

**Victoria International Container Terminal Limited**

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**Ref: TVC21-0009**

Mr Marcus Crudden  
Executive Director, Price Monitoring and Regulation  
Essential Service Commission  
Level 8, 570 Bourke Street  
Melbourne, Victoria, 3000

2 September 2021

Dear Marcus,

The Essential Service Commission inquiry held on July 15th was intended to provide an opportunity for Port stakeholders to comment on matters relating to Port of Melbourne's compliance with the Pricing order. Victoria International Container Terminal Limited's (VICT) previous submissions have indicated that, on balance, we believe that the Port of Melbourne (PoM) have complied.

We would however, once again like to place on record that we have on numerous occasions, and to numerous stakeholders, highlighted the urgent need for the Port of Melbourne to remove the knuckle from VICT's quay.

At the recent aforementioned public forum, we observed a well-orchestrated, anti-competitive attack on our project by the two Swanson Dock terminal operators. This attack was entirely unwarranted and inappropriate in this forum.

The benefits of the knuckle removal to both port customers and the Victorian economy are well established and the inappropriate concerns raised, which if acted upon, would only serve to entrench the strong competitive position of the Swanson Dock operators – a position which has already been enhanced by Port of Melbourne investments to accommodate large vessels, and the port rail project.

In May 2014, International Container Terminal Services Inc. (ICTSI) bid for, and won the tender to design, build and operate the third international container terminal at berths 4 and 5 at Webb Dock East.

VICT is the only terminal in the Port of Melbourne precinct with 100% focus and commitment to the people and business community of Victoria and we are therefore committed to this much needed investment for VICTORIA. It goes without saying that the two other players within the Port of Melbourne with stakes in Sydney, Brisbane and Fremantle where they have less competition, will make all attempts to cast doubt over the need for capacity in the Port of Melbourne. The resultant congestion in Melbourne will be a positive for them as volume will most likely move via Sydney.

VICT's original bid was modelled and based on operational metrics that would ultimately allow VICT to build up operational capacity over time driven by market demand. The ultimate capacity assessment was predicated on the fact that the quay would be able to simultaneously handle the berthing of two, minimum 300 meter Length Overall (LOA) vessels; in other words, the bid capacity automatically anticipated the "knuckle" to be removed in order to unlock capacity when required and in time to meet market demand.

VICT commenced operations in April 2017 after investing A\$760 million to deliver a fully automated terminal as a two berth operation with a quay length of 660 meters, capable of safely handling two 300 meter LOA vessels simultaneously.

Since VICT commenced operations, numerous requests have been made to remove the knuckle which is the enabler for VICT's further development within its own footprint. During this period, we have seen PoM investing in Swanson Dock to accommodate larger vessels.

Since January 2020, VICT has completely filled its available capacity and is currently congested with vessels queuing resulting in rising turnaround times for vessels and trucks. Under current conditions, VICT has

effectively been reduced to a single berth operation with annual capacity limited to approximately 800,000 TEU, much lower than what was anticipated at the time of the original “bid”. Quay capacity constraints are preventing VICT from increasing volumes and revenue while at the same time, rising and other operating costs have already eroded VICT’s capacity to recoup the substantial losses of A\$300 million already incurred since operations commenced. The aggressive rent increases coupled with a ratchet clause will render VICT insolvent should growth be restricted.

As a result, a normal return on VICT’s investment is impossible and without the ability to grow volumes, the only alternative available to VICT will be to increase tariffs.

The unlocking of VICT’s capacity is substantially within its existing footprint on the undeveloped area of the concession area, and on which full rent has been paid since 2014. The removal of the knuckle and the subsequent straightening of the quay will only add approximately 71 metres to the quay line and does not include the addition of land for storage purposes. This project adds merely 2% to the surface of VICT, used principally for traffic flow purposes.

In recent years, shipping lines have reshuffled their Vessel Sharing Arrangements (VSA) for the Oceania trades. The natural progression of these VSA’s over the past 4 years has seen the deployment of much larger vessels and by 2018, within only two years of VICT commencing operations, vessel sizes calling at the port of Melbourne exceeded 8,000 TEU (323 meter to 336 meter LOA). At the time VICT was the only terminal that could accept these 336 meter LOA vessels while Swanson Dock was limited to vessels of 325 meter LOA.

Currently three out of the four services that deploy these larger vessels call at VICT. With VICT’s restricted design length of 300 meter LOA we have been reduced to a single berth terminal for considerable periods.

Additional cranes would neither alleviate the quay constraints, nor would they enable the simultaneous berthing of two 336 meter LOA vessels.

Furthermore, it is widely acknowledged that investments of this nature are required to stimulate a post COVID recovery. Our phased investment over the next 5 years will create growth and employment.

Our investment seeks to optimise our existing asset and needs to go ahead to respond to the increase in traffic growth and provide berth capacity to accommodate larger vessels. Container traffic within the PoM is 25% up YTD which further emphasises the urgent need to prepare the Port for a growing market and further delays to this investment will cause a significant capacity shortage in Melbourne.

With only limited time left to generate a return, post completion of the knuckle project (which is on the critical path to VICT’s investment) it becomes more unlikely that our shareholders will agree to a further investment of this size. Capacity will therefore be lost until the end of the lease in 2040. The Webb Dock facility and the Port of Melbourne will certainly lose its leading competitive position and will once again be subject to the uncompetitive duopoly of the Swanson-Dock operators.

VICT supports fair competition within the PoM to offer shipping lines multiple options within the market without being restricted to certain terminals due to constraints and lack of investment from the PoM, however, further delays to commence the knuckle removal will place VICT in an unsustainable position and put the viability of the entire operation at significant risk.

To re-highlight the project, VICT will only increase its current footprint by 2% and the remaining development will be on land that’s already within our current lease. Attached is our detailed technical document in support of the position that we have taken in this correspondence.

On the 3<sup>rd</sup> August 2021, VICT received formal confirmation from PoM that planning and procurement work will commence on the Knuckle removal project with the expectation that civil works will commence early in 2023.

Yours truly,



**Tim Vancampen**  
Chief Executive Officer  
Victoria International Container Terminal Limited