing from an average of 43.5 to 28.5 minutes in 2014–15—although this has fluctuated over time.
* Brisbane has also recorded a significant improvement since 2007–08, from 45.4 to 38.1 minutes (16.2 per cent).
* Sydney has recorded the third-highest improvement over the eight years (15.7 per cent), particularly following the December quarter 2010. At that time, an average turnaround time of 45.5 minutes was recorded. This fell to 30.8 minutes in the June quarter 2012, but has increased since then.
* Much of the improvement in Sydney over the last five and a half years is likely to be due to the introduction of PBLIS by the NSW Government and Sydney Ports in February 2011.
* Under PBLIS, the NSW Government and Sydney Ports set a benchmark rate indicator for turnaround times of 50 minutes. Where the stevedore exceeds the benchmark, it is required to pay financial penalties to the transport operator. Where a transport operator arrives early or late or fails to arrive, it is required to pay financial penalties to the stevedore.
* Truck turnaround times in Melbourne have tended to be the lowest of the three largest container ports, which remained the case in 2014–15. However, Melbourne is the only port to record an increase in average times since 2007–08, rising 12.7 per cent. Average truck turnaround time in 2014–15 was 33.5 minutes on an annual basis.
* In Fremantle, truck turnaround times have decreased by 7.0 per cent since 2007-08.

#### Demand for access to container terminals

VBS revenues are small in terms of the proportion of overall revenues earned by the stevedores. In 2014–15, VBS revenues represented 2.6 per cent of total industry revenues. However, VBS are significant as they provide the terms and conditions of access by a truck operator to a container terminal. They also provide an organised system for stevedores to manage truck movements inside the terminal gate and allocate labour and equipment resources.

Figure 2.9 shows, in percentage terms, the use pattern of VBS across the five container ports between 2007–08 and 2014–15.

Figure 2.9: Adjusted vehicle booking system usage, five-port average, 2007–08 to 2014–15



Source: BITRE, *Waterline* (2014–15 from forthcoming publication no 57)

Note: The Monday to Friday time windows are defined as follows: Day—0600 to 1800, Evening—1800 to 2400, Night—2400 to 0600.

Figure 2.9 shows:

* Despite most container terminals offering 24 hour/7 day operations, daytime weekday access is the mostly intensely used.
* Weekday VBS activity is consistently the highest during the daytime. In 2014–15, 50 per cent of VBS usage occurred during Monday to Friday between 6am and 6pm. This is likely to have implications for those ports which are located in highly urbanised areas and where existing road networks cater for passenger and freight demands.
* Evening and night-time slots Monday to Friday are the next most popular times for container movements by truck.
* Weekend access remains a small proportion, although it has increased since 2007–08. In 2014–15, weekend access represented 14 per cent of total VBS usage, down from 2013–14 levels, though more than double the percentage in 2007–08.
* Over the last two years there has been a decrease in the proportion of weekend use.
* A reason for the low non-peak use may be a mismatch between the hours of operation of stevedores and businesses in the upstream supply chain (such as empty container parks, depots, and warehouses). There may be additional costs to landside operators of operating out of hours.

Greater use of terminals at non-peak times could make more intensive use of existing facilities, thereby minimising investment costs. While there is more than one way this can be done, pricing signals could be an effective tool for managing truck access to container terminals as container volumes grow, and land in and around ports becomes more constrained and port facilities become scarcer.

Stevedores’ leases can also be used to encourage non-peak use of terminals. VICTL’s lease with the Port of Melbourne is an example, as noted in chapter 1. Where no such lease conditions are in place, pricing mechanisms may be used to encourage use of landside facilities in a way that reduces congestion through maximising use of existing infrastructure.

* + 1. Concluding ACCC observations about stevedoring productivity

Quayside container stevedoring productivity in 2014–15 remained at one of the highest levels recorded over the monitoring program. While net crane and elapsed labour rates fell slightly, this was from record levels in 2013–14. Investment in automated and other new equipment by the stevedores in recent years is expected to lead to continued improvements in productivity in the future.

The long term upward trend in productivity over the monitoring program has assisted the stevedores in servicing the increase in volume of containers since 1998–99. Given the forecast increase in volumes over the next 20 years, there will need to be continued improvements in productivity to assist the terminals to efficiently meet demand and provide a high quality service to users.

The need for ongoing productivity improvements extends to the stevedores’ landside interface. Some of this can be influenced by the stevedores, including truck turnaround times and to a certain extent, containers transported by train. As volumes grow, greater non-peak use of terminals by trucks may be needed to minimise the costs of investment in terminals, and in road and rail networks.

Importantly, and as outlined in chapter 1, there are roles for governments and industry in ensuring the benefits of the stevedores’ improved productivity are received by consumers.

1. Monitoring results: Financials
   1. Introduction

This section provides more details on the monitoring results for 2014–15, including an assessment of revenues, costs, margins and industry returns. The 2014–15 monitoring program includes information supplied by the four container stevedoring companies—Patrick, DP World, FACT and Hutchison.

The ACCC’s monitoring results for 2014–15 show the continuing impact of a third stevedore’s entry on the industry revenues, costs and returns. In particular, there has been a substantial increase in assets, and a reduction in unit stevedoring revenues over the last two years.

As outlined in section 1.3.3, the stevedores continued to undertake significant investment, mostly associated with Patrick’s semi-automation and redevelopment of its terminal at Port Botany and the installation of new cranes at other terminals. Investments in semi-automation in recent years not only contributed to relatively lower unit labour costs in 2014–15, but also led to a further expansion of the industry’s (average tangible) asset base.

This overall asset expansion had a downward effect on the industry rates of return, which was also driven by diminishing margins as total costs increased by a greater amount than total revenue.

These issues are discussed more fully in the following sections.

* 1. Overview of unit revenues, costs and margins

The ACCC collects data on revenues, costs and margins from the four container stevedores. This includes revenues, costs and margins for stevedoring services as well as for other services that are provided at container terminals, such as storage, maintenance and repositioning. The data is aggregated to provide results at an industry level. This data is presented on a per unit (per TEU) basis in figure 3.1 below.

**Unit total revenue** is defined as total revenue divided by the total volume of containers as measured by TEUs. Total revenue is earned from the stevedores complete range of services.

**Unit total costs** is defined as total costs divided by the total volume of containers as measured by TEUs. Total costs are incurred by the stevedore’s complete range of services.

**Unit total margins** are the difference between unit total revenues and unit total costs.

Unit revenue measures can be used as indicators of the average prices charged for container stevedoring terminal services. These measure are important because the ACCC does not collect information on actual prices charged for stevedoring services, which are privately negotiated between shipping lines and stevedores.

Figure 3.1: Real unit revenues, costs and margins, 1986 to 2014–15



Sources: 1986 to 1996—*Monitoring of stevedoring costs and charges and terminal handling charges 1995*, ACCC 1996; Jan-Jun 1997—estimate derived by BITRE, *Waterline*; 1998–99 to 2014–15—data provided by the stevedoring companies as part of the ACCC’s monitoring program. Data converted to real terms using Australian Bureau of Statistics’ gross domestic product (GDP) deflator series (cat. no. 5206.0, Table 4, Expenditure on GDP Chain price indexes, Series ID A2303862V). Base year for ACCC deflator series: 2000–01.

Figure 3.1 shows the significant overall downward trend in both unit total costs and unit total revenues in real terms between 1986 and 2014–15.

Since 1998–99 (when ACCC monitoring commenced):

* real unit costs have fallen by 42.2 per cent, from $171.47 to $99.12 in 2014–15.
* real unit revenues have fallen by 39.8 per cent, from $194.96 to $117.27 in 2014–15.
* real unit margins have fluctuated, but have been trending down in more recent years. Since 1998–99, real unit margins have fallen by 22.7 per cent from $23.49 to $18.16 in 2014–15.

In 2014–15:

* real unit costs declined slightly by 0.2 per cent from $99.34 in 2013–14. This followed a 4.2 per cent increase in 2013–14.
* real unit revenue declined by 2.3 per cent, from $120.01 in 2013–14 to $117.27.
* as a result of the decline in real unit revenues being greater than fall in real unit costs, real unit margins fell significantly, by 12.1 per cent, to $18.16 in 2014–15. This is the lowest real value observed over the monitoring period and followed a 24.0 per cent fall in 2013–14.

The long term trend of decreasing real unit costs is likely to be due to the benefits of past reforms, economies of scale and other factors. The unit cost increase in 2013–14 was mainly driven by Hutchison’s relatively high fixed costs without accompanying volumes, as well as depreciation by Patrick, DP World and Hutchison. The slight unit cost decrease in 2014–15 was mainly driven by container volumes growing at a proportionately faster rate than the increase in total costs.

The long term downward trend in real unit revenues, which continued in 2014–15, suggests that the benefits of lower real unit costs have been shared with users of stevedoring services. It also reflects a product shift from 20-foot containers to 40-foot containers, as 40‑foot containers are understood to be cheaper than 20-foot containers per TEU. It may also indicate a degree of pricing pressure as stevedores try to maintain market share and win new business, and greater bargaining power on the part of shipping lines due to the increased number of stevedores and greater capacity at certain ports.

* 1. Revenues
     1. Sources of revenue

The main sources of revenue reported to the ACCC by stevedores are:

* revenues from the stevedoring function
* revenues from other or ancillary activities (non-stevedoring revenue).[[99]](#footnote-99)

Figure 3.2 shows the changes in the components of total revenues (expressed in real terms) from 2001–02 to 2014–15.

Figure 3.2: Components of total revenue in real terms, 2001–02 to 2014–15



Source: nominal data provided by the stevedoring companies, converted to real terms using Australian Bureau of Statistics’ (ABS) GDP deflator series. Base year for ACCC deflator series: 2000–01.

Figure 3.2 shows that stevedoring revenue is the most significant source of revenue for container stevedoring companies. In line with growing volumes, stevedoring revenue has increased by more than 50 per cent in real terms since 2001–02. The increase in 2014–15 was 2.9 per cent, representing the highest annual percentage rise since 2009–10.

While the income from non-stevedoring activities constitutes a small portion of total revenue, this revenue source has become an increasing important part of the stevedores’ business. It has increased by 122.6 per cent since 2001–02, to now account for 15.0 per cent of total revenues (compared to 10.9 per cent in 2001–02). In 2014–15, non-stevedoring revenues fell by 1.0 per cent. A factor was the discontinuation of iron ore processing in Adelaide. More information on non-stevedoring revenues is presented in section 3.3.3.

Figure 3.3 shows the changes in the components of total revenue on a per TEU basis in real terms from 1998–99 to 2014–15.

Figure 3.3: Components of total revenue per TEU in real terms, 1998–99 to 2014–15



Source: nominal data provided by the stevedoring companies, converted to real terms using ABS GDP deflator series. Base year for ACCC deflator series: 2000–01.

Figure 3.3 shows that, in real terms, since 1998–99:

* unit total revenue has fallen by 39.8 per cent, from $194.96 per TEU to $117.27 per TEU in 2014–15.
* unit revenue from stevedoring activities declined by 42.0 per cent, from $171.95 per TEU to $99.67 per TEU in 2014–15.
* unit revenue from non-stevedoring activities has fallen by 23.5 per cent, from $23.00 per TEU to $17.61 per TEU in 2014–15.
  + 1. Unit stevedoring revenue—by type of container

**Unit stevedoring revenue** is revenue from stevedoring services (i.e. from lifting containers on and off ships) divided by total volume (in TEUs). It is a weighted average measure of stevedoring revenue earned on all containers. The proportion of containers represented by 20- and 40-foot containers, as well as relative changes in these proportions, can affect the average measure of unit stevedoring revenue. In particular, a relative increase in the use of 40-foot containers can have a downward effect on average measures of revenue expressed in terms of TEUs.

To isolate the effects of product mix changes in broad average measures, the ACCC analyses separate data on unit revenue allocated among 20- and 40-foot containers. These provide a more accurate indication of changes in prices actually paid by users for each type of container.

Figure 3.4: Unit stevedoring revenue by type of container (20- and 40-foot containers) in real terms, 2001–02 to 2014–15



Source: nominal data provided by the stevedoring companies, converted to real terms using ABS GDP deflator series. Base year for ACCC deflator series: 2000–01.

Note: 2001–02 was the first year in which the ACCC collected data by type of container.

The key points arising from figure 3.4 are:

* For 20-foot containers, real unit stevedoring revenue has decreased by 22.1 per cent from $189.92 in 2001–02 to $147.94 in 2014–15.
* For 40-foot containers, real unit stevedoring revenue has decreased by 23.1 per cent from $97.47 in 2001–02 to $74.95 in 2014–15.
* In average terms, unit stevedoring revenue earned on all containers has fallen by 30.9 per cent since 2001–02, from $144.24 to $99.67 in 2014–15. The decline in unit total revenues is largely attributed to a significant increase in the use of 40-foot containers.

The ACCC understands that stevedoring tariffs typically include charges related to the discharge, loading or re-stowing of a container which are set on the basis of per container lift and are not differentiated on the basis of the size of the container. It follows that from a stevedore’s perspective, a proportionate increase in the use of 40-foot containers will result in lower average unit stevedoring revenues.

Volume information for 20- and 40-foot containers provided to the ACCC as part of the monitoring program shows that the number of TEUs attributable to 40-foot containers was 197.3 per cent greater in 2014–15 than in 2001–02. In contrast, the use of 20-foot containers has increased by 48.7 per cent over the same period of time. The significant shift in usage patterns towards 40-foot containers has, for the reasons explained above, resulted in lower real unit stevedoring revenue.

* + 1. Non-stevedoring revenue—revenue from ancillary services

As noted in section 3.3.1, non-stevedoring revenue has been an increasingly important source of income for the stevedores.

A brief discussion of broad trends in some of the non-stevedoring revenues is presented below.

#### Storage revenue

A significant component of other revenues in recent years has been derived from container storage services. It is general practice of the stevedores to provide a free storage period. Storage fees are applied if containers are not collected from the terminals within the free period.

