Port of Melbourne

Port of Melbourne Operations Pty Ltd

Submission to Productivity Commission

Lifting productivity at Australia's container ports: between water, wharf and warehouse

(Draft Report)

October 2022

CONTENTS

PORT OF MELBOURNE SUBMISSION TO PRODUCTIVITY COMMISSION

Introduction and Overview

Port of Melbourne Operations Pty Ltd (PoM) welcomes the release of the Productivity Commission's draft report on Australia's Maritime Logistics System.

As the landlord manager of Australia's largest general cargo and container port, Port of Melbourne is responsible for the strategic planning, development and management of the port's operations under the terms of a 50-year lease that commenced in 2016.

To achieve this, we connect the various links of the supply chain – on and off port – to optimise the efficiency and effectiveness of the port, and we continue to invest significantly in improved infrastructure and facilities to both support our tenants and port users and meet future demand.

Port of Melbourne believes that having both the right investment and policy settings in place is vital to ensuring Australia's ports continue to be a vital trading hub and node in the port freight supply chain and contribute to the prosperity and well-being of our communities.

Port of Melbourne also supports the broad consideration of global trends and forecast demand, which highlight the need for complementary efforts on productivity and additional capacity across the port freight supply chain.

This submission complements Port of Melbourne's February 2022 submission.

About Port of Melbourne

As Australia's largest general cargo and container port, Port of Melbourne is a vital trading gateway for south-eastern Australia, facilitating more than one-third of the nation's container trade and playing a critical role as a key driver of economic activity.

Having secured a 50-year lease, the shareholders of Port of Melbourne comprise some of the largest and most experienced global infrastructure investors with wide-ranging expertise in managing significant infrastructure assets. They include Queensland Investment Corporation (QIC), Future Fund, Global Infrastructure Partners (GIP), and Ontario Municipal Employees Retirement System (OMERS).

Our shareholders are long-term investors and, as such, make investment decisions in generational terms, understanding the strategic importance of the port and its place in the national supply chain.

We contribute to Australia's economic prosperity by facilitating the flow of container trade in and out of the country. Port of Melbourne is central to the freight and logistics industry in south-eastern Australia; we serve as the key domestic and international trade gateway for Tasmania and play a critical role in supporting regional exporters. Working closely with our tenants and port users has proved vital in managing supply chain challenges during COVID-19, and improving the efficiency of our port freight supply chains contributes to a robust Australian economy in the face of fraught global economic circumstances.

Port of Melbourne is a vital trading gateway for south-eastern Australia

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The Port supports around 30,000 full-time equivalent (FTE) jobs in Australia and generates around $7.5 billion in economic benefits to the Australian economy each year. Port of Melbourne is focused on investing in infrastructure to cater to future trade and supply chain capacity demands to support the efficient movement of goods through the port-related supply chain for the benefit of businesses, consumers and the broader economy.

KEY ISSUES

This section touches on key themes in the Productivity Commission's Draft Report.

Consistent with the terms of reference, the Draft Report covers a number of key issues in the maritime supply chain. It provides a high-level overview of how the maritime supply chain works but also demonstrates the complexity and diversity of stakeholder interests in its exploration of the issues.

The Productivity Commission's findings demonstrate and support the critical role of the maritime supply chain in underpinning economic prosperity in Australia. The role of the maritime supply chain was demonstrated through COVID and it is pleasing to see the collective focus to support supply chain efficiencies, drive greater productivity and consider necessary planning for required additional capacity.

Draft findings 3.1 to 3.9 & Information Request 3.4 – The Performance of Australia's Container Ports

Port of Melbourne is pleased with the Productivity Commission's focus on improving the methodology and consistency of approach for benchmarking port productivity and would welcome the opportunity to contribute to future benchmarking framework workshops.

Port of Melbourne is a highly productive port topping the national average for trade volumes by some 30 per cent. Port of Melbourne currently has an effective ship rate (twenty-foot equivalent unit (TEU) moved per ship per hour) that is 10 - 40% more efficient when compared to other major Australian container ports (BITRE, 2021).

