Port Privatisation in Australia

The Shipping Industry Perspective on Port Privatisation

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The shipping industry perspective on port privatisation

- About Shipping Australia Limited
- What are ports for? What do shipping companies want from ports?
- Advantages of privatised ports
- Advantages of government owned ports
- How competitive are Australia' ports?
- The risks of port privatisation – some examples of e examples.
- A quick look at Melbourne port privatisation
- Some conclusions

Shipping Australia Limited – who we are

- A peak national industry body comprising 36 shipping lines and shipping agents and 50 corporate associate members
- Shipping lines/agents involved with over 70% of Australia's container trade and car trade and over 60% of the bulk and break-bulk trade
- Our members employ around 3,000 staff in 250 offices in 41 Australian ports
- Provide towage and cruise ships
- SAL publishes an industry magazine and free electronic newsletter *eSignal*

Shipping Australia Limited – full members

APL Lines (Australia)
A.P. Moller-Maersk A/S
Asiaworld Shipping Services Pty Ltd
Austral Asia Line Pte Ltd
BBC Chartering Australia Pty Ltd
CMA CGM
Evergreen Marine Australia Pty Ltd
Five Star Shipping & Agency Co Pty Ltd
Gulf Agency Company (Australia) Pty Ltd
Hamburg Sud Australia Pty Ltd
Hapag-Lloyd Australia Pty Ltd
Inchcape Shipping Services
“K” Line (Australia) Pty Ltd
LBH Australia Pty Ltd
Mediterranean Shipping Co (Aust) Pty Ltd
Mitsui OSK Lines (Australia) Pty Ltd
Monson Agencies Australia Pty Ltd
Neptune Pacific Line
NYK Line (Australia) Pty Ltd
OOCL (Australia) Pty Ltd
Pacific Asia Express Pty Ltd
Seaway Agencies Pty Ltd
Ship Agency Services Pty Ltd
Smit Lamnalco Australia Pty Ltd
Svitzer Australia Pty Ltd
The China Navigation Company Pte Ltd
Wallenius Wilhelmsen Logistics
Wilhelmsen Ships Service

Shipping Australia Limited – what we do

We monitor and engage in many areas of direct interest to our members:

- Infrastructure
- Shipping trade innovation
- Environment
- Maritime security/piracy
- Industrial relations
- Regulation
- Costs, charges, levies, gst
- Border agencies

We help members comply with rules and regulations,

We help governments develop better shipping related policies

What are ports for?

The role of a port:

To support trade by facilitating the efficient movement of cargo across the land sea interface at internationally competitive costs

Ports are the gateways for trade

- Australia has the fourth largest international sea-freight task in the world measured in tonnes per kilometre carried
- 4875 cargo ships made 32,405 calls at 79 Australian ports
- 2011-12 we imported $186 billion of products and exported $236 billion by sea
  - Much of this is due to bulk cargo
  - Two largest coal ports in the world – Newcastle and Hay Pt
  - Largest Iron Ore port – Port Hedland
  - Only 2 container ports in the top 100
    - Melb 58 (2.49m), Syd 66 (2.15m) [Adel (0.28m)]

What do shipping companies want from ports?

- Capacity to accept all ships sizes now and meet future plans
- Safe access, navigation services – at internationally competitive costs
- No waiting for channels or berths
- No tidal restrictions for arrivals and departures
- Sufficient tugs and pilots
- Secure berths and safe working arrangements
- Timely service by Border Agencies -Customs, Biosecurity Immig.
- Facilities for all relevant cargo types and ship types, cargo lay down areas
- Good road / rail connections

What do shipping companies want from ports? (continued)

- 24/7 operations
- Suitable security
- Access for provisioning, fresh water and fuelling
- Proximity to city / import markets
- Proximity or access to exports

Advantages of private ports

- Leaner operations, more agile and less bureaucratic
- More innovative
- Able to access commercial fund sources to invest in facilities
- Able to sweat the assets more efficiently
- Customer focussed

