

COAG Review of Port Competition and Regulation

Submission in response to the Queensland Transport Discussion Paper

October 2007

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1. Introduction

Background

On the 10th of February 2006 the Council of Australian Governments (COAG) met in Canberra to discuss and agree on a range of matters. One of these concerned further competition and regulatory reform for critical infrastructure sectors, including ports.

At that meeting COAG agreed to a *Competition and Infrastructure Reform Agreement* setting out a program for further implementation of NCP reforms. This Agreement includes specific obligations for the further reform of 'significant' ports, of which the Port of Gladstone is one.

The critical element of the Agreement is that COAG have *agreed* to allow for competition in the provision of port and related infrastructure facility services, *unless* a transparent public review indicates that the benefits of restricting competition outweigh the costs to the community.

Where such a review indicates that economic regulation of significant ports is warranted, COAG has agreed that the regulatory framework should conform to a consistent national approach based on the following principles:

- third party access to services provided by means of ports and related infrastructure facilities should be on the basis of terms and conditions agreed between the operator of the facility and the person seeking access;
- commercial outcomes should be promoted by establishing competitive market frameworks that allow competition in and entry to port and related infrastructure services, including stevedoring, in preference to economic regulation;
- where regulatory oversight of prices is warranted this should be undertaken by an independent body which publishes relevant information; and
- where access regimes are required those regimes should be certified in accordance with the *Trade Practices Act 1974* and the Competition Principles Agreement.

The Central Queensland Ports Authority (CQPA) was formed on 1 July 2004 through a merger of the Port of Gladstone and Port Alma in Rockhampton. In August 2006 CQPA responded to a request from the Queensland Government and provided a submission to the Government's Ports Competition and Regulation Review Committee.

Subsequently, in September 2007, the Queensland Government released a Discussion Paper seeking further submissions from key stakeholders, including Port users. The Discussion

Paper also included an Addendum identifying some specific issues relevant to the Port of Gladstone.

This document represents CQPA's submission to the Queensland Transport Discussion Paper. CQPA's submission focuses on four key issues from the Discussion Paper:

- the role of regulation in supporting efficient and commercially-appropriate outcomes in the bulk ports sector;
- the commercial performance of the Port of Gladstone, as a indicator of any overall level of market power it holds;
- port planning arrangements, and the extent to which third party access is facilitated through existing planning and port administration; and
- perceptions of conflicts of interest in the way certain Port Rules operate.

This submission may be released publicly.

2. Regulation of export ports

Background

Port performance is critical to Queensland's overall logistics networks. The Port of Gladstone is one of Queensland and Australia's largest Ports, and plays a vital role in the supply chain for the coal export sector in Central Queensland. The Port is also servicing a growing import market, including bauxite imports and related products for alumina/aluminium production.

The primary objective of the current review should be to determine the mix of institutional, regulatory, planning and operational arrangements which best supports the efficient delivery of port services, given the particular characteristics of that Port.

As the Discussion Paper correctly observes, Queensland's Ports vary in the services they provide, the markets they operate within, and the operational and other responsibilities of the relevant Port Authority. These factors need to be properly considered when determining the 'right' regulatory model.

The Discussion Paper further acknowledges the relative success of the institutional model at the Port of Gladstone, where a significant expansion investment is nearing completion and where the commercial arrangements to support the expansion were negotiated bilaterally between CQPA and its customers. This contrasts with the delays experienced to the north at the Dalrymple Bay Coal Terminal. Here the regulatory framework has created an adversarial relationship between the parties, requiring the development of complex and time-consuming rules and regulatory approvals processes for new capital expenditure.

CQPA believes that a light-handed prices monitoring framework, if properly implemented, is consistent with the commercial charter that has been established for the Port of Gladstone under the *GOC Act*. A shift to a more intrusive regulatory framework, such as where the regulator explicitly determined charges, would conflict with the goal of encouraging negotiation between parties to achieve commercial outcomes.