The factors and contributors to performance outlined in the Commission's report provide a reasonable set of considerations for productivity, which confirm Melbourne is the highest-performing container port in Australia[1], when assessed in terms of operating minutes per move.

Importantly, neither the performance of the Port of Melbourne nor that of any other Australian port should be assessed using the World Bank's Container Port Performance Index (CPPI). In fact, the Productivity Commission itself has found shortcomings in the CPPI, specifically that it is only a partial measure of performance and, by itself, cannot be used to evaluate the efficiency of Australian ports.

Specifically, Port of Melbourne urges the Commission to reconsider the use of the CPPI given its own acknowledgement that the Index only considers ship turnaround times without considering the type of port they are calling at;

- It does not differentiate between transhipment and origin/destination ports (that is between ports at which containers are simply transferred between vessels and those at which actually ships are unloaded and processed)
- Does not include landside operations (for example, there is little information published on container dwell times) [2]

Port of Melbourne will continue to work with the terminal operators and shipping lines to identify opportunities for efficiency improvements in day-to-day operations. This includes working with other supply chain participants – such as transport operators – to expand the opportunities for end-to-end supply chain efficiencies. However, as noted in the broader report, demand will grow considerably in the future and the vessels will continue to increase

[1] Productivity Commission Technical Report, page 33
[2] Productivity Commission Technical Report, page 40

in size. Planning for, and delivery of, additional capacity at the Port of Melbourne is also critical and is complementary to, not instead of, productivity improvements.

Given the challenges of benchmarking and performance methodology identified through the PC Inquiry, in regard to the performance of Australian Container ports, Port of Melbourne would encourage a collective focus by State and Federal Governments and industry to align on an agreed approach. This will allow the port freight supply chain to focus on efficiency improvement opportunities rather than debating methodology and approach.

Ports Australia – of which Port of Melbourne is a member - has commenced a project working with the Department of Infrastructure, Transport, Regional Development, Communications and the Arts (DITRDCA) and the Bureau of Infrastructure and Transport Research Economics (BITRE) to identify productivity measures, which better reflect port efficiency, with close engagement from industry and government. It is intended that by undertaking this initiative, greater agreement can be made on the appropriateness of measures, and that reporting will be robust from industry and supported by government through a publication.

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Draft finding 5.1 – Major Container Ports

Port of Melbourne does not agree with draft finding 5.1 "*…it is far from clear that it is economically efficient to have a single container port in some Australian cities…*"

The Port of Melbourne will continue to be the most cost-efficient location to provide Victoria's future container capacity.

This is due to the existing and significant container trade-related asset base, the ability to accommodate necessary capacity increases in response to trade growth forecasts, its central location to container destinations and access to both current and planned transport infrastructure.

Specifically:

- Planning is underway to expand capacity to accommodate the forecast trade demand of 8.9 million TEU by 2050
- A recent study[3] showed that 94 per cent of containers coming into the Port of Melbourne are destined for locations within 50kms of the port.
- The Port is considering a rail link to Webb Dock as supported by the Victorian Freight Plan.

A second container port – at significant cost, environmental impact and without supply chain infrastructure – is not expected to be necessary for at least another 30 years. This has been confirmed most recently in the Victorian Government's Commercial Ports Strategy (2022).

Recognising the long lead times for building new port infrastructure, Port of Melbourne is embarking on the next stage of its port capacity development, called the Port Capacity Enhancement Program (PCEP). As part of Port of Melbourne's stewardship obligations, Port of Melbourne will ensure that port capacity is able to meet the future demands of Victoria's growing economy.

[3] Port of Melbourne 2020 Container Logistics Chain Study, page 28

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Draft finding 5.4 – Regulation of Australian Ports

Port of Melbourne supports draft finding 5.4 that *no case has been found for further regulation* of Australian ports. Port of Melbourne is the only Australian Port, and only part of the container freight supply chain, that is price regulated. Over the past five years, the Port has worked with the regulator, the Essential Services Commission, to ensure the effective operation of this regime.

