

Port of Melbourne



Classification: Public

23 December 2020

Ms Kate Symons
Commissioner and Chairperson
Essential Services Commission
Level 37, 2 Lonsdale Street
MELBOURNE VIC 3000

Copy: Marcus Crudden, Craig Madden

Dear Kate

Port of Melbourne 2021-22 Rebalancing Application

After two years of consultation with Port Users and stakeholders on infrastructure and service requirements for the port, Port of Melbourne (PoM) is pleased to submit this Rebalancing Application for the Essential Services Commission's (ESC) acceptance. We thank the ESC staff for working with us to ensure that all the information needed to demonstrate compliance with the requirements of the Pricing Order is covered by this Rebalancing Application.

The Rebalancing Application comprehensively demonstrates compliance against the requirements of the Pricing Order, specifically clauses 2 (general pricing principles), 3.1.1 (the Tariffs Adjustment Limit), 4 (cost base) and 5 (cost allocation).

This Rebalancing Application is an important complement to our Port Development Strategy (PDS). Together these will support efficient investment in, and use of, the port, and also facilitate healthy competition between Port Users and between the International Container Terminal operators (the stevedores), consistent with the objectives of Part 3 of the *Port Management Act 1995* (Vic).

A number of stakeholders have requested that we do not publicly attribute their submissions and feedback in our Rebalancing Application. We recognise that Port Users and the stevedores operate in a highly competitive, business-to-business commercial environment, and PoM has agreed to this request for our public Rebalancing Application, which addresses the submissions and refers directly only to those submissions that have been made public by the submitters themselves – e.g. Shipping Australia. However, for the purpose of transparency, and to assist the ESC in making an informed interpretation of stakeholder positions, we have also provided you with copies of all submissions we received in confidential Appendix F to our Rebalancing Application with a covering note that provides contextual information on the submissions.

When considering feedback from stakeholders, it is important that the ESC appreciates the competitive positions of those stakeholders and the extent to which their submissions may reflect their incentives to preserve or enhance their incumbent position. Some feedback covers broader matters not relevant to the compliance of the Rebalancing Application, which we will continue to engage with our stakeholders on through the processes relevant to that feedback (e.g. PoM consults extensively on investment decision-making via the PDS, annual Tariff Compliance Statement consultations, and in relation to specific projects).

Promoting efficient use and investment

Our proposed tariff rebalancing seeks to increase cost recovery from those Port Users that are driving future investment costs via the deployment of vessels that exceed the design specifications of port infrastructure in place at the time of the Port Lease. There is clear demand from Port Users for PoM to invest in services to larger vessels¹, and the investments associated with supporting larger vessels are expected to lead to significant reductions in supply chain costs via:

- enabling economies of scale through the deployment of larger vessels at Swanson Dock and Webb Dock, improving efficiency and productivity.² Supply chain savings from larger vessels are expected to be in the order of USD100/TEU³; and
- alleviating congestion by addressing the current issues being faced at Webb Dock East due to larger vessels. Webb Dock East was designed as a two-berth operation, but is effectively becoming a single berth operation due to more accelerated arrival of large vessels resulting in there being insufficient remaining quay line to accommodate a second ship when there is a large ship using one of the two berths. Extending the quay line to restore Webb Dock East to a two-berth operation is expected to materially address these inefficiencies.

These efficiencies and cost reductions will result in lower supply chain costs and lower costs to cargo owners and Victorian consumers.

PoM notes that the proposed \$10/TEU increase in the wharfage fees for the new service for large vessels is:

- significantly less than the cost savings available to the supply chain from the efficiencies outlined above;
- comparable to charges recently introduced by DPWA in Melbourne for a new service – a \$10/TEU Chain of Responsibility Fee (WIM), which will apply to all import full containers delivered from the terminal via road. The fee relates to DPWA’s investment in five weigh-in-motion weighbridges at the terminal exit to assist transport operators in complying with Chain of Responsibility axle loading requirements of vehicles using public roads;⁴ and
- significantly lower than recently introduced charges in the ports sector, including demurrage charges introduced by the shipping lines of USD250/TEU to USD350/TEU.⁵

¹ Shipping Australia, *Submission on Port of Melbourne’s Proposed Tariff Rebalancing*, 28 October 2020, p.5

