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FREIGHT AND LOGISTICS COUNCIL OF WESTERN AUSTRALIA

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Mr Michael Deegan  
Infrastructure Coordinator  
Infrastructure Australia  
GPO Box 594  
CANBERRA ACT 2601

Dear Mr Deegan

***National Ports Strategy***

On behalf of the Freight and Logistics Council of Western Australia and Ports WA, we are pleased to accept your invitation of 9 October to participate in this inquiry.

Accordingly please find attached our submission to your work.

We would like to remain involved in the discussion given the fundamental significance of ports in this State and, to that end, request the opportunity to both meet with your consultants as appropriate and also to comment on your draft report when published.

We look forward to a useful outcome to this nationally important initiative.

Yours sincerely

*Bill Marmion*

Bill Marmion MLA  
Chairman

18 / 12 / 2009

**NATIONAL PORTS STRATEGY: CURRENT IA/NTC INQUIRY  
JOINT SUBMISSION: FREIGHT AND LOGISTICS COUNCIL OF WESTERN  
AUSTRALIA/PORTS WA  
DECEMBER 2009**

**1. Introduction:**

The Freight and Logistics Council of Western Australia was established by the State Government in March 2009 to provide strategic advice to the Minister for Transport on key freight and logistics policy issues. The Council comprises senior decision-makers from industry and Government. It is chaired by the Premier's Parliamentary Secretary.

Ports WA is the association of port operators in Western Australia. It comprises the port authorities in this State, together with the Department of Transport on behalf of non-port authority ports. The group is concerned with generic issues impacting on port performance, be they commercial, operational, technical or strategic.

This submission is presented jointly by the Freight and Logistics Council and Ports WA.

**2. Background**

Western Australia is the predominant overseas trading State in the nation, handling over half of the country's total trade tonnage. The overwhelming majority of this trade is sea freight.

Nearly 90 per cent of Western Australia's sea freight, in both volume and value terms, is handled by the State's eight port authorities. These statutory authorities are State-owned and operate autonomously under individual boards reporting directly to the Minister for Transport. Port authorities have a statutory obligation to facilitate trade and plan for future growth and development on behalf of port users.

In addition to the port authority ports, there are eight other ports in this State that are generally administered on behalf of the Government by the Department of Transport and operated by private export companies.

**3. Regulation and Governance**

Unlike some other jurisdictions, Western Australia does not have a regime of direct regulation in respect of the State's port infrastructure. Rather, it achieves similar outcomes by means of the Port Authorities Act 1999. This legislation defines a trade facilitation objective for ports and requires a focus on economic efficiency through commercialisation, transparency and accountability.

The need for more direct regulation of Western Australian ports has been examined several times, most recently this year when the Allen Consulting Group reviewed

arrangements as part of COAG's competition policy deliberations. This work found no instances where "economic regulation of providers of port facilities is required to either prevent the misuse of market power in the provision of port facilities by the port authorities or to increase competition in the downstream markets for port services."<sup>1</sup> The work also commented that the commercial charter established for port authorities under the Port Authorities Act 1999 is consistent with COAG's competition policy.

Earlier work on the regulatory environment for ports in Western Australia was conducted in 2007 by the Planning and Transport Research Centre, a respected research body associated with the major universities in this State. That work concluded "it is clear that the current model of public ownership, with ports acting as strategic managers subject to statutory and governmental oversight, is consistent with world best practice in the ports industry and is serving Western Australia well."<sup>2</sup>

While the Port Authorities Act 1999 has been found to form a strong basis for port operations in this State, implicit in the legislation is a traditional view of ports that emphasises the interface between sea and land transport. A more contemporary view might be somewhat broader and emphasise all activities impacting on port performance including port access, land use, buffer zones and other planning issues. It may be appropriate to link future port infrastructure funding to satisfactory progress with these planning issues.

#### **4. Planning Policy and the Protection of Freight Activities**

Port authorities in Western Australia have well-established planning procedures required by legislation. In the related documents (Statements of Corporate Intent and Strategic Development Plans), ports annually articulate their short and long term planning priorities for Government consideration. While a successful means of gaining Government understanding of the direction of proposed port development, these documents tend to focus on activities within port boundaries and under port control. Issues of corridor and precinct preservation are not dealt with in such a formalised manner because ports have limited influence over external issues, they being the responsibility of the broader planning process.