Storage revenue was 18.5 per cent higher in real terms in 2014–15 than in 2001–02. However, on a per TEU basis, storage revenue decreased by 46.7 per cent in real terms from $4.84 in 2001–02 to $2.58 in 2014–15.

Decreases in real unit storage revenues over time can reflect a combination of factors, including decreases in the number of containers remaining in terminals beyond the fee-free period and the move to larger containers.

#### Vehicle booking systems

Automated VBS are used to manage the road-based flow of containers in and out of Australia’s major container ports. Revenue from this activity represented 17.5 per cent of total other revenue in 2014–15.

Since 2001–02, VBS revenues have grown significantly, from $1.7 million to $21.4 million in real terms in 2014–15. On a per unit basis, it has also increased significantly, from $0.56 to $3.08 in real terms over the same period.

Long term trends of increasing VBS revenues, in overall terms and on a per TEU basis, are likely to reflect a number of factors. They could, for example, represent higher VBS charges by the stevedores. Higher VBS revenues most likely also reflect an increase in the number of trucks accessing container ports corresponding with higher container volumes. BITRE data indicates that truck intensity rates have remained largely unchanged since the September quarter 2006. The number of TEUs per truck on a national basis was 2.4 in September quarter 2006, as compared to 2.3 TEUs per truck in the June quarter 2015.

#### Unspecified sources of revenue

Since 2001–02, revenue from activities defined as ‘other’ within non-stevedoring revenue has increased significantly in real terms from $4.0 million to $40.4 million.

On a per TEU basis, revenue from unspecified sources has increased from $1.26 per TEU in 2001–02 to $5.82 in 2014–15, which represents a rise of 360.5 per cent in real terms.

It is understood from information previously provided by the stevedoring companies that most of the growth in ‘other’ unspecified revenue was from services provided to the Australian Customs and Border Protection Service (ACS) as part of the container examination facilities (CEFs) program. Between 2003–04 and 2013–14, the number of TEUs inspected (x-rayed) at CEFs by the ACS increased marginally from 101 842 TEUs to 102 288 TEUs.[[100]](#footnote-100)

* 1. Costs
     1. Relative cost shares

Figure 3.5 shows changes in the share of total costs held by key cost components.

Figure 3.5: Cost components as a percentage of total costs, 1998–99 to 2014–15



Source: nominal data provided by the stevedoring companies as part of the ACCC’s monitoring program.

Note: Other costs include port management costs and other overhead costs. Costs between 1998–99 and 2005–06 are not directly comparable with the following years due to the cessation of the stevedoring levy from May 2006. To allow some comparability of 2005–06 with the following years, the ‘2005–06 adj’ column excludes the stevedoring levy.

The following observations can be made from figure 3.5 on the composition of costs:

* Cost components as a percentage of total costs have remained relatively constant over time.
* Labour costs have been the major driver of total costs since 1998–99. Labour costs represented 56.2 per cent of total costs in 2014–15, decreasing from 57.5 per cent in 2013–14.
* Equipment costs (including depreciation) were the second largest component of total costs. They decreased marginally from 17.8 per cent of total costs in 2013–14 to 17.5 per cent in 2014–15.
* Property costs increased marginally from 9.8 per cent of total costs in 2013–14 to 10.0 per cent in 2014–15.
* The ‘other’ category, including port management fees as well as other direct and indirect costs such as corporate overheads, increased from 14.9 per cent of total costs in to 16.4 per cent in 2014–15.
  + 1. Variations in unit cost components

Figure 3.6 shows changes in the various cost components per TEU in real terms over the monitoring period.

Figure 3.6: Cost components per unit in real terms, 1998–99 to 2014–15



Source: nominal data provided by the stevedoring companies, converted to real terms using ABS GDP deflator series. Base year for ACCC deflator series: 2000–01.

Some observations drawn from figure 3.6 are:

* Labour costs per TEU have decreased since 1998–99. In real terms, labour costs per TEU have fallen by 41.2 per cent, from $94.73 in 1998–99 to $55.68 in 2014–15. Labour costs per TEU decreased in real and nominal terms in 2014–15 by 2.5 per cent and 2.8 per cent respectively after three years of consecutive increases.
* Waterfront reform, reduced over-manning and broader workplace flexibility are all likely contributing factors to lower real unit labour costs over time. Increased adoption of automated technology is likely to further this trend in future years.
* Equipment costs per TEU (including depreciation) have decreased by 43.7 per cent in real terms since 1998–99. This is likely to have been associated with newer, more efficient equipment being installed at terminals over time, resulting in lower running and maintenance costs.
* Other costs per TEU have decreased by 26.5 per cent in real terms, from $22.08 in 1998–99 to $16.24 in 2014–15. This trend largely reflects lower real port management and overhead costs, and the abolition of the industry levy in 2006. In 2014–15, other costs increased on a per unit basis by 9.4 per cent in real terms from the previous year.
* Property costs per TEU have fallen by 45.8 per cent in real terms since 1998–99. In 2014–15, property costs per TEU increased marginally in both real and nominal terms, after more significant increases last year. This was mostly due to the impact of Hutchison’s relatively high unit property costs due to its relatively low TEU volumes.
  1. Major capital investments in terminal capacity

As outlined in chapter 1, the stevedores reported significant investment in 2014–15. See section 1.3.3 for details of the stevedores’ recent and planned investments.

The industry tangible asset base increased by 14.0 per cent in 2014–15. It has risen by 132.6 per cent over the three years since 2011–12.

Asset expansion will help Australian container ports meet the long-term growth in container volumes predicted by BITRE. New and upgraded assets may also lead to other benefits such as increased efficiency and/or productivity.

* 1. Rates of return

Rate of return is the ACCC’s key measure of profitability for the container stevedoring industry. The ACCC considers that the appropriate measure of rate of return for monitoring purposes is the ratio of earnings before interest, tax and amortisation (EBITA) to the average value (of opening and closing balances) of tangible assets. ‘Tangible assets’ refer to physical infrastructure used by the stevedores to provide container stevedoring services.

EBITA is used as it is not affected by management decisions regarding financial capital structures which can significantly affect interest expenses and tax payable (and thus post-tax returns) but do not reflect the operating profitability of providing container stevedoring services.

Similarly, by using assets as the basis for comparing those returns, the investment base represents the assets employed. The ACCC excludes intangible assets from the industry’s asset base because of concerns that the intangible assets reported by the stevedores may reflect an expectation at the time they purchased the businesses of earning monopoly rents.

The value of intangible assets reported by the stevedores as part of the ACCC’s monitoring program is significant. It reflects goodwill and, for one of the major stevedores, long term and exclusive berth licenses. Based on publicly available information, the ACCC notes that around $1.5 billion of goodwill was allocated to Patrick’s container ports for the year ending 30 June 2015. This represents 56 per cent of the total value of Patrick’s assets for its Terminal and Logistics division.[[101]](#footnote-101) More information on the ACCC’s approach to estimating rates of return for the container stevedoring industry is presented in appendix E.

Table 3.1 shows annualised EBITA for the Australian stevedores since 1998–99 expressed as a percentage of average tangible assets. From 2012–13, the data includes Hutchison in Brisbane as a new entrant to the industry. From 2013–14, the data includes Hutchison’s terminal in Sydney. These two years correspond with large falls in the industry rate of return measure. This is to be expected as the level of investment needed in physical assets to commission a terminal is considerable.

Table 3.1: Rates of return—EBITA on average assets (%)—1998–99 to 2014–15

|  |  |  |
| --- | --- | --- |
| Year | Australian stevedores (tangible assets excluding revaluations) | Australian stevedores (including revaluations and intangibles)(a) |
| 1998–99 | 10.57 |  |
| 1999–00 | 13.20 |  |
| 2000–01 | 15.20 |  |
| 2001–02 | 19.29 |  |
| 2002–03 | 25.80 |  |
| 2003–04 | 27.75 |  |
| 2004–05 | 23.06 |  |
| 2005–06 | 21.70 |  |
| 2006–07(b) | 22.37 | 11.49 |
| 2007–08 | 24.86 | 8.51 |
| 2008–09 | 17.63 | 6.11 |
| 2009–10 | 18.39 | 7.18 |
| 2010–11 | 24.24 | 9.85 |
| 2011–12 | 29.23 | 8.03 |
| 2012–13 | 21.86 | 5.34 |
| 2013–14 | 13.25 | 4.63 |
| 2014–15 | 10.37 | 3.97 |

Source: data supplied by the stevedoring companies

Notes: (a) Data re-stated on an AIFRS basis (‘Australian Equivalents of International Financial Reporting Standards’) using asset values supplied by the stevedores that include revaluations and recognition of intangible assets

(b) From 2006–07 onwards data excludes intangible assets from the calculation of the average asset base and EBIT has been adjusted to add back in amortisation and impairment losses (which are both associated with the recognition of intangible assets) for the period.

Table 3.1 shows that:

* Since 2011–12, there has been a significant decline in the rate of return on average tangible assets for the container stevedoring industry. The decrease in the rate of return was primarily due to an overall expansion in the value of average tangible assets over the three years. A decline in EBITA for the industry over the last three years has also had a significant impact on the rate of return.
* In the 12 months to June 2015, the industry rate of return on average tangible assets decreased from 13.25 per cent in 2013–14 to 10.37 per cent. This represents the lowest industry return on tangible assets over the history of the ACCC’s monitoring program.
* The expansion in the industry’s tangible asset base over the past year reflects significant investment by stevedores in terminal development, particularly related to automation in Sydney.
* It is important to note that the return on average tangible assets measure should not be interpreted as a return on the funds invested by shareholders in the respective stevedoring businesses. Such investment would include the price that those owners paid to gain control of those businesses (which would include goodwill) as well as the market value of existing assets (which would include the effect of revaluations).
* An estimate based on the asset values provided by the stevedores that includes intangible assets (including goodwill and berth licenses) and asset revaluations would result in an industry rate of return of 3.97 per cent in 2014–15.

#### Comparison of stevedores’ rate of return with S&P/ASX 200 Industrials Index

Since 2012–13, the ACCC has compared the stevedores’ rate of return with average returns for companies in the S&P/ASX 200 Industrials Index.

Information sourced by the ACCC from Bloomberg indicates that the average rate of return (expressed as EBITA/average tangible assets) for the S&P/ASX 200 Industrials Index was 9.49 per cent in 2014–15. This is slightly lower than the result of 10.37 per cent for the Australian stevedores in the ACCC’s monitoring program, despite considerable investment in terminals in recent years.

That said, asset values for the S&P/ASX 200 Industrials Index include the effect of asset revaluations and so are not directly comparable to the asset base for the Australian stevedores derived by the ACCC where tangible assets are measured at historic cost. The effect of asset revaluations may account for part of the difference between the stevedoring industry’s figure of 10.37 per cent and the index figure of 9.49 per cent. However, even if asset revaluations reported by the stevedores were to be included, the stevedoring industry’s return is above the rate of return for the Industrials Index.

* + 1. Concluding ACCC observations about industry profitability

Industry profitability (as measured by returns on average tangible assets) has declined significantly over the past three years to the lowest level observed over the ACCC’s monitoring program. Relatively lower industry rates of return are expected to continue in future years, for a number of reasons:

* Investment in new terminals is ‘lumpy’ and it will take time for their volumes, and hence revenues, to grow. The establishment of a new terminal in Melbourne will result a continued expansion of the industry’s asset base.
* If the trend towards automation continues, the industry’s asset base will again experience lumpy growth.
* An increased number of players provides the opportunity for more aggressive competition, and it is less likely that high profits, to the extent that they might have previously reflected economic rents in an industry with low contestability, will continue.

1. Company-specific data
   1. Introduction

This appendix presents company-specific data received from the four stevedore companies involved in the monitoring program. Where appropriate, the data is indexed to protect commercially sensitive information.

* 1. Asciano (Patrick)
     1. Container volumes

In 2014–15, the number of TEUs handled by Patrick across all ports increased by 2.8 per cent, following a 2.4 per cent increase in 2013–14. A key factor was the commencement of the “K” Line service in Fremantle on 1 January 2014.

Patrick’s handling of 20-foot containers increased by 2.5 per cent nationally, while 40-foot containers increased by 3.0 per cent.

* + 1. Revenue, costs and margins
* Patrick’s total revenue increased across all ports by 4.0 per cent in 2014–15. On a per TEU basis, total revenue increased by 1.2 per cent nationally. Unit total revenues increased in Brisbane, Fremantle and Melbourne but decreased in Sydney.
* Total costs increased by 2.2 per cent across all ports. On a per TEU basis, costs decreased by 0.5 per cent nationally. Total costs per TEU decreased in Brisbane, Melbourne and Fremantle, but increased in Sydney.
* In 2014–15, Patrick’s total margin increased by 8.7 per cent nationally. On a per unit basis, Patrick’s margin increased by 5.7 per cent.
* In Melbourne, Fremantle and Brisbane margins per TEU increased by 9.7 per cent, 8.4 per cent and 5.2 per cent respectively. In Sydney, margins per TEU decreased by 14.9 per cent.
* Stevedoring revenue per TEU increased by 1.2 per cent across all ports. Other revenue per TEU increased by 0.8 per cent.
* Patrick earned slightly higher unit stevedoring revenue on 20-foot containers and 40-foot containers than it did in 2013–14.
  + 1. Changes in cost components

The ACCC collects unit cost data for specific cost categories including stevedoring, labour, equipment and property. Table C.1 in appendix C sets out trends in the data relating to these cost categories for Patrick.

