



Container stevedoring

Monitoring report no. 9

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Glossary

ACCC	Australian Competition and Consumer Commission
ACS	Australian Customs Service
BTRE	Bureau of Transport and Regional Economics
CPI	consumer price index
DP World	DP World Australia Limited
DP World Adelaide	DP World Adelaide Pty Ltd
DTRS	Department of Transport and Regional Services
GDP	gross domestic product
IPART	Independent Pricing and Regulatory Tribunal of New South Wales
LLDCN	Lloyd's List Daily Commercial News
MIFCO	Maritime Industry Finance Company
MUA	Maritime Union of Australia
P&O	P&O Ports Ltd
Patrick	Patrick the Australian Stevedore
PC	Productivity Commission
PoBC	Port of Brisbane Corporation
PoMC	Port of Melbourne Corporation
PSA	The <i>Prices Surveillance Act 1983</i>
SPC	Sydney Ports Corporation
TEU	Twenty-foot equivalent unit
VBS	vehicle booking system

Summary

The ACCC's container stevedoring monitoring program is undertaken under a direction from the Treasurer under Part VIIA of the *Trade Practices Act 1974* to monitor prices, costs and profits of container terminal operator companies at the ports of Adelaide, Brisbane, Burnie, Fremantle, Melbourne and Sydney. This is the ninth report prepared by the ACCC.

Key findings for 2006–07

Productivity levels increased.

Unit total revenue and unit total costs decreased.

Unit margins increased.

Returns on assets (excluding the effects of changes in corporate ownership) have increased.

The industry's asset base has continued to expand for the third consecutive year which is expected to result in higher levels of terminal capacity.

Two distinct pathways to capacity expansion have emerged. One involves capacity expansion through existing terminals and the other involves capacity building by a third terminal. Each pathway is likely to deliver substantially different outcomes in terms of industry structure and the degree of competition. Decisions taken today about future directions of port growth should include consideration of the benefits arising from competition 'for' and 'in' the market for stevedoring services.

Efficiency in land-side access arrangements is receiving greater public attention. Responses to land-side problems that involve cooperation and coordination among industry players can, in certain circumstances, be authorised under the Trade Practices Act. Parties should consult with the ACCC early and prior to implementation to address any potential trade practices concerns that may arise.

The results of the ACCC's monitoring program for 2006–07 show that:

- some measures show that productivity levels have increased
- volume growth rose substantially with throughput, measured in terms of twenty-foot equivalent units (TEUs), increasing by 14.2 per cent, following modest growth of 2.6 per cent in 2005–06. Much larger container volumes are being handled at the monitored terminals compared with throughput levels of the late 1990s, with the number of TEUs having more than doubled since 1998–99
- unit total revenue and unit stevedoring revenue earned on 20-foot and 40-foot containers fell for the first time since the beginning of the decade; in real terms, unit total revenues are now 28.3 per cent lower than in 1998–99

- unit revenue for storage services decreased markedly in 2006–07, both in absolute terms and per unit, reversing a trend since monitoring began in 1998–99
- for the first time since 2002–03, unit costs decreased in 2006–07, largely as a result of the cessation of the stevedoring levy; in real terms, unit costs are now 39.0 per cent lower than in 1998–99
- average assets in the industry (excluding the effect of changes in corporate ownership) increased by 13.2 per cent in 2006–07; this represents the third material expansion of the asset base in as many years
- unit margins increased for the second consecutive year, following strong growth in 2005–06; real unit margins in 2006–07 were 49.5 per cent higher than in 1998–99
- adjusted¹ rates of return on assets increased slightly in 2006–07 and remain at high levels; this is in contrast to much lower levels of profitability reported by the stevedoring industry during the period prior to waterfront reform

The ability of the incumbent stevedores to maintain average unit revenue levels despite an overall reduction in unit costs during a period of significant capacity expansion continues to raise questions about the intensity of competition that currently exists in the market for stevedoring services and, in particular, the incentives of the incumbents to compete on the basis of lower prices. Current industry approaches to expanding port capacity could potentially provide opportunities, to varying degrees, for greater competition ‘in’ the market for stevedoring services.

In this regard, the report finds the following:

- Decisions made today by some port managers in relation to new entry are likely to be significant in shaping the future direction of the Australian stevedoring industry, not only for tomorrow but for decades to come.
- Two distinct pathways to capacity expansion have emerged which have the potential to lead to substantially different outcomes in terms of the future structure of the stevedoring industry and, in turn, the degree of competition ‘in’ the market for stevedoring services. Opportunities for competition ‘in’ the market are all the more significant given that port managers tend not to invite competitors to bid for the leases that incumbents hold at the end of the term.
- Land-side efficiency continues to be a major challenge for most, if not all port managers. A number of state governments and port managers are directing more attention to land-side access issues. Responses to land-side problems that involve cooperation and coordination among industry players can, in certain circumstances, be authorised under the Trade Practices Act. Parties should consult with the ACCC early and prior to implementation to address any potential trade practices concerns that may arise.

¹ The value of average assets for the three stevedores for 2006–07 exclude the effect of changes in the corporate ownership arising from the acquisition of Patrick by Toll Holdings and the subsequent purchase of the terminal infrastructure assets by Asciano Limited during that period. See section 3.4 for more details.

1 Introduction

This is the Australian Competition and Consumer Commission's (ACCC's) ninth container stevedoring monitoring report. It presents the results of the ACCC's monitoring of the industry for the 12 months from July 2006 to June 2007.

1.1 Background

On 20 January 1999 the Federal Treasurer directed the ACCC under s. 27A of the *Prices Surveillance Act 1983* to monitor prices, costs and profits of container terminal operator companies at the ports of Adelaide, Brisbane, Burnie, Fremantle, Melbourne and Sydney. A copy of the ministerial instrument is in appendix E. The Prices Surveillance Act (PSA) has since been repealed, with the prices surveillance provisions now contained in Part VIIA of the *Trade Practices Act 1974*. The Federal Treasurer's direction under the former s. 27A of the PSA is now deemed as a direction under s. 95ZF of the Trade Practices Act.² Previously, the Prices Surveillance Authority monitored stevedoring prices and costs from March 1991 to November 1995. Relevant sections of Part VIIA are reproduced in appendix F.

The ACCC's monitoring program provides information to the government and wider community about the progress of reform in Australia's stevedoring industry. This report assesses significant issues including the impact of payment of the stevedoring levy by the stevedores from March 1999 to its cessation at the end of May 2006.³

In the late 1990s, as part of its waterfront 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 to repay funds made available through a wholly Commonwealth Government-owned company, the Maritime Industry Finance Company (MIFCO), which was set up on 8 April 1998. The two stevedores at that time, known as Patrick and P&O Ports, agreed to absorb the full cost of the levy.

The levy came into effect in February 1999 and was paid at a rate of \$12 per container and \$6 per car, imported and exported. The funds from the levy were remitted monthly to the Department of Transport and Regional Services, the first payment was made on 14 March 1999. On 26 May 2006, the Federal Minister for Transport and Regional Services announced that the stevedoring levy was to cease at the end of that month.⁴

² See s. 51 of the *Trade Practices Legislation Amendment Act 2003*.

³ For the Treasurer's press release of 22 January 1999 and discussion of the ACCC's role, see 'Rural and Regional Affairs and Transport Legislative Committee: Stevedoring Levy (Collection) Amendment Bill, 1999', *Hansard*, 27 August 1999, pp. 42–5.

⁴ Media release, Minister for Transport and Regional Services, *Stevedoring levy ends this month*, 26 May 2006.

The minister also indicated that a \$1.5 million surplus in levy collections would be returned to the stevedoring industry.⁵

1.2 Description of methodology

The ACCC's role, set out in the ministerial directive (see appendix E), is to monitor data on prices, costs and profits at container terminals operating in Adelaide, Brisbane, Burnie, Melbourne, Perth and Sydney. The ACCC does not collect data on actual prices charged for stevedoring services as these are negotiated between stevedores and users. Instead, unit revenues are used as indicators of average stevedoring charges.

Individual company data has been aggregated to obtain national average revenue, cost and margins, expressed on a per unit basis. Units are expressed in terms of the size of the container boxes. There are typically two container sizes, 20-foot (one twenty-foot equivalent unit, or one TEU) and 40-foot (two TEUs). The latter are growing as a proportion of total containers. Average revenue measured in terms of TEUs is lower than that measured in terms of containers.

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 to 40-foot containers may contribute to a lowering of broad measures of average stevedoring revenue expressed per TEU.

The ACCC has been provided with information to enable separate calculations of revenue per TEU on both 20-foot and 40-foot containers.

The data on revenue and costs is provided for total terminal activities and for the 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, each terminal also conducts some break-bulk work and provides other ancillary services related to the lifting of containers, such as storing and maintaining containers.

The former Prices Surveillance Authority conducted the initial monitoring work 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.

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 Authority's reports.

⁵ *ibid.*

The ACCC's analysis of industry profits includes a rate of return measure. This report uses earnings before interest and tax (EBIT) on the average value (of opening and closing balances) of assets and is a useful measure of the stevedoring industry's operating performance. For the 2006–07 period, it has been necessary for the ACCC to adjust the asset values as reported by Patrick to maintain consistency with prior years (see section 3.4).

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

These terminals are:

- DP World⁶ and Patrick⁷ at Swanson Dock, Melbourne
- DP World and Patrick at Fisherman Islands, Brisbane
- Patrick and DP World at Port Botany, Sydney
- DP World and Patrick, Fremantle
- DP World Adelaide, Adelaide
- Patrick, Burnie.

Some terminals were not included in the analysis because a substantial proportion of their revenue comes from non-container cargoes:

- Patrick's terminals at Darling Harbour in Sydney and Webb Dock in Melbourne
- DP World's terminal at White Bay, Sydney.⁸

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

⁶ On 9 March 2006 DP World publicly announced that it had completed its acquisition of P&O Ports.

⁷ On 3 July 2006 Toll Holdings announced to the Australian Stock Exchange that it held 100 per cent of all equity securities in Patrick. From 15 June 2007 Toll was restructured and Patrick is now 100 per cent owned by Asciano Limited. The port infrastructure operations owned by Asciano currently trade using the Patrick name.

⁸ For the 2006–07 and future monitoring programs, the ACCC does not require DP World to supply monitoring data to the ACCC on White Bay. This is because DP World has advised that this facility has been closed for several years and DP World have been sharing the Patrick facility at Darling Harbour.

1.3 Report outline

Section 2 of the report presents a brief overview of the main findings of the monitoring program for 2006–07. Section 3 sets out a detailed analysis of the results of monitoring during 2006–07. The key issues that arise from the 2006–07 monitoring program are discussed in section 4. Selected industry and company data are presented in appendixes A, B and C. A brief description of the main characteristics of the industry is presented in appendix D, while a copy of the ministerial directive is at appendix E. Appendix F reproduces the relevant provisions of the Trade Practices Act.

2 Overview of main results for 2006–07

2.1 Introduction

This section presents a brief overview of the main results of the ACCC’s monitoring program for 2006–07.

2.2 Supply of stevedoring services

Providing stevedoring services entails lifting container boxes onto and off ships. Increasingly, however, stevedoring companies are earning revenue from other services such as storage, maintenance and repositioning of containers. Stevedores also provide services that facilitate the movement of containers from the wharves to road and rail transport links.

2.2.1 Structural arrangements

Two of the ports covered by the 2006–07 monitoring program, Adelaide and Burnie, were supplied by sole stevedores: DP World Adelaide in Adelaide and Patrick in Burnie. At all other ports in the monitoring program, stevedoring services were supplied by a duopoly consisting of Patrick and DP World. Market shares held by these two companies vary over time, but generally seem to fluctuate between 45 and 55 per cent at each port.

A key characteristic of Australia’s shipping trade is that there is no single point of entry for ships servicing Australia and container throughput is shared across several ports separated by long distances.

2.2.2 Size and characteristics of market

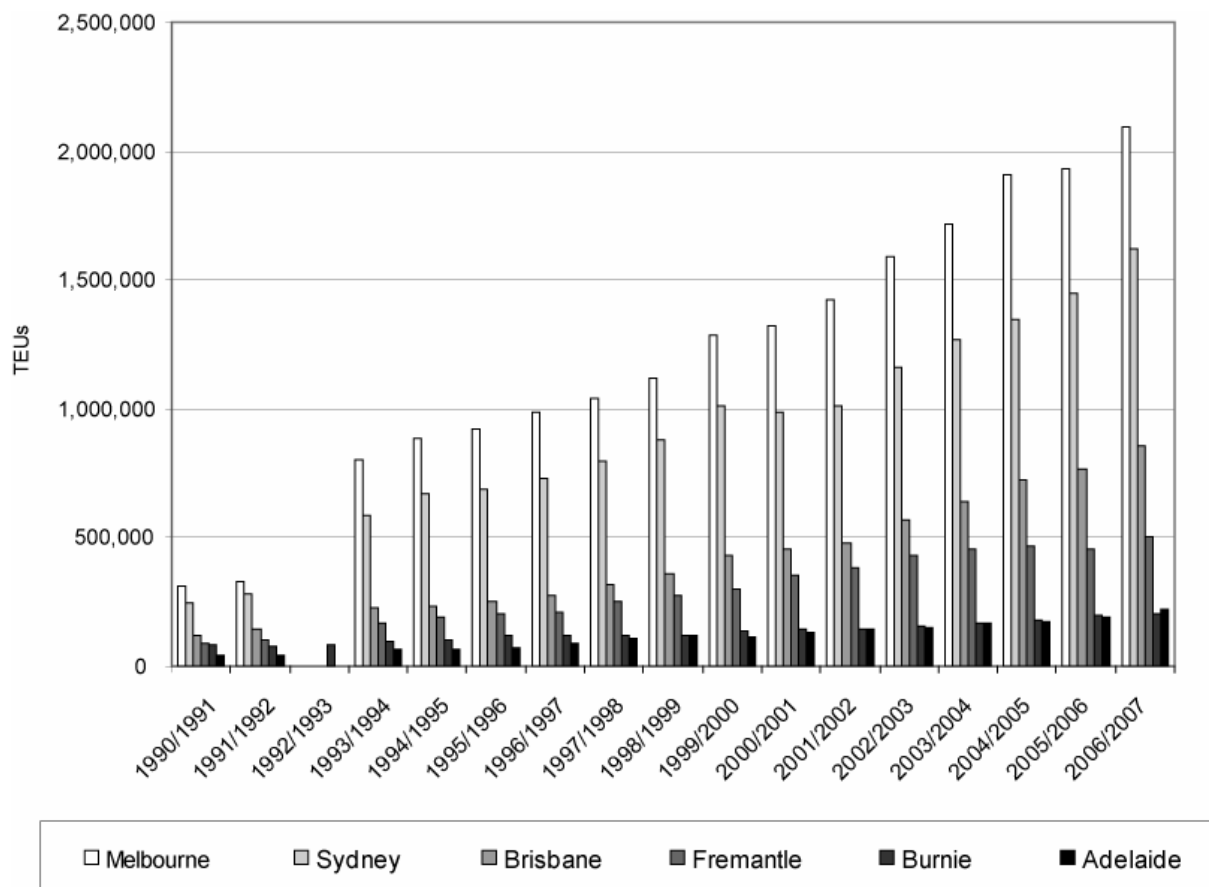
According to data collected by the Bureau of Transport and Regional Economics (BTRE), total throughput at Australian container ports in 2006–07 was 5.5 million TEUs⁹, which is low by international standards and reflects the ‘thinness’ of Australian shipping trades.

