



Australian
Competition &
Consumer
Commission

Container stevedoring

Monitoring report no. 11

OCTOBER 2009





Australian
Competition &
Consumer
Commission

Container stevedoring

Monitoring report no. 11

October 2009

Australian Competition and Consumer Commission
23 Marcus Clarke Street, Canberra, Australian Capital Territory, 2601

First published by the ACCC 2009

© Commonwealth of Australia 2009

This work is copyright. Apart from any use permitted by the *Copyright Act 1968*, no part may be reproduced without prior written permission from the Commonwealth available through the Australian Competition and Consumer Commission. Requests and inquiries concerning reproduction and rights should be addressed to the Director Publishing, Australian Competition and Consumer Commission, GPO Box 3131, Canberra ACT 2601 or by email to publishing.unit@accc.gov.au.

ISBN 978 1 921581 41 0

ACCC 10/2009_6978.

www.accc.gov.au

Snapshot 2008–09

The Australian Competition and Consumer Commission monitors prices, costs and profits of container stevedoring terminal operator companies at the ports of Adelaide, Brisbane, Burnie, Fremantle, Melbourne and Sydney under a direction from the Treasurer.

Industry performance in 2008–09 was largely affected by lower demand for stevedoring services associated with the global economic slowdown. Revenues fell while costs increased, resulting in lower profits than previous years.

The following summarises the monitoring results for 2008–09:

- Some indicators of productivity increased while others were mostly unchanged compared to the corresponding quarter of the previous year. The extent to which increased productivity is temporary or a reflection of previous capital investment will become clearer as demand recovers.
- Container throughput (measured in terms of twenty-foot equivalent units, or TEUs) declined by 2.7 per cent, largely as a result of the slowdown in the global economy. This is in contrast to strong growth in volumes over the previous decade.
- Unit total revenues (which are indicative of average prices) were marginally lower at \$171.44. Unit revenues for stevedoring activities were largely unchanged while unit revenues for non-stevedoring services declined.
- Unit total costs were \$137.41, reflecting an increase (of 6.9 per cent) from 2007–08 levels. This represents the highest annual increase in unit total costs since ACCC monitoring began. Higher labour costs resulting from new enterprise wage agreements and lower container volumes both contributed to this increase.
- Industry profitability (measured by a rate of return on assets) decreased from 24.86 per cent in 2007–08 to 17.63 per cent. This represents the first substantial decline in industry profitability since monitoring began. However, profit levels appear to remain high against benchmark indicators.

These monitoring results continue to raise questions about the incentives of the stevedores to efficiently respond to the requirements of their users. Long-term productivity trends appear to indicate that most of the efficiency gains associated with waterfront reform are likely to have been achieved by around 2000–01, some two to three years following the introduction of that reform. Recent improvements would be a positive sign if due to new capital investment.

Alternatively, should improved productivity outcomes in 2008–09 turn out to be temporary, there would be concerns about the incentives of the stevedores to invest sufficiently in capacity to provide a more efficient, stevedoring service. This will become clearer as demand recovers.

Ports are at various stages of providing capacity for the expected return to growth. There are now, more than ever before, encouraging signs that new entry into Australian stevedoring, particularly in the eastern seaboard container ports, is possible.

Opportunities for more intense competition could provide the necessary impetus over the next decade for increased efficiency in stevedoring services. While the ports of Brisbane and Sydney have already offered such opportunities, the port of Melbourne is reportedly now considering whether to bring forward a new terminal development.

Glossary

ACCC	Australian Competition and Consumer Commission
ACS	Australian Customs and Border Protection Service
AIFRS	Australian equivalents to International Financial Reporting Standards
ASX	Australian Stock Exchange
BITRE	Bureau of Infrastructure, Transport and Regional Economics
CEFs	container examination facilities
CPI	consumer price index
EBIT	earnings before interest and tax
ESCV	Essential Services Commission of Victoria
GDP	gross domestic product
HPH	Hutchison Port Holdings
IPART	Independent Pricing and Regulatory Tribunal of New South Wales
LLDCN	<i>Lloyd's List Daily Commercial News</i>
PC	Productivity Commission
PoBC	Port of Brisbane Corporation
PoMC	Port of Melbourne Corporation
PSA	<i>Prices Surveillance Act 1983</i>
S&P	Standard & Poors
SPC	Sydney Ports Corporation
TEU	twenty-foot equivalent unit
TPA	<i>Trade Practices Act 1974</i>
VBS	vehicle booking system

Contents

Glossary	v
Summary	vii
1. Introduction.....	1
1.1 Background	1
1.2 Description of methodology.....	2
1.3 Report outline	4
2. Overview of main results for 2008–09.....	5
2.1 Introduction.....	5
2.2 Supply of container stevedoring services.....	5
2.3 Average revenue, costs and margins for all services.....	8
2.4 Productivity	11
3. Detailed monitoring results for 2008–09.....	12
3.1 Introduction.....	12
3.2 Revenues	12
3.3 Costs.....	19
3.4 Rates of return	24
3.5 Productivity indicators	27
4. Observations from the monitoring program	31
4.1 Introduction	31
4.2 Quay-side performance	32
4.3 Competition, capacity expansion and efficiency in quay-side stevedoring services...	33
4.4 Land-side efficiency at container terminals	42
4.5 Issues arising from the 2008–09 monitoring program	47
Appendix A Company-specific data.....	50
Appendix B Selected industry data	54
Appendix C Company trends in cost components.....	57
Appendix D Characteristics of the stevedoring industry	62
Appendix E Ministerial direction.....	71
Appendix F Part VIIA, Trade Practices Act 1974.....	72
Appendix G Rates of return.....	73

Summary

The Australian Competition and Consumer Commission's container stevedoring monitoring program is undertaken through a direction from the Treasurer under Part VIIA of the *Trade Practices Act 1974* (TPA) 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 eleventh report prepared by the ACCC. It presents the ACCC's monitoring results and observations about the role of competition in Australian container stevedoring.

Industry performance

The results of the ACCC's monitoring program indicate that industry performance in 2008–09 was largely affected by lower demand for stevedoring services. Industry performance was predominantly driven by declining container volumes as a result of the impact on trading volumes associated with the global economic slowdown.

This result was in contrast to the strong growth in volumes that was sustained over the last decade. Unit total costs reported by the stevedores increased as a result of increases in labour costs combined with the impact of lower volumes. Total industry revenues were lower than in previous years due to declining volumes. However, on a per unit basis, average revenues were largely unchanged, which implies largely unchanged prices for services. Industry profitability declined as a result of lower industry earnings and continued capital investment by the stevedores.

Despite these results, the underlying outlook for the Australian stevedoring industry remains positive, with expectations of stronger demand in stevedoring services expected to occur as the economy recovers.

Efficiency in container stevedoring

The 2008–09 monitoring results raise questions about the incentives of the stevedores in the current duopoly to efficiently respond to the requirements of their users.

The ability of the stevedores to sustain price levels despite reduced demand and short-term increases in unit costs while also making strong positive returns reinforce the ACCC's concerns about the intensity of competition. This also has implications for incentives of the stevedores to invest in new capacity sufficient to win business away from each other. There have been recent reports of a shipping line switching stevedores at some ports as capacity opened up during the global economic slowdown, but historically this has been rare.

In this regard, the following observations can be made:

- **Quay-side efficiency**—results of the ACCC's monitoring program and longer term trends in productivity raise questions about the incentives of the stevedores to efficiently respond to the requirements of their users. Long-term productivity trends appear to indicate that most of the efficiency gains associated with waterfront reform are likely to have been achieved by around 2000–01, some two to three years following the introduction of that reform. Recent improvements would be a positive sign if due to new capital investment.

Alternatively, should improved productivity outcomes in 2008–09 turn out to be temporary, there would be concerns about the incentives of the stevedores to invest sufficiently to provide a more efficient stevedoring service. This will become clearer as demand recovers.

- Whether benchmarks of stevedoring productivity established before 1998 continue to represent appropriate yardsticks for measuring quay-side efficiency today is also open to question. It is possible that increased levels of competition could provide the necessary impetus over the next decade for increased efficiency in the provision of quay-side stevedoring services.
- **Land-side efficiency**—previous ACCC monitoring reports and various reports by agencies such as the National Transport Commission, Infrastructure Australia and port authorities identified the need for improved efficiency along land-side supply chains, of which the stevedoring companies are just one, albeit significant, part.
 - While the ACCC’s monitoring program has shown that the revenues collected by the stevedores in relation to land-side services are relatively small, the land-side connection is significant because of its strategic importance to the import–export supply chains at individual ports. Various industry approaches to establishing efficient land-side connections at container ports have been observed. Some ports have relied on cooperative approaches to promote land-side supply chain efficiencies. At other ports, cooperative approaches have not been as successful and state governments have established regulatory regimes to enable such solutions to be pursued.
 - Where cooperative approaches are being considered, parties should be aware of their trade practices obligations, especially where they involve arrangements between competitors on price or restrictions imposed on participants’ freedom to choose in what or with whom they deal. Having an experienced trade practices lawyer involved may assist in assessing the risk of a breach of the TPA.
 - The ACCC can grant immunity under the authorisation and notification provisions of the TPA when the public benefit from conduct outweighs any public detriment. Businesses considering applying for an authorisation or notification are encouraged to contact the ACCC for informal discussions and guidance.

Detailed ACCC monitoring results for 2008–09

The results of the ACCC’s monitoring program for the twelve months to June 2009 show that:

- Some indicators of productivity increased while others were mostly unchanged compared to the corresponding quarter of the previous year. The extent to which increased productivity may be temporary or

a reflection of previous capital investment will become clearer as demand recovers.

- Container volumes fell for the first time since ACCC monitoring began, with throughput, measured in terms of twenty-foot equivalent units (TEUs), decreasing by 2.7 per cent. Most of the decline occurred between January and June 2009 and broadly reflects the impact of the global economic slowdown on trade volumes.
- Unit total revenue was marginally lower at \$171.44 in 2008–09, reflecting a small decrease of 1 per cent from 2007–08 levels. Unit revenues for stevedoring services were largely unchanged, while unit revenues for non-stevedoring services were lower than 2007–08 levels.
- Unit total costs increased by 6.9 per cent to \$137.41 in 2008–09. This is the largest annual increase recorded for more than a decade. In real terms, however, unit total costs are 41 per cent lower than they were in 1998–99 and real unit revenues are 35 per cent lower.
- Average assets in the industry (excluding the effect of changes in corporate ownership) increased by 7 per cent in 2008–09, similar to the rate of expansion that occurred in 2007–08 when industry earnings and throughput levels were significantly higher than current levels.
- Unit margins declined markedly in 2008–09, to \$34.03, representing a decrease of 23.8 per cent from 2007–08 levels. This is the first substantial decline in stevedoring margins since 1999, and unit margins are now at their lowest level since 2001–02. However, they continue to be well above margins recorded during the period before waterfront reform.
- Adjusted rates of return¹ decreased from 24.86 per cent in 2007–08 to 17.63 per cent in 2008–09 as a result of reduced industry earnings and continued capital investment by the stevedores. Industry profitability nevertheless remains above the average for the top 200 companies listed on the Australian Stock Exchange (ASX) as well as comparable overseas container port operators tracked during the monitoring program.

¹ The value of average assets for the three stevedores from 2006–07 onwards excluded the effect of changes in the corporate ownership arising from the acquisition of Patrick by Toll Holdings and the subsequent purchase of the terminal business by Asciano Limited. See section 3.4 and appendix G for more details.

1. Introduction

This is the Australian Competition and Consumer Commission's eleventh container stevedoring monitoring report. It shows the results of the ACCC's monitoring of the industry for the 12 months from July 2008 to June 2009.

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 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 a direction under s. 95ZE of the TPA.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.

In performing its price monitoring function, the ACCC must, under subs. 95G(7) of the TPA, have 'particular regard' to the following matters:

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

The ACCC's monitoring program began following the Australian Government's decision to reform the Australian waterfront. On 8 April 1998 the government announced a package that included seven benchmark objectives, agreed to by Australia's two major stevedoring companies (known at the time as Patrick Stevedores and P&O Ports), designed to lead to improved productivity and reliability, lower costs and better workforce management. The seven benchmark objectives were:

1. An end to over-manning and restrictive work practices.
2. Higher productivity. A commitment from the major stevedores to a benchmark crane rate of 25 container movements per hour as a national five-port average.
3. Greater reliability through less industrial disputation and less interruption through elimination of restrictive work practices. The level of industrial action on the waterfront should be no worse, and preferably better, than the national average for all industries.

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

4. An improved safety performance. Injury and fatality levels must come back to the all industries average or better.
5. Lower costs throughout the 'logistics chain of the waterfront gateway'.
6. A drive to make full effective use of the technology available to increase productivity and improve ship turnaround times.
7. Improved training and promotion of apprenticeship programs.³

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

The ACCC's monitoring program provides information to the government and wider community about the development of Australia's stevedoring industry.

1.2 Description of methodology

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

Individual company data have 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 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, terminals may also conduct some

³ Australia, Senate 1998, *Debates*, 22 June 1998 Hansard, pp. 3617–20 (second reading speeches on the Stevedoring Levy (Collection) Bill 1998 and the Stevedoring Levy (Imposition) Bill 1998).

break-bulk work and provide 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 expense of the major container terminals in Australia, in a similar way to those in the authority's reports.

The ACCC 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 as a measure of the stevedoring industry's operating performance. From 2006–07 onwards, 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 and appendix G).

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

These terminals are:

- DP World⁴ and Patrick⁵, Swanson Dock, Melbourne
- DP World and Patrick, Fisherman Islands, Brisbane
- Patrick and DP World, Port Botany, Sydney
- DP World and Patrick, Fremantle
- DP World Adelaide⁶, 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 terminal at Darling Harbour in Sydney and Webb Dock in Melbourne
- DP World's terminal at White Bay, Sydney.⁷

In addition to using quantitative data provided by the stevedores, the ACCC sought other information through informal contacts with stevedoring companies. Where

⁴ On 9 March 2006 DP World announced that it had completed its acquisition of P&O Ports.

⁵ On 3 July 2006 Toll Holdings announced that it had acquired 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 trade using the Patrick brand name.

⁶ On 7 May 2009 Dubai World announced that it had entered into a joint venture partnership in DP World Adelaide and Flinders Ports, with DP World holding 60 per cent and Flinders Ports holding 40 per cent.

⁷ The ACCC has not required DP World to supply monitoring data on White Bay since 2006. This is because DP World had previously advised that this facility had been closed for several years and DP World had been sharing the Patrick facility at Darling Harbour.

relevant, this information has been taken into account when assessing the results of the monitoring program.

1.3 Report outline

Section 2 provides a brief overview of the main findings of the monitoring program for 2008–09. Section 3 sets out a detailed analysis of the monitoring results. The key issues that arise from the 2008–09 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 TPA. The ACCC's approach to assessing stevedoring profitability is discussed at appendix G.

2. Overview of main results for 2008–09

2.1 Introduction

This section provides a brief overview of the main results of the ACCC's monitoring program for 2008–09.

2.2 Supply of container stevedoring services

Providing container stevedoring services entails lifting container boxes onto and off ships. Related to this function, stevedoring companies provide other services such as storage, maintenance and repositioning of containers. Stevedores also provide services that facilitate the movement of containers from the terminals to road and rail transport links.

2.2.1 Structural arrangements

Two of the ports covered by the 2008–09 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 tends not to be a single point of call for ships servicing Australia. Rather, vessels operate across several ports that are separated by long distances. Shipping lines therefore need to establish a service network and secure a sequence of suitable berthing windows to service several ports within its shipping schedule.

2.2.2 Size and characteristics of market

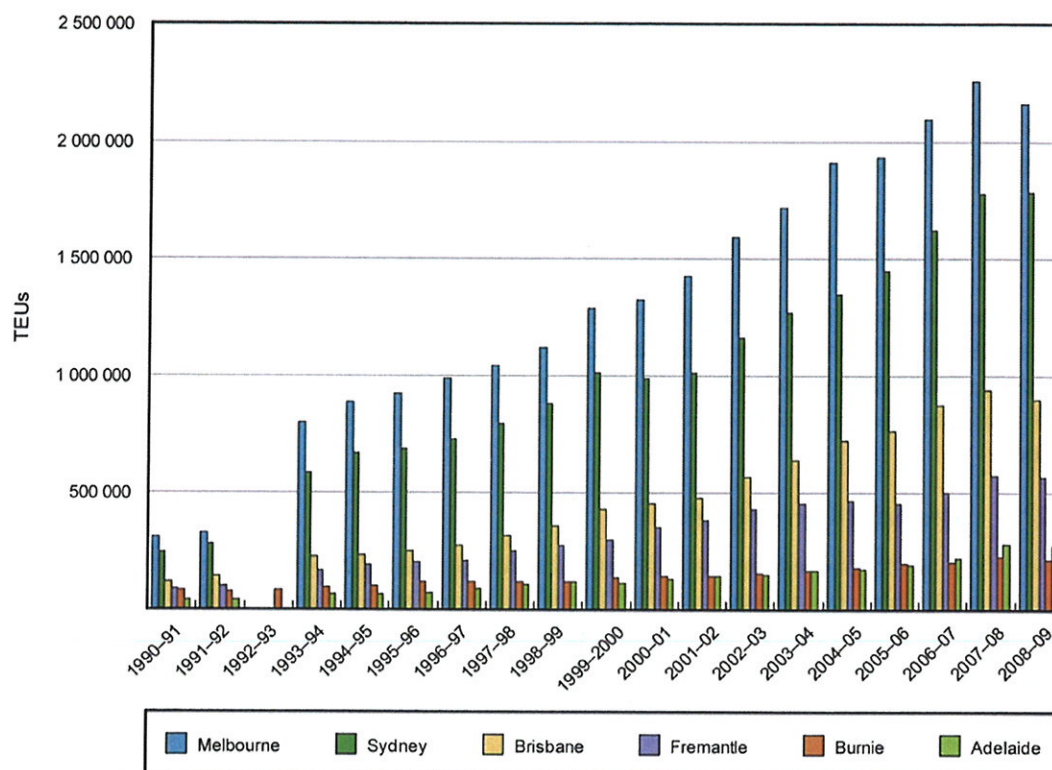
According to data collected by the Bureau of Infrastructure, Transport and Regional Economics (BITRE), total throughput at Australian container ports in 2008–09 was 5.9 million TEUs⁸, which is low by international standards.

Trends in containerised throughput

Figure 2.1 shows trends in total containerised throughput.

⁸ BITRE, *Waterline*, forthcoming publication no.46. This total includes TEU data for the Port of Burnie, which the ACCC obtained directly from TasPorts.

Figure 2.1 Container throughput trends at designated ports, 1991–2009



Source: BITRE, *Waterline*, forthcoming publication no. 46, TasPorts (Port of Burnie).

Note: data in BITRE publication, *Waterline*, includes international and domestic cargo.

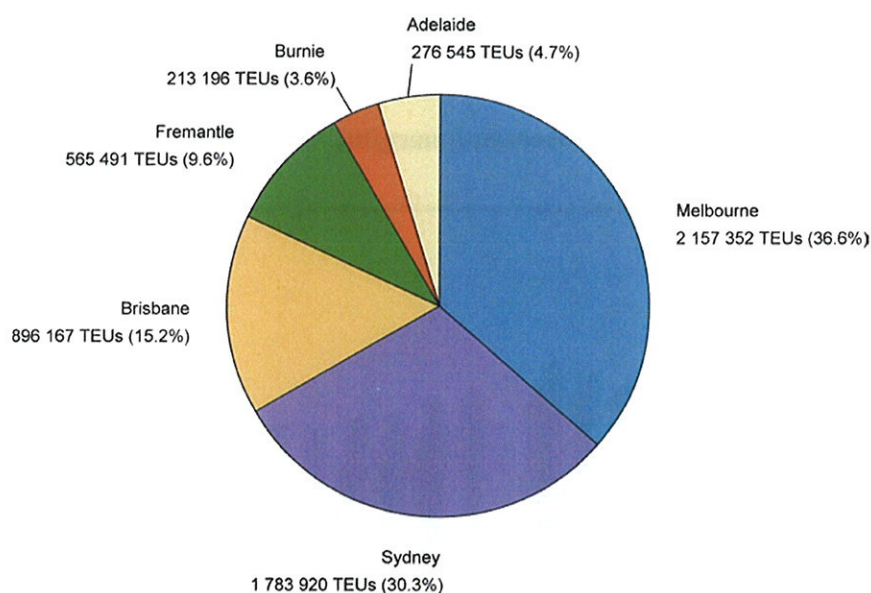
The major points to note about trends in throughput in figure 2.1 include:

- Volumes at Australia's major container ports grew strongly between 1998–99 and 2007–08. The average annual growth rate across this period was 10.7 per cent.
- Containerised throughput declined in all ports, except Sydney, in 2008–09. Data provided by the BITRE indicates that all decline in throughput levels occurred during the six months between January and June 2009.
- Throughput levels were largely unchanged in Sydney (+0.3 per cent) in 2008–09.
- The largest decrease in throughput levels during 2008–09 occurred in Burnie (–6.2 per cent), and the smallest decrease occurred in Adelaide (–1.3 per cent). Volumes declined in Melbourne and Brisbane by 4.4 per cent and 4.7 per cent, respectively. In Fremantle, volumes declined by 1.4 per cent.