* Stevedoring costs per TEU decreased by 0.3 per cent in 2014–15 across all ports. In Fremantle, Melbourne and Brisbane stevedoring costs per TEU decreased by 2.8 per cent, 2.1 per cent and 0.7 per cent respectively, and increased in Sydney by 3.6 per cent.
* Labour costs per TEU decreased for the first time in five years in 2014–15, by 0.7 per cent.
* Unit labour costs increased in Brisbane (0.8 per cent) and Melbourne (4.0 per cent), while decreasing in Fremantle (3.5 per cent) and Sydney (2.8 per cent).
* Equipment costs per TEU decreased across all ports by 2.3 per cent in 2014–15. Unit equipment costs decreased in Melbourne, Brisbane and Fremantle by 13.0 per cent, 4.7 per cent and 3.6 per cent respectively. Unit costs increased in Sydney by 11.7 per cent.
* Property costs per TEU decreased marginally, by 0.2 per cent, nationally in 2014–15. For individual ports, property costs per TEU increased in Sydney (by 3.4 per cent) and Brisbane (by 2.3 per cent), while decreasing in Fremantle (by 9.4 per cent) and were unchanged in Melbourne.
* Other costs per TEU increased by 2.4 per cent in 2014–15. Other costs consist of other overheads, port management and other direct costs.[[102]](#footnote-102)
  1. DP World Australia
     1. Container volumes

In 2014–15, the number of TEUs handled by DP World across all ports increased marginally by 0.9 per cent, the same percentage increase as in 2013–14. Increases in the number of TEUs handled by DP World in 2014–15 occurred in Sydney and Melbourne, while volumes declined in Fremantle and Brisbane. While TEU volumes in Fremantle have been declining for the past seven years, the most significant have been in the last two years. The decline in TEU volumes in Fremantle over these two years would be largely due to the loss of the “K” Line service on 1 January 2014.

Across all ports, DP World’s handling of 20-foot containers increased by 1.1 per cent while 40-foot containers increased by 0.9 per cent in 2014–15.

* + 1. Revenue, costs and margins
* In 2014–15, DP World’s total revenue across all ports decreased by 2.8 per cent. On a per TEU basis, revenue decreased by 3.7 per cent across all ports. Total unit revenues declined at each port: Fremantle (6.8 per cent); Brisbane (4.8 per cent); Sydney (3.4 per cent); and Melbourne (2.9 per cent).
* Total costs decreased marginally by 0.2 per cent across all ports in 2014–15. On a per TEU basis, total costs decreased by 1.1 per cent. DP World’s terminals in Fremantle and Melbourne experienced higher total unit costs in 2014–15, with rises of 6.3 per cent and 2.3 per cent respectively. There were decreases in unit costs in Brisbane (9.2 per cent) and Sydney (0.6 per cent).
* In 2014–15, DP World’s total margin decreased by 20.6 per cent nationally. On a per unit basis, DP World’s margin decreased by 21.4 per cent. Over the past two years, margins per TEU have decreased significantly at each of DP World’s terminals. In Brisbane, however, margins per TEU increased by 27.3 per cent in 2014–15, while decreasing in Sydney, Melbourne and Fremantle by 18.3 per cent, 26.7 per cent and 56.2 per cent respectively.
* Note in 2013–14 margins per TEU in Fremantle decreased by 1045.9 per cent as revenue fell, costs increased and volumes fell significantly primarily due to the loss of “K” Line.
* Stevedoring revenue per TEU decreased by 4.5 per cent across all ports in 2014–15. Other revenue per TEU was unchanged in 2014–15. DP World earned lower unit stevedoring revenue for both 20-foot containers and 40-foot containers in 2014–15.
  + 1. Changes in cost components[[103]](#footnote-103)

The ACCC collects unit cost data for specific cost categories including stevedoring, labour, equipment and property. Table C.2 in appendix C sets out trends in the data relating to these cost categories for DP World.

* Labour costs per TEU decreased across all ports by 3.0 per cent in 2014–15. Unit labour costs increased in Melbourne (3.5 per cent) and Sydney (1.0 per cent) but decreased in Brisbane (21.2 per cent) and Fremantle (8.2 per cent). The reduction in labour costs per TEU in Brisbane has been a result of the introduction of automated equipment and the associated reduction of the labour force.
* Equipment costs per TEU increased across all ports by 0.8 per cent in 2014–15. Relatively small decreases were recorded at most ports (Sydney decreased by 2.5 per cent, Melbourne by 1.7 per cent and Brisbane by 0.2 per cent) after large increases at these ports last year. There was a 35.1 per cent increase in unit equipment costs in Fremantle. This was due to a significant decrease in TEU volumes as well as an increase in equipment costs which are related to the purchase of a new quay crane.
* Property costs per TEU increased by 3.3 per cent on average across all ports in Unit property costs increased in Fremantle (19.1 per cent), Melbourne (5.9 per cent), and Brisbane (6.6 per cent), but decreased in Sydney (2.6 per cent).
* DP World’s other costs per TEU increased by 0.7 per cent in 2014–15. Other costs consist of other overheads, port management costs and other direct costs.[[104]](#footnote-104)
  1. Flinders Adelaide Container Terminal Pty Ltd
     1. Container volumes

In 2014–15, the number of TEUs handled by FACT at the Port of Adelaide decreased by 4.5 per cent, following a significant increase of 13.9 per cent in the preceding year. There was a considerable decrease in the use of 20-foot (10.5 per cent) and a marginal increase in the use of 40-foot containers (0.3 per cent).

* + 1. Revenue, costs and margins
* FACT’s total revenue decreased by 19.2 per cent in 2014–15. On a per unit basis, total revenues decreased by 15.4 per cent.
* In 2014–15, total costs for FACT decreased by 12.4 per cent. On a per unit basis, total costs decreased by 8.3 per cent.
* Total margin in 2014–15 decreased by 40.7 per cent. On a per unit basis, FACT’s margin decreased by 37.9 per cent, due to decrease in unit revenue being greater than decrease in unit cost.
* Stevedoring revenue per TEU decreased by 1.0 per cent in 2014–15. Other revenue per TEU decreased by 59.7 per cent. FACT reported this was a result of iron ore processing being discontinued.
* In 2014–15, FACT earned marginally higher unit stevedoring revenue for 20-foot and 40-foot containers as compared to 2013–14.
  + 1. Changes in cost components

Table C.3 in appendix C sets out trends in the data relating to specific cost categories for FACT including stevedoring, labour, equipment and property.

* Stevedoring costs per TEU decreased by 10.7 per cent in 2014–15, following a decrease of 12.2 per cent in 2013–14.
* Labour costs per TEU decreased by 8.6 per cent in 2014–15.
* Equipment costs per TEU decreased by 19.8 per cent in 2014–15.
* Property costs per TEU decreased by 9.3 per cent in 2014–15.
* Other costs per TEU increased by 1.5 per cent in 2014–15. Other costs consist of total indirect costs, including overhead and port management costs, and other direct costs.[[105]](#footnote-105)
  1. Hutchison Ports Australia

Hutchison has been included in the ACCC’s monitoring program since 2012–13. Information on revenues, costs and volumes is limited in this report because it is only available for three years and the company is still establishing itself in the industry.

* + 1. Container volumes

Hutchison commenced operations in Brisbane in early 2013, servicing its first ship in May 2013. Hutchison commenced in Sydney in late 2013. This is therefore the third monitoring period that Hutchison has recorded volume data for Brisbane and the second monitoring period for Sydney.

The total number of TEUs handled by Hutchison at these two ports increased significantly in 2014–15. Most of the increase occurred in Sydney which is understood to be primarily due to subcontracting from Patrick.

* + 1. Revenue, costs and margins

As compared with the previous year, Hutchison’s total revenue increased considerably. This is again likely to be primarily due to subcontracting from Patrick at Port Botany.

Hutchison’s total margin decreased was again negative in 2014–15, reflecting a company in start-up mode.

On a per unit basis, Hutchison’s margin increased but remained negative. This increase was the result of the increase in TEUs being proportionately greater than the decrease in total margin.

Hutchison reported to the ACCC that the industry is characterised by a small number of suppliers, relatively few customers and a low turnover of service agreements. Although shipping lines do occasionally create new services, the net result is that only four to six agreements come up a year, and not all are taken to the market, which limits Hutchison’s ability to secure business and raise revenue.

* + 1. Changes in cost components

The major influences on costs reported by Hutchison are a significant increase in stevedoring labour cost in Sydney and depreciation and other equipment costs related to terminal developments at both ports.

Hutchison reported that its terminals must have the equipment and the workforce to provide a competitive service to shipping lines so as to ensure their turnaround is within the scheduled windows. Hutchison’s capital investments during 2014–15 continued to be significant, including the addition of three ASC blocks which were added in Sydney and two more quay cranes that were commissioned in Brisbane.

In addition, both of Hutchison’s terminals had to increase the level of labour to meet ship service requirements. Hutchison reported that until it secures enough business to provide near continuous work for that workforce, it will have relatively high handling unit costs.

1. Selected industry data

Table B.1: Nominal unit data, 1998–99 to 2014–15

|  | Total rev/TEU  ($/TEU) | Total cost/TEU  ($/TEU) | Total margin/TEU ($/TEU) | Stevedoring rev/TEU\* ($/TEU) | Stevedoring cost/TEU\* ($/TEU) | Stevedoring margin/TEU\* ($TEU) | Other rev/TEU  ($/TEU) | Other rev/Total rev % |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 1998–99 | 182.58 | 160.57 | 22.00 | 161.03 | 150.88 | 10.15 | 21.54 | 11.8 |
| 1999–00 | 175.01 | 146.88 | 28.14 | 153.16 | 138.32 | 14.84 | 21.85 | 12.5 |
| 2000–01 | 172.77 | 143.97 | 28.80 | 151.08 | 134.53 | 16.55 | 21.69 | 12.6 |
| 2001–02 | 165.66 | 131.14 | 34.43 | 147.59 | 124.12 | 23.47 | 17.97 | 10.9 |
| 2002–03 | 169.00 | 129.76 | 39.23 | 146.46 | 122.79 | 23.67 | 22.53 | 13.3 |
| 2003–04 | 171.49 | 131.75 | 39.74 | 147.44 | 124.62 | 22.82 | 24.05 | 14.0 |
| 2004–05 | 175.24 | 135.89 | 39.35 | 149.05 | 128.09 | 20.96 | 26.20 | 14.9 |
| 2005–06 | 180.08 | 137.49 | 42.59 | 152.14 | 128.66 | 23.48 | 27.95 | 15.5 |
| 2006–07 | 173.27 | 129.73 | 43.54 | 150.91 | 121.41 | 29.50 | 22.36 | 12.9 |
| 2007–08 | 173.24 | 128.59 | 44.65 | 151.30 | 120.41 | 30.88 | 21.95 | 12.7 |
| 2008–09 | 171.44 | 137.41 | 34.03 | 150.97 | 129.23 | 21.73 | 20.47 | 11.9 |
| 2009–10 | 170.94 | 136.43 | 34.51 | 151.47 | 132.12 | 19.35 | 19.47 | 11.4 |
| 2010–11 | 173.49 | 134.62 | 38.87 | 151.14 | 128.95 | 22.19 | 22.35 | 12.9 |
| 2011–12 | 177.27 | 137.58 | 39.69 | 149.99 | 129.05 | 20.94 | 27.28 | 15.4 |
| 2012–13 | 177.42 | 138.05 | 39.38 | 149.77 | 128.38 | 21.39 | 27.65 | 15.6 |
| 2013–14 | 176.19 | 145.85 | 30.34 | 148.86 | 132.83 | 16.04 | 27.33 | 15.5 |
| 2014–15 | 171.62 | 145.05 | 26.57 | 145.86 | 129.01 | 16.85 | 25.76 | 15.0 |
| % change  2013–14 to 2014–15 | -2.59 | -0.55 | -12.43 | -2.02 | -2.88 | 5.11 | -5.72 | n/a |

Source: the stevedoring companies, as part of the monitoring program, supplied figures for 1998–99 to 2014–15.

\* Data on revenue was supplied by Asciano, FACT and Hutchison on the basis of container-specific activity in their respective terminals. DP World’s accounting practices are slightly different and while revenue figures are broken down in this way, costs are not. Given this, Asciano, FACT and Hutchison’s container-specific data are combined in the above with DP World’s stevedoring revenue and total cost data to provide national aggregates.

Table B.2: Real unit revenue, costs and margins, 1986 to 2014–15

|  | Unit revenue ($/TEU) | Unit cost ($/TEU) | Unit margin ($/TEU) | Deflator ($/TEU) | Real unit revenue ($/TEU) | Real unit cost ($/TEU) | Real unit margin ($/TEU) |
| --- | --- | --- | --- | --- | --- | --- | --- |
| 1986 | 247.00 | 239.00 | 8.00 | 61.15 | 403.92 | 390.84 | 13.08 |
| 1987 | 244.00 | 218.00 | 26.00 | 65.33 | 373.52 | 333.72 | 39.80 |
| 1988 | 244.00 | 227.00 | 17.00 | 70.85 | 344.39 | 320.40 | 23.99 |
| 1989 | 247.00 | 241.00 | 6.00 | 76.93 | 321.09 | 313.29 | 7.80 |
| 1990 | 254.00 | 262.00 | -8.00 | 81.10 | 313.19 | 323.06 | –9.86 |
| 1991 | 244.00 | 243.00 | 1.00 | 84.10 | 290.13 | 288.94 | 1.19 |
| 1992 | 195.00 | 196.00 | -1.00 | 85.73 | 227.47 | 228.64 | –1.17 |
| 1993 | 195.00 | 190.00 | 5.00 | 86.78 | 224.72 | 218.96 | 5.76 |
| 1994 | 201.00 | 188.00 | 13.00 | 87.55 | 229.58 | 214.73 | 14.85 |
| 1995 | 206.00 | 191.00 | 15.00 | 94.00 | 219.15 | 203.19 | 15.96 |
| 1996 | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| Jan-Jun 1997 | 188.00 | n/a | n/a | 92.90 | 202.37 | n/a | n/a |
| 1998–99 | 182.58 | 160.57 | 22.00 | 93.65 | 194.96 | 171.46 | 23.50 |
| 1999-2000 | 175.01 | 146.88 | 28.14 | 95.50 | 183.26 | 153.80 | 29.46 |
| 2000–01 | 172.77 | 143.97 | 28.80 | 100.00 | 172.77 | 143.97 | 28.80 |
| 2001–02 | 165.56 | 131.14 | 34.43 | 102.33 | 161.80 | 128.16 | 33.65 |
| 2002–03 | 169.00 | 129.76 | 39.23 | 105.27 | 160.53 | 123.26 | 37.27 |
| 2003–04 | 171.49 | 131.75 | 39.74 | 108.57 | 157.95 | 121.35 | 36.61 |
| 2004–05 | 175.24 | 135.89 | 39.35 | 113.51 | 154.39 | 119.72 | 34.67 |
| 2005–06 | 180.08 | 137.49 | 42.59 | 119.02 | 151.31 | 115.52 | 35.79 |
| 2006–07 | 173.27 | 129.73 | 43.54 | 124.00 | 139.74 | 104.62 | 35.11 |
| 2007–08 | 173.24 | 128.59 | 44.65 | 128.60 | 134.72 | 100.00 | 34.72 |
| 2008–09 | 171.44 | 137.41 | 34.03 | 135.88 | 126.17 | 101.12 | 25.04 |
| 2009–10 | 170.94 | 136.43 | 34.51 | 136.56 | 125.18 | 99.91 | 25.27 |
| 2010–11 | 173.49 | 134.62 | 38.87 | 144.24 | 120.28 | 93.33 | 26.95 |
| 2011–12 | 177.27 | 137.58 | 39.69 | 145.90 | 121.50 | 94.30 | 27.20 |
| 2012–13 | 177.42 | 138.05 | 39.38 | 144.76 | 122.56 | 95.36 | 27.20 |
| 2013–14 | 176.19 | 145.85 | 30.34 | 146.82 | 120.01 | 99.34 | 20.67 |
| 2014–15 | 171.62 | 145.05 | 26.57 | 146.35 | 117.27 | 99.12 | 18.16 |
| % change 2013–14 to  2014–15 | -2.59 | -0.55 | -12.43 | -0.32 | -2.28 | -0.23 | -12.15 |
| % change 1998–99 to  2014–15 | -6.0 | -9.7 | 20.8 | 56.3 | -39.8 | -42.2 | -22.7 |