⁹ BTRE, *Waterline*, forthcoming publication no. 43, table 10. This total also includes TEU data in relation to the Port of Burnie which is supplied to the ACCC by TasPorts.

Trends in containerised throughput

Figure 2-i shows trends in total containerised throughput.

Figure 2-i Container throughput at designated ports, 1991–2007



Source: BTRE, *Waterline*, forthcoming publication no. 43, TasPorts (Port of Burnie)
 Note: Data in BTRE publication, *Waterline*, includes international and domestic cargo.

The major points to note about trends in throughput in figure 2-i include:

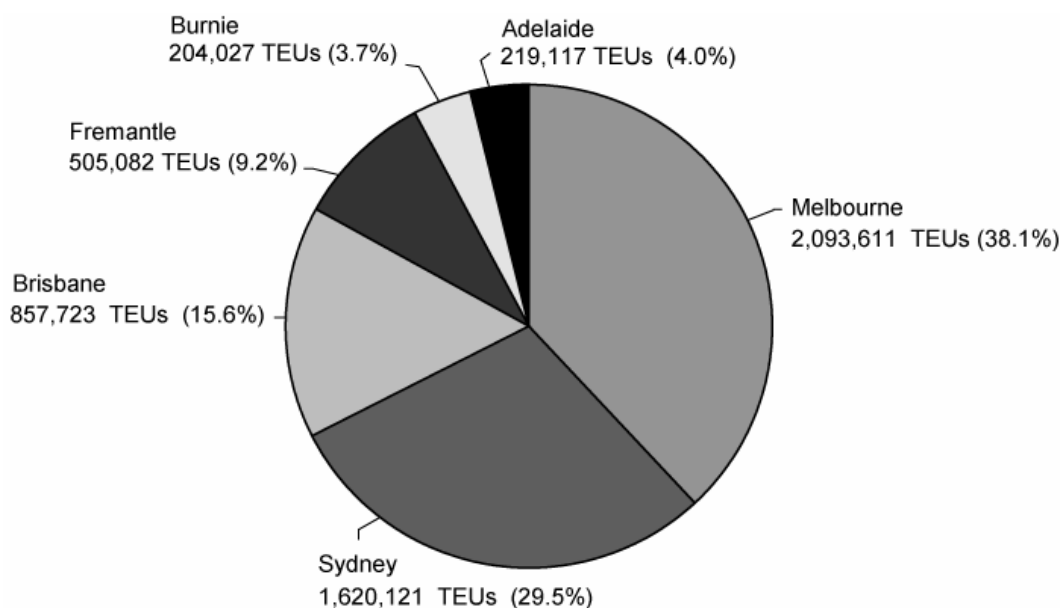
- Volumes at Australia’s major ports have grown strongly over the last few years; annual tonnages have increased from 2.4 million TEUs in 1998–99¹⁰ to 5.5 million TEUs in 2006–07 at an average compound growth rate of about 10.8 per cent per year.
- The largest increases in containerised throughput in 2006–07 occurred in the ports of Adelaide (+15.7 per cent), Sydney (+12.1 per cent) and Brisbane (+11.9 per cent).

¹⁰ Annualised based on 8-month data.

- Annual growth rates for all ports (except Burnie) were higher in 2006–07 than in 2005–06. Throughput levels in Burnie increased by 4.7 per cent in 2006–07 compared with 6.9 per cent in 2005–06.
- Throughput levels in Fremantle increased (+10.9 per cent) in 2006–07 following a decrease of 2.5 per cent in 2005–06.
- The port of Melbourne continues to be Australia’s largest container port, processing 38.1 per cent of total TEU tonnage handled at the nation’s major container ports.¹¹
 - Volumes in Melbourne grew by 8.5 per cent during 2006–07 following modest growth of 1 per cent in 2005–06. For the first time since monitoring began, container volumes in Melbourne exceeded 2 million TEUs in the 12 months to June 2007.
- Relative to 1998–99 Brisbane has increased its share of national volumes from 12.5 per cent to 15.6 per cent. Sydney has lost share from 30.6 per cent to 29.5 per cent and Melbourne’s share of national tonnage is slightly lower, falling from 39 per cent to 38.1 per cent.

Figure 2-ii shows details of volumes handled at Australia’s major ports in 2006–07.

Figure 2-ii Container throughput volumes and shares by port, 2006–07



Source: BTRE, *Waterline*, forthcoming publication no. 43, TasPorts (Port of Burnie).
 Note: Data in BTRE publication, *Waterline*, includes international and domestic cargo.

¹¹ Calculations relating to port shares of national volumes are based on national volumes for the six container ports included in the ACCC’s monitoring program.

Melbourne processed 2.1 million TEUs in the year to June 2007. By comparison, volumes in Singapore, the world's largest container port, were 24.8 million TEUs in 2006.¹² Australia's second largest port is Sydney which processed 1.6 million TEUs in 2006–07. Among the other ports monitored in 2006–07, volumes were shared among the ports of Brisbane (858 000 TEUs), Fremantle (505 000 TEUs), Adelaide (219 000 TEUs) and Burnie (204 000 TEUs).

2.3 Average revenue, costs and margins for all services

The ACCC uses unit total revenue as an indicator of average prices charged across a stevedore's entire business. The ACCC does not collect information on actual prices charged for stevedoring services as these are subject to negotiation between shipping lines and stevedores. Unit total revenue is total revenue expressed per TEU. Generally, reductions in unit revenue imply lower prices for services.

Data on unit total revenue and cost provide a measure for revenue and costs associated with stevedoring services (lifting of containers on and off ships) as well as other ancillary services.

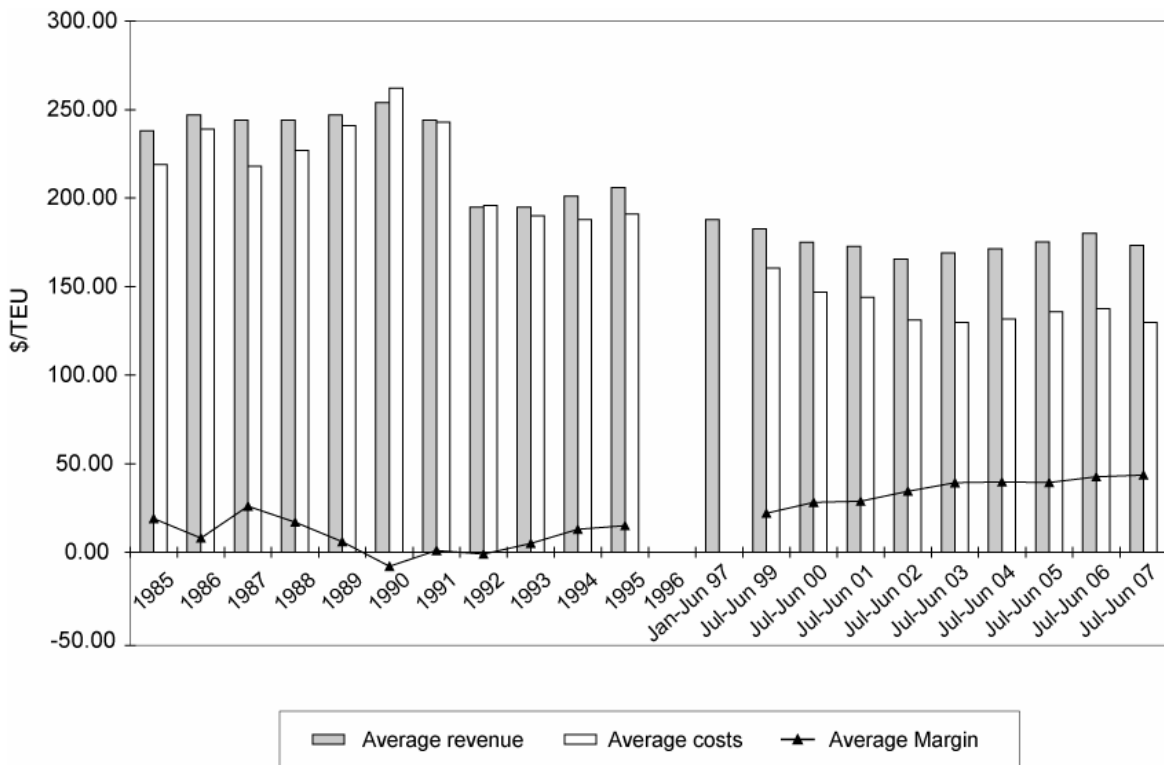
2.3.1 Nominal revenue, costs and margins

Between 1990 and 2002 the container stevedoring industry experienced a general trend of falling unit revenues and unit costs and rising unit margins. Costs fell because of the effects of substantial labour force reforms, improvements in other work place arrangements and investment in new technologies and higher utilisation levels. Unit revenues declined, but less proportionately than unit costs, and as a consequence margins rose steadily during that period. However, between June 2003 and June 2006 a different trend emerged whereby unit revenues and unit costs steadily increased. Unit margins were largely unchanged throughout most of this period, only rising in the 12 months to June 2006. In the most recent monitoring period up to June 2007, the previous trend of rising unit revenues and unit costs has discontinued in that unit costs and unit prices have both declined. However, unit margins have increased for the second consecutive year as a result of the fall in unit costs being proportionately greater than the fall in unit prices.

Figure 2-iii below illustrates trends in unit revenues and costs in the stevedoring industry since 1985. Detailed data on nominal unit total revenues, costs and margins are presented in table 1 in appendix B.

¹² See Maritime and Port Authority of Singapore at <http://www.mpa.gov.sg>.

Figure 2-iii Nominal unit total revenue, costs and margins, 1985–2007



Sources: *Monitoring of stevedoring costs and charges and terminal handling charges 1995*, Australian Competition and Consumer Commission, 1996. Figures for January to June 1997 are an estimate derived by the BTRE, *Waterline*. The stevedoring companies, as part of the monitoring program, supply figures for 1998–2007.

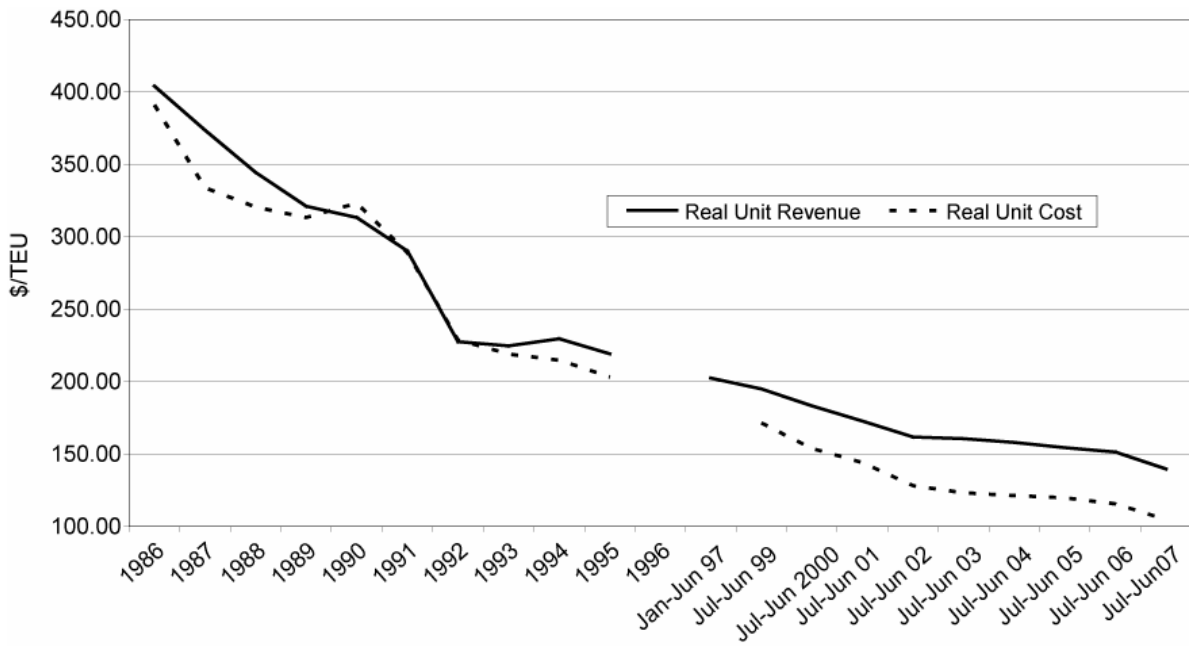
Important observations on nominal average revenues, costs and margins in 2006–07 include:

- unit total revenue decrease of 3.8 per cent to \$173.27/TEU; this is the first decrease in unit revenues since June 2002. A trend of falling unit revenues was observed between 1997 and 2002.
- unit costs decrease of 5.6 per cent to \$129.73/TEU; this follows three consecutive annual rises in unit costs. A consistent downward trend in unit costs was observed prior to June 2003.
- unit margins increase of 2.2 per cent to \$43.54/TEU. Unit margins are now at their highest recorded level since the beginning of the monitoring period.

2.3.2 Real revenues, costs and margins

Figure 2-iv shows the trend in unit costs and unit revenues in real terms between 1985 and 2006–07.

Figure 2-iv Real unit revenue and costs¹³, 1985–2007



Sources and notes: ACCC 1996, *Monitoring of stevedoring costs and charges and terminal handling charges 1995*. Figures for January to June 1997 are an estimate derived by the BTRE, *Waterline*. The stevedoring companies, as part of the monitoring program, supply figures for 1998–2007. ABS, G04, Other Price Indicators, Chain Price Index, Gross Domestic Product (available at www.abs.gov.au).

It shows that:

- real unit revenues decreased by 7.7 per cent in 2006–07, from \$151.31 in 2005–06 to \$139.74
- real unit costs decreased by 9.4 per cent, from \$115.52 in 2005–06 to \$104.62 in 2006–07
- the long-term downward trend in real unit total revenues and costs continued in 2006–07; unit total revenues are 28.3 per cent lower than in 1998–99 and real unit costs are 39.0 per cent lower
- real unit margins decreased marginally (by 1.87 per cent) in 2006–07 (\$0.68 in absolute terms) as the fall in real unit revenues in absolute terms was larger, than the fall in real unit costs; real unit margins in 2006–07 were 49.5 per cent higher than in 1998–99.

It should be noted that the GDP deflator, not the CPI, has been used to express nominal data in real terms. The GDP deflator has increased at a faster rate than the CPI in the last five years. From 2001–02 to 2006–07, the CPI has risen 14.5 per cent while the GDP deflator has risen 21.2 per cent.¹⁴

¹³ Expressed in terms of 2000–01 prices.

¹⁴ See ABS Cat No 6401.0, Consumer price Index, and G04, Other Price Indicators, Chain Price Index, Gross Domestic Product.

Additional detailed data on real unit revenues, costs and margins is presented in table 2 in appendix B.

2.4 Productivity

The measures of productivity in this report indicate that productivity has generally improved across the five major ports during 2006–07 following two years of falling productivity levels. Indicators of stevedoring productivity reflect a mix of labour and capital outputs. As such, recent investments by the stevedores in capacity expansion, including the replacement of older equipment, may be one contributing factor to higher productivity levels.

3 Detailed monitoring results for 2006–07

3.1 Introduction

This section presents more details on the monitoring results for 2006–07, including an assessment of revenues, costs, margins and productivity movements.

