

GOOD MORNING MR CHAIRMAN, LADIES AND GENTLMEN

FIRSTLY, MY THANKS TO THE ORGANISERS OF THIS CONFERENCE FOR INVITING ME TO PRESENT TODAY.

AND FOR ORGANISING SUCH A WELL STRUCTURED AND MIGHT I SAY WELL TIMED PROGRAM.

EVERYBODY WHO COMES TO THIS LECTURN DOES SO WITH A PARTICULAR POINT OF VIEW.

WITH PERSONAL CONVICTIONS AND HOPEFULLY NEW IDEAS.

I COME WITH MY OWN VIEW OF TODAY'S SHIPPING INDUSTRY.

PARTICULARLY IN RELATION TO THE BUSINESS OF CARGO HANDLING IN AUSTRALIA, AND WHERE THIS INDUSTRY MIGHT GO IN THE FUTURE.

THERE HAVE BEEN NUMEROUS REFERENCES IN THE MEDIA RECENTLY AS TO HOW AND WHY THERE CAME TO BE ONLY TWO STEVEDORES OF AUSTRALIAN CONTAINER TERMINALS.

ONE MIGHT BE GIVEN THE IMPRESSION OF A SITUATION WHERE "once there were many 6 or 7 and now there are 2.....its almost a scenario of whose going to be the last man standing"

THERE HAVE BEEN THREE NOTABLE MILESTONES IN STEVEDORING IN AUSTRALIA OVER THE PAST 30 YEARS.

MILESTONES THAT HAVE SHAPED THE INDUSTRY AS WE RECOGNISE IT TODAY.

THE FIRST WAS CONTAINERISATION.

THE SECOND WAS THE SHIFT FROM INDUSTRY EMPLOYEMENT TO ENTERPRISE EMPLOYMENT.

THE THIRD WAS THE EVER INCREASING ESCALATION AND GLOBALIZATION OF WORLD TRADE

THE FIRST TWO EVENTS REDUCED THE LABOUR FORCE FROM 30,000 TO 3,000.

BUT FOR THE THIRD - BOOMING TRADE - THE LOSS IN JOBS WOULD HAVE BEEN CONSIDERABLY GREATER.

THROUGHOUT THIS TRANSFORMATION, THE SHIPPING LINES ALSO FACED THE DIFFICULT TASK OF REPLACING THEIR FLEETS.

THEY ALSO HAD TO CREATE SUBSTANTIALLY DIFFERENT PORT AND TRANSPORT INFRASTRUCTURES TO COPE WITH THE NEW DEMANDS.

IT WAS NECESSARY TO EQUIP SPECIALIST TERMINALS WITH LARGE AMOUNTS OF MACHINERY CAPABLE OF HANDLING HEAVIER CARGO UNITS.

IT WAS NECESSARY TO SET UP INLAND INFRASTRUCTURE TO TRANSPORT AND MANAGE NEW CONTAINER EQUIPMENT.

THESE CHANGES BROUGHT ABOUT THE NEED FOR A COLLECTIVE APPROACH TO SIMPLY STAY IN BUSINESS, AND THE TERM CONSORTIUM WAS BORN.

THIS NEW INFANT STARTED TO DISTURB OTHER RELATIONSHIPS THAT HAD IN SOME INSTANCES BEEN AROUND FOR CENTURIES.

UNTIL THE 1990's, THE SHIP-OWNER FRATERNITY WAS THE OWNER OF ALL STEVEDORING COMPANIES IN AUSTRALIA, EXCEPT TWO.

AND IT WAS THE SHIPOWNER THAT TRADITIONALLY CHARTED THE COURSE OF CONTAINER TERMINAL DEVELOPMENT AND OWNERSHIP IN AUSTRALIA.

WHEN THE NEW CONTAINER SERVICES WERE INTRODUCED, THEIR NEW OWNING CONSORTIA PROVIDED THE EXPANDED INFRASTRUCTURE

ENTER A WHOLE LOT OF MERGERS, ACQUISITIONS AND TAKE-OVERS, AND WHAT WAS THE RESULT?

SHIP OWNERSHIP GRADUALLY BECAME DIVORCED FROM CONTAINER TERMINAL OWNERSHIP BOTH IN AUSTRALIA AND AROUND THE WORLD.