Source: ACCC 1996, *Monitoring of stevedoring costs and charges and terminal handling charges 1995*. Figures for January–June 1997 are an estimate derived from BITRE publication series *Waterline*. Data since and inclusive of 1998-99, provided by the stevedoring companies, converted to real terms using Australian Bureau of Statistics’ (ABS) GDP deflator series. Base year for ACCC deflator series: 2000–01.

1. Company trends in cost components

Table C.1: Asciano (Patrick) trends in nominal cost components (per TEU) index, 2002–03 to 2014–15

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | 2002–03 | 2003–04 | 2004–05 | 2005–06 | 2006–07 | 2007–08 | 2008–09 | 2009–10 | 2010–11 | 2011–12 | 2012–13 | 2013–14 | 2014–15 |
| Brisbane |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Stevedoring cost index | 89.0 | 86.0 | 84.0 | 85.9 | 82.0 | 76.8 | 85.7 | 89.7 | 95.1 | 86.6 | 79.7 | 84.7 | 84.1 |
| Total labour cost index | 87.4 | 92.7 | 89.3 | 91.1 | 75.2 | 70.1 | 76.9 | 65.1 | 68.7 | 70.2 | 69.4 | 75.3 | 75.9 |
| Total equipment cost index | 62.0 | 49.1 | 46.0 | 54.4 | 76.4 | 78.9 | 86.9 | 105.0 | 118.0 | 109.8 | 94.3 | 94.6 | 90.1 |
| Total property cost index | 59.2 | 55.0 | 48.6 | 41.7 | 35.1 | 32.8 | 42.3 | 66.3 | 82.2 | 104.3 | 103.0 | 110.1 | 112.7 |
| Port Botany |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Stevedoring cost index | 78.1 | 78.1 | 79.2 | 81.6 | 81.1 | 79.8 | 85.0 | 89.2 | 84.6 | 94.3 | 90.6 | 87.0 | 90.1 |
| Total labour cost index | 79.3 | 84.2 | 88.3 | 89.7 | 92.8 | 94.7 | 101.2 | 101.0 | 103.9 | 119.9 | 121.0 | 116.8 | 113.5 |
| Total equipment cost index | 73.2 | 67.6 | 71.4 | 78.5 | 87.6 | 73.4 | 76.4 | 72.9 | 65.8 | 67.8 | 66.7 | 67.3 | 75.2 |
| Total property cost index | 49.9 | 47.4 | 44.5 | 54.2 | 52.7 | 53.5 | 55.2 | 54.8 | 58.2 | 66.2 | 73.5 | 68.6 | 71.0 |

Table C.1: Asciano (Patrick) trends in nominal cost components (per TEU) index, 2002–03 to 2014–15—continued

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | 2002–03 | 2003–04 | 2004–05 | 2005–06 | 2006–07 | 2007–08 | 2008–09 | 2009–10 | 2010–11 | 2011–12 | 2012–13 | 2013–14 | 2014–15 |
| Melbourne |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Stevedoring cost index | 80.6 | 80.1 | 81.7 | 79.0 | 74.2 | 73.5 | 75.9 | 79.6 | 79.4 | 74.4 | 73.4 | 76.3 | 74.8 |
| Total labour cost index | 79.8 | 86.1 | 92.8 | 88.9 | 89.8 | 88.5 | 87.5 | 90.2 | 94.2 | 92.0 | 94.6 | 100.4 | 104.4 |
| Total equipment cost index | 78.8 | 68.7 | 67.1 | 69.6 | 67.6 | 65.4 | 68.0 | 61.8 | 63.6 | 60.4 | 62.3 | 60.0 | 52.2 |
| Total property cost index | 47.1 | 38.6 | 35.4 | 32.9 | 37.5 | 32.9 | 37.3 | 38.1 | 39.4 | 36.8 | 42.0 | 44.7 | 44.7 |
| Fremantle |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Stevedoring cost index | 68.7 | 73.7 | 83.0 | 86.1 | 78.3 | 80.6 | 90.1 | 90.3 | 83.3 | 77.7 | 78.1 | 81.1 | 78.8 |
| Total labour cost index | 60.5 | 70.3 | 85.7 | 89.4 | 84.5 | 84.9 | 93.5 | 94.6 | 87.8 | 85.2 | 92.9 | 98.5 | 95.1 |
| Total equipment cost index | 53.2 | 51.6 | 52.7 | 52.0 | 54.8 | 67.4 | 76.7 | 62.3 | 62.5 | 56.3 | 56.6 | 54.5 | 52.6 |
| Total property cost index | 90.5 | 101.5 | 115.4 | 133.6 | 147.4 | 149.5 | 149.0 | 142.6 | 120.6 | 102.1 | 99.4 | 97.5 | 88.3 |

Table C.1: Asciano (Patrick) trends in nominal cost components (per TEU) index, 2002–03 to 2014–15—continued

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | 2002–03 | 2003–04 | 2004–05 | 2005–06 | 2006–07 | 2007–08 | 2008–09 | 2009–10 | 2010–11 | 2011–12 | 2012–13 | 2013–14 | 2014–15 |
| Burnie# |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Stevedoring cost index | 92.9 | 82.5 | 96.1 | 109.7 | 100.4 | 101.8 | 117.9 | 119.5 | 159.8 | NA | NA | NA | NA |
| Total labour cost index | 84.3 | 79.1 | 107.3 | 117.7 | 109.8 | 116.2 | 135.8 | 122.0 | 195.9 | NA | NA | NA | NA |
| Total equipment cost index | 111.1 | 103.7 | 112.2 | 147.4 | 130.7 | 134.4 | 140.4 | 135.3 | 210.1 | NA | NA | NA | NA |
| Total property cost index | 75.0 | 52.5 | 76.7 | 109.4 | 103.2 | 225.3 | 455.3 | 576.0 | 872.8 | NA | NA | NA | NA |
| National |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Stevedoring cost index | 79.1 | 79.2 | 81.2 | 81.8 | 78.5 | 77.2 | 83.2 | 86.9 | 85.2 | 84.1 | 81.1 | 82.1 | 81.9 |
| Total labour cost index | 77.7 | 83.9 | 89.6 | 89.5 | 87.3 | 86.8 | 92.1 | 90.2 | 93.3 | 96.2 | 98.2 | 101.0 | 100.4 |
| Total equipment cost index | 73.5 | 65.9 | 66.1 | 72.4 | 79.0 | 74.7 | 79.6 | 78.5 | 78.0 | 73.3 | 70.6 | 69.2 | 67.7 |
| Total property cost index | 53.2 | 48.6 | 46.1 | 47.7 | 48.7 | 47.0 | 52.3 | 57.4 | 61.2 | 66.0 | 70.4 | 70.1 | 69.9 |
| Total cost\* index | 77.7 | 78.2 | 80.6 | 82.7 | 79.0 | 77.4 | 82.9 | 82.6 | 83.8 | 85.3 | 83.0 | 83.8 | 83.3 |

Base year is 1998–99 = 100. Index estimates for 1999–00, 2000–01 and 2001–02 are publicly available in *Container stevedoring monitoring report* *no. 14* (2011–12).  
# Patrick closed its Burnie operations in May 2011. \*Other costs are included in the total cost index but not shown as a separate cost category.

Table C.2: DP World Australia trends in nominal cost components (per TEU) index, 2002–03 to 2014–15

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | 2002–03 | 2003–04 | 2004–05 | 2005–06 | 2006–07 | 2007–08 | 2008–09 | 2009–10 | 2010–11 | 2011–12 | 2012–13 | 2013–14 | 2014–15 |
| Brisbane |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total labour cost index | 80.6 | 86.8 | 89.4 | 93.4 | 93.4 | 91.8 | 92.6 | 88.1 | 81.3 | 86.5 | 88.3 | 85.8 | 67.6 |
| Total equipment cost index | 94.9 | 100.4 | 101.6 | 109.4 | 125.2 | 133.1 | 129.5 | 140.0 | 116.0 | 112.1 | 103.2 | 159.0 | 158.7 |
| Total property cost index | 62.8 | 56.4 | 52.4 | 48.6 | 52.7 | 55.5 | 51.8 | 57.0 | 66.3 | 84.0 | 87.8 | 90.6 | 96.5 |
| Total cost index | 86.3 | 92.4 | 92.6 | 97.4 | 95.5 | 94.2 | 96.1 | 97.6 | 86.6 | 88.3 | 91.0 | 100.6 | 91.4 |
| Port Botany |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total labour cost index | 78.8 | 80.9 | 81.1 | 80.7 | 79.0 | 84.6 | 93.5 | 90.4 | 83.2 | 91.0 | 86.9 | 87.4 | 88.3 |
| Total equipment cost index | 107.2 | 107.1 | 105.9 | 117.4 | 117.2 | 112.4 | 120.1 | 114.7 | 97.0 | 111.5 | 93.4 | 95.6 | 93.2 |
| Total property cost index | 101.9 | 98.6 | 94.5 | 95.2 | 98.6 | 95.7 | 106.0 | 113.9 | 122.2 | 109.1 | 104.1 | 107.8 | 104.9 |
| Total cost index | 85.7 | 88.7 | 89.4 | 90.5 | 84.9 | 86.0 | 95.1 | 93.5 | 85.3 | 89.9 | 84.3 | 86.7 | 86.1 |

Table C.2: DP World Australia trends in nominal cost components (per TEU) index, 2002–03 to 2014–15—continued

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | 2002–03 | 2003–04 | 2004–05 | 2005–06 | 2006–07 | 2007–08 | 2008–09 | 2009–10 | 2010–11 | 2011–12 | 2012–13 | 2013–14 | 2014–15 |
| Melbourne |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total labour cost index | 71.1 | 73.2 | 79.3 | 81.2 | 77.2 | 76.7 | 78.0 | 73.7 | 71.7 | 81.5 | 87.2 | 88.0 | 91.0 |
| Total equipment cost index | 106.2 | 123.6 | 123.1 | 133.1 | 124.5 | 131.0 | 128.2 | 115.4 | 102.2 | 107.6 | 102.3 | 109.3 | 107.4 |
| Total property cost index | 69.0 | 59.7 | 59.1 | 52.1 | 43.9 | 49.6 | 49.7 | 46.7 | 50.4 | 56.8 | 61.2 | 68.1 | 72.1 |
| Total cost index | 90.2 | 92.1 | 97.6 | 95.1 | 87.3 | 91.2 | 96.5 | 90.6 | 85.8 | 86.5 | 89.5 | 94.2 | 96.3 |
| Fremantle |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total labour cost index | 74.0 | 78.7 | 76.7 | 75.4 | 75.0 | 74.1 | 79.9 | 82.3 | 89.3 | 110.8 | 101.8 | 110.4 | 101.3 |
| Total equipment cost index | 73.0 | 67.0 | 101.5 | 64.2 | 65.5 | 58.7 | 61.6 | 71.3 | 86.5 | 84.2 | 82.4 | 146.1 | 197.4 |
| Total property cost index | 80.1 | 75.4 | 70.3 | 76.4 | 68.1 | 64.8 | 72.5 | 73.2 | 83.7 | 89.2 | 92.0 | 110.2 | 131.2 |
| Total cost index | 80.6 | 80.1 | 84.3 | 78.2 | 74.7 | 71.0 | 76.2 | 78.2 | 88.6 | 96.2 | 92.7 | 111.7 | 118.7 |

Table C.2: DP World Australia trends in nominal cost components (per TEU) index, 2002–03 to 2014–15—continued

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | 2002–03 | 2003–04 | 2004–05 | 2005–06 | 2006–07 | 2007–08 | 2008–09 | 2009–10 | 2010–11 | 2011–12 | 2012–13 | 2013–14 | 2014–15 |
| National |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total labour cost index | 75.4 | 78.9 | 81.2 | 82.6 | 80.6 | 81.8 | 85.7 | 82.4 | 78.7 | 87.7 | 88.0 | 88.2 | 85.6 |
| Total equipment cost index | 99.5 | 105.5 | 110.3 | 113.2 | 113.6 | 114.2 | 115.4 | 112.4 | 100.2 | 105.9 | 96.2 | 114.4 | 115.3 |
| Total property cost index | 76.8 | 70.1 | 67.3 | 64.6 | 62.4 | 64.1 | 66.1 | 67.9 | 75.4 | 79.1 | 81.6 | 86.5 | 89.4 |
| Total cost\* index | 86.2 | 89.0 | 91.8 | 91.5 | 86.1 | 86.9 | 92.6 | 90.3 | 85.1 | 87.8 | 87.2 | 92.5 | 91.5 |

Base year is 1998–99 = 100. Index estimates for 1999–00, 2000–01 and 2001–02 are publicly available in *Container stevedoring monitoring report* no. 14 (2011–12).  
\*Other costs are included in the total cost index but not shown as a separate cost category.