A more intrusive regulatory framework would have a number of deficiencies:

- impact on incentives – such regulation may not provide an incentive for the regulated business to seek out efficiency improvement unless it allows the business to share in some of the efficiency improvement;
- regulatory risk – over-regulation may result in the business not earning sufficient revenue, impacting especially on its capacity to re-investment in the business;

- administration costs – detailed, prescriptive and intrusive regulatory frameworks are very costly to establish and administer, from the perspective of both the regulated business and the regulatory agency, and this cost may not result in additional benefits; and
- flexibility – a more prescriptive form of regulation may be less able to change quickly enough to reflect new entrants to the market, changes in technology or market growth, and may also offer less scope for regulated service providers to negotiate commercially-appropriate and tailored agreements with their (generally large and commercially-sophisticated) customers.

The Prime Minister’s Exports and Infrastructure Taskforce, in its final report to the Australian Government, suggested that there should be a presumption towards commercial negotiation between infrastructure providers and users resolving issues relating to the access and pricing of export infrastructure (Exports and Infrastructure Taskforce, 2005). Where regulation is to be applied, the Taskforce argued that this should be in the form of light-handed prices monitoring. CQPA supports these sentiments.

CQPA has in the past and continues to have significant regard to the likely outcomes of a regulatory access/price setting review in the way that it has structured its business operationally, set charges and generally dealt with its customers. In effect, the ‘threat’ of regulation has already influenced the Authority’s actions, encouraging the Port to operate in a manner consistent with the stated objectives of regulation.

It is apparent too that CQPA’s customers are very well aware of the prospective regulatory framework and how it might apply to the Port of Gladstone, giving them a higher degree of countervailing power in negotiations than otherwise.

The current renegotiation of coal terminal pricing arrangements is a case in point. CQPA is close to finalising a process of negotiating with export coal companies a revised structure for handling and infrastructure charges at the Port of Gladstone.

As part of this negotiation CQPA has adopted an ‘open book’ approach, sharing with coal companies the details of its cost structure, proposed charging framework, and even the financial model used to assess different charging options. CQPA’s customers, many of whom are also users of the Dalrymple Bay Coal Terminal to the north, have been keenly interested in how the current charging proposal is consistent with or departs from that established by the QCA for DBCT.

Importantly, in the context of this proposed revised approach to setting Port charges for exporting coal, none of CQPA’s customers have objected to the concept of the Port earning a reasonable rate of return on its capital (see section following), nor have any suggested to CQPA that its pricing proposals are evidence of it acting monopolistically. Transparently providing cost information also allowed the Authority to demonstrate to its customers that there were no cross-subsidies between the coal operations and other port functions and business activities, and that any common, whole-of-Port costs, were fairly apportioned.

That said, the nature of port infrastructure is such that some form of regulation will be required. CQPA is of the view that, given the commercial governance platform of Queensland ports, there needs to be a balance between regulatory oversight and the attainment of commercial objectives.

CQPA believes that a form of light-handed regulatory oversight is appropriate for achieving that balance.

It is important that the Government recognises that regulation, no matter how light-handed, can be intrusive if not correctly managed. Many customers of the Port of Gladstone have reached commercial agreements for use of the Port's facilities and assets. No regulator should be seeking to unwind these agreements.

CQPA also is unconvinced of the need for formal monitoring by either the State or Commonwealth of port pricing. Differences in the cost structures, services, organisational structures and pricing frameworks of the various ports would make any comparisons problematic, and prices monitoring also potentially could impact on the capacity of each port and its customers to reach commercially-tailored pricing and service solutions.

3. CQPA's financial performance

Financial Structure and Key Performance Metrics

CQPA is a corporatised entity with shares held equally by the State Treasurer and Minister for Transport on behalf of the Queensland Government. The Authority is expected to operate on a commercial basis:

- it is responsible for funding its own operations and capital works programs;
- the Authority is meant to have a commercial capital structure and earn a commercial return on assets; and
- the Authority pays dividends to its shareholders.

The Authority has had varying success in achieving these commercial objectives. Some key financial metrics for the Port of Gladstone for the last seven years are included in Table 3.1.