3.2 Revenues

Unit total revenue is a measure of average revenue earned from the complete range of services. Unit total revenue is defined as total revenue divided by total volumes and is therefore an average measure of unit revenues earned by all stevedores.

Unit stevedoring revenue is revenue from core stevedoring services, i.e. from lifting containers onto and from ships, and is an average measure of revenue earned on all containers. This report also presents data on **unit stevedoring revenue for 20 and 40-foot containers**.

Unit other revenue is total revenue earned from services other than stevedoring services divided by total volumes.

3.2.1 Sources of revenue

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

- revenue from the stevedoring function
- revenues from ‘other’ or ancillary activities¹⁵.

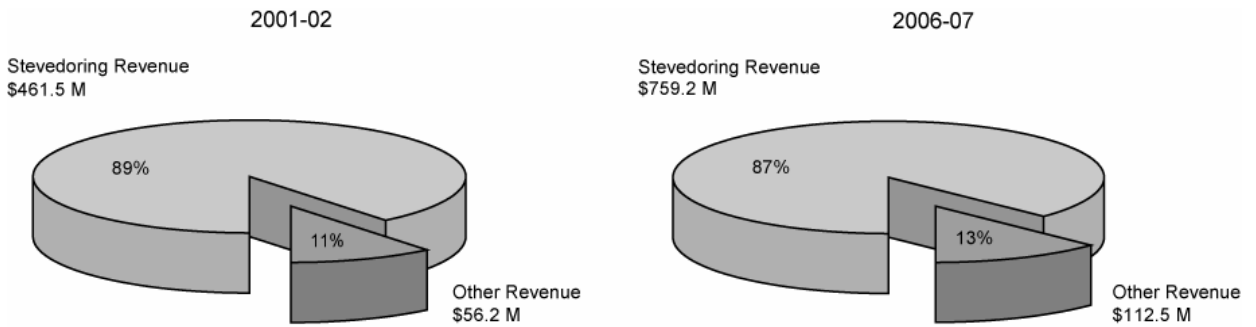
The key observations on revenue in the stevedoring industry in 2006–07 are that:

- **unit total revenue** decreased by 3.8 per cent in 2006–07 to \$173.27/TEU; unit revenues from stevedoring activities declined marginally, whilst substantial lower unit revenues were recorded for activities other than stevedoring
 - **unit revenue from stevedoring activities** was \$150.91/TEU in 2006–07, a decrease of 0.8 per cent on 2005–06 levels
 - **revenue earned from ‘other’ services** was \$22.36/TEU in 2006–07, which represents a fall of 20.0 per cent over 2005–06; in absolute terms revenue earned from ‘other’ services has returned to levels previously observed in 2004–05.

¹⁵ These activities are related to the container stevedoring function but are distinct from the process of lifting containers and attract separate fees by stevedores. In essence, the term ‘other’ refers to all activities other than the stevedoring activity, including activities such as break-bulk, berth hire, container storage and repositioning, penalties and services provided to the Australian Customs Service as parts of the customs examination facility program.

The decline in revenues from ‘other’ services in the 12 months to June 2007 is in contrast with the previous trend of growing revenues from non-stevedoring activities which has been evident since 2001–02. Notwithstanding this most recent decline, non-stevedoring services remain an important source of income for the stevedores. The significance of ‘other’ revenues is depicted in figure 3-i.

Figure 3-i Components of total revenue, 2001–02 and 2006–07

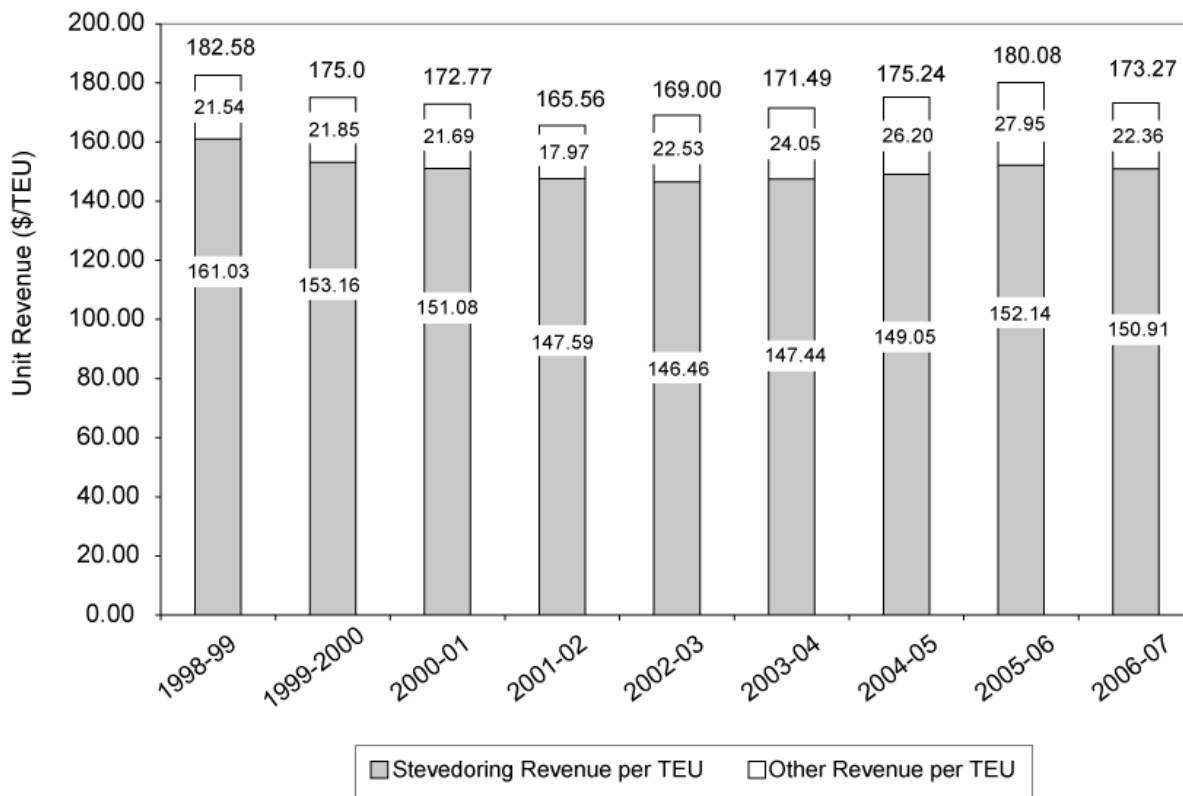


Source: Data supplied by stevedoring companies.

The charts in figure 3-i highlight the importance of ‘other’ activities as a source of revenue growth in recent years. Since 2001–02 revenues earned from activities other than stevedoring has doubled from \$56.2 million (11 per cent of total revenues) to \$112.5 million (13 per cent of total revenues) in 2006–07.

Figure 3-ii presents a schematic comparison of unit revenue earned on stevedoring and other services per TEU for the years 1998–99 to 2006–07.

Figure 3–ii Components of total revenue per TEU, 1998–99 to 2006–07



Source: Data supplied by stevedoring companies.

The figure shows that:

- per unit **total** revenue decreased from \$180.08 in 2005–06 to \$173.27 in 2006–07
 - per unit revenues from **stevedoring** activities declined marginally from \$152.14 in 2005–06 to \$150.91 in 2006–07
 - per unit revenues earned from ‘**other**’ activities decreased markedly in 2006–07 from \$27.95 in 2005–06 to \$22.36.

The decline in per unit revenues in 2006–07 represents the first decline since 2001–02 (2002–03 in the case of stevedoring revenues) and the first substantial overall decline since monitoring began.

3.2.2 Unit stevedoring revenue—by type of container

‘Unit stevedoring revenue’ 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’. For example, 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.¹⁶

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

Table 3-i shows data on unit stevedoring revenue for all containers and unit stevedoring revenues earned on 20-foot and 40-foot containers.

Table 3-i Unit stevedoring revenue by type of container, 20-foot and 40-foot containers

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	% change	
							2001-02 to 2006-07	2005-06 to 2006-07
Unit stevedoring revenue all containers (\$/TEU)	147.59	146.46	147.44	149.05	152.14	150.91	2.3	-0.8
Unit stevedoring revenue for 20-foot containers	194.33	196.92	201.13	206.71	213.09	213.10	9.7	0.01
Unit stevedoring revenue for 40-foot containers	99.75	101.02	103.31	105.74	108.51	108.38	8.7	-0.1
20-foot containers (TEUs)							29.2	11.1
40-foot containers (TEUs)							93.3	16.4

Source: Data supplied by stevedoring companies for all terminals except DP World's White Bay.

The salient points to emerge from table 3-i are as follows.

- Unit stevedoring revenues earned on 20 and 40-foot containers in 2006-07 were largely unchanged from 2005-06 levels, indicating no significant changes to stevedoring charges for either container size during the 12 months to June 2007.
- In average terms, however, unit stevedoring revenues earned on all containers decreased from \$152.14 in 2005-06 to \$150.91 in 2006-07. This is largely attributable to the relative increase in the use of 40-foot containers (+16.4 per cent) compared to 20-foot containers (+11.1 per cent) in the 12 months to June 2007 which, as previously explained, has a downward effect on average measures of revenue expressed in terms of TEUs during the period.
- Compared with 2001-02 the number of TEUs carried in 40-foot containers was 93.3 per cent greater in 2006-07 while the use of 20-foot containers increased by 29.2

¹⁶ This is because, everything else held constant, the quantity of TEUs increases with greater use of 40-foot containers. If the nominal charge for lifting a 20-foot container is the same as for a 40-foot container, it follows that from a stevedore's perspective, a proportionate increase in the use of 40-foot containers will result in lower average revenues. The ACCC understands that stevedoring tariffs typically include charges related to the discharge, loading or restowing of a container which are set on the basis of per container lift which do not differentiate on the basis of size of the container.

per cent. The data on relative use of 20 and 40-foot containers over the last five financial years continues to demonstrate that there has been a significant shift in usage patterns in recent years.

3.2.3 Other revenue—revenue from ancillary services

As noted, revenues categorised as ‘other’ revenues include berth hire, storage, container re-positioning, asset sales, vehicle booking systems and ‘other’ non-defined or unidentified activities.

Table 3-ii shows the contribution of ‘other’ revenue to the overall movements in unit total revenues between 2001–02 and 2006–07.

Table 3-ii Change in total, stevedoring and other revenue per TEU

	Change in revenue									
	2001–02 to 2002–03		2002–03 to 2003–04		2003–04 to 2004–05		2004–05 to 2005–06		2005–06 to 2006–07	
	(\$/TEU)	%	(\$/TEU)	%	(\$/TEU)	%	(\$/TEU)	%	(\$/TEU)	%
Stevedoring revenue per TEU	-1.13	-0.8	+0.97	+0.7	+1.61	+1.09	+3.09	+2.07	-1.22	-0.80
Other revenue per TEU	+4.56	+25.4	+1.52	+6.8	+2.14	+8.91	+1.75	+6.68	-5.59	-19.99
Total revenue per TEU	+3.43	+2.1	+2.49	+1.5	+3.75	+2.19	+4.84	+2.76	-6.81	-3.78

Source: Data supplied by stevedoring companies.

The trend in ‘other’ revenue is further highlighted in table 3-iii which shows ‘other’ revenue in absolute terms and per TEU terms between 2001–02 and 2006–07.

Table 3-iii Other revenue—total and per unit, 2001–02 to 2006–07

	2001–02	2002–03	2003–04	2004–05	2005–06	2006–07	% change	
							2001–02 to 2006–07	2005–06 to 2006–07
Other revenue								
Total (\$000)	56 199	81 641	94 704	112 540	123 152	112 476	+100.1	-8.7
Unit (\$/TEU)	17.97	22.53	24.05	26.20	27.95	22.36	+24.4	-20.0

Source: Data supplied by stevedoring companies.

The table shows that:

- Total revenue from ‘other’ activities decreased by 8.7 per cent in 2006–07 to \$112.5 million. In absolute terms, revenue earned from ‘other’ services returned to levels previously observed in 2004–05.

- On a per TEU basis, other revenue decreased by 20.0 per cent in 2006–07 to \$22.36/TEU.

Previous monitoring reports have noted the growing significance of sources of other revenues in recent years. Despite the decline in 2006–07, services other than stevedoring remain an important source of income for the stevedores. Since 2001–02, other revenue has doubled in absolute terms, and is nearly 25 per cent higher on a per TEU basis.

Storage revenue

An increasingly important component of ‘other’ revenues in recent years has been derived from container storage services. It is the practice of the stevedores to provide a free storage period. Storage fees are applied if containers are not collected from the terminals within the fee-free period.

Data in table 3-iv show the trend in storage revenue between 2001–02 and 2006–07.

Table 3-iv Storage revenue, total and per TEU

	2001–02	2002–03	2003–04	2004–05	2005–06	2006–07	% change	
							2001–02 to 2006–07	2005–06 to 2006–07
Storage revenue								
Total (\$000)	15 438	21 775	26 559	33 243	38 019	30 986	+100.7	-18.5
Unit (\$/TEU)	4.94	6.01	6.75	7.74	8.63	6.16	+24.8	-28.6

Source: Data supplied by stevedoring companies.

Total storage revenue was \$31 million in 2006–07, a decrease of 18.5 per cent over the previous 12 months. On a per TEU basis, storage revenue decreased by 28.6 per cent from \$8.63 in 2005–06 to \$6.16 in 2006–07.

Reasons cited by the stevedores for this recent decline included a noticeable reduction in the time that containers remain within the stevedoring terminals once they have been cleared and ready for dispatch, and, in some cases, the removal by the stevedore of ‘long stay’ boxes—boxes that may have remained in a terminal for an extended period past the stevedores’ fee-free period (in some cases, these boxes may have remained in a terminal for more than ten days)—to other storage facilities (such as container parks).

Information previously provided by the stevedores to the ACCC indicates that a substantial percentage of the total storage revenue earned by the stevedores has historically been collected from ‘long stay’ boxes. This was noted by Patrick and DP World in each of their public submissions to the IPART review of the interface between land transport industries and the stevedores at Port Botany.

- *Patrick*—from May 2006 to May 2007, approximately 2.2 per cent of total containers handled at Patrick’s Port Botany facility incurred storage charges; 66.4

per cent of storage revenue was generated from containers that were in the terminal for longer than six days (that is three days past the three-day free period)¹⁷

- *DP World*—approximately 93 per cent of boxes are collected within the three-day fee-free period. Approximately 50 per cent of the import storage revenue collected by DP World Sydney is derived from containers that have remained in the terminal for more than nine days after vessel discharge.¹⁸

The capacity level of a terminal is typically defined in terms of the number of TEUs or containers that can be put through the terminal in a given period of time. Where the terminal is being used for storage, it potentially reduces the throughput and therefore the capacity of the terminal. As long as users have an opportunity to avoid storage charges by, for example, collecting a container within a fee-free period, then they provide price signals that users can act upon.

Vehicle booking systems

Automated vehicle booking systems (VBS) are used to manage the flow of containers into and out of Australia's major container ports. Revenue from this activity represented 9.0 per cent of total 'other' revenue in 2006–07 and is therefore not a significant component of total revenues in the industry. However, it is increasing (VBS revenue on a per unit basis increased by 253.2 per cent between 2001–02 and 2006–07 and by 9.0 per cent in the 12 months to June 2007).