- The Port of Melbourne continues to be Australia's largest container port, processing 36.6 per cent of total TEU tonnage handled at the nation's major container ports.⁹
- Relative to 1998–99, Brisbane has increased its share of national volumes from 12.5 per cent to 15.2 per cent. Sydney's share of national tonnage has remained largely unchanged (recording a marginal decline from 30.6 per cent to 30.3 per cent), while Melbourne's share of national tonnage is lower, falling from 39.0 per cent to 36.6 per cent.

Figure 2.2 shows details of volumes handled at Australia's major ports in 2008–09.

Figure 2.2 Container throughput volumes and share by ports, 2008–09



Source: BITRE, *Waterline*, forthcoming publication no. 46, TasPorts (Port of Burnie).

Note: data in BITRE publication, *Waterline*, includes international and domestic cargo.

Melbourne processed 2.2 million TEUs in the year to June 2009. By comparison, volumes in Singapore, the world's largest container port were 29.9 million TEUs in 2008.¹⁰ Australia's second largest port is Sydney, which processed 1.8 million TEUs in 2008–09. Among the other ports monitored in 2008–09, volumes were shared among the ports of Brisbane (896 000 TEUs), Fremantle (565 000 TEUs), Adelaide (277 000 TEUs) and Burnie (213 000 TEUs).

⁹ 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.

¹⁰ Latest available annual statistics is for 2008. See Maritime and Port Authority of Singapore at www.mpa.gov.sg.

2.3 Average revenue, costs and margins for all services

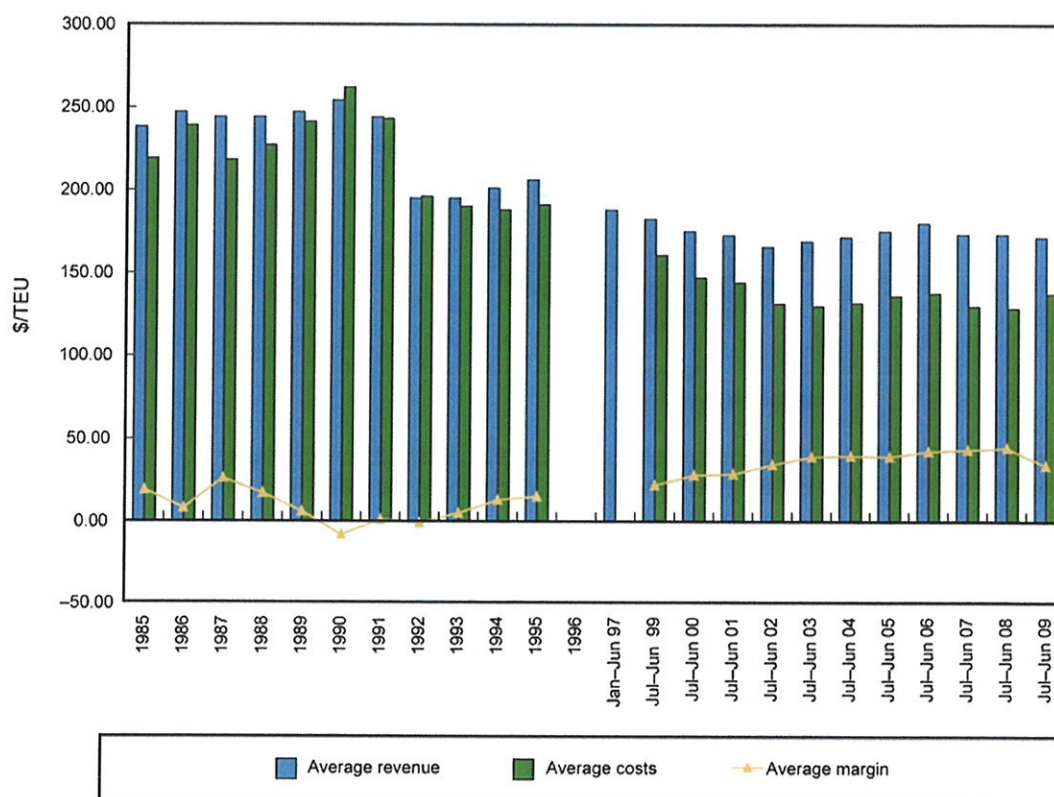
The ACCC uses unit total revenue as an indicator of average prices charged across a stevedore's entire business. The ACCC does not collect information on actual prices charged for stevedoring services because these are subject to private negotiation between shipping lines and stevedores. Unit total revenue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

Data on unit total revenue and costs 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

Figure 2.3 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.

Figure 2.3 Nominal unit total revenue, costs and margins, 1985–2009



Sources: *Monitoring of stevedoring costs and charges and terminal handling charges 1995*, ACCC 1996. Figures for January to June 1997 are estimates derived by BITRE, *Waterline*. The stevedoring companies, as part of the monitoring program, supply figures for 1998–2009.

Figure 2.3 shows that between 1990 and 2002, the container stevedoring industry experienced a general trend of falling unit revenues and unit costs and rising unit margins. It is likely that costs fell because of the effect 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.

Between June 2006 and June 2008, unit costs decreased, unit revenues decreased and unit margins subsequently rose as the fall in unit costs was proportionately greater than the fall in unit revenues. Most of the reduction in unit costs occurred in the 12 months to June 2007, reflecting the cessation of the stevedoring levy from the end of May 2006. Unit revenues fell in the 12 months to June 2007 and remained largely unchanged in the 12 months following. Unit margins subsequently rose, reaching their highest recorded level in 2007–08 since the beginning of the monitoring period.

In the 12 months to June 2009, unit costs have increased, partly reflecting lower container volumes being processed through terminals during that period. Unit revenues decreased slightly. As a consequence, unit margins have fallen from record high levels and this appears to be the first substantial decline in unit margins since 1990.

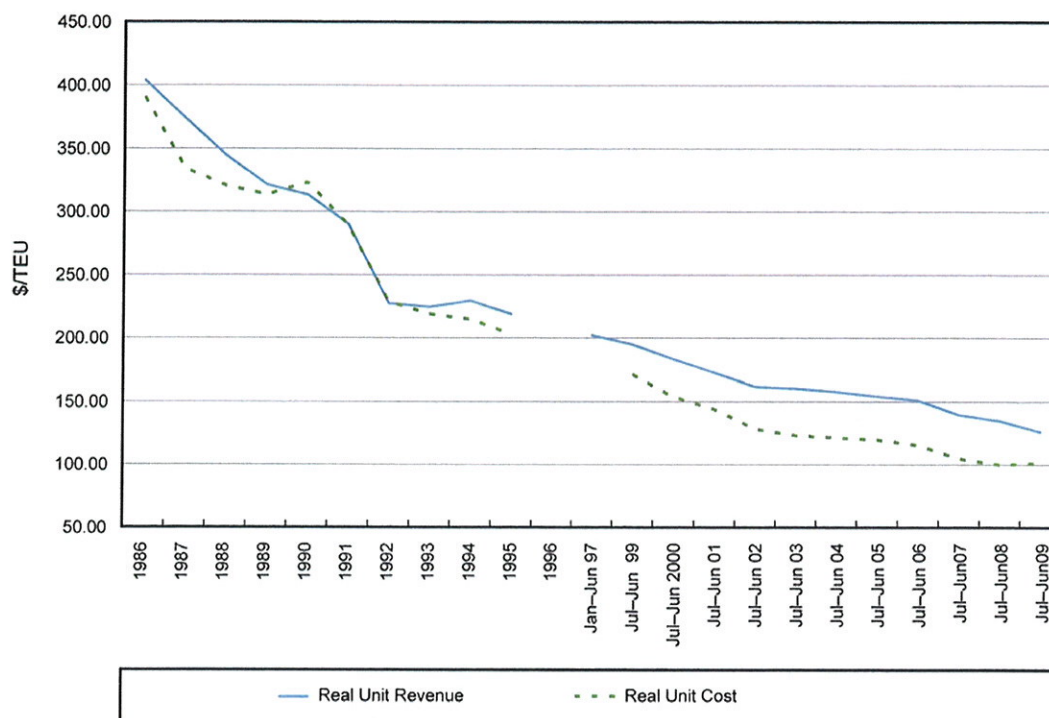
More specifically, important observations on nominal average revenues, costs and margins in 2008–09 include:

- Unit total revenue was \$171.44/TEU at June 2009, representing a small decline of 1.0 per cent from its June 2008 level (\$173.24/TEU). Unit total revenues have remained largely unchanged for the three monitoring periods since 2006–07.
- Unit costs increased markedly by 6.9 per cent to \$137.41/TEU in 2008–09 (representing an increase of \$8.82/TEU in absolute terms). This is the largest annual increase in both percentage and absolute terms for more than a decade.
- Unit margins decreased substantially by 23.8 per cent from \$44.65/TEU in 2007–08 to \$34.03/TEU in 2008–09. Unit margins are similar to levels recorded in 2001–02.

2.3.2 Real revenues, costs and margins

Figure 2.4 shows the trend in unit costs and unit revenues in real terms between 1985 and 2008–09.

Figure 2.4 Real unit revenues and costs, 1985–2009



Sources: *Monitoring of stevedoring costs and charges and terminal handling charges 1995*, ACCC 1996. Figures for January to June 1997 are an estimate derived by BITRE, *Waterline*. The stevedoring companies, as part of the monitoring program, supply figures for 1998–2009. 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 6.35 per cent in 2008–09, from \$134.72 in 2007–08 to \$126.17.
- Real unit costs increased by 1.1 per cent, from \$100.00 in 2007–08 to \$101.12 in 2008–09.
- The long-term downward trend in real unit total revenues continued in 2008–09; unit total revenues are 35.3 per cent lower than in 1998–99. Despite a marginal increase in real unit costs in 2008–09, they remain 41 per cent lower than 1998–99 levels.
- Real unit margins decreased substantially (by 27.9 per cent) in 2008–09 (\$9.68 in absolute terms) as a result of lower real unit revenues and slightly higher real unit costs. This represents the largest contraction in real unit margins to occur over the past decade. Real unit margins are however 6.6 per cent higher than in 1998–99.

It should be noted that the gross domestic product deflator, not the consumer price index, 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 seven years. From 2001–02 to

2008–09, the CPI has risen 21.4 per cent while the GDP deflator has risen 32.8 per cent.¹¹

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

2.4 Productivity

Some indicators of productivity increased during 2008–09 while others were mostly unchanged compared to the corresponding quarter of the previous year. At this stage, the main drivers of stevedoring productivity outcomes in 2008–09 are unclear. The extent to which increased productivity may be temporary or a result of previous capital investment is likely to become clearer as demand recovers.

¹¹ See ABS Cat No 6401.0, *Consumer Price Index*, and G04, *Other Price Indicators*, Chain Price Index, Gross Domestic Product.

3. Detailed monitoring results for 2008–09

3.1 Introduction

This section provides more details on the monitoring results for 2008–09, 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:

- revenues from the stevedoring function
- revenues from **other** or ancillary activities.¹²

The key observations on revenue in the stevedoring industry in 2008–09 are that:

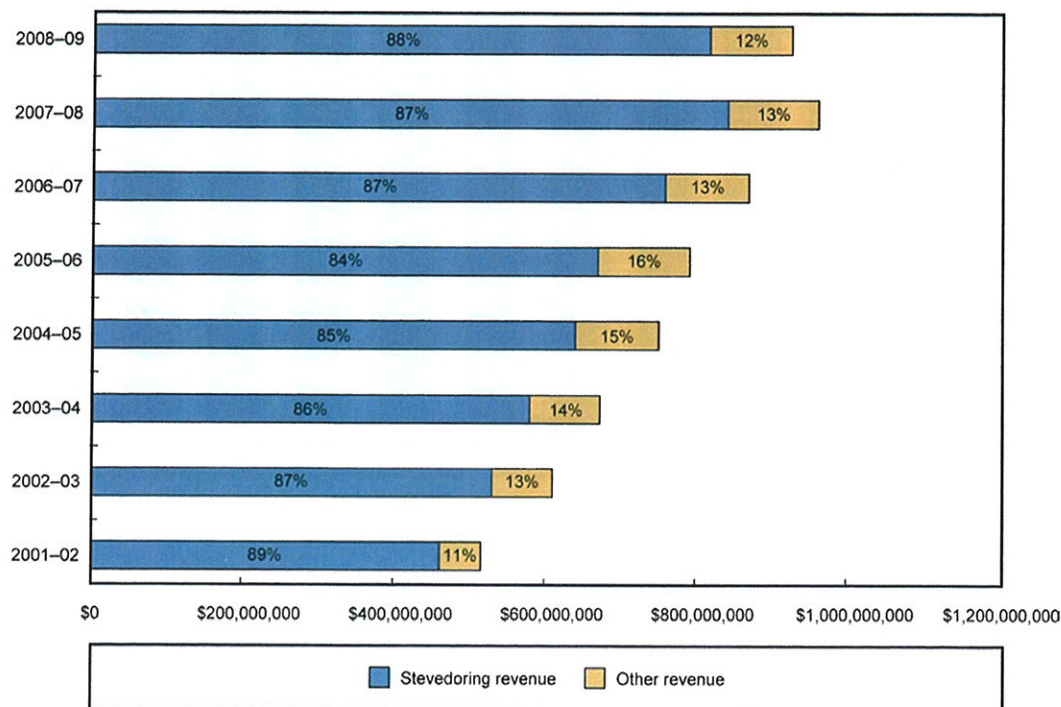
- **unit total revenue** was \$171.44 in 2008–09, a small decline of 1 per cent from 2007–08 levels; unit revenues from stevedoring activities was largely unchanged, while lower unit revenues were recorded for activities other than stevedoring
- **unit revenue from stevedoring activities** was \$150.97/TEU in 2008–09, reflecting a small marginal decrease of 0.2 per cent on 2007–08 levels
- **revenue earned from other services** was \$20.47/TEU in 2008–09, which represents a fall of 6.7 per cent over 2007–08.

The decline in revenues from other services in the 12 months to June 2009 is the third consecutive fall in as many years. These falls contrast with the trend of growing revenues from non-stevedoring activities evident between 2001–02 and 2005–06.

¹² 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 and Border Protection Service as parts of the Customs examination facility program.

Notwithstanding these most recent declines, non-stevedoring revenues remain an important source of income for the stevedores. The significance of 'other' is depicted in figure 3.1.

Figure 3.1 Components of total revenue, 2001–02 to 2008–09

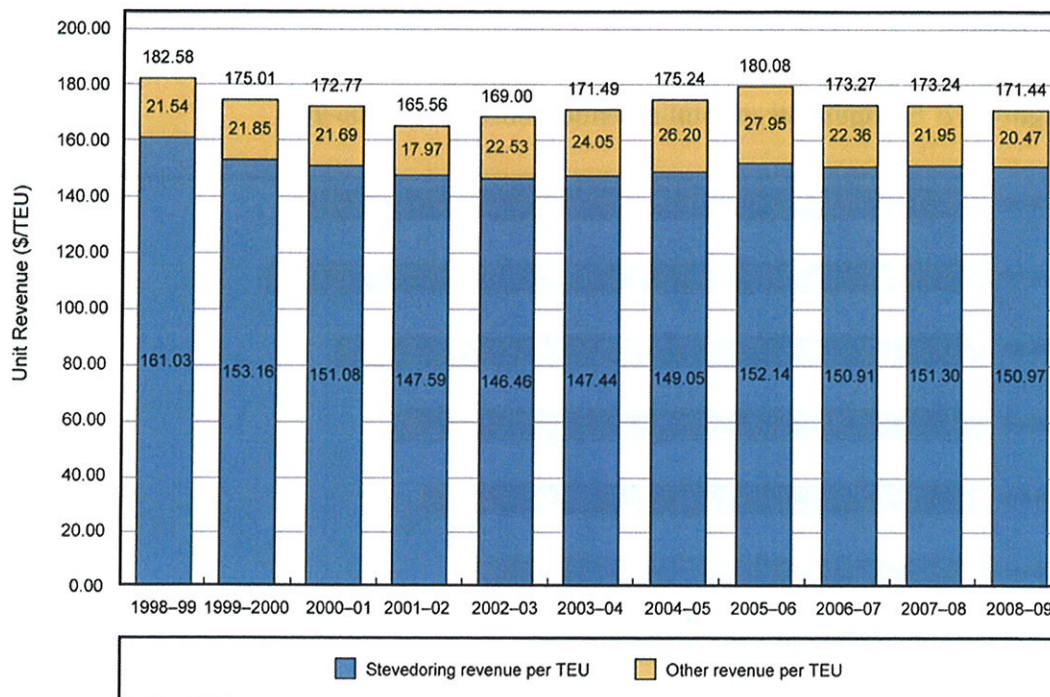


Source: data supplied by stevedoring companies.

Figure 3.1 shows the importance of other activities as a source of revenue in recent years. Between 2001–02 and 2008–09, revenues earned from activities other than stevedoring almost doubled from \$56.2 million (11 per cent of total revenues) to \$110.9 million (12 per cent of total revenues). Unit revenues from activities other than stevedoring reached a peak of \$123.2 million (16 per cent of total revenues) in 2005–06.

Figure 3.2 presents a schematic comparison of unit revenue earned on stevedoring and other services per TEU for the years 1998–99 to 2008–09.

Figure 3.2 Components of total revenue per TEU, 1998–99 to 2008–09



Source: data supplied by stevedoring companies.

The figure shows that:

- per unit total revenue declined marginally (by 1 per cent) in 2008–09 from \$173.24/TEU in 2007–08 to \$171.44
- per unit revenues from stevedoring services activities were largely unchanged in 2008–09 at \$150.97 (a marginal decline of 0.2 per cent from \$151.30 in 2007–08)
- per unit revenues earned from other activities decreased by 6.7 per cent to \$20.47 in 2008–09 from \$21.95 in 2007–08.

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.¹³

¹³ 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 re-stowing of a container which are set on the basis of per container lift that do not differentiate on the basis of size of the container.

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

Table 3.1 Unit stevedoring revenue by type of container, 20- and 40-foot containers

	Unit stevedoring revenue all containers (\$/TEU)	Unit stevedoring revenue for 20-foot containers (\$/TEU)	Unit stevedoring revenue for 40-foot containers (\$/TEU)	20-foot containers TEUs	40-foot containers TEUs
2001–02 ^a	147.59	194.33	99.75		
2002–03	146.46	196.92	101.02		
2003–04	147.44	201.13	103.31		
2004–05	149.05	206.71	105.74		
2005–06	152.14	213.09	108.51		
2006–07	150.91	213.10	108.38		
2007–08	151.30	217.84	107.39		
2008–09	150.97	215.85	109.56		
% change					
2001–02 to 2008–09	2.3	11.1	9.8	33.5	114.0
2007–08 to 2008–09	–0.2	–0.9	2.0	–4.7	–1.4

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

a: data is available from 2001–02 onwards. This is the first period in which the ACCC started collecting separate data on 20-foot containers and the use of 40-foot containers as part of the monitoring program.

