Stevedore infrastructure charges – efficient or excessive?

It's a topic that generates much debate in Australia's ports and freight industries. And the debate is not likely to abate any time soon. But can it be resolved? Australia's two largest stevedores, DP World and Patrick have either introduced or announced further increases in 'infrastructure charges' at their container terminals this year, with DP World announcing further increases to its charges at its Melbourne, Sydney and Brisbane terminals, from 1 January 2018. While stevedores have a legitimate right to recover costs on the back of investments in land-side operations, the frequency and magnitude of recent increases call into question the justification of these charges and their impact on building more efficient supply chains.

DP World is the latest to announce higher infrastructure charges to apply at its Melbourne, Sydney and Brisbane terminals from the start of the New Year. This follows DP World's earlier decision to introduce the charge at its Fremantle terminal from the end of October this year. The terminal operator cites increased costs as justification as well as arguing higher prices were a necessary response to changing market conditions in stevedoring, such as trends towards servicing larger ships and consolidation of shipping lines.

The reasons cited here are a case in point for why greater scrutiny around the escalation in these charges is warranted. It is not clear how apparent cost drivers at the quay-side (some of which are not new and have been occurring over several years and incorporated into previous charging structures) should increase the cost of servicing trucks.

DP World is not alone. Infrastructure charges are imposed by Patrick at its terminals in Brisbane, Melbourne, Sydney and Fremantle. Brisbane's third terminal operator (Hutchison Ports) also applies a similar charge.

Transport stakeholders such as the Container Transport Alliance Australia and the Australian Peak Shippers Association are not happy. They continue to argue that there is no constraint over the stevedores' behaviour to charge higher prices. Transport operators have no choice but to pay and absorb these charges.

Federal Minister for Infrastructure and Transport, the Hon Darren Chester MP, has also bought into this issue. In comments to Lloyds List Daily News last week, the Minister indicated he had met with truck and rail operators and acknowledged their concerns. He went further to say that he fully expects them 'to receive benefits through increased investment in landside infrastructure as a result of these fees.'

Are these charges justified?

A vexing question. The answer so far currently depends on where you sit in the broader port supply chain.

We commented on these charges earlier this year. The world has not changed since then.

The stevedores, for example, persistently argue that they have incurred rising costs and have committed significant investments in land-side capacity which have delivered improvements. They further argue that where road and rail operators are the direct beneficiaries of such improvements, they should bear some of the costs.

There is some truth to these sentiments. After all, in a competitive market, firms would pass such costs onto customers and competition would take care of the rest.

But the stevedores' case is increasingly hard to mount in the face of successive, large price increases and in the absence of sufficient evidence that discloses the full costs, revenues and efficiency gains associated with their land-side improvement strategies.

Equally compelling, is the argument from transport operators who are critical of the charges (in particular the scale of the increases) in that they have no scope to avoid the charge because they must access the

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designated terminal in order to collect or drop off a container. That's true. Transport operators further claim they already operate on very thin margins and have little or no scope to pass these increased costs onto their customers. Again, such claims warrant further scrutiny.

ACCC scrutiny is coming – but is it quickly enough?

Supply chain problems have been 'kicked down the road' for years now.

The ACCC, in its 2016-17 Container Stevedoring Monitoring Report released in November (and prior to DP World's latest announcement), briefly explored these infrastructure charges. The ACCC reported that despite facing rising property costs, overall unit costs for both of the major stevedores had remained stable. It also noted that given the magnitude of the increases in infrastructure charges already imposed, any increase in the stevedores' costs was likely to be more than offset by increased revenue.

The ACCC noted that part of the controversy regarding these charges stems from the stevedores' departure from the traditional model which saw terminals recover nearly all of their costs from the shipping lines.

If stevedores see the transport operators as a growing source of revenue who represent an increasingly important customer base, then there is a legitimate argument for stronger incentives on stevedores to offer attractive terms and conditions for land-side services.

There is no silver bullet here. A variety of solutions, which take into account the diversity of our trucking industry and the ability of small players to effectively negotiate acceptable terms and conditions, may well be required. Still, there remains a case for contracts between the stevedores and land-side operators. After all, stevedores have agreements with shipping lines for quay-side services. If both the quay-side and land-side are a source of revenue and are integral to terminal operations, why should land-side services be treated any differently? Such a framework could help shine a light on the performance of all of the major players involved in the land-side connection. Contracts are just but one possible approach. Other solutions for different ports may be necessary, as history shows.

The ACCC has said it will examine more fully the effects of the infrastructure charge on the container supply chain in its next report. Minister Chester has publicly welcomed the ACCC's intention to examine these charges.

So, expectations are growing that the ACCC can provide clear answers as to the basis of these charges and their impact on the broader port supply chain. However, that is some time away as the ACCC normally publishes its report in November.

Implications

Greater scrutiny of our freight supply chain is welcome, and the ACCC's findings on this issue should help provide greater transparency to the justification of these prices and their broader impact on supply chain efficiency. Some stakeholders in the land transport industry have called for stronger, real action to be taken now. While the passage of time is frustrating, proper and independent scrutiny is a sensible starting point.

As a trading nation, creating efficient, seamless supply chains is integral to our economic growth and social wellbeing.

This is just one issue that needs to be addressed. There remains a complementary role that Governments can play in this space particularly in terms of planning and policy. Current inquiries into a national freight and supply chain strategy and land transport market reform are important initiatives which can, depending on the outcomes, improve the productivity and efficiency of our freight supply chains as well as deal with progressing the nation's sorely needed heavy vehicle road reform agenda.

The on-going cost of inaction is ultimately higher consumer prices and a loss of our competitiveness. Let's not miss the opportunities currently before us for greater supply chain scrutiny and much needed reform at Australia's busiest ports.

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