Table 3.1 – Key financial metrics for CQPA

Financial metric (\$ million)	2000/01	2001/02	2002/03	2003/04 ¹	2004/05	2005/06	2006/07
Revenue from ordinary activities	96.6	108.5	126.7	124.1	135.4	151.8	194.6
Earnings Before Interest and Tax (EBIT)	20.8	25.1	26.6	29.2	20.9	24.9	42.6
Profit from ordinary activities before tax	20.1	20.8	18.8	19.6	11.4	14.2	14.1
Net profit after tax (NPAT)	13.6	14.2	12.8	59.3 ²	7.0	10.0	9.9
Total Assets	380.1	400.6	443.7	532.7	651.7	1,052.3	1,242.0
Interest Bearing Debt	6.2	100.8	145.0	142.6	140.1	207.5	417.5
Current Assets	39.8	33.9	34.1	29.9	123.9	297.7	29.1
Current Liabilities	32.0	39.9	39.2	37.8	37.5	64.6	39.8
Net Assets	332.3	245.8	246.1	316.3	433.2	722.1	720.9
NPAT Margin (NPAT/Revenue)	14.1%	13.1%	10.1%	47.8%	5.2%	6.6%	5.1%
Return on Assets (EBIT/Total Assets)	5.5%	6.3%	6.0%	5.5%	3.2%	2.4%	3.4%
Return on Equity (NPAT/Net Assets)	4.1%	5.8%	5.2%	18.7%	1.6%	1.4%	1.4%

Note: 2006/07 financial figures are drawn from forecasts from CQPA's Statement of Corporate Intent for 2006-07. The Authority's audited financials for the 2006-07 financial year have not yet been tabled in Parliament and therefore cannot be publicly released.

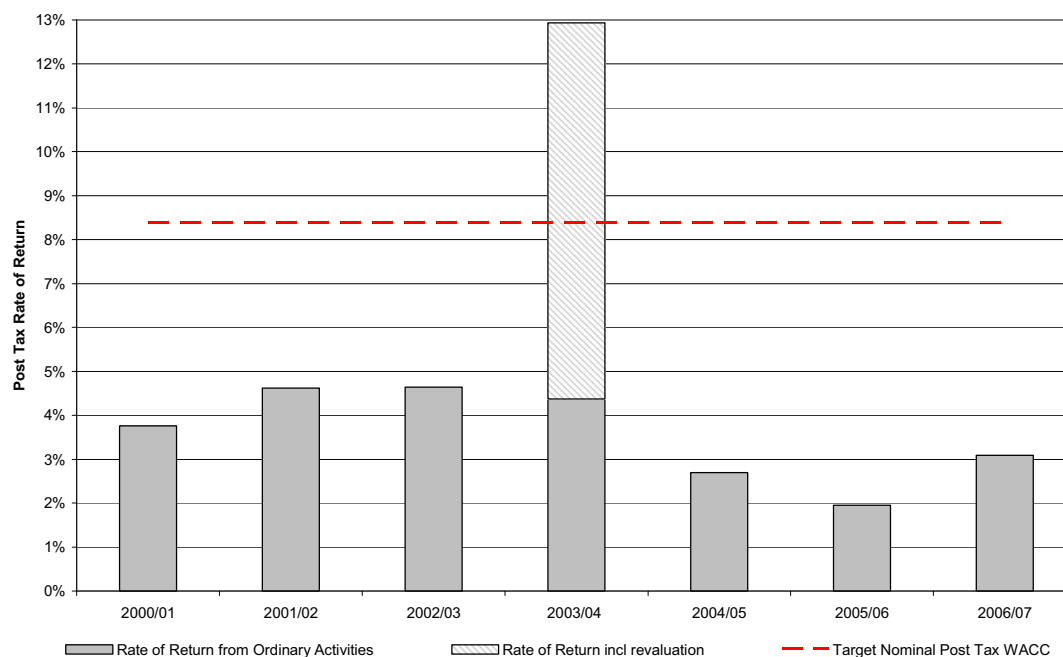
Figure 3.1 illustrates CQPA's post tax rate of return as compared to its nominal post tax target rate of return for the last seven years. The shaded part of the return in 2003/04 represents the contribution of an upwards asset revaluation in that year. Another point to note is the reduced

¹ Financials for the 2003/04 financial year and earlier have been taken from Gladstone Port Authority Annual Reports.