'Undefined' sources of revenue

In previous monitoring reports the ACCC drew attention to increases in revenue from activities not specified or otherwise defined within the 'other' category. In 2006–07 revenue from undefined sources listed as 'other' within the 'other revenue' category decreased from its 2005–06 level: this item was \$31.2 million in 2006–07, down from \$37.1 million 12 months earlier. However, the 2006–07 result remains substantially higher than the \$4 million recorded in 2001–02. On a per TEU basis, revenue from unidentified activities has increased from \$1.29/TEU in 2001–02 to \$6.20/TEU in 2006–07; an increase of 379.2 per cent.

It is understood from information previously provided by the stevedoring companies that most of the growth in 'other' undefined revenue in recent years is from services provided to the ACS as part of the container examination facilities program.

3.3 Costs

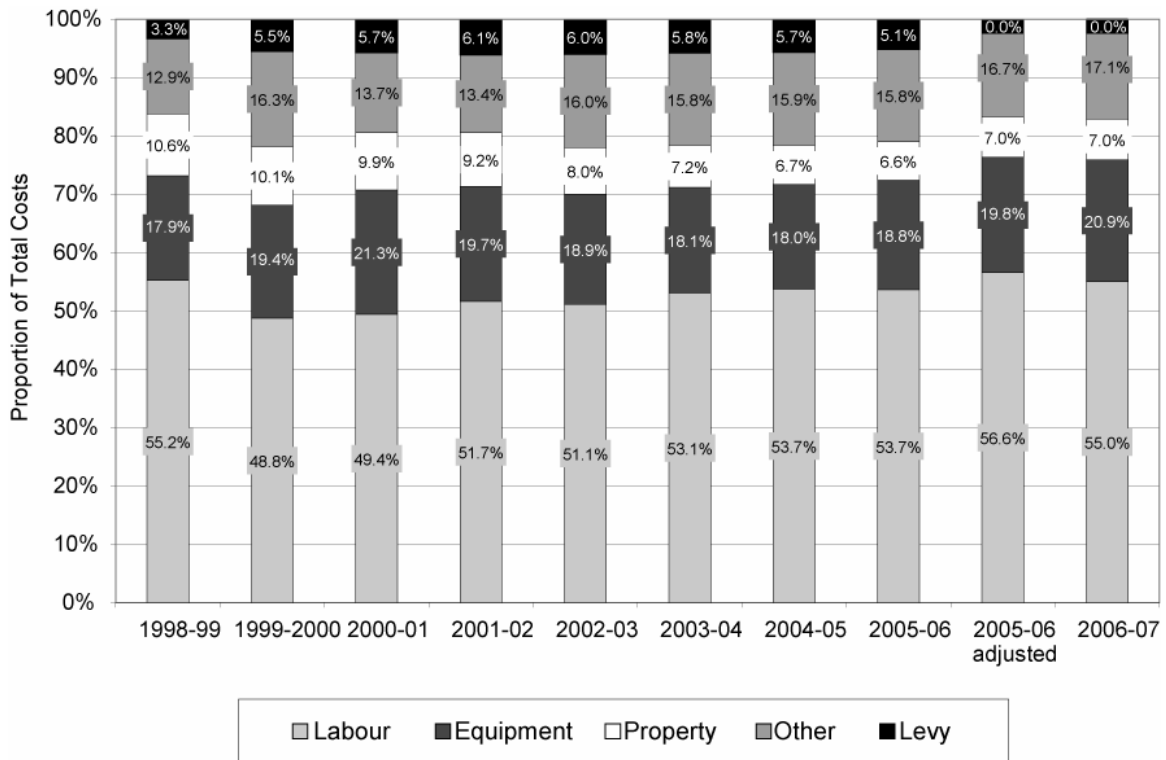
3.3.1 Relative cost shares

Figure 3-iii shows changes in the share of total costs held by key cost components from 1998–99 to 2006–07.

¹⁷ Patrick Corporation Limited, submission to the IPART review on the interface between land transport operators and the stevedores at Port Botany, June 2007, pp. 36–7.

¹⁸ DP World Australia Ltd, submission to the IPART review, 8 June 2007, p. 36.

Figure 3-iii Cost components as a proportion of total costs (%).



Source: Data supplied by the stevedoring companies.

Notes: Other costs include port management costs and other overhead costs.

It should be noted that cost components in the years between 1998–99 and 2005–06 are not directly comparable with the cost proportions in 2006–07. This is because of the effect of cessation of payment of the stevedoring levy by the stevedores from the end of May 2006. To provide some comparability of cost proportions in 2005–06 with cost data in 2006–07, an ‘adjusted’ series for 2005–06 is included in the figure 3-iii which excludes payments of the stevedoring levy as a cost component in that year.

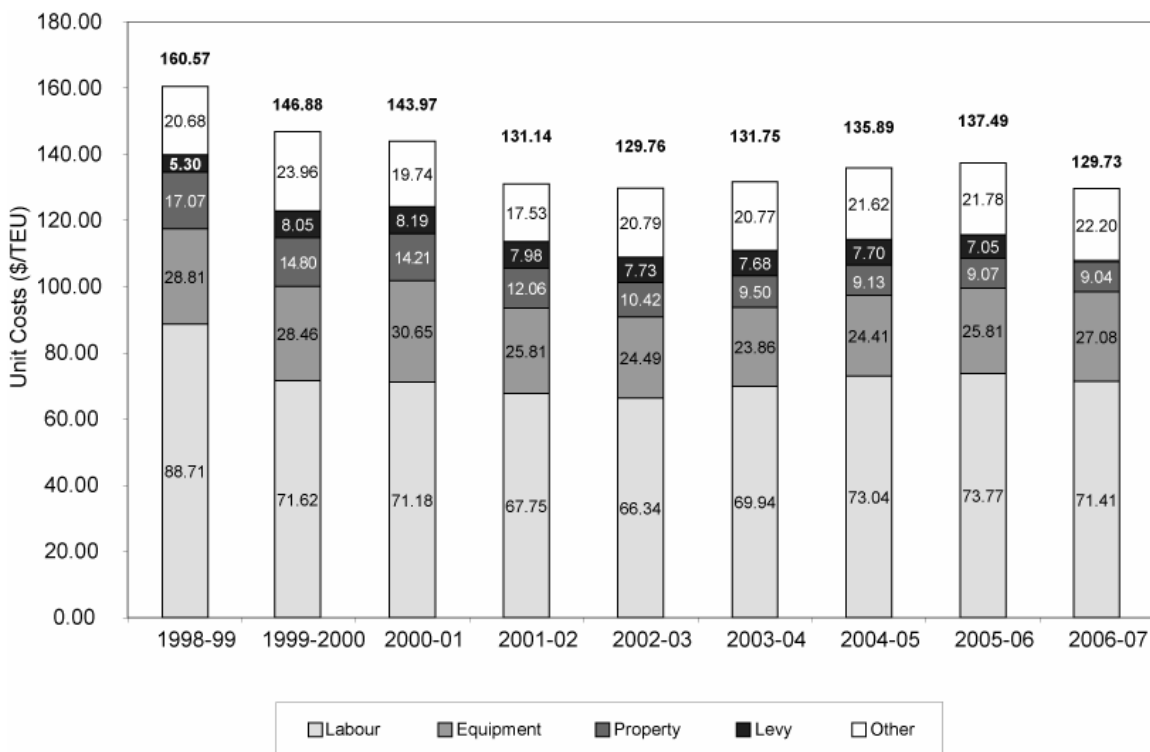
The following observations can be made from data in figure 3–iii on the composition of costs:

- Labour and equipment costs have been the major cost drivers throughout the monitoring period.
 - Labour’s share of total costs decreased in the 12 months to June 2007 from 56.6 per cent (adjusted) in 2005–06 to 55.0 per cent in 2006–07.
 - Equipment costs, the largest component after labour, increased from 19.8 per cent (adjusted) in 2005–06 to 20.9 per cent of total costs in 2006–07. This increase is in line with an increase in depreciation charges for assets employed in stevedoring over that time.

3.3.2 Variations in unit cost components

Figure 3-iv shows changes in the various cost components per TEU.

Figure 3-iv Cost components per unit (\$/TEU)



Source and notes as for figure 3-iii.

Relevant points on costs per TEU that can be noted from figure 3-iv include:

- Total unit costs decreased from \$137.49 in 2005–06 to \$129.73 in 2006–07, representing a fall of 5.6 per cent (-\$7.76) following an increase of 1.2 per cent the previous year. The decrease in total unit costs was substantially affected by the cessation of the stevedoring levy from the end of May 2006. In 2005–06 the stevedoring levy on a per unit basis was \$7.05.¹⁹
- The major cost component—labour—decreased in 2006–07 when measured on a per unit basis. However, unit equipment costs increased for the third consecutive year.
 - Labour costs per TEU decreased by 3.2 per cent during 2006–07 from \$73.77/TEU to \$71.41/TEU.
 - Unit equipment costs rose by 4.9 per cent from \$25.81/TEU in 2005–06 to \$27.08/TEU in 2006–07.

Information provided to the ACCC as part of its monitoring program indicates that the 2006–07 increase in equipment costs largely reflects higher depreciation expenses associated with capital works expenditure. New equipment was installed in some

¹⁹ This represents an average of payments that were reported for the 11 months between July 2005 and May 2006.

terminals during 2006–07, which also resulted in some older assets being depreciated more quickly as the timing of their replacement became more certain.

A brief summary of the major capital investments undertaken by the stevedores in expanding terminal capacity during 2006–07 is presented in the summary box below.

Major capital investment by stevedores in container terminal facilities, 2006–07

Patrick

In 2006–07 Patrick spent \$67 million on capital expenditure with the majority spent on ongoing capacity requirements. Patrick has indicated that the capital is needed to meet ongoing capacity requirements as container volumes continue to increase. A further \$181 million is budgeted for capital expenditure in 2007–08 with \$137 million dedicated as expansionary capital.

These expansionary capital projects currently undertaken include:

- *Reconstruction of the Port Botany terminal* comprising development works, installation of rail mounted gantries and purchase of new straddle carriers.
- *Expansion of the Fisherman Islands terminal*, which involves the development of berth 10 including the purchase of new quay cranes.
- *Expansion of East Swanson terminal* including the purchase of new straddle carriers. Approximately \$207 million is due to be spent between 2007 and 2010 on expanding the East Swanson Dock terminal.
- *Expansion of Fremantle terminal* for additional container stacking areas.

DP World Australia Limited

In 2006–07 two new cranes, each for Brisbane and Melbourne, were delivered (the two for Brisbane have been commissioned and the two for Melbourne were expected to be handed over by the manufacturer at the end of August 2007).

DP World is planning continuous expansion at each of their terminals with replacement expenditure over the next few years to be in line with depreciation, with an additional \$40–50 million per annum expected to be invested into new infrastructure across its terminals.

DP World Adelaide Pty Ltd

During 2006–07 DP World Adelaide continued to invest in the development of the facilities at Outer Harbor with a further four straddle carriers being commissioned in the period at a cost of \$4.8 million. Works also included the implementation of a new computerised terminal operating system and maritime security compliance requirements. Expansion works and redevelopment of the terminal for increased container stacking is underway.

DP World Adelaide is planning to commission two new post panamax cranes at a cost of \$22 million around mid 2009 as well as four straddle carriers for early 2008 which it expects will increase capacity but also allow some retirement of older equipment, at a cost of an additional \$5.2 million.

In order to support the expected future container growth and to provide the infrastructure to support larger vessels and the planned post-panamax cranes, plans are in place for a 149 m berth extension, berth strengthening of berth 6 (to handle a post panamax crane) and expanded hardstand areas.

Source Based on information supplied by stevedoring companies.

Information provided by stevedores suggests that much of this investment is designed to increase terminal capacity to cater for future expected growth in demand for stevedoring services.

3.3.3 Industry levy

As noted above, the Minister for Transport and Regional Services announced on 26 May 2006 that the stevedoring levy was to cease at the end of that month.²⁰ Funds from the levy have been used by the Maritime Industry Finance Company (MIFCo) to fund redundancy packages for 1487 employees at a cost of \$178.3 million.²¹

As well as announcing the levy's cessation, the minister also indicated that a \$1.5 million surplus in levy collections would be returned to the stevedoring industry.²² Information provided by the stevedores as part of the ACCC's monitoring program indicates that funds associated with the surplus were returned to the stevedores in 2007, and where appropriate, the payments have been included in the monitoring data provided by the stevedores to the ACCC.

3.4 Rates of return

Most analyses of profitability focus on rate of return measures. The advantages of these indicators are that they adjust for the amount of capital invested in providing services and thereby in generating profits for terminal owners.

There are a number of factors that are relevant to understanding what measure of return (or profit) is being used and what constitutes the base to which that return is compared. For example, the returns may be pre- or post-tax, or they may include or exclude interest. The ACCC considers that earnings before interest and tax (EBIT) on the average value (of opening and closing balances) of assets is a useful measure of the stevedoring industry's rate of return and its operating performance.

In previous monitoring reports, the ACCC has assumed that changes in the value of the industry's asset base has corresponded generally with changes in the operational and/or productive capacity of container terminals over that time. For example, an increase in the value of assets for the 2004–05 year was associated with the purchase of new terminal equipment by Patrick and the former P&O Ports (now DP World) which is likely to have increased the capacity of those terminals. However, 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 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. While such valuations are in accordance with relevant accounting standards, the asset values generated by that process may not necessarily be appropriate for monitoring purposes.

²⁰ Minister for Transport and Regional Services, *Stevedoring Levy Ends This Month*, media release, 26 May 2006.

²¹ *ibid.*

²² *ibid.*

The higher asset values reported by Patrick for the period ending 30 June 2007 reflect the purchase price of the terminal business. The amount paid by Toll and Asciano was greater than the value of the Patrick assets as reported to the ACCC for the 2005–06 monitoring report.²³ The increase in the asset values reported by Patrick to the ACCC between 30 June 2006 and 30 June 2007 reflects the allocation of the purchase price of Patrick across the company's asset base, including for identifiable intangible assets (including goodwill). While this is in accordance with relevant accounting standards, it represents a material change to the basis on which the Patrick assets were previously valued. In effect, the previous shareholders of Patrick have been paid for selling a strongly profitable business to Asciano. This payment to acquire the business represents a cost to Asciano, which Asciano has reflected in its 30 June 2007 asset values. However, in the context of the ACCC's monitoring of industry rates of return on assets as a guide to profitability, it would not be appropriate to adopt a measure of assets which includes an amount paid for expected future profits which are above normal when compared to the returns reported by ASX200 Australian companies and overseas operators. The amount paid for Patrick reflects expectations of profits that are available when a small number of firms operate in an industry where price competition is less effective.

For these reasons, and in order for the ACCC to report monitoring trends on a consistent basis, it was necessary to adjust the opening balance of assets employed by Patrick for the period as at 1 July 2006 to exclude the effect of the Patrick acquisition.²⁴ The result of this adjustment is that the Patrick asset base remains valued on a basis consistent with prior years.

It was not necessary for the ACCC to make an adjustment to the value of assets employed by DP World because, following DP World's acquisition of P&O Ports, these assets continued to be valued on a basis consistent with prior years. In effect, the goodwill associated with the P&O acquisition is not allocated to the assets employed data supplied to the ACCC.

