

# Australian Government Productivity Commission

Australia's Maritime Logistics System

*Submission by Victoria International Container  
Terminal Limited*

February 2022



*An ICTSI Group Company*

# Productivity Commission Inquiry into the Long-term Productivity of Australia’s Maritime Logistics System

## Introduction and Overview

Victoria International Container Terminal (VICT) acknowledges the importance of productivity in Australia’s maritime logistics system and welcomes the opportunity to make a submission to this Inquiry.

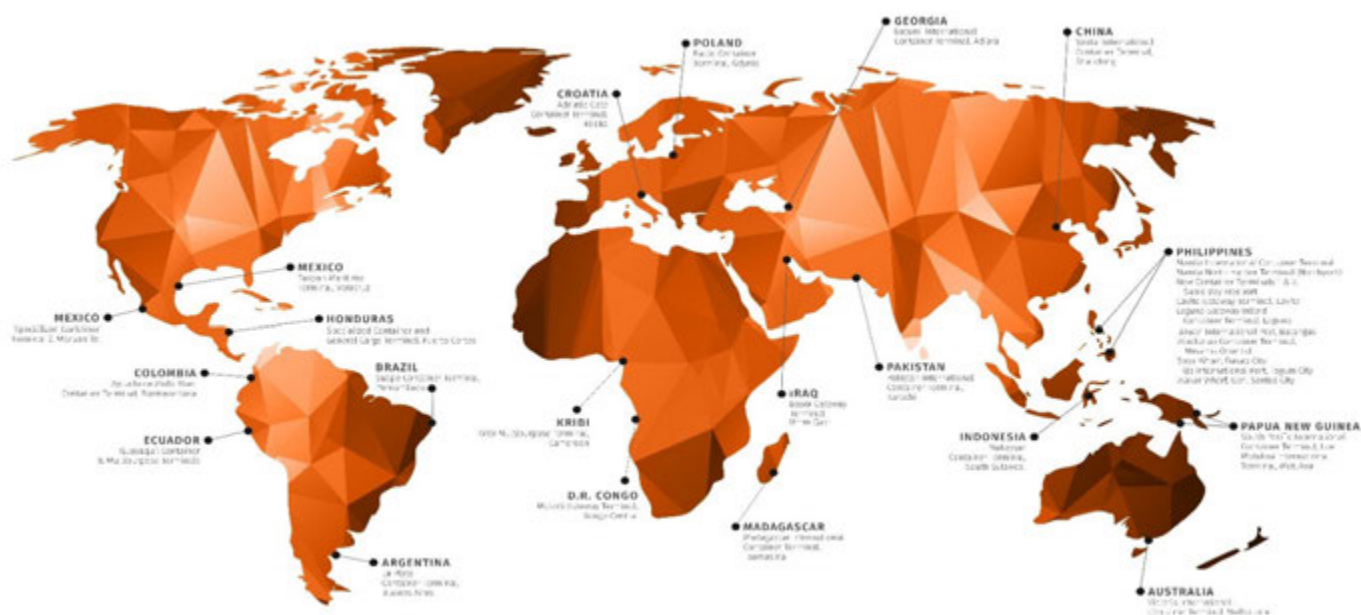
Maritime transportation is increasingly important to the Australian economy and is evolving rapidly – making it necessary for logistics operators, such as ports and terminals, to adapt to these changes and deliver the potential benefits of scale, speed and efficiency to the supply chain.

In order to provide the benefits of changes, all parts of the supply chain need to improve and adjust in tandem. Without careful planning and capacity to constantly improve, there is the potential for bottlenecks and capacity restraints to develop - thereby inhibiting productivity and increasing costs. It is also important to evaluate the appropriateness of existing laws and processes to ensure that they are operating in a fair manner and are consistent with their objectives.

## Company Overview

VICT is owned by International Container Terminal Services Inc (ICTSI) that operates 34 terminals in 20 countries with over 33-year experience within the port industry. ICTSI focuses on operating, managing and developing common-user container terminals worldwide, particularly those in strategically located gateway ports.

Image 1.1 – Locations of the 34 ICTSI Terminals around the world:



In every terminal, ICTSI strives for maximum transport and distribution efficiencies, and to drive these to continually higher levels, with the long view of continuously building shareholder and customer value. In doing so, ICTSI has achieved global acclaim for excellence in deal sponsorship, financial performance, corporate governance, and social and environmental responsibility.

VICT’s vision is to be the global benchmark in delivering leading container performance for landside and shipside terminal services and customer experience through its passionate team forging trusted and productive relationships and leveraging its unique location and innovative services integrated with advanced technology and equipment solutions.

