2017 Port of Darwin Comparative Report

Comparison of Annual Reporting for 2013-2017

13 December 2017

Table of Contents

Glossary

Term	Definition
access policy	An access policy made by a private port operator pursuant to section 127 of the *Ports Management Act* and regulation 13 of the Ports Management Regulations
Commission	The Utilities Commission of the Northern Territory
DPO	Darwin Port Operations Pty Ltd (ABN 62603 472 788), the private port operator for the Port of Darwin
Price Determination	The 2015-18 Prescribed Port Services Price Determination for the Port of Darwin published by the Utilities Commission pursuant to section 132 of the *Ports Management Act* and regulation 16 of the Ports Management Regulations
Government	The Northern Territory Government
prescribed service	As defined by regulation 12 of the Ports Management Regulations
regime	Part 11 of the *Ports Management Act* and Part 3 of the Ports Management Regulations
Regulator	The Utilities Commission of the Northern Territory, as established by section 119(3) of the *Ports Management Act* and as established under the *Utilities Commission Act*
Regulations	Ports Management Regulations

Chapter 1: Introduction

Background

1.1 Darwin Port Operations Pty Ltd (DPO) was declared the operator of the Port of Darwin under the *Ports Management Act* (PM Act) on and from 1 July 2015. On 15 November 2015, ownership of DPO was acquired by Landbridge Infrastructure Australia Pty Ltd (Landbridge) as part of Landbridge's 99 year lease of the Port of Darwin.

1.2 The change of status of DPO to a private port operator triggered the commencement of the ports access and pricing regime.1 In accordance with the regime, the Utilities Commission (Commission) is the economic regulator of ports access and pricing for Northern Territory ports.

1.3 The regime requires the private port operator to report annually to the Commission about access and pricing, including matters such as:

- Material instances of non-compliance with its access policy 2
- A list of the types of charges for prescribed services charged by the operator
- The amount of revenue received by the operator from charges for prescribed services (showing the amount of revenue for each separate charge)
- For a charge for a prescribed service payable on a unit basis, the total number of units charged for each separate charge
- Details about the amount and reason for any changes to a charge for a prescribed service3
- The addition of a new charge or the removal of an existing charge for a prescribed service4
- The number and terms of any agreements entered into to fix a negotiated charge for a prescribed service.[5]

1.4 As the regime commenced in late 2015, the Commission has received this information from the private port operator for the last two financial years.

1.5 The Commission has used this information, as well as what is publically available for the two years prior to the commencement of the private port operator, to complete a comparison of the operational activities of the Port of Darwin for the last four years. For the purposes of this report, trade statistics for each year have been analysed and compared by capacity, volume and revenue.

[1] Part 11 of the *Ports Management Act* and Part 3 of the Ports Management Regulations
[2] Section 130 Ports Management Act
[3] Regulation 16(2)(e) of the Ports Management Regulations and clause 10 of the Price Determination
[4] Regulation 16(2)(c) and (e) and clause 8 and 9 of the Price Determination
[5] Regulation 16(2)(f) of the Port Management Regulations and clause 10(e) of the Price Determination

About the Port of Darwin

1.6 The Port of Darwin is a multi-use, mixed cargo and marine services port. It services a number of markets, including: livestock, dry bulk, petroleum and other bulk liquids, container cargo, general cargo, cruise vessels, naval vessels and, offshore and gas rig servicing. It is a major offshore industry support hub for most cargoes used in the oil and gas industry in the Arafura and Timor seas as well as waters off Western Australia.[6]

1.7 The port is directly linked to Adelaide by the Tarcoola-Darwin Railway, is connected by major road transport highways to other capital cities and is Australia's closest shipping port to Asia.[7]

1.8 The Port of Darwin is made up of a number of areas including East Arm Wharf, Fort Hill Wharf, the Marine Supply Base, Stokes Hill Wharf, Fisherman's Wharf, Hornibrook Wharf and the Frances Bay Mooring Basin. Not all areas were leased to Landbridge, with Stokes Hill Wharf, Fisherman's Wharf, Hornibrook Wharf and Frances Bay Mooring Basin continuing to be owned and operated by the Government.

1.9 The Marine Supply Base is not regulated by the Commission. This is because the regime allows for services provided under a lease granted by the port operator to be excluded from the access and pricing regime. The Marine Supply Base is operated by ASCO Australia Pty Ltd under a fee for service agreement for a term of up to 20 years, which commenced in June 2014.[8]

[6] Darwin Port, About Us, *Darwin Port* [website], paragraph 2, www.darwinport.comau/about-darwin-port accessed 14 November 2017.
[7] Darwin Port, About Us, *Darwin Port* [website], paragraph 2, www.darwinport.comau/about-darwin-port accessed 14 November 2017.
[8] Regulation 12(2) of the Ports Management Regulations.

Chapter 2: Reporting

Compliance with the Access Policy

2.1 The port operator's access policy for the Port of Darwin was approved by the Commission on 30 June 2017. DPO have reported that there have been no material instances of non-compliance with the access policy to date.