The above **should** lead to better service provision

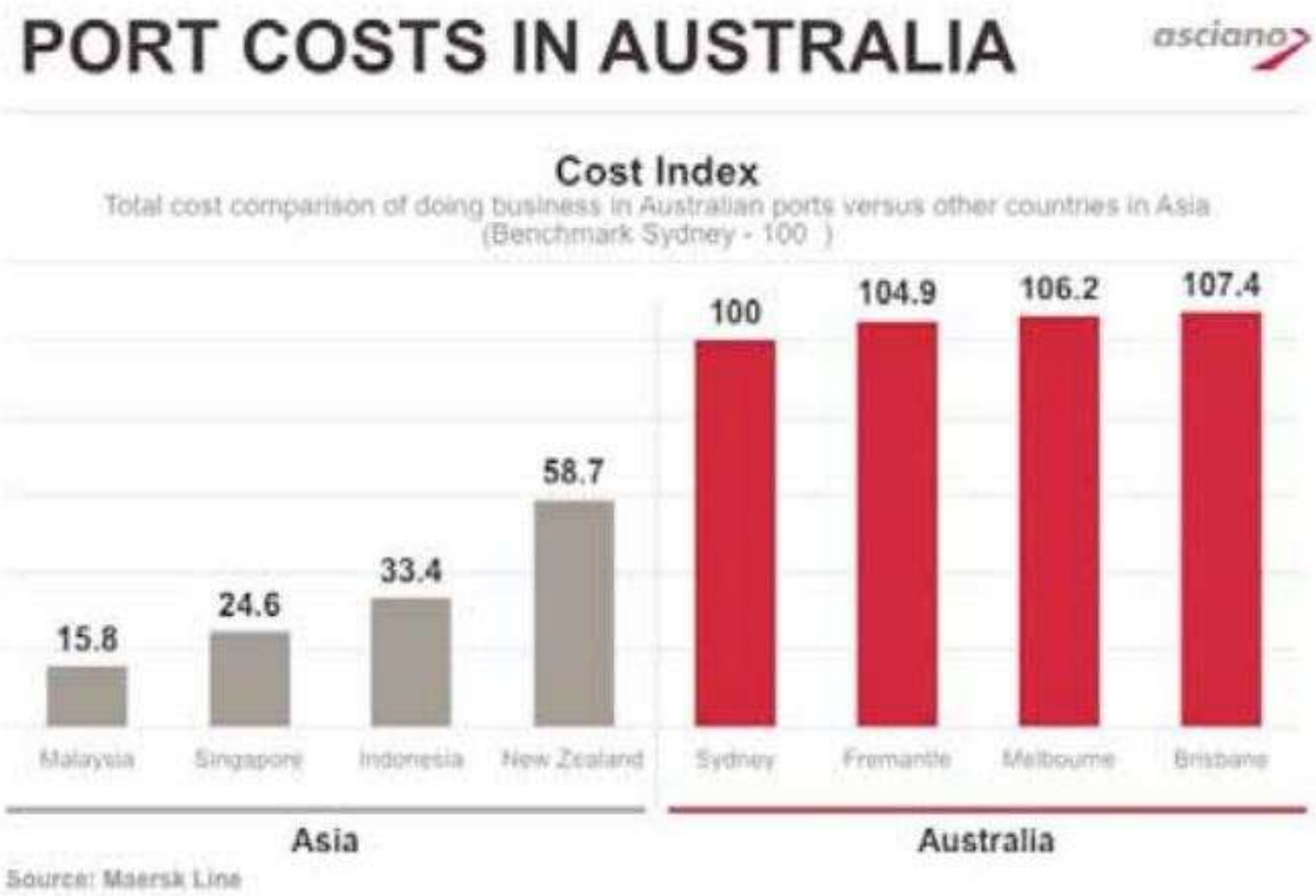
lower overheads and lower costs!

Advantages of Government owned ports

- Not driven by profit motive of return to shareholders
- Does not need to gain it's return on investment from the port operations alone – can achieve a broader based return to the state across the whole logistics value chain through increased trade
- Deep pockets and can absorb or ride out a downturn in trade
- More able to coordinate alignment of port development with developments in road and rail linkages

How competitive are Australia's container ports ?

Are our container ports competitive?



Are our container ports competitive with NZ ?