## **The Establishment of VICT at the Port of Melbourne**

The establishment of VICT in the Port of Melbourne has enabled the introduction of new efficiencies into Australia's supply chain system and provides guidance for the potential for further improvements. As shipping efficiencies are introduced, the logistics system needs to adapt to avoid bottlenecks and unintended consequences.

The Port of Melbourne is Australasia's largest container port and one of the top four container ports in the southern hemisphere. It currently services over 2.88 million Twenty-foot equivalent Units (TEU) annually.

In 2014, VICT was awarded the concession to design, build and operate the third international container terminal in the Port of Melbourne. The concession is located at Webb Dock, on the bay side of the West Gate Bridge. This location was chosen in order to accommodate the next class of larger container vessels that are unable to navigate under the bridge to the existing container terminals at East Swanson and West Swanson Dock. Our unique location means faster turnaround time for imports and exports and easier unimpeded berthing for larger vessels.

VICT is the first terminal established by ICTSI in Australia and represents an investment of 1.3 billion AUD so far. It has already added extra capacity to the Port of Melbourne (800,000 TEU per annum) effectively handling a third of the market already – and has further growth potential to 1.5 million TEU per annum.

The approach of VICT was to develop a world class operation using advanced technology from its inception and to invest further as additional opportunities for improvement are identified.

Within three years of the concession being awarded, the terminal was completed. Our first vessel was serviced in March 2017. Although significant initial efficiencies have been achieved, there is potential for further productivity improvements.

Since servicing its first vessel, VICT has handled the largest vessel in capacity (CMA CGM Ural 10,622 TEU), highest Twenty-Foot Equivalent Unit (TEU) exchange in a single call (OOCL Beijing with 12,733 TEU) and the longest vessel to call at the Port of Melbourne (Soroe Maersk 346.98m Length overall)

## **Achieving Safety and Efficiency through Advanced Technology**

During the design of the terminal, VICT focused on safety, technology and innovation to develop Australia's first fully automated container terminal. Additional capital investment is planned to enhance efficiency further. VICT has committed to invest a total of \$235 million over the next two years on critical infrastructure to further enhance our productivity and service offering to the supply chain industry.

Future-thinking in design, VICT has introduced a range of automated handling solutions, with the capability of 24/7 operations to achieve the highest levels of safety and efficiency, for both shipside and landside operations. As our customers are our priority, we integrate cutting edge technology with equipment to add value throughout the supply chain.

VICT's modern automated technology brings a number of clear advantages in terms of safety, capacity, efficiency and impact on the environment, including:

- VICT is the only terminal operator to perform Receipt & Delivery 24/7 at a superior service level, taking trucks off roads during daytime.
- VICT has a much lower frequency and severity of safety incidents (nil LTI's in 2020 and 4 low severity LTI's in 2021)
- VICT's technology allows for a much higher stacking density of containers in the yard also resulting in a significantly higher yard productivity of containers per hectare.
- Unlike traditional labour intensive manually operated terminals, VICT's automated equipment does not require operational breaks and operates around the clock without incurring additional costs.
- VICT's equipment is mainly powered by much "cleaner" electrical energy

The initial performance levels have been high but there is potential for further improvement.

VICT has achieved an average Truck Turnaround Time of less than 35 minutes.

On the shipside, VICT currently performs over 60 gross moves per vessel berthing hour. This is in line with the benchmark productivity achieved in Melbourne although it is still significantly below its potential. VICT intends to become Australia's first terminal to surpass 80 gross moves per hour on average.

### Capacity Constraints

Potential further efficiencies will be unlocked once the suboptimal layout of berth 4 is optimised and allows for additional equipment to be deployed. The suboptimal design of berth 4 with an outcrop commonly called "the knuckle" limits the terminal's quay length to 661m, which is barely adequate to berth 2 vessels with a length of 300m – the common length of 7,000 TEU vessels.

However, the faster than expected global growth of vessel sizes brought vessels of 8,000TEU and over, with a length of over 300m, to Australia in 2018, much earlier than anticipated by any previous forecast. The arrival of larger vessels significantly impaired capacity, and limited VICT to service only one vessel at a time. This meant that VICT could only operate as a single berth terminal with other operational implications.