Data in table 3-v shows annualised earnings before interest and tax (EBIT) for the three stevedores since 1998–99 expressed as a percentage of average assets. For comparative purposes, rates of return are also shown for other selected companies and an average for the ASX/S&P 200.

²³ Toll controlled Patrick at the time that information was supplied to the ACCC for the 2005-06 monitoring report.

²⁴ The value of assets employed by Patrick as at 30 June 2006 (i.e. which is the opening balance as at 1 July 2006) was adjusted using disaggregated information provided by Patrick. The adjusted values were calculated as the sum of Patrick's closing balance as at 30 June 2006, plus additions; less disposals and depreciation expenses; plus working capital and other balance sheet movements. Patrick indicated to the ACCC that disaggregated information when presented in this way does not take account of Asciano Limited requirements under A-IFRS in particular AASB 3. AASB 3 is the accounting standard which outlines how to account for the acquisition of entities and/or businesses. AASB 3 is prescriptive about the requirement to perform a purchase price allocation at the date of acquisition.

Table 3-v Rates of return—earnings before interest and tax/average assets

Rate of return on average assets (%)	1998–99	1999–00	2000–01	2001–02	2002–03	2003–04	2004–05	2005–06	2006–07
Australian stevedores	10.57	13.24	15.21	19.29	25.80	27.75	23.06	21.70	22.37
ASX/S&P200 ²⁵							8.8	10.5	10.9 ²⁶
PSA Corporation (Singapore)	9.90	12.30	14.89	8.10	13.66	16.03	15.72	13.76 ²⁷	na
South Port Ltd	6.70	9.50	10.70	14.89	14.32	11.74	11.17	14.02	12.16
Port Otago Ltd (New Zealand)	18.82	15.70	16.40	9.40 ²⁸	8.85	7.48	6.32	5.06	12.38
Lyttelton Port Co Ltd (New Zealand)	29.54	32.30	30.44	31.40	21.09	19.02	13.40	9.15	8.03
Ports of Auckland Ltd (New Zealand)	17.38	18.13	18.13	12.21	14.06	17.45	10.45	7.84	Na

Source: Data supplied by the stevedoring companies, and sourced from annual reports, the Australian Stock Exchange, and Capital Partners Ltd.

Note: Other companies are overseas port authorities that also conduct stevedoring activities. ASX/S&P 200 data excludes—financial institutions

Table 3-v shows that:

- the average rate of return for the Australian stevedoring industry increased slightly from 21.70 per cent in 2005–06 to 22.37 per cent in 2006–07
 - the 2006–07 estimate includes only those factors which are likely to reflect changes in the industry’s operational asset base over that time. The resulting measure should not be interpreted as a return on the investment made by Toll or Asciano as such investment would include the purchase price of Patrick
 - An estimated based on the asset values supplied by Patrick in relation to its opening and closing balances for the period ending 30 June 2007 (such that the effect of the Patrick acquisition is added on to the opening asset values commencing 1 July 2006), would result in an estimated industry rate of return in 2006–07 of 11.49 per cent
- more generally, the ACCC has observed positive rates of return on assets for the stevedoring industry since the beginning of the monitoring program; this is in

²⁵ Rate of return calculations for the ASX/S&P 200 is based on average EBIT/total assets.

²⁶ This is a simple average of the rate of returns for the ASX/S&P 200 companies (excluding financial institutions).

²⁷ This result is for the 12 months to end December 2006.

²⁸ The figures from 2001–02 onwards are for Port Otago Ltd’s port operations.

contrast to much lower levels of profitability reported by the stevedoring industry during the period prior to waterfront reform

- the (adjusted) average rate of return earned by the three Australian stevedoring companies continues to be higher than those of overseas operators tracked during the monitoring program.
- the (adjusted) average rate of return is significantly above the average for the top 200 companies listed on the Australian Stock Exchange, excluding financial institutions.²⁹

Estimates of average rates of return for the Australian stevedores since 2004–05 are influenced by a substantial increase in asset values reported by the three stevedores over that period. The average asset base for the three stevedores increased by 13.2 per cent in 2006–07, following increases of 30 per cent and 18 per cent in 2004–05 and 2005–06 respectively. This suggests that the current phase of asset expansion has continued in 2006–07. The ACCC understands that most of the additional investment in 2006–07 relates to assets there were put into operation during that financial year.

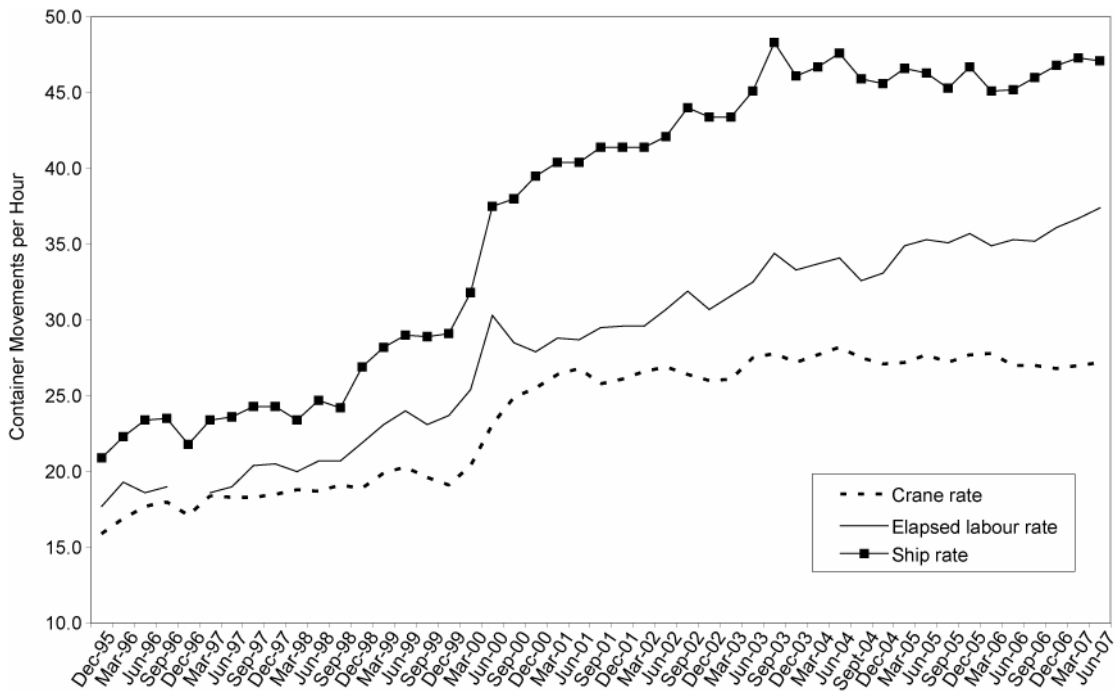
3.5 Productivity indicators

The ACCC's analysis of productivity trends is based on data collected by the Bureau of Transport and Regional Economics (BTRE). In its *Waterline* publication series, the BTRE reports on trends in capital and labour productivity of container stevedoring operations in the five mainland ports. Productivity is measured in terms of average crane, average ship and average elapsed labour rates.

Productivity trends are shown in figures 3-vi and 3-vii.

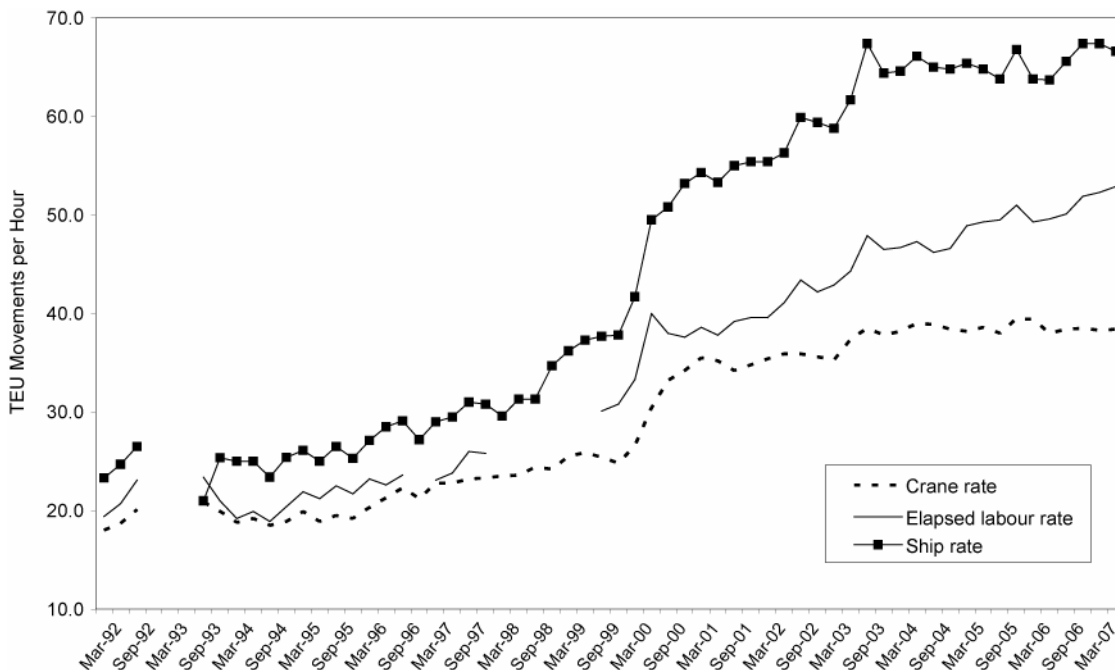
²⁹ Some caution should be used when comparing the average rate of return of the stevedoring industry with the ASX/S&P200 as the latter is likely to include the effect of changes in corporate ownership.

Figure 3-vi Productivity indicator, containers/hour, five-port average 1995–2007



Source: BTRE, *Waterline*, forthcoming publication no. 43. Averages for ports of Brisbane, Sydney, Melbourne, Adelaide and Fremantle.

Figure 3-vii Productivity indicators, TEUs/hour, five-port average 1992–2007



Source: As per figure 3-vi.

The key movements in productivity indicators in 2006–07 are as follows:

- The five-port average **crane rate**³⁰, measured in terms of containers per hour and TEUs per hour, increased in 2006–07. This signals improved productivity. The five-port average crane rate increased slightly from 27.0 containers per hour in the June quarter 2006 to 27.2 containers per hour in the June quarter 2007. On a per TEU basis, the five-port average crane rate increased from 38.0 in the June quarter 2006 to 38.4 in the June quarter 2007.
- The five-port average **ship rate** describes the productivity per ship while the ship is worked.³¹ As with the crane rate, the ship rate increased in 2006–07. The average ship rate measured in terms of containers per hour from 45.2 in the June quarter 2006 to 47.1 containers per hour in the June quarter 2007.
- The **elapsed labour rate** describes the productivity per ship, based on the time labour is aboard the ship.³² The five-port average elapsed labour rate measured on the basis of containers per hour increased between the June quarter 2006 and the June quarter 2007 from 35.3 to 37.4. The five-port average elapsed labour rate measured in terms of TEUs per hour increased from 49.6 in the June quarter 2006 to 52.9 in the June quarter 2007.

The measures of productivity in this report indicate that productivity has generally improved across the five major ports during 2006–07 following two years of falling productivity levels. Indicators of stevedoring productivity reflect a mix of labour and capital outputs. As such, recent investments by the stevedores in capacity expansion, including the replacement of older equipment, may be one contributing factor to higher productivity levels.

³⁰ The crane rate is measured by dividing total number of containers/teus handled by the elapsed crane time. The elapsed crane time is the total allocated crane hours less operational and non-operational delays. See Bureau of Transport and Regional Economics, *Waterline*, forthcoming issue no. 43.

³¹ The ship rate is calculated by multiplying the 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 and labour last leaving the ship. See Bureau of Transport and Regional Economics, *Waterline*, forthcoming issue no. 43.

³² The elapsed labour time is the elapsed time between labour first boarding the ship and labour last leaving the ship, less non-operational delays. See Bureau of Transport and Regional Economics, *Waterline*, forthcoming issue no. 43.

4 Observations from the monitoring program

This section identifies significant trends from the monitoring data and draws on the findings of previous monitoring reports and publicly available information to make several observations on the areas of capacity expansion, competition and land-side management.

4.1 Trends in monitoring data

Important findings from this year's monitoring program are that:

- container volumes grew substantially
- unit costs decreased for the first time in four years, mostly due to the cessation of the stevedoring levy
- unit revenues decreased for the first time in five years
- investment in assets increased for the third consecutive year
- productivity levels have increased
- operating profitability (excluding the effect of ownership changes) remained strong.

It was noted in section 3 that new investment in container terminal operations continued to occur in 2006–07 following substantial investment in 2004–05 and 2005–06. This continues the expansion in the industry's asset base for the third consecutive year. Unit costs decreased, largely as a result of the cessation of the stevedoring levy. In addition, lower unit labour costs more than offset higher equipment costs, which in part, reflect ongoing capital works expenditure.

Outcomes of higher volumes and lower unit costs would appear to be consistent with economies of scale in container stevedoring. However, while economies of scale are generally regarded as important determinants to the financial viability of existing operations, they may also represent an economic barrier to entry. While the degree to which economies of scale exist is difficult to determine, recent signs of interest in new entry into Australian stevedoring suggests that such barriers are not considered insurmountable.

The monitoring results do not indicate the presence of significant capacity constraints, at least on the quay-side, of the current container stevedoring operations. This might reflect recent investment in capacity expansion. Expenditure in new assets between 2004–05 and 2006–07 has encompassed replacement of old equipment, purchases of additional equipment and costs associated with redevelopment of existing and new terminal facilities. The degree to which the industry is likely to be able to service expected levels of demand and higher volume growth over the next decade will also be contingent on ongoing investment in capacity expansion plus greater emphasis on land-side efficiency. The ACCC notes that there is currently work being undertaken in several states to identify and analyse land-side access issues.

The ability of the incumbent stevedores to maintain average unit revenue levels despite an overall reduction in unit costs during a period of significant capacity expansion continues to raise questions about the intensity of competition that currently exists in the market for stevedoring services and, in particular, the incentives of the incumbents to compete on the basis of lower prices. Current industry approaches to expanding port capacity could potentially provide opportunities, to varying degrees, for greater competition in the market for stevedoring services.

4.2 Australian industry approaches to expanding port capacity: current developments

During 2006–07 the ACCC observed several developments in industry approaches to capacity expansion at Australia’s major container ports. Information provided to the ACCC as part of its monitoring program shows the incumbent stevedores have continued to undertake investments in capacity expansion throughout existing terminals during 2006–07 (see section 3.3). Major developments in industry approaches to capacity expansion are highlighted below.