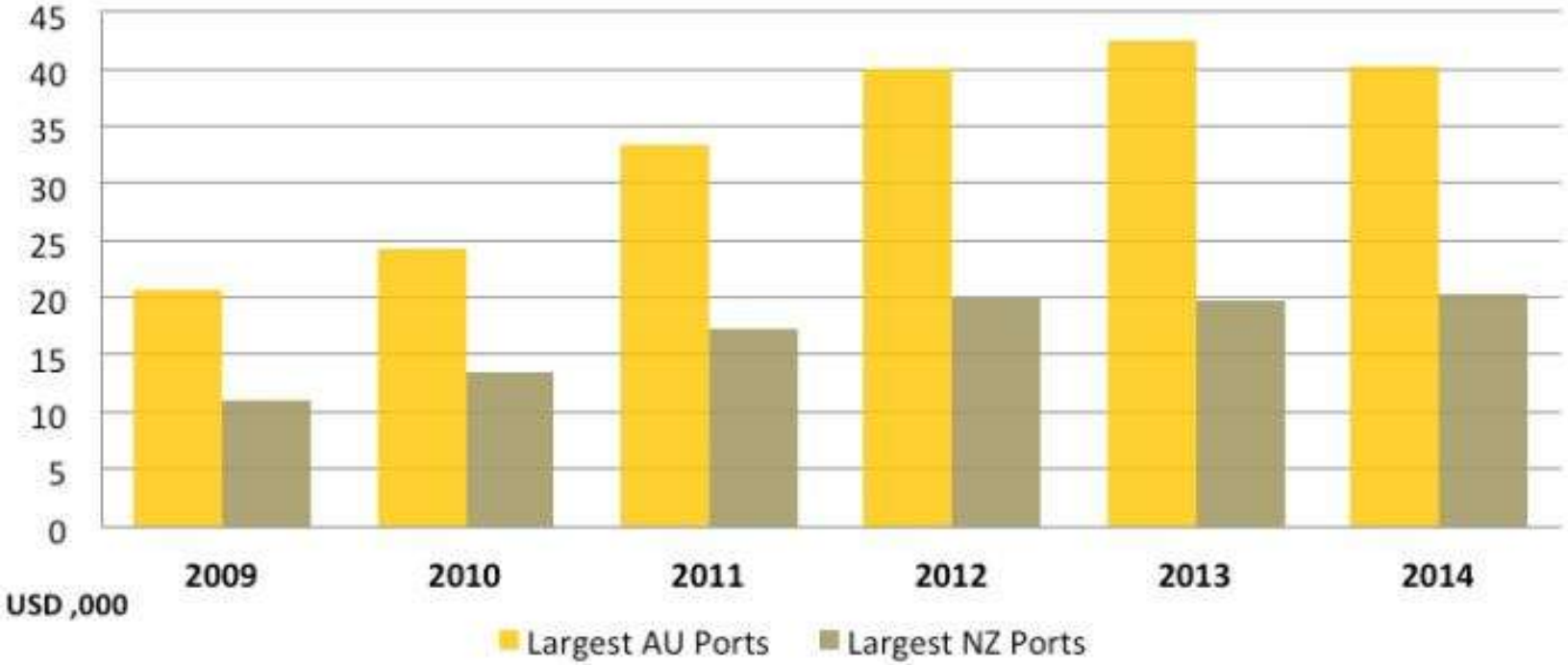


Figure 4: Average ship-based costs per call for container ports in Sydney and Melbourne v Auckland and Tauranga

