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Australia's Maritime Logistics System Productivity Commission

Locked Bag 2, Collins Street East Melbourne, Victoria 8003

Via: Submitted to the Productivity Commission website portal

Re: Australia's Maritime Logistics System

Dear Commissioners,

Thank you for the opportunity to comment on the substantial work the Commission has delivered in its draft report into Australia's Maritime Logistics System.

As we observed in our first submission, Qube believes this review is timely given the ongoing pressures on global supply chains, including from the lingering impacts of Covid-19. Qube is unique in the market as the largest provider of import/export logistics services, a road and rail operator and a 50% owner of one of the 4-Container Terminal Operators (CTO). Qube brings a balanced perspective to this review, given we have been operating in and observing the wider maritime logistics system over the last 16-years. Qube operates in all states and territories in Australia, in both metropolitan and regional areas, providing logistics services to the containerised (import, export and domestic), break bulk and dry bulk markets.

Within that context, Qube believes there are a number of draft recommendations and findings in the Commission's draft report that would benefit from an industry participant perspective, to ensure productivity isn't inadvertently hampered as a product of aspects of the Commission's draft recommendations.

General observations

Qube welcomes many of the draft recommendations made by the Commission in regards to the long-lasting impact of industrial action on the wider maritime logistics sector.

Qube does not subscribe to the Commission's view that rail is a sub-economic modal option and that road transport technology could eclipse rail benefits. Qube is supportive of rail as a mode of transport that will assist with not just waterfront logistics but the wider transport network. As the Commission states '*Rail brings a range of nonmarket benefits — reduced road congestion, carbon emissions and other pollutants, noise and accidents.*

As a member of the Freight on Rail Group (FORG) and an operator of road and rail infrastructure, Qube firmly believes there are significant economic and productivity gains potentially available where there are large volumes of freight and/or where the freight is carried over longer distances.

Although Qube will address the request for further information in regards to landside charges in this response, however as a general observation, Qube is of the view that the draft recommendations as outlined by the Commission seem to lack a sophisticated understanding of the maritime logistics network. For example, as a maritime logistics industry participant, Qube questions how the proposed framework described in information request 6.2 would practicably work. Let alone enhance efficiency. Just one working example for consideration would be landside fees; if the shipping line is to make landside booking (road and rail) on behalf of the landside transport companies, how is that co-ordinated, which party is paying the fees, is there an ability to a fee plus margin structure, how are penalties managed etc?

Qube believes a significant amount of research and industry engagement would be required should the Commission wish to carry this recommendation through to the final report. Qube is hopeful that this submission, and other response from industry participants, will help to further educate the Commission in this critical and highly sensitive area of the maritime supply chain.

In relation to stevedore landside charges, State governments recently endorsed the National Voluntary Guidelines, after extensive work with industry and the National Transport Commission (NTC) to develop port specific voluntary framework under an umbrella of guiding principles from the national agencies. Qube believes this pragmatic approach is appropriate and adequate to address concerns about cost recovery and transparency, and provides maritime logistics operators with the certainty required to support investment in innovative initiatives to drive further maritime efficiencies/productivity.

Responding to the Commission's requests for further information

Information request 6.2

The Commission is seeking information on why landside fees charged by container terminal operators have increased substantially since 2017 and not earlier. Is the increase in fees:

- *a competitive response to declining profitability and container terminal operators responding by increasing fees where they can?*
- *because declining profitability has reduced the regulatory threat and allowed container terminal operators to increase their fees?*
- *a combination of the factors above?*
- *because of another factor not included here?*

Recommendation: Terminal access charges and other fixed fees for delivering or collecting a container from a terminal should be regulated so that they can only be charged to shipping lines and not to transport operators.

- *Regulations should be established that prevent container terminal operators from charging transport operators any fixed fees associated with delivering or collecting a container. Container terminal operators (CTO) would not be prevented from charging these fees to shipping lines. This reform should be complemented by state and territory government regulators being empowered to monitor flexible fees charged to transport operators by container terminal operators to ensure that these fees are being used to create efficient incentives for transport operators and are not being used to offset any lost revenue from fixed fees.*

In response to the Commission's specific requests for further information and feedback, Qube makes the following observations with respect to information request 6.2 (above).

Transport operator experience of Landside Fees in practice

As a maritime logistics operator Qube has observed the maturing of the landside pricing process and notes the following:

- Transport operators are passing on landside fees with a modest margin
- Transparency and rationale on landside fees reviews is being provided to Government Departments (e.g. Transport NSW and Freight Victoria) and Industry
- Landside Fees are now only being reviewed by the CTOs once a year with a 60-day notice period to industry on any fee changes[1]
- CTO payment terms for Transport Operators have been extended to 30-days

As noted above, the NTC voluntary approach was endorsed by state and federal transport and infrastructure ministers in only March of this year, and is modelled on Victoria's Port Performance Model (VPPM) which has operating successfully for the past two years. Qube notes that state governments are already working with industry to implement the agreed voluntary guideline for CTO landside fees.