Port of Melbourne

In August 2006 the PoMC released its draft port development plan (PDP) for the Port of Melbourne which provides an outlook for the port’s growth and development up to 2035. The PoMC’s strategic framework involves maximising the productivity of existing infrastructure at Swanson Dock over the next 10 to 15 years then providing an opportunity to develop additional container terminals at Webb Dock sometime before Swanson Dock is expected to reach capacity around 2017. On 25 July 2007 the Victorian Minister for Finance directed the Essential Services Commission (ESC) to undertake a review of the impact of port planning on competition in the provision of container stevedoring and related services in Victorian ports.³³ In its submission to the ESC review, the PoMC stated that:

PoMC is conscious of the need to ensure that scarce resources are appropriately allocated and in general, has sought to facilitate additional capacity by making more intensive use of existing facilities and ensuring they are fully exploited before investing in major new infrastructure...While maximising the use of existing infrastructure is given a high priority in the draft PDP, the document also recognises the importance of a new entrant in imposing competitive discipline on the behaviour of existing operators and encouraging innovation in the provision of container terminal services. The draft PDP therefore makes provision for additional container terminal facilities at Webb Dock, and provides an indicative timing for the development of these facilities. [PoMC submission to ESC review of port planning, pp. 13, 14]

The incumbent stevedores at the Port of Melbourne have both indicated that expected growth in the future demand for stevedoring services can be adequately met by increased capacity of existing infrastructure. Asciano indicated in its submission to the ESC review that ‘volumes will not increase due to new entrants as forecast demand can

³³ Victorian Minister for Finance, *Review of port planning*, media release, 25 July 2007. The review is consistent with the agreement by the Council of Australian Governments (COAG) on 10 February 2006 that required each jurisdiction to undertake a review of port competition and regulation.

be accommodated by incumbents'.³⁴ It also noted 'it is important that the PoMC does not dilute the benefits of increasing capacity by introducing a third operator and in turn limit investment by the existing stevedores'.³⁵ DP World noted in its submission that the capacity potential of existing terminals is likely to be sufficient to accommodate expected increased in demand. It commented that 'the biggest single driver in increasing berth productivity will be simply to provide additional quay cranes, fully equipping the existing facility.'³⁶

The ESC review is due to be completed by the end of this year when a final report is presented to the Victorian minister.

Port Botany

In 2004 Sydney Ports Corporation stated that it expected existing facilities at Port Botany to reach capacity by 2010 and that they must therefore be expanded. Its plans include a new container terminal with approximately 63 hectares of land with additional wharf space to accommodate five new shipping berths. The new container terminal berths are expected to commence operations in 2011–2012. On 15 August 2007, the NSW Minister for Ports and Waterways, the Hon. Joe Tripodi, indicated that, amongst other things, the SPC will commence the process of inviting prospective stevedoring companies to tender for the opportunity of establishing stevedoring operations at the new container terminal later this year.³⁷ The SPC website indicates that the appointment of the operator for the new terminal is expected to occur around mid-2008.³⁸

Media reports in mid-2006 show that the NSW minister had reportedly indicated that the government supported a third operator which should not be one of the current stevedores.³⁹ At the time of the Queensland Government's announcement in April 2007 of the successful tenderer for its planned new berthspace, the NSW minister was reported as saying that the '... decision by the Queensland Government for the preferred operator for the Port of Brisbane's new container berths show that there is real interest by overseas companies in the Australian stevedoring business'.⁴⁰ In July 2007 the NSW minister reportedly made comments that indicated while the state government's position on competition had not changed, it would allow an open tender process. Mr Tripodi reportedly indicated that '... the detail hasn't been worked out, but the government's preference is for competition, so the incumbent stevedores would be invited to make a case that they can meet that requirement of government ... If they can demonstrate that they can do that, their submission will be weighed as equally as everyone else's'.⁴¹

³⁴ Asciano Ltd, submission to ESC review of port planning, 7 September 2007, p. 10.

³⁵ *ibid.*, p. 7.

³⁶ DP World Melbourne, submission to ESC review of port planning, 30 August 2007, p. 2.

³⁷ NSW Minister for Ports and Waterways, *Design and construction tenders for Port Botany expansion*, media release, 15 August 2007.

³⁸ Sourced from Sydney Ports Corporation, Port Botany expansion website, www.sydneyports.com.au/.

³⁹ *Sydney Morning Herald*, 'Brisbane move on port duopoly', Wednesday 2 August 2006.

⁴⁰ *The Age*, 'Rival to gatecrash docks duopoly', Wednesday 18 April 2007.

⁴¹ Lloyds List DCN, '\$1 bn developments under way', 19 July 2007, p. 11.

Port of Brisbane

The Port of Brisbane Corporation (PoBC) has plans to construct two berths and terminal facilities (berths 11 and 12). The PoBC's stated objectives in planning the construction of the new berths include preparing for future trade growth as well as encouraging competition on the Australian container-handling scene and operational efficiencies.⁴² The PoBC estimates the new container berths will increase Brisbane's container-handling capacity by 25 per cent. On 17 April 2007 the Queensland Government and the PoBC announced that Hutchison Port Holdings (HPH) was the preferred tenderer to operate two new container berths that are to be due to open in 2012 and 2014.⁴³

The then executive director of Toll operations at the time, Mr Mark Rowsthorn, reportedly indicated that the entry of Hutchison could have an impact albeit not for another five years. He indicated that '... it's a long way off to predict but the existing operators will need to rethink their capital expenditure plans on the work they think they've got ...'.⁴⁴ Some shipping representatives have publicly commented that HPH's success in Australia generally would be dependent on it gaining the concession to operate the new five-berth terminal in Sydney.⁴⁵

Port of Fremantle

Following the release of its port development plan in 2000, Fremantle Ports announced that it would need to develop new 'overflow' container (and general cargo) berths by the time its existing terminals at its Inner Harbour reached capacity by around 2017. Naval Base/Kwinana had been selected as the preferred site for the new facilities. On 13 March 2007 Fremantle Ports announced its decision to halt in the short term any further consideration to develop a third container terminal.⁴⁶ Fremantle Ports indicated in its media statement that the proposal by shipping line MSC, which had earlier been selected as the preferred tenderer to redevelop berths 11 and 12 as a container terminal, 'had some merit' but for now, these berths were needed for the port's growing trade in general and break bulk cargoes. Fremantle Ports further indicated that the port operator would continue to work with MSC with the intention of reviewing the proposal in three to five years' time.

⁴² Sourced from PoBC website, RFP slide presentation, slide 8.

⁴³ Queensland Government, *Premier Welcomes World Leading Port Operator to Brisbane*, media release, 17 April 2007. HPH is a large Hong Kong-based port conglomerate that operates 257 berths in 45 ports around the world. HPH is not currently affiliated with any major shipping line in relation to the transport of container cargo.

⁴⁴ *Sydney Morning Herald*, 'Hutchison poses serious threat on the docks', 18 April 2007. Mr Rowsthorn is now managing director of Asciano Limited.

⁴⁵ *The Age*, 'Rival to gatecrash docks duopoly', Wednesday 18 April 2007.

⁴⁶ Media release, Fremantle Ports Corporation, 13 March 2007.

4.2.1 Observations on industry approaches to capacity expansion

Two pathways to capacity expansion

Developments observed in respect of the various port approaches to capacity expansion suggest the emergence of two distinct pathways to achieving the levels of capacity required to meet the expected growth in demand for stevedoring services over the next ten years.

1. A pathway to capacity expansion based on existing terminals

One pathway involves increasing the capacity of existing terminals through complementary investment by the incumbents and the port manager. Port planning arrangements developed by the port manager provide for additional container terminal facilities to be brought on-line at such a time when existing facilities have reached or are due to exceed capacity and ‘overflow’ facilities are required in order for the port to be able to service higher levels of demand. Current capacity expansion strategies at the Port of Melbourne and at the Port of Fremantle appear to reflect this approach.

This approach relies on maintaining the existing duopoly industry structure to meet the expected growth in demand for stevedoring services over the next ten years. This can create efficiencies if it allows the incumbents to achieve increasing returns to scale from the higher throughput levels. Such efficiencies may include management and coordination of workforce and equipment.

However, this approach is also likely to affect the degree of competition which may exist in the market for stevedoring services. In an industry where there are only two firms, the incumbent stevedores could be expected to undertake investment in capacity to service the expected future growth container volumes based on relatively stable market shares. There is, however, a question about whether the stevedores have a sufficient incentive to expand capacity such that it would allow one stevedore to win a significant market share from the other.

2. A pathway to capacity expansion based on three terminals

Another pathway involves the port manager commissioning an additional container terminal early in the expansionary growth period. The new facilities would contribute to higher overall throughput capacity of the port. It is not clear how much of the expected future market for stevedoring services is available for a new entrant but it assumes that all players are able to operate at a minimum efficient scale. Planned new facilities at the Port of Brisbane and at Port Botany in or around 2012 would generally appear to be consistent with this approach to capacity expansion.

While both pathways to capacity expansion may be capable of delivering increases in terminal capacity, which are considered necessary in order for the industry to service the expected growth in future demand, they have the potential to result in substantially different outcomes in terms of industry structure and the resulting degree of competition that might exist in the market for stevedoring services. As the number of competitors in an industry increases, it may become more difficult for one firm to gauge the likely responses of its competitors to its own actions. In such circumstances, competitors are more likely to offer the firms with which they deal with (such as port managers and shipping lines) their most competitive terms and conditions.

Competition ‘for’ the market for stevedoring services

Approaches to capacity expansion, which provide real opportunities for new entry, suggest that there is recognition of the potential benefits associated with promoting competition ‘in’ the market for stevedoring services.

Opportunities for competition ‘in’ the market are all the more significant given that port managers tend not to invite competitors to bid for the leases that incumbents hold at the end of the term. The ACCC, in previous monitoring reports, has identified that exclusive and long-term lease arrangements which exist between port managers and the incumbent stevedores may act as a potential barrier to new entry. These arrangements may also inhibit industry contestability. In the absence of arrangements which might deal with the timing and scale of investments that are to be undertaken by the respective parties throughout the term of the lease, a port manager faces a number of issues regarding the degree of influence that it may have on the incentives of the stevedores to undertake investments, particularly if investments are due to take place close to the expiry of a long-term lease. It is noted that DP World has reportedly deferred land-side investment at Port Botany while it awaits approval of continuation of its lease arrangements beyond 2009.⁴⁷ It is foreseeable that, in some cases, the contestability of an existing stevedoring lease may be the only avenue available to a potential new entrant to gain access to a port where no such plans for an additional stevedore exist.

Further observations

The extent to which individual port managers have appropriate incentives to reduce artificial barriers to entry may depend on the degree to which its commercial objectives are aligned with principles that promote economic efficiency. If, for example, the allocation of new berth space is conducted through open tender arrangements and where a port manager has an overriding incentive to maximise economic rents, it is likely that either of the incumbents would be selected as the preferred tenderer as each of them has the ability to charge relatively higher prices for stevedoring services. A potential new entrant, on the other hand, is likely to set a relatively lower price than that of the incumbents, because, if it is successful, the new entrant will be competing against two others—whereas a successful incumbent will still only compete against one other firm. That said, the ACCC notes that the level of stevedoring charges may also have a bearing on a port’s ability to attract throughput. This is because stevedoring charges form part of a range of charges (including for channel access, berthing and harbour towage) that are faced by a shipping service. Where a port is in a position of competing for marginal business—that is, business which might otherwise not be attracted to the port—then there is an incentive for the port manager to ensure that the entire ‘suite’ of port service charges are competitive. The challenge for port managers in tendering for the provision of stevedoring services is therefore to use a broad set of selection criteria in which price paid for the concession to operate that services may be one, but not an overriding, determinant.

⁴⁷ Lloyds List DCN, *DP ‘World holding back Botany investment amid lease uncertainty’*, 7 August 2007.

4.3 Land-side access management

In recent monitoring reports, the ACCC has identified issues related to land-side efficiency at Australia's major container ports and the role of port managers in managing land-side connections. Land-side capacity—the capacity to move cargo from the stevedoring terminal to road and rail modes on the land side—is an important element of terminal capacity and potentially a transport bottleneck that could affect the entire logistics chain. The stevedoring companies control the movements of containers between the terminal and the land transport connection. They also have exclusive control over access to transport through the management of their respective vehicle booking systems. The ACCC's monitoring program has identified that revenues from charges on land-side services (storage and VBS) have risen significantly since 2001–02 (see section 3). The ACCC has previously noted that this has the potential to result in less efficient industry outcomes, particularly, where the organisation of logistics chains is left to individual firms with greater market power that are likely to have incentives to pursue their own commercial objectives.

Increasing public attention has been given to examining arrangements involving land-side access at Australia's major ports over the last 12 months. Several state governments have recently commenced reviews into land-side interface issues.

- **Port Botany**—on 15 February 2007 the NSW Minister for Ports and Waterways announced the IPART review of the interface between the road transport industry, rail operators and the stevedores at Port Botany. A draft report is due to be publicly released in late October 2007.
- **Port of Melbourne**—the Victorian ESC is currently undertaking a review into port planning which is examining, among other things, how the market for stevedoring services impacts on competition and the efficiency of container handling, storage, transport and intermodal services. In addition, in August 2007, the Victorian Freight and Logistics Council announced that it had commenced a study to maximise truck utilisation in the port/rail precinct.⁴⁸ The PoMC and Victoria's Department of Infrastructure are also in the process of updating a container origin–destination study first conducted in 2002.⁴⁹

More generally, the NSW Government has made a number of announcements during 2006–07 in relation to the formation of inland ports, intermodal hubs and rail freight corridors in order to improve land-side efficiency. At the port of Fremantle, an industry workshop was held in August 2007 to discuss strategies to minimise container congestion particularly during the Christmas period.⁵⁰ Furthermore, in December 2006 the BTRE published for the first time in its *Waterline* publication, a number of experimental indicators relating to the size of the freight task and performance of the land-side at port terminals, based on the data provided by terminal operators. Some of

⁴⁸ *Australasian Transport News*, 'Truck optimisation plan aims to get to bottom of Melbourne port congestion', 22 August 2007.

⁴⁹ *ibid.*

⁵⁰ *Lloyds List DCN*, 'Port stakeholders take action to ease Fremantle box congestion', 30 August 2007.

these indicators were subsequently modified by the BTRE following industry comments.

Observations on land-side efficiency

Issues in land-side efficiency are receiving increasing public attention. In many cases, the implementation of industry-based schemes to address land-side logistics problems will involve some level of cooperation, coordination and agreement between potential competitors. In some cases, this can raise trade practices concerns. Through the authorisation process the ACCC can assess these concerns and allow such schemes where they provide an overall public benefit. Market participants should consider approaching the ACCC at an early stage to discuss whether authorisation is required. Authorisation can be granted for a period of years where such a length of time is necessary for the net public benefit⁵¹ of the arrangements to be achieved.

4.4 Issues arising from the 2006–07 monitoring program

The results of this year's monitoring program lead the ACCC to continue to question the intensity of competition in the stevedoring industry and, in particular, the incentives of the incumbents to compete on the basis of lower prices. In particular the ACCC notes the presence of:

- only slightly lower unit revenues despite lower overall unit costs and record annual growth in container volumes
- comparatively higher returns on assets (excluding the effect of ownership changes), notwithstanding a significant expansion in the asset base for the third consecutive year.

The results reinforce concerns expressed in previous monitoring reports that outcomes in the stevedoring industry may not be consistent with outcomes that could be expected under effective competition. The degree to which this exists at particular ports may be one of a number of factors that should be considered by port managers when decisions on preferred approaches to capacity expansion are made.