The key points arising from table 3.1 are:

- Unit stevedoring revenues earned on 20-foot containers decreased from \$217.84 in 2007–08 to \$215.85 in 2008–09, indicating lower stevedoring charges for this container size.
- Unit stevedoring revenues earned on 40-foot containers increased slightly from \$107.39 in 2007–08 to \$109.56, indicating higher stevedoring charges.
- In average terms, unit stevedoring revenues earned on all containers decreased slightly from \$151.30 in 2007–08 to \$150.97 in 2008–09. This represents a marginal decrease in stevedoring charges. This overall small decrease is attributable to a smaller decline in the use 40-foot containers (–1.4 per cent) relative to the decline in 20-foot containers (–4.7 per cent).

- Compared with 2001–02, the number of TEUs carried in 40-foot containers was 114 per cent greater in 2008–09, while the use of 20-foot containers increased by 33.5 per cent. This data on relative use of 20- and 40-foot containers continues to demonstrate that there has been a significant shift in usage patterns.

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 3.2 shows the contribution of other revenue to the overall movements in unit total revenues between 2001–02 and 2008–09.

Table 3.2 Change in total, stevedoring and other revenue per TEU

	Total revenue		Stevedoring revenue		Other revenue	
	\$ TEU	% change	\$ TEU	% change	\$ TEU	% change
2001–02 to 2002–03	+3.43	+2.1	–1.13	–0.8	+4.56	+25.4
2002–03 to 2003–04	+2.49	+1.5	+0.97	+0.7	+1.52	+6.8
2003–04 to 2004–05	+3.75	+2.19	+1.61	+1.09	+2.14	+8.91
2004–05 to 2005–06	+4.84	+2.76	+3.09	+2.07	+1.75	+6.68
2005–06 to 2006–07	–6.81	–3.78	–1.22	–0.80	–5.59	–19.99
2006–07 to 2007–08	–0.03	–0.02	+0.38	+0.25	–0.41	–1.84
2007–08 to 2008–09	–1.81	–1.04	–0.33	–0.22	–1.48	–6.72

Source: data supplied by stevedoring companies.

The trend in other revenue is further highlighted in table 3.3, which shows other revenue in absolute terms and per TEU between 2001–02 and 2008–09.

Table 3.3 Other revenue—total and per unit, 2001–02 to 2008–09

Other revenue	Total (\$000)	Unit (\$/TEU)
2001–02	56 199	17.97
2002–03	81 641	22.53
2003–04	94 704	24.05
2004–05	112 540	26.20
2005–06	123 152	27.95
2006–07	112 476	22.36
2007–08	122 168	21.95
2008–09	110 917	20.47
<i>% change</i>		
2001–02 to 2008–09	+97.4	+13.9
2007–08 to 2008–09	–9.21	–6.7

Source: data supplied by stevedoring companies.

The table shows that:

- Total revenue from other activities decreased by 9.2 per cent in 2008–09 to \$110.9 million. This follows several years of fluctuations in other revenue levels. In absolute terms, revenue earned from other activities has almost returned to levels broadly comparable with those observed in 2004–05.
- On a per TEU basis, other revenue decreased by 6.7 per cent in 2008–09 to \$20.47/TEU, largely because of falls in unit revenues from storage activities (discussed below). On a per TEU basis, there has been a consistent fall in unit other revenues since 2005–06.

Despite the decline in revenues from other activities during 2008–09, services other than stevedoring remain an important source of income for the stevedores. Since 2001–02, other revenue has almost doubled in absolute terms and is 13.9 per cent higher on a per TEU basis.

Storage revenue

A significant 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 3.4 shows the trend in storage revenue between 2001–02 and 2008–09.

Table 3.4 Storage revenue—total and per unit, 2001–02 to 2008–09

Storage revenue	Total (\$000)	Unit (\$/TEU)
2001–02	15 438	4.94
2002–03	21 775	6.01
2003–04	26 559	6.75
2004–05	33 243	7.74
2005–06	38 019	8.63
2006–07	30 986	6.16
2007–08	36 035	6.47
2008–09	25 823	4.77
<i>% change</i>		
2001–02 to 2008–09	+67.3	–3.5
2007–08 to 2008–09	–28.3	–26.4

Source: data supplied by stevedoring companies.

Total storage revenue was \$25.8 million in 2008–09, a decrease of 28.3 per cent over the previous 12 months. In absolute terms, this is the lowest level of storage revenue recorded since 2002–03. On a per TEU basis, storage revenue decreased by 26.4 per cent from \$6.47 in 2007–08 to \$4.77 in 2008–09. The ACCC is not aware of any major changes to storage prices during 2007–08.¹⁴ Therefore, the decrease in storage revenues in 2008–09 may reflect a combination of factors, including decreases in the number of containers remaining in terminals beyond the fee-free period as well as the overall impact of lower volumes through the terminals more generally.

In previous years, the imposition of storage charges by the stevedores has been criticised by some stakeholders in the road transport industry as being an unfair and blunt instrument upon which stevedores can collect revenue. The ACCC has, however, observed that users have an opportunity to avoid storage charges by collecting a container within a fee-free period. The ACCC notes that the stevedores' incentive to earn storage revenue would likely be weighed against the cost of providing that storage (e.g. in the form of reduced yard capacity and increased yard congestion).

Vehicle booking systems

Automated vehicle booking systems are used to manage the flow of containers into and out of the land-side of Australia's major container ports. Revenue from this activity represented 10.6 per cent of total 'other' revenue in 2008–09 and is therefore not a significant component of total revenues in the industry. However, it is increasing in trend terms. VBS revenue on a per unit basis increased by 278.8 per cent between

¹⁴ The ACCC is aware that DP World announced on 12 August 2009 increased import storage prices would apply to laden and empty containers held at DP World's Sydney terminal with the new pricing arrangement due to take effect from 1 September 2009. The impact on stevedoring revenues from higher storage fees that are due to apply after 30 June 2009 will not be reflected in this monitoring report.

2001–02 and 2008–09. In absolute terms, VBS revenues in 2008–09 were seven times larger than levels recorded in 2001–02. Per unit VBS revenues increased by 2.7 per cent in the 12 months to June 2009 (however, in absolute levels VBS revenues were unchanged). This suggests VBS charges may have increased during the 12 months to June 2009 such that they were able to more than offset the effects of declining TEU volumes (such as possibly less vehicle runs by transport operators).

‘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 2008–09 revenue from undefined sources listed as ‘other’ within the ‘other revenue’ category increased from its 2007–08 level—this item was \$33.9 million in 2008–09, up from \$32.8 million 12 months earlier. The 2008–09 result continues to be significantly above 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 \$6.25/TEU in 2008–09, an increase of 383.1 per cent. (Despite falling TEU volumes, in the 12 months to June 2009, revenue from unidentified activities increased by 6.1 per cent from \$5.89/TEU in 2007–08 to \$6.25/TEU, which may possibly reflect higher charges).

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 Australian Customs and Border Protection Service as part of the container examination facilities program. Between 2003–04 and 2007–08, the number of TEUs inspected (x-rayed) at CEFs by the ACS increased by 54.1 per cent from 89 687 TEUs to 138 209 TEUs. For 2007–08, the number of CEF examinations exceeded the government’s target for sea cargo inspections of 133 000 TEUs.¹⁵

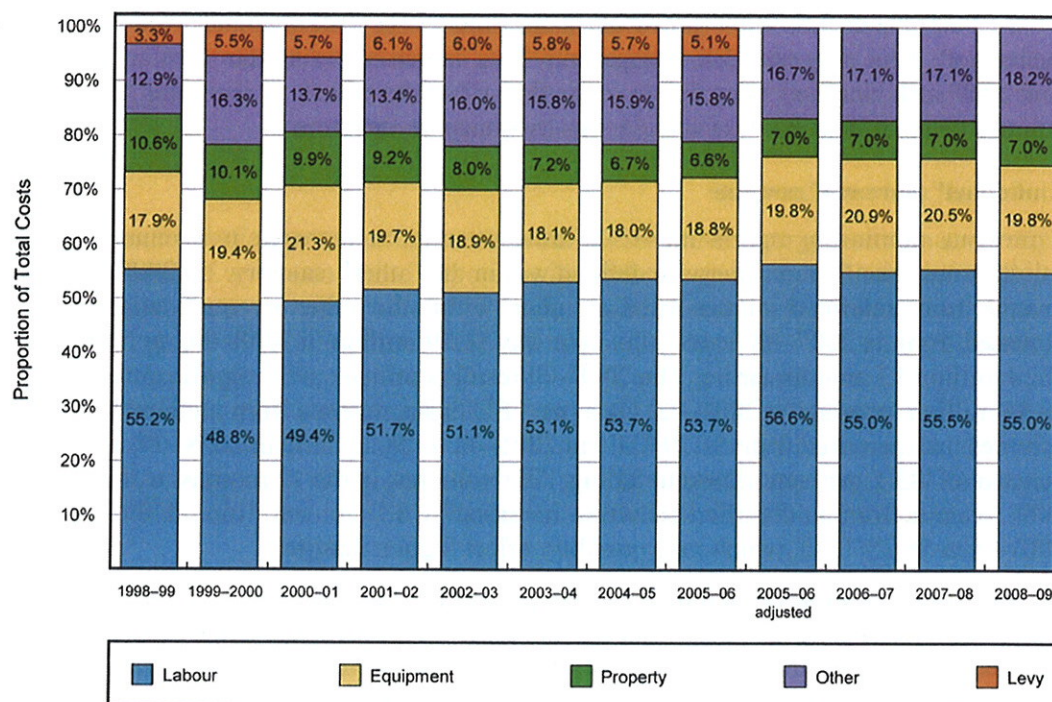
3.3 Costs

3.3.1 Relative cost shares

Figure 3.3 shows changes in the share of total costs held by key cost components from 1998–99 to 2008–09.

¹⁵ The ACCC understands that the first ACS CEF began in November 2002. A published breakdown of the number of TEUs examined by ACS through the CEF system is publicly available from its annual reports published from 2003–04 onwards. ACS annual reports can be downloaded from www.customs.gov.au. At the time the ACCC finalised this monitoring report, the ACS annual report for 2008–09 was not publicly available.

Figure 3.3 Cost components as a proportion of total costs (%), 1998–99 to 2008–09



Source: data supplied by the stevedoring companies.

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

Costs between 1998–99 and 2005–06 are not directly comparable with the cost proportions in the following years 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 the following years, an 'adjusted' series for 2005–06 is included in the figure that excludes payments of the stevedoring levy as a cost component in that year.

The following observations can be made from data in figure 3.3 on the composition of costs:

- Labour and equipment costs have been the major cost drivers throughout the monitoring period.
- In 2008–09 labour's share of total costs decreased slightly from 55.8 per cent in 2007–08 to 55.0 per cent.
- Similarly, in 2008–09 equipment costs, the largest component after labour, decreased from 20.5 per cent in 2007–08 to 19.8 per cent of total costs.
- Property costs as a share of total costs remained unchanged in the 12 months to June 2009 at 7 per cent.¹⁶

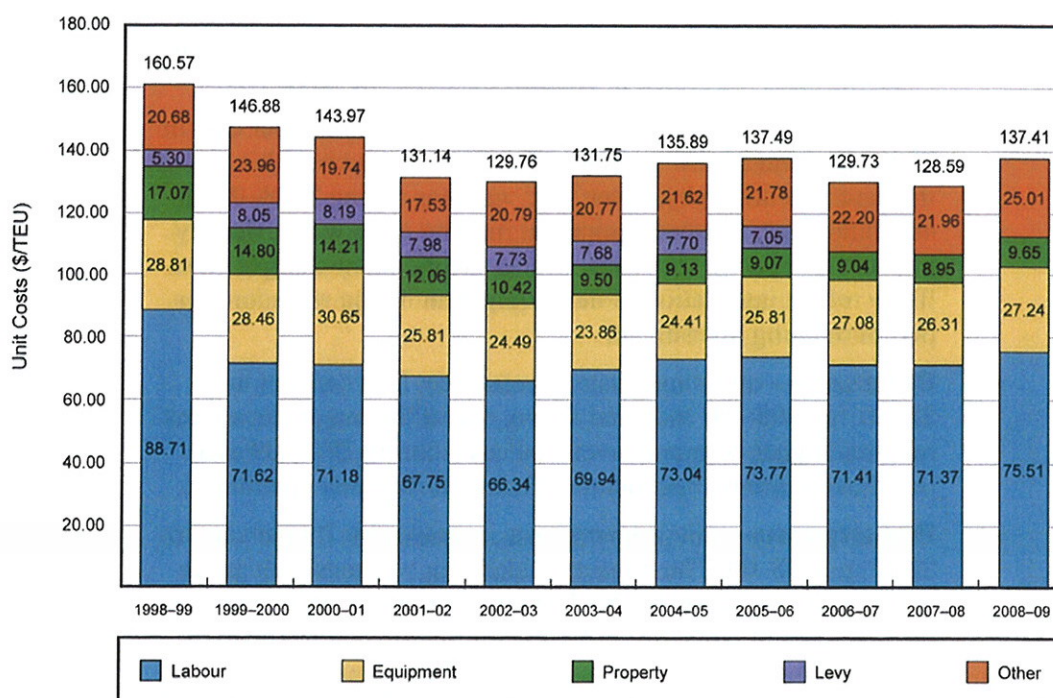
¹⁶ In some cases, new terminal lease agreements signed in 2009 that may provide for increases in property related fees and charges did not take effect until after June 2009. To the extent that these new lease agreements result in materially higher property costs reported by the stevedores, this would be expected to be seen in future monitoring periods, all other things being equal.

- The 'other' category (which includes port management fees and other costs, including direct and indirect costs such as corporate overheads) increased from 17.1 per cent of total costs in 2007–08 to 18.2 per cent in 2008–09. This appears to be mostly driven by a reported change in the allocation of overhead costs by one of the stevedores across its ports businesses following an internal restructure that it said had resulted in less directly managed businesses in Australia. This would indicate that higher indirect costs have been assigned to the stevedore's container stevedoring function than in previous years.

3.3.2 Variations in unit cost components

Figure 3.4 shows changes in the various cost components per TEU.

Figure 3.4 Cost components per unit (\$/TEU), 1998–99 to 2008–09



Source and notes as for figure 3.3.

Relevant points on costs per TEU that can be noted from figure 3.4 include:

- Total unit costs increased from \$128.59 in 2007–08 to \$137.41 in 2008–09, representing an increase of 6.9 per cent (+\$8.82). This represents the largest annual increase in percentage terms and in absolute terms since 1998–99.
- Total unit costs in 2008–09 (\$137.41) were similar to levels recorded in 2005–06 (\$137.49), although the composition of costs differs. Total unit costs in 2005–06 included payment of the stevedoring levy (the levy ceased from the end of May 2006).

The rise in per unit total costs in 2008–09 is partly explained by declining TEU volumes on a cost base that was largely fixed over that time. While TEUs declined by 2.7 per cent in 2008–09, unit total costs increased by 6.9 per cent. The three stevedores noted the impact of lower volumes on their terminal operations. Notably, most of the terminals reported increases in fixed costs, to varying degrees. Some of the stevedores noted that where a decline in fixed costs was not possible or sufficient to match the decline in volumes, such costs must therefore be spread over a smaller number of container lifts.

In assessing the composition of costs during 2008–09, figure 3.4 shows that:

- All cost components increased during the 12 months to June 2009 both on a per unit basis (in part due to declining volumes as noted above) and in absolute terms.
 - **Labour**—labour costs per TEU were \$75.51 in 2008–09, reflecting an increase of 5.8 per cent on 2007–08 levels. In addition to the impact of lower TEU volumes, both of the major stevedores reported higher labour costs that reflected outcomes of negotiated wage increases reflected in enterprise bargaining agreements.
 - **Equipment**—unit equipment costs¹⁷ increased by 3.5 per cent in 2008–09, from \$26.31 in 2007–08 to \$27.24. Much of this increase was driven by lower TEU volumes during 2008–09. In absolute terms, reduced equipment running costs were offset by higher depreciation expenses. Higher depreciation charges most likely reflect installation of new equipment by the stevedores as part of ongoing investment.
 - **Other costs**—other unit costs increased by 13.9 per cent to \$25.01 in 2008–09. As noted above, one of the major stevedores reported higher corporate overhead costs during 2008–09 as a result of an internal restructure of some its business operations.
 - **Property costs**—unit property costs increased by 7.9 per cent to \$9.65 in 2008–09. The impact of declining volumes only partly explains this increase. In absolute terms, property costs increased by 5 per cent in 2008–09. A number of the stevedores reported increases in property occupancy costs at rates above commercial market percentages.

A brief summary of the major capital investments in terminal capacity undertaken by the stevedores during 2008–09 is presented in the following summary box.

¹⁷ Unit equipment costs in 2007–08 and 2008–09 includes amortisation expenses. Note that the ACCC's analysis of industry profitability for 2007–08 and 2008–09 adds back amortisation expenses to EBIT for consistency with the asset base measure to which it is compared.

Major capital investment by stevedores in container terminal facilities, 2008–09

Asciano (Patrick)

In 2008–09 Patrick invested \$118.3 million on capital expenditure. Of this, \$85.9 million was spent on Fisherman Islands' Berth 10 redevelopment for increased capacity; \$6.2 million on straddle carriers at Port Botany; and a further \$8 million on AutoStraddle carriers for Fisherman Islands. Presently, a further \$56.6 million is budgeted for capital expenditure in 2009–10.

Further capital works programs, including the redevelopment of East Swanson Dock and Port Botany AutoStraddle rollout, have been deferred. Asciano indicated to the ACCC as part of the monitoring program that this decision was taken as a result of government policy to introduce further competition in to the stevedoring sector and create considerable excess capacity in the market.

DP World Australia

DP World currently has two ship-to-shore cranes on order for Sydney and one for Fremantle with delivery in early 2010.

It acquired from the Port of Brisbane Corporation the leasehold improvements when it entered the new lease in February 2009, and planning is proceeding in respect of the mode change DP World is committed to under the lease.

In Melbourne, the delayed expansion into the neighbouring tank farm site has commenced with a total investment of approximately \$20 million.

In Sydney, DP World is planning an extension of the rail siding and associated changes to the terminal now that it has signed its new lease with the New South Wales Government, with the new lease to commence in September 2009.

DP World Adelaide Pty Ltd

The 149-metre berth extension was completed in December 2008, providing capacity now, for two Panamax size vessels to be stevedored at the same time, increasing the Adelaide terminal berth length to 659 metres.

Four new Noell diesel/electric straddle carriers, worth \$5.6 million were commissioned in October 2008, allowing for the retirement of four Valmets after nearly 15 years of service, while an order was placed in May for a Post Panamax crane from ZPMC in China. An order for two cranes was originally forecast; however, the overall slowdown brought about by the global economic crisis initiated a reassessment of current capacity requirements.

The single Post Panamax crane along with the necessary power upgrade will require expenditure of up to \$23 million in the 2009–10 financial year, with commissioning anticipated for Q2 2010, while a further crane purchase is now forecast for around 2012–13.

Source: The information contained in this summary box is re-produced by the ACCC. It was provided by stevedoring companies to the ACCC as part of its information request to the stevedores about progress made during the monitoring period.

Information provided by stevedores suggests that much of the investment undertaken in 2008–09 was designed to increase terminal capacity.

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 most useful 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 base may be, for example, the value of assets employed or the value of the shareholders' investment. The ACCC considers that EBIT on the average value (of opening and closing balances) of tangible assets is an appropriate measure of the stevedoring industry's rate of return and its operating performance. Tangible assets refer to the physical infrastructure used by the stevedores to provide container stevedoring services.

EBIT on average tangible assets is not affected by management decisions regarding financial capital structures; these can significantly affect interest expenses and tax payable (and thus post-tax returns) but do not reflect the operating profitability of providing stevedoring services. Similarly, by using assets as the basis for comparing those returns, the investment base represents the assets employed rather than the shareholders' investment. More information on the ACCC's approach to estimating rates of return for the container stevedoring industry is presented in appendix G.

Data in table 3.5 shows annualised EBIT for the three stevedores since 1998–99 expressed as a percentage of average tangible assets. For comparative purposes, the rates of return are also shown for other selected companies and an average for the ASX/S&P 200.