² NPAT in 2003/04 includes \$64.4 million from the revaluation of non-current assets and corresponding increase in tax. Were both adjustments excluded, the profit results would align more closely to other years.

returns in the latter years. This can be attributed to an increasing capital base, due to the RG Tanna Expansion Project, where construction of additional capacity is occurring but there is a lag in the uptake of capacity and therefore also in revenue growth.

Figure 3.1 – Actual CQPA Post Tax Return and target



The Port of Gladstone does not earn more than a commercial rate of return on assets

In Queensland, the only independent analysis undertaken to determine an equivalent commercial rate of return for port infrastructure was the QCA’s determination in relation to the Access Undertaking for Dalrymple Bay Coal Terminal (DBCT), completed in 2005.

The QCA applied a “building block” methodology to setting the revenue cap for DBCT Management, though examined only terminal-related costs and charges as coal handling services were provided by a user-owned operating company, which was outside the scope of the access undertaking.

The value of assets was determined using a Depreciated Optimised Replacement Cost (DORC) valuation, arrived at based on independent valuation advice provided to the QCA.

The QCA assessed the allowable nominal post-tax WACC to be 9.02%. This compares to DBCT Management’s proposal of 11.04% and DBCT User Group’s proposed 7.64%. The WACC determined by the QCA for DBCT was among the lowest determined by a regulatory agency for an Australian regulated business.

CQPA’s rate of return on assets and equity is significantly lower than that implied by the WACC determined for DBCT. CQPA’s rate of return on assets in 2005/06 and 2006/07 was

2.4% and 3.4% respectively. Similarly, the rate of return on equity in 2005/06 and 2006/07 was 1.4% for both years (refer Table 3.1, below).

Table 3.1: Nominal pre-tax return on assets and post-tax return on equity

Year	Rate of return on assets (EBIT/Total Assets)%	Rate of return on equity (NPAT/Net Assets)%
2000/01	5.5	4.1
2001/02	6.3	5.8
2002/03	6.0	5.2
2003/04	5.5	18.7
2004/05	3.2	1.6
2005/06	2.4	1.4
2006/07	3.4	1.4

Note: If abnormal asset revaluation gains are excluded from the 2003/04 NPAT results, the rate of return is broadly consistent with that in the other years. 2006/07 figures are drawn from the Authority's Statement of Corporate Intent, not the audited end of year financials.

The value of assets in this analysis is based on CQPA's current book value of assets in each year, which generally reflects a written-down replacement cost valuation basis.

In mid-2007 CQPA engaged PricewaterhouseCoopers to update an earlier advice on an appropriate cost of capital for the Port. The updated analysis proposed a target cost of capital of 8.4%, nominal post-tax, using a calculation methodology consistent with that required of the Authority by the Queensland Treasury/Office of Government Owned Corporations. PricewaterhouseCoopers further advised that a range around this point estimate, of around \pm 25 basis points, was appropriate to reflect the uncertainty associated with some parameters.

The Port's realised rate of return is significantly below what it considers to be a reasonable commercial target return.

Given the continuing gap between CQPA's observed financial performance and benchmarks such as that advised by PricewaterhouseCoopers and developed by the Queensland Competition Authority, CQPA would contend that it cannot be considered to be over-charging its customers.

4. Port planning and competition

Background

Competition is a means to encourage, within certain structural and market conditions, improved economic performance. Competition is not a goal in itself, nor is the introduction of new entrants necessary desirable. What is important is whether or not the relevant services are delivered efficiently. This includes the framework for planning the delivery of services into the future.

CQPA believes the approach it has adopted to Port planning represents a model for the sector more generally. The Authority maintains for the Port of Gladstone a long-term, 50 year strategic plan for the Port and its surrounds, and continually retests as part of this planning framework options for the improved delivery of Port services. This includes options such as third party access to the Port's facilities (see below).

