

AMENDMENTS TO FREMANTLE PORTS VEHICLE BOOKING SYSTEM: DISCUSSION PAPER ON POSSIBLE TRADE PRACTICES IMPLICATIONS

1. Introduction

The Vehicle Booking Systems (VBS) in use at Australian container ports do have some impact on the behaviour of road transport operators and can be used as one means of influencing truck productivity. It has been proposed to amend the VBS at Fremantle to support an increase in the productivity of trucks accessing the port's container terminals. The proposed amendments would be instituted by each stevedore and aim to change the behaviour of road transport operators. The initiative may have trade practices implications. This paper is designed to be the basis of discussion to clarify that situation.

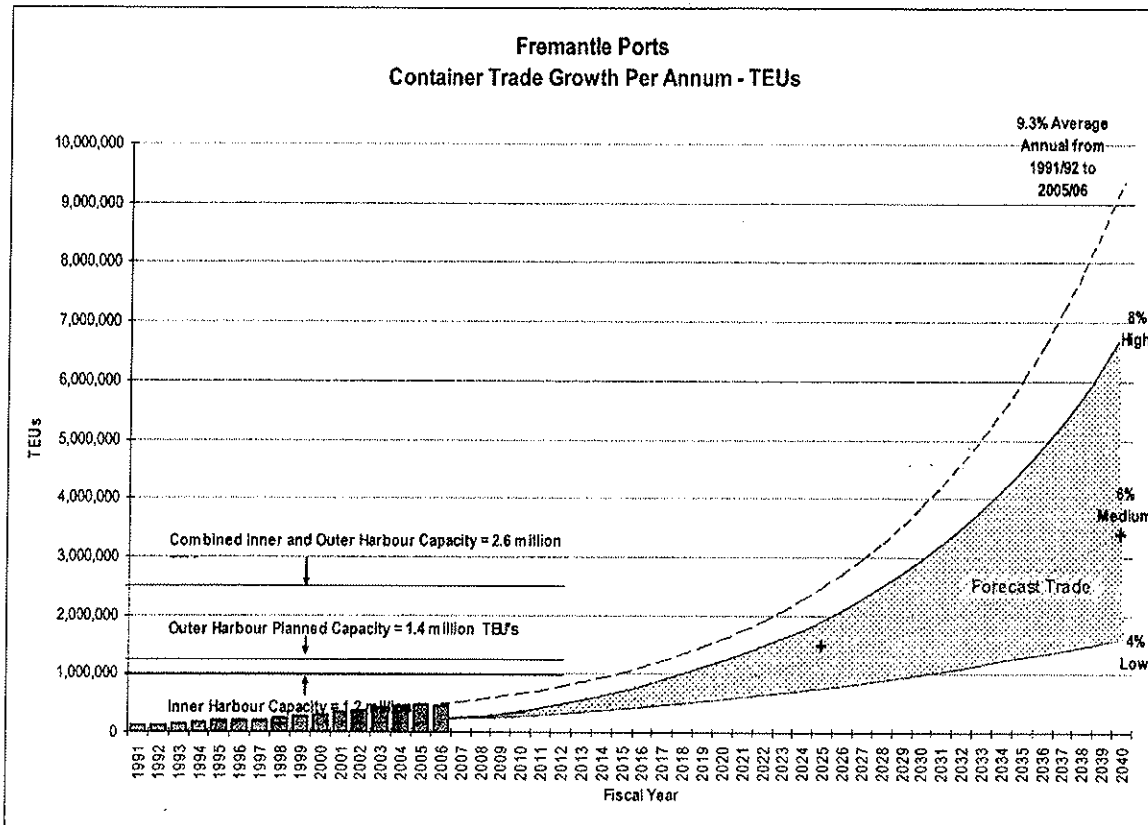
2. Policy Context

The Metropolitan Freight Network Review (MFNR) of 2002 was a major community consultation exercise aimed at identifying key areas of freight activity in the urban region and means of addressing any negative impacts flowing from them.

Fremantle Ports was identified as a key generator of freight activity with the potential for some negative community impact unless addressed. A Six Point Plan was developed to address these impacts. The Plan put forward the following initiatives:

1. Extend key highway access to Port;
2. Improve existing roads;
3. Build inland container terminals;
4. Put more freight on rail;
5. Make better use of road system; and
6. Plan for Outer Harbour expansion.