Table 3.5 Rates of return—earnings before interest and tax/average assets, 1998–99 to 2008–09

Rate of return on average assets (%)	1998–99	1999–00	2000–01	2001–02	2002–03	2003–04	2004–05	2005–06
<i>Australia</i>								
Australian stevedores (tangible assets)	10.57	13.24	15.21	19.29	25.80	27.75	23.06	
ASX/S&P 200 ^b							8.8	
<i>Australian stevedores (re-stated on an AIFRS basis using asset values supplied by the stevedores that include revaluations and recognition of intangible assets)</i>								
<i>New Zealand</i>								
Lyttelton Port Co Ltd	29.54	32.30	30.44	31.40	21.09	19.02	13.40	
Ports of Auckland Ltd	17.38	18.13	18.13	12.21	14.06	17.45	10.45	
Port Otago Ltd	18.82	15.70	16.40	9.40	8.85	7.48	6.32	
Port of Tauranga Ltd								
<i>Other</i>								
PSA Corporation (Singapore)	9.90	12.30	14.89	8.10	13.66	16.03	15.72	
Hutchison Whampoa Limited (ports and services business segment)								
International Container Terminal Services (ICTS)								

a: From 2007–08 onwards, rate of return calculations exclude intangible assets from the calculation of the average asset base. The average asset base has been adjusted to add back in amortisation expenses and impairment losses (which are both associated with the recognition of intangible assets) for the period.

- b: Rate of return calculations for the ASX/S&P 200 are based on average EBIT/total assets. This is a simple average of the rate of returns for the ASX/S&P 200 companies (excluding financial institutions). These figures do not remove for the effect of intangible assets and related expenses.
- Source: Data supplied by the stevedoring companies, and sourced from annual reports, the Australian Stock Exchange, and Capital Partners Ltd. ASX/S&P 200 data excluded financial institutions.
- Notes: Companies in New Zealand are port authorities that also conduct stevedoring activities. The other overseas companies included in the monitoring program do not operate as port authorities.
Further notes accompanying this table are located at appendix G. These notes should be referred to when comparing results across ports.

Table 3.5 shows that:

- Rates of return on average tangible assets for the stevedoring industry have risen considerably since 1998–99. Higher stevedoring productivity, lower real unit costs and strong volume growth throughout most of the period are likely contributing factors to the positive rates of return seen since then.
- The average rate of return on Australia stevedoring assets at the six monitored ports decreased substantially in the 12 months to June 2009 from 24.86 per cent in 2007–08 to 17.63 per cent.
 - This is the largest recorded fall since monitoring began, reflecting both lower stevedoring earnings and continued growth in the industry's asset base are both likely contributing factors.
 - These estimates of average rates of return include only those factors likely to reflect changes in the industry's operational asset base and therefore exclude intangible assets (i.e. goodwill).
 - The resulting measure should not be interpreted as a return on the funds invested by shareholders in the respective stevedoring businesses as such investment would include the price that those owners paid to gain control of those businesses (which would include goodwill).
- An estimate based on the asset values provided by the stevedores that includes intangible assets (including goodwill) and asset revaluations would result in an industry rate of return of 6.11 per cent in 2008–09.

Comparison of average rates of return on assets of the Australian stevedores with container stevedore terminal operators at overseas ports can provide some perspective regarding outcomes in the Australian industry. When making such comparisons, there are differences between the Australian stevedores and overseas operators which should be recognised. These may include differences in the scale of stevedoring operations, degree of vertical integration and the influence of other factors on terminal businesses, such as potential variability in the effect of the global economic slowdown on levels of terminal activity. Nevertheless, the following observations can be made for the most recent monitoring period:

- Most terminal operators included in the analysis reported a decline in rates of return.

- However, the average rate of return on Australian stevedoring assets at the six monitored ports continues to be above most of the overseas operators tracked during the monitoring program.¹⁸
- The average rate of return on tangible assets is above the average for the top 200 companies listed on the ASX, excluding financial institutions.¹⁹

Between 2003–04 and 2008–09, the value of the industry’s asset base has almost doubled. Information previously provided by the stevedores indicates that much of this investment has resulted in higher levels of terminal capacity. This represents a significant expansion in the industry’s asset base that has occurred over a period that has consistently yielded high positive industry returns, notwithstanding the most recent year’s fall. Between 2003–04 and 2008–09, industry rates of return on average assets have averaged around 23 per cent. This appears to reflect the ability of the stevedores to invest significantly in terminal infrastructure and achieve a return on that investment in a relatively short period.

3.5 Productivity indicators

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

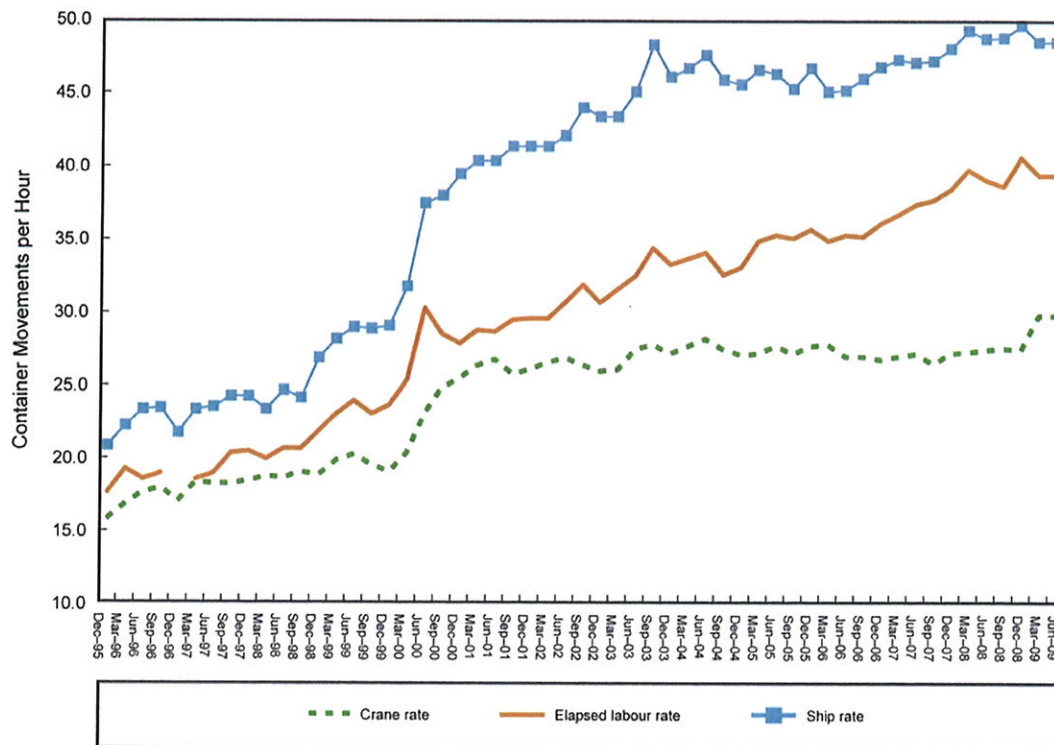
3.5.1 Productivity trends

Productivity trends are shown in figures 3.5 and 3.6.

¹⁸ More information on the ACCC’s approach to assessing stevedoring rates of return and the treatment of specific port data is available in appendix G.

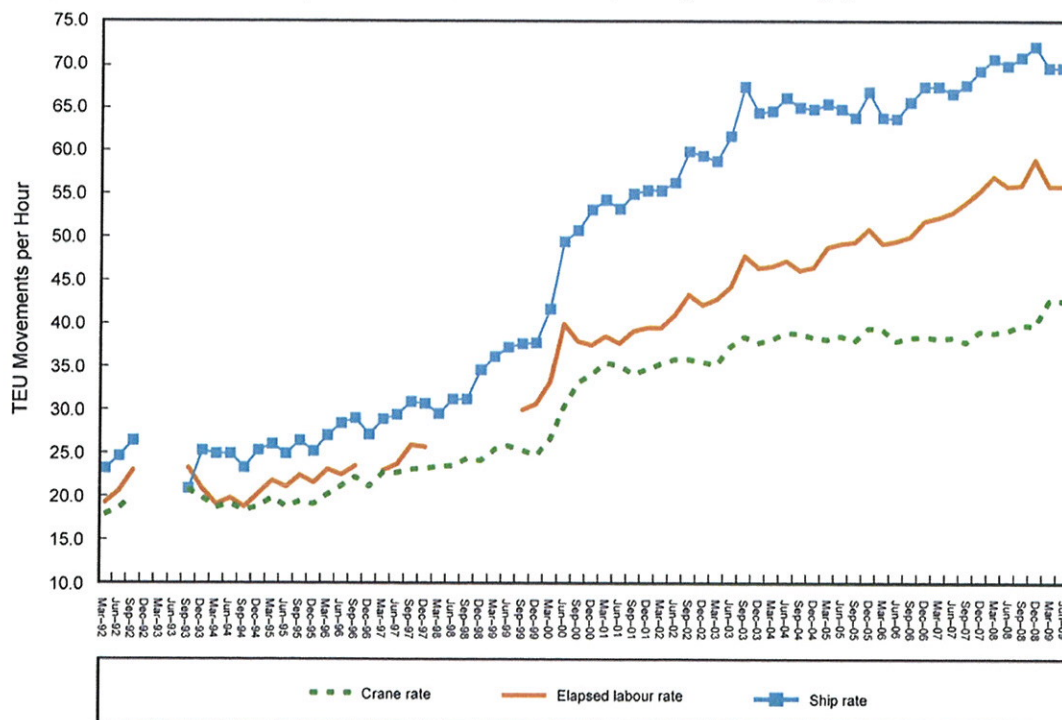
¹⁹ Caution should be used when comparing the average rate of return of the stevedoring industry with the ASX/S&P 200 because the latter is likely to include the effect of changes in corporate ownership.

Figure 3.5 Productivity indicators, containers/hour, five-port average, 1995 to 2009



Source: BITRE, *Waterline*, forthcoming publication no. 46, 'Averages for ports of Brisbane, Sydney, Melbourne, Adelaide and Fremantle'.

Figure 3.6 Productivity indicators, TEUs/hour, five-port average, 1992 to 2009



Source: as per figure 3.6.

Movements in the key productivity indicators in 2008–09 show that:

- The five-port **average net crane rate**²⁰, measured in terms of containers per hour and TEUs per hour, increased to unprecedented levels in the March and June quarters of 2009. The five-port average crane rate increased from 27.5 containers per hour in the June quarter 2008 to 29.8 containers per hour in the March and June quarters of 2009. On a per TEU basis, the five-port average crane rate increased from 39.2 in the June quarter 2008 to 42.7 in the March and June quarters of 2009.
- The five-port **average ship rate**²¹ describes the productivity per ship while the ship is worked. Between June 2008 and June 2009 the ship rate was largely unchanged (it did, however, reach its highest ever peak in the December quarter 2008). The average ship rate measured in terms of containers per hour decreased marginally from 48.7 containers per hour in the June quarter 2008 to 48.5 in the June quarter 2009 (peaking at 49.6 containers per hour in the December quarter). Likewise, on a per TEU basis, the ship rate decreased marginally from 69.8 in the June quarter 2008 to 69.6 in the June quarter 2009 (peaking in the December quarter at 72.1).
- The **elapsed labour rate**²² describes the productivity per ship, based on the time labour is aboard the ship. The five-port average elapsed labour rate measured on the basis of containers per hour increased marginally between the June quarter 2008 and June quarter 2009 from 39.1 to 39.4. The five-port average elapsed labour rate measured in terms of TEUs per hour was unchanged at 55.9.

Productivity outcomes for 2008–09 show that the net crane rate (both in terms of containers per hour and TEUs per hour) increased during the same period that throughput levels declined. The ACCC is generally aware that changes in stevedoring productivity levels throughout a typical year are sensitive to changes in demand.²³ While the results for 2008–09 reflect an extension of the relationship between productivity measures and container throughput levels, it is not clear at this stage what factors are likely to have contributed to the substantially higher net crane rate in the latter half of 2008–09. It is possible that investment in cranes and associated capital at various terminals during 2007–08 may have contributed to the higher crane rate. It is

²⁰ 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 BITRE, *Waterline*, forthcoming issue no. 46.

²¹ 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 BITRE, *Waterline*, forthcoming issue no. 46.

²² 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 BITRE, *Waterline*, forthcoming issue no. 46.

²³ Throughput levels in the September and December quarters are usually periods of peak demand in stevedoring as imports increase in the lead up to the Christmas period. Throughput levels are typically lower in the March and June quarters. The relatively higher productivity rates observed in the March and June quarters compared with the September and December quarters suggest that the stevedores are able to adjust their inputs (such as the amount of labour and/or the number of cranes) in this off-peak period.

equally possible that higher crane intensity levels reflect a more efficient allocation of capital resources where there is considerably less pressure to service a relatively higher level of throughput and a greater number of ships (including off-window arrivals). As demand recovers, it will be important to track the changes in productivity. A permanent improvement would be welcome. A return to pre-2008–09 levels might indicate that the 2008–09 result was only temporary. This would indicate a return in the longer term to productivity measures being quite flat following a period of improvement in the years following the reforms undertaken in the late 1990s. If this eventuates, it raises the possibility that further investment in capacity, either by the incumbents or by way of new entry, may be needed for increased efficiency in stevedoring.

3.5.2 ACCC observations about long term trends in stevedoring productivity

Long term trends in productivity and possible implications for labour and capital productivity

While outcomes in stevedoring productivity levels for 2008–09 were mixed, all measures of productivity included in the ACCC's monitoring program indicate that stevedoring productivity remains considerably higher than it was 10 years ago. Investments by the stevedores in new technology and the replacement of older equipment as well as more flexible labour relations arising from the government's waterfront reform package are all likely contributing factors to improved productivity outcomes.

A closer examination of the long-term trends in productivity since 1998–99 shows that some measures—the elapsed labour and the ship rate—generally increased over the period while the net crane rate has remained relatively stable following an initial increase. This can be seen in figure 3.5, which shows that the elapsed labour rate and the ship rate generally increased between 1998–99 and 2007–08. The crane rate increased between June 1999 and June 2001, in the period immediately following the introduction of waterfront reform (it first reached the government's waterfront reform benchmark rate of 25 container movements per hour in the December quarter 2000).

Since June 2001, the net crane rate has been relatively stable throughout the remaining period. Since June 2001, although the net crane rate has continued to be above the government's benchmark rate of 25 container movements per hour, it has largely remained within a band of 26 to 28 container movements per hour. This is despite substantial capital investment by the stevedores over the past five years, whereby such investments do not appear to have been accompanied by substantial increases in capital productivity, as reflected in the net crane rate, over that same period. These issues are discussed further in section 4.

4. Observations from the monitoring program

4.1 Introduction

This section identifies trends from the monitoring program and draws on publicly available information to make observations on stevedoring industry performance and the scope for increased efficiency in stevedoring services.²⁴

Pathways to increased efficiency in quay-side and land-side stevedoring services

Increased efficiency and productivity by the stevedores in the delivery of services to their customers at the quay-side has been a focus of these reports and of government policy over the years.

In considering the pathway to establishing the efficient operation and use of, and investment in, quay-side stevedoring services, competition appears to be important. While the expansion of stevedoring capacity of itself is likely to encourage more intense levels of competition in stevedoring, it is likely that there are additional benefits where that capacity is provided through a third terminal operator.

The need for greater competition in container stevedoring has been recognised for some time. A third stevedoring company is now preparing to provide services at the Port of Brisbane, and the New South Wales Government and Sydney Ports Corporation (SPC) is expected to make an announcement soon about the rights to operate a third container terminal at Port Botany. Recent media reports suggest that plans for new entry into stevedoring at the Port of Melbourne may soon be considered by the Victorian Government. The potential for new entry into Australia's three largest container ports is encouraging and could lead to more intense competition in the stevedoring industry, particularly along Australia's eastern seaboard.

There has also been increasing focus in recent times on achieving improved efficiency along land-side supply chains, of which the stevedoring companies are just one, albeit significant, part. While the ACCC's monitoring program has shown that the revenues collected by the stevedores relating to land-side services are relatively small, the land-side connection is significant in terms of its strategic importance to the import–export supply chains at individual ports.

Governments and port managers have increasingly recognised the strategic importance of land-side connections to the overall functioning of import and export supply chains at individual ports. Various approaches have been observed in recent years, with some ports achieving land-side supply chain efficiencies through a cooperative, collaborative approach. At other ports, cooperative approaches have not been as successful and state governments have established regulatory regimes as a means to developing efficient land-side connections.

²⁴ The ACCC's observations in this section that have regard to investment and employment, consistent with the statutory criteria specified in subs. 95G(7) of the TPA.

4.2 Quay-side performance

Substantial declines in volumes due to the downturn in the global economy were the primary driver of industry performance during 2008–09.

The results of the ACCC's monitoring program indicate that the operating performance of the Australian stevedores during 2008–09 was predominantly affected by changes in the demand for stevedoring services. A substantial decline in volumes occurred through most of the monitored container terminals during 2008–09. This contrasts with the trend over the last decade of strong growth in demand. Throughput data collected by the BITRE shows the decline in volumes during 2008–09 mostly occurred between January to June 2009 and that this decline was relatively more pronounced than the decline in volumes that is typically recorded in the second half of the financial year following the peak Christmas period. This significant decline in volumes was largely attributable to a broader decline in international trade volumes associated with the global economic slowdown.

Demand for stevedoring services is a derived demand and trends in volume growth have typically followed changes in national GDP growth. This suggests that the demand for stevedoring services would be expected to grow as the domestic economy recovers from global economic conditions.

Impact of lower volumes on stevedoring costs, revenues and profits

Total costs reported by the stevedores increased in 2008–09, due primarily to wage increases under new enterprise bargaining agreements. On a per unit basis, costs increased as a result of these labour costs increases combined with lower container volumes. This demonstrates that, in the short term at least, stevedoring costs are largely fixed. Total industry revenues in absolute terms were lower than 2007–08 levels. Unit total revenues (used as a proxy for average prices) were largely unchanged. Increased unit total costs, combined with little change in unit total revenues, resulted in a contraction in unit stevedoring margins in 2008–09 following record high levels in 2007–08.

Investment in terminals continued throughout 2008–09, representing the fifth consecutive expansion in the industry's asset base. The rate of asset expansion in 2008–09 was broadly consistent with that which occurred in 2007–08, when volumes and margins were considerably higher. Between 2003–04 and 2008–09, the value of the industry's asset base has almost doubled.

The monitoring results also show that industry profitability (indicated by rates of return on average assets) fell in 2008–09, as a result of reduced stevedoring earnings and continued growth in the industry's asset base. Industry profitability was 17.63 per cent in 2008–09 compared to an average rate of return of around 24 per cent between 2003–04 and 2007–08.

The monitoring results reinforce the ACCC's concerns regarding the intensity of industry competition in quay-side stevedoring services. This may have implications for the incentives of the stevedores to invest in sufficient levels of capacity to win business from potential competitors.

Previous ACCC monitoring reports have raised questions regarding the intensity of competition in stevedoring services. The results of the 2008–09 monitoring program, which show the ability of the stevedores to sustain price levels despite reduced demand

and short term increases in unit costs while also making strong positive returns, reinforce these concerns.

The intensity of competition in stevedoring services may have implications about the appropriateness of the current incentives of the incumbents to invest in capacity that would be sufficient to encourage them to win business away from potential competitors. This is discussed further in the following section.

4.3 Competition, capacity expansion and efficiency in quay-side stevedoring services

4.3.1 Competition in quay-side stevedoring services

The intensity of competition and the investment incentives of the stevedores can influence the ability of terminal operators to respond efficiently to customers' requirements.

An important indication of the intensity of competition is the extent to which customers are able to switch stevedores and exert countervailing power.

The degree of countervailing power held by major shipping lines to move business to a competitor is likely to depend on the extent to which suitable berthing windows may be available in the stevedoring competitor's terminal that allows the shipping line to maintain its shipping schedule. The number of berthing windows available across all terminals in a port may be one indicator of the overall quay-side capacity of the port to service ships.²⁵

A shipping line's choice of stevedore is already limited because the same two stevedores generally operate in each of the relevant ports. The two stevedores offer a national service whereby the same stevedore is used to service a shipping line at all of its respective ports of call within Australia. Where a shipping line tries to secure a suitable berthing window at the competitor's terminal in only one port, the preference for national contracting may discourage that line from being accommodated on a national basis.