The Port is now in the process of implementing a significant expansion of its export coal capacity, principally affecting the RG Tanna coal terminal. CQPA took this investment before every customer agreement was completely finalised, reflecting its strategic objective of promoting development across the Central Queensland region, while doing so in a commercially-appropriate manner. The benefits to CQPA's customers, and to the Queensland economy overall, of this accelerated expansion timetable were huge.

Were the Port's coal operations structurally separated, with one or several separate coal handling operators, there is a very real prospect that the current capacity expansion would not have been able to be delivered over such an accelerated timeframe. CQPA was able to view the project as an integrated capacity expansion initiative, and look for the most efficient combination of terminal (eg, new berths and wharf approaches) and stevedoring (eg, rail inloading, additional stockpiling and increased shiploading belt speeds) components.

This view was reinforced by one of CQPA's export coal customers, Macarthur Coal, in a recent presentation to an export coal industry conference in late-June 2006. Macarthur Coal observed that the current expansion project at Gladstone represented industry 'best practice' in that the capacity expansion was largely in line with producers' requests.³

Vertical integration supports the efficient operation of bulk commodity ports

The Port of Gladstone is effectively a vertically-integrated operation, at least for its coal business. The functions of the Port include port planning, wharf and channel provision, and stevedoring functions. However, the organisation structure of the Port, combined with the regulatory environment within which it operates, means that competitive outcomes in terms of

³ McCloskey's Coal Report, Issue 138, June 30 2006, page 25.

price, service and investment are encouraged. In particular, the Port has implemented an organisation and financial structure which transparently identifies the costs of different activities within the port.

CQPA contends that, despite being vertically integrated, being government owned and with light-handed regulation of conduct, means that competition is not being damaged. Instead, vertical integration and regulation of conduct is the least-cost instrument for competitive outcomes in the primary market in which the Port of Gladstone operates.

There are a number of markets where the industry structure has evolved naturally, and without any detrimental impacts on competition, towards vertical integration. Some markets have at different times exhibited differing levels of vertical integration, with technology and other market changes resulting in greater or lesser degrees of vertical aggregation.

There are three broad efficiency motivations for vertical integration, at least two of which have application to CQPA's current organisational arrangements:

- vertical integration allows for efficient risk sharing between different businesses, allowing for the combined risks of both businesses to be reduced. This rationale is generally put forward where businesses which have negatively-correlated risk profiles (eg, electricity generation and retailing) integrate, allowing them to internally manage correlated cash flow risks (eg, higher electricity pool prices favour generators, but harm retailers, and vice versa), lowering their overall risk profile;
- integration is particularly beneficial where different businesses rely on specific and irreversible investments by another, and where this dependency creates the risk of opportunistic 'hold-up' behaviour by one party. In the ports sector, for instance, the value of an investment in a stevedoring facility is intrinsically linked to the investment in wharf and harbour assets, and vice versa. Vertically integrating these functions provides a solution to the bargaining problems which otherwise may occur, and is especially critical where capacity needs to be increased; and
- integration by ownership may be more efficient than via contractual means where it is difficult or costly to write complete contracts where each party's obligations are comprehensively defined. It may also offer greater flexibility to pursue strategies such as quickly altering scheduling, or responding to break-downs, accidents or other incidents, all of which can be coordinated more effectively and much more quickly within a single enterprise, rather than by negotiation amongst multiple entities.

Bulk commodity ports are very different to the container ports of the larger metropolitan centres. While structural separation *may* be appropriate for a container terminal in Brisbane or Sydney, there are quite clear operational advantages from vertical integration within bulk commodity ports.

Mostly these advantages stem from the need for integrated system operation to maximise port capacity, which itself is a complex function of how port (harbour and terminal) and cargo handling assets, and ancillary port services (towage, pilotage etc), are collectively depoloyed. Capacity maximisation, especially maximisation of peak outloading capacity, is especially important in export ports given the variable nature of vessel scheduling. Vertical integration also provides an opportunity to achieve a threshold level of scale and scope to provide services efficiently.

Although Gladstone is a multi-commodity port, the Port's activities are dominated by the coal trade and, to a lesser extent, the import and export of bulk commodities related to the manufacture of aluminium. The Port of Gladstone (and its precedent entities) has been involved in the stevedoring of coal for more than half a century, and continue to provide these services because it represents the most efficient institutional model for doing so.

