

INDUSTRY COMMISSION INQUIRY
INTO THE BLACK COAL INDUSTRY

COMMENTS ON 2 APRIL DRAFT REPORT

SUBMITTED BY:

PORTS CORPORATION OF QUEENSLAND

VERSION NO. 08/05/98

PRICING ISSUES - COAL WATERFRONT

In considering the Ports Corporation of Queensland and its clients it should be recognised that historical arrangements are unlikely to be replicated and future arrangements will be substantially different. The Special Harbour Dues and other port charges could be imposed by port rules, however, this option is not preferred. The existing formula and level of "Special Harbour Dues" was established by agreements in the mid 1980's and is currently being renegotiated, prior to the end of these first agreements. For DBCT, the agreements end in December 1998 and for Abbot Point they end in May 1999. The majority of Special Harbour Dues received is paid to the Queensland Treasury Corporation (approximately \$55 million per year) who financed the construction of the original offshore coal handling facilities. It is expected that these payments will cease in 1998/99. A summary of the user agreement history at Dalrymple Bay Coal Terminal is attached (Attachment 1).

The Ports Corporation has a commercial focus. Part of its mission statement (see Attachment 2) is to "generate planned profit in current and future years". The profit target in any given year is the amount negotiated and agreed annually between the Board and its shareholding Ministers, the Treasurer and the Minister for Transport. The Board would generally propose a target in its draft Statement of Corporate Intent. In proposing a target the Board is conscious of its long run rate of return requirements.

The Ports Corporation negotiates annual target profits and seeks to achieve its long run rate of return for each port. This provides transparency with respect to the operations of each port. Details of pricing, shipping and tonnages are available to customers, as are the Profit and Loss and Balance Sheet for each port. The Ports Corporation does not cross-subsidise any one port from the operations of its other ports. This benefits the coal ports which do not carry additional costs for activities associated with other ports or community services activities.

The users of the ports are protected from monopoly pricing by a reasonable long run rate of return not being exceeded. Port users also benefit by the exclusion of a return requirement from assets which were agreed to be contributed by the users.

Valuation methods are critical, and rely on appropriate guidelines. The Ports Corporation of Queensland is required by Queensland Audit to use guidelines developed by Queensland Treasury in line with the undertakings of the COAG agreement. However valuation methods vary between states, between ports and for certain classes of assets.

The Ports Corporation is bound by all previous contractual arrangements applying to the port assets it assumed. This generally protected existing port users, however, it does not assist users who believe unjustified returns are inherent in the existing contracts. The Ports Corporation does not receive all of the benefit of the agreements as is particularly evidenced by the profit in the coal ports; the Queensland Government via the Queensland Treasury Corporation is the primary beneficiary. The re-negotiation of the agreements will not require the involvement of Government and will be resolved on a commercial basis between the Users and the Corporation.

Commenting on the recommendations relating to pricing:

The Queensland Government should publish its target rates of return for its port corporations' assets.

This is a matter for decision by our shareholders the State Government. From the perspective of commercial negotiation, it is not normal to place this type of information in the hands of the other party to the negotiations.

Results against budget are published to our clients for the ports they operate in.

The Queensland Government should bring its port corporations within the prices oversight jurisdiction of the Queensland Competition Authority.

The draft report states that this would "place more discipline on port authority pricing decisions". The Ports Corporation operates under a pricing discipline, taking into account its charter requirements for planned rate of return and its other business objectives of low cost world competitive prices and maximising trade (on a commercial basis). The shareholding Ministers can use their reserve powers under the *Government Owned Corporations Act* to direct the Corporation on pricing. Providing the QCA with pricing oversight would primarily impact on the government as the government would need to justify its rate of return requirements and its asset valuation requirements.

The Ports Corporation could set prices by port rule and then argue to the QCA that the price is appropriate. Customers would provide evidence against the price. This may ensure price escalations are limited. It may not deliver the lowest possible cost and pricing outcomes.

The Ports Corporation believes it will meet the challenge of delivering low cost port services while also obtaining value from its assets by negotiating with its clients. The negotiations add value as the effect of each part of the arrangements is examined by the parties so that costs and benefits are identified and agreed.

The Ports Corporation believes pricing oversight should only be used when new or existing port users of services feel aggrieved by pricing offered for use of services declared as monopolies.

The Corporation would favour an independent review by the QCA prior to signing the agreements. This collective process would also avoid parties reaching agreements and then "racheting up" the deal by referral to a third party.

The New South Wales Government should bring its port corporations within the prices oversight jurisdiction of the Independent Pricing and Regulatory Tribunal.

The Ports Corporation supports a competitively neutral environment applying to all port authorities based on the substance of the arrangements in place.