The extent to which the incumbent stevedore is able to assess the likelihood that a shipping line will be able to act upon its threat to move its business away to the competitor's terminal is likely to influence the price and level at which the incumbent is willing to supply services. In a terminal where capacity levels might be insufficient to accommodate a significant amount of additional business, threats by a major shipping line to offer its business to a potential competitor may not be seen as credible.

The ACCC has observed that, historically, shipping lines have not frequently switched stevedores. This could reflect several factors in Australian stevedoring, including the existence of multi-year contracts between shipping lines and stevedores. Little movement in average unit stevedoring revenues over the past two years could indicate the presence of fixed price contracts between the shipping lines and the existing

²⁵ The rate at which shipping berths are utilised is likely to be a measure of overall efficiency of stevedoring capacity at a port. An increased number of berthing windows enables a port to service a greater number of ships yet maintain an efficient berth utilisation rate. Low rates of berth utilisation could indicate a degree of under-utilisation of berth capacity while high rates of berth utilisation could indicate berth congestion.

contracted stevedore. The monitoring results might also reflect an unwillingness by the stevedores to renegotiate lower rates.

The ACCC is aware of reports that some switching may have recently occurred. Patrick has reportedly lost a major stevedoring contract to DP World where ‘...Problems at Sydney’s Port Botany, where Patrick has less spare capacity than its rival, are being seen as partly to blame.’²⁶ To the extent that such switching occurred due to a lack of capacity at a terminal, rather than competitive bidding between the stevedores, the ACCC’s concerns about competition remain.

Examples of switching are rare which may suggest that the degree to which a rival’s terminal is able to process large volumes of additional business is historically low, outside a general decline in business such as the current global economic slowdown. This raises further questions about the appropriateness of the current incentives of the incumbent stevedores to compete aggressively with one another and invest in sufficient levels of new capacity such that they have an over-riding commercial incentive to win business away from competitors.

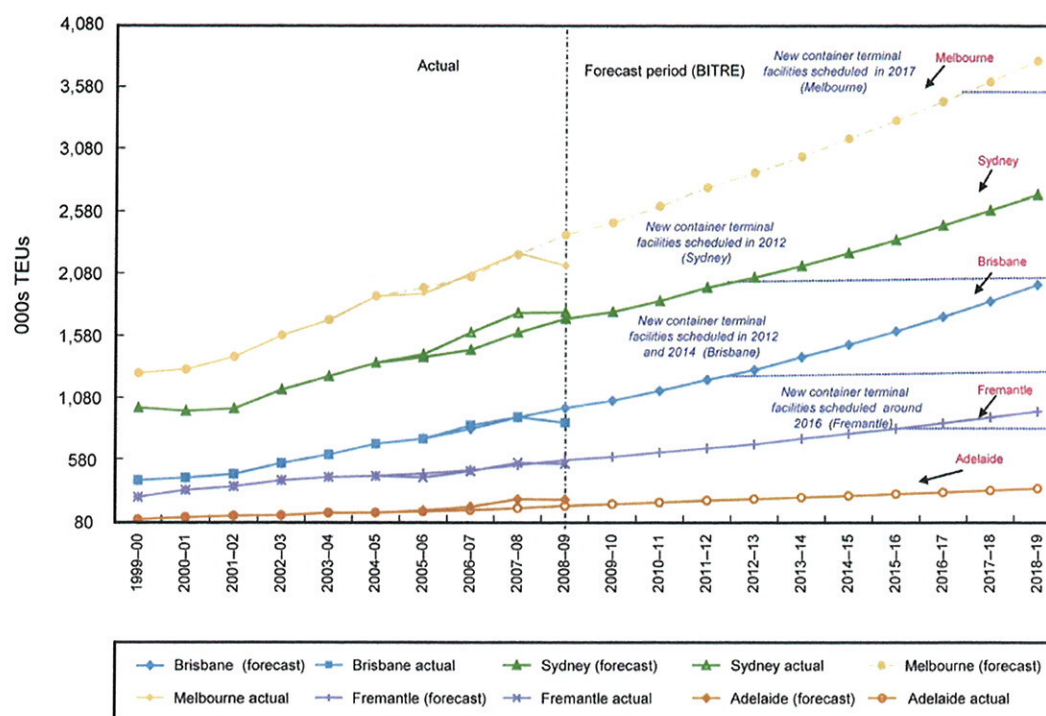
4.3.2 Capacity expansion in quay-side stevedoring services

Previous ACCC monitoring reports have commented on the decisions taken by port managers to expand terminal capacity over the next decade. All of the monitored container ports are due to expand capacity over the coming decade through a mix of investment in existing terminals as well as the commissioning of new container terminal facilities.

Figure 4.1 shows the projected forecast growth in TEU volumes for the five major capital city ports up to 2018–19 and the expected timing of a commissioning of a third terminal. These forecasts were produced in 2004–05 and while they do not incorporate actual industry outcomes for the last four years, they are broadly consistent with current expectations of increased demand for stevedoring services.

²⁶ Australian Financial Review, *Born-again Asciano sees threats to its coal hard cash*, 16 October 2009, p. 22.

Figure 4.1 Projected forecast growth in TEU volumes trade—Adelaide, Brisbane, Fremantle, Melbourne and Sydney



Source: TEU forecast data sourced from BITRE, working paper no 65. The working paper presents port by port forecast volumes for each year between 2005–06 and 2024–25. Actual TEU data sourced from BITRE's *Waterline* publication series. Information on the expected timing of establishment of new container terminal facilities at each port is based on publicly available information.

The figure shows that some port managers (such as Brisbane and Sydney) have decided to increase capacity based on three rather than the two existing container terminals, with the third terminal due to commence in the next five years. Other ports (such as Melbourne and Fremantle) have decided to rely on expansion of existing terminals to meet expected increases in demand, with a third 'overflow' container terminal due to come on line some time towards the end of the next decade when existing terminals are close to reaching capacity. The exception to this is Adelaide, where expected increases in container volumes are scheduled to be serviced by an expansion of existing terminal facilities involving a joint venture between the terminal operator and Flinders Ports.²⁷

²⁷ On 11 September 2008, the ACCC issued a media release indicating that it would not intervene in the proposed joint venture at the Port of Adelaide. In its public competition assessment of the joint venture arrangement, the ACCC noted market inquiries that suggested that the minimum total volume of container traffic required to justify the necessary capital investment in a second terminal on a greenfields site is in the order of 550 000 to 600 000 TEUs per annum. TEU forecasts by the BITRE had projected volumes for Adelaide below that threshold. The remaining monitored terminal at the Port of Burnie, while not included in the BITRE analysis, has a relatively small scale of container throughput compared to other Australian container ports. This is equally likely to affect the minimum efficient scale that could support new entry.

Latest developments in capacity expansion

The latest development in the capacity expansion plans of the major container ports is as follows:

- **Brisbane**—Hutchison Port Holdings remains scheduled to commence operation of a third container terminal at the Port of Brisbane in 2012. Berth 11 is due to become operational in 2012 and Berth 12 in 2014. This two-berth operation is designed to deliver an additional 25 per cent terminal capacity at the port.
- **Sydney**—the New South Wales Government and Sydney Ports is soon to announce the successful tenderer for the rights to operate a third container terminal at Port Botany. The new terminal operations are expected to commence in 2012. It is estimated that the commissioning of a third terminal in Sydney will provide additional wharf space sufficient to accommodate five new shipping berths.
- **Melbourne**—previous port development strategies in Melbourne had provided for new container facilities to be brought on line around 2017 once existing terminals had reached, or were close to reaching, capacity. However, recent statements by the Victorian Government point to the possibility of opportunities for a third container terminal materialising sometime before 2017.²⁸ The Victorian Government has announced that it will ‘test’ the market for interest in an initial module of additional stevedoring capacity at Webb Dock ahead of 2017.²⁹ It was recently reported that the Port of Melbourne Corporation is expected to put a business case for a third operator to the Victorian Government before the end of this year.³⁰
- **Fremantle**—the ACCC understands that Fremantle Ports remains committed to establishing overflow container facilities sometime when existing terminals at the Port of Fremantle are close to reaching capacity in around 2017.

Capacity expansion plans create opportunities for increased efficiency in stevedoring. Where these plans provide scope for new entry, the added benefits likely to result from increased competition may be a further catalyst for greater efficiency in the supply of stevedoring services.

Capacity expansion in stevedoring is required to meet the expected growth in demand for stevedoring services. However, depending on the model used, capacity expansion can affect the efficient use of, and investment in, stevedoring services. While a third container terminal offers additional terminal capacity at a particular port, it also increases the number of berth spaces and thus available berthing windows that could be offered to shipping lines servicing that port. Where shipping lines have increased

²⁸ The Hon. Tim Pallas MP, Minister for Roads and Ports, *Port Futures—New priorities and directions for Victoria’s ports system*, August 2009, pp. 24, 26–27.

²⁹ *ibid.*, p. 27.

³⁰ Australian Financial Review, 27 October 2009, *Port expansions seek to break duopoly*, 27 October 2009, pp. 1, 8.

access to suitable berthing windows, all other things being equal, it may be more inclined to switch its business to a rival player within a port.

There is now, perhaps more than ever before, a real chance of new entry into Australian stevedoring potentially in all three major container ports along Australia's eastern seaboard. With an announcement about a third operator at Port Botany expected soon, and scope for new entry to be considered at the Port of Melbourne ahead of 2017, the potential for more intense competition in stevedoring is encouraging.

From a competition perspective, there may be added benefits of having an increased number of players involved in service provision. As the number of competitors in an industry increases, it may become more difficult for one firm to accurately anticipate the likely responses of its competitors. In these circumstances, an industry player is more likely to offer firms its most competitive terms and conditions because it is less able to predict the actions of competitors.

Sufficient capacity across several ports to accommodate new shipping line business may be an important consideration for shipping lines that seek to retain the benefits of national service contracts.

The degree of countervailing power available to shipping lines is likely to be maximised where a sequence of suitable berthing windows is available across several ports. This is because a shipping line may be more inclined to switch to a rival stevedore where elements of a national or coordinated service are offered.

National service contracts are likely to offer advantages to users of stevedoring services. For example, it is likely that national service contracts 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 that would not be available from single-port operators. Further, a national stevedore may undertake to coordinate its various terminals so that a vessel that arrives at a port behind schedule can be brought back on schedule by the time it leaves Australia.

The extent to which national contracting is a sufficient barrier may become clearer in coming years. Planned new entry by Hutchison Port Holdings into Brisbane and possible new entry into Sydney suggests that national contracting may not represent an insurmountable barrier to entry. A single port operator, for instance, may be more inclined to offer its customers a price discount or service guarantee such that it could attract new business away from an established operator that has a national presence. Additional benefits could arise where there may be increased pressure on the incumbents in each port to offer more attractive terms and conditions to existing customers to retain their business and also to win new business away from potential competitors.

4.3.3 Efficiency in quay-side stevedoring services

Measures of stevedoring productivity

The result of operational and investment decisions by the stevedores are typically reflected in measures of productivity. Such measures may include the net crane rate, average ship and average elapsed labour rates, which are used in the ACCC's monitoring program. Other measures may include vessel waiting/along-side times, berth utilisation rates and TEU throughput per berth metre. All measures, where data is available, can be important indicators of a terminal's overall performance.

While there are several productivity measures used in the ACCC's monitoring program (see section 3.5), the net crane rate is the most widely accepted and often quoted measure of stevedoring productivity. This may be because it is the measure specified in the government's 1998 benchmark objectives of waterfront reform to achieve higher productivity. The government's productivity benchmark stipulated '...A commitment from the major stevedores to a benchmark crane rate of 25 container movements per hour as a national five port average'.³¹

Results of the ACCC's monitoring program show that some measures of stevedoring productivity have remained largely unchanged since 2000–01, suggesting that benefits associated with waterfront reform are likely to have been exhausted several years ago.

The ACCC examines six measures of stevedoring productivity as part of its monitoring program. These are the elapsed labour rate, ship rate and net crane rate, each on a container per hour basis and on a TEU basis. The ACCC earlier observed in this report that long-term trends in productivity between 1998–99 and 2007–08 show that four out of the six measures—the elapsed labour rate and the ship rate on a container per hour and on a TEU basis—have generally increased over time.³² The net crane rate (on a container per hour basis and on a TEU basis) however, has remained relatively stable following an initial increase in the period up until June 2001.

Since then, the net crane rate has generally remained within a band of 26 to 28 container movements per hour and always above the government's benchmark rate. To the extent that the net crane rate is a broad indicator of capital productivity, stabilisation in the net crane rate could be a general indication that the intensity to which capital is worked to service ships has not changed significantly since 2000–01.³³

Long-term productivity trends appear to indicate that most of the efficiency gains associated with waterfront reform are likely to have been achieved by around 2000–01, some two to three years following the introduction of that reform.

Long term trends in productivity could have implications for whether existing benchmarks are appropriate.

Since 2000–01 the Australian stevedoring industry has changed considerably. Much higher levels of throughput activity are occurring, with more sophisticated machinery and large cranes—in some cases, automated technology has been introduced—underpinned by a more flexible approach to labour relations. With higher levels of demand for stevedoring forecast for all Australian container ports over the next decade, it is not clear whether existing benchmarks remain appropriate yardsticks against which to measure an efficient provision of services to users.

An information paper released by the BITRE in August 2009 compared port performance of Australia's five capital city container ports with 29 overseas container

³¹ Australia, Senate, *Debates*, 22 June 1998 Hansard, pp. 3617–20 (second reading speeches for the Stevedoring Levy (Collection) Bill 1998 and Stevedoring Levy (Imposition) Bill 1998).

³² The ACCC discussed productivity outcomes for 2008–09 in section 3.5. The extent to which increased productivity is temporary or a reflection of previous capital investment is unclear. For this reason, this report has used longer term trends in productivity from 1998–99 to 2007–08 to make observations about general industry performance.

³³ See section 3.5 for further details.

ports using eight port productivity indicators, including the net crane rate.³⁴ The BITRE study found for the 2007–08 period, outcomes for the Australian container ports were below the median of overseas port performance. Ports Australia, the peak body representing the interests of port managers around Australia, commented that ‘... generalisations in international comparisons of port performance should be treated with caution because of differences in factors such as scale, equipment, vessel size and infrastructure.’³⁵

In August 2009 the Victorian Minister for Roads and Ports, the Hon. Tim Pallas MP, released his government’s long-term strategy for the Victorian ports system, known as Port Futures. One of the challenges set by the Victorian Government includes improving port productivity in which it noted ‘... there is some concern in industry that the pace of improvements in operational efficiency is slowing and there is a need to continue the momentum for improvements in productivity as the opportunities present themselves.’³⁶

Existing benchmarks may not provide sufficient incentive for stevedores to seek productivity outcomes that benefit the users of stevedoring services.

The ACCC earlier observed in this report that the elapsed labour rate and the ship rate have generally improved over time. To the extent that the ship rate and the elapsed labour rate could be indicators of labour productivity outcomes, this suggests that labour productivity has generally improved across the period.

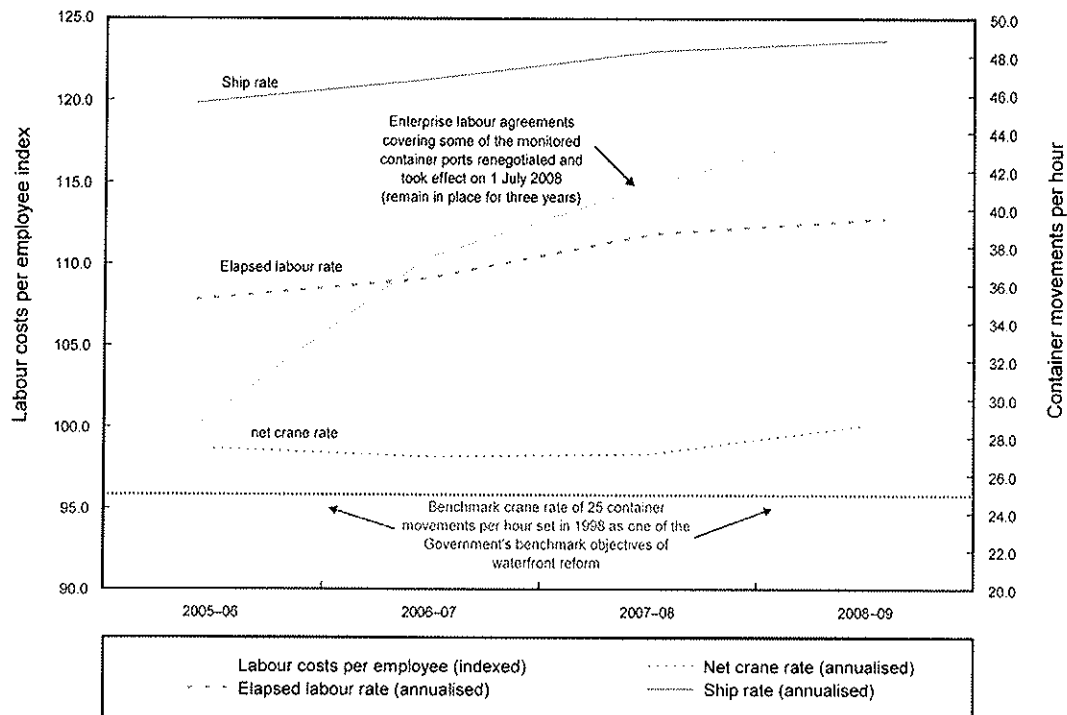
The ACCC examined movements in productivity and movements in unit labour costs since 2005–06 to ascertain whether higher labour costs coincided with improved productivity outcomes. To remove the effects of fluctuations in throughput levels over time, for the purpose of this analysis, unit labour costs were derived in terms of labour costs per employee. Figure 4.2 shows movements in labour costs per employee and movements in stevedoring productivity levels between 2005–06 and 2008–09.

³⁴ BITRE, *Information paper 65—Australian container ports in an international context*, August 2009.

³⁵ *Lloyds List Daily Commercial News*, ‘Australian box ports up to scratch says Anderson’, 24 September 2009.

³⁶ Pallas, *op. cit.*, p. 34.

Figure 4.2 Labour costs per employee (indexed) and stevedoring productivity (annualised), 2005–06 to 2008–09



Sources: Labour costs and employee data supplied by the stevedoring companies to the ACCC as part of the monitoring program. Port productivity data available from BITRE's *Waterline* publication series. Data for 2008–09 supplied by the BITRE and available in forthcoming publication no. 46. Quarterly data on the net crane rate, ship rate and elapsed labour rate (containers per hour) available from the *Waterline* publication series has been annualised for the purposes of this analysis.

Notes: The net crane rate shown above represents the five-port average of Adelaide, Brisbane, Fremantle, Melbourne and Sydney. Data on labour costs and employee numbers relates to Patrick (Asciano) and DP World Australia operations. Results have been indexed to maintain the confidentiality of company-specific information.

The figure shows that:

- Labour costs per employee increased between 2005–06 and 2008–09.
- The ship rate and the elapsed labour rate have generally increased across the period.
 - This provides some evidence to suggest that higher unit labour costs since 2005–06 have generally coincided with improved labour productivity outcomes.

Information available through Fair Work Australia shows that enterprise agreements covering stevedoring labour in several ports were renegotiated in 2008 and are scheduled to remain in effect for three years.³⁷

These agreements alone do not clearly identify the extent to which negotiated increases in the price of labour are expected to be matched by further efficiency gains in terms of productivity commitments that might exceed the existing net crane rate benchmark of 25 container movements per hour. To the extent that changes in labour arrangements may be designed to increase the efficiency of terminal operations, and to the extent that no new benchmark is set, this raises questions regarding the incentives of the stevedores to pass any such efficiency gains onto users.

4.3.4 Final ACCC observations on quay-side efficiency

Where efficiency gains are possible, competition can help facilitate the pass through of such benefits to users of stevedoring services.

Trends in stevedoring productivity appear to show that most of the efficiency gains associated with waterfront reform are likely to have been exhausted in the two to three years following its implementation.