In this regard, the following areas remain of particular importance:

- **Capacity expansion**—two distinct pathways to capacity expansion have emerged which have the potential to lead to substantially different outcomes in terms of the future structure of the stevedoring industry and, in turn, the degree of competition 'in' the market for stevedoring services. Opportunities for competition 'in' the market are all the more significant given that port managers tend not to invite competitors to bid for the leases that incumbents hold at the end of the term.
- **Land-side efficiency**—this continues to be a major challenge for most, if not all, port managers. A number of state governments and port managers are directing more attention land-side access issues. Responses to land-side problems that involve

⁵¹ Under section 90 of the Trade Practices Act, the ACCC cannot grant authorisation unless the ACCC determines that the arrangement has public benefits which outweighs the detriments.

cooperation and coordination among industry players can, in certain circumstances, be authorised under the Trade Practices Act. Parties should consult with the ACCC early and prior to implementation to address any potential trade practices concerns that may arise.

Appendix A: Company specific data

A.1 Introduction

This section presents company specific data received from the three stevedore companies involved in the monitoring program. Where appropriate, the data is presented in the form of index numbers to protect commercially sensitive information.

A.2 Patrick

A.2.1 Revenue and margins

In 2006–07 the number of TEUs handled by Patrick across all ports increased substantially, by 16.4 per cent. During the period, Patrick's unit margin increased by 2.2 per cent, in which falls in unit costs were proportionately greater than falls in unit revenues. Key aspects of Patrick's 2006–07 results are set out below.

- Across all ports, revenue per TEU decreased by 2.6 per cent and costs per TEU decreased by 4.6 per cent.
- Patrick's margin per TEU increased by 2.2 per cent across all ports. This result is lower than the 2005–06 increase of 9.5 per cent.
- In Fremantle and Melbourne, Patrick's margins per TEU increased by 29.2 per cent and 6.9 per cent respectively. In Fremantle, this was driven by a combination of higher unit revenues and lower unit costs. In Melbourne, lower unit costs more than offset lower unit revenues.
- Patrick's margins per TEU decreased in Burnie, Sydney and Brisbane, by 21.3 per cent, 8.8 per cent and 0.2 per cent respectively. In Burnie and Sydney, this was driven by lower unit revenues which more than offset falls in unit costs.
- Stevedoring revenue per TEU across all ports decreased by 1.3 per cent and other revenue per TEU decreased by 10.9 per cent in 2006–07.
- Compared with 1998–99, Patrick's total revenue per TEU was 9.8 per cent lower and total costs per TEU were 21.0 per cent lower in 2006–07.
- Patrick earned slightly lower unit stevedoring revenues for both 20-foot and 40-foot containers in 2006–07 than it did in 2005–06.

A.2.2 Changes in cost components

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

The data shows that Patrick's total costs per TEU decreased in 2006–07, for the first time since 2001–02. The total cost index decreased from 82.7 points in 2005–06 to 79.0 points 2006–07, which represents a decrease of 4.6 per cent. This decrease was largely driven by lower unit stevedoring and labour costs. Key aspects of Patrick's costs are set out below.

- In 2006–07 total costs per TEU were 21.0 per cent lower than in 1998–99. Total costs per TEU have decreased across all cost categories over this period with the largest decreases occurring in property and stevedoring costs.
- Stevedoring costs per TEU decreased by 4.1 per cent in 2006–07 across all ports. The largest decrease occurred in Fremantle (–9.1 per cent) and the smallest decrease was in Sydney (–0.6 per cent).
- In 2006–07 labour costs per TEU decreased by 2.4 per cent. Labour cost increases in Melbourne and Sydney were offset by decreases in Brisbane, Fremantle and Burnie. Since 1998–99 labour costs per TEU have decreased by 12.7 per cent across all ports.
- Total equipment costs per TEU increased by 9.2 per cent in 2006–07 across all ports. On an individual port basis, the largest increases occurred in Brisbane, Sydney and Fremantle where costs per TEU increased by 40.3 per cent, 11.6 per cent and 5.5 per cent respectively. Equipment costs per TEU decreased in Burnie (by 11.4 per cent) and Melbourne (by 2.8 per cent).
- Property costs per unit increased by 2.0 per cent in 2006–07 across all ports. Increases in per TEU property costs in Melbourne and Fremantle more than offset falling per TEU property costs in Brisbane, Sydney and Burnie. In 2006–07, per TEU property costs were 51.3 per cent lower than in 1998–99.
- Patrick's other costs per TEU increased by 2.7 per cent in 2006–07. Other costs⁵² consist of overheads, port management costs and other direct costs.

⁵² Other costs are not shown separately in table 1 in appendix C but are included in industry-wide data presented in figures 3-iii and 3-iv.

A.3 DP World

A.3.1 Revenues and margins

In 2006–07 the number of TEUs handled by DP World across all ports increased by 11.7 per cent. DP World's unit margin increased by 1.3 per cent, in which falls in unit costs were proportionately greater than falls in unit revenues. Key aspects of DP World's 2006–07 results are set out below.

- Across all ports, unit total revenues decreased by 4.6 per cent while unit total costs decreased by 5.9 per cent.
- Unit total revenues decreased in all ports except Fremantle. The largest decrease occurred in Brisbane (by 7.8 per cent) and the smallest occurred in Melbourne (by 4.2 per cent). Unit total revenues increased by 1.2 per cent in Fremantle.
- Stevedoring revenue per TEU across all ports decreased marginally by 0.4 per cent while other revenue per TEU decreased by 25.0 per cent in 2006–07.
- In 2006–07 DP World's total unit revenue was only marginally higher (by 0.2 per cent) than in 1998–99, while unit costs were 13.9 per cent lower.
- In 2006–07 there was a 12.9 per cent increase in the use of 40-foot containers and a 9.9 per cent increase in the use of 20-foot containers. The ACCC notes that, all else being equal, a shift in relative demand to 40-foot containers depresses overall average revenue rates.

A.3.2 Changes in key cost components

DP World's cost component data set out in table 2 of Appendix C shows that total costs per unit decreased by 5.9 per cent in 2006–07. During the period, each port recorded lower total unit costs with Melbourne recording the largest fall (-8.2 per cent) and Brisbane recording the lowest fall (-2.0 per cent). Key aspects of DP World's costs are set out below.

- In 2006–07 per unit labour costs decreased by 2.4 per cent. Per unit labour costs decreased in Melbourne and Sydney and remained largely unchanged in Fremantle and Brisbane. In 2006–07 labour costs per unit were 19.4 per cent less than in 1998–99.
- In 2006–07 total equipment costs per unit increased marginally by 0.3 per cent. Equipment costs per unit increased substantially in Brisbane (by 14.5 per cent) and to a much lesser extent in Fremantle (+2.0 per cent). Unit equipment costs decreased in Melbourne and Sydney by 6.4 per cent and 0.2 per cent respectively. DP World's total equipment costs per unit have increased by 13.6 per cent since 1998–99.
- Total property per unit costs decreased by 3.3 per cent in 2006–07. Lower property costs per unit in Fremantle and Melbourne offset increases in Sydney and Brisbane.

- DP World's other costs per unit increased by 3.1 per cent in 2006–07. Other costs consist of overheads, port management costs and other direct costs.

A.4 DP World Adelaide Pty Ltd

The number of TEUs handled by DP World Adelaide continued to grow strongly, increasing by 14.3 per cent in 2006–07. DP World Adelaide's margin per unit increased by 0.2 per cent in 2006–07, following strong growth in 2005–06. The increase in unit margins in 2006–07 reflected lower unit costs which more than offset lower unit revenues. Other key aspects of DP World Adelaide's reports follow. (Also see table 3 in appendix C.)

- Overall unit revenues decreased by 7.4 per cent in 2006–07.
- In 2006–07 unit stevedoring revenue increased for 40-foot containers but was largely unchanged for 20-foot containers.
- The volume of 20-foot containers handled by DP World Adelaide increased by 13.8 per cent while the volume of 40-foot containers increased by 14.8 per cent. As previously noted, all else being equal, a shift in relative demand to 40-foot containers depresses overall average revenue rates.
- Overall unit costs decreased by 9.7 per cent in 2006–07. Lower stevedoring and labour unit costs more than offset increases in equipment and property unit costs.

Appendix B: Selected industry data

Table B 1 Nominal unit data, 1999–2007

		1998–99	1999–00	2000–01	2001–02	2002–03	2003–04	2004–05	2005–06	2006–07	% Change 2005–06 to 2006–07
Total rev/TEU	(\$/TEU)	182.58	175.01	172.77	165.56	169.00	171.49	175.24	180.08	173.27	-3.78%
Total cost/TEU	(\$/TEU)	160.57	146.88	143.97	131.14	129.76	131.75	135.89	137.49	129.73	-5.64%
Total margin/TEU	(\$/TEU)	22.00	28.14	28.80	34.43	39.23	39.74	39.35	42.59	43.54	+2.23%
Stevedoring rev/TEU*	(\$/TEU)	161.03	153.16	151.08	147.59	146.46	147.44	149.05	152.14	150.91	-0.80%
Stevedoring cost/TEU*	(\$/TEU)	150.88	138.32	134.53	124.12	122.79	124.62	128.09	128.66	121.41	-5.63%
Stevedoring margin/TEU*	(\$/TEU)	10.15	14.84	16.55	23.47	23.67	22.82	20.96	23.48	29.50	+25.63%
Other rev/TEU	(\$/TEU)	21.54	21.85	21.69	17.97	22.53	24.05	26.20	27.95	22.36	-19.99%
Other rev/Total rev	(%)	11.8%	12.5%	12.6%	10.9%	13.3%	14.0%	14.9%	15.5%	12.9%	na

Sources: The stevedoring companies, as part of the monitoring program, supply figures for 1998–2007.

* Data on revenue was supplied by Patrick and DP World Adelaide 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, Patrick and DP World Adelaide's container-specific data is combined in the above with DP World's stevedoring revenue and general cost data in order to provide national aggregates.

Table B 2 Real unit revenue, cost and margins, 1986–2007

(\$ per TEU)	Unit revenue	Unit cost	Unit margin	Deflator	Real unit revenue	Real unit cost	Real unit margin
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	na	Na	na	na	na	na	na
Jan–Jun 97	188.00	Na	na	92.90	202.37	na	na
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
% change							
2005–06 to 2006–07	-3.78%	-5.64%	2.23%	4.18%	-7.65%	-9.43%	-1.87%
1998–99 to 2006–07	-5.10%	-19.21%	97.88%	32.40%	-28.32%	-38.98%	49.45%

Sources and notes: ACCC 1996, *Monitoring of stevedoring costs and charges and terminal handling charges 1995*. Figures for Jan–Jun 1997 are an estimate derived by the BTRE, *Waterline*. The stevedoring companies, as part of the monitoring program, supply figures for 1998–2007 ABS, G04, Other Price Indicators, Chain Price Index, Gross Domestic Product. (Available from <http://www.abs.gov.au>).

Appendix C: Company trends in cost components

Table C 1 Patrick trends in cost components (per TEU), index 1999–2007

Brisbane	1998–99	1999–00	2000–01	2001–02	2002–03	2003–04	2004–05	2005–06	2006–07
Stevedoring cost index	100	93.3	103.9	87.3	89.0	86.0	84.0	85.9	82.0
Total labour cost index	100	85.8	86.7	82.0	87.4	92.7	89.3	91.1	75.2
Total equipment cost index	100	83.1	107.5	72.3	61.9	49.1	45.9	54.4	76.4
Total property cost index	100	71.7	76.9	63.6	59.2	55.0	48.6	41.7	35.1
Port Botany	1998–99	1999–00	2000–01	2001–02	2002–03	2003–04	2004–05	2005–06	2006–07
Stevedoring cost index	100	84.4	81.3	75.4	78.1	78.1	79.2	81.6	81.1
Total labour cost index	100	84.9	80.9	75.8	79.3	84.2	88.3	89.7	92.8
Total equipment cost index	100	85.8	88.4	77.3	73.2	67.6	71.4	78.5	87.6
Total property cost index	100	69.9	72.7	51.6	49.9	47.4	44.6	54.3	52.7
Fremantle	1998–99	1999–00	2000–01	2001–02	2002–03	2003–04	2004–05	2005–06	2006–07
Stevedoring cost index	100	90.0	74.4	68.2	68.7	73.7	83.0	86.1	78.3
Total labour cost index	100	81.2	68.1	63.7	60.5	70.3	85.7	89.4	84.5
Total equipment cost index	100	85.8	65.9	53.0	53.2	51.6	52.7	52.0	54.8
Total property cost index	100	113.8	86.5	79.3	90.5	101.5	115.4	133.6	147.4
East Swanson	1998–99	1999–00	2000–01	2001–02	2002–03	2003–04	2004–05	2005–06	2006–07
Stevedoring cost index	100	91.4	92.3	82.6	80.6	80.1	81.7	79.0	74.2
Total labour cost index	100	89.4	90.0	84.2	79.8	86.1	92.8	88.9	89.8
Total equipment cost index	100	93.9	97.4	80.4	78.8	68.7	67.1	69.6	67.6
Total property cost index	100	73.8	72.3	57.7	47.1	38.6	35.4	32.9	37.5
Burnie	1998–99	1999–00	2000–01	2001–02	2002–03	2003–04	2004–05	2005–06	2006–07
Stevedoring cost index	100	98.1	95.1	93.6	92.9	82.5	96.1	109.7	100.4
Total labour cost index	100	81.0	83.7	88.1	84.3	79.1	107.3	117.7	109.8
Total equipment cost index	100	93.9	100.0	109.5	111.1	103.7	112.1	147.4	130.7
Total property cost index	100	104.5	74.4	127.9	75.0	51.8	76.7	108.6	103.2
National	1998–99	1999–00	2000–01	2001–02	2002–03	2003–04	2004–05	2005–06	2006–07
Stevedoring cost index	100	74.0	87.2	78.7	79.1	79.2	81.2	81.8	78.5
Total labour cost index	100	85.4	82.5	77.9	77.7	83.9	89.6	89.5	87.3
Total equipment cost index	100	91.3	94.6	77.4	73.5	65.9	66.1	72.4	79.0
Total property cost index	100	75.8	73.8	58.6	53.2	48.6	46.1	47.7	48.7
Total cost index*	100	87.2	86.7	77.1	77.7	78.2	80.6	82.7	79.0

* 'Other costs' are included in the total cost index but not shown as a separate cost category.

Table C 2 DP World trends in cost components (per TEU), index 1999–2007

Brisbane	1998–99	1999–00	2000–01	2001–02	2002–03	2003–04	2004–05	2005–06	2006–07
Total labour cost index	100	89.0	90.3	90.8	80.6	86.8	89.4	93.4	93.4
Total equipment cost index	100	119.2	104.8	91.0	94.9	100.3	101.6	109.4	125.2
Total property cost index	100	98.1	82.3	70.6	62.8	56.4	52.4	48.6	52.7
Total cost* index	100	99.5	94.9	91.2	86.3	92.4	92.6	97.4	95.5
Sydney	1998–99	1999–00	2000–01	2001–02	2002–03	2003–04	2004–05	2005–06	2006–07
Total labour cost index	100	73.5	76.9	78.9	78.8	80.9	81.1	80.7	79.0
Total equipment cost index	100	111.6	124.9	111.1	107.2	107.1	105.9	117.3	117.2
Total property cost index	100	93.0	90.7	108.5	101.9	98.6	94.5	95.2	98.6
Total cost* index	100	88.7	90.0	88.1	85.7	88.7	89.4	90.5	84.9
Melbourne	1998–99	1999–00	2000–01	2001–02	2002–03	2003–04	2004–05	2005–06	2006–07
Total labour cost index	100	82.7	76.0	71.5	71.1	73.2	79.3	81.2	77.2
Total equipment cost index	100	113.1	127.3	114.0	106.2	123.6	123.1	133.0	124.5
Total property cost index	100	119.9	110.0	95.7	69.0	59.7	59.1	52.1	43.9
Total cost* index	100	102.6	95.1	90.8	90.2	92.1	97.6	95.1	87.3
Fremantle	1998–99	1999–00	2000–01	2001–02	2002–03	2003–04	2004–05	2005–06	2006–07
Total labour cost index	100	85.2	82.4	83.8	74.0	78.7	76.7	75.4	75.0
Total equipment cost index	100	92.8	92.7	82.4	73.0	67.0	101.5	64.2	65.5
Total property cost index	100	117.9	81.2	86.9	80.1	75.4	70.3	76.5	68.1
Total cost* index	100	92.2	88.5	88.2	80.6	80.1	84.3	78.2	74.7
National	1998–99	1999–00	2000–01	2001–02	2002–03	2003–04	2004–05	2005–06	2006–07
Total labour cost index	100	80.4	79.8	78.8	75.4	78.9	81.3	82.6	80.6
Total equipment cost index	100	110.5	118.0	104.2	99.5	105.5	110.3	113.2	113.6
Total property cost index	100	105.1	95.5	93.1	76.8	70.1	67.3	64.6	62.4
Total cost* index	100	95.6	92.7	89.7	86.1	89.0	91.8	91.5	86.1

* 'Other costs' are included in the total cost index but not shown as a separate cost category.