Changes to standard charges for prescribed services

2.2 For the 2015-16 and 2016-17 financial years, there were no changes to standard charges for prescribed services.

2.3 On 1 August 2017, DPO increased its standard charges for prescribed services. All charges except one increased by 1.1%. The exception, the charge for bulk liquid fuels (inbound) increased by 3.6%. DPO have explained that the reason for the higher increase for this service is to receive an acceptable rate of return for the bulk liquids fuel berth infrastructure upgrades.

2.4 DPO introduced a new tariff, the Bladin Channel port dues levy. This tariff is for vessels larger than 20 000 gross tonne (GT) accessing the Bladin Channel. DPO has advised the Commission that the purpose of the new tariff is to provide a recovery mechanism for investment in pilotage, harbour control and management facilities to support the safe management of large vessel traffic.

2.5 The Commission was satisfied that these changes were not inconsistent with the Price Determination.

2.6 This is the first time that DPO have changed the standard charges for prescribed services since becoming the private port operator.

Agreements to fix a negotiated charge for a prescribed service

2.7 Since 2015, the private port operator has entered into 12 agreements to fix a negotiated charge for a prescribed service.

2.8 For 2015-16, three agreements to fix a negotiated charge for a prescribed service were entered into.[9] Most of these agreements were for leases and licencing arrangements for premises such as warehouses, offices and demountable offices at the port. One agreement was made to change an existing negotiated charge for a prescribed service. This was to extend and amend the bulk handling agreement with OM Manganese. OM Manganese went into administration in 2015-16. However, it is now out of administration and continues to trade and use the port.

2.9 In 2016-17, the number of agreements tripled to nine. The nature of these agreements were also for leases and licensing arrangements with commercial entities, such as demountable offices and storage facilities.

[9] Or were being finalised at the time the report was made to the Commission.

Chapter 3: Trade

Data and statistics

3.1 The Commission has used data from the previous four financial years. There are some differences in the way the data has been reported across this period. For example, in 2013-14 and 2014-15 the port was operated by the Government and published an Annual Report which was tabled in Parliament. For most of 2015-16 and for 2016-17 the port has been operated by the private port operator, with DPO reporting to the Commission about access and pricing pursuant to its obligations under the regime.[10]

3.2 In general, it would be expected that revenues will change with volumes and vessel visits. However, it should be noted that different types of commodities do attract different levels of revenue per tonne (or vessel visits), and as a result there is not a consistent link between changes in volume and revenue.

3.3 Full details of the trade statistics for each of the comparison years are included in Appendix A.

Trends for the Port of Darwin

3.4 Following a record breaking peak in 2013-14, there has been a progressive downturn in the total trade for the port over the last three years, with a shift in top trade commodities and main sources of revenue. This is a result of the commodities downturn (especially for iron ore and manganese) and the near-completion of the construction phase of the INPEX Ichthys LNG project (INPEX). There has been a steady decrease in vessel visits to the port. Even at its peak in 2013-14, the utilisation of berthage at East Arm Wharf was estimated at 43%.

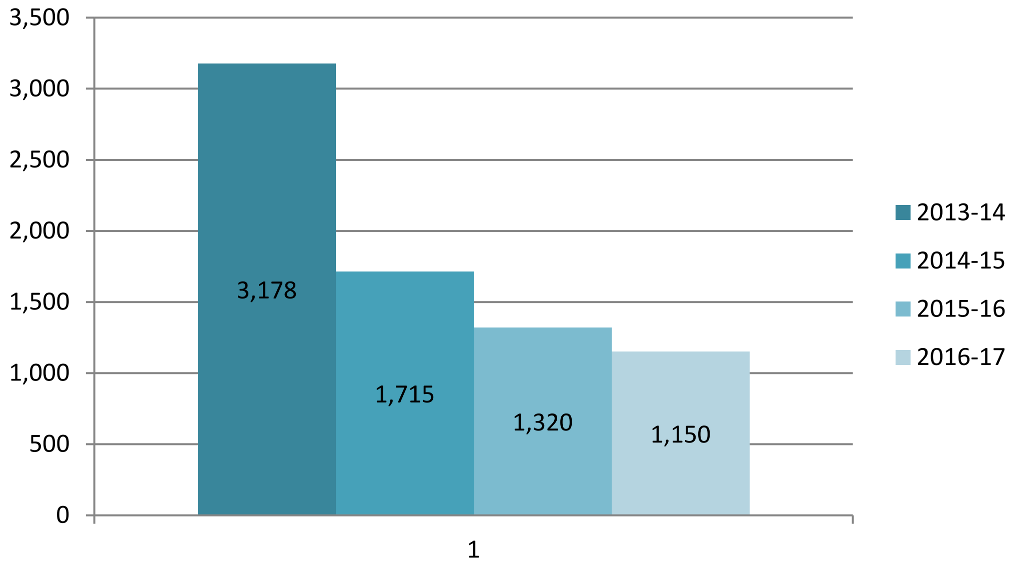
3.5 The following discussion provides a summary of changes in capacity, volume and revenue across the four year period.

Capacity

3.6 Figure 1 shows that peak vessel visits occurred in 2013-14. Since 2013-14 there has been a consistent decrease in vessel visits to the port. Notwithstanding this peak, the utilisation of berthage at East Arm Wharf was just under half its capacity for this period.

