ACCC
AUSTRALIAN COMPETITION & CONSUMER COMMISSION

Container stevedoring monitoring report

Background information

Australian Competition and Consumer Commission
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Methodology

This section explains the ACCC's methodology and approach to assessing the profitability of stevedoring terminal operations in Australia.

Description of methodology

The ACCC's role, set out in the Ministerial direction, is to monitor prices, costs and profits at container terminals operating in Adelaide, Brisbane, Burnie, Fremantle, Melbourne and Sydney. There has been no international container terminal operating in Burnie since 2011, so Burnie is excluded from the reports.

Data is provided by each of the container stevedores in response to a request from the ACCC at the conclusion of the financial year. We appreciate the cooperation of the stevedores in responding to these requests, which are made on a voluntary rather than mandatory basis.

Much of the data provided to the ACCC is commercially sensitive. For this reason, the data is typically presented in the monitoring report for the industry as a whole, rather than broken down by stevedore. While useful, the aggregated nature of the data presented in the reports is currently masking very different financial outcomes between the established stevedores and the recent market entrants. Other data provided by the stevedores is used for the ACCC's internal analysis only and does not get presented in the monitoring report.

The data provided by the stevedores consists of container volumes, revenues, costs and profits. The stevedores also describe key investments made during the year, as well as those planned for the future. The ACCC does not collect data on actual prices charged for stevedoring services as these are privately negotiated between stevedores and users.

The ACCC calculates revenues and costs on a per unit basis, with unit revenues acting as a proxy for price. The standard unit is a lift, which is either a container being loaded off the ship and on to the dock or vice versa. Stevedoring charges are typically calculated per lift and therefore this is a close proxy for the prices charged by the stevedores.

Data provided by the stevedores is split by whether it relates to stevedoring or other terminal activities. Stevedoring revenue, which makes up the largest proportion of a stevedore's total revenue, is defined as the revenue attributable to the loading and unloading of cargo. Other revenues may include those relating to break-bulk work (e.g. non-containerised cargo such as bags, crates and barrels), storing and maintaining containers, and fees from transport operators using the stevedores' Vehicle Booking System and from terminal access charges (previously known as infrastructure charges). The ACCC excludes revenue and cost items relating to some ancillary services.

Financial data is adjusted for inflation to allow for meaningful comparisons between years. The figures in the monitoring report are adjusted for inflation. The process that is used to adjust for inflation is as follows:

- figures were adjusted using the ABS Consumer Price Index series (base year = current reporting period financial year),
- figures from past years were adjusted upwards in order to compare with the actual data for the current reporting period financial year.

The stevedoring monitoring report also provides information on the productivity of the stevedores and other operational performance such as truck turnaround times. This information is kindly provided by the Bureau of Infrastructure, Transport and Regional Economics (BITRE) in advance of its publication in its *Waterline* series.

Industry consultation

The ACCC supplements its data collection activities by meeting with relevant stakeholders about the freight supply chain.

ACCC staff meet periodically with the stevedores as well as various port operators, shipping lines, transport companies and freight supply chain industry associations. The ACCC's analysis and commentary in the container stevedoring monitoring report is also informed by work it does as part of investigations into possible breaches of the competition provisions within Part IV of the *Competition and Consumer Act 2010*.

Measuring industry profitability

Earnings before interest, taxation and amortisation (EBITA)

There are a range of measures that can be used to assess a company's profitability. The ACCC commonly uses earnings before interest, tax and amortisation (EBITA) in its monitoring reports of operating profitability. That is, it measures the earnings that the firm makes in its normal course of business, ignoring financial costs and the yearly write-off of long-term intangible assets.

EBITA is a useful measure for comparing companies because it excludes accounting costs that can vary greatly between companies due to factors other than operating performance. Interest payments can vary according to the choice of financing arrangements. Taxation can vary by political jurisdictions or different tax minimisation techniques. Amortisation can vary depending upon the subjective value placed on intangible assets such as goodwill, or because of different takeover histories.

Unlike other measures of operating profitability, EBITA includes the costs associated with the depreciation of tangible assets. This is important for infrastructure-based industries for which investment in facilities will represent a sizable proportion of overall costs.

Operating profit, profit margins and return on assets

The container stevedoring monitoring report presents profitability in a number of different ways. The purpose of each indicator is to provide some context for the scale of the industry. Very high performance against these indicators may suggest that the level of competition within the industry is not sufficient to constrain the stevedores from setting high prices.

These indicators are:

- operating profit (EBITA): revenue less costs plus amortisation per lift
- profit margins: EBITA as a percentage of revenue
- return on tangible assets: EBITA as a percentage of average tangible assets.

The use of return on tangible assets as a measure of profitability creates a few challenges. First, a company's assets can include a sizeable value for intangible assets. For stevedoring, intangible assets include goodwill and berth licensing agreements. However, the value attributed to intangibles may reflect an expectation, at the time of purchase or acquisition of assets for a business, to earn economic rents that may obscure changes in the profitability of providing services. For this reason the ACCC excludes intangible assets from the asset base when assessing performance.

The ACCC's approach of excluding intangible assets will create a difference between the stevedores' statutory reports and the ACCC's stevedoring monitoring reports. However, this is not unusual where price oversight of infrastructure is involved and is consistent with the broader ACCC approach with other industries (e.g. airport services).

The second challenge is that the return on tangible assets measure can be affected by changes in asset values arising from asset revaluations, transfers, and sales. Asset valuation methods differ between businesses, which raise comparability issues. They may also change over time, which would impact time series analyses. The ACCC has not attempted to evaluate the suitability of stevedores' asset valuations since prices are not regulated. However, they are required to report asset values on a depreciated historical cost basis over time so that the ACCC can assess trends in profitability.[1]

Finally there is the challenge that EBITA does not fully identify whether the stevedores are earning excessive economic profits as a result of market power. The key issue is that stevedores will carry out a lot of upfront investments on capital that will have a significant life span, so a single year's financial returns may not capture the full cost of these investments. To evaluate the returns of the stevedores, a method such as the internal rate of return should be used. Unfortunately the ACCC does not possess the necessary information to use this approach. Evaluating profits using EBITA is the best option that the ACCC has available to it.

1 While asset revaluations are permitted under international accounting standards, it is not suitable with the ACCC's monitoring program hence the effect of any revaluations is excluded. Asset information provided by the stevedores for the period reflects the opening value of tangible assets as at the end of the previous financial year plus additions to assets, less depreciation of expenses and disposal of assets and write-downs of tangible assets that occurred in the 12 months since.

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 after the end of each financial year.

PETER COSTELLO

January 1999

Federal Register of Legislative Instruments F2008B00402

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