Looking at total trade across the Port, around 70 per cent relates to export coal tonnages (and this proportion will grow in the near term as coal exports increase more than proportionately to total Port throughput), and a further 24 per cent relates to the aluminium sector.

For both coal and aluminium, the relevant terminals are owned and operated as vertically integrated activities – RG Tanna (and Barney Point) being owned and operated by CQPA for coal, and Fisherman's Landing No. 2 being (effectively) owned and operated by Comalco as a single-user terminal.

What this means is that just less than 95% of the Port's total throughput – the combined coal and aluminium-related trade - is handled by operations which are vertically integrated. The balance is accounted for through a mix of different arrangements, depending on the nature of the commodity and other factors.

In CQPA's view, there are a number of practical and sensible commercial justifications for this operating structure, and the fact that Comalco has adopted a similar structure for its Port activities suggests strongly that there are clear benefits to Port users from a vertically-integrated structure for handling bulk commodities.

This arrangement is in fact not uncommon, and is broadly representative of the operational arrangements evidenced at many other bulk commodity ports:

- the Carrington and Kooragang Island coal terminals, currently the world's largest export coal facility at the Port of Newcastle, are owned and operated by a single company, Port Waratah Coal Services (PWCS). PWCS is owned by a number of coal producers and other industry participants and operates as a vertically-integrated terminal/stevedoring provider. The key difference between PWCS and CQPA is that the former is privately-owned;
- the Pilbara export iron ore terminals in northern Western Australia are owned and operated as fully integrated mine-railway-port operations by BHP Billiton Iron Ore and

Rio Tinto Iron Ore. The level of vertical integration of these facilities is now generally recognised as one of the key reasons why capacity expansion in the export iron ore sector was able to be developed more quickly than for the eastern seaboard export coal sector;

- in the United States many bulk port terminals are owned and operated by the relevant port authority, including the McDuffie Coal Terminal which is owned and operated by the Alabama State Port Authority. Other bulk commodity terminals are owned and operated by the Port of Houston Authority, Georgia Ports Authority (Port of Brunswick), and the South Carolina State Ports Authority (Charleston);
- in France, the Le Havre and Nantes Saint Nazaire port authorities both own and operate bulk terminals, providing services such as storage yards, cranes, conveyors and other 'core' port facilities;
- in the late 1960s the Thiess-Peabody-Mitsui joint venture developed the Barney Point Coal Terminal as an exclusive terminal for the export of the joint venture's coal. BHP-Mitsui sold the Barney Point Coal Terminal to CQPA in 1998 as, given its relatively small scale, it was uneconomic for them to operate this as a stand-alone facility. Transferring this terminal to CQPA allowed the Port to realise, for the ultimate benefit of its customers, economies of scale and scope through the integration of Barney Point with the larger RG Tanna terminal facilities; and
- a number of large international container ports, including the oft-cited Port of Singapore and Port of Auckland, are also fully vertically integrated.

Separating the ownership and operation of port/coal stevedoring services at the Port of Gladstone would not only impede the efficiency with which these services are provided, it would also create significant dislocation costs. Virtually all existing coal handling agreements would need to be renegotiated, and existing charges significant restructured.

This would detract from the present necessary focus of delivering needed export capacity, would unnecessarily create 'winners and losers' amongst CQPA's existing customer base as legacy contracts were unwound, and would impose enormous costs on both CQPA and its customers in terms of management and legal effort and expense.

Third party access to Port facilities

Several of CQPA's wharf centres are currently operated by third parties, including:

- Auckland Point No. 2 which is operated under an exclusive leasing arrangement with Grainco. CQPA also has an agreement with Grainco for the joint provision of handling services using CQPA's facilities;

- Boyne Wharf, which is operated by Boyne Smelters Limited under an exclusive leasing arrangement which commenced in 1982 and was recently extended under an option arrangement until 2012. The agreement with BSL contains certain requirements (such as a minimum occupancy rate) which, if not complied with, may allow for CQPA to convert the lease to a non-exclusive basis;
- Patrick Stevedores has a non-exclusive operating agreement for the handling of containerised, breakbulk and general cargoes.