[10] Section 130 *Ports Management Act,* regulation 16(2) of the Ports Management Regulations and clause 10 of the Price Determination.

Figure 1: Vessel Visits



Volume

3.7 Consistent with vessel visits, 2013-14 was a record breaking year for port volume. The main drivers for increases for this period were: the additional port activity generated by the INPEX project;[11] increases in iron ore exports; and a rise in general and container cargo attributed to other local major projects.[12]

3.8 Figure 2 provides a comparison of the total trade tonnage for the last four years, and provides an overview of the variations of port activity in general.

Figure 2: Total Trade by Tonnes

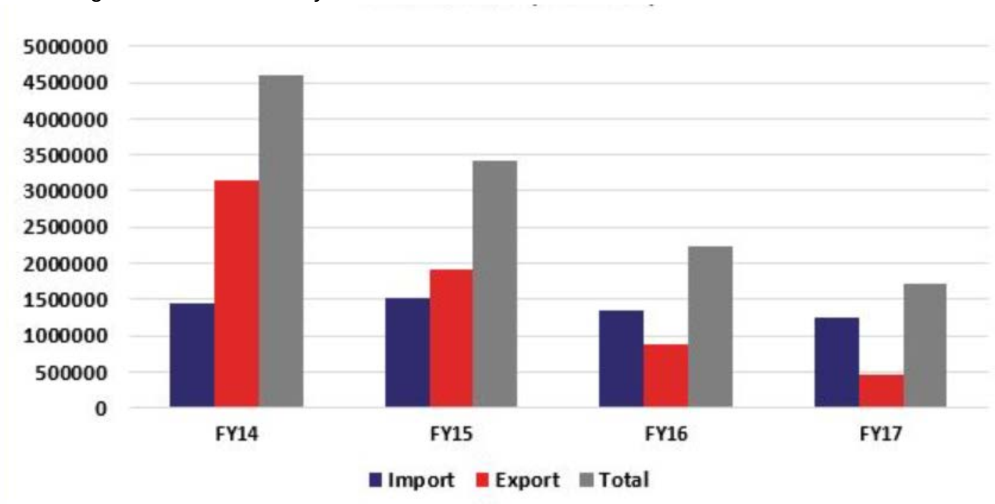


Figure 2 obtained from https://www.darwinport.com.au/trade/trade-port-statistics/total-trade

[11] Darwin Port Corporation, *Annual Report 2013-14*, page 7.
[12] Darwin Port Corporation, *Annual Report Darwin 2013-14*, page 46.

3.9 The year 2014-15 saw all port activity decrease noticeably, which continued for the next two years. The most substantial change has been the decrease in bulk mineral exports.[13]

3.10 The factors for this reduction in activity includes:

- the shut-down of the iron ore mine at Francis Creek and the temporary suspension of operations at the Bootu Creek manganese mine[14]
- the relocation of offshore oil and gas supply vessels to the new Marine Supply Base
- reductions in cattle exports
- the phased reduction in the INPEX project's cargo import requirements.[15]

3.11 Both mines were major exporters through the port. This is consistent with the Darwin Port Corporation's prediction in 2013-14 about impacts on future trade figures due to the fluctuations in the global price of iron ore.[16]

3.12 In addition, DPO reported a decrease in cattle exports through the port following record breaking highs the previous years. DPO have indicated that it suspects this was due to cattle being exported out of other ports across Australia.[17]

3.13 Port activity resulting from the construction phase of the INPEX project also reached its peak in 2013-14. As the project now nears the completion stage, port activity has dropped. The port is now experiencing a gap between the construction and start-up phases for the project, resulting in a lull in port activity created by the project.[18] Export of LNG is expected to begin in 2018.

3.14 These factors impacted the top trade commodities for the port. As depicted by Table 1, the shift occurred between 2014-15 and 2015-16.

Table 1: Commodities

Top Commodities for the Port of Darwin				
	2013-14	2014-15	2015-16	2016-17
1	Export - Dry Bulk	Export - Dry Bulk	Import - Petroleum Product	Import - Petroleum Product
2	Import - Petroleum Product	Import - Petroleum Product	Export - Bulk Minerals Manganese	Export - Bulk Minerals Manganese
3	Import - Dry Bulk	Import - Dry Bulk	Import Clinker, Gypsum, Sulphur or similar, Scrap Metal	Import - General Cargo
4	Import - Other	Export - Livestock	Import – General Cargo	Import Clinker, Gypsum, Sulphur or similar, Scrap Metal
5	Export - Livestock	Import - Other	Export - Livestock	Export - Livestock