Since then, the ship rate and the elapsed labour rate have continued to improve while the net crane rate has remained largely unchanged. This outcome and persistent concerns regarding the degree of industry competition raise questions regarding the incentives of the stevedores to invest sufficiently in capital to provide a more efficient service such that the benefits of increased efficiency are passed onto users of stevedoring services.

As demand recovers, it will be important to track changes in productivity. A permanent improvement would be welcome. A return to pre-2008–09 levels might indicate that the improved net crane rate result in 2008–09 was only temporary. This would indicate a return in the longer term to productivity measures being quite flat following a period of improvement in the years following the reforms of the late 1990s. If this eventuates, it raises the possibility that further investment in capacity, either by the incumbents or by way of new entry, may be needed for increased efficiency in stevedoring.

The current phase of capacity expansion and the expected increase in demand for stevedoring services provide real opportunities for more efficient operation and use of, and investment in, stevedoring services. The potential for more intense levels of competition, facilitated by way of new entry, could result in greater pass through of the efficiencies that can be derived from having an increased number of players involved in the supply of stevedoring services. This is because increased competition from a new entrant would be expected to put more pressure on incumbents to make efficiency gains. This may be important where new entry might result in possibly higher unit costs, at least in the short-term, arising from lost volumes.³⁸ However, the extent to

³⁷ Enterprise agreements in relation to Patrick terminals (AG 865618) and DP World (AG 847215) container terminals (AG847215) can be downloaded from Fair Work Australia at www.fwa.gov.au (viewed 1 October 2009). The Patrick enterprise agreement expires on 22 October 2010 and the DP World enterprise agreement expires on 30 June 2011.

³⁸ This situation might arise where new entry results in industry volumes being shared among industry players so that some terminals operate below the minimum efficient scale. In this situation, costs could be expected to rise until demand grows or less efficient firms exit the industry.

which an industry serviced by three rather than two terminals might be expected to incur higher unit costs in the short term may also depend on the degree to which new entry coincides with growing volumes.

When incentives for increased efficiency arise through means other than competition

The ACCC has observed other approaches designed to improve the incentives of the stevedores to manage quay-side efficiency. New legislation enacted on 1 December 2008 in New South Wales broadens the objectives of port corporations to include promoting and facilitating a competitive commercial environment in port operations and improving productivity and efficiency in ports and port supply chains.³⁹ The *Ports and Maritime Administration Amendment (Port Competition and Co-ordination) Act 2008* provides the SPC with powers to structure leases of major port facilities such as stevedoring terminals so that they contain appropriate provisions to foster enhanced competition, investment and productivity.

The new framework for port leases provides incentives for the stevedore to meet performance benchmarks in return for discounts on rental leases. The framework also carries threats that lease agreements can be scrapped should the terminal operator fail to follow through on investment commitments. The New South Wales Government has indicated that its new lease model will apply to all future port leases at Port Botany. On 8 July 2009 the New South Wales Premier, the Hon, Nathan Rees MP, announced that the his government had signed a new lease with DP World for its operations at Port Botany over the next 15 years that applies the new rental model of providing incentives for operators to improve their performance.⁴⁰

This approach might suggest that where the stevedores do not have the appropriate incentives to invest in a level of capacity sufficient to enable them to compete to win additional business away from rival players, other measures (such as regulation) may be an appropriate consideration for port managers and their shareholders.

4.4 Land-side efficiency at container terminals

Various reports by agencies such as the National Transport Commission, Infrastructure Australia and port authorities, as well as previous ACCC monitoring reports, have identified the need for improved efficiency along land-side supply chains, of which the stevedoring companies are just one, albeit significant, part.

While the ACCC's monitoring program has shown that the revenues collected by the stevedores relating to land-side services are relatively small, the land-side connection is significant in terms of its strategic importance to the import–export supply chains at individual ports.

Previous monitoring reports identified specific problems associated with establishing efficient land-side connections at Australia's major container ports. The extent to which land-side efficiency is a significant issue across the container ports varies according to the degree of congestion that persists, which may also reflect other factors, such as the

³⁹ Sydney Ports, December 2008, *Legislation to change how Sydney Ports operates*, online at www.sydneyports.com.au (viewed 1 October 2009).

⁴⁰ The Hon. Nathan Rees MP, media release, *New DP World lease at Port Botany secures jobs*, 8 July 2009.

geographical location of the port in terms of its proximity to built up areas and the efficiency of the connecting transport infrastructure.

Various approaches have been implemented in recent years to address concerns about land-side efficiency in and around container ports. In some ports, land-side supply chain efficiencies appear to have been achieved through a cooperative approach. At other ports, cooperative approaches have not been as successful and state governments have established regulatory regimes to implement land-side solutions. This is discussed further in the next section.

4.4.1 Key developments during 2008–09

The ACCC observed a number of key developments in the 12 months to June 2009 relating to land-side efficiency at major container ports. These are highlighted in the following table:

Port	Developments
Port Botany	<p>September 2008—the New South Wales Government published its response to the CIRA review of port competition and regulation in that state.</p> <p>The review was conducted by PwC in 2007 and recommended that port corporations be encouraged to take a stronger role in improving the landside and stevedoring infrastructure. The New South Wales Government supported this recommendation and proposed to include the facilitation and coordination of landside port facilities and supply chain services as a statutory function of the port corporation.</p> <p>The New South Wales Government enacted the <i>Ports and Maritime Amendment (Port Competition and Co-ordination) Act 2008</i> on 1 December 2008, giving New South Wales port corporations new statutory functions, including facilitating and coordinating improvements in the efficiency of the port-related supply chain.</p> <p>September 2008—the New South Wales Government also released its response to the IPART review⁴¹, in which it supported an enhanced leadership role for SPC. The government announced it would introduce the Port Botany Landside Improvement Strategy (PBLIS) to improve the competitive access and service arrangements guiding container movements between stevedores and transport operators. The strategy comprises two phases:</p> <ul style="list-style-type: none"> • Phase one—requires voluntary action by stevedores to develop a basis of reporting and business rules (including VBS performance measures) to be coordinated by SPC. If, after an appropriate evaluation time, Sydney Ports finds coordination and efficiency has still not improved sufficiently, the government may intervene to obtain the necessary performance improvements. • Phase two—the SPC will take control of the system and many of the performance standards will become mandatory. In this phase, the

⁴¹ In March 2008, IPART released its final report into a review of the interface between the landside operations of ports and the stevedores at Port Botany. The report identified that landside operations at Port Botany were reaching capacity during peak periods, causing inefficiencies at other ends of the supply chain.

Port	Developments
	<p data-bbox="539 275 938 304">VBS system will be run by the SPC.</p> <p data-bbox="475 322 1313 573">January 2009—the New South Wales Minister for Ports and Infrastructure, the Hon. Joe Tripodi, issued a media release, putting Patrick stevedores (owned by Asciano) on notice to improve truck turnaround times or face government regulation, following lengthy delays at Port Botany. The minister told the industry if it was unable to achieve an acceptable performance in the short term, the government would move immediately to implement the second phase of the reform agenda, which includes regulation.⁴²</p> <p data-bbox="475 591 1313 779">June 2009—under Phase one of the PBLIS, the SPC announced that it would introduce a performance management scheme in the December quarter 2009 to reduce congestion at Port Botany. The performance framework will see penalties flow both ways from stevedores and landside operations for failure to meet service standards once they are agreed and in place.</p> <p data-bbox="475 797 1313 985">June 2009—the SPC announced it would introduce a congestion price on truck operators accessing the port to reduce congestion around the port during peak times. The SPC has decided on \$160 as the initial peak price for trucking entering the port and an off-peak shoulder price of \$80 for trucks arriving between 1.00 pm and 9.00 pm. The scheme is due to become operational in early 2010.⁴³</p> <p data-bbox="475 1003 1313 1191">July 2009—the New South Wales Government announced a new state environmental planning policy which defines the boundary of ports and port related activities. The planning policy consolidates the existing zoning around New South Wales major ports (Newcastle, Port Botany and Port Kembla) and protects industrial land and key transport corridors essential to the operation of the ports.</p> <p data-bbox="475 1200 1313 1326">October 2009—the SPC issued a media release indicating that it would speak to Minister Tripodi about using regulations to implement landside port reforms if there was not an immediate improvement from stevedores following two weeks of poor performance at Port Botany.</p>

⁴² The Hon. Joe Tripodi MP, media release, *Stevedores told to fix delays at Port Botany*, 21 January 2009.

⁴³ In 2008, IPART and the New South Wales Government identified the use of pricing mechanisms as the appropriate method to address economic efficiencies and as a mechanism to address congestion at Port Botany. The IPART report recommended that the prices for firm slots be set through descending bid auctions separately for each stevedore. However, during the consultative phase of the Port Botany landside improvement strategy, an auction approach was rejected by industry.

Port of Melbourne	July 2008 —the Victorian Government launched a website, 'Connect Freight', that provides real-time travel information around the Port of Melbourne and is aimed at improving freight movements and reducing congestion.
	July 2008 —the Victorian Government announced that it was developing the concept of a 'logistics city', or freight precinct, to cope with Victoria's growing freight volumes. The government has invested \$150 000 in a study being conducted by Victoria University to develop the model.
	December 2008 —the Victorian Government released <i>The Victorian Transport Plan and Freight Futures—the Victorian Freight Network Strategy</i> . The VTP sets out the government's vision and plans for developing an integrated, sustainable transport system for Victoria over the next 20 years.
	March 2009 —the Victorian Government released its final report into the truck optimisation plan for the Port of Melbourne. The report made several recommendations relating to empty container park arrangements and operating hours, terminal interface and vehicle booking systems, regulation, collaboration between transport operators, labour shortages, skills, and coordination and review procedures. It also stressed the importance of the role of the port managers as a facilitator of change.
	August 2009 —the Victorian Minister for Roads and Ports, the Hon. Tim Pallas MP, released the government's long-term strategy for the Victorian ports system, known as 'Port Futures'. One goal of the strategy is to improve port land-side efficiency and integration to match port capacity increases. The strategy endorsed the initiatives in the truck optimisation plan. The Victorian Government has indicated that it will continue to work with industry to improve truck efficiency in and around the Port of Melbourne.
Fremantle	September 2009 —Fremantle Ports previously announced its Inner Harbour deepening project, which is essentially designed to handle the bigger ships coming into service. The project also provides for some reclamation of land at Rous Head, which will provide 27 hectares of land to be used for port-related purposes and for reducing truck congestion in and around the port. The reclamation works have received ministerial and environmental approval. ⁴⁴

Source: compiled by the ACCC based on publicly available information.

⁴⁴ Fremantle Ports, community newsletter, *Inner Harbour deepening project*, September 2009, pp. 3 and 4.

4.4.2 Incentives of the stevedores to maintain efficient land-side connections

The land-side task may not, by itself, provide incentives for stevedores to maintain land-side connections that provide for more efficient supply chains. Therefore, other solutions may be sought to involve the stevedores in supply chain solutions.

How the stevedores deploy resources in the terminal has important consequences for supply chain efficiency beyond the terminal gate. This is because the degree of efficiency with which containers are moved from the terminal to the truck or train (or vice versa) partly depends on the decisions by the stevedore to deploy its labour and capital to manage its yard.

While delivery of stevedoring quay-side services is governed by contractual terms and conditions negotiated between the shipping line and the stevedore, no such contractual obligations apply to land-side operations. Where a stevedore has to allocate limited resources to service ships or transport operators, the stevedore's contractual obligations to the shipping line are likely to be an overriding consideration. Costs that the stevedore faces include any penalties that may support those contractual obligations and costs to the stevedore in terms of flow-on effects to its other affiliated port terminals next in the shipping line's schedule. The stevedore does not bear the costs borne by others (e.g. the truck operators) waiting outside the terminal gate. This means that stevedores, who have financial incentives to ensure that they do not cause delays to vessels on the quay-side, do not have the same financial incentives to deploy resources to the land-side.

In its review of land-side arrangements at Port Botany, IPART observed that once containers are on the wharf, each stevedore effectively becomes a monopolist—the rail and road transport operator must deal with that stevedore if it is to take delivery of a particular container. In this context, it follows that stevedores do not need to actively compete for the business of transport operators because the operators are effectively unable to shift their business to take advantage of perceived efficiencies at another terminal.

Despite this, stevedores do have an overall commercial interest in maintaining a certain degree of land-side efficiency within the terminal gate. This is driven by the need to move containers into and out of the terminal quickly and efficiently to meet ship-driven volume and manage stack densities.⁴⁵

The SPC has a statutory responsibility to facilitate and coordinate land-side solutions at Port Botany. Its intended approach is to introduce a performance framework on both the stevedores and land-side operators that includes the payment of financial penalties for failure by both parties to meet performance targets. This approach aims to affect the relative incentives of the stevedores to work the land-side connection, while at the same time, meeting its contractual obligations to service shipping lines on the quay-side.

⁴⁵ IPART, *Reforming Port Botany's links with inland transport*, final report, March 2008, p. 4.

4.4.3 ACCC observations about approaches to improve land-side efficiency

The ACCC has observed that several approaches have been adopted to improve land-side efficiency at Australia's major container terminals. In some ports, such as Melbourne, land-side supply chain efficiencies appear to have been achieved through a cooperative approach. At other ports, such as Port Botany, cooperative approaches have not been as successful, and the NSW state government has implemented a regulatory regime that can impose certain land-base arrangements.

Where cooperative approaches are being considered, they may give rise to trade practices issues, especially where they involve arrangements between competitors on price or restrictions imposed on participants' freedom to choose in what or with whom they deal. Having an experienced trade practices lawyer involved may assist in assessing the risk of a breach of the Trade Practices Act.

Where businesses perceive there is a risk of a breach, they can seek immunity from legal action for such initiatives by applying to the ACCC for what is known as 'authorisation'. Authorisation is a process under which the ACCC can grant immunity for potential breaches of the competition provisions of the TPA if it is satisfied the conduct delivers a net public benefit.⁴⁶

Businesses considering applying for an authorisation or notification are encouraged to contact the ACCC for informal discussions and guidance. Where parties fail to adequately assess their risk and implement anti-competitive cooperative arrangements, they risk enforcement action for potential breaches of the TPA. The approach by the New South Wales Government shows that where cooperative approaches are not regarded as successful, state governments may choose to regulate to enable such approaches to be implemented.

4.5 Issues arising from the 2008–09 monitoring program

The results of the ACCC's monitoring program indicate the industry performance of the stevedores during 2008–09 was largely affected by reduced demand for stevedoring services during the second half of the financial year. Lower throughput volumes reflect the impact of the recent slowdown in the global economy and the impact of lower international trading volumes more generally. Despite these outcomes, the long-term outlook for Australian stevedoring remains positive.

The results of the 2008–09 monitoring program show the ability of stevedores to sustain price levels despite reduced demand and short-term increases in unit costs while also making strong positive returns. This reinforces the ACCC's concerns about the intensity of competition in stevedoring, and also has implications for incentives of the stevedores to invest in new capacity sufficient to win business away from each other. There have been recent reports of a shipping line switching stevedores at some ports as capacity opened up during the global economic slowdown, but historically this has been rare.

⁴⁶ Generally, the ACCC can grant authorisation if it is satisfied that the public benefits from the conduct outweigh any public detriment. The tests for granting authorisation are contained in s. 90 of the Trade Practices Act.

Longer term productivity outcomes suggest that efficiencies do not appear to have been more broadly distributed to users of stevedoring services. Where capacity expansion plans provide opportunities for new terminal operations, there are likely to be benefits of more efficient operation and use of, and investment in, stevedoring services.

In this regard, the following observations can be made:

- **Quay-side efficiency**—results of the ACCC's monitoring program and longer term trends in productivity raise questions about the incentives of the stevedores to efficiently respond to the requirements of their users. Long-term productivity trends appear to indicate that most of the efficiency gains associated with waterfront reform are likely to have been achieved by around 2000–01, some two to three years following the introduction of that reform.

Recent improvements would be a positive sign if due to new capital investment. Alternatively, should improved productivity outcomes in 2008–09 turn out to be temporary, this would reinforce concerns about the incentives of the stevedores to invest sufficiently to provide a more efficient service. This will become clearer as demand recovers.

- Whether benchmarks of stevedoring productivity established before 1998 continue to represent appropriate yardsticks for measuring quay-side efficiency today is also open to question.
- In this regard, recent moves to allow a third stevedoring company to enter at some ports are encouraging. The need for greater competition in stevedoring has been recognised for some time. There is now, more than ever before, a real chance of new entry occurring in several ports along Australia's eastern seaboard. It is possible that increased levels of competition could provide the necessary impetus over the next decade for increased efficiency in the provision of quay-side stevedoring services.
- **Land-side efficiency**—previous ACCC monitoring reports, and various reports by agencies such as the National Transport Commission, Infrastructure Australia and port authorities, have identified the need for improved efficiency along land-side supply chains, of which the stevedoring companies are just one, albeit significant, part.

While the ACCC's monitoring program has shown that revenues collected by the stevedores relating to land-side services are relatively small, the land-side connection is significant in terms of its strategic importance to the import–export supply chains at individual ports. Various industry approaches to establishing efficient land-side connections at container ports have been observed. Some ports have relied on cooperative approaches to promote land-side supply chain efficiencies. At other ports, cooperative approaches have not been as successful and state governments have established regulatory regimes to enable such solutions to be pursued.

- Where cooperative approaches are being considered, parties should be aware of their trade practices obligations, especially where the approaches involve arrangements between competitors on price or restrictions imposed on participants' freedom to choose in what or with whom they deal. Having an experienced trade practices lawyer involved may assist in assessing the risk of a breach of the TPA.
- The ACCC can grant immunity under the authorisation and notification provisions of the TPA when the public benefit from the conduct outweighs any public detriment. Businesses considering applying for an authorisation or notification are encouraged to contact the ACCC for informal discussions and guidance.
- Finally, it is recognised that the ACCC will also have a role to play in other aspects of land-side supply chains—for example, the Australian Rail Track Corporation is expected to lodge an undertaking in the future for the Sydney metropolitan freight line (into Port Botany).

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 Asciano (Patrick)

A.2.1 Revenue and margins

In 2008–09 the number of TEUs handled by Asciano across all ports decreased by 4.3 per cent. Of the monitored container ports, Port Botany was the only port at which volumes continued to increase (+3.9 per cent) on 2007–08 levels. In the 12 months to June 2009, Asciano's unit margin decreased by 18.6 per cent as a result of higher unit costs (partly due to declining volumes) and slightly lower unit revenues. Key aspects of Asciano's 2008–09 results are set out below.

- Across all ports, revenue per TEU decreased by 1.1 per cent and costs per TEU increased by 7.0 per cent.
- Asciano's margin per TEU decreased by 18.6 per cent. This result follows a peak in unit margins in 2007–08.
- The decline in per TEU margins occurred in all ports. In Burnie and Fremantle, margins per TEU declined by 81.7 per cent and 37.3 per cent respectively. In Sydney and Melbourne, margins per TEU decreased by 28.6 per cent and 2.7 per cent, respectively. In Fremantle and Sydney this was due to an increase in unit costs and lower unit revenues. In Melbourne and Burnie, an increase in unit costs was proportionately greater than an increase in unit revenues.
- Stevedoring revenue per TEU across all ports decreased marginally (–0.4 per cent) and other revenue per TEU decreased by 6.0 per cent.
- Compared with 1998–99, Asciano's total revenue per TEU was 11.4 per cent lower and total costs per TEU were 17.2 per cent lower in 2008–09.
- Asciano earned lower unit stevedoring revenues for 20-foot containers and higher unit revenues for 40-foot containers in 2008–09 than it did in 2007–08.

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 relating to these cost categories for Asciano.

The data shows that Asciano's total costs per TEU increased in 2008–09 consistent with the decline in volumes following two years in which unit costs decreased. Before that, unit costs consistently increased between 2001–02 and 2005–06. The total

cost index increased from 77.4 in 2007–08 to 82.9 in 2008–09, which represents an increase of 7.0 per cent. This increase was driven by higher unit costs in all cost categories. Key aspects of Asciano’s costs are set out below.