Table C.3: Flinders Adelaide Container Terminal trends in nominal cost components (per TEU) index, 2002–03 to 2014–15

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | 2002–03 | 2003–04 | 2004–05 | 2005–06 | 2006–07 | 2007–08 | 2008–09 | 2009–10 | 2010–11 | 2011–12 | 2012–13 | 2013–14 | 2014–15 |
| Adelaide |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Stevedoring cost index | 88.5 | 86.3 | 86.5 | 84.6 | 75.7 | 69.9 | 72.9 | 90.9 | 97.5 | 91.7 | 101.7 | 89.3 | 79.8 |
| Total labour cost index | 85.5 | 80.5 | 79.3 | 79.2 | 68.6 | 62.9 | 67.8 | 72.4 | 74.8 | 83.6 | 95.3 | 94.0 | 85.9 |
| Total equipment cost index | 109.7 | 110.6 | 107.2 | 105.2 | 121.6 | 112.2 | 107.7 | 103.1 | 116.1 | 125.7 | 120.3 | 107.4 | 86.1 |
| Total property cost index | 17.2 | 18.8 | 28.1 | 22.0 | 22.5 | 26.0 | 33.3 | 119.6 | 134.4 | 22.7 | 46.0 | 28.3 | 25.7 |
| National |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Stevedoring cost index | 75.1 | 73.3 | 73.4 | 71.8 | 64.3 | 59.4 | 61.9 | 77.2 | 82.8 | 77.9 | 86.4 | 75.8 | 67.7 |
| Total labour cost index | 74.1 | 69.8 | 68.8 | 68.7 | 59.4 | 54.6 | 58.8 | 62.8 | 64.8 | 72.5 | 82.7 | 81.5 | 74.5 |
| Total equipment cost index | 85.7 | 86.5 | 83.8 | 82.2 | 95.1 | 87.7 | 84.2 | 80.6 | 90.7 | 98.2 | 94.0 | 83.9 | 67.3 |
| Total property cost index | 11.6 | 12.6 | 18.7 | 14.7 | 15.1 | 17.3 | 22.2 | 80.0 | 89.8 | 15.2 | 30.7 | 19.0 | 17.2 |
| Total cost\* index | 76.2 | 71.2 | 73.9 | 72.4 | 65.4 | 61.2 | 63.7 | 67.2 | 72.0 | 74.8 | 85.3 | 79.5 | 72.9 |

Base year is 1998–99 = 100. Index estimates for 1999–00, 2000–01 and 2001–02 are publicly available in *Container stevedoring monitoring report* no. 14 (2011–12).  
National index for 1998–99, 1999–00 and 2000–01 recognises joint ownership arrangements of container terminal facilities at that time for Brisbane and Adelaide by CSX World Terminals. Operations at Brisbane were terminated in August 2001.   
\*Other costs are included in the total cost index but not shown as a separate cost category.

1. Characteristics of the stevedoring industry
   1. Supply of stevedoring services

Container stevedoring services involves lifting of containerised cargo on and off ships. Stevedoring companies provide other related services such as storage, maintenance and repositioning of containers. Stevedores also provide services that facilitate the movement of containers from the terminals to road and rail transport links. Arrangements between shipping companies and other port service providers (e.g. towage) can also often be arranged through the stevedore.

* + 1. Structural arrangements

In Australia, stevedoring services are provided by specialist firms that own container‑handling equipment (i.e. cranes and straddles). These stevedoring firms lease berthing and terminal space from port operators. Typically, these lease arrangements provide exclusive use of terminal and berthing space and are long term, ranging from 20 to 40 years. These long term arrangements between stevedores and port operators may affect the level of contestability in the industry.

Overseas, stevedoring services are provided under different types of arrangements, such as those with greater integration between the port management and stevedoring functions. For example, at some overseas ports, port operators not only own and manage the port precinct, but supply stevedoring services at the port.[[106]](#footnote-106) At other ports, port operators own container handling equipment but subcontract the use of this equipment to third-party firms to supply stevedoring services.

* + 1. Market participants

At the Port of Brisbane and Port Botany there are three providers of container stevedoring services: Patrick Terminals & Logistics,[[107]](#footnote-107) DP World Australia Ltd[[108]](#footnote-108) and a new entrant, Hutchison Ports Australia Pty Ltd.[[109]](#footnote-109) Hutchison commenced operations in Brisbane in and in Sydney in 2013–14.

At the Port of Melbourne, there are currently two providers of container stevedoring services, DP World and Patrick. A third provider, Victorian International Container Terminal Ltd, has been appointed to operate the new container terminal at Webb Dock. Work on phase one of the new terminal is expected to be completed in late 2016.

At the Port of Fremantle, DP World and Patrick are the two providers of container stevedoring services.

At the Port of Adelaide, there is one container stevedore, Flinders Adelaide Container Terminal (FACT) (a subsidiary of Flinders Ports).[[110]](#footnote-110)

At the Port of Burnie, Patrick previously operated a terminal. However, in May 2011, this facility was decommissioned.

* + 1. Size of the market

Total throughput at Australian ports in 2014–15 was about 7.1 million TEUs.[[111]](#footnote-111)

Melbourne is Australia’s largest port, with container throughput of around 2.6 million TEUs in 2014–15. Sydney is Australia’s second largest port, processing about 2.3 million TEUs in 2014–15. The third largest monitored port in 2014–15 was Brisbane (1.1 million TEUs), followed by Fremantle (around 743 600 TEUs) and then Adelaide (around 365 900 TEUs).

* + 1. Capacity in stevedoring

In recent years, there has been a focus on increasing the capacity of ports and container terminals to cope with expected growth in containerised trade.

Managing stevedoring capacity is the responsibility of both stevedores and port operators. State governments also have an interest. Capacity is determined by a number of factors, which vary in terms of the ease with which they can be manipulated to increase capacity at a port. These factors include:

* quay length
* berth utilisation
* total number and size of cranes
* size and use of the container storage (yard) space
* size and skill of the labour force
* application of new technologies relating to the use of terminal space.

It is important that the above factors are managed and utilised effectively to ensure that capacity at a port is sufficient to meet demand and it is operating efficiently.

Quay length is likely to be the most significant factor because it provides an absolute constraint on the number of ships that can berth at any one time. Quay length is fixed in the short term and acts as a physical restraint on capacity. Port operators largely control the quay length available and allocated to the stevedores as part of their overall land management responsibilities.

The utilisation rate of shipping berths is likely to be influenced by several factors. These may include the arrival pattern of ships, whether they are part of a regular service or arrive at random, and the regularity with which ships arrive within or outside of their allocated windows. The time stevedores spend servicing the ship at the berth may also influence berth utilisation rates.

Stevedores have direct control over the number, size and type of equipment used in the provision of stevedoring services. The number of cranes is fixed in the short term and therefore sets a ceiling on the level of throughput in any given period of time. Whether this ceiling is reached is determined by the productivity of the cranes and demand.

While port operators determine the size of yard space allocated to the stevedores, the stevedores are responsible for managing the efficiency of this yard space. The amount of yard space available for container storage has been limited by continued growth of other port activities and encroachment of surrounding residential areas in metropolitan ports like Melbourne and Sydney. Consequently, some container storage facilities have been moved away from the immediate port area to locations in close proximity. It has also forced stevedores to consider the ways in which they manage their yard capacity, including the layout of the yard, the container dwell time and optimal stacking heights.

Other factors that influence terminal capacity over which the stevedores have control include the size and skills of the labour force as well as the degree to which new technologies are employed at their terminals.

Because of the unpredictable nature of shipping services, infrastructure to provide stevedoring services must be sufficiently large and flexible to process irregular and fluctuating levels of throughput. As volumes increase, periods of peak activity become more frequent and intense. It is likely that in an efficiently configured stevedoring operation there will be some surplus capacity, in terms of both quay crane capacity and yard capacity.

* + 1. Expansion of ancillary services

The role of stevedoring in the overall transport logistics chain appears to be changing as stevedores are increasingly expanding their operations in related services. There seem to be two main areas where change is manifesting. One is in services that are ancillary to the stevedoring function. These are services that facilitate a more effective interface with land transport by allowing shippers to move containers more quickly and efficiently from the wharf into their preferred land transport link. Examples of these ancillary services are short stay container storage and interface with the Australian Customs and Border Protection Service on container examination activities. The other is coordination of stevedoring with road and rail transport to create a more seamless freight logistics chain. A good example of this is the stevedores’ membership in the Port Botany Rail Team which meets every month and is designed to enhance rail operational performance, transport supply chain visibility and more effective rail interface with the container terminals.

Stevedores control access to container terminals and therefore earn revenue from, and have arrangements with, road and rail transport operators for access to the port. These arrangements are facilitated by vehicle booking systems and rail ‘windows’ (i.e. timeslots during which the train is able to exchange cargo at the port) in an effort to reduce landside bottlenecks.

Unlike in the provision of quayside services, stevedores do not have individual commercially negotiated contractual obligations with trucking operators. This may affect the incentive of the stevedores to allocate resources to process trucking movements through their terminals.

* + 1. Barriers to entry and exit

Entry and exit costs are important determinants of the degree of contestability in an industry. The higher the entry and exit costs, the lower the potential for new entrants to constrain the behaviour of incumbents. If entry and exit barriers are low, the ability of incumbents, or even an existing monopolist, to charge high prices and earn above normal profits is limited.

The ACCC notes that a significant level of expenditure is required to enter container stevedoring, some of which may represent sunk costs to a stevedore.[[112]](#footnote-112) Expenses associated with entry would not only constitute equipment costs and the costs of physically developing a terminal, but also third-party service costs as well as costs associated with tendering for a terminal lease, among others.

In 1998, the Productivity Commission considered evidence suggesting that the cost of establishing a presence in the stevedoring industry may not represent a significant obstacle to entry.[[113]](#footnote-113) The PC found that while equipment costs are high, such equipment can be sold to other stevedores and moved between ports. For this reason, the PC observed that the high start-up costs in themselves do not constitute a major barrier to entry.[[114]](#footnote-114) However, other features of the industry may make entry difficult.

The ACCC has not formed a view about the height of barriers to entry in the container stevedoring industry. However, there are features of the industry that may form barriers to entry in certain circumstances—for example, the presence of economies of scale and the exclusive and long term nature of lease arrangements between stevedores and port operators. However, the entry of Hutchison in Brisbane and Sydney and forthcoming entry of VICTL in Melbourne suggests that such barriers can be overcome under certain circumstances—for example, where leases to operate terminals are made available by ports and state governments.

* 1. Demand for stevedoring services

The users of stevedoring services are most commonly foreign shipping lines. Some shipping lines that service Australian ports are part of consortia arrangements in which several lines participate to share space on vessels.

The demand for stevedoring services is a derived demand. The absolute size of the market is determined by the volume of shipping transport, which in turn is strongly influenced by general economic activity and competition from other forms of transport such as air, road and rail. Stevedores are not able to significantly influence the overall size of the shipping transport market.

The total amount of demand for stevedoring services is also influenced by the trading route decisions of shipping lines, in particular whether they will call into a certain port. Some locations may not be suitably situated for shipping lines—for example, a location may constitute too much of a diversion from the shipping line’s trade route, a direct shipping route may not be available to that location or the sea channel may not allow the passage of a particular size of vessel.

While it appears that shipping lines regularly change shipping routes and regularity of cargo services, the largest Australian ports are not generally considered substitutable. However, shipping lines do consider a number of other factors when determining whether to call into a port. These include their customers’ demands and charges incurred by the shipping line to reach that port (e.g. fuel costs).

* + 1. 20- and 40-foot containers

The ACCC has been collecting product differentiated data since 2001–02—that is, data disaggregated by 20- and 40-foot container volumes.

This data indicates that the use of 40-foot containers has increased at a faster rate than 20‑foot containers. The data also suggests that stevedores charge less for 40-foot containers on a per TEU basis than for 20-foot containers. This could be one of the reasons why shippers (importers/exporters) are increasing their relative demand for 40-foot containers.

The impact of 40-foot containers on the stevedores’ average costs is not clear. While the costs of lifting 20- and 40-foot containers may be reasonably similar, the ACCC understands from market inquiries that there may be higher costs involved in storing and re-positioning 40-foot containers. According to one stevedore, the difference in cost can be enough to justify differential pricing when 40-foot containers constitute a substantial proportion of a customer’s business.

* + 1. Potential countervailing power: threat of moving business elsewhere

An important determinant of competition between incumbent stevedores is the extent to which their customers are able to exercise countervailing power.

Some Australian ports may be used by a small number of liner groupings. Each can represent a substantial proportion of throughput at a given port. This means that the loss of a particular line’s business can potentially have significant financial consequences for a stevedore. It might therefore be argued that by threatening to shift their business, shipping lines have the ability to exert countervailing power against stevedores.

The extent to which shipping lines can switch stevedores and exert countervailing power may be restricted by contractual obligations with their current provider of stevedoring services. This countervailing power may also be constrained in the short term where the stevedores have limited capacity to service significantly higher levels of business (especially during periods of peak demand). While most terminals currently appear to have some spare capacity, it may not be sufficient to service a substantially larger proportion of the market. Furthermore, where a shipping line seeks a national contract, capacity constraints at only one terminal may effectively preclude that line being accommodated.

Inter-port competition may be limited in Australia due to the large distances between major ports. A shipping line’s ability to switch to a stevedore in a different port will be influenced by any additional costs of steaming between ports as well as the land transport costs of moving the cargo to its ultimate destination. These costs may reduce the scope for shipping lines to switch easily to different ports, and so reduce their potential countervailing power.

