A tale of two stevedores – infrastructure charges

In recent months, Australia's two major stevedores have announced increased fees for truck and rail operators accessing major city container port terminals. Such charges have become a regular feature in the Australian stevedoring landscape, much to the ire of land-side operators and other stakeholders. Where state governments have previously failed to show leadership to encourage coordinated, collaborative solutions, port managers are increasingly filling this void. We briefly examine these charges and the public debate surrounding them.

This latest industry outcry is all too familar for those that either work or who have observed industry developments. Where state governments have successfully completed financially lucrative privatisations, they did so before developing a framework that encourages all parties – both within and beyond the port gate – to seek coordinated solutions. Thus supply chain problems have continued to be 'kicked down the road'. Some port managers are increasingly stepping in to fill this void but this latest debate shows that more work is required.

Higher land-side access fees sparked the latest industry unrest

Earlier this month, Patrick Container Terminals announced it will impose new infrastructure charges at its Sydney and Fremantle terminals as well as increases to existing infrastructure surcharges at its Brisbane and Melbourne terminals, effective from 10 July 2017. These charges are levied on road and rail operators for all full container movements, both import and export. In making its announcement, Patrick cited rising costs (rent, land tax, council rates, labour, energy costs, property maintenance costs) to justify the new/higher charges.

This follows a similar announcement by DP World in March this year that it planned to increase the existing infrastructure surcharge at its Melbourne terminal and to introduce a new surcharge at its Sydney terminal. DP World also cited rising costs as a reason for its decision.

The introduction of infrastructure access charges is not new in Austrailan stevedoring; in 2010, Patrick introduced one at its Brisbane AutoStrad Terminal in response to sustained increases in lease costs which it claimed could no longer be absorbed.

What do the stevedores argue ?

In addition to rising costs, the stevedores have argued that they have committed significant investments in land-side capacity that has delivered improvements, and that, where road and rail operators are the direct beneficiaries of such improvements, they should bear some of the costs. In its latest announcement, Patrick, for example, argued that dedicated land-side investment of over $285 million since 2015 across all of its terminals has resulted in material land-side improvements, such as reduced truck turn-arund times and congestion. DP World similarly claim road efficiency and rail productivity improvements as a result of earlier land-side investments.

What do land-side operators argue?

The charges are unpopular for several reasons. Transport operators argue that they already operate on very thin margins and have little or no scope to pass these increased costs onto their customers (whether or not this is the case is unclear). They also argue that there is no scope to avoid the charge because they have must access the designated terminal in order to collect or drop off a container.

Opponents of the infrastructure charge also argue that the stevedores should either absorb the cost or pass such costs on to their contracted commercial customers, which, in this case, are the international shipping lines. In practice, stevedores are likely to be constrained, to some degree, in their ability to pass such costs onto shipping line customers, particularly where the stevedores face competitive pressure to offer their best terms of service to retain or secure new business.

Brisbane
Level 8, 10 Felix Street
Brisbane Qld 4000
GPO Box 2605
Brisbane Qld 4001
P 61 7 3227 9500
F 61 7 3221 0404

Melbourne
Level 16, 330 Collins Street
Melbourne Vic 3000
P 61 3 9670 3792
F 61 7 3221 0404

Perth
Suite 7, 272 Hay Street
Subiaco, WA 6008
P 61 407 348 612
F 61 7 3221 0404

Sydney
Level 26, 44 Market Street
Sydney NSW 2000
P 61 2 9089 8666
F 61 2 9089 8989

Is there a solution or will the problem continue to be kicked down the road?

All ports face considerable land-side challenges. History shows different ports have employed different strategies. For instance, prior to privatisation, the NSW Government intervened by implementing the Port Botany Land-Side Improvement Strategy (PBLIS) around 2009; in other ports, such as Melbourne, a more collaborative industry approach to trial and implement various initiatives (such as fully loaded dual truck runs) was traditionally adopted. This shows that there is no 'one size fits all' model. Regulation has never been the silver bullet to achieve sustained productivity growth. Unfortunately, state governments did not establish sustainable supply chain frameworks prior to privatisations and instead opted to push this particular problem of land-side efficiency further down the road.

This latest debate is unlikely to be resolved anytime soon, especially when claims of potential price gouging are sometimes heard. It is often legitimate for businesses to pass through unavoidable costs incurred in operating their business to their customers. As a general observation in this debate, land-side operators feel frustrated by the lack of genuine engagement about price and commensurate service standards by the stevedores.

There are calls for contracts to be established between the stevedores and land-side operators. There are, after all, contracts between the stevedores and the shipping lines for quay-side stevedoring services. There is a legitimate argument for land-side services to be treated in a similar manner; such a framework could help resolve some of the simmering tensions in this debate and could be a positive step in shining a light on performance of all of the major players involved in the land-side connection. There is, undoubtedly a long way to go before this happens. A variety of different solutions may well be required to take account of the diversity of our trucking industry and the ability of small players to effectively negotiate acceptable terms and conditions (recognising some port jurisdictions, such as Sydney, have a fragmented industry structure comprising many small road freight operators). Previous attempts to establish collective bargaining arrangements for parts of the road freight industry at Port Botany ten years ago were not successful.

The widespread lack of bilateral contracts between the stevedores and land-side operators suggests that the incentives of the parties to seek long-term supply chain solutions continue to be misaligned.

Implications

As a trading nation, creating efficient, seamless supply chains is integral to our economic growth and social well being. With significant investment by both the stevedores and port managers in quay-side capacity either complete or underway at several capital city container ports, the widespread industry gains from such investments will only be maximised when they are matched by whole of industry initiatives that deliver more efficient, well-aligned land-side supply chains.

Significant 'inroads' over the past decade to improve our port land-side connections have been made, but more work is needed to move containers more efficiently. This is no easy task. Port managers may prove the most effective facilitator of long-term efficient and sustainable solutions (some port managers already active in this space, establishing long-term port growth plans). While more work is clearly required, governments should not stand in the way of those ports seeking to develop proactive strategies.

Governments have a complementary role to play across a range of planning, policy and even road pricing reforms.

Until more sophisticated supply chain coordination arrangements emerge, end customers will continue to wear the cost, most visibly, in the form of higher prices.

Writen by Debbie Ravalli, Manager and Euan Morton, Principal, Synergies Economic Consulting

Debbie Ravalli
Manager
p: +61 7 3227 9545
e: d.ravalli@synergies.com.au

Euan Morton
Principal
t: +61 7 3227 9556
e: e.morton@synergies.com.au

Brisbane
Level 8, 10 Felix Street
Brisbane Qld 4000
GPO Box 2605
Brisbane Qld 4001
P 61 7 3227 9500
F 61 7 3221 0404

Melbourne
Level 16, 330 Collins Street
Melbourne Vic 3000
P 61 3 9670 3792
F 61 7 3221 0404

Perth
Suite 7, 272 Hay Street
Subiaco, WA 6008
P 61 407 348 612
F 61 7 3221 0404

Sydney
Level 26, 44 Market Street
Sydney NSW 2000
P 61 2 9089 8666
F 61 2 9089 8989