COUPLED WITH THE SIMULTANEOUS PRIVATISATION OF ANL, THE WELCOME TRANSITION FROM INDUSTRY EMPLOYMENT TO ENTERPRISE EMPLOYMENT FURTHER PARRIED AND REFINED THE NUMBERS OF STEVEDORES.

THESE EVENTS PROVIDED THE OPPORTUNITY FOR THE WEALTHIEST COMPANIES TO PREVAIL OVER THE REMAINDER.

THE OTHERS DIDN'T SIMPLY SURRENDER AS FREQUENT PASSEGES OF RE-WITTEN HISTORY SUGGEST.

THEY WERE ACQUIRED... MERGED... BOUGHT ONE-BY-ONE UNTIL A DUOPOLISTIC SITUATION EMERGED.

THIS COULD EASILY HAVE BECOME A MONOPOLISTIC MARKET IF LEFT SOLEY TO THE POWER OF MONEY.

THE LARGER OF THE TWO COULD HAVE COMFORTABLY SWALLOWED THE OTHER.

AND THERE WAS MORE GOOD NEWS IN STORE FOR THE VICTORS.

THE MARKET GREW AT AN UNPRECEDENTED PACE.

THIS MADE FOR A LUXURIOUS ENVIRONMENT WHERE EXPANSION ENABLED THE MARKET TO BE FED SMALL REDUCTIONS IN RATES WHILE THE REAL LEVEL OF PROFIT WAS SPIRITED AWAY FOR OTHER PROJECTS.

THE BARRIERS TO ENTRY ARE NOW SUBSTANTIAL.

ONLY AN EXPERIENCED OPERATOR WITH DEEP POCKETS  
COULD NOW CONTEMPLATE ENTRY INTO SUCH A PROTECTED  
MARKET AND HOPE TO OBTAIN AN ACCEPTABLE RETURN.

THE PREY GOT CONSUMED AND IN TURN THE PREDATORS  
BECAME THE PREY

IT WAS **NOT** SIMPLY A MATTER OF UNSUSTAINABILITY

WITH A COMBINED MARKET VALUE IN EXCESS OF 30 BILLION  
DOLLARS, THE TWO TERMINAL OPERATORS TODAY CAN BUY  
ANYTHING AND ALMOST ANYBODY

IT'S ABOUT THE POWER OF MONEY NOW.

THE POWER OF GOLIATHS.

RECENT CONTAINER TERMINAL ACQUISITIONS HAVE YIELDED  
PRICES THAT REPRESENT 14 TO 20 TIMES ANNUAL EARNINGS.

SUCH PRICES ARE NOT RATIONAL.

THEY'RE AN ECONOMIC ABERRATION.

THEY SIMPLY CANNOT BE BASED ON UNDERSTOOD ECONOMIC  
INVESTMENT PRINCIPLES.

WHERE THERE IS NO HOPE OF PAYBACK IN A MAN'S LIFETIME,  
CLEARLY THE PERSON TO PAY WILL ULTIMATELY BE THE  
USER.

AND THEN IN TURN THE EXPORTER AND IMPORTER.

WE HAVE A SITUATION WHERE HE WHO PAYS THE PIPER HAS NO REAL SAY OVER THE TUNE, OR HOW MUCH THE TUNE COSTS.

HERE'S A LESSER BUT STILL TOPICAL EXAMPLE OF THIS PROBLEM IN AUSTRALIA.

OWNER-DRIVER TRUCKIES WERE RECENTLY FORCED TO ACCEPT UNSUSTAINABLE RATES FOR THEIR SERVICES.

THIS WAS BECAUSE THE COMPANY EMPLOYING THEM HAD ALLOWED THEM TO BUY AND SELL THEIR BUSINESSES AND RELATED VEHICLES AT ABOVE TRUE MARKET VALUE.

SUCH A BUSINESS APPROACH FAILED FOR THE TRUCKING INDUSTRY.

IT WON'T WORK FOR THE CONTAINER TERMINAL INDUSTRY EITHER.

THERE IS REAL CONCERN REGARDING THIS PHENONEM IN SOUTH AUSTRALIA.