* + 1. Sensitivity to prices and quality of service

The extent of demand sensitivity to prices and service levels can have an important bearing on the competitive discipline faced by firms. Generally, the more sensitive consumers are to prices, the greater is a firm’s potential loss of revenue in response to a price rise. Firms that face a relatively price sensitive demand are likely to have less discretion in setting prices.

The evidence on price sensitivity in the stevedoring industry is mixed. It may be that shipping lines may be more sensitive to quality of service than to price. Shipping lines are particularly sensitive to the cost of waiting idly at a port or adjusting port visit times. A stevedore’s ability to provide efficient and reliable services within specified time windows, minimising waiting costs, is important in facilitating faster transit times for shipping lines. That said, the ACCC has received views from industry that price is increasingly important given reported current conditions in shipping markets as well as increased capacity and customer service in stevedoring.

The ACCC is aware that shipping lines switch stevedores from time to time. One recent and notable example is “K” Line switching from DP World to Patrick in early 2014.[[115]](#footnote-115) Another recent example is ANL’s decision to move its Tranztas service from Patrick to Hutchison and DP World in 2015 citing the reason as “totally unsatisfactory” service.[[116]](#footnote-116)

* 1. Regulation of ports and port services

The approach taken by state governments to regulating ports and port services varies across states. Generally speaking, the states and territories control the port precincts, adjacent land uses and in most cases the connecting transport systems. They can own and finance port related lands and assets, and have environmental and safety regulatory responsibilities. For details of regulatory measures in place across ports see section 1.4.1.

Three of the monitored ports have been privatised—the Port of Adelaide (2001), the Port of Brisbane (2010) and Port Botany (2013). The Victorian and Western Australian governments have commenced a process to privatise the ports of Melbourne and Fremantle respectively.

Local government may also make decisions affecting ports, including on matters such as land development and road uses.

The Australian Government has key port related functions including navigation, defence, security, environment, border control and competition policy. It owns infrastructure assets, including certain railways and roads, as well as lands suitable for freight activities. The Australian Government has interests in national economic performance, international trade and interstate trade and commerce.

1. ACCC monitoring methodology
   1. Introduction

This appendix provides a detailed explanation of the ACCC’s monitoring methodology. In particular, it outlines the ACCC’s approach to assessing the profitability of container stevedoring terminal operations in Australia.

* 1. Background to the ACCC’s monitoring role
     1. Legislative background

On 20 January 1999, the (then) federal Treasurer directed the ACCC under s. 27A of the *Prices Surveillance Act 1983* (PSA) to monitor prices, costs and profits of container terminal operator companies at the ports of Adelaide, Brisbane, Burnie, Fremantle, Melbourne and Sydney.[[117]](#footnote-117) A copy of the ministerial direction is in appendix F. The PSA has since been repealed; with the prices surveillance provisions now contained in Part VIIA of the CCA. The direction under the former s. 27A of the PSA is now deemed a direction under s. 95ZE of the CCA.

Prior to this, the Prices Surveillance Authority had monitored stevedoring prices and costs from March 1991 to November 1995. Relevant sections of Part VIIA are reproduced in appendix G.

In performing its monitoring function, the ACCC must, under subsection 95G(7) of the CCA, have ‘particular regard’ to the following matters:

* the need to maintain investment and employment, including the influence of profitability on investment and employment.
* the need to discourage a person who is in a position to substantially influence a market for goods or services from taking advantage of that power in setting prices.
* the need to discourage cost increases arising from increases in wages and changes in conditions of employment inconsistent with principles established by relevant industrial tribunals.
  + 1. Reasons for ACCC monitoring

The ACCC’s monitoring program provides information to the government and wider community about the development of Australia’s container stevedoring industry; in particular, the operating performance of, and investment in, container stevedoring terminals, and degree of competition at the monitored ports. The monitoring program also highlights issues affecting the broader supply chain, including road and rail connections to container terminals.

The ACCC’s monitoring program began following the (then) Australian Government’s decision in 1998 to support reform of the Australian waterfront.

As part of the reform strategy, the government provided funds to ensure that all stevedoring employees made redundant as part of the reform process received full redundancy entitlements. A levy on the loading and unloading of cargo was applied in order for the stevedores to repay the funds. The levy ceased at the end of May 2006 with the repayment of the government funding.

* 1. Description of methodology
     1. Monitoring data

The ACCC’s role, set out in the ministerial direction, is to monitor prices, costs and profits at container terminals operating in Adelaide, Brisbane, Burnie, Fremantle, Melbourne and Sydney. In undertaking this role, the ACCC does not collect data on actual prices charged for stevedoring services as these are negotiated privately between stevedores and users. Instead, unit revenue measures are used as indicators of average stevedoring charges.

Individual company data are aggregated to obtain national average revenue, costs and margins, expressed on a per unit basis. Units are expressed in terms of the size of the containers. There are typically two container sizes, 20-foot (one TEU) and 40-foot (two TEUs).[[118]](#footnote-118) Stevedoring charges are normally calculated per lift and are not generally differentiated in terms of container size. As such, the per TEU rate will typically be lower for 40-foot containers than for 20-foot containers. This means that the expected mix of 20-foot and 40-foot containers can be a significant factor for stevedoring companies when they are determining the actual per lift stevedoring rate to charge a shipping line. A trend towards 40-foot containers may contribute to a lowering of broad measures of average stevedoring revenue expressed per TEU.

The ACCC receives data on revenue and costs, for total terminal activities and for the container stevedoring function only. Stevedoring revenue is defined as the revenue attributable to the loading and unloading of cargo. It includes any rebates offered by the container stevedores to shipping lines, as well as any penalties for non-performance imposed by the liner company on the stevedore. Most of the revenue generated by container terminals comes from stevedoring services. However, terminals may also conduct some break-bulk work (e.g. non-containerised cargo such as bags, crates, barrels) and provide other ancillary services related to the lifting of containers, such as storing and maintaining containers. They also receive revenue from land transport operators—for example, for truck’s access to the stevedores’ VBS.

The former Prices Surveillance Authority conducted the initial monitoring function (1991 to 1995) using total revenue and cost data (including break-bulk revenue and costs) to derive national average revenue and cost indicators. To establish long term trends, this report presents the results of the ACCC’s recent monitoring program, as well as the Prices Surveillance Authority’s monitoring program and data from its earlier public inquiry.[[119]](#footnote-119)

The ACCC has derived its data on average revenue and costs from the total revenue and expenses of the major container terminals in Australia, in a similar way to those in the Prices Surveillance Authority’s reports.

* + 1. Coverage of monitoring data

The container terminals included in the monitoring program are in Adelaide, Brisbane, Burnie, Fremantle, Melbourne and Sydney.

These terminals are:

* DP World and Patrick—Swanson Dock, Melbourne
* DP World, Patrick and Hutchison—Fisherman Islands, Brisbane
* DP World, Patrick and Hutchison—Port Botany, Sydney
* DP World and Patrick—Fremantle
* FACT—Adelaide.

Patrick closed its stevedoring operations at the Port of Burnie in May 2011 and has therefore recorded no volumes for this port since 2010–11.

Some terminals are not included in the data and analysis because a substantial proportion of their revenue was from non-container cargoes:

* Patrick’s previous terminals at Darling Harbour in Sydney and at Webb Dock in Melbourne
* DP World’s previous terminal at White Bay in Sydney.

In addition to using quantitative data provided by the stevedores, the ACCC seeks other information through informal contacts with stevedoring companies. Where relevant, this information has been taken into account when assessing the results of the monitoring program.

* 1. Measures of industry profitability

Different measures of profitability are appropriate depending on the reason why performance is being assessed. Where performance is assessed from a perspective of returns on assets employed in producing a good or service, rates of return on tangible assets are relevant. Alternatively, rates of return measures including both tangible plus intangibles assets are more appropriate where performance is assessed from the perspective of the opportunity cost of capital invested in a business.

As noted in section 3.6, the ACCC considers that for monitoring purposes, the most appropriate measure of industry profitability is EBITA on the average value (of opening and closing balances) of tangible assets.

* + 1. Treatment of intangible assets

The ACCC excludes intangibles (which, for stevedoring, include mostly goodwill and berth licensing agreements) from the industry’s asset base when assessing operating performance. Although the recognition of intangible assets is permissible under the Australian equivalent of the International Financial Reporting Standards (AIFRS), it does not necessarily follow that this is appropriate for monitoring purposes. This is because of concerns that such intangibles may reflect an expectation at the time of purchase or acquisition of assets for a business to earn economic rents, which may obscure changes in the profitability of providing services.

The ACCC’s approach to exclude intangible assets will create a difference between the stevedore’s statutory and regulatory reports. However, such divergences are not unusual where prices oversight of infrastructure services is involved and is consistent with the ACCC’s approach in other industries (e.g. airport services).

* + 1. Consistency in asset valuation over time

One limitation of this approach is that the return on assets is affected by changes in asset values arising from asset revaluations, transfers or sales. Some businesses use different asset valuation methods, depending on the type of assets. Reported asset values may vary significantly for a given business over time, which reduces comparability. This raises issues for monitoring purposes, where consistency in reporting over time assists with meaningful analysis. The ACCC has not attempted to evaluate the appropriateness of stevedores’ asset valuations, which would be necessary if prices were regulated. However, it does require, for monitoring purposes, stevedores to report asset values on a consistent basis over time so that the ACCC can assess trends in the profitability of operating the stevedoring terminals.

For monitoring periods up to 2006–07, the asset values supplied by the Australian stevedores to the ACCC were valued on a consistent basis—on a depreciated historical cost basis. The ACCC has previously used this asset information to approximate changes in the value of the industry’s asset base with investments in container terminals over that time. It represents an effective, relatively low-cost tool to examine changes in operating profitability.

However, as reported in the ACCC’s 2007 monitoring report, data supplied by Patrick to the ACCC’s 2006–07 monitoring program showed an abnormally large increase in reported asset values between 30 June 2006 and 30 June 2007. Additional information obtained by the ACCC at that time indicated that the higher closing balance asset values were affected by the accounting treatment of the acquisition of Patrick by Toll in 2006 and the subsequent purchase of the Patrick business by Asciano Ltd from Toll prior to 30 June 2007. The increase in the asset values reported by Patrick to the ACCC between 30 June 2006 and 30 June 2007 reflected the allocation of the purchase price of Patrick across the company’s asset base, including for identifiable intangible assets (primarily goodwill). Part of this goodwill could reflect the businesses’ ability to earn abnormal returns (economic rents).

According to Asciano’s published financial statements for the period ending 30 June 2015, the carrying amount of goodwill allocated to Patrick’s container ports was $1.5 billion, which represented 56 per cent of the total value of Patrick’s assets for the Terminals and Logistics division. While this accords with relevant accounting standards, it represents a material change to the basis on which the Patrick assets were previously valued (i.e. prior to This is significantly above the proportion of goodwill for companies on the S&P/ASX 200 Industrials Index (13 per cent of total assets in 2014–15).

Therefore it was necessary for the ACCC to adjust the opening balance of assets employed by Patrick as at 1 July 2006 to exclude the effect of the acquisition by Toll. The result of this adjustment is that Patrick’s asset base remained valued on a basis consistent with previous years for the ACCC’s monitoring purposes.

In 2006–07, it was not necessary for the ACCC to adjust the value of assets employed by DP World following its acquisition of P&O Ports in 2006. This is because these assets continued to be valued on a basis consistent with previous years. In effect, the goodwill associated with the P&O acquisition was not allocated to the assets employed data previously supplied to the ACCC.

In March 2011, Citi Infrastructure Investors acquired a 75 per cent interest in DP World Australia (the remaining 25 per cent continues to be held by DP World). The ACCC understands that the purchase price paid by Citi Infrastructure recognises the value of intangible assets comprising goodwill and long term berth licenses. The ACCC understands that such licenses were not previously recognised as assets prior to changes in corporate ownership. For consistency with the approach taken with Patrick, the ACCC requires asset values to be reported on a consistent basis over time and considers that asset valuations that arise from changes in corporate ownership that potentially recognise capitalisation of future economic rents should be excluded.

While asset revaluations are permitted under international accounting standards, for the purposes of the ACCC’s monitoring program, it was necessary for the ACCC to continue to exclude the effect of any upward revaluations made in 2014–15. The asset information provided by the stevedores for the period ending 30 June 2015 reflected the opening value of tangible assets as at 30 June 2014, plus additions to assets, less depreciation expenses and disposal of assets and write-downs of tangible assets that occurred in the 12 months to 30 June 2015.

* + 1. Comparisons of Australian stevedoring with the S&P/ASX 200 Industrials Index

One way of assessing whether the rates of return in Australian stevedoring are consistent with those expected in a competitive industry is to compare them to an appropriate benchmark.

The ACCC used the S&P/ASX 200 Industrials Index to compare the profitability of the stevedoring industry with other infrastructure businesses (refer section 3.6).

The S&P/ASX 200 Industrials Index represents a subset of publicly listed companies in Australia’s industrial sector, including infrastructure and transport companies. The S&P/ASX 200 Industrials Index is published by the ASX and the ACCC sources company information through Bloomberg.

The S&P/ASX 200 Industrials Index includes companies whose businesses are dominated by one of the following activities: the manufacture and distribution of capital goods, including aerospace & defence, construction, engineering & building products, electrical equipment and industrial machinery; or the provision of commercial services and supplies, including printing, employment, environmental and office services; or the provision of transportation services, including airlines, couriers, marine, road & rail and transportation infrastructure.

For the period ending 30 June 2015, there were 29 S&P/ASX 200 companies listed in the Industrials Index. Among the companies included were:

* Asciano Ltd
* Aurizon Holdings Ltd
* Brambles Ltd
* Mermaid Marine Australia Ltd
* Qantas Airways Ltd
* Qube Holdings Ltd
* Sydney Airport
* Transurban Group
* Transpacific Industries Group Ltd
* Transfield Services Ltd

The ACCC considers this index provides a better comparator than the top 200 companies listed on the ASX (which the ACCC has included as a broad comparator in previous monitoring reports). It should be noted, however, that although the S&P/ASX 200 Industrials Index separately reports the value of tangible assets and total assets (which removes the value of intangible assets from each company’s asset base), the index not does disclose data on asset revaluations of the individual companies in the index.