Key problem - natural monopolies and market power

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

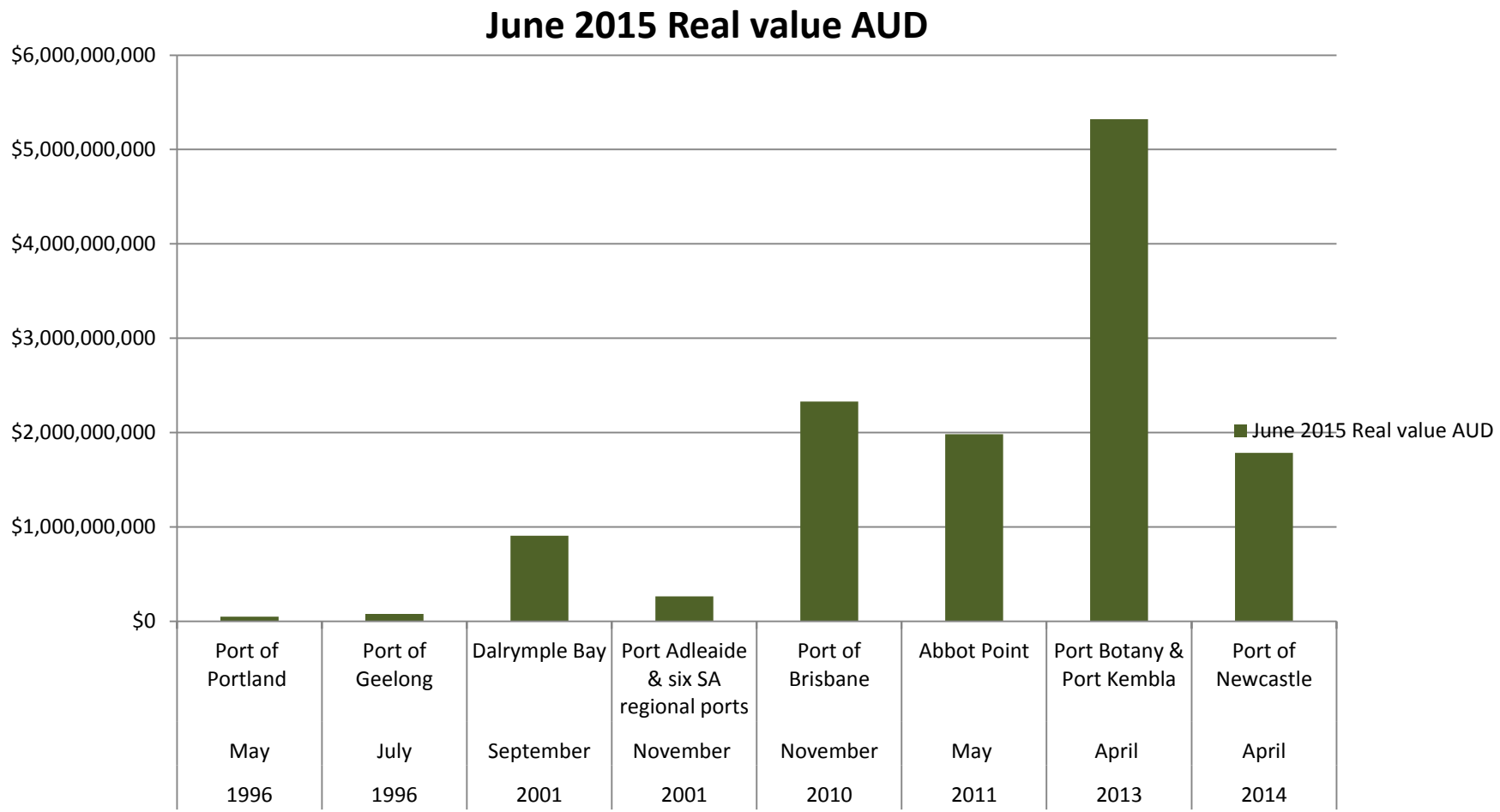
- separation distances of nearly 1000 kilometres (or more)
- limited landside connection networks between (road and rail)
- no regional competition for containers or car trade

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

Ship Based: Navigation/channels, security, berth hire,
Cargo Based: wharfage, berth access, berth hire
Second order charges – port land and terminal rents

Shipping companies have no power to influence these charges

Port Sale Price Comparison



Throughputs		
Port of Portland	5.3 Mt	2012/13
Port of Geelong	13.6 Mt bulk.	2013/14:
Flinders	19.1 Mt bulk + 296,526 TEU (approx. 4.5Mt)	2014
Port of Brisbane	37 Mt	2012/13
Dalrymple Bay	85 Mtpa	
Abbott Point	50 Mtpa	
Newcastle	113 Mtpa	