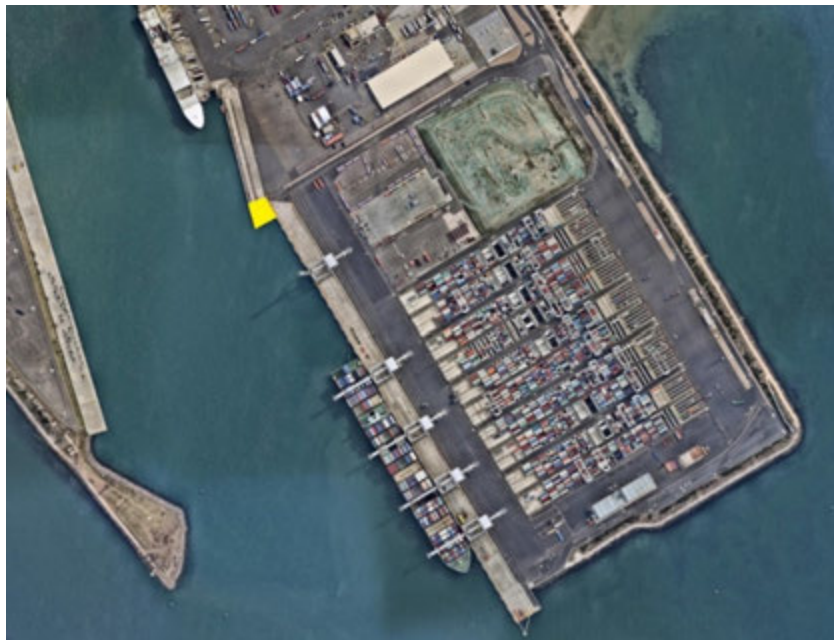
**Image 1.2 – VICT's berth length design with two 300 meter vessels compared to the current 336 meter vessels calling at the Port of Melbourne:**



Unutilised area that VICT are paying lease for and will not be developed until the "knuckle" is removed.

With this unplanned berth capacity constraint, it made no sense for VICT to have more than 5 Quay Cranes. (The allocation of more than 5 quay cranes to a single vessel is virtually impossible given that wider cranes are required on our limited loadbearing capacity quay). The quay cranes are supported by 20 Yard Automated Stacking Cranes (the optimum ratio of yard equipment based on the number of quay cranes).

**Image 1.3 – The outcrop commonly called “the knuckle” highlighted in yellow:**



From 2019, vessels of 9,000 TEU started calling Melbourne to call and have since been handled at VICT as they could not be accommodated at the Swanson Dock. The first 346.98 meter vessel called Melbourne in 2020. This opened the door for an increasing number of larger vessels to call at VICT and contributed to an increasing number of berthing conflicts. These conflicts are increasingly restricting the capacity of VICT to 800,000 TEU per annum - well short of the initially design of 1,500,000 TEU per annum.

These capacity and efficiency issues first arose in 2018. In mid-2021 the Port of Melbourne provided VICT with an undertaking to remove the knuckle and extend the quay by 71 meters by mid-2023. When completed, this will allow for the simultaneous berthing of a 350 meter vessel and a 366 meter vessel.

The planned berth extension has allowed VICT to roll out the development of its undeveloped areas. The first phase of this investment will come online by 2023. It will not only boost capacity, but with 8 cranes for 2 berths, average vessel productivity is expected to exceed 80 gross moves per hour for the first time in Australia. This is a relatively inexpensive and logical optimisation of a current asset and is materially within the current concession footprint. In the interest of the Victorian economy and VICT's, it is expected that the project will be able to be executed without any disruption or delays

### **Labour Constraints**

Although VICT incorporates significant capital investments, its valued workforce remains critical to its successful operation. It has provided well paid jobs and valuable career opportunities to its current workforce of some 230 individuals. 181 blue collar workers in operations and engineering governed by an Enterprise Agreement and 49 white collar staff.

VICT commenced operations with an Enterprise Agreement made under the Fair Work Act in 2016 and in 2021 renegotiated that agreement with the workforce and their representatives.

Nevertheless, the Australian industrial relations system has presented significant challenges for VICT. Despite being quite a different operator to other stevedoring operators, VICT faced claims for enterprise agreement terms reflecting historical arrangements applying to other operators, many of which are restrictive work practices that VICT considers to be unreasonable and unsustainable.

Negotiations for a new agreement extended for many months after the expiry of the initial agreement. During this period VICT faced threats of protected industrial action.

Lengthy renegotiation processes with no viable means to bring the negotiations to a fair and expeditious conclusion creates an imbalance of power under the Australian system. This in turn creates potential for significant damage to the supply chain by entrenching inefficiencies secured by threats of disruption. Inefficiencies in matching labour supply to demand have been exacerbated during Covid-19 due to absences and labour shortages.

As VICT is the only operator capable of servicing the larger vessels now operating in the Port of Melbourne, any disruption to VICT has a major impact on Australia's trade and commerce. It is appropriate to view the operations of VICT and other maritime logistics service providers as an essential service to the Australian community.

VICT believes that addressing the productivity and efficiency of the maritime logistics supply chain will require a reconsideration of the operation of the Fair Work Act in relation to the maritime logistics industry.

VICT is available to discuss these matters further and assist in developing solutions that will enhance performance of the supply chain.

### **Conclusion**

VICT welcomes the attention of the Productivity Commission and the Australian Government to these important matters and would be pleased to assist further in the conduct of this Inquiry.