The regulatory regime was further embedded in 2021 through a legally binding Undertaking with the Victorian Government and a new Tenancy Customer Charter, which were described by the ESC and Victorian Government as providing "the appropriate degree of certainty" and as "maintaining clarity around pricing at the port" respectively.

It should also be noted that prices at the Port of Melbourne have been maintained each year in line with CPI consistent with the Tariff Adjustment Limit, and more than $420m has been invested in infrastructure that will ultimately return to the State.

Further, the Productivity Commission speaks to the challenge of regulatory burden in numerous sections of the Draft Report, including on page 284 where it says a 'ports code' (similar to the Building Code) would "…bring an additional layer of regulation, with resourcing implications for employers, employees and their representatives, and government." Sufficient regulation and oversight of ports exist, and Port of Melbourne endorses a constructive working relationship that delivers both investment and transparency.

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Draft recommendation 6.2 – Terminal access charges and other fixed fees

Port of Melbourne notes:

- It is reasonable for the International Container Terminals to have a diversified revenue structure across both the land and waterside operations – both of which are critical to the efficient operation of the port freight supply chain;
- that it agrees with the ACCC that *"given stevedores provide landside services to transport operators, it is efficient for the stevedores to levy fees and charges on transport operators for those services providing that they are not excessive"*[4] – there is a case for charges that reflect the capital costs that service providers incur to provide services or to enhance existing services or that otherwise drive efficiency, and to the extent that Terminal Access Charges (TACs) achieve that purpose they provide value to the supply chain; and
- TACs have been considered over a 12/18 month period by the National Transport Commission (NTC) under a dedicated project with significant consultation and industry engagement. National Voluntary Guidelines were released in March 2022 and the impact of these Guidelines will take further time to fully emerge. The ACCC has also indicated that the next Stevedoring Report (expected in December 2022) will discuss this issue further. Accordingly, regulatory intervention at this stage may be premature.

The structuring of charges by stevedores between waterside and landside operations and the efficiency of these charges (including the potential incentives TACs may introduce into the supply chain) is a matter for the stevedores to respond to. However, Port of Melbourne notes that any such incentives should be carefully considered and that the Productivity Commission's view on the administrative burden associated with regulation, as throughout the report, would also equally apply here.

[4] ACCC Container stevedoring monitoring report 2020-21, page 48

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Draft finding 7.1 – Big Ships, Capacity Planning, And Infrastructure Investment

Port of Melbourne agrees with the Productivity Commission's commentary at draft finding 7.1 around the trend toward bigger ships.

Port of Melbourne wishes to clarify that while the Draft Report comments on p.220 on current ship size limitations at the port, this is precisely the issue Port of Melbourne intends to rectify through current and proposed investments. The Commission itself recognises this on the following page, *"…Port of Melbourne already plans to expand to accommodate bigger ships, both through its Webb Dock East Berth 4 & 5 Extension and the development of a new Webb Dock terminal to handle ships up to 14 000 TEU…"*

The Productivity Commission's conclusions validate Port of Melbourne's investment to date and ongoing focus on the role of bigger ships in the Australian market and the need for ongoing operational and infrastructure investment.

To this end, Port of Melbourne reinforces that planning for, and investing in, additional capacity, is based on evidence and with reference to the regulatory requirement for efficiency and prudency, and stewardship obligations to meet demand. Additionally, further investment and pricing are subject not only to regulatory oversight but subject stringent and legal binding commitments to stakeholder engagement and transparency.

The Productivity Commission presents that Australian ports should focus their efforts on improving efficiency and capacity to handle larger vessels. Port of Melbourne is responding directly to the forecast deployment of larger container vessels into the Australian market with a plan which considers how to appropriately invest to meet the capacity needs of the port, including investing to improve capacity to handle larger vessels. This includes technical reports to underpin the long lead time planning and action needed now to deliver new capacity when it is needed. Port of Melbourne anticipates that this plan could involve $2billion capital investment over 10 plus years.