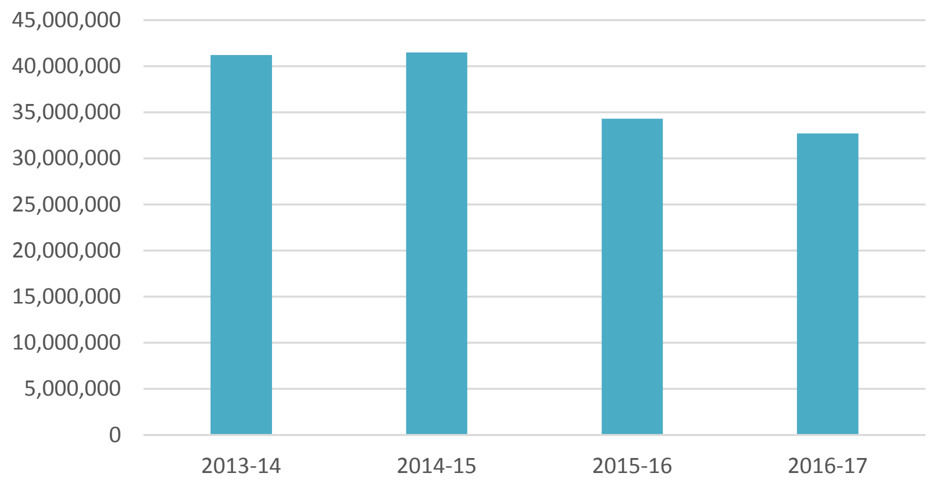
[13] Darwin Port, Total Trade, *Darwin Port* [website], https://www.darwinport.com.au/trade/trade-port-statistics/total-trade accessed 20 November 2017.
[14] A. Dias, 'Darwin port operator confident of viability despite falls in manganese, iron ore and cattle shipments', *ABC News*, http://www.abc.net.au/news/2015-12-16/darwin-port-operators-confident-despite-drop-in-shipments/7033484 accessed 19 November 2017.
[15] Darwin Port Corporation, *Trade Report 2014-15*, page 2.
[16] Darwin Port Corporation, *Annual Report 2013-14*, page 8.
[17] A. Dias, 'Darwin port operator confident of viability despite falls in manganese, iron ore and cattle shipments', *ABC News*, http://www.abc.net.au/news/2015-12-16/darwin-port-operators-confident-despite-drop-in-shipments/7033484 accessed 19 November 2017.
[18] A.Betts, 'Darwin port furore 'a risk' to China investment, as NT looks to survive downturn', *ABC News*, http://www.abc.net.au/news/2016-04-14/raby-comments-china-port-deal-as-nt-buckles-down-to-survive/7325148 accessed 19 November 2017.

Revenue

3.15 Shipping and cargo revenue for 2013-14 was $41.2 million.[19] Revenue for the same services for 2014-15 was $41.5 million. This is a slight increase, despite the decline in bulk cargo volume. This may be due to an increase in prices by the Darwin Port Corporation in February 2015, including the introduction of a new fixed berthage fee.[20]

3.16 Following the change in port operators in late 2015, revenue for prescribed services[21] for 2015-16 was $34.3 million and $32.7 million for 2016-17. Figure 3 provides a summary of revenue for shipping and cargo/prescribed services for the last four years:

Figure 3: Revenue for shipping and cargo (prescribed services)



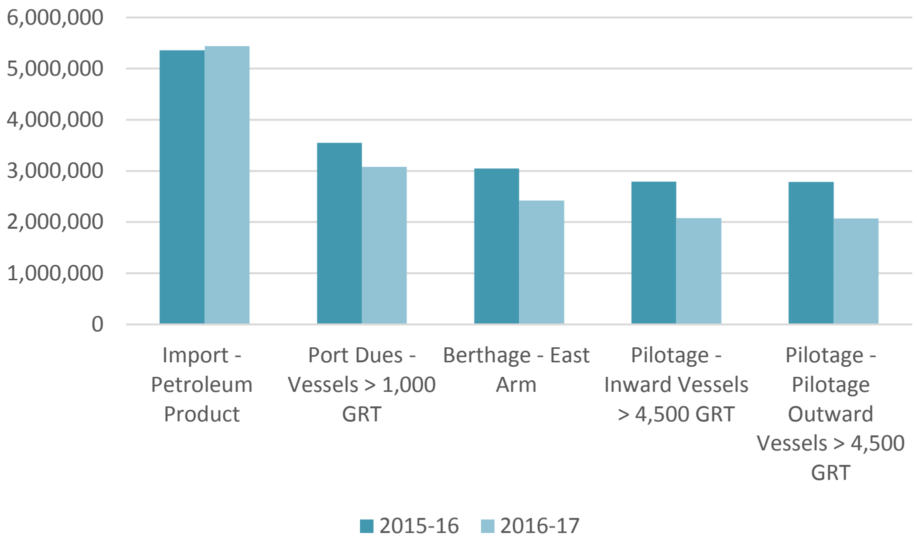
3.17 As illustrated by Figure 4, the top sources of revenue have remained the same across 2015-16 and 2016-17. However, the amount of revenue from four of the five main sources has decreased. The decrease in revenue is consistent with the decrease in vessel visits (Figure 1) and volumes (Figure 2).

[19] Shipping and cargo revenue includes wharfage, berthage, pilotage and port dues: Darwin Port Corporation, *Annual Report 2013-14*, page 136.

[20] Darwin Port Corporation, *Annual Report 2014-15*, page 116 and 118.