Fundamental to this plan (Point 6) was confirmation of the need for additional container handling facilities in the Outer Harbour to meet overflow demand when Inner Harbour facilities reach capacity - however the Inner Harbour would need to be maintained to meet future capacity requirements. The dimensions of this development are illustrated below:



Forecasts suggest that the nominated capacity of the Inner Harbour, a figure of 1.2 million teu per annum, will be reached in 2015-6. This throughput is double the current figure. The MFNR recognised that for Inner Harbour capacity to be achieved and maintained, new efficiencies would have to be introduced or resultant truck numbers would reach levels unacceptable to the surrounding community. Should that occur, an earlier move to the Outer Harbour would be required, at significant cost to the Government, to industry and to the overall State economy.

A greater role for rail was envisaged (Point 4.). At the time of the MFNR, rail carried 7000 teu which was less than 3 per cent of the Port's container throughput and was languishing. In the period since then, a combination of Government support and coordinated planning has seen the figure grow to 90,000 teu pa or 15 per cent of Port throughput, on target to reach the Government objective of 30 per cent market share by 2012/13. At the present rate of activity, rail has taken 65,000 annual truck movements of the road system.

Notwithstanding this encouraging modal shift, Fremantle's strong trade growth suggests that even at 30 per cent rail market share, truck numbers will be still double over the next four years without increased road transport productivity. Recent traffic surveys show that some 30 per cent of trucks moving in or out of the Port travel unladen. Growth in dual loading - ie carrying a container in and a container out - could exploit this capacity and contain truck movements. The surveys also indicate that average loadings on laden trucks are about 1.9 teu/truck, below the capacity of many vehicles serving the Port (average capacity is estimated to be about 2.2 teu).

Taking into account empty running, average truck loads are 1.35 teu. Greater truck utilisation would similarly exert a downward pressure on truck numbers.

3. Discussion Process

The MFNR identified a need to increase truck productivity at Fremantle Port in the interests of freight efficiency and community amenity (see Point 5). The Government subsequently established a discussion process to progress the initiative. The process involved input from each stevedore, the road transport industry, the road transport union, Fremantle Ports and the Port Operations Task Force. Discussions were convened and chaired by the Department for Planning & Infrastructure. For purposes of discussion, this group is referred to here as the Forum.

The potential trade practices implications of the issue were recognised from the commencement of this discussion process. Appropriate legal advice was sought early in the process that resulted in a Protocol signed by all participants confirming that discussions would be kept at a general level and would not involve any specific agreements of a commercial nature. A copy of the Protocol is attached to this paper.

Acknowledgement of potential trade practices implications was also made by opening discussions with the ACCC at an early stage of the process. These informal discussions have been instigated by the State Government to ensure that Commission officers are aware of progress on the issue and are comfortable with the nature of discussions.

The preparation of this discussion paper is consistent with the ACCC dealings to date.

4. Measures to Increase Truck Productivity

As recognised by the 6 Point Plan, one of the keys to containing truck impacts on the community is to increase the average number of containers carried on each trip. If this can be achieved without detracting from truck utilisation, it would also improve overall trucking productivity which, in turn, would work to the benefit of the supply chain and the economy generally.

The data on truck loadings noted above point to reduction in empty running as a key to improving average loadings - nearly one in three trips is empty. While there are a number of contributing factors to this, the ability of operators to organise loadings both in and out of the container terminals (ie dual loading) is clearly critical to improved performance. This figure is believed to be only about five per cent currently.

The major obstacles to dual loading are:

- The intense time pressures associated with making bookings through the VBS which makes it extremely difficult to match import and export slots within the same time zone.
- Coordinating movements across the two terminals is even more difficult because different VBS screens have to be accessed for each stevedore.
- The tendency of many operators to focus predominantly on either imports or exports. Few have a good balance of both.

These considerations have led the Forum to conclude that the best way forward is to introduce changes to the VBS to both facilitate and provide incentives for increased dual loading through the container terminals. Notably, the NSW IPART report recommended action along similar lines in order to address land transport issues at Botany.

The essential features of the proposed changes to the VBS are:

- Operators booking dual slots would be able to access the system in advance of other operators.
- Any dual-slot time slots not taken up would fall back into the general release.
- A limited number of dual slots would be released for specified time zones.
- Checks and penalties would apply to ensure that these priority slots were properly used.
- A multi terminal booking screen would be investigated to facilitate bookings across both terminals.

It is important to note that these amendments are based on access-based incentives and not price-based ones.