THERE, A LITTLE KNOWN PIECE OF LEGISLATION - S26 OF THE TRANSPORT ACT – IS SUPPOSED TO PROTECT AND PROMOTE THE STATE WHEN CONFLICT OF INTEREST IS APPARENT.

THE LEGISLATION HAS BEEN USED IN YEARS GONE BY TO EXCLUDE PLAYERS WITH TOO MUCH MARKET DOMINANCE, TO ENSURE EFFICIENT TRADE TO AND FROM THE STATE.

IN THE CURRENT CLIMATE, IT WILL BE INTRIGUING TO SEE IF THIS LEGISLATION IS STIL MEANINGFUL, OR IF IT HAS JUST BECOME A DORMANT PIECE OF LEGISLATIVE WINDOW DRESSING.

OTHERS WOULD DO WELL TO CONSIDER WHETHER LEGISLATION WITH BACK-BONE IS NECESSARY TO PREVENT A MORE WIDESPREAD ONSET OF SUCH PROBLEMS IN THE FUTURE.

SO LET'S TRY TO GET THE FUTURE IN PERSPECTIVE.

TODAY WE HAVE A MARKET OF APPROXIMATELY 5 MILLION CONTAINERS, SOME SAY TOO SMALL FOR A 3<sup>RD</sup> OPERATOR.

I SAY NOT.

WITH BOTH OPERATORS EARNING \$100 MILLION PRE-TAX PROFITS AND EXPERIENCING MASSIVE RETURNS ON CAPITAL INVESTED, THERE IS A CLEAR NEED FOR ANOTHER COMPETITOR OR TWO.

THIS WON'T SEND THE INCUMBENTS TO THE WALL.

IT WON'T CAUSE EITHER ONE TO RUN-UP THE WHITE FLAG OR PUT HIS TAIL BETWEEN HIS LEGS AND RUN AWAY.

THE INTRODUCTION OF A 3RD COMPETITOR CAN EASILY BE SUSTAINED.

IN FACT, A THIRD COMPETITOR IS ESSENTIAL IF THERE IS TO BE IMPETUS TOWARDS THE CONTINUED INTRODUCTION OF NEW TECHNOLOGY AND IN THE REDUCTION OF THE REAL COST OF TRADING

EVEN IF DECISIONS ARE MADE TODAY TO CHANGE THE STATUS QUO, IT WILL BE ANOTHER 5 YEARS BEFORE ANOTHER COMPETITOR HAS AN OPPORTUNITY TO SECURE A COMPETITIVE POSITION.

AT CURRENT RATES OF GROWTH, THE AUSTRALIAN MARKET WILL BE APPROACHING 10 MILLION TEUS PER YEAR BY THEN.

NO LONGER A MARKET YOU CAN CALL MODEST.

BRISBANE WILL BE HANDLING NEARLY 1.3 to 1.4 MILLION TEU'S.

SYDNEY MORE THAN 2 MILLION.

MELBOURNE EVEN MORE.

SUCH GROWTH MEANS THE IMPACT OF A THIRD ENTRANT ON THE EXISTING TERMINAL OPERATORS WILL BE SMALL - EVEN IF THEY RESPOND WITH MORE MODEST TARIFFS AND THE ACCELERATED INTRODUCTION OF MORE TECHNOLOGY

AS THINGS ARE NOW, THE TIMING FOR CHANGE IS PERFECT.

IN FIVE YEARS SOME OF THE FLAGS YOU SEE FLYING TODAY WILL ALSO HAVE GONE.

CONSORTIA YOU SEE TODAY WILL BE DISSOLVED.

CURRENT OWNERSHIP OF CONTAINER TERMINALS WILL POSSIBLY BE DIFFERENT AGAIN.

MORE MERGERS, TAKE-OVERS AND EVEN BANKRUPTSIES ARE IN THE MIX.

AS A PRELUDE WE WILL CONTINUE TO SEE A FURTHER ARRAY OF JOINT SERVICES AS THE CURRENT OPERATORS SEEK TO INTRODUCE LARGER VESSELS.

TO DO SO MEANS THEY MUST MERGE FLEETS OR SERVICES JUST TO MANAGE THE CAPITAL REQUIREMENTS.

WHO KNOWS WHAT THE FUTURE REALLY HOLDS?