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

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

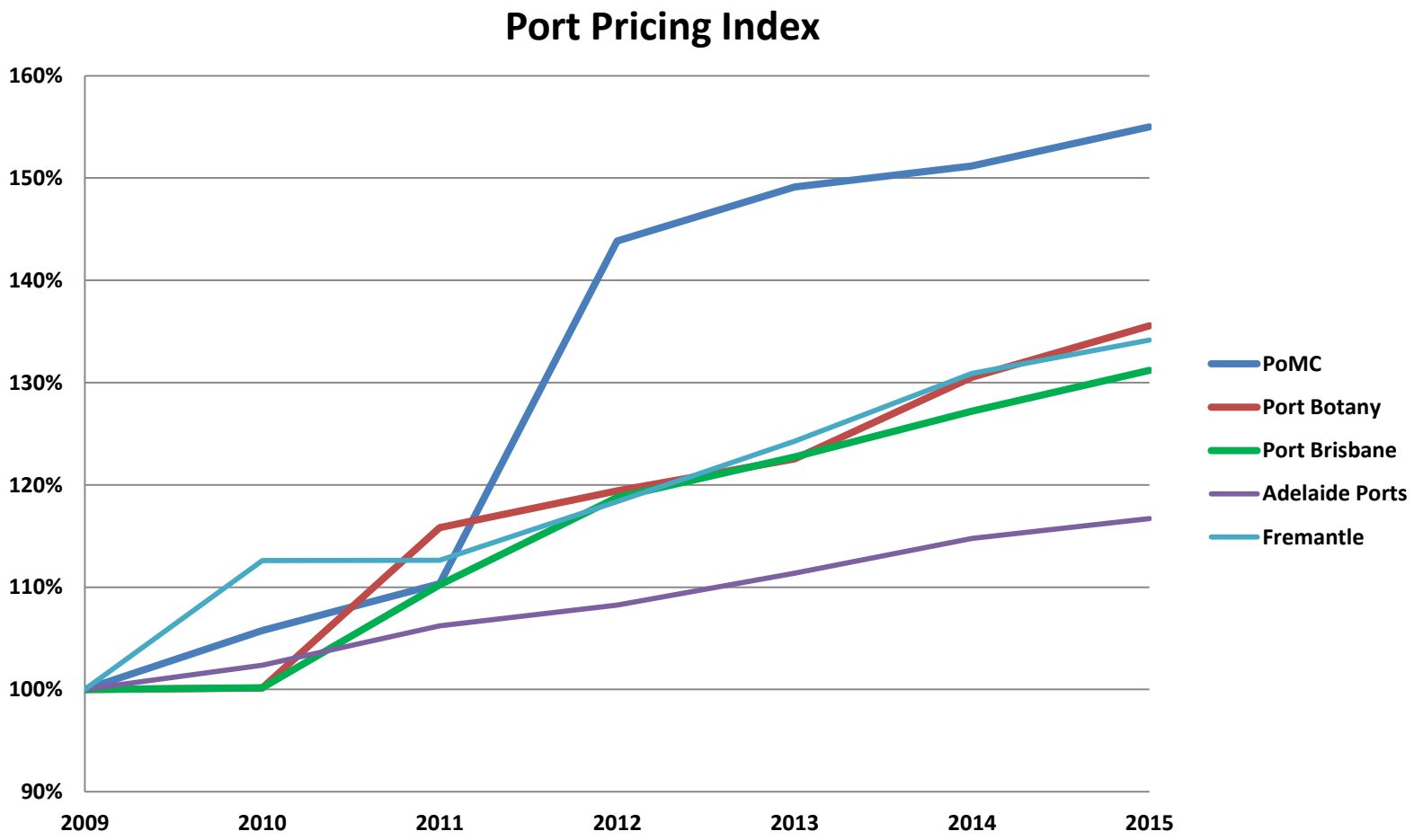
	Brisbane	Sydney	Melbourne	Adelaide	Fremantle	Total
Full imports	479.8	1,064.0	**1,134.6**	127.0	329.9	3,135.3
Full exports	335.4	442.9	**864.1**	141.5	174.5	1,958.4
Empties	254.7	619.5	**514.2**	70.5	165.8	1,624.7
Total	1,069.9	2,126.4	**2,512.9**	339.0	670.2	6,718.4