² DP World Australia, *DP World Melbourne’s record-breaking container exchange at West Swanson*, 29 June 2020, available at <https://www.dpworldaustralia.com.au/news-and-media/media-releases/record-breaking-container-exchange/>

³ Centre for Supply Chain and Logistics, Deakin University, *Response to the Port of Melbourne Tariff Rebalancing Consultation*, October 2020, p.4

⁴ DP World Australia, *Notification to industry – changes to landside charges at DP World Australia (DPWA) Melbourne from 1 January 2021*, 20 November 2020

⁵ See for example, <https://www.maersk.com/news/articles/2020/09/29/port-congestion-surcharge-sydney>; <https://www.msc.com/cr/notices/2020-september/melbourne-brisbane-port-congestion-surcharge>; <https://www.anl.com.au/news/1319/port-congestion-surcharge-sydney-update>;

The offsetting tariff reduction for full outward containers on all vessels will support Victorian exports. The reduction in the export tariff is consistent with the intent of the State's (now expired) export pricing decision.

PoM has also considered contracts for prescribed services to directly fund investments to service large vessels, such as through contracts with either shipping lines or stevedores. However, the Swanson Dock stevedores opposed this approach for investments at Swanson Dock and establishing bilateral contracts with the shipping lines would be difficult.

We consider tariff rebalancing, rather than contracting with stevedores, is preferable from a competition point of view, as it treats the terminals equally with respect to funding investments in marine infrastructure to support large vessels. Therefore, in this instance, PoM considers that tariff rebalancing as provided for by the Pricing Order is the most appropriate approach, and is consistent with the pricing principles in the Pricing Order and the objectives of Part 3 of the Port Management Act 1995.

Facilitating and promoting competition

The Rebalancing Application will facilitate and promote competition at the port in the form of:

- competition between the three stevedores operating across PoM's container terminals will be enhanced resulting from the restoration of the two-berth design capacity of Webb Dock East to enable Victoria International Container Terminal (VICT) to be able to continue to compete with the Swanson Dock terminal operators for future volume growth; and
- competition between shipping lines will be supported by enabling shipping lines to differentiate their prices based on the vessel sizes they employ.

The Australian Competition and Consumer Commission has advocated for many years to establish a third stevedore at each major Australian port to address the market power of the dominant operators⁶, Patrick and DP World Australia (DPWA), operating at Swanson Dock East and Swanson Dock West, respectively. PoM has only had a third stevedore since the Port Capacity Project was completed in 2017 and VICT took occupancy of Webb Dock East with Australia's first fully automated container terminal.

The introduction of a third stevedore has clearly increased competition, with Patrick and DPWA giving up market share to the new entrant, VICT. However, we also note that:

- following significant investments by PoM in Swanson Dock, including under the big ships investment strategy, Swanson Dock (East) rehabilitation projects and Yarra River dredging, DPWA and Patrick have the capacity to handle large vessels and to grow their TEU throughput; and
- larger vessels are reducing the ability of Webb Dock East to achieve its intended original operational capacity and efficiency – in that what was designed as a two-berth operation is now frequently limited to one berth. Under this scenario, VICT's ability to compete with the incumbent stevedores for additional throughput will be severely limited without investment to restore the terminal to a two-berth operation.

[https://www.oocl.com/australia/eng/localinformation/localnews/2020/Pages/Transport-Additional-Surcharge-\(TAD\).aspx](https://www.oocl.com/australia/eng/localinformation/localnews/2020/Pages/Transport-Additional-Surcharge-(TAD).aspx)

⁶ See for example, <https://www.accc.gov.au/media-release/recent-new-entrants-will-increase-competition-at-container-ports>

The benefits of greater efficiency, lower shipping costs and increased competition between stevedores will reduce costs to cargo owners and Victorian consumers.

Please do not hesitate to contact me with any questions in relation to this letter or the Rebalancing Application. In addition, our team will be in contact with the ESC staff to arrange a briefing on the Rebalancing Application in the New Year.

Yours sincerely

A handwritten signature in blue ink that reads "B Bourke". The signature is written in a cursive style with a large initial 'B'.

Brendan Bourke
Chief Executive Officer