The results of the ACCC’s benchmark analysis should therefore be used as a broad comparator when assessing the level of returns in Australian stevedoring.

1. Ministerial direction

**COMMONWEALTH OF AUSTRALIA**

*Prices Surveillance Act 1983*

**DIRECTION NO 17**

1. (1) I, Peter Costello, Treasurer, pursuant to section 27A of the Prices Surveillance Act 1983, hereby direct the Australian Competition and Consumer Commission to undertake monitoring of prices, costs and profits relating to the supply of services by a container terminal operator company in ports at the following locations:

(a) Adelaide;

(b) Brisbane;

(c) Burnie;

(d) Fremantle

(e) Melbourne; and

(f) Sydney.

1. (2) In this direction, ‘container terminal operator company’ means a provider of container stevedoring services in ports at the locations listed in paragraph (1).
2. (3) The ACCC is to report to me on its monitoring activities referred to in paragraph (1) within four months after the end of each financial year.

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**January 1999**

Federal Register of Legislative Instruments F2008B00402

1. Part VIIA, Competition and Consumer Act 2010

**s. 95ZE**

**Directions to monitor prices, costs and profits of an industry**

(1) The Minister may give the Commission a written direction:

(a) to monitor prices, costs and profits relating to the supply of goods and services by persons in a specified industry; and

(b) to give the Minister a report on the monitoring at a specified time or at specified intervals within a specified period.

*Commercial confidentiality*

(2) The Commission must, in preparing such a report, have regard to the need for commercial confidentiality.

*Public inspection*

(3) The Commission must also make copies of the report available for public inspection as soon as practicable after it gives the Minister the report.

**s. 95ZG**

**Exceptions to price monitoring**

(1) The Minister must not direct the Commission under this Division to monitor prices, costs and profits relating to a supply of goods or services of a particular description that is an exempt supply in relation to goods or services of that description.

(2) The Minister must not direct the Commission under this Division to monitor prices, costs and profits of a State or Territory authority that supplies goods or services unless the State or Territory concerned has agreed to the direction being given.

**s. 95G(7)**

**The Commission’s functions under this Part**

***General***

(7) In exercising its powers and performing its functions under this Part, the Commission must, subject to any directions given under section 95ZH, have particular regard to the following:

(a) the need to maintain investment and employment, including the influence of profitability on investment and employment;

(b) the need to discourage a person who is in a position to substantially influence a market for goods or services from taking advantage of that power in setting prices;

(c) the need to discourage cost increases arising from increases in wages and changes in conditions of employment inconsistent with principles established by relevant industrial tribunals.

# Contacts

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Callers who are deaf or have a hearing or speech impairment can contact the ACCC through the National Relay Service, [www.relayservice.com.au](file:///\\cdchnas-evs02\home$\aparn\trimdata\TRIM\TEMP\HPTRIM.7080\www.relayservice.com.au)

For other business information, go to [www.business.gov.au](file:///\\cdchnas-evs02\home$\aparn\trimdata\TRIM\TEMP\HPTRIM.7080\www.business.gov.au)