While the Draft Report finds that there is no need for further need for government invention to encourage the use of larger ships, Port of Melbourne does believe there is a role for government to create the right settings for investment in capacity to support the changing and growing market demand.

This includes providing regulatory certainty, planning coordination and appropriate policy settings to enable timely investment.

More broadly, Port of Melbourne will continue to contribute to both public and private efforts to improve and expand integrated supply chain infrastructure including the delivery of Inland Rail, the various intermodal proposals, and in Victoria the State Government's Port Rail Shuttle Network and our own Port Rail Transformation Project.

Government efforts – particularly in relation to rail – may include a broader role than investment.

The Draft Report considers that plans are in place to invest in rail and that any further government investment needs a clear cost-benefit analysis.

Port of Melbourne supports the need for sound cost-benefit analysis to underpin substantial infrastructure investments by government, including for rail. This should ensure consideration of the full range of benefits such as community amenity, safety, emissions reduction and air quality.

Government has a key role to play in network capacity for freight on rail, network access arrangements and network maintenance to ensure an efficient freight rail supply chain. Freight on rail also needs to be considered from a holistic, long-term supply chain perspective.

Government focus to date has been on rail network infrastructure and – while this is a core role for government – Port of Melbourne encourages:

- Government to take a leadership role in overcoming barriers to entry of new technology locomotives that improve the performance, efficiency and sustainability of rail.
- Streamlining rail regulation, standards, and efficiencies between jurisdictions.

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Land Use Planning Systems

Complementary to the infrastructure program, Port of Melbourne strongly supports the Productivity Commission's exploration of the planning systems in place around Australian ports and their confirmation of the need for improved planning controls to support supply chain efficiency.

The Draft Report explored some of the land use planning regimes in place around Australian ports and confirmed that there is a role for improved land use planning to ensure that planning decisions support the best use of the land. The Draft Report concludes that there are adequate plans in plans in place to support future port infrastructure needs.

Port of Melbourne has been advocating and has achieved improved planning controls around the port. However, the recently released Victorian Commercial Ports Strategy recognises that the current planning controls do not go far enough and do not offer sufficient protections. Port of Melbourne supports the State initiative to further explore these planning controls and offer greater protections to support maritime supply chain efficiencies.

Port of Melbourne encourages broader consideration of the end-to-end supply chain and not just consider the land adjacent to ports but also the need for adequate industrial land availability that is connected to the ports through efficient transport connections.

Each level of government and their supporting infrastructure bodies have generally done well to produce high-level strategies and plans of infrastructure needs but typically these are high-level and focus on mega project delivery. It is important to consider how these projects are being delivered and, at a more granular level the cumulative outcomes. For example, freight and passenger project interfaces and subsequent network implications.

Strategic planning should not just consider infrastructure requirements, but should also consider operational optimisation of existing infrastructure, network capacity, access and commercial arrangements. This is recognised in *The National Freight and Supply Chain Strategy* and the *National Urban Freight Planning Principles*. Both have been significant contributors to improved supply chain coordination, and these measures need to continue to be supported and progressed. Four of the seven National Urban Freight Planning Principles directly address the provision of industrial land for freight-related use:

- Principle 2. Safeguard the resilience of all major freight handling facilities and freight corridors within and between neighbouring jurisdictions, including local government areas.
- Principle 3. Identify and plan areas for new freight facilities and freight-intensive land uses.
- Principle 4. Plan for efficient freight movements and complementary land uses around freight facilities and precincts, including intermodal terminals.
- Principle 5. Promote building and precinct design and usage that takes into account freight needs.

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Draft findings 7.3 & 7.4 – Land Use Planning

Port of Melbourne suggests additional consideration in relation to draft findings 7.3 *planning systems should allocate land around ports to highest value uses* and 7.4 *long term planning appears to be adequate*.

