



PORT WARATAH COAL SERVICES

10 June 2015

Submissions – Port of Newcastle
National Competition Council
GPO Box 250
MELBOURNE. VIC 3001

Email: pon@ncc.gov.au

Dear Sir or Madam

APPLICATION FOR A DECLARATION RECOMMENDATION IN RELATION TO THE PORT OF NEWCASTLE

Port Waratah Coal Services Limited (Port Waratah) welcomes the opportunity to provide a submission in support of the application by Glencore Coal Pty Ltd (Glencore) for a declaration recommendation in relation to the Port of Newcastle.

Port Waratah owns and operates two export coal terminals in the Port of Newcastle, Carrington Terminal and Kooragang Terminal, which together comprise the largest coal export facility in the world with a combined throughput capacity of 145 million tonnes per annum. Port Waratah provides coal handling services to Hunter Valley coal exporters. These services involve the receipt, stockpiling, blending and loading of coal onto vessels for export. Port Waratah is also presently seeking development approvals to construct a fourth export coal terminal in the Port of Newcastle to meet future demand.

All vessels that load at Port Waratah's terminals must utilise the shipping channel in the Port of Newcastle in order to enter for loading and then to depart. There is no actual, or in our view feasible, alternative channel facility in Newcastle. It is therefore important to our business that access to the shipping channel is afforded on reasonable terms and conditions.

It is noteworthy that Port Waratah has directly, and the Hunter Valley export coal industry has indirectly funded the construction of deep-water 'berth pockets' associated with the expansion of its Kooragang Terminal berth infrastructure. This infrastructure has been constructed over the past twenty years, culminating with the completion of Port Waratah's K7 Berth in 2011. Additionally, Port Waratah is required to dredge the shipping channel, swing basin and 'berth pockets' associated with the proposed Terminal 4 facility. These works are estimated (at feasibility level) to cost \$0.6 Billion and again would be indirectly funded by the Hunter Valley export coal industry.

A number of Port Waratah's customers have expressed concerns to us regarding the substantial price increases imposed by Port of Newcastle Operations Pty Limited (PoN Operations) effective from 1 January 2015. We understand that there has not been any corresponding change to the navigational services provided by PoN Operations. Port Waratah has conducted its own analysis of the impact of the price changes on vessels that typically load at our terminals and we concur with the approximate percentage increases for vessels outlined by Glencore in section 4.3 of the application. The price increases are compounded by future price uncertainty.

PoN Operations' price increases come at a time when the Hunter Valley coal industry is continuing to face challenging market conditions, with declining coal prices and a relatively high cost base. There has been much focus on cost reductions and efficiency improvements in recent times as noted by Glencore in section 3.8 of the application. These critical business improvement processes are essential for Hunter Valley coal producers to remain competitive in the global export market.

As an infrastructure service provider, Port Waratah has itself aggressively pursued ongoing cost reductions and restructured its business in an effort to support our customers and be more competitive in the current environment. This has resulted in Port Waratah reducing its coal handling charge by almost 50% since 2013 (from \$4.50 to \$2.30 per tonne). The price increases by PoN Operations are clearly in contrast.

Port Waratah operates in a market which is dependent on the services as described in the application. If our customers are unable to participate competitively in the global coal export market, this will adversely impact upon the utilisation of our infrastructure. Glencore describes the current market conditions as fragile and Port Waratah is experiencing this through lower than previously forecast throughput for 2015. Significant price increases and future uncertainty for use of a key piece of monopoly infrastructure in the export supply chain, such as the Port of Newcastle shipping channel, can only have a negative impact. We therefore agree that declaration of the Port of Newcastle will materially improve competitive conditions in the range of dependent markets as outlined in section 8 of the application.

On a related matter, part of the land on which Port Waratah's terminals are located is owned by the NSW Government and leased to us. Following the port privatisation transaction PoN Operations has effectively become the landlord for this land. Whilst we note that property management services are not included in the application, we also wish to record our concern regarding the potential for significant increases to lease rentals during and at the end of our current lease terms.

Please do not hesitate to contact me on (02) 4907 2344 if you wish to discuss this submission further.

Yours sincerely



HENNIE DU PLOOY
CHIEF EXECUTIVE OFFICER