In fact, the Victorian Government only reaffirmed its commitment to the VPPM in July, noting that *"…overall industry participants consider the pricing protocol has added value and responded to some of the concerned identified in the Port Pricing and Access Review (2020)."*2.

Adoption of the PC's draft recommendation would therefore derail progress already made in this area, and subject landside operators to more uncertainty whilst existing arrangements, which are working are significantly modified.

<u>Potential negative impacts on landside productivity</u>

With regards to the Commission's draft recommendation regarding terminal access charges and other fixed fees for delivering or collecting a container, Qube notes adoption of this recommendation would mean shipping lines would be the sole entity with commercial contracts for the quayside CTO's and landside (maritime transport companies) activities.

Were this to occur, there is likely to be a dramatic shift in focus back to quayside productivity and investment at the expense of the landside logistics requirements. This risks taking the industry back a decade with congestion peaking inefficiencies on the landside operations likely to arise, particularly as volumes continue to grow. This will inevitably lead to:

- Significant landside delays including a possible return to long delays for transport operators that were common place historically; and
- Impacts to both Road and Rail Transport Operators (and ultimately Shippers / Cargo Owners)

[1] With one exception Victorian International Container Terminal Limited (VICT)
[2] Victorian Commercial Ports Strategy, July 2022 p48

Furthermore, transport operators and the transport industry representatives will have less of a voice. Transport operators and industry have only gained that voice thanks to the establishment of a customer relationship between landside operators and the CTOs over the past decade.

CTOs need to be profitable and generate acceptable returns on their investment/s on Quayside and Landside – it is difficult to see how this can be achieved unless both Quayside (THC) and Landside (TAC) fees continue to be levied given the bargaining power of international shipping lines.

Indeed, the ACCC has recognised that the CTOs have been under-recovering on their investments in recent times.

<u>Advantaging international shipping lines</u>

A further unintended consequence of the Commission's recommendation is that it is likely to only further benefit internationally owned and operated shipping lines. That's because:

- The TAC could be negotiated overseas with local stakeholders having no transparency over the charge nor understanding of any margin associated with the charge
- Significant increases to fees and charges could be levied without notice or consultation with stakeholders – a point only reinforced by recent behaviours in the shipping industry.
- The integration of shipping line services with landside logistics including road and rail transport could provide the opportunity for a bundling of the import/export container supply chain and the pricing

Ultimately, this is likely to mean Australian consumers will pay more for goods and services, while the profits generated through the proposed change would move offshore and would see less tax paid in Australia.

Conclusion

As noted above, Qube is unique in the market as the largest provider of import/export logistics services, a road and rail operator and a 50% owner of one of the 4-Container Terminal Operators (CTO).

As always, we have sought to apply the balanced perspective this wide view of the industry provides us to our review of the Commission's draft recommendations, and we remain open to genuine improvements that have the potential enhance the productivity of Australia's Maritime Logistics System.

However, it is clear that any structural change to the TAC would diminish the potential for ongoing investment and focus on service levels for the landside by the CTOs.

The current voluntary model for landside fees, while still in its infancy and only recently endorsed by state and federal transport and infrastructure ministers, should be given proper time to be implemented and assessed. The proposed reforms risk setting the industry back a decade and could potentially hamper (or kill-off entirely) the next phase of enhancements that could be explored as part of the voluntary regime, such as:

- Better transparency and rationale on the landside increase fee justification by CTOs, (excluding any commercially sensitive information)

- Better visibility on CTO Landside investment programs, and the ability for the Transport Industry to play a collective part with CTOs on landside improvements at the CTO gate (the landside interface)
- Potential improvement to Landside Fee notice periods to potentially be extended to 90-days.
- Potential extended CTO payment terms.
- Potential to develop a landside performance framework across all Australian Ports, that fairly incentivises or penalises all CTO operators on their landside road and rail performance
- The opportunity to improve industry data on measuring the CTOs landside loading performance.

We would welcome the opportunity to provide the Commission with the opportunity to visit any of the Qube operational sites to provide a greater understanding of the maritime supply chain.

Should you wish to discuss any of the matters raised in this response or contained in the draft report please contact the undersigned.

Yours Sincerely,

Shane Collins
Director – Strategy & Development
Qube Holdings