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

The risks of privatisation – where shipping has seen the hurt

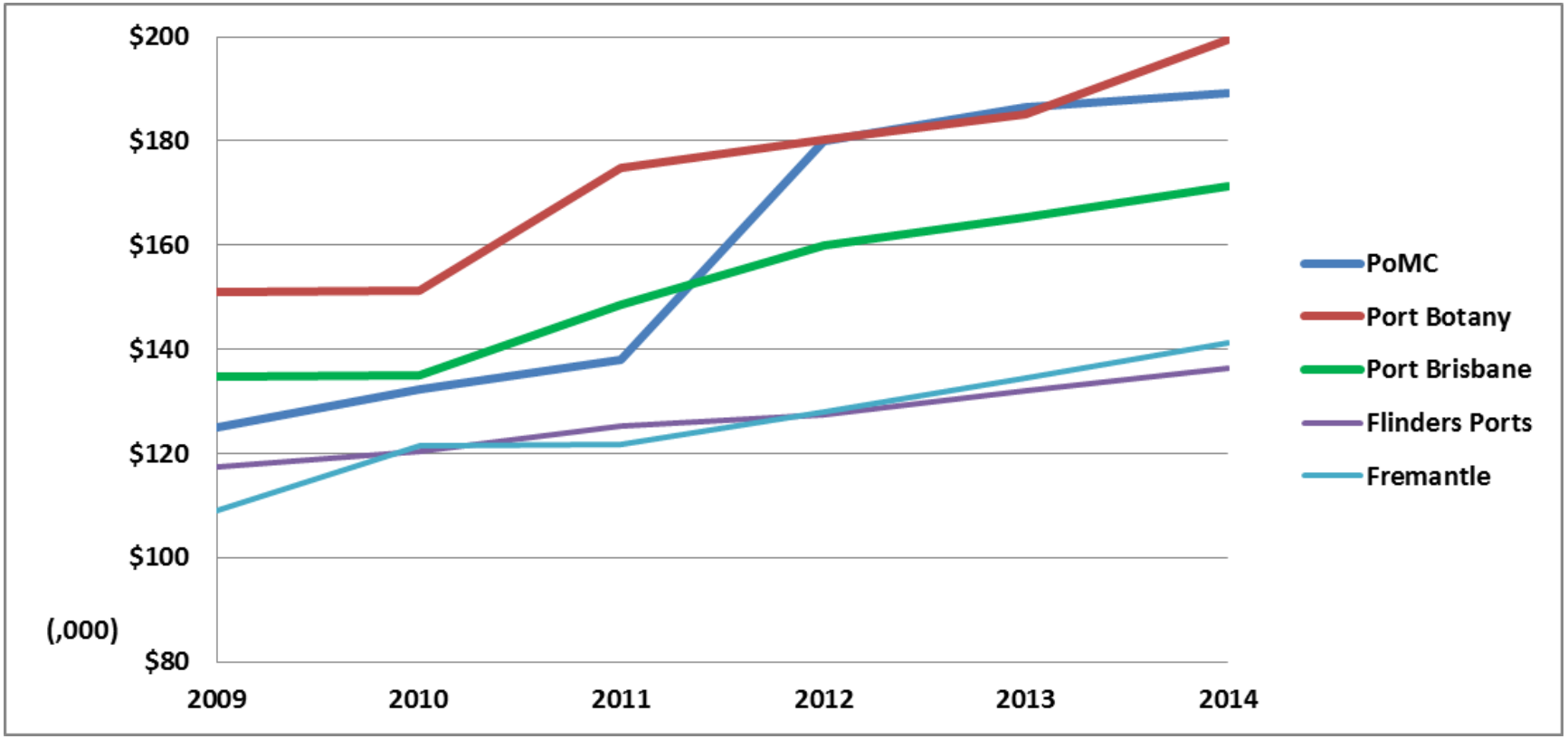
- Many ports are geographical monopolies
- Governments may act ahead of privatisation to maximise sale price or guarantee future revenue stream which forces up future prices (see graph)
  - Brisbane land valuations
  - Melbourne Port Licence Fee (PLF)
  - Botany Port Logistics Charge
  - Package sale of Port Botany and Port Kembla
  - Lock out competition by compensation requirement

