

Mackay Port Authority

Submission in response to the Discussion Paper Review of Current Port Competition and Regulation in Queensland

Correction

At the outset, it should be noted that the statement on page 5 of the discussion paper viz “MPA operates the seaport on a landlord basis with its four berths operated by third parties under leases” is incorrect. MPA has responsibility for the overall management of port infrastructure including the four berths.

Competition and regulation in the provision of key port services

Port planning should, consistent with the efficient use of port infrastructure, facilitate the entry of new supplier of port and related infrastructure services (COAG agreement 4.2a). Does the strategic port land model as used in Queensland assist in achieving that aim?

Response

It is considered that the strategic port land model is consistent with this ambition. Clearly whatever model is adopted needs to establish a balance or equilibrium among:

- Long term strategic designation of land for port uses;
- Appropriate interim land uses prior to the use of the land for its ultimate or highest and best port related use;
- Appropriate integration and compatibility with existing and planned surrounding land uses; and
- Timely provision of external infrastructure with appropriate cost recovery capacity by the infrastructure provider.

The current model can achieve this balance. The 2005 amendments to the port planning legislation improved the effectiveness of the planning process to achieve these outcomes. In particular, the statement of proposal process adds rigour and accountability.

Perhaps the area still underachieving in this context is the regional aspect of freight corridors and the designation and protection of them from urban encroachment.

Please identify any areas where there is scope to streamline the current planning process including reducing regulatory requirements and ensuring consistency in the administration of strategic port land.

Response

Arguably one of the most important aspects to the sustainable operation of ports is robust port planning. Whilst downstream processes of development assessment need to be agile and efficient,

the broader long term strategic and infrastructure planning activities should not be streamlined for their own sake.

Competitive neutrality in the provision of third party access to services

Are there aspects of port operations in Queensland which need to be addressed to ensure equitable third party access to infrastructure and services?

Response

Mackay Port Authority can cite no specific instance which would indicate a requirement for this to be addressed.

Where applicable, provide examples of any issues arising in the significant ports in Queensland where access has not been or was perceived not to be, provided in a competitively neutral manner.

Response

Nil

Right to earn a commercial return without exploiting monopoly power

Is there potential for increasing competition in the provision of port and related infrastructure facility services?

Response

In Mackay Port Authority's case there is scope for additional port asset utilisation. This suggests limited potential for increasing competition at this time. However, any significant new bulk commodities could change this situation in a relatively short time-frame if commenced through the port.

Assuming there is the potential to increase competition, will this be sufficient to ensure port authorities earn commercial returns that are consistent with those that would apply in a competitive market? Please provide examples where this could be achieved?

Response

Not necessarily. Increased competition could escalate to the point where ports are pressured to accept sub-commercial returns as has recently occurred in New Zealand. This is analogous to the pressure exerted on airports from low-cost airlines as a direct result of significantly increased competition.

Do you consider there would be benefit to introducing price monitoring for port authorities as a first step where price regulation may be required?

Response

Implicit price monitoring is already a fact of life. The legislative capacity already exists for a QCA pricing review to be applied to any or all ports by the responsible Ministers. Indeed subsequent ongoing pricing regulation may also be applied. This alone should be sufficient motivation for ports to have robust pricing models which can withstand methodological scrutiny. Mackay Port Authority is currently reviewing its pricing models for this very reason.

Does the threat of regulation act to constrain any market power?

Response

There does not appear to be any constraint on market power in those Australian jurisdictions which already have regulation. That said, there need to be clearly established warrants for introducing new regulation given the existing settings in the QCA Act.

Are the pricing principles utilised by the significant ports covered by this review sufficient to ensure that port authorities pricing mechanisms do not result in price discrimination, cross subsidisation or any other anti-competitive results? Can you provide examples where the pricing principles:

- ***Achieve the desired outcome; or***
- ***Do not achieve the desired outcome***

Response

Mackay Port Authority traditionally used a basket of core assets pricing methodology. By definition, this approach does not achieve the desired outcomes. Whilst this approach may have been appropriate in a traditional sense where a single commodity dominated port throughputs, it has inherent cross subsidisation when other commodities emerge to a level of significance.

MPA is however presently developing a building block pricing model which will establish an acceptable range of commercial prices between a fully distributed cost approach and a stand-alone cost approach. Obviously a marginal cost approach is not being considered. This new methodology will achieve the desired outcomes. Clearly, appropriate price paths need to be determined as part of the implementation strategy for such a change in pricing methodologies.

Would guidance in the commercial charters for port authorities be sufficient to ensure they earn a commercial rate of return while not exploiting any monopoly powers?

Response

This would be preferable to the implied threat of regulation already in place in the QCA Act.

Conflicts of interest arising

Do you have concerns regarding potential conflicts of interest in relation to vertically integrated structures or port authorities exercising their regulatory powers, which should be addressed on a case by case basis with a view to facilitating competition? Are you able to provide examples?

Response

Not from Mackay Port Authority's perspective. Nor can MPA provide any examples.

Is it necessary to promote / improve competition in upstream and / or downstream markets for any of the significant ports in Queensland which are covered by this review?

Response

Not in Mackay Port Authority's case

Additional comments

Briefly outline any other specific issues relating to the role of Queensland's port authorities which are aligned with the scope of this review but not addressed elsewhere in this paper.

Response

Nil

Jeffrey Stewart-Harris
Chief Executive Officer

20 November 2007