The Ports Corporation is not in a position to comment on the achievement of this objective by implementing the recommendation or otherwise.

Price oversight may be appropriate where prices are set by use of statutory powers, but that oversight may be inappropriate where prices are negotiated.

PRICING PRACTICES

The Ports Corporation focuses on providing low cost reliable services to its port users. The costs of the port services should be considered in relation to the other parts of the chain, rail and shipping. The Ports Corporation believes the cost of demurrage is an integral part of measuring the efficiency of the

port. This does not mean that no demurrage is the aim. Having regard to the capital costs of the port and the desire for increased throughput of tonnage over the asset base, a \$0.20 to \$0.30 demurrage charge per tonne may deliver the best overall costs to port users.

The capital cost of port infrastructure capacity increases are stepped. The Ports Corporation aims to deliver value from its installed capacity. It seeks to ensure long term commitments for shipping coal through a port are in place to justify any expansion. An expansion, however, may result in uncommitted excess capacity. This capacity may warrant a different pricing strategy to encourage short term use. This would only be provided on the basis that shipping capacity is not guaranteed and would be lost to a user prepared to enter a long term commitment. Other needs for flexibility will exist when the different risk profiles of producers can be matched by the pricing policy. However access and scheduling rules continue to define the product offered, providing the opportunity to customers of the lowest cost system of operating.

The Ports Corporation believes the greatest value to the coal industry is high throughput at low cost, world competitive charge. The Ports Corporation believes, where handling practices such as blending lead to the less efficient use of infrastructure, different pricing principles should apply.

Attachment No. 1

USERS AGREEMENT - DALRYMPLE BAY COAL TERMINAL

The facilities at Dalrymple Bay, part of which were provided by the Users, were constructed commencing in the late 1970's and were in use by 1983. At that time the Ports Corporation's predecessor, the Harbours Corporation, sought assistance from Queensland Treasury in funding the Dalrymple Bay and Abbot Point Coal Terminals. In 1991 discussions were recommenced in order to finalise arrangements for the use of the facilities.

These discussions involved all of the users and resulted in a number of issues being resolved and agreements being signed. Some of the issues were:

- Reduction in the Special Harbour Due of 75 cents per tonne.
- Payment by the Government of some \$14 million for retrospective introduction of these concessions.
- Agreement by Government and Users that the agreement should be revisited in 1998.
- Original users not required to "take or pay", but to use their best endeavours to ship coal equivalent to their capacity rights.
- Ports Corporation required to use its best endeavours to ensure that installed capacity supports the total capacity rights sold.

Some of the user representatives involved in negotiating and signing these agreements have now moved on. Continuity of some of the points may now be lost to individual organisations.

It has been indicated that there has been an "overcharge" in the Special Harbour Dues. Treasury argued throughout the negotiation of the agreements that there was a reasonable profit element for the risk originally taken by Treasury in establishing DBCT, when there were insufficient users to pay the fixed charges. Treasury also pointed out that Abbot Point has only just barely reached break even point.

A view is that the Special Harbour Due represents a tax imposed by Government. Government would probably argue that as the charges are imposed as a result of an agreement between Users and the Government and are not imposed by law, then the charges cannot be a tax.

It should be clear that the DBCT agreements are in place and represent both the resolution of the differences between the parties and to some extent, Government policy. The agreements were approved by the Minister for Transport and Treasurer and were noted by Cabinet.

Until the agreements are renegotiated, the actual quantum of the Special Harbour Due is primarily an issue for Queensland Treasury Corporation. Because of the particular financing arrangements, the majority of the special harbour dues collected at DBCT are paid to Queensland Treasury Corporation.

Finally, at the time of the discussions the users were concerned that new users should meet costs of entry similar to that of existing users. At DBCT, it costs something like \$16 per tonne to install new capacity in the terminal. The resolution of the value of existing and the future rights at \$8 per tonne of capacity was thought to be a reasonable result by the existing users. As it is now, those user companies seeking to expand also have to obtain additional capacity rights for their increased tonnages.

CONCLUSION

The Ports Corporation believes that the provision of appropriate infrastructure is a key factor in providing for the growth of future coal marketing opportunities. The quantity of coal that is required throughout the world will increase significantly. As this occurs, many countries will not be able to keep pace with infrastructure development. This may prevent their industry developing fully, thus providing significant opportunities for Queensland Coal Producers.

Attachment No.2

The Corporation will provide safe, cost effective, competitive sea port services to existing and potential port users.

The Corporation's management of bulk and community ports will:-

- be in accordance with Government policies;
- generate planned profit in current and future years;
- develop and maintain appropriate port facilities and infrastructure, organisation resources and technology;
- maximise trade, provided commercial rates of return are achieved; and
- minimise environmental impacts of port operations and development.