The Productivity Commission explored some of the land use planning regimes in place around Australian ports and confirmed that there is a role for improved planning controls to ensure that planning decisions support the best use of the land for the long-term benefits for the population, not the highest and best use for any individual.

Port of Melbourne has been advocating and has achieved improved land use planning controls around the Port of Melbourne. However, the recently released Victorian Commercial Ports Strategy recognises that the current planning controls do not go far enough and do not offer sufficient protections. Port of Melbourne supports the State initiative to further explore these planning controls and offer greater protections to support maritime supply chain efficiencies.

Port of Melbourne would also encourage broader consideration of the end-to-end supply chain and not just consider the land adjacent to ports but also the need for adequate industrial land availability that is connected to the ports through efficient transport connections. Ensuring enough well-priced industrial and commercial land is available in the right locations, will support and strengthen industry and support our expected population growth.

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OTHER ISSUES

Data gaps and performance

Re. Information request 3.4

In the Productivity Commission's analysis of port performance, the Draft Report draws conclusions on the data availability and opportunities to improve available data.

Identified data gaps:

- **Labour metrics** including labour deployed as well as its productivity.
- **Ship call metrics** - published time-based metrics for ships cover some of the important phases of a ship visit, but this list is not comprehensive. For example, cargo operation times, start and finish times, operational and non-operational delays, and elapsed labour hours are not reported.
- **Ship arrival and window data**- Information on ships missing windows and arrival schedules will assist in correctly identifying inefficiencies, especially in relation to anchorage times.
- **Container dwell times** - Longer dwell times may reflect inefficiencies in the logistics system and result in slower delivery of goods to end customers.
- **Gross productivity measures** - This would provide users with a sense of operational and non-operational delays, and the degree to which productivity could be improved by reducing those delays, and the relative distribution of operational versus non-operational delays.
- **Rail turnaround times** - the time it takes for containers to enter or exit the port by rail.
- **Ship sizes and call sizes** - Ports with larger call sizes (the number of boxes exchanged per port visit) would have longer turnaround times and thus appear relatively inefficient compared with those with smaller call sizes, irrespective the size of the vessel calling.
- **Performance by terminal operator** - Providing performance metrics (confidentiality permitting) for each terminal operator may help to identify underlying trends and patterns in performance and help shipping lines make an informed decision when selecting which terminal operator to use.

While richer data would support deeper insights into port performance, it is unclear if the associated benefits would outweigh the potential costs inherent in extending the existing framework.

Port of Melbourne agrees with the opportunities to fill data gaps and welcomes the opportunity to explore data availability further.

Technology

The Draft report recognises that many factors contribute to technology growth, including changes at a business level, economic factors, policy and institutional settings. The Draft Report has noted that there are varying degrees of automation but has not been able to produce or quantify clear benefits on investment in automation.

Port of Melbourne's analysis of performance has demonstrated that the non-automated terminals have performed well in a number of areas. There are a range of benefits of automation including safety, storage capacity and ability to handle larger ship exchanges and the longer term reliability and consistency of performance.

With regard to the broader observations regarding technology advancements and particularly data integration, Port of Melbourne supports the ongoing exploration of opportunities for improved efficiencies and recognises the challenges of data integrity, confidentiality and commercialisation.

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Industrial relations

Re. Draft finding 8.1 – 9.8

Re. Draft recommendations 9.1 – 9.10

A significant portion of the Draft report is focused on industrial relations.

While Port of Melbourne recognises industrial relations issues are an important element in the broader productivity of any supply chain infrastructure, these are best addressed by other organisations, given that Port of Melbourne is a landlord port.

Port of Melbourne has consistently encouraged all parties to act in the best interest of the broader economy.

From a landlord port perspective, Port of Melbourne welcomes consideration of industrial relations as a factor in the reliability and consistency of terminal performance.

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