Port charges increase index



Port visit costs

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



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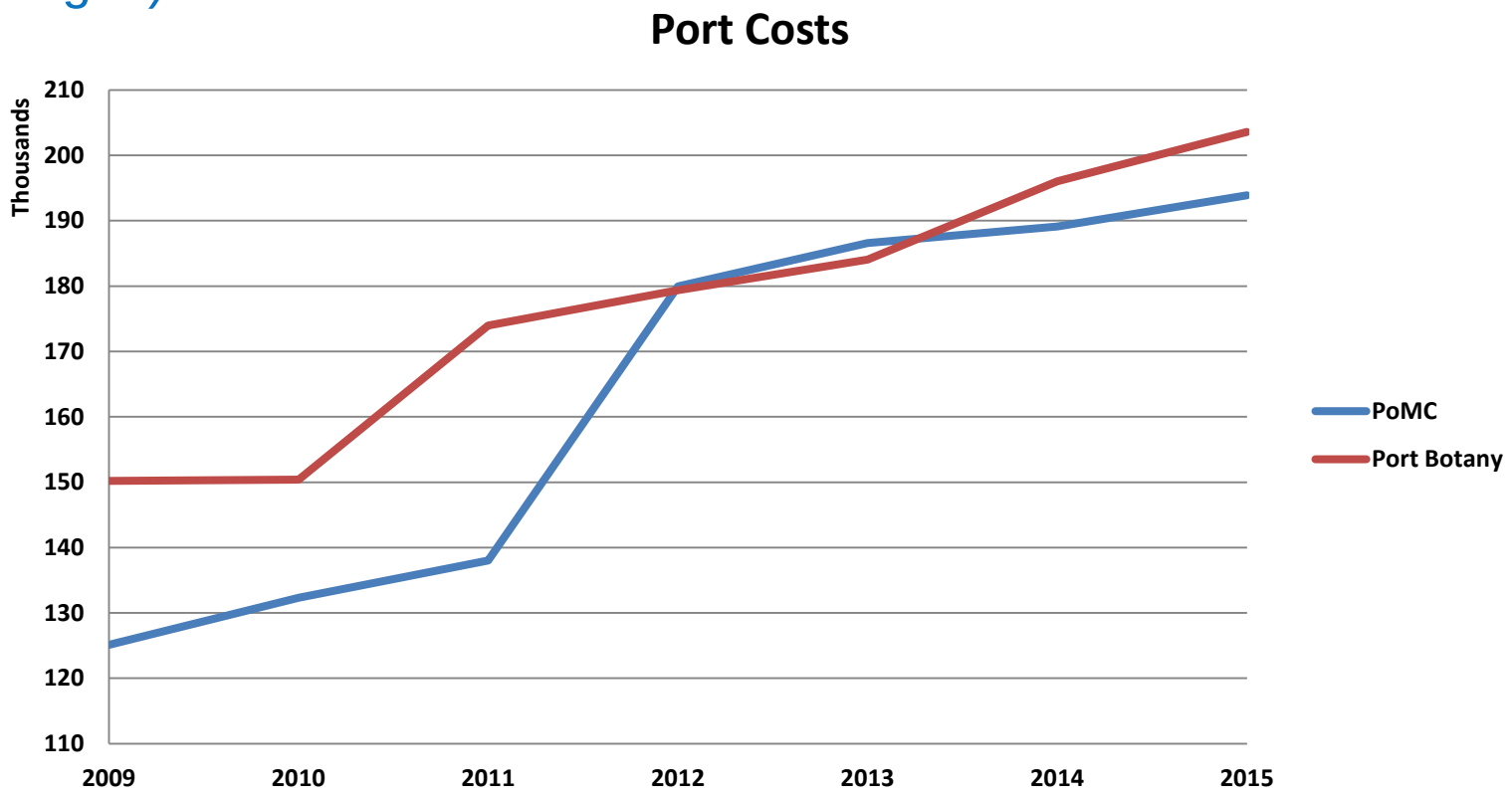


The risks of privatisation – where shipping has seen the hurt (continued)

- Vertical Integration
  - Port owner may decide to compete with other tenants – e.g.Flinders Logistics – bulk sand exports
- Residual government services may be non-viable
  - NSW Port Authority – 9.6% navigation charge increase
- Lack of suitable price control regime may allow monopolistic price increases
  - Newcastle navigation charges increased 60.8% within months of privatisation (+$22.5M)
  - Even regulated monopolies can increase prices unreasonably when trade volumes fall (e.g AAT Bris. +9%)

The risks of privatisation – where shipping has seen the hurt (continued)

- Innovative new charges that are not regulated may be imposed
  - Port Kembla Bluescope berths - new site occupancy and wharfage (+$250k per visit for one customer)

A quick look at Melbourne port privatisation

- PLF introduced in 2012 paved the way for privatisation and a continuing post privatisation revenue stream
- This year's port rent fiasco indicates intent to maximise port sale price
- Option for any Government to extend lease without review,
- Lack of transparency on details:
  - Compensation regime may discourage development of future port in time to meet need
  - Port capacity before compensation kicks in,
  - Strength and scope of price monitoring or controls
- Intent to bring forward 50 years of PLF is effectively an unsanctioned $4bn loan to the Government – will cost Victorians

Review - What are ports for?