In each instance, CQPA (or its precedent entities) negotiated a commercial arrangement with a private company to provide access to the Port's wharf facilities, on either an exclusive or non-exclusive basis. Many of these agreements pre-date the more recent interest in third party access, arising out of the National Competition Policy reform processes, and all reflect the desire of the Port to encourage development and increase Port throughput, irrespective of whether CQPA is providing both wharf and stevedoring services, or only the former.

What these examples demonstrate is that the Port is not averse to third parties taking on stevedoring/cargo handling functions, where these are consistent with the Port's development plans and other functions. No potential access seekers have been excluded from access to the Port's wharf facilities where capacity exists and a commercially-appropriate proposition for access has been put forward.

In the case of the proposed Wiggins Island Coal Terminal, CQPA has commenced a joint feasibility study and planning process which will develop the business case for the project. This initiative is being funded by the coal industry and necessarily will require the Port consider *all* options for the efficient delivery of export coal services through this Terminal, whether through a vertically-integrated terminal owner/cargo handling operation, similar to RG Tanna/Barney Point, or some other model.

The coal industry will have the opportunity to shape this planning process/feasibility study and, ultimately, as the group which will fund the expansion under new commercial agreements, will have considerable control over it. This clearly demonstrates that, as an organisation, the Port has been very responsive to industry needs because it is consistent with promoting the growth of the Port and trade facilitation.

5. Perceived conflicts of interest in Port operations

Operating of Port Rule 1/05 concerning priority of ship movements

In an Addendum to the Discussion Paper, the Queensland Government posed the question of whether CQPA has a conflict in its dual role of port authority and terminal operator. The Addendum specifically refers to an existing Port Rule which governs the priority of ship movements at the Port of Gladstone:

Port Notice No. 1/05 - Priority of Ship Movements

As a general principle, the priority of order for all vessels entering or departing the Port of Gladstone will be determined by:

- 1. Vessels departing the Port at critical maximum draft will be given priority for use of the Port's Channels to ensure their safe and effective passage to the Fairway Buoy. Where two or more vessels of a similar critical maximum draft wish to depart the Port at the same time then the priority to be afforded to each vessel shall be determined at that time by the Central Queensland Ports Authority having regard to what it considers necessary to maximise the safe, secure or efficient operation of the Port.*
- 2. The priority given to vessels arriving to use the Port's Channels will be determined by the arrival time of the vessel at the Port. The arrival time will be determined as from when the vessel crosses a 4 nautical mile radius from the Fairway Buoy.*
- 3. In order to maintain the safe, secure and efficient operation of the Port, the priority of ship movements and the movement of critical maximum draft vessels may be varied or amended by a direction of an authorised officer of the Central Queensland Ports Authority or his delegate.*

This Port Rule was introduced in 2005. In effect it represented the formalisation of Port operating protocols which had been in operation for more than a decade prior. In developing the Port Rule CQPA consulted with its customers, and also sought the advice of the Regional Harbour Master, as the person responsible for maritime safety at the Port of Gladstone.

The Port of Gladstone is a tidal port. Maritime safety requirements provide that all vessel movements must be conducted with certain minimum underkeel clearances. For fully- or partially-laden vessels, especially the larger, deep-draft Cape- or Panamax-size ships, this means that vessel movements are typically restricted to a three hour window to high tide.

There are further constraints in the ability of inbound/outboard vessels to pass when using the Channel (there is one main passing area around half-way from the Port to the Fairway Buoy), and in the availability of tugs and pilots.

The Port has artificially-deepened channels leading to its major bulk commodity terminals. The dredging of the main channel to the RG Tanna Coal Terminal was originally funded by the coal industry, and its subsequent maintenance dredging has similarly been paid for by coal companies through the charges imposed by CQPA.

While these works were undertaken primarily for the benefit of (and paid for by) the coal industry, the main channel provides benefits to all Port users.