NOBODY HERE COULD HAVE FORESEEN 5 YEARS AGO THE EVENTS OF THE PAST 2 YEARS WITH THE DISAPPERANCE OF ICONS AND HOUSE HOLD NAMES

P&O NEDLLOYD

PATRICK CORPORATION

THE PENINSULAR AND ORIENTAL STEAM NAVIGATION CO

CP SHIPS

BRITISH PORTS

PSA BUYING 20% OF HUTCHISON PORT HOLDINGS

SO BY THE TIME THE FIRST AVAILABLE BERTH IS COMMISSIONED BY ITS NEW OPERATORS AND IT SERVICES ITS FIRST SHIPS, WE WILL BE CONFRONTING A COMPLETELY DIFFERENT LANDSCAPE

NEW MERGERS AND MORE ACQUISITIONS, NEW LABOUR LAWS, NEW TECHNOLOGY, MORE MARKET POWER IN FEWER HANDS, FEWER CHOICES FOR THE USER

THE MARKET IN 5 YEARS WILL BE DIFFERENT.

BIGGER.

THE ECONOMICS WILL HAVE SHIFTED FURTHER IN FAVOUR OF A COMPETITOR.

WE WILL HAVE MOVED ON FROM THE REHOTRIC AND DOOMSDAY FORECASTS OF TODAY IF COMPETITION IS ALLOWED

WE ARE ALL FAMILIAR WITH THE TERMS 'ECONOMIES OF SCALE', 'INCREMENTAL INVESTMENT' AND SO ON.

GOOD SOUND MANAGEMENT PRACTICE

IF AICTL BECOMES THE 3<sup>RD</sup> OPERATOR IT TOO WILL FOLLOW THESE PRINCIPLES

THE INTRODUCTION OF REAL COMPETITION WILL DRIVE ALL 3 OPERATORS TO INNOVATE AND IMPROVE AND ELIMINATE COMPLACENCY

IN THE LARGEST TRADING HUBS IN ASIA, EUROPE AND THE UNITED STATES THE CUSTOMER OR THE USER DRIVES THE MARKET.

**CUSTOMERS** CALL THE TUNE.

SHIPPING LINES ARE SELECTED BY THEIR SHIPPERS BECAUSE THEY SELECT THE TERMINAL THAT BEST SUITS THAT SHIPPERS NEEDS

IT IS THE SHIPPER WHO DETERMINES WHERE HE CAN GET THE BEST PERFORMANCE FOR HIS BUCK.

HE SUPPORTS THE SHIPOWNER OR OPERATOR WHO MAKES THE RIGHT TERMINAL SELECTION.

HERE IN AUSTRALIA IT IS THE OTHER WAY AROUND.

THE SERVICE PROVIDER DRIVES THE MARKET.

AND THE SERVICE PROVIDER DETERMINES WHAT HE WILL GIVE THE CUSTOMER.

AFTERALL, IF YOU ARE NOT SATISFIED WITH ONE STEVEDORE WHERE ELSE CAN YOU GO IF YOU CAN EXPECT THE SAME SERVICE AND PRICE FROM THE OTHER?

AND WHERE ELSE COULD YOU THREATEN TO STOP INVESTING WHENEVER YOU HEAR THAT ANOTHER OPERATOR MIGHT ENTER THE MARKET?

THREATEN TO PICK UP YOUR BAT AND BALL AND SULK AWAY.

IMAGINE ADOPTING SUCH A POSITION IN A REAL MARKET - A NON-CONTRIVED MARKET FREE OF IMPEDIMENTS AND CONSTRAINTS.

A MARKET WHERE NO ONE CAN BE HELD FOR RANSOM.

THE MARKET SHOULD DRIVE THE SERVICE PROVIDER. NOT THE OTHER WAY AROUND.

LET THE MARKET DECIDE WITHOU INTERFERENCE FROM TOLL OR DPW.

BY NOW YOU WILL HAVE DETECTED THAT I AM AN ADVOCATE FOR GREATER COMPETITION.

WHY?