As noted above, even where trucks are loaded, their capacity is often underutilised. It is possible that the measures outlined above for tackling empty running could be extended to improving loaded running as well. The Forum however considered that the initial focus should be on dual loading and that, once this bedded down, attention could be turned to the other issue.

5. Expected Outcomes

It is important to emphasise that this initiative has been led by road industry, Government and Port representatives. The stevedores' involvement is obviously essential as they control the key mechanism governing truck movements through the terminals - the VBS. However, the improved dual loading of trucks is unlikely to be of material benefit to the stevedores themselves, at least in the short term. Their involvement, it should be recognised, is of primary benefit to the container supply chain rather than to the stevedoring function.

Access to VBS slots are highly valued by trucking operators, particularly during the peak usage periods from 0700 to 1700 hours. Competition for these slots is fierce and accordingly any measure which presents the opportunity for priority access to such slots is considered by industry representatives to be likely to influence trucker behaviour.

The major outcomes expected are:

- An immediate take-up of dual slots by operators who have a capacity to match imports and exports, leading to a reduction in empty running by those operators.
- Over time, adjustments within the industry to enable more operators to arrange more balanced import/export movements in order to take advantage of the priority slots and reduce their empty running. These adjustments within the trucking industry could range over cooperative arrangements between operators, emergence of brokers to organise loads, mergers of businesses, etc.

It is not possible to determine with any accuracy at this stage what the extent of these impacts will be. However, it is highly probable that the benefits will far outweigh the costs involved. The main cost is the change to the VBS software which has been estimated at around \$300,000. This is a capital cost which would be written off over several years. Further, it is expected that the system changes could ultimately be applied to other ports around Australia where the need to increase dual loading is also pressing (as noted, the NSW IPART inquiry recommended this), hence spreading the cost further.

On the benefit side, it is difficult to estimate the take-up other than to say that industry opinion is that the response is expected to be strong. Given that there is an estimated 150,000 empty truck trips per year to and from the Port costing approximately \$70 each, even a relatively small percentage reduction in these trips would outweigh the direct costs involved. The non-quantifiable benefits to the community from reduced truck trips, one of the primary reasons for this initiative, would add substantially to this.

There are therefore solid grounds for expecting that both economic and community benefits will far outweigh the costs of this initiative.

6. Potential TPA Considerations

There appear to be two potential areas where TPA issues may need to be addressed:

(i) The possibility of substantially lessening competition

The potential issue here is that offering priority access to VBS slots may in some way impact on competition within the trucking industry. The Forum's view is that this is unlikely for several reasons:

- The priority slots would be open to all operators.
- There is no compulsion to use the dual slots. Operators who cannot take advantage of dual slots still have access to the old system.
- To the extent that the initiative does impact on the industry, it is likely that a range of responses will emerge in the industry to take advantage of dual slots.
- Where dual slots improve truck flow through terminals, there could be a benefit to operators using "normal" slots.
- The trucking industry is by its nature inherently competitive and changes of the type being proposed here are unlikely to result in any significant increases in concentration within the industry which would substantially reduce competition.

(ii) Recovery of costs by the stevedores

The costs associated with making the necessary changes to the VBS will be incurred in the first instance by the joint service provider I-Stop (a company jointly owned by the two stevedores) and then through chargeback arrangements to the two stevedores. Under pre-existing arrangements the cost would be borne equally by the stevedores. In turn the

stevedores will seek to recoup the costs from VBS users. The stevedores have different charging arrangements (Patrick's levies a per slot charge while DPW charges annual fees) and will each determine its own means of cost recovery through those charges. Accordingly the Forum is of the view that these cost recovery arrangements do not imply any price fixing.

An overriding consideration is the public interest. As explained above, one of the driving forces behind the MFNR and the strategies emerging from it is the need to contain truck volumes associated with the Port as trade grows. The dual loading initiative is aimed squarely at achieving that objective through reducing unnecessary truck trips. The benefits to economic efficiency from improved truck productivity add weight to the public interest argument.

7. Progress From Here

The VBS amendments aimed at developing a higher level of dual loading at Fremantle Ports have been agreed upon and the stevedores are ready to introduce them if appropriate. Some investment in new software will be required and each stevedore will independently recoup that cost through their own operations.

In terms of progress from here, a number of options occur. These include:

- making no changes to the present system and continuing operations as at present;
- go ahead and introduce the suggested amendments without further discussion; or
- seek further advice from ACCC on progressing the initiative.

The Forum's strong preference is the final one of these options and this is the reason for the current discussion.