

AUSTRALIAN INTERNATIONAL CONTAINER TERMINALS LIMITED

ACN: 116 247 986

POSTAL ADDRESS: PO BOX 448, ST. LEONARDS NSW 1590

11th November 2005

Committee Secretary
House of Representatives
Standing Committee on Transport and Regional Services
Parliament House
Canberra ACT 2600

By Email: trs.reps@aph.gov.au

Dear Sir / Madam,

**House of Representatives Standing Committee
Inquiry into the regional rail and road freight transport and their interface
with ports**

Submission by Australian International Container Terminals Limited

Introduction

Australian International Container Terminals Limited (AICTL) is pleased to have the opportunity to submit to this inquiry.

Established this year, AICTL is a joint venture between Australian-based Anglo Ports Pty Ltd (of which I am Chairman) and Manila-based global port operator International Container Terminal Services Inc (ICTSI).

In response to the enormous increases in trade to and from Australian ports in recent years, AICTL is positioning to provide competitive stevedoring services in Australia.

AICTL has a five member board. The Chairman is Mr Enrique Razon, who is also Chairman of ICTSI. I am one of the five Directors. I am also a former international Chief Executive Officer and Chairman of P&O Ports.

With comprehensive financial backing and a wealth of ports expertise and experience, AICTL is ready to spend \$200 million as a "first phase" investment in Australia. This, however, is contingent upon governments and port authorities around Australia embracing stevedoring competition and making land available for a new entrant.

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AICTL has lobbied state governments and the Commonwealth vigorously over the past twelve months to ensure the urgent need for stevedoring competition is acknowledged and achieved.

With this in mind, I feel it is imperative for your committee to consider and carry out arguments, which are closely connected with overall port efficiency.

We have previously submitted to the Prime Minister's taskforce on infrastructure bottlenecks, and the New South Wales Clelland Commission of Inquiry into the expansion of container terminal facilities at Port Botany.

Our submission to the House of Representatives Standing Committee on Transport and Regional Services, specifically focuses on

- **Policies and measures required to assist in achieving greater efficiency in the Australian transport network, with particular reference to:**
 - **Capacity and operation of major ports**
 - **Opportunities to achieve greater efficiencies in the use of existing and future infrastructure.**

We argue that far greater efficiencies are achievable by way of increased stevedoring competition, and by promoting an environment where true market forces are free to interact.

Whilst we appreciate there are many inter-related issues associated with port activities, it is important to recognise that the source of all these activities originates from the ports themselves.

Our contentions in this submission relate to the lack of competition in all ports in Australia, whether they be major ports or minor ports.

Capacity and Operation of Major Ports

There are natural barriers that prevent the establishment of a competitive stevedoring business in all Australian ports. This is a characteristic fiercely guarded and protected by the entrenched operators and very much supported by Port Corporations and State governments.

Patrick and P&O Ports dominate stevedoring activities in Brisbane, Sydney, Melbourne and Fremantle – not only container terminal activities, but also automobiles and general cargoes.

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The duopolistic arrangement between Patrick and P&O Ports clearly provides for a non-competitive market, a market that is contrived and not subject to the normal competitive elements associated with supply and demand.

Furthermore, the arrangement of a two-stevedore operation in Australia is contrary to global stevedoring practice. The stevedoring status quo is peculiar by international standards.

This existing arrangement clearly satisfies only one side of the equation, that being of the service provider. The users have no choice to embrace more cost efficient stevedoring options. There is not one single characteristic that can differentiate levels of service, price or customer retention profile between Patrick and P&O Ports.

This is quite different to the semi-comparable Australian airline business, where the competitive environment is determined by true, open market forces.

The current arrangement where two parties control 26 of 28 container berths in our five major ports does not benefit users in any material way. Patrick and P&O Ports share the market on a 50-50 basis, have the same cost structures, employ approximately the same number of personnel, make similar profits and enjoy similar returns on capital. Such arrangements provide no "real" incentives to achieve world's best practices. The incumbents themselves have been quoted as describing it as a "balanced duopoly". In November last year, Australian Competition and Consumer Commission Chairman Graeme Samuel publicly attacked the arrangement (and the staggering profits enjoyed by the incumbent stevedores), calling it a "cosy duopoly".

In our estimation, the arrangement continues to cost port users in excess of \$200 million in extra costs, year on year.

Container volumes in Australia this calendar year will exceed five million TEU's in the five major ports. With current annual increases in volume, this will approach eight million TEU's by 2010. There can be no sustainable argument to suggest a third competitor will materially undermine either Patrick or P&O Ports businesses – especially when both enjoy pre-tax profits of \$100 million each and have returns on capital invested in excess of 27 percent.

On the basis a third competitor cannot possibly enter the market prior to 2010, the arguments put forward by Patrick and P&O Ports against competition can hardly be deemed credible.