- In 2008–09 total costs per TEU were 17.2 per cent lower than in 1998–99. Total costs per TEU decreased across all cost categories over this period, with the largest decreases occurring in property and equipment costs.
- Stevedoring costs per TEU increased by 7.7 per cent in 2008–09 on average across all ports. The largest increase occurred in Burnie (+15.8 per cent). The smallest increase occurred in Melbourne (+3.3 per cent). These results reflect the relative scale of stevedoring between these two ports.
- In 2008–09 labour costs per TEU increased by 6.2 per cent. Unit labour costs increased in all ports except Melbourne where labour costs per TEU decreased by 1.1 per cent. The largest increase occurred in Burnie (+16.9 per cent). In Fremantle, Brisbane and Sydney, labour costs per TEU increased by 10.1 per cent, 9.6 per cent and 6.9 per cent respectively.
- Total equipment costs per TEU increased by 6.5 per cent in 2008–09 on average across all ports. The largest increase occurred in Fremantle (+13.8 per cent) and the smallest increase occurred in Sydney (+4.0 per cent).
- Property costs per TEU increased by 11.2 per cent in 2008–09 on average across all ports. Fremantle was the only port in which unit property costs declined in 2008–09 (–0.3 per cent). In 2008–09 per TEU property costs were 47.8 per cent lower than in 1998–99.
- Asciano’s other costs per TEU increased by 8.4 per cent in 2008–09. Other costs⁴⁷ consist of overheads, port management costs and other direct costs.

A.3 DP World

A.3.1 Revenues and margins

In 2008–09 the number of TEUs handled by DP World across all ports decreased by 0.5 per cent. DP World’s unit margin decreased by 36.2 per cent as a result of a combined fall in unit revenues and increases in unit costs. Key aspects of DP World’s 2008–09 results are set out below.

- Across all ports, unit total revenues decreased by 1.48 per cent while unit total costs increased by 6.6 per cent.
- The largest decrease in unit total revenues occurred in Brisbane (–2.9 per cent) and the smallest decrease occurred in Melbourne

⁴⁷ Other costs are not shown separately in table 1 in appendix C, but are included in industry-wide data presented in figures 3.3 and 3.4.

(-0.34 per cent). Unit total revenues decreased in Fremantle and Sydney by 2.8 per cent and 1.1 per cent, respectively.

- Stevedoring revenue per TEU across all ports decreased marginally by 0.4 per cent while other revenue per TEU decreased by 8.7 per cent in 2008–09.
- In 2008–09 DP World's total unit revenue was slightly lower (-0.5 per cent) than in 1998–99, while unit costs were 7.5 per cent lower.
- In 2008–09 there was a 4.9 per cent decrease in the use of 20-foot containers while the use of 40-foot containers increased by 2.5 per cent. This is in line with recent trends of a shift in the relative demand away from 20-foot containers to 40-foot containers.

A.3.2 Changes in key cost components⁴⁸

DP World's cost component data set out in table 2 at appendix C show that total costs per unit increased by 6.6 per cent in 2008–09. The largest increase occurred in Sydney where total per unit costs increased by 10.6 per cent. The smallest increase occurred in Brisbane with a 2 per cent increase in total per unit costs recorded in 2008–09. In Fremantle and Melbourne, total per unit costs increased by 7.4 per cent and 5.8 per cent, respectively. Key aspects of DP World's costs are set out below.

- In 2008–09 per unit labour costs increased by 4.8 per cent. Per unit labour costs increased across all ports, although Brisbane recorded the smallest increase of 0.9 per cent. The largest increase in per unit labour costs occurred in Sydney (+10.4 per cent). In 2008–09 labour costs per unit were 14.3 per cent less than in 1998–99.
- In 2008–09 total equipment costs per unit increased marginally by 1.1 per cent. Equipment costs per unit increased in Sydney (+6.8 per cent) and in Fremantle (+4.9 per cent). However, unit equipment costs decreased in Brisbane (-2.7 per cent) and in Melbourne (-2.2 per cent). DP World's total equipment costs per unit have increased by 15.4 per cent since 1998–99.
- Total property per unit costs increased by 3.1 per cent in 2008–09. Higher property costs per unit in Sydney and Fremantle offset decreases in Brisbane. Property costs per unit in Melbourne were largely unchanged from 2007–08 levels.
- DP's World's other costs per unit increased by 19.4 per cent in 2008–09. Other costs consist of overheads, port management costs and other direct costs. DP World reported a change in the allocation of overhead costs across its ports businesses from previous years following an internal restructure that it said had resulted in less directly managed businesses in Australia.

⁴⁸ DP World Australia's accounting practices are such that, while revenues are broken down on the basis of container-specific activity at its terminals, costs are not. Therefore, DP World Australia's general cost data relates to stevedoring and other activities at its respective terminals.

A.4 DP World Adelaide Pty Ltd

The number of TEUs handled by DP World Adelaide decreased by 5.4 per cent in 2008–09. DP World's margin per unit decreased by 1.8 per cent in 2008–09, when increases in unit costs were proportionately greater than increases in unit revenues. Other key aspects of DP World Adelaide's report follow (also see table 3 in appendix C).

- Overall unit revenues increased by 2.4 per cent in 2008–09.
- In 2008–09 unit stevedoring revenues increased for both sizes of containers (by 4.0 per cent for 20-foot containers and by 6.0 per cent for 40-foot containers).
- The overall decline in TEUs during 2008–09 mostly reflected a decline in the use of 20-foot containers, where TEU volumes decreased by 10.6 per cent. The use of 40-foot containers was largely unchanged (+0.4 per cent).
- Overall unit costs increased by 4.2 per cent in 2008–09. Higher stevedoring, labour and unit property costs more than offset decreases in unit equipment costs.

Appendix B Selected industry data

Table B 1 Nominal unit data, 1999–2009

		1998–99	1999–00	2000–01	2001–02	2002–03	2003–04	2004–05	2005–06	2006–07	2007–08
Total rev/TEU	(\$/TEU)	182.58	175.01	172.77	165.56	169.00	171.49	175.24	180.08	173.27	175.00
Total cost/TEU	(\$/TEU)	160.57	146.88	143.97	131.14	129.76	131.75	135.89	137.49	129.73	129.73
Total margin/TEU	(\$/TEU)	22.00	28.14	28.80	34.43	39.23	39.74	39.35	42.59	43.54	45.27
Stevedoring rev/TEU*	(\$/TEU)	161.03	153.16	151.08	147.59	146.46	147.44	149.05	152.14	150.00	150.00
Stevedoring cost/TEU*	(\$/TEU)	150.88	138.32	134.53	124.12	122.79	124.62	128.09	128.66	121.41	121.41
Stevedoring margin/TEU*	(\$/TEU)	10.15	14.84	16.55	23.47	23.67	22.82	20.96	23.48	29.50	29.50
Other rev/TEU	(\$/TEU)	21.54	21.85	21.69	17.97	22.53	24.05	26.20	27.95	22.36	25.00
Other rev/Total rev	(%)	11.8%	12.5%	12.6%	10.9%	13.3%	14.0%	14.9%	15.5%	12.9%	14.3%

Sources: The stevedoring companies, as part of the monitoring program, supply figures for 1998–2009.

* Data on revenue was supplied by Asciano and DP World Adelaide on the basis of container-specific activity in their respective regions. As Asciano's accounting practices are slightly different and while revenue figures are broken down in this way, costs are provided as national aggregates. DP World Adelaide's container-specific data are combined in the above with DP World Australia's stevedoring revenue to provide national aggregates.

Table B 2 Real unit revenue, cost and margins, 1986–2009

(\$ per TEU)	Unit revenue	Unit cost	Unit margin	Deflator	Real unit revenue	Real unit
1986	247.00	239.00	8.00	61.15	403.92	390.84
1987	244.00	218.00	26.00	65.33	373.52	333.72
1988	244.00	227.00	17.00	70.85	344.39	320.40
1989	247.00	241.00	6.00	76.93	321.09	313.25
1990	254.00	262.00	−8.00	81.10	313.19	323.06
1991	244.00	243.00	1.00	84.10	290.13	288.94
1992	195.00	196.00	−1.00	85.73	227.47	228.64
1993	195.00	190.00	5.00	86.78	224.72	218.96
1994	201.00	188.00	13.00	87.55	229.58	214.73
1995	206.00	191.00	15.00	94.00	219.15	203.15
1996	n/a	n/a	n/a	n/a	n/a	n/a
Jan–Jun 97	188.00	n/a	n/a	92.90	202.37	n/a
1998–99	182.58	160.57	22.00	93.65	194.96	171.46
1999–2000	175.01	146.88	28.14	95.50	183.26	153.80
2000–01	172.77	143.97	28.80	100.00	172.77	143.97
2001–02	165.56	131.14	34.43	102.33	161.80	128.16
2002–03	169.00	129.76	39.23	105.27	160.53	123.26

(\$ per TEU)	Unit revenue	Unit cost	Unit margin	Deflator	Real unit revenue	Real unit
2003–04	171.49	131.75	39.74	108.57	157.95	121.35
2004–05	175.24	135.89	39.35	113.51	154.39	119.72
2005–06	180.08	137.49	42.59	119.02	151.31	115.52
2006–07	173.27	129.73	43.54	124.00	139.74	104.62
2007–08	173.24	128.59	44.65	128.60	134.72	100.00
2008–09	171.44	137.41	34.03	135.88	126.17	101.12
% change						
2007–08 to 2008–09	–1.04%	+6.86%	–23.79%	+5.67%	–6.35%	+1.13%
1998–99 to 2008–09	–6.10%	–14.43%	+54.64%	+45.10%	–35.29%	–1.01%

Sources and notes: ACCC 1996, *Monitoring of stevedoring costs and charges and terminal handling charges 1995*. Figures for 1998–99 derived by from the BITRE series of publications, *Waterline*. The stevedoring companies, as part of the monitoring of the container industry, have provided figures for 1998–2009 *ABS, G04, Other Price Indicators, Chain Price Index, Gross Domestic Product* (available at <http://www.abs.gov.au>).

Appendix C Company trends in cost components

Table C 1 Asciano (Patrick) trends in cost components (per TEU) index,

Location	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Brisbane									
Stevedoring cost index	100	93.3	103.9	87.3	89.0	86.0	84.0	85.9	87.1
Total labour cost index	100	85.8	86.7	82.0	87.4	92.7	89.3	91.1	92.3
Total equipment cost index	100	83.1	107.5	72.3	61.9	49.1	45.9	54.4	57.1
Total property cost index	100	71.7	76.9	63.6	59.2	55.0	48.6	41.7	44.1
Port Botany									
Stevedoring cost index	100	84.4	81.3	75.4	78.1	78.1	79.2	81.6	83.1
Total labour cost index	100	84.9	80.9	75.8	79.3	84.2	88.3	89.7	91.1
Total equipment cost index	100	85.8	88.4	77.3	73.2	67.6	71.4	78.5	81.1
Total property cost index	100	69.9	72.7	51.6	49.9	47.4	44.6	54.3	57.1
Fremantle									
Stevedoring cost index	100	90.0	74.4	68.2	68.7	73.7	83.0	86.1	87.1
Total labour cost index	100	81.2	68.1	63.7	60.5	70.3	85.7	89.4	92.3
Total equipment cost index	100	85.8	65.9	53.0	53.2	51.6	52.7	52.0	52.3
Total property cost index	100	113.8	86.5	79.3	90.5	101.5	115.4	133.6	141.1

Table C 1 (Asciano continued)

Location	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
East Swanson								
Stevedoring cost index	100	91.4	92.3	82.6	80.6	80.1	81.7	79.5
Total labour cost index	100	89.4	90.0	84.2	79.8	86.1	92.8	88.5
Total equipment cost index	100	93.9	97.4	80.4	78.8	68.7	67.1	69.5
Total property cost index	100	73.8	72.3	57.7	47.1	38.6	35.4	32.5
Burnie								
Stevedoring cost index	100	98.1	95.1	93.6	92.9	82.5	96.1	100.0
Total labour cost index	100	81.0	83.7	88.1	84.3	79.1	107.3	117.5
Total equipment cost index	100	93.9	100.0	109.5	111.1	103.7	112.1	147.5
Total property cost index	100	104.5	74.4	127.9	75.0	51.8	76.7	108.5
National								
Stevedoring cost index	100	74.0	87.2	78.7	79.1	79.2	81.2	81.5
Total labour cost index	100	85.4	82.5	77.9	77.7	83.9	89.6	89.5
Total equipment cost index	100	91.3	94.6	77.4	73.5	65.9	66.1	72.5
Total property cost index	100	75.8	73.8	58.6	53.2	48.6	46.1	47.5
Total cost index*	100	87.2	86.7	77.1	77.7	78.2	80.6	82.5

Table C 2 DP World trends in cost components (per TEU) index, 1999–20

Location	1998–99	1999–00	2000–01	2001–02	2002–03	2003–04	2004–05	2005–06
Brisbane								
Total labour cost index	100	89.0	90.3	90.8	80.6	86.8	89.4	93.4
Total equipment cost index	100	119.2	104.8	91.0	94.9	100.3	101.6	109.4
Total property cost index	100	98.1	82.3	70.6	62.8	56.4	52.4	48.6
Total cost* index	100	99.5	94.9	91.2	86.3	92.4	92.6	97.4
Sydney								
Total labour cost index	100	73.5	76.9	78.9	78.8	80.9	81.1	80.7
Total equipment cost index	100	111.6	124.9	111.1	107.2	107.1	105.9	117.3
Total property cost index	100	93.0	90.7	108.5	101.9	98.6	94.5	95.2
Total cost* index	100	88.7	90.0	88.1	85.7	88.7	89.4	90.5
Melbourne								
Total labour cost index	100	82.7	76.0	71.5	71.1	73.2	79.3	81.2
Total equipment cost index	100	113.1	127.3	114.0	106.2	123.6	123.1	133.0
Total property cost index	100	119.9	110.0	95.7	69.0	59.7	59.1	52.1
Total cost* index	100	102.6	95.1	90.8	90.2	92.1	97.6	95.1

Location	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Fremantle								
Total labour cost index	100	85.2	82.4	83.8	74.0	78.7	76.7	75.4
Total equipment cost index	100	92.8	92.7	82.4	73.0	67.0	101.5	64.2
Total property cost index	100	117.9	81.2	86.9	80.1	75.4	70.3	76.5
Total cost* index	100	92.2	88.5	88.2	80.6	80.1	84.3	78.2
National								
Total labour cost index	100	80.4	79.8	78.8	75.4	78.9	81.3	82.6
Total equipment cost index	100	110.5	118.0	104.2	99.5	105.5	110.3	113.2
Total property cost index	100	105.1	95.5	93.1	76.8	70.1	67.3	64.6
Total cost* index	100	95.6	92.7	89.7	86.1	89.0	91.8	91.5

* **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

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

Note: national data for the years 1998–99 to 2000–01 include ports of Adelaide and Brisbane. Operations at the Port of Brisbane

* **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

The provision of container stevedoring services involves the lifting of containerised cargo on and off ships. Related to this function, stevedoring companies provide other services such as storage, maintenance and repositioning of containers. Stevedores also provide services that facilitate the movement of containers from the terminals to road and rail transport links. Arrangements between shipping companies and other port service providers (i.e. towage) can also often be arranged through the stevedore.⁴⁹

D.1.1 Structural arrangements

In Australia, stevedoring services are provided by specialist firms that own container-handling equipment (i.e. cranes and straddles). Stevedore companies lease berthing and terminal space from the relevant port authorities. Typically, these lease arrangements are exclusive and long term, ranging from 20 to 40 years.⁵⁰ These arrangements may affect contestability in the industry.

Stevedoring services can also be provided under other types of arrangements. In some overseas ports⁵¹, container terminals are owned and operated by port corporations. One or more stevedores are then provided with access to common-user terminals to operate their container-handling equipment. In some overseas ports, port authorities also own the container-handling equipment but subcontract to third-party stevedores. Other types of arrangements include total integration between port ownership and stevedoring services.

D.1.2 Market participants

Currently, there are two major operators in Australia for the supply of container stevedoring services. DP World Australia Ltd and Patrick (a wholly owned subsidiary of Asciano) operate terminals at the major container ports in Melbourne, Sydney, Brisbane and Fremantle. Patrick operates at Burnie, Tasmania and DP World Adelaide operates at the Port of Adelaide.⁵²

In January 2008 Hutchinson Port Holdings (HPH) was granted a lease to operate a third container terminal in Brisbane, commencing in 2012.⁵³

⁴⁹ Price Waterhouse Coopers, *Review of Port Competition and Regulation in NSW*, 23 November 2007, p. 21.

⁵⁰ Productivity Commission, *International benchmarking of container stevedoring*, July 2003, p. 141.

⁵¹ For example, Auckland, New Zealand.

⁵² On 11 September 2008 the ACCC issued a media release indicating it would not intervene in the proposed joint venture between Flinders Ports Holdings Pty Ltd and DP World (SA) Pty Ltd, after accepting a court enforceable undertaking from Flinders Ports. Under the proposed joint venture, Flinders Ports and DP World (SA) would become shareholders in an entity called 'Adelaide Container Terminals', which would be granted a right to conduct container stevedoring at the container terminal until 30 April 2039. On 7 May 2009, Dubai World announced that it had entered into a joint venture partnership in DP World Adelaide and Finders Ports.

⁵³ *Australian Financial Review*, 'Qld port deal signed', 30 January 2008, p. 10.

The New South Wales Government and the SPC are expected to announce soon the successful tenderer for the rights to operate a third container terminal at Port Botany that is due to commence operations in 2012.

D.1.3 Size and characteristics of market

Total throughput at Australian ports in 2008–09 was about 5.9 million TEUs.⁵⁴ The total number of container movements processed through the monitored container terminals during 2008–09 was significantly lower than those recorded in previous years, mainly because of the impact of the global economic downturn on trading volumes.

Melbourne is Australia's largest port with container throughput of 2.2 million TEUs in the year to June 2009. Sydney, Australia's second largest port, processed 1.8 million TEUs in 2008–09. Among the other ports monitored in 2008–09, volumes were shared among the ports of Brisbane (896 000 TEUs), Fremantle (565 000 TEUs), Adelaide (277 000 TEUs) and Burnie (213 000 TEUs).

D.1.4 Capacity in stevedoring

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

Both incumbent stevedores and port managers are responsible for managing capacity in stevedoring. Capacity is determined by a number of factors, some are more flexible than others because their capacity depends on how efficiently they are used and managed:

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

Quay length is likely to be the most significant factor because it determines the number of ships that can berth at any one time. Quay length is absolutely fixed in the short term and acts as a physical restraint on capacity. Port managers control the quay length 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 waterside aspects of the port, such as swinging basins and channel depth.⁵⁵

The level at which shipping berths are used is likely to be influenced by several factors. These may include the arrival pattern of ships, whether they are part of a regular service or arrive at random, as well as the strictness with which ships arrive within or

⁵⁴ BITRE, *Waterline*, forthcoming publication no. 46. This total also includes TEU data relating to the Port of Burnie that the ACCC obtained from TasPorts.

⁵⁵ These aspects are also affected by other considerations such as environmental planning issues.

outside their allocated windows. The time stevedores spend servicing the ship at the berth may also influence berth utilisation rates.

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

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

Finally, stevedores have control over the size and skills of the labour force as well as the degree to which new technologies are employed at their terminals.

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

D.1.5 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 seems to be two main areas where change is manifesting. One is in services that are ancillary to the stevedoring function. These are services that facilitate a more effective interface with land transport by allowing shippers to move containers more quickly and efficiently from the wharf into their preferred land transport link. The other is coordination of stevedoring with road and rail transport to create a more seamless freight logistics chain.

Stevedores have exclusive access to container terminals and therefore earn revenue from, and have arrangements with, road and rail transport operators for access to the port. These arrangements are facilitated by vehicle booking systems (VBS) or rail 'windows' (i.e. a timeslot during which the train is able to exchange cargo at the port) in an effort to reduce land-side bottlenecks.⁵⁶

Unlike the provision of quay-side services, stevedores do not have contractual obligations with trucking operators. This may affect the incentive to allocate resources to process trucking movements through their terminals.

⁵⁶ Price Waterhouse Coopers, *Review of Port Competition and Regulation in NSW*, 23 November 2007, p. 29.