BECAUSE I BELIEVE COMPETITION BRINGS SIGNIFICANT AND UNDISPUTABLE BENEFITS

INNOVATION

GREATER PRODUCTIVITY

LOWER PRICES

MORE PERMANENT EMPLOYMENT

GREATER CHOICE

MARKET STIMULOUS

PROVIDES FOR REAL MARKET FORCES TO BEHAVE IN A RATIONAL MANNER

THERE IS NO RATIONAL OR SUSTAINABLE ARGUMENT TO EXCLUDE AS MUCH COMPETITION AS THE MARKET WILL BEAR.

I AM SAYING 'LET'S PUT THIS TO THE TEST'.

THERE HAVE BEEN SOME STRONG COMMENTS FROM THE EXISTING TERMINAL OPERATORS WHO SAY IT'S NOT NECESSARY TO SPEND MORE MONEY ON NEW INFRASTRUCTURE.

OR IF WE DO, LET'S KEEP IT IN THE FAMILY AND LEAVE IT TO DPW AND TOLL FOR WHEN THEY ARE READY TO DO SO.

THIS LEADS ME TO A MORE DEMANDING ISSUE THAT REQUIRES URGENT CLARIFICATION - CONTAINER TERMINAL CAPACITIES.

AGAIN WE ARE LED TO BELIEVE THAT EXISTING FACILITIES HERE HAVE INFINITE CAPACITY THAT WILL SATISFY THE NEXT 20 YEARS.

LET ME TAKE JUST ONE EXAMPLE – MELBOURNE.

MELBOURNE HAS SAID IT SEES NO NEED FOR ADDITIONAL FACILITIES UNTIL 2015.

TODAY MELBOURNE HANDLES 2.0M TEUS.

AT CURRENT RATES OF GROWTH IT WILL BE HANDLING 3.5 MILLION TEU'S IN FIVE YEARS TIME.

IF THIS HAPPENS, BOTH SIDES OF SWANSON DOCK WILL BE HANDLING ABOUT 1.5 MILLION EACH WHILE THE REST WILL BE BASS STRAIT CARGO HANDLED AT EAST WEBB DOCK.

I HAVE SEEN QUOTATIONS AND SUGGESTIONS THAT THESE FACILITIES WILL HANDLE 2000 TEU'S FOR EVERY METER OF QUAYLINE.

BOTH FACILITIES HAVE 1000M OF QUAYLINE, SO THE ARGUMENT - AS FUZZY AS IT IS - SEEMS TO BE THAT ABOUT TWO MILLION TEUS CAN BE HANDLED BY EACH FACILITY.

THIS IS NONSENSE.

IT WOULD BE IMPOSSIBLE FOR THIS TO BE ACHIEVED, EVEN WITH THE LATEST TECHNOLOGY BEING USED IN EUROPE AND ASIA.

THE NEWEST TERMINALS NOW IN OPERATION AND UNDER CONSTRUCTION DON'T ACHIEVE ANYTHING LIKE THIS LEVEL OF PRODUCTIVITY.

THE ALTENWEILDER TERMINAL IN HAMBURG COST 700 MILLION EUROS.

IT HAS A PROJECTED CAPACITY OF 1000 TEUS PER METER OF QUAYLINE AND IS FULLY AUTOMATED.

ETC IN ROTTERDAM HAS THE SAME DESIGN CAPACITIES AND IS ALSO FULLY AUTOMATED

C6 IN LOS ANGELES AND TERMINALS IN PUSAN NEW PORT IN KOREA ARE ALL DESIGNED FOR AUTOMATION, EACH WITH EXPECTED CAPACITY CONSTRAINTS AT 1000 TO 1200 TEU'S PER METER OF QUAYLINE.

THE FACT IS SWANSON DOCK HAS FEW PLACES TO EXPAND.

EVEN WITH FULL AUTOMATION IT IS UNLIKELY THAT IT WILL BE ABLE TO PERFORM AS SUGGESTED.

COUPLE THIS WITH OTHER DEMANDS SUCH AS CONTINUED GROWTH IN SHIP SIZE, LENGTH, BEAM, DRAFT AND SO ON.

ONE MUST CONSIDER THAT THERE IS REAL RISK IN RELYING ON SUCH A STRATEGY.

AUTOMATION ALONE WILL NOT SOLVE THE CAPACITY ISSUES IN MELBOURNE.

A MORE PROACTIVE SOLUTION IS REQUIRED.