The broader planning process has the tools to achieve corridor and precinct preservation but their activation requires the needs of port efficiency to be given prominence in related decision-making. This does not always occur, especially when retrospective action is required or where narrowly-focussed local councils take decisions that impact on the efficiency of port operations or the effectiveness of long term port development strategies. There are a number of specific examples of residential development being approved close to key road and rail corridors serving existing and planned future Ports, despite the need to protect such corridors from intrusion being clearly articulated in a range of planning strategies and policies. These developments have the potential to

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<sup>1</sup> Council of Australian Governments: Review of Australian Ports - The Allen Consulting Group (January

<sup>2</sup> The Performance of Western Australian Ports - Planning & Transport Research Centre (March 2007).

severely impact on future Port efficiency and capacity. The gap between planning aspirations and practice should be a priority for attention for all levels of Government.

Recognising the needs of ports in the broader planning process is an increasing focus within Government. Indicative of this is the current work of the Fremantle Port Optimum Planning Group. This is an independent body of experts appointed by the Minister for Transport, and through him to the State Cabinet, charged with developing principles and strategies for the future development of the Port over the next fifty years. Preparation of this strategy has included wide consultation with stakeholder bodies. Resultant indications are that there is a heavy emphasis on the land-side requirements of port development needed in the strategy. It is anticipated that a Government response to the report's findings will ensure that land-side requirements are recognised in the broader planning process, not only in the immediate vicinity of the Port, but also through to associated inland activities and their supporting access requirements.

Another current planning exercise relevant to the functioning of ports in this State focuses on grain. By way of background, Western Australia is the country's primary grain exporter, with an average freight task of some 10 million tonnes annually worth over \$2 billion and related logistics costs of up to \$500 million. Port authorities in Geraldton, Kwinana, Albany and Esperance are heavily involved in exporting grain. The changes in logistics demands associated with the recent deregulation of the grain industry have created a new competitive environment for rail and road transport. The Freight and Logistics Council was asked to advise the Government on the matter. Subsequent work, overseen by a committee broadly representative of industry stakeholders and service providers, identified a strategy based on grain rail line rationalisation and reinvestment, with similar commitment to the supportive road network. While all aspects of the approach have yet to be formally endorsed by the Government, there is in-principle agreement with the direction of the Review's findings and the detailed business and economic analysis that support them. Full adoption of the strategy will mean that port access for grain exports as a vital part of the State's economic activity is defined by an orderly and informed planning process into the long term future.

Studies such as those just described highlight the need for the State's broader planning processes to recognise the land-side needs of ports and use appropriate tools to preserve them. This focus is reinforced by the high-level advocacy within Government of the Freight and Logistics Council that early in its life identified freight corridor and precinct preservation as key priorities for the efficient functioning of ports. This advocacy continues and there is demonstrable evidence that greater emphasis is now being put on the needs of ports in the State's broader planning processes.

The planning process being adopted in Western Australia has four steps, namely:

1. Identifying long term strategic objectives, priorities and strategies for port and supporting land-side infrastructure taking account of trade forecasts, competitive opportunities and risks to key outcomes. This may be done within the broader context of State or regional infrastructure and land use strategic planning.

2. Economic analysis and business planning of key infrastructure, including ports, channels, inland corridors and inter-modal hubs. This phase of planning requires scoping and costing of infrastructure packages to facilitate cost-benefit appraisal of feasible alternative projects. Principles to govern third-party access (if any) should be resolved at this stage of the planning process.
3. Master planning, project planning and programming of specific works, including land-use reservations, if not already effected following step (1) above.
4. Approvals from relevant environmental and urban/regional planning and local government authorities, in conjunction with financial planning and structuring of private sector participation where relevant.

While it would be preferable to use existing tools to the maximum effect possible, the Freight and Logistics Council believes that further initiatives will be needed to adequately protect port efficiency. Such developments might include creating exclusion zones around ports, establishing a dedicated Statewide port planning body within current procedures and developing expert planning panels to support the statutory planning powers of local councils. Such initiatives will be kept under consideration by the Council and advocated if need be.

The appropriate recognition of port efficiency within the broader State planning context is occurring. However, the linking of related Federal infrastructure funding to adequate port planning procedures, as has been suggested, may be helpful in maintaining the appropriate emphasis. Recent related discussion at COAG should be noted in that respect.