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 the entry and exit costs, the lower the potential for new entrants to constrain the behaviour of incumbents. If entry barriers and exit costs are low, the ability of incumbents, even monopolists, to charge high prices and earn above normal profits is limited.

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.⁵⁷ However, other features of the industry may make entry difficult.

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. Efficiencies available to a larger operator, typically in terms of management and coordination of workforce and equipment, 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 suggested that while entry and exit costs are not generally considered large⁵⁸, 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.

Expressions of interest to establish a third terminal at the Port of Brisbane and at Port Botany in recent years indicate that economies of scale are not sufficiently strong to discourage a third stevedoring operation at the larger ports.

Capital costs

The Essential Services Commission (ESC) has estimated that the total costs for setting up a 650-metre terminal would range between \$435 million and \$476 million. This includes the basic infrastructure as well as terminal development and equipment.⁵⁹

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.⁶⁰

⁵⁷ Productivity Commission, *Work arrangements in container stevedoring*, 1998, p. 140.

⁵⁸ The Productivity Commission considered evidence suggesting that cranes cost about \$10 million; however, the existence of a secondary market means that not all 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 labour arrangements can be managed, and this is also likely to promote entry.

⁵⁹ ESC, *Review of Port Planning: final report*, December 2007, table 7.3.

⁶⁰ Productivity Commission, *Work arrangements in container stevedoring*, 1998, p. 140.

Exclusive and long-term lease arrangements

The exclusive and long-term nature of lease arrangements between stevedores and port authorities can also be potential barriers to a new entrant. These arrangements for the lease of berthing and terminal space usually range from 20 to 40 years' duration.

The degree to which these lease arrangements act as a potential barrier to entry may also be affected by a tendency of port managers not to invite competitors to bid for the leases as they near the end of their term.

In response to the New South Wales Competition Infrastructure and Reform Agreement review, the New South Wales Government amended its *Ports and Maritime Administration Act 1995* to require new leases to include end-of-term handover provisions.⁶¹ The CIRA review also recommended that the way in which the terms and conditions for long-term land leases are determined should be made more transparent.

Need to establish a multi-port presence

In Australia, no single port acts as the primary destination for ships, as is often the case in other countries. Rather, vessels operate across several ports that are separated by long distances. Shipping lines therefore need to establish a sequential network of suitable berthing windows across service ports so that they are able to maintain their shipping schedules.

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 that would not be available from single-port operators.

Furthermore, a national stevedore may undertake to coordinate its various terminals so 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.

Alternatively the introduction of HPH into the Port of Brisbane and possible new entry into Port Botany could indicate that a national presence may not be necessary.

The existence of national contracting is unlikely to be a sufficient barrier that, by itself, would preclude a single port operator from competing aggressively for business. A single port operator, for instance, may be more inclined to offer its customers a price discount or service guarantee so that it could attract new business away from an established operator with a national presence.

⁶¹ New South Wales Government, *NSW government response to the review of port competition and regulation in NSW under the Council of Australian Governments' Competition and Infrastructure Reform Agreement*, September 2008.

Height of barriers to entry and exit

The ACCC has not formed a view about the height of barriers to entry in the stevedoring industry. However, the entrance of HPH at the Port of Brisbane and the possibility of a third stevedore to operate the new container terminal facilities at Port Botany suggest that such barriers can be overcome in certain circumstances.

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 in turn depends 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.

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

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

D.2.1 20- 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.⁶² The data also suggests 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.

⁶² The ACCC's market inquiries indicate that this shifting preference towards 40-foot containers has been taking place for many years.

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.

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 because the stevedores have limited capacity to service significantly higher levels of business (especially during periods of peak demand). While most terminals currently appear to have some spare capacity, it may not be sufficient to service a substantially larger proportion of the market. Furthermore, where a shipping line seeks a national contract, capacity constraints at only one terminal may effectively preclude that line being accommodated.

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 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 before 1998, shipping lines had switched stevedores, which suggests that previously there may have been some sensitivity to prices charged by stevedores.⁶³ Over the last decade, however, the ACCC is not aware of any substantial switching between stevedores. On the other hand, it appears that shipping lines may be more sensitive to the quality of service than its cost.⁶⁴ 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.

⁶³ See Productivity Commission, *Work arrangements in container stevedoring*, 1998, p. 139.

⁶⁴ Bureau of Industry Economics, 'International performance indicators: coastal shipping, 1995', quoted in Productivity Commission, *Work arrangements in container stevedoring*, 1998, p. 29.

D.3 Regulation of ports and port services

The approach taken by state governments to the regulation of ports and port services varies. In February 2006 the Council of Australian Governments announced a competition infrastructure and reform agreement whereby 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.⁶⁵ COAG also agreed that third party access regimes would then be submitted for certification under Part IIIA of the Trade Practices Act as soon as practicable or as they are reviewed, provided they were submitted for certification by no later than 2010. At the time the ACCC finalised this report, it was not aware of any state jurisdiction having lodged its application with the National Competition Council.

Victorian, Queensland, New South Wales and South Australia all released final reports in 2008. Major findings of the completed reviews are identified below:

- **Victoria**—the ESC, conducting the review on behalf of the Victorian Government, raised concerns over port planning frameworks that encouraged sequential development of ports.⁶⁶ The ESC considered that terminals take around six years to come on line and developments would need to be made before terminals reach capacity to absorb increases in containerised trade.
- **Queensland**—the Queensland Department of Transport released its final report in April 2008, which essentially found that processes currently in place at Queensland ports for allocation of land and infrastructure are sufficient to facilitate new entry.⁶⁷
- **New South Wales**—the New South Wales Government released outcomes of the review in September 2008.⁶⁸ This review was undertaken by Price WaterhouseCoopers, which found that New South Wales' regulatory framework in relation to ports '... achieves an appropriate balance between promoting competition and ensuring the viability of port operations.'⁶⁹

The review found that barriers to competition do exist, but they are largely the product of the commercial environment rather than the regulatory framework. However, several recommendations were made on increasing the role of port corporations as a facilitator of trade and the transparency of long term-land leases at ports. The government issued its response the same day the PwC report was publicly released,

⁶⁵ COAG, *communiqué*, 10 February 2006, p. 7.

⁶⁶ ESC, *Review of Port Planning: Final report*, December 2007, pp. 10–11, issued publicly in January 2008.

⁶⁷ Queensland Department of Transport, *Review of Current Port Competition and Regulation Report*, December 2007, issued publicly in April 2008.

⁶⁸ Price WaterhouseCoopers, *Review of port competition and regulation in NSW: Consistency with the Competition and Infrastructure Reform Agreement Report*, 23 November 2007; report publicly issued in September 2008.

⁶⁹ *ibid.*, p. 2.

in which it supported all of the recommendations of the port review.⁷⁰ The government agreed to implement the recommendations by December 2008. The relevant legislative amendments took effect in November 2008.

- **South Australia**—in 2007 the Essential Services Commission of South Australia reviewed the pricing and access regimes that apply to seven commercial ports in South Australia.⁷¹ The review incorporated an inquiry into the consistency of the ports access regime consistent with the 2006 COAG CIRA agreement. The review concluded that the regime should continue to 30 October 2010 and also found that the ports access regime is generally consistent with the CIRA principles. ESCOSA is scheduled to begin a review in late 2009 of the industries subject to the Ports Access Regime to determine whether the regime should continue beyond October 2010.

The Western Australian Government released an issues paper in July 2008 and a draft report was released in November 2008, but at the time the ACCC finalised this monitoring report, the state government had yet to release a final report.

D.5 Conclusion

The ACCC is unable to form a view about the height of barriers to entry in the container stevedoring industry. However, it is reasonable to expect that the structure of an industry has a strong influence on the degree of competition likely to prevail. An industry where market power is dispersed among a large number of industry participants tends to have greater competitive pressures than industries where market power is concentrated among a few participants. The existence of monopoly or duopoly suppliers therefore raises concerns about the extent of competitive pressures in the supply of stevedoring services in Australia.

⁷⁰ New South Wales Government, *NSW Government response to the review of port competition and regulation in NSW under the Council of Australian Governments competition and infrastructure reform agreement*, September 2008.

⁷¹ ESCOSA, *2007 Ports pricing and access review*, October 2007.

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. 95ZE

Directions to monitor prices, costs and profits of an industry

- (1) The minister may give the Commission a written direction:
 - (a) to monitor prices, costs and profits relating to the supply of goods and services by persons in a specified industry; and
 - (b) to give the Minister a report on the monitoring at a specified time or at specified intervals within a specified period.

Commercial confidentiality

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

Public inspection

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

s. 95ZG

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.

Appendix G Rates of return

G.1 Introduction

This appendix provides additional information on the ACCC's approach to assessing the profitability of container stevedoring terminal operations in Australia and the comparison of the monitoring results for the Australian stevedoring industry with outcomes of selected overseas ports.

G.2 Measures of industry profitability

Different measures of industry profitability are appropriate depending on the perspective from which performance is assessed. Where performance is assessed from a perspective of returns on assets employed in producing a good or service, rates of return on operating (or tangible) assets are more relevant. Alternatively, rates of return measures including both operating and non-operating (i.e. intangible) assets are more appropriate where performance is assessed from the perspective of the opportunity cost of equity invested in a business.

To assess an industry's operating performance over time, the ACCC considers that industry rates of return that incorporate earnings before interest and tax on the average value (of opening and closing balances) of tangible assets is an appropriate measure on which to conduct its assessment. This is because EBIT on average tangible assets is not affected by management decisions regarding capital structures, which can significantly affect interest expenses and tax payable (and thus post-tax returns), but which does not reflect the operating profitability of providing stevedoring services. Similarly, by using assets as the basis for comparing those returns, the investment base represents the assets employed rather than the shareholders' investment.

G.2.1 Treatment of intangible assets and revaluations

The ACCC excludes intangibles (i.e. goodwill) and revaluations from the industry's asset base when assessing operating performance. Although revaluations and the recognition of intangible assets are permissible under the Australian equivalent of the International Financial Reporting Standards (AIFRS), it does not necessarily follow that they are appropriate for monitoring purposes. This is because of potential concerns that such intangibles may reflect an expectation at the time of sale for scope of a business to earn monopoly rents, which may obscure changes in the profitability of providing services.

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 that includes an amount paid for expected future profits (through higher charges) above normal when compared to the returns reported by ASX/S&P 200 Australian companies and overseas operators.

The ACCC's approach to exclude intangible assets and revaluations will create a difference between the stevedore's statutory and regulatory reports. However, such

divergences are not unusual where prices oversight of infrastructure services is involved (e.g. airport services, reserved mail services).

G.2.2 Consistency in asset valuation over time

One limitation of this approach is that the return on assets is affected by changes in asset values arising from asset revaluations, transfers or sales. Some businesses use different asset valuation methods, depending on the type of assets. Reported asset values may vary significantly for a given business over time, which reduces comparability. This raises issues for monitoring purposes, where consistency in reporting over time assists with meaningful analysis.

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

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

According to Asciano’s published financial statements for the period ending 30 June 2009, the carrying amount of goodwill allocated to the container ports segment business was \$2.3 billion, which represented 73 per cent of the total value of its container port assets.⁷² While this accords with relevant accounting standards, it represents a material change to the basis on which the Patrick assets were previously valued. Further upward asset—albeit, less sizeable—revaluations were reported by Patrick to the ACCC in the 12 months to June 2009.

Again, while such revaluations may be in accordance with relevant accounting standards, such standards allow a variety of accounting treatments, and the asset values generated by that process may not necessarily be appropriate for monitoring purposes. The ACCC has not attempted to evaluate the appropriateness of stevedores’ asset valuations, which would be necessary if prices were regulated. However, it does require, for monitoring purposes, stevedores to report asset values on a consistent basis over time so that the ACCC can assess trends in the profitability of operating the stevedoring terminals.

⁷² Asciano Limited, *4E – Full Year Report for the period ending 30 June 2009*, pp. 85 and 102. These financial statements indicated that in early 2009 Asciano undertook a review that included, among other things, some divisional reorganisation. The segment reporting for the Asciano ports business is split into (1) container ports (2) bulk and general ports and (3) autocare. The figures quoted above relate to the container ports segment.

For these reasons, for the 2006–07 monitoring period, it was necessary for the ACCC 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.⁷³ The result of this adjustment is that the Patrick asset base remained valued on a basis consistent with previous years.

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

For ongoing consistency in reporting, the ACCC's 2008–09 monitoring program required the stevedores to provide information on asset values on a historically consistent basis, which, therefore, continued to exclude the effect of any revaluations booked in the 12 months to June 2009. The asset information provided by the stevedores for the period ending 30 June 2009 reflected the opening value of tangible assets (i.e. as at 30 June 2008), plus additions to assets, less depreciation expenses and disposal of assets that occurred in the 12 months to 30 June 2009.

G.2.3 ACCC monitoring results

Data in table G–i shows annualised EBIT for the three stevedores since 1998–99 expressed as a percentage of average tangible assets. For comparative purposes, rates of return are also shown for other selected companies and an average for the ASX/S&P 200. This table replicates the results presented in section 3.4 but includes additional details regarding the formulation of the financial results based on information available in published financial statements.

⁷³ The value of assets employed by Patrick as at 30 June 2006 (i.e. 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, and 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's requirements under AIFRS, in particular AASB 3. AASB 3 is the accounting standard that 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 G-i 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
<i>Australia</i>								
Australian stevedores (tangible assets)	10.57	13.24	15.21	19.29	25.80	27.75	23.06	21.70
ASX/S&P 200 ^b							8.8	10.5
<i>Australian stevedores (re-stated on an AIFRS basis using asset values supplied by the stevedores that include revaluations and recognition of intangible assets)</i>								
<i>New Zealand</i>								
Lyttelton Port Co Ltd	29.54	32.30	30.44	31.40	21.09	19.02	13.40	9.15
Ports of Auckland Ltd	17.38	18.13	18.13	12.21	14.06	17.45	10.45	
Port Otago Ltd	18.82	15.70	16.40	9.40	8.85	7.48	6.32	5.06
Port of Tauranga Ltd								
<i>Other</i>								
PSA Corporation (Singapore)	9.90	12.30	14.89	8.10	13.66	16.03	15.72	13.76 ^c
Hutchison Whampoa Limited (Ports and Services business segment)								
International Container Terminal Services (ICTS)								

a: From 2007-08, rate of return calculations exclude intangible assets from the calculation of the average asset base and EF back in amortisation expenses and impairment losses (which are both associated with the recognition of intangible assets)

- b: Rate of return calculations for the ASX/S&P 200 are based on average EBIT/total assets. This is a simple average of the rate of returns for the ASX/S&P 200 companies (excluding financial institutions). These figures do not remove for the effect of intangible assets and related expenses.
- c: This result is for the 12 months to end December 2006.
- d: This result is for the 12 months to end December 2007.
- e: This result is for the 12 months to end December 2008.
- f: This result is for the 12 months to end December 2007 and relates to Hutchison's Ports 'Ports and related services business segment' only. It excluded established business in property and hotels, retail, energy and telecommunications and other non-port sectors.
- g: This result is for the 12 months to end December 2008.
- h: This result is for the 12 months to end December 2007.
- i: The 2008 result is not directly comparable with the 2007 result shown in the table. This is because the 2008 ICTS financial results were affected by three new port concessions entered into during 2008. The re-stated 2007 rate of return is estimated to be 29.11 per cent.

Source: Data supplied by the stevedoring companies, and sourced from annual reports, the Australian Stock Exchange, and Capital Partners Ltd. ASX/S&P 200 data excluded financial institutions.

Notes: Companies in New Zealand are port authorities that also conduct stevedoring activities. The other overseas companies included in the monitoring program do not operate as port authorities.

G.2.4 Comparisons involving Australian stevedoring and overseas port operations

In the 2007–08 monitoring report, the ACCC reviewed the way it assesses industry profitability and, in particular, the ports included in its benchmark analysis to ensure that its approach continues to provide a reasonable basis for comparability. Overall, the ACCC was generally satisfied that its monitoring approach continues to provide a suitable basis for comparing Australian stevedoring operating performance with that of stevedoring operations in overseas ports. Although there are differences between Australian stevedores and overseas operators, in terms of scale of stevedoring operations and ownership structures, broad observations can still provide useful insights into outcomes in the Australian industry. Some minor changes were made to the ACCC's benchmark analysis regarding overseas ports. These were detailed in the ACCC's monitoring report for 2007–08. However, given the importance of the ACCC's profitability analysis, these changes are also acknowledged below:

- From 2007–08, the results of South Port Ltd are not included because the percentage of containerised traffic of total port business was considered to be relatively low, suggesting that container stevedoring does not represent a significantly large part of South Port's operations.
- The performance of the Port of Tauranga Ltd is included because container stevedoring is a growing and important source of business at the port and it is New Zealand's largest container port.
- The financial results of other overseas container operators, Hutchison Whampoa Limited and International Container Terminal Services, have been incorporated into the ACCC's analysis. While throughput levels for both operators are significantly higher than those in Australia, which may affect the cost structure of their business (such as through the potential presence of larger economies of scale), their

operating performance is still relevant because a significant proportion of their businesses relate to container terminal operations, and the characteristics of the stevedoring function is largely the same as that conducted in Australia.

- Hutchison Whampoa Limited has significant business interests in container terminal operations around the world. It is also involved in property and retail development as well as communications. The ACCC's analysis was prepared on the basis of information related to the 'ports and related services business segment' published in Hutchison Group's annual financial statements. It therefore excludes Hutchison's established business in property and hotels, retail, energy and telecommunications and other non-port related sectors.
- International Container Terminal Services' principal activity is managing, operating and developing container terminals. The group provides cargo-handling and related services to container, storage facilities and services; and roll-on, roll off and anchorage services to non-containerised cargo or general cargo. The group also has operations relating to software development. The group has port facilities in the Philippines, Brazil, Poland, Madagascar, Japan, Indonesia, Syria, China, Ecuador, Georgia and Columbia.

Contacts

Infocentre: 1300 302 502

Website: www.accc.gov.au

Callers who are deaf or have a hearing or speech impairment can contact the ACCC through the National Relay Service, www.relayservice.com.au

For other business information, go to www.business.gov.au

Addresses

National office

23 Marcus Clarke Street
Canberra ACT 2601
GPO Box 3131
Canberra ACT 2601
Tel: (02) 6243 1111
Fax: (02) 6243 1199

New South Wales

Level 7
Angel Place
123 Pitt Street
Sydney NSW 2000
GPO Box 3648
Sydney NSW 2001
Tel: (02) 9230 9133
Fax: (02) 9223 1092

Victoria

Level 35
The Tower
360 Elizabeth Street
Melbourne Central
Melbourne Vic 3000
GPO Box 520
Melbourne Vic 3001
Tel: (03) 9290 1800
Fax: (03) 9663 3699

Western Australia

Third floor
East Point Plaza
233 Adelaide Terrace
Perth WA 6000
PO Box 6381
East Perth WA 6892
Tel: (08) 9325 0600
Fax: (08) 9325 5976

Queensland

Brisbane
Level 3
500 Queen Street
Brisbane Qld 4000
PO Box 10048
Adelaide Street Post Office
Brisbane Qld 4000
Tel: (07) 3835 4666
Fax: (07) 3832 0372

Townsville

Level 6
Central Plaza
370 Flinders Mall
Townsville Qld 4810
PO Box 2016
Townsville Qld 4810
Tel: (07) 4729 2666
Fax: (07) 4721 1538

South Australia

Level 2
19 Grenfell Street
Adelaide SA 5000
GPO Box 922
Adelaide SA 5001
Tel: (08) 8213 3444
Fax: (08) 8410 4155

Northern Territory

Level 8
National Mutual Centre
9–11 Cavenagh St
Darwin NT 0800
GPO Box 3056
Darwin NT 0801
Tel: (08) 8946 9666
Tel: (08) 8946 9610
Fax: (08) 8946 9600

Tasmania

Third floor
AMP Building
86 Collins Street
(Cnr Elizabeth and
Collins streets)
Hobart Tas 7000
GPO Box 1210
Hobart Tas 7001
Tel: (03) 6215 9333
Fax: (03) 6234 7796

CC

CC