[21] Prescribed services include providing and allowing access for vessels at the designated port providing facilities for loading or unloading vessels at the designated port; providing for or facilitating the provision of pilotage services in the pilotage area within the designated port; and allowing entry of persons and vehicles to any land on which port facilities of the designated port are located: regulation 12 of the Ports Management Regulations.

Figure 4: Comparison of Main Sources of Revenue



Future Demand

3.18 The Commission has not undertaken any formal demand forecasting and DPO has no obligation to provide forward looking demand projections.

3.19 Nevertheless, INPEX is due to start exporting LNG from the port in 2018, which will increase vessel visits by around 150 to 200 visits per annum, but not volumes. Volumes are not impacted because INPEX operates its own port at Bladin Point, similar to ConocoPhillips.

3.20 Additionally, as indicated through discussions with stakeholders there does seem to be some level of interest and activity across the mining industry that may result in increased bulk exports over the coming years.

Appendices

Appendix A: Yearly Trade Statistics for the Port of Darwin

This section highlights the key trading information for each financial year, beginning with the two years prior to DPO commencing as the private port operator.

2013-14: Government port operator

2013-14 was a record breaking year for the port across volume, capacity and revenue. The main drivers for increases for this period were: the additional port activity generated by the INPEX project;[22] increases in iron ore exports; and a rise in general and container cargo attributed to other local major projects.[23]

Capacity

- In 2013-14, a total of 3,178 trading vessels visited Darwin ,[24] which is a 43% utilisation of East Arm Wharf.[25]
- This is an increase of 15% from the previous year and a record for the port. [26]
- The INPEX project created a 107% increase in vessel calls over 2012-13 and 2013-14.[27]

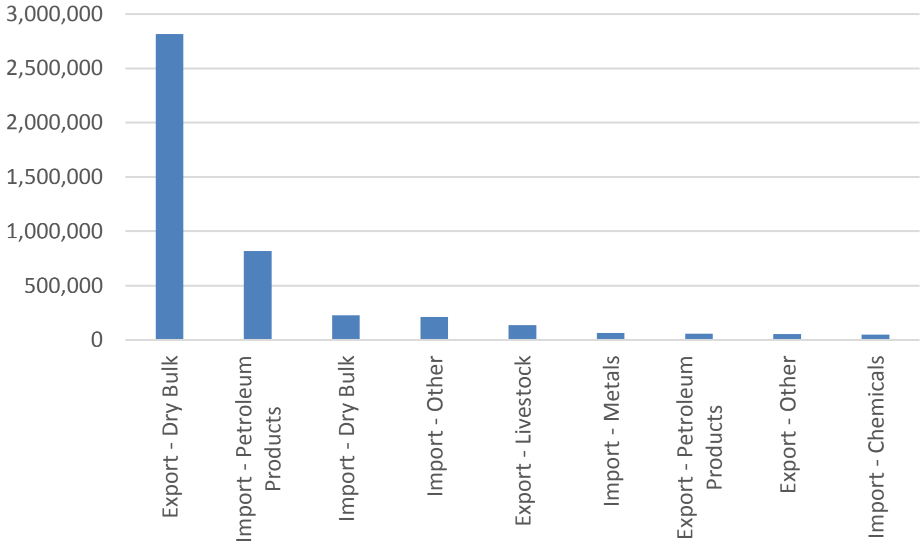
Volume (Trade by Commodity)

- The port had a throughput of almost 4.6 million tonnes of cargo in 2013-14. This is the highest total trade cargo throughput recorded since operations commenced at East Arm Wharf.[28] It represents a 7% increase on the previous year.
- This period saw a number of record breaking achievements for the port, including: a 53% increase for container and general cargo trade; a 10% increase in dry bulk exports; and the Australian record set for livestock exports which increased by 47% from the previous year.[29]
- Dry bulk continued to be the main trade commodity, accounting for 66% of all exports, including 2.5 million tonnes of iron ore and manganese being shipped out of Darwin.[30] In 2013-14, iron ore was the port's largest single trading commodity, followed by the importation of petroleum products.[31]

[22] Darwin Port Corporation, *Annual Report 2013-14*, page 7.
[23] Darwin Port Corporation, *Annual Report Darwin 2013-14*, page 46.
[24] Darwin Port, Vessel Visits, *Darwin Port* [website], https://www.darwinport.com.au/trade/trade-port-statistics/vessel-visits accessed 19 November 2017.
[25] Darwin Port Corporation, *Annual Report 2013-14*, page 45.
[26] Darwin Port Corporation, *Annual Report 2013-14*, page 4.
[27] Darwin Port Corporation, *Annual Report 2013-14*, page 7.
[28] Darwin Port Corporation, *Annual Report 2013-14*, page 46.
[29] Darwin Port Corporation, *Annual Report 2013-14*, page 4.
[30] Darwin Port Corporation, *Annual Report 2013-14*, page 7.
[31] Darwin Port Corporation, *Annual Report 2013-14*, page 98.