The other development required to support efficient land-side activities for ports is the creation of an overarching State freight and logistics strategy. Such an initiative would establish a context for policy decisions right across Government impacting on freight activities. The need for such a strategy has been highlighted by the Freight and Logistics Council since its inception, a view endorsed as a result by the Minister for Transport. In response, the Department of Transport has been charged with developing such a strategy in conjunction with the Council on behalf of industry. The wide acceptance of a freight and logistics strategy across Government would clearly identify port needs in respect of land-side issues and make related policy decisions more straightforward in areas such as infrastructure funding and corridor protection.

## **5. Productivity Gains**

The greatest opportunities for port productivity gains lie in associated land-side infrastructure systems. The achievement of these gains is dependent on the ability of the planning process to support ports. The Freight and Logistics Council believes that more work has to be done locally for that to consistently occur.

A key influence on port productivity is infrastructure investment. Governments are familiar with hard infrastructure investment. Indeed, their main direct contribution to

enhancing freight outcomes is the provision of related infrastructure funding. Well established funding processes are in place, both within ports or external to them.

What is less familiar to Government is the application of soft infrastructure initiatives or systems improvements to enhance productivity. Such improvements generally rely on the establishment of new commercial behaviour on the part of industry that improves the overall performance of the supply chain. Governments have limited direct influence in this area, unless through regulation as has been discussed recently in NSW. It should be noted that most Governments only turn to regulatory solutions in extreme circumstances.

A more common approach is to seek the alignment of industry's commercial objectives with Government's policy ones. Forums such as Freight and Logistics Councils, which now exist in all States, are vital in that respect.

A useful example relates to current initiatives to contain truck impacts associated with Fremantle Port. The background to the work is the reality that port capacity will be defined not by the productivity and resource levels within the port, but by community reaction outside of it. In particular, public concern about the impact of associated truck movements can translate into pressure that constrains port growth far more damagingly than any actual port operations. The Freight and Logistics Council is well advanced in identifying strategies to contain port truck impacts and how they might be implemented. Among these strategies are making trucks more productive, allowing the port to work longer hours, encouraging greater freight movement by rail and establishing the storage of empty containers closer to the importers and exporters that need them. The successful implementation of these strategies will involve a number of responses from industry and from Government, some of them by way of infrastructure improvements, others by way of systems improvements. The Council will be active in advocating each.

Successful progression of these initiatives requires a balance between cooperation and coordination. However, related progress can be frustrated by Government competition agencies who appear to sometimes have difficulty discerning the point where efficient outcomes are in conflict with expectations of 'competitive' industry structures. Cooperation rather than competition is a necessary and potentially helpful characteristic of integrated freight and logistics systems. This reality is not consistently acknowledged by competition agencies. ACCC-sanctioned cooperation between competing companies in the Hunter Valley coal chain has emerged as a shining example of the benefits that can result if competition agencies take a balanced approach in judging the impact of collaborative business relationships. However, there are other examples where competition policy has emerged as a barrier to the achievement of higher port productivity and the progression of related public interest.

As discussed earlier, an important initiative to contain truck impacts associated with Fremantle Port is the achievement of high vehicle productivity, in other words, better utilisation of the available transport capacity. With nearly one third of container trucks servicing the Port running empty one way, there is significant potential for improvement. A means of quickly and conveniently achieving this improvement is via adjustment to the

stevedores' Vehicle Booking Systems so that more fully loaded trucks are encouraged. Dual loading, where a truck carries one or more containers in both directions in and out of the port, is highly desirable in that respect. Progressing that outcome, however, requires a level of collaboration between the stevedores in order to maximise the possibility of a container being available in each direction. The collaboration is to make booking systems more transparent, not to seek related commercial benefit.

Despite the demonstrable public good resulting from the containment of port truck impacts as a result of this initiative, the ACCC has yet to commit to the system enhancements. The State Government has taken leadership of the issue to highlight the fact that this is about a positive outcome for the community and not for the stevedores. The extremely protracted process to gain authorisation to introduce the suggested system improvements seems unnecessary, with insufficient weight being given to public benefit.

In any discussion on port productivity, special mention should be made of the Pilbara ports of Dampier and Port Hedland. These facilities already handle huge tonnages by world standards, let alone Australian, and they are gearing up to increase this throughput dramatically. In Port Hedland's case, for example, plans are on the drawing board to take port throughput to a level equivalent to the entire national seaborne trade currently. That this quantum of activity occurs effectively in both operational and commercial terms relates in no small measure to the vertically integrated nature of key port users. To move from mine to ship within a single corporate entity brings significant advantage and underpins the effectiveness of these ports.