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Except for Brisbane, there is no new terminal capacity coming on stream prior to 2010. Brisbane's new berth (due for completion in 2008) has already been allocated to the existing duopoly, which says much about the prevailing attitude of promoting an open market, sensible competition and cost competitiveness.

In the current and future economic environment, there can be no argument to suggest that future competition is bad and should not be encouraged.

This argument is unsustainable and self-serving.

Underlying our concerns is compelling evidence that the balanced duopoly will simply be unable to cope with booming imports and exports to and from Australian ports in years to come. Under the existing arrangements a trade crisis is not imminent, but it is absolutely inevitable.

Australian International Container Terminals Limited has issues with every major Port Corporation, except Adelaide, and these are summarised below:

- **Brisbane**

The allocation of Berth 10 even prior to construction is already pre-allocated to Patrick / P&O without any public process or transparent evaluation of what is best for port users. This process is clearly not in the interests of the public.

- **Melbourne & Hastings**

Our experiences in Melbourne suggest there is no clear vision to immediately expand existing capacity in the port.

We have experienced disappointing outcomes in presentations made to relevant government authorities in Victoria.

- **Fremantle**

The allocation of Berth 11 and 12 to Mediterranean Shipping Co and Patrick to be used exclusively by Mediterranean Shipping is clearly not in the interests of all port users.

The issue of "captive terminals" in Australia is one that requires open debate and serious consideration. In a country with such limited port land and resources available for competition, it is clearly not in the interests of the overall market for one shipping line to have an advantage over all others.

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- Sydney

We have been advised that existing leases enjoyed by Patrick and P&O Ports are uncontestable on expiry.

This is an unacceptable situation that in itself indicates significant levels of protectionism enforced by the various Port Corporations. The only fair thing that can be said in defence of Sydney Ports Corporation is that it is no different in any other major port in Australia.

Terminal Size and Technology

There is much confusion – most of it purposely driven by Patrick and P&O – about the real capacity limitations of existing container facilities.

It has been suggested that the introduction of technology will significantly increase terminal capacities.

Close study of the most modern facilities in Europe and Asia clearly shows this is wrong. I draw on the planned London Gateway terminal as an example. London Gateway terminal, to be built and operated by P&O Ports, will have a quayline / terminal capacity of 1300 TEU's per metre. This terminal will be completed by 2010 with state of the art equipment and significantly automated operations. The claims of both Patrick and P&O Ports of 1700 TEU's per metre of quayline in Australian terminals is simply not achievable.

The size of ships has no bearing whatsoever on the equation of terminal capacities.

Australian Amalgamated Terminals (AAT)

Finally, I raise the issue of AAT and its unfair, uncompetitive position in the Australian market.

The formation of this joint venture company, shared 50-50 between the only two stevedores of automobiles in Australia, clearly does nothing to enhance competition. It is an anti-competitive strategy designed to maintain high pricing and one service level – "take it or leave it".

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Desired Outcomes

Through this submission, AICTL is asking the Standing Committee on Transport and Regional Services to:

- Note the price-competitive restrictions and effects the balanced duopoly is having on the overall ports industry, including road and rail freight stakeholders
- Note that these effects are adverse to all port users, and detrimental to port efficiency and productivity
- Note that current stevedoring arrangement in Australia is inconsistent with global practice
- Recommend that the ACCC undertakes a comprehensive inquiry into the Australian stevedoring sector, focusing on unfair advantages enjoyed by Patrick and P&O Ports, and the associated inefficiencies caused by the “balanced duopoly”
- Adopt and advance the arguments put forward by AICTL, and use whatever mechanisms are necessary to pressure state governments into making provisions for a third stevedore in Australia, based on fair, open and transparent tendering and bidding processes

Conclusion

I acknowledge this submission has only focussed on aspects related to competition. However, the debate on competition is fundamental to providing users with the most efficient and cost effective trading environment. This has a high degree of relevance to road and rail freight transport.

There might have been historic reasons for rationalisation of stevedoring activities on the Australian waterfront, but now, in an industry where two companies share \$1.5 billion in revenues which will double in the next six years, no rational argument can be mounted to support this ongoing arrangement.

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Furthermore, I seriously question how the current stevedoring arrangement in Australia will cope with increasing trade in coming years.

I therefore urge the committee to challenge the current and perverse mindset when it comes to stevedoring in Australia:

- Why is competition bad?
- Why are existing leases for container terminal facilities uncontestable on expiry?
- Why is there no public or transparent process to allocate expired or new leases?
- Why do future expansion plans promoted by Port Corporations only include Patrick and P&O Ports?

I am grateful for the opportunity to make a submission to the committee.

I and the AICTL board is available and willing to provide further information at your convenience.

Yours Faithfully,

Captain Richard Setchell
Director, Australian International Container Terminals Ltd