Figure 5 sets out trade by commodity for 2013-14:

Figure 5: 2013-14 Trade by Commodity



Revenue

- The shipping and cargo revenue for 2013-14 was $41.2 million.[32]
- Profit before tax was $17 million. This represents a 14% growth or an increase of $6 million compared to the previous year.[33]
- Total revenue for all port activities was $57.7 million, which exceeded the year's target by 11%.[34]

2014-15: Government port operator

This financial year saw a noticeable decrease in port activity. This was the result of a number of factors including: the cessation of iron ore exports; the relocation of offshore oil and gas supply vessels to the new Marine Supply Base; and the phased reduction in the INPEX project's cargo import requirements.[35]

Capacity

- A total of 1,715 trading vessels visited the port,[36] which is almost 1,500 less than 2013-14. This has been attributed to changes to the INPEX construction phase.
- The average utilisation of East Arm Wharf was at 38%.[37]
- However, whilst overall vessel visits were down for the period, there was an increase in some of the vessel types that visited the port. This included an

[32] Shipping and cargo revenue includes wharfage, berthage, pilotage and port dues: Darwin Port Corporation, *Annual Report 2013-14*, page 136.
[33] Darwin Port Corporation, *Annual Report 2013-14*, page 4.
[34] Darwin Port Corporation, *Annual Report 2013-14*, page 4 and Darwin Port Corporation, *Annual Report 2014-15*, page 120.
[35] Darwin Port Corporation, *Trade Report 2014-15*, page 2.
[36] Darwin Port, Vessel Visits, *Darwin Port* [website https://www.darwinport.com.au/trade/trade-port-statistics/vessel-visits accessed 19 November 2017.
[37] Darwin Port Corporation, *Trade Report 2014-15*, page 2.

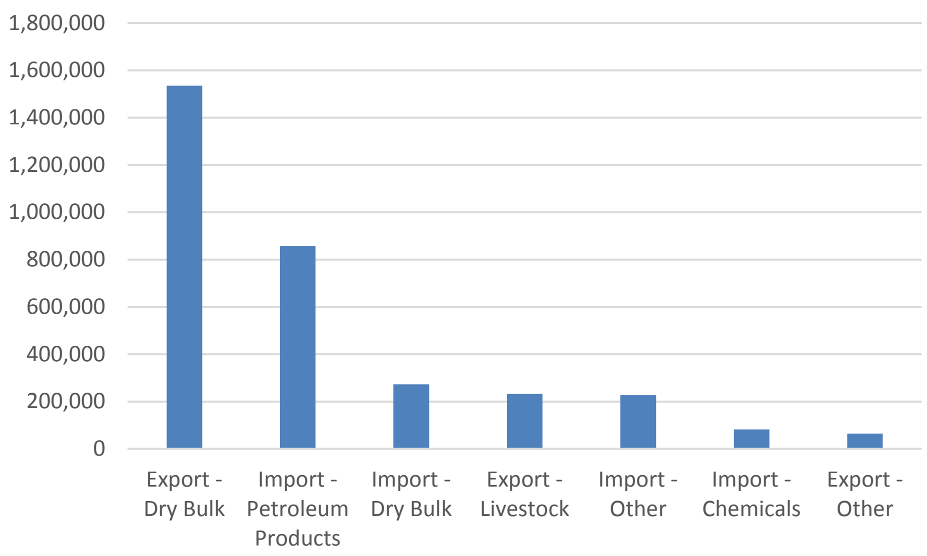
additional 65 cruise ships, 40% more livestock vessels, and a 125% increase in clinker import vessels.[38]

Volume (Trade by Commodity)

- The port had a throughput of over 3.4 million total tonnes of cargo in 2014-15, which was over a million tonnes less than the previous year. This was mainly because of the downturn in iron ore and manganese exports (down 61% and 14% respectively).[39]
- Whist exports were down, there was a 5% increase in total imports, which was a record number of imports for the East Arm Wharf. This was predominantly because of increases in petroleum products and cement.[40]
- 2013-14's Australian record for cattle exports was exceeded. 2014-15 saw an increase of 51%, with 613,437 head of cattle being exported.
- Bulk dry exports and petroleum product imports were again the two leading trade commodities, as indicated by Figure 6.

Figure 6 sets out trade by commodity for 2013-14:

Figure 6: 2014-15 Trade by Commodity



Revenue

- Shipping and cargo revenue for 2014-15 was $41.5 million. This is a slight increase on the previous year, despite the decline in bulk cargo volume. This may be due to an increase in prices by the Darwin Port Corporation in February 2015, including the introduction of a new fixed berthage fee.[41]
- Profit before tax was recorded at $12 million for 2014-15.[42]

[38] Darwin Port Corporation, *Trade Report 2014-15*, page 1.
[39] Darwin Port Corporation, *Trade Report 2014-15*, pages 2 and 4.
[40] Darwin Port Corporation, *Trade Report 2014-15*, pages 1, 2 and 4.
[41] Darwin Port Corporation, *Annual Report 2014-15*, page 116 and 118.
[42] Darwin Port Corporation, *Annual Report 2014-15*, page 4.