Mention should also be made, however, of the ship-side efficiencies of these operations. Recent well publicised images capturing dozens of large bulk carriers waiting at anchor outside Australian ports were not taken at Dampier or Port Hedland. One of the main reasons is that iron ore tends to be sold on a Cost Insurance Freight (CIF) basis, by contrast with coal ports on the eastern seaboard whose business is predominantly Free On Board (FOB). In the first instance, the exporter is responsible for the shipping arrangements and ensures that vessel arrival is coordinated with product availability to minimise shipping costs. This is not the case with FOB sales, where the overseas importer making the shipping arrangements has priorities other than queuing times at Australian ports. The outcome is not only the images of multiple vessels at anchor, but also demurrage payments estimated at A\$1.8 Billion nationally in 2008. Despite the fact that this enormous cost is ultimately paid by Australian exporters, to the detriment of their own business and the national accounts, scant attention has been given to the issue in related Government trade policy. The reality is that port productivity would be enhanced if more trade was conducted on a CIF rather than an FOB basis. This would not only go a long way towards addressing the demurrage issue, but would also assist in reversing the trend in land-based shipping activities (for example, marine broking, finance and law) going offshore. This latter development would make a significant contribution to the national accounts and be consistent with the Federal Government's policy of reinvigorating shipping in this country.

Another means of improving productivity along the chain without having to invest in physical infrastructure is improvement of information systems and flows between supply chain participants. Port Community Systems (PCS ) as they are sometimes labelled are IT based systems which provide efficient electronic interchange between a large number of players in the supply chain, replacing the huge number of paper based and one-to-one communications which currently characterise the chain. While well established overseas they have been slow to be adopted in Australia. However this is changing rapidly with a number of parties now pushing strongly to position themselves at the centre of such systems. Certainly the evidence from overseas is that such systems have been vital in enabling rapidly growing trade volumes to be accommodated without having to endlessly invest in physical infrastructure. Fremantle Ports is now working with a Ports Australia group to determine what role the ports should be playing in the development and running of such systems.

A submission to Infrastructure Australia to fund work in this area has been coordinated through the Victorian Department of Transport and Ports Australia and this work, if approved, could provide a strategic basis for future development of these systems in Australia.

## **6. Stakeholder Consultation**

Western Australia has a strong tradition of engagement between ports and their stakeholders. It was the first State to establish freight councils, the Sea Freight Council of Western Australia commencing in 1996. This group progressed significant policy issues impacting on port operations based on its membership of senior industry and Government members.

The current Freight and Logistics Council of Western Australia follows in that tradition, now taking a broader oversight of all freight and logistics activities in this State. Given the heavy dependence of the State economy on overseas trade, the Council's deliberations inevitably relate to port activity in some form.

The Western Australian Port Operations Task Force is an even longer-standing body, having been established in 1987. Its focus is particularly on the movements of containers through Fremantle, in which context, it progresses a number of the efficiencies referred to elsewhere in this submission.

Ports in this State, of course, also have their own strong consultation processes. These occur at a local level where there are regular forums involving port users, community groups and other stakeholders. They also occur at a higher level, where Ports WA meets regularly as a forum for ports to share views on a wide range of policy, operational, commercial and administrative issues. The resultant deliberations are invaluable as a means of progressing port efficiency.

## **7. Conclusion**

Western Australian ports handle half of the country's seaborne trade to the significant benefit of the national economy. That the State's ports maintain this level of throughput with relatively few of the difficulties highlighted elsewhere in the country suggests that the model in this State works well. That is not to say that it could not be improved. The autonomous nature of port authorities, for example, has tended to leave unaddressed some issues of coordination, especially in respect of capital funding. Similarly, the current model does not adequately define responsibility for the planning of new ports. These shortcomings have been recognised by the Government. Current reorganisation of the Department of Transport is designed to, among other things, address such issues.

There is no doubt that the performance of this State's ports has been enhanced by the provision of Federal infrastructure funding to date. Trade levels are forecast to maintain strong historic growth trends and in some cases considerably exceed them. This suggests a need for ongoing Federal support to ensure that Western Australian export activity continues to contribute significantly to the national economy. What is argued in this submission, however, is that further Federal initiative is not required to maintain efficiency levels at the State's ports, be it in respect of regulation, operation, ownership or centralised planning. That position should be recognised in related deliberations about a National Ports Strategy.