Figure 5.1 – Port of Gladstone Map



The Targinie Channel from RG Tanna to the western areas of the Port (Fishermans' Landing Wharves) is also dredged, but not to the same depth as the main South Channel. This means that deeper-draft vessels wishing to enter or depart this area of the Port have a narrower tidal window.

The Port rule provides that vessels *departing* the Port at critical maximum draft have priority use of the Port's channels. Although the Port Rule is relatively new, Port protocols have always dictated that deep draft vessel departing the Port have priority of movement. These protocols are, in CQPA's view, well understood and respected by established users of the Port.

The rule is necessary as it is these larger vessels which are most constrained by the tidal character of the Port, and without priority the safe and effective operation of the Port as a logistics facility would be compromised.

Importantly, the Port Rule does not provide any avenue for the relative commercial position of the Authority (as a provider of both Port and Terminal facilities) to factor in these decisions. Administration of the Port Rule is the responsibility of the Regional Harbour Master. Only in the event of two vessels of similar critical maximum draft both wishing to *depart* the Port at the same time does the Authority have a decision-making role. Conflicts between inbound and outbound vessels are transparently addressed by the existing Port Rule, with no avenue for discretionary or discriminatory decisions.

In CQPA's view, to simply modify the existing Port rule would compromise the overall capacity and safe operation of the Port, and effectively shift capacity away from the coal industry, which originally funded the channel deepening, to other Port customers.

The only long-term sustainable solution to vessel movement capacity constraints at the Port is further dredging of the channel to the western Port area, to widen the tidal window for vessel movements into and out of this area. Commercial arrangements would need to be agreed with the customers whom benefit from this dredging, to fund the necessary works.

6. Concluding remarks

Concluding remarks

There are shifting views on the role of ports in the supply chain, within consequential impacts on what the most appropriate organisational model is. From the mid-1980s to late-1990s, the dominate view was of Ports as public service entities, with highly centralised Governmental control of publicly-owned/statutory port authorities.

During the mid-1990s this view began to shift. The advent of competition policy reforms, and the application of these reforms to the utility sectors (energy in particular), gave rise to the concept of ports as commercially independent businesses, competing with regionally-proximate ports for cargo throughput. The focus during this time was on operational efficiency and, in some cases, in structurally disaggregating port authorities to allow for competition in certain port services. In many ports this reform program delivered large dividends, with improvements in both port financial performance and customer charges.

More recently, though, there has been a shift again towards regarding ports as critical elements of an integrated logistics system. Increasingly it has become evident that the largest economic costs are not from inefficiencies in the way that certain functions are undertaken within a port, but in the lack of coordination between the different elements of the export supply chain. This has led to a renewed interest in whole-of-supply chain planning, and calls also for re-aggregation of some functions which previously were structurally separated.

CQPA believes that a vertically integrated model remains the best organisation structure for the delivery of its services, and that recent trends towards more whole-of-system planning reinforce this view. There are significant benefits in maintaining the largely vertically-integrated supply chain at the Port of Gladstone, the pay-off being greater system utilisation and higher capacity than otherwise.

CQPA recognises that it needs to be held accountable for its performance and for this reason has adopted the organisation structure that it has. In particular CQPA is cognisant of the need to ensure financial transparency, with internal accounts clearly corresponding to different port activities. The implementation of these arrangements ensures that the real costs of port operation and investment are clear and transparent. These frameworks already are in place within CQPA.

CQPA believes that the structure of its organisation is best practice for the current circumstances of the Port of Gladstone. Structural reform should only be considered if competition was possible and would result in benefits. CQPA believe that this is unlikely to occur in a bulk commodity port, and that any prospect of competition in the provision of port-services needs to be balanced against the need for integrated planning, especially in the

current environment of expansion. The current structure of the market, where CQPA is the sole supplier of coal handling services in particular, in CQPA's view is the most efficient outcome.

The Port operates within a commercial environment supported by a light handed regulatory framework. The activities of both the former Gladstone Port Authority and the Rockhampton Port Authority – the precedent entities to the Central Queensland Ports Authority – have been declared for monopoly prices oversight powers by the QCA. CQPA believes that a form of 'light handed' prices oversight is appropriate to the commercial environment within which the Port operates.