- Total revenue for all port activities was $60.1 million, an increase of $2.4 million from the previous year, exceeding budget by 10%.[43]

2015-16: Private port operator commences November 2015

Capacity

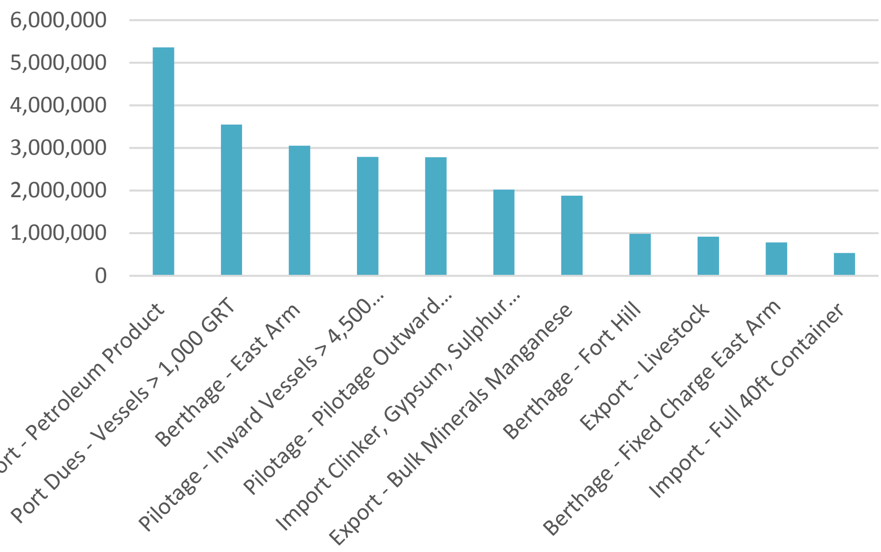
- The number of trading vessels continued to decline, with 1,320 vessels visiting the port this for this period.[44] The continued decrease in vessels is due to the winding down of the INPEX construction phase.

Volume (Revenue by Commodity)

- With the downturn in iron ore and manganese exports and decreased activity due to the nearing end of the construction phase for the INPEX project, there was a shift in the main trade commodities for the port.
- The main trade commodity for 2015-16 by a significant margin was imported petroleum products.
- Import clinker, gypsum, sulphur and export bulk minerals manganese were the other leading trade commodities, as illustrated by Figure 7.

Figure 7 sets out revenue by commodity for 2015-16:

Figure 7: 2015-16 Revenue by Commodity



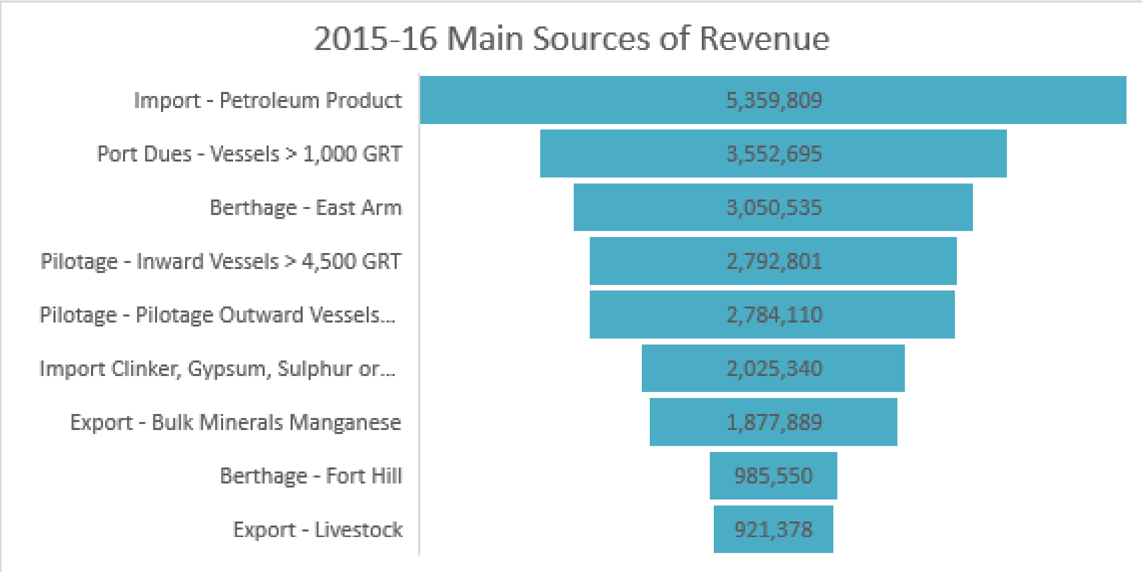
Revenue

Total revenue for prescribed services was $34.3 million. The main sources of revenue for DPO were imported petroleum products, followed by port dues and berthage at East Arm

[43] Darwin Port Corporation, *Annual Report 2014-15*, page 4 and 120.
[44] Darwin Port, Vessel Visits, *Darwin Port* [website https://www.darwinport.com.au/trade/trade-port-statistics/vessel-visits accessed 19 November 2017.

Wharf. Whilst no longer the leading commodities, the export of bulk manganese and livestock remained in the top ten revenue sources, as depicted in Figure 8

Figure 8: 2016-16 Main Sources of Revenue



2016-17: First full year of trade following the commencement of the private port operator

Capacity

- A total 1,150 trading vessels visited the port,[45] which is slightly less compared to 2015-16.