MOST PLAYERS DON'T SEE ENOUGH OF THE PICTURE TO ARTICULATE THE NEED FOR CHANGE... UNTIL IT'S TOO LATE.

SHIPPERS ARE TOO DISPERSED TO FULLY APPRECIATE THE CURRENT IMPACT OF THE CURRENT ARRANGEMENTS.

SHIPPING AGENTS ARE CONTENT COMPETING ON A LEVEL PLAYING FIELD, ALBEIT AT A HIGHER COST. THERE IS NO REAL GAIN FOR THEM TO CHANGE

SHIPPING LINES NEED TO KEEP ONSIDE WITH THE TERMINAL OPERATORS TO ENSURE THAT THEY ARE ALLOCATED ACCEPTABLE BERTHING WINDOWS. WHY WOULD THEY DARE ROCK BOAT AND ASK FOR CHANGE?

AND OF COURSE EXISTING TERMINAL OPERATORS HAVE EVERYTHING TO GAIN FROM MAINTAINING THE STATUS QUO.

THE BALL IS IN THE COURT OF STATE GOVERNMENTS AND THEIR PORT CORPORATIONS.

IT IS ONLY THEY WHO CAN FACILITATE CHANGE AND THE EXTENT AND TIMING OF THE ENTRY OF COMPETITION.

IT IS UP TO THEM TO LEVEL THE PLAYING FIELD AND OPEN THE DOORS.

AT THE END OF THE DAY WE DON'T WANT A TWO TEAM SERIES WITH A ONE-ALL DRAW ON A PITCH DESIGNED TO SHUT OUT ALL THE PLAYERS AND SPECTATORS.

THE PORT CORPORATIONS CREATE AND CONTROL THE LAND AND FACILITIES TO LICENSE OUT.

IT IS THEY WHO HAVE THE RESPONSIBILITY TO PROVIDE FOR THE FUTURE.

THEY NEED TO RESPOND TO THE NEED FOR CHANGE.

THANKFULLY, IT APPEARS SOME ARE NOW DOING THIS.

QUEENSLAND AND NEW SOUTH WALES SHOULD BE APPLAUDED FOR RECENTLY MOVING TOWARDS BREAKING THE MOULD OF INEFFICIENCY - FOR ENCOURAGING ALTERNATIVES TO THE MARKET PLACE.

FOR ENCOURAGING INNOVATIVE ALTERNATIVES.

THEY ALSO NEED TO LOOK FURTHER FORWARD THAN MOST FIVE YEAR PLANS AND CONTEMPLATE NOT ONLY THE NEED FOR NEW FACILITIES BUT ALSO WHO SHOULD OPERATE THEM

THE SOLUTION IS NOT TO CREATE A SERIES OF TERMINAL OPERATORS THAT ARE MERELY CLONES OF EACH OTHER.

THEY SHOULD HAVE DIFFERENT STRUCTURES AND BUSINESS STRATEGIES.

THEY SHOULD STIMULATE EACH OTHER IN MAINTAINING PACE WITH WORLD TRENDS AND EFFICIENCIES AND COSTS.

LET ME BE CLEAR ON THREE THINGS:

- COMPETITION IS A MUST AND IT SHOULD BE DECIDED BY THE MARKET - DPW OR TOLL
- THE INFRASTRUCTURE IN PLACE NOW WILL BE INSUFFICIENT IN FIVE YEARS, AND PERFORMANCE WILL BEGIN TO SUFFER.
- FINALLY, BRISBANE AND SYDNEY SEEM TO BE PLANNING AHEAD, BUT MELBOURNE APPEARS TO HAVE LOST ITS WAY.

ALLOW ME TO FINISH WITH A QUOTE FROM THE AMERICAN WRITER JOHN FAULKNER:

*“SUCCESS SEEMS LARGELY TO BE A MATTER OF HANGING ON UNTIL OTHERS HAVE LET GO.”*

NEED I SAY THAT AICTL TRULY LOOKS FORWARD TO SUCCESS IN AUSTRALIA.

WE’LL BE HANGING ON WITH EVERYTHING WE’VE GOT.

THANK YOU FOR THE CHANCE TO SPEAK TO YOU TODAY AND PUT FORWARD MY POINT OF VIEW.