The role of a port (according to shipping companies) :

To support trade by facilitating the efficient movement of cargo across the land sea interface at internationally competitive costs

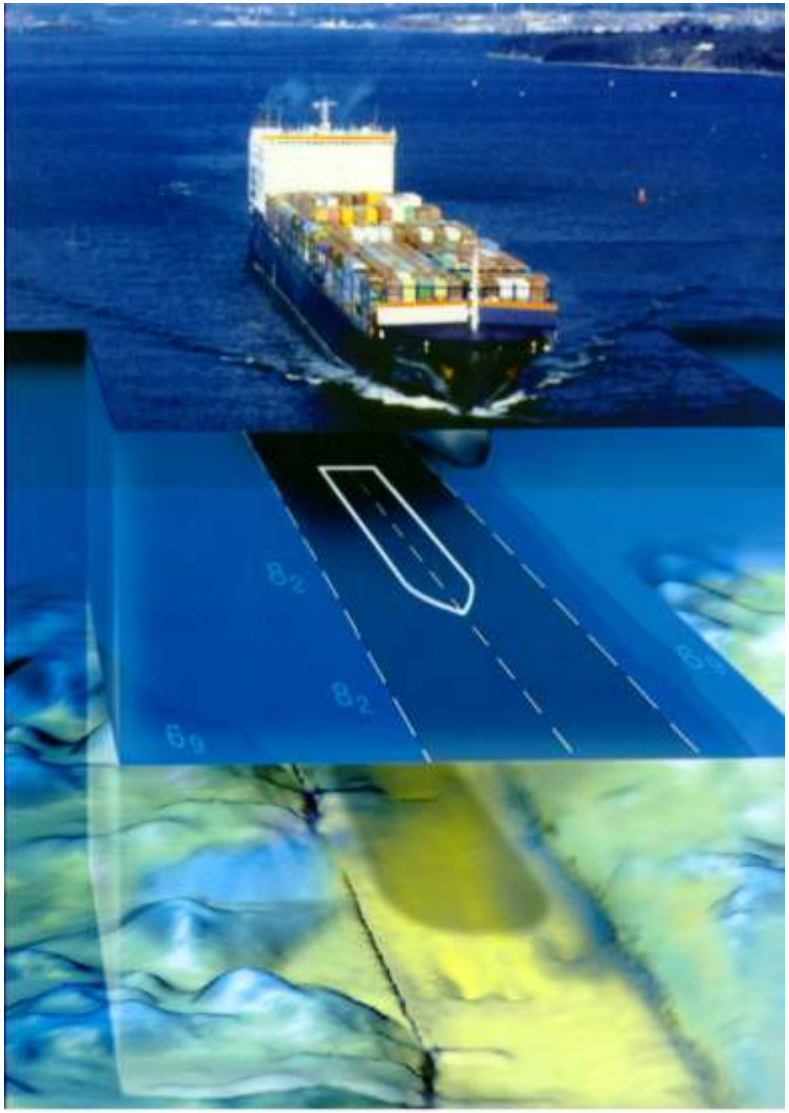
How does this function sit with:

Government owned ports ?
Aims of private ports ?

Conclusion

- Shipping Australia is not philosophically opposed to port privatisation but, particularly in the recent container port privatisations, our members have suffered from them.
- Governments will sell their souls for maximum revenue now.
- Our capital city container ports are geographical monopolies and this has been further entrenched in NSW through the bundle sale and compensation rules.
- Port rents charged to tenants (such as terminals) are passed on through services and contribute to the overall cost of the port
- Monopolies result in unreasonable price increases and need very specific price monitoring/controls,
- The purpose of a port “to facilitate trade at competitive cost” does not align well with a private monopoly port aiming to maximise returns to shareholders.

Questions?



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