Volume (Revenue by Commodity)

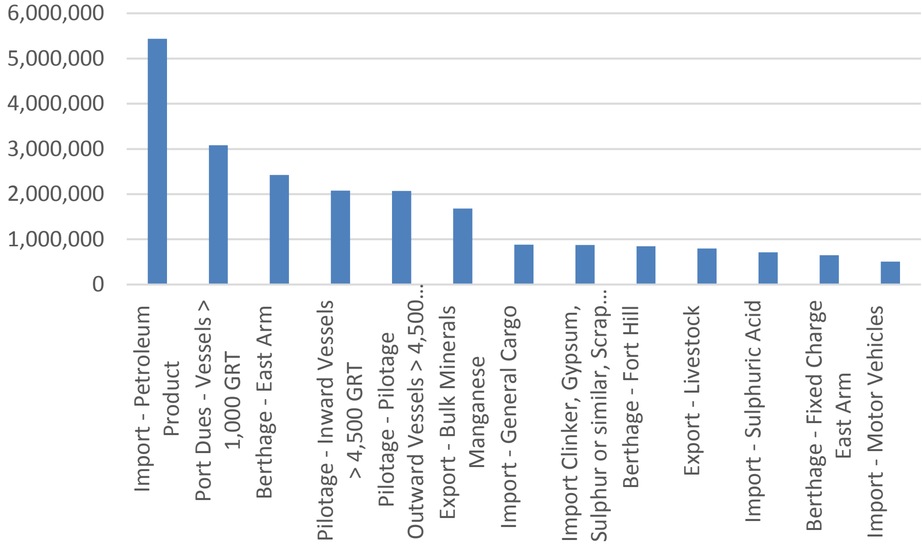
As set out in the Figure 9, imported petroleum products was still the leading trade commodity for the port. However, exported bulk manganese has now moved into second place, from third for last year. This is consistent with reports of recovering manganese prices.[46]

[45] Darwin Port, Vessel Visits, *Darwin Port* [website https://www.darwinport.com.au/trade/trade-port-statistics/vessel-visits accessed 19 November 2017.

[46] C. Curtain, 'Moth-balled Tope End manganese mine Bootu Creek reopens as ore price recovers', *ABC News*, http://www.abc.net.au/news/rural/2017-02-02/moth-balled-top-end-manganese-mine-bootu-creek-reopens/8235326 accessed 19 November 2017.

Figure 9 sets out revenue by commodity for 2016-17:

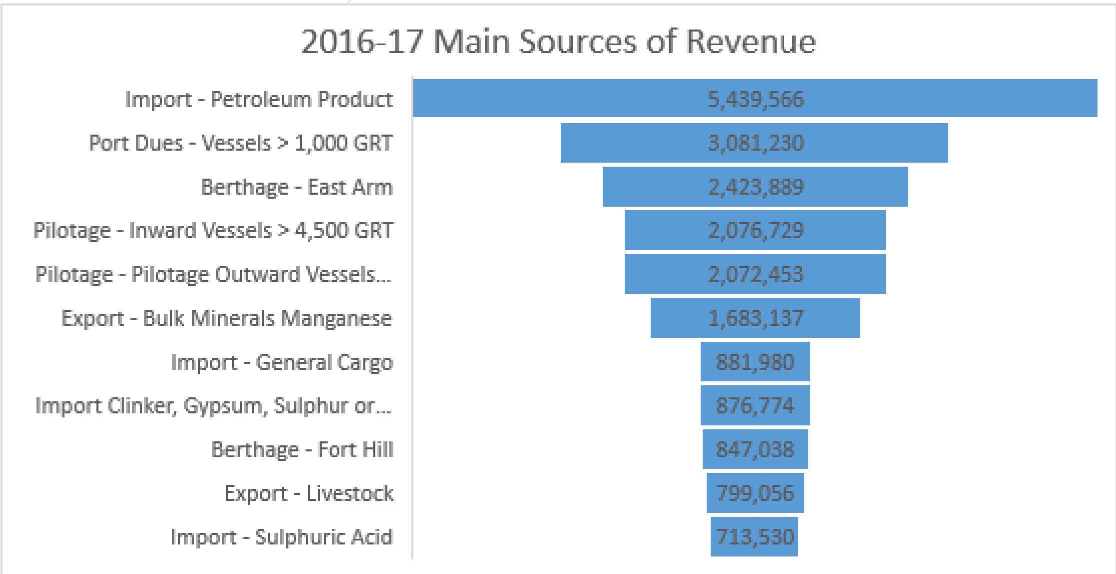
Figure 9: 2016-17 Revenue by Commodity



Revenue

- Total revenue for prescribed services was $32.7 million. As shown in the Figure 10, the main revenue sources have remained the same since last year.
- This may indicate stabilisation of port activity following the considerable events that were experienced as a result of local major projects and fluctuations in the bulk minerals export market in previous years.
- As expected, the revenue growth from the spin offs from the construction of the INPEX project have now come to an end.[47] There may be some increases in revenue for port dues and pilotage with the start of exports from the INPEX project in 2018.

Figure 10: 2016-17 Main Sources of Revenue



[47] Darwin Port Corporation, *Annual Report 2013-14*, page 40.