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1. Under the *Ports and Maritime Administration Act 1995* (NSW), the Port of Newcastle is required publish information on charges, give advance notice of changes to charges including a rationale for any increases, and provide an annual report to the Minister each year with specified information on charges and revenue. [↑](#footnote-ref-1)
2. The ACCC’s monitoring program has recorded no container stevedoring activity in Burnie since 2010–11 because the sole stevedore at that port, Patrick, advised the ACCC that it closed its operations in May 2011. [↑](#footnote-ref-2)
3. There was a third container stevedore in Brisbane, CSX World, the assets of which were acquired by Patrick in August 2001. In Adelaide, the sole container stevedore at the time, CSX World, was acquired by DP World in 2005. DP World acquired P&O in 2006. [↑](#footnote-ref-3)
4. This has changed in recent years in Fremantle with the switching of two major shipping lines from DP World to Patrick. [↑](#footnote-ref-4)
5. Productivity Commission, *International Benchmarking of the Australian Waterfront*, AusInfo, Canberra, April 1998, p.xi. See also pp.111, 125, 138. [↑](#footnote-ref-5)
6. Twenty-foot equivalent units (TEUs) are the standard unit of measurement for shipping containers. One TEU is equivalent to one 20-foot shipping container. One 40-foot shipping container is equivalent to two TEUs. [↑](#footnote-ref-6)
7. Costs and revenues have been converted to real terms using the Australian Bureau of Statistics Gross Domestic Product (GDP) deflator series (cat. no. 5206.0, Table 4, Expenditure on GDP, Chain price indexes, Series ID A2303862V). [↑](#footnote-ref-7)
8. The ACCC considers that the appropriate measure of rate of return for monitoring purposes is the ratio of earnings before interest, tax and amortisation (EBITA) to the average value (of opening and closing balances) of tangible assets. The ACCC excludes the value of intangible assets (primarily goodwill) from the industry’s asset base when assessing operating performance. The effect of asset revaluations by the stevedores is also excluded. The resulting measure should therefore not be interpreted as a return on the funds invested by shareholders in the respective stevedoring businesses. [↑](#footnote-ref-8)
9. ‘Tangible assets’ refers to the physical infrastructure (e.g. cranes, straddles, etc.) used by the stevedores to provide container stevedoring services. [↑](#footnote-ref-9)
10. Hutchison received its first ship in Brisbane in May 2013 and in Sydney in November 2013. [↑](#footnote-ref-10)
11. In July 2011, Asciano announced it had signed an agreement with Maersk to use Patrick as its sole service provider. In early 2014, “K” Line announced that it had switched its Singapore shuttle service from DP World to Patrick in Fremantle. According to Patrick, this represented proforma volume of 90,000 lifts per year [Source: Asciano, *HY14 Interim Results Presentation*, as at 31 December 2014, p.9]. [↑](#footnote-ref-11)
12. South Australian Department for Transport, Energy and Infrastructure, *Review of significant ports in South Australia under the Competition and Infrastructure Reform Agreement*, 2008, p.18. [↑](#footnote-ref-12)
13. FACT, *New $24 million cranes at Container Terminal give shipping lines a boost*, media release, 25 June 2015. [↑](#footnote-ref-13)
14. ‘Fast steaming’ refers to travelling at a speed above a vessel’s most optimal in terms of minimising costs. [↑](#footnote-ref-14)
15. Asciano, *Full Year Financial Results for the twelve months ended 30 June 2014 incorporating the requirements of Appendix 4E*, p. 34, http://asciano.com.au/investors/financial\_reports. [↑](#footnote-ref-15)
16. Thomson Reuters, *Asciano FY13 Results Presentation 21 August 2013*, transcript, p.33. [↑](#footnote-ref-16)
17. Sydney Morning Herald, *DP World posts $68m annual loss*, 22 April 2014. [↑](#footnote-ref-17)
18. Wilson J, *New DP World Australia boss is steeped in stevedoring tradition but takes the modern outlook,* Lloyds List Australia, 29 Jan 2014. [↑](#footnote-ref-18)
19. Wiggins J, *DP World prepares to fight for market share*, Australian Financial Review, 3 March 2014. [↑](#footnote-ref-19)
20. Gilfillan G, Bringing in a third stevedore – a port perspective, Lloyds List Australia, 10 July 2015. Grant Gilfillan is now the CEO of the Port Authority of New South Wales. [↑](#footnote-ref-20)
21. Total or stevedoring revenue measures expressed on a per unit basis, where a unit is a TEU. [↑](#footnote-ref-21)
22. Since the ACCC monitoring program began collecting this data in 2001-02. [↑](#footnote-ref-22)
23. See for example, *Submission by Shipping Australia Limited to the Competition Policy Review*, June 2014 and ‘*Toxic' behaviour threatens box lines' profitability*, Lloyds List Australia, 8 July 2015. [↑](#footnote-ref-23)
24. Asciano, *Presentation at Port Botany and Sydney Freight Terminal Site Tour*, 24 June 2015, p.8, <http://www.asx.com.au/asxpdf/20150624/pdf/42zcl6cqpmhzqt.pdf>. [↑](#footnote-ref-24)
25. International Container Terminal Services, *ICTSI brings innovation and greater competition to Australian Ports*, media release, 2 May 2014, http://www.ictsi.com/media-center/our-releases/2014/05/ictsi-brings-innovation-and-greater-competition-to-australian-ports. [↑](#footnote-ref-25)
26. Although the ACCC understands there may be some manual intervention from a control tower at the point of loading or unloading the containers on trucks. [↑](#footnote-ref-26)
27. White A, *Rise of the robots a lift for Patrick*, The Australian, 18 June 2015. [↑](#footnote-ref-27)
28. DP World website: <http://www.dpworldaustralia.com.au/what-we-do/our-services/>, accessed 29 July 2015. [↑](#footnote-ref-28)
29. Wiggins J, *DP World plots efficiency through automation*, Australian Financial Review, 25 February 2015. [↑](#footnote-ref-29)
30. Hardstand is a hard-surfaced paved area that can be used for container storage. [↑](#footnote-ref-30)
31. Hutchison reported that in December 2014 a quay crane was damaged by a vessel, which, reduced the Brisbane terminal’s handling capacity and restricted access to Berth 12 wharf. The damaged quay crane has been propped-up and stabilised, and plans are being made to have the quay crane removed for repairs. [↑](#footnote-ref-31)
32. Smith S, *Heat on for Freo container trade*, The West Australian, 28 January 2015. [↑](#footnote-ref-32)
33. Source for national and electricity, gas, water and waste services productivity is Australia Bureau of Statistics, *Estimates of Industry Multifactor Productivity, Australia*, cat no, 5260.0.55.002, released 5 December 2014 (most recent). The ABS measures productivity using multifactor productivity on a quality adjusted hours worked basis. This measures the efficiency with which combined labour and capital inputs are transformed into outputs. As this is a different measure to that used for container stevedoring (refer chapter 2), comparisons between the two measures are can only be considered indicative of trends. [↑](#footnote-ref-33)
34. Australian Energy Regulator, *Electricity distribution network service providers: Annual benchmarking report*, November 2014, pp.29-30, <https://www.aer.gov.au/system/files/2014%20Annual%20distribution%20benchmarking%20report%20-%20November%202014_0.pdf>. [↑](#footnote-ref-34)
35. DP World Australia, *Year in Review 2014 by MD and CEO Paul Scurrah,* <http://www.dpworldaustralia.com.au/news-and-media/latest-news/year-in-review-2014/>, accessed 21 September 2015. [↑](#footnote-ref-35)
36. DP World and SCT Group, *DP World Australia, SCT Logistics join forces for regional Victorian rail service*, media release, 19 May 2015. [↑](#footnote-ref-36)
37. DP World and Toll, *Toll Group and DP World Australia in talks to set up new Joint Venture*, media release, 28 July 2015. [↑](#footnote-ref-37)
38. DP World Australia, *Year in Review 2014 by MD and CEO Paul Scurrah,* <http://www.dpworldaustralia.com.au/news-and-media/latest-news/year-in-review-2014/>, accessed 21 September 2015. [↑](#footnote-ref-38)
39. Section 50 prohibits mergers or acquisitions that would have the effect, or be likely to have the effect, of substantially lessening competition in a market in Australia. [↑](#footnote-ref-39)
40. Loussikian K, *Asciano confirms guidance but profit growth cut by storms*, The Australian, 9 May 2015; Probert O, *Asciano confirms port sale plans*, Lloyds List Australia, 23 July 2015. [↑](#footnote-ref-40)
41. Loussikian K, *Asciano confirms guidance but profit growth cut by storms*, The Australian, 9 May 2015. [↑](#footnote-ref-41)
42. Asciano, *Asciano confirms receipt of proposal and granting of due diligence*, media release, 1 July 2015. [↑](#footnote-ref-42)
43. Brookfield Infrastructure Partners L.P., <http://www.brookfieldinfrastructure.com/content/operations/transport-40805.html>, accessed 11 August 2015. [↑](#footnote-ref-43)
44. For example, section 45 of Part IV of the CCA prohibits contracts, arrangements or understandings from having provisions that have the purpose, or would have or be likely to have the effect, of substantially lessening competition in a market. In addition, section 46 prohibits the use of a substantial degree of power in a market for a proscribed purpose, such as the purpose of eliminating or substantially damaging a competitor or to prevent a business from entering into a market. [↑](#footnote-ref-44)
45. This was also covered in *Container stevedoring monitoring report* 2013–14, pp. 5-6. [↑](#footnote-ref-45)
46. Fremantle Ports, *Invitation for expressions of interest to develop and operate the international container terminals located at North Quay*, 6 October 2014, <http://www.fremantleports.com.au/Planning/Pages/North-Quay-container-terminals.aspx>, accessed 2 July 2015. [↑](#footnote-ref-46)
47. Premier of NSW, *New DP World lease at Port Botany secures jobs*, media release, 8 July 2009; Forum 2015, report on speech by John Mullen, Managing Director and CEO Asciano, in Future Freight Networks, Australian Logistics Council Yearbook 2015, p.52. [↑](#footnote-ref-47)
48. Port of Melbourne Corporation, *Invitation of Expression of Interest: Development and provision of services for the international container terminal and empty container park at Webb Dock, Melbourne*, October 2012, p.28. [↑](#footnote-ref-48)
49. “National contracting” is when a shipping line uses the same stevedore at all Australian ports. [↑](#footnote-ref-49)
50. Subcontracting sometimes occurs if a stevedore’s terminal is unable to service scheduled shipping lines, for reasons including planned shutdowns, equipment malfunctions, technology glitches, congestion, adverse weather or industrial unrest. [↑](#footnote-ref-50)
51. Hutchison, *Hutchison Ports Australia Submission the Competition Policy Review*, 26 June 2014. [↑](#footnote-ref-51)
52. Stevens M, *Hutchison runs up the white flag*, Australian Financial Review, 30 June 2015. [↑](#footnote-ref-52)
53. Wilson J, *’Ham-fisted’ Hutchison reveals Australia failure*, Lloyds List Australia, 30 June 2015 ;Stevens M, *Hutchison runs up the white flag*, Australian Financial Review, 30 June 2015; and Gilfillan G, *Bringing in a third stevedore – a port perspective*, Lloyds List Australia, 10 July 2015. [↑](#footnote-ref-53)
54. For more information see *Container stevedoring monitoring report* 2013–14, pp.4-5. [↑](#footnote-ref-54)
55. Shaw D, *John Lines slams Patrick for “totally unsatisfactory” performance*, Lloyd’s List Australia, 4 May 2015. [↑](#footnote-ref-55)
56. Under the *Ports and Maritime Administration Act 1995* (NSW), the Port of Newcastle is required publish information on charges, give advance notice of changes to charges including a rationale for any increases, and provide an annual report to the Minister each year with specified information on charges and revenue. [↑](#footnote-ref-56)
57. <http://www.portofnewcastle.com.au/Resources/Documents/PON-Annual-Trade-Report-2014-FINAL.pdf>. [↑](#footnote-ref-57)
58. NSW Government, *Budget Statement 2014-2015: Budget Paper No.2*, 17 June 2014. [↑](#footnote-ref-58)
59. <http://www.portofnewcastle.com.au/Resources/Documents/PON-Annual-Trade-Report-2014-FINAL.pdf> [↑](#footnote-ref-59)
60. In the year to 30 June 2014, the weighted average coal ship was 58,000 GT and had 92,500 tonnes of coal on board. [↑](#footnote-ref-60)
61. See letter from Port of Newcastle to Anthony Pitt, Glencore dated 19 December 2014, available at: <http://ncc.gov.au/images/uploads/Glencore,_Annexure_A_(Synergies_report),_1_September_2015_(PDF,_717_KB).pdf> [↑](#footnote-ref-61)
62. Keen L and Potter B, *Port of Melbourne sale kicks off despite rent row*, *Australian Financial Review*, 27 May 2015. [↑](#footnote-ref-62)
63. For example, Rolfe P and Toy M, *Full steam ahead for our new port at Hastings*, *Sunday Herald Sun*, 16 October 2011. [↑](#footnote-ref-63)
64. AFR, *Second NSW container terminal is Port Kembla*, 27 July 2011; State of New South Wales, *Draft* *NSW Freight and Ports Strategy*, 2012, p. 98. [↑](#footnote-ref-64)
65. WA Planning Commission, *Outer Harbour Project Information Sheet*, February 2004, <http://www.planning.wa.gov.au/dop_pub_pdf/Fremantle_Ports.pdf>, accessed 4 August 2015; WA Environmental Protection Authority, *Fremantle Ports Outer Harbour Project - Advice to the Minister for the Environment* , Bulletin 1230, September 2006, <http://www.epa.wa.gov.au/EPADocLib/2323_B1230.pdf>, accessed 4 August 2015. [↑](#footnote-ref-65)
66. Fremantle Ports, *2014 Annual Report*, p.28. [↑](#footnote-ref-66)
67. The ACCC notes a distinction between this monitoring report on the competitive dynamics of the container stevedoring industry and price monitoring activities which involve a port operator simply publishing and/or providing notice of price increases. [↑](#footnote-ref-67)
68. See 4(c) (7) of the Council of Australian Governments’ (COAG) Competition Principles Agreement at <https://www.coag.gov.au/node/52>. The Competition Principles Agreement covered: oversight of government business enterprises; competitive neutrality; structural reform of public monopolies; legislation review; access to services provided by means of significant infrastructure facilities; application of the principles to local government; and the operation of the National Competition Council. [↑](#footnote-ref-68)
69. These are the provision of channels, common user berths, certain bulk handling facilities operated by Viterra, berths adjacent to bulk handling facilities, land providing access to maritime services, and the Outer Harbor bulk loader at Port Adelaide (operated by Viterra), as proclaimed by the Governor. [↑](#footnote-ref-69)
70. Under a negotiate-arbitrate model, a service provider and access seeker are free to commercially negotiate the terms and conditions of access to a service, but if they fail to reach agreement, a nominated third-party party can be called upon to arbitrate the dispute and make a determination. [↑](#footnote-ref-70)
71. Feil J, *Regulated Third Party Access to Infrastructure: A perspective on the Australian experience*, 15 June 2007, pp.8-9. [↑](#footnote-ref-71)
72. having regard to: (i) the size of the facility; or (ii) the importance of the facility to constitutional trade or commerce; or (iii) the importance of the facility to the national economy. [↑](#footnote-ref-72)
73. BITRE, *Containerised and non-containerised trade through Australian ports to 2032-33*, December 2014, pp.70-71, <http://www.bitre.gov.au/publications/2014/report_138.aspx>, accessed 7 July 2015. [↑](#footnote-ref-73)
74. Australian Logistics Council, *The Economic Significance of the Australian Logistics Industry*, report prepared by ACIL Allen, 2014, pp.i,3. [↑](#footnote-ref-74)
75. Productivity Commission, *International Benchmarking of the Australian Waterfront*, AusInfo, Canberra, April 1998, p.xi. [↑](#footnote-ref-75)
76. Independent Pricing and Regulatory Tribunal (IPART), *Final Report - Reforming Port Botany's links with inland transport - March 2008*, pp.3-4*.* [↑](#footnote-ref-76)
77. Infrastructure Australia, *Australian Infrastructure Audit: Our infrastructure challenges*, April 2015, pp.49-50. [↑](#footnote-ref-77)
78. NSW Ports website, http://www.nswportsbotany.com.au/projects-and-planning/ilc-at-enfield/, accessed 12 August 2015. [↑](#footnote-ref-78)
79. Joint media release by Moorebank Intermodal Company (MIC) and SIMTA, *Government approves MIC and SIMTA agreement to develop and operate Moorebank Intermodal Terminal*, 4 June 2015. [↑](#footnote-ref-79)
80. Australian Government, *Information Paper – Moorebank Intermodal Terminal Project*, October 2011, pp.8-9. [↑](#footnote-ref-80)
81. Asciano, *Pacific National doubles Sydney intermodal terminal capacity with new RMG cranes*, media release, 27 February 2015, http://asciano.com.au/news/articles/news/a/pacific-national-doubles-sydney-intermodal-terminal-capacity-with-new-rmg-cranes, accessed 12/8/15. [↑](#footnote-ref-81)
82. White A, *Ports boss quits as new tenant scales back*, The Australian, 7 August 2015, p.20. [↑](#footnote-ref-82)
83. DP World and Toll, *Toll Group and DP World Australia in talks to set up new Joint Venture*, media release, 28 July 2015. [↑](#footnote-ref-83)
84. The Hon Warren Truss MP, *Speech to Shipping Australia*, 20 May 2015, <http://minister.infrastructure.gov.au/wt/speeches/2015/wts007_2015.aspx>, accessed 9 July 2015. [↑](#footnote-ref-84)
85. The Hon Warren Truss MP, *Shipping Legislation Amendment Bill 2015 - Second Reading*, 25 June 2015. [↑](#footnote-ref-85)
86. Shipping Australia, *New life for coastal shipping – reversing the rot*, media release, 21 May 2015, <https://shippingaustralia.com.au/new-life-for-coastal-shipping-reversing-the-rot/>, accessed 9 July 2015. [↑](#footnote-ref-86)
87. For example, see Martin Parkinson (Secretary of Treasury), *Fiscal sustainability & living standards — the decade ahead*, Speech to the Sydney Institute, Sydney, 2 April 2014. [↑](#footnote-ref-87)
88. Infrastructure Australia, *Australian Infrastructure Audit: Our infrastructure challenges*, April 2015, p.42. Infrastructure Australia noted that “Australians expect the nation’s infrastructure to sustain and improve current living standards and quality of life” (p.16). [↑](#footnote-ref-88)
89. Infrastructure Australia, *Australian Infrastructure Audit: Our infrastructure challenges*, April 2015, p.52. [↑](#footnote-ref-89)
90. Productivity Commission, *PC Productivity Update*, July 2015, p.34. [↑](#footnote-ref-90)
91. Productivity Commission, *Public Infrastructure – Inquiry Report*, 14 July 2014, p.75. [↑](#footnote-ref-91)
92. Premier of Victoria 2015, *Building Better Infrastructure For Jobs And Growth*, media release, 3 September 2015. [↑](#footnote-ref-92)
93. Shanghai International Port(Group) Co. Ltd, <http://www.portshanghai.com.cn/en/channel1/channel11.html> (accessed 9/10/2015). [↑](#footnote-ref-93)
94. The net crane rate is measured by dividing total number of containers or TEUs handled by the elapsed crane time. The elapsed crane time is the crane time allocated by the stevedores. It is computed as the total allocated crane hours less operational and non-operational delays. See BITRE, *Waterline*, issue no. 56, p.21 for further information. [↑](#footnote-ref-94)
95. The elapsed labour rate is computed as the number of containers handled divided by the elapsed labour time. The elapsed labour time is the elapsed time between labour first boarding the ship and labour last leaving the ship, less any time when the labour has not worked for whatever reasons including non-operational delays. See BITRE, *Waterline*, issue no. 56, p.22 for further information. [↑](#footnote-ref-95)
96. The ship rate is calculated by multiplying the net crane rate by crane intensity. Crane intensity is defined as the total number of allocated crane hours divided by the elapsed time from labour first boarding the ship to labour last leaving the ship. See BITRE *Waterline* publications. [↑](#footnote-ref-96)
97. Changarathil V, *Big lift in crane drivers’ training*, Adelaide Advertiser, 14 July 2015, p.32. [↑](#footnote-ref-97)
98. Smith S, *Heat on for Freo container trade*, The West Australian, 28 January 2015. [↑](#footnote-ref-98)
99. The term ‘other or ancillary activities’ refers to all activities other than the container stevedoring activity, including activities such as break-bulk, berth hire, container storage and reposition, penalties, and services provided to the Australian Customs and Border Protection Service as part of the container examination facilities program. [↑](#footnote-ref-99)
100. ACS, *Annual report 2013-*14, p.198. The ACCC understands that the first ACS CEF began in November 2002. A published breakdown of the number of TEUs examined by the ACS through the CEF system is publicly available from its annual reports published from 2003–04 onwards. ACS annual reports can be downloaded from [www.border.gov.au](http://www.border.gov.au). At the time the ACCC finalised this monitoring report, the ACS annual report for 2014–15 was not publicly available. [↑](#footnote-ref-100)
101. ACCC calculation based on Asciano’s *Full Year Report* for the year ended 30 June 2015, pp.44,59. [↑](#footnote-ref-101)
102. Other costs are not shown separately in table C.1 in appendix C, but are included in the total cost index and also in industry-wide data presented in figures 3.5 and 3.6. [↑](#footnote-ref-102)
103. DP World Australia’s accounting practices are such that, while revenues are broken down on the basis of container-specific activity at its terminals, costs are not. Therefore, DP World Australia’s general cost data relates to stevedoring and other activities at its respective terminals. [↑](#footnote-ref-103)
104. Other costs are not shown separately in table C.2 in appendix C, but are included in the total cost index and also in industry-wide data presented in figures 3.5 and 3.6. [↑](#footnote-ref-104)
105. Other costs are not shown separately in table C.3 in appendix C, but are included in the total cost index and also in industry-wide data presented in figures 3.5 and 3.6. [↑](#footnote-ref-105)
106. In Australia, the Port of Adelaide is the only port at which the port manager has an ownership interest in the container stevedoring business—Flinders Adelaide Container Terminal Pty Ltd. This container stevedoring business is wholly owned by Flinders Ports—the port operator of the Port of Adelaide. Previously this business was owned under a joint venture between Flinders Ports and DP World Australia. [↑](#footnote-ref-106)
107. Patrick Terminals and Logistics is a division of Asciano Ltd. [↑](#footnote-ref-107)
108. In January 2011, Citi Infrastructure and DP World Australia entered into a strategic partnership in which Citi holds a 75 per cent interest in DP World’s Australian container terminal operations. [↑](#footnote-ref-108)
109. Hutchison covers Brisbane Container Terminals Pty Ltd and Sydney International Container Terminals Pty Ltd. Hutchison is a member of the Hutchison Port Holdings Group. [↑](#footnote-ref-109)
110. Previously, DP World Adelaide supplied stevedoring services, under a joint venture arrangement between DP World and Flinders Ports. However, in July 2012, Flinders Ports announced that it had acquired DP World’s 60 per cent share of the business and became sole owner. Three years prior, Flinders Ports had acquired a 40 per cent stake in the business. [↑](#footnote-ref-110)
111. BITRE, *Waterline*, forthcoming publication no. 57. [↑](#footnote-ref-111)
112. Sunk costs represent the investment made by firm which cannot be recovered. The level of sunk costs influences a decision a firm makes about whether to enter (or expand in) a market. [↑](#footnote-ref-112)
113. Productivity Commission, *Work arrangements in container stevedoring*, 1998, p.140. [↑](#footnote-ref-113)
114. [↑](#footnote-ref-114)
115. “K” Line Australia Pty. Ltd., *Important Notice to “K” Line Container Trade Customers To / From Fremantle*, 1 January 2014. [↑](#footnote-ref-115)
116. Shaw D, *John Lines slams Patrick for “totally unsatisfactory” performance*, Lloyd’s List Australia, 4 May 2015. [↑](#footnote-ref-116)
117. Between 2011–12 and 2014–15, the ACCC’s monitoring program recorded no container stevedoring activity in Burnie because the sole stevedore at the port, Patrick, advised the ACCC that it had closed its operations in May 2011. [↑](#footnote-ref-117)
118. The ACCC is provided with information to enable separate calculations of revenue per TEU on both 20-foot and 40-foot containers. [↑](#footnote-ref-118)
119. In 1990, the Prices Surveillance Authority conducted a public inquiry into charges by the stevedoring and container depot industries. [↑](#footnote-ref-119)