Table C 3 DP World Adelaide trends in cost components (per TEU), index 1999–2007

Adelaide	1998–99	1999–00	2000–01	2001–02	2002–03	2003–04	2004–05	2005–06	2006–07
Stevedoring cost index	100	131.4	131.4	97.5	88.6	86.5	86.6	84.7	75.9
Total labour cost index	100	123.7	113.3	92.4	85.6	80.6	79.5	79.4	68.7
Total equipment cost index	100	168.9	180.3	129.2	109.8	110.7	107.3	105.3	121.7
Total property cost index	100	106.7	109.3	56.5	17.2	18.8	28.0	22.0	22.5
National	1998–99	1999–00	2000–01	2001–02	2002–03	2003–04	2004–05	2005–06	2006–07
Stevedoring cost index	100	103.8	104.4	82.8	75.1	73.3	73.4	71.8	64.3
Total labour cost index	100	98.7	93.6	80.4	74.1	69.7	68.8	68.6	59.4
Total equipment cost index	100	115.6	130.2	101.6	85.7	86.5	83.8	82.2	95.1
Total property cost index	100	97.6	84.1	36.4	11.5	12.6	18.8	14.7	15.0
Total cost index*	100	106.2	105.6	80.9	76.2	71.2	73.9	72.4	65.4

Note: National data for the years 1998–99 to 2000–01 include ports of Adelaide and Brisbane. Operations at the port of Brisbane were terminated in August 2001.

*‘Other costs’ are included in the total cost index but not shown as a separate cost category.

Appendix D: Characteristics of the stevedoring industry

D.1 Supply of stevedoring services

Providing stevedoring services entails lifting container boxes onto and off ships. Increasingly, however, stevedoring companies are earning revenue from other services such as storage, maintenance and repositioning of containers. Stevedores are also increasingly providing services that facilitate the movement of containers from the wharves to road and rail transport links.

D.1.1 Structural arrangements

In Australia, stevedoring services are provided by specialist firms that own the container-handling equipment, but lease berth space from the relevant port authorities. Typically, the lease arrangements that underpin access to berth space are exclusive and long term, ranging from 20 to 40 years.⁵³ These arrangements may affect contestability in the industry.

Stevedoring services can also be provided under other types of arrangement. In some overseas ports⁵⁴, port authorities also own the container-handling equipment (cranes/straddles) but sub-contract the stevedoring function by providing access to common-user terminals to third party stevedores. Other types of arrangements include total integration between port ownership and stevedoring services.

In 2006 Patrick Corporation Limited was acquired by Toll Holdings Limited and P&O Ports was acquired by Dubai Ports World.⁵⁵ In June 2007 Asciano Limited acquired Patrick from Toll Holdings Limited.⁵⁶

D.1.2 Size and characteristics of market

Total throughput at Australian ports in 2006–07 was about 5.5 million TEUs.⁵⁷ Melbourne is Australia's largest port with container throughput of 2.1 million TEUs in the year to June 2007. Australia's second largest port is Sydney which processed 1.6 million TEUs in 2006–07. Among the other ports monitored in 2006–07 volumes were shared among the ports of Brisbane (858 000 TEUs), Fremantle (505 000 TEUs), Adelaide (219 000 TEUs) and Burnie (204 000 TEUs).

⁵³ Productivity Commission, *International benchmarking of container stevedoring*, July 2003, p. 141.

⁵⁴ Notably, Auckland, New Zealand.

⁵⁵ On 9 March 2006 Dubai Ports World publicly announced that it had completed its acquisition of P&O Ports. On 3 July 2006 Toll Holdings Limited announced to the Australian Stock Exchange that it held 100 per cent of all equity securities in Patrick Corporation Limited.

⁵⁶ On 6 June 2007 Asciano Limited was listed on the Australian Stock Exchange. On 15 June 2007 Toll Holdings was restructured and the Patrick infrastructure assets were acquired by Asciano.

⁵⁷ BTRE, *Waterline*. forthcoming publication no. 43, table 10. This total also includes TEU data in relation to the Port of Burnie which is supplied to the ACCC by TasPorts.

D.1.3 Capacity in stevedoring

Capacity in stevedoring is determined by a number of factors. The most critical factor is likely to be quay length which is finite and determines the number of ships that can berth at any one time. Capacity is also affected by the number of quay cranes that operate on a terminal and the size of container storage (yard) space. These three factors are fixed in the short term and set a ceiling on the level of throughput in a given period of time. Quay length is absolutely fixed in the short term and acts as a physical restraint on capacity. On the other hand, while the number of cranes and yard space are fixed in the short term, the relationship between capacity and equipment/yard space is less rigid as it may be affected by the efficiency with which these two factors are used and managed. Finally, capacity is also a function of the size and skill of the labour force employed at a terminal. In the medium term, the application of new technologies, particularly in relation to the use of terminal space, can smooth the transition between the larger, indivisible leaps in capacity.

Both incumbent stevedores and port managers are responsible for managing capacity in stevedoring. Stevedores, for example, have direct control over the amount and type of equipment used in stevedoring, the size and skills of the labour force as well as the degree to which new technologies are employed at their terminals. Port managers control the quay length that is available and allocated to the stevedores as part of their overall land management responsibilities at the port. They also have additional responsibilities in managing other water-side aspects of the port, such as swinging basins and channel depth.⁵⁸ On the land-side, port managers determine the size of yard space that is allocated to the stevedores, although the stevedores are given the responsibility for managing the efficiency of this yard space.

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, both in terms of quay crane capacity and yard capacity, to meet the shipping industry's requirements.

The ACCC is not aware of any general information which would indicate that water-side capacity at most Australian ports is currently constrained by stevedore services. However, it is possible that the strong growth in container volumes that has occurred at major Australian ports over the last few years could, if sustained, place pressure on existing infrastructure.

D.1.4 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 which are ancillary to the stevedoring function. These are services that facilitate a more effective

⁵⁸ These aspects are also affected by other considerations such as environmental planning issues.

interface with land transport by allowing shippers to move containers more quickly and efficiently from the wharf into their preferred land transport link.

Another area of change is in bringing about a more effective coordination of stevedoring with road and rail transport and creating a more seamless transport logistics chain.

D.1.5 Economies of scale

The degree of contestability in an industry depends largely on the height of barriers to entry, that is, costs associated with entering and exiting an industry. Economies of scale can raise the cost of entry.

It is generally accepted that there are economies of scale in stevedoring. There are efficiencies available to a larger operator, typically in terms of management and coordination of workforce and equipment, which may not be available to stevedores operating on a smaller scale. Economies of scale can be a barrier to entry if a new entrant must capture a large share of the market to operate efficiently.

Previous ACCC monitoring reports have suggested that while entry and exit costs are not generally considered large⁵⁹, it is likely that economies of scale are sufficiently important to preclude viability for a large number of operators at Australia's major container ports. Among other things, the thinness of Australia's shipping trade is likely to limit the number of stevedoring companies that could sustain economically viable operations. That said, the Productivity Commission has noted that 'it is possible to have multiple container stevedores with "thin" traffic'.⁶⁰

Expressions of interest to establish a third terminal by entities such as Anglo Ports, Hutchison Port Holdings and alliances/joint ventures including shipping lines indicate that economies of scale are not sufficiently strong to preclude a third stevedoring operation.

D.1.6 Barriers to entry and exit

Entry and exit costs are important determinants of the degree of contestability in an industry. The higher entry and exit costs are the lower is the potential for new entry to act as a constraint on the behaviour of incumbents. If entry barriers and exit costs are low then the ability of incumbents, even monopolists, to charge high prices and earn above normal profits is limited.

⁵⁹ The Productivity Commission considered evidence suggesting that cranes cost about \$10 million; however, the existence of a secondary market means that not all of the cost of a new crane represents a sunk cost that would be forfeited on exit. See Productivity Commission, *Work arrangements in container stevedoring*, 1998, p. 140. Also, following implementation of work practice reforms, there is greater flexibility in the way that labour arrangements can be managed and this is also likely to promote entry.

⁶⁰ Productivity Commission 1998, *Work arrangements in container stevedoring*, research report, AusInfo, Canberra, p. 143.

In 1998 the Productivity Commission considered evidence suggesting that the cost of establishing a presence in the industry may not represent a significant obstacle to entry.⁶¹ However, other features of the industry may make entry difficult. For example, if economies of scale are significant, then a new entrant would have to supply a large share of the market to operate efficiently. Even if the market is growing, this would mean that a large volume of business would need to be won from incumbents. This task would not be easy and may deter potential entrants.

The exclusive and long-term nature of the lease arrangements between stevedores and port authorities can also be a potential barrier to a new entrant.

In Australia, no single port acts as the primary destination for ships, as is often the case in other countries. The Australian shipping trade is shared across several ports. Presently, the two major stevedoring companies offer a national service. A national service is likely to offer advantages to users. For example, it is likely to reduce transaction costs by allowing a shipping line to deal with a single provider of stevedoring services rather than a different one at each port. Also, a national provider may offer shipping lines incentives in terms of volume discounts which would not be available from single-port operators. Furthermore, a national stevedore may undertake to coordinate its various terminals such that a vessel that arrives at a port behind schedule can be brought back on schedule by the time it leaves Australia. As competition between ports may be limited by the large distances between them, a potential new entrant might have to establish a presence in several ports to compete with the incumbents' national service.

While the stevedoring industry is considered capital intensive, labour costs remain the largest component of Australian stevedores' total cost base. In 2006–07 they accounted for 55 per cent of total costs while equipment costs represented 20.9 per cent of total costs.⁶² The introduction of greater flexibility into workplace arrangements in the 1990s increased the ability of stevedores to adjust to fluctuations in demand. This greater flexibility would be available to new entrants as well as incumbents.

The ACCC has not formed a view as to the height of barriers to entry in the stevedoring industry.

D.2 Demand for stevedoring services

The demand for stevedoring services is a derived demand. The absolute size of the market is determined by the volume of shipping transport which depends, in turn, on 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.

⁶¹ Productivity Commission, *Work arrangements in container stevedoring*, 1998, p. 140.

⁶² The other key cost categories are property costs and other costs.

D.2.1 20-foot and 40-foot containers

The ACCC has been collecting product differentiated data for six years. The data highlights that the use of 40-foot containers has grown.⁶³ The data also suggest that stevedores charge less for a 40-foot container on a per unit (TEU) basis than for 20-foot containers. Shippers (importers/exporters) appear to be responding to the relatively less expensive per unit charges and increasing relative demand for 40-foot containers. On average, this movement towards 40-foot containers has facilitated lower per unit prices for shippers.

The impact of 40-foot containers on 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 moving 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.

D.2.2 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. In stevedoring, the potential for price competition can be mitigated by the possibility that demand for stevedoring services may be relatively price-insensitive and by constraints faced by shipping lines in switching stevedores.

Some Australian ports may be served 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. The ACCC understands that this countervailing power may also be constrained in the short term as the stevedores have limited capacity to service significantly higher levels of business (especially during periods of peak demand). While most terminals appear to currently 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.

Also, inter-port competition may be affected by the large distances between Australia's ports. A shipping line's ability to switch to a stevedore in a different port

⁶³ The ACCC's market inquiries indicate that this shifting preference towards 40-foot containers has been taking place for many years.

will be influenced by the additional costs of steaming as well as of transporting the cargo to its ultimate destination. These costs reduce the scope for shipping lines to switch easily to different ports and so reduce their potential countervailing power. Also, a shipping line's choice of stevedore is often constrained because the same two stevedores generally operate in each of the relevant ports.

D.2.3 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. The ACCC understands that shipping lines have, in the past, switched stevedores, which suggest some sensitivity to prices charged by stevedores.⁶⁴ On the other hand, it appears that shipping lines may be more sensitive to the quality of service than its cost.⁶⁵ Vessels are sensitive to the costs of waiting idly at a port. 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.

D.3 Regulation of ports and port services

The approach taken by state governments in relation to the regulation of ports and port services varies. In February 2006 the Council of Australian Governments (COAG) announced that each jurisdiction would review the regulation of its ports and port authority, handling and storage facility operations at significant ports to ensure that where economic regulation is warranted it conforms with agreed access, planning and competition principles.⁶⁶ The reviews are due to be completed by the end of 2007.⁶⁷

D.4 Conclusion

The ACCC is not able to form a view on the basis of available evidence as to the height of entry barriers in the stevedoring industry. However, the existence of monopoly or duopoly suppliers raises questions about the extent of competitive pressures in the supply of stevedoring services.

⁶⁴ See Productivity Commission, *Work arrangements in container stevedoring*, 1998, p. 139.

⁶⁵ Bureau of Industry Economics, 'International performance indicators: coastal shipping, 1995', quoted in Productivity Commission, *Work arrangements in container stevedoring*, 1998, p. 29.

⁶⁶ Council of Australian Governments, Communique, 10 February 2006, p. 7.

⁶⁷ Council of Australian Governments, Communique, 13 April 2007, p.2.

Appendix E: Ministerial direction

COMMONWEALTH OF AUSTRALIA

Prices Surveillance Act 1983

DIRECTION NO 17

(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

(2) In this direction, 'container terminal operator company' means a provider of container stevedoring services in ports at the locations listed in paragraph (1).

(3) The ACCC is to report to me on its monitoring activities referred to in paragraph (1) within four months the end of each financial year.



PETER COSTELLO

January 1999

Appendix F: Part VIIA, Trade Practices Act 1974

s. 95ZF

Directions to monitor prices, costs and profits of a business

- (1) The minister may give the ACCC a written direction:
 - (a) to monitor prices, costs and profits relating to the supply of goods and services by a specified person; and
 - (b) to give the Minister a report on the monitoring at a specified time or at specified intervals within a specified period.
- (2) The Commission must, in preparing such a report, have regard to the need for commercial confidentiality.
- (3) The Commission must send the person a copy of the report on the day it gives the Minister the report.
- (4) The Commission must also make copies of the report available for public inspection as soon as practicable after the person has received a copy of the report.

s. 95ZG

Exemptions 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.

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