

# The Victorian Government's submission to the Productivity Commission Inquiry into Australia's Maritime Logistics System

Our ports are our trade gateways, connecting Victoria's consumers and businesses to international markets. In 2019, around 98 per cent of Victoria's exports by volume moved via sea freight.

Victoria's ports are nationally significant assets. The Port of Melbourne is Australia's largest container port, responsible for 35.3 percent of the nation's total TEU. The Port of Geelong is the sixth-largest Australian port by tonnage, responsible for approximately \$7.8 billion of trade each year. The Port of Portland is the largest sustainable hardwood woodchip port in the world while the Port of Hastings is a key entry point for bulk liquid imports.

The maritime logistics sector has faced considerable challenges in recent years, such as changing market dynamics between landside and quayside, stagnated productivity, industrial relations issues and considerable disruptions resulting from COVID-19. The Victorian Government welcomes the Commonwealth Government's Productivity Commission inquiry into Australia's Maritime Logistics System (the Inquiry) and its Terms of Reference.

The Productivity Commission is enquiring into a sector for which its performance underpins the efficiency and productivity of Australia's entire economy. Australia is a trading nation relying on its ability to efficiently exchange goods with the world to sell what it produces and to receive key inputs to production within Australia. The performance of the port sector is fundamentally a matter of national interest, and the performance of the sector will be best served with players in the system being clear on their role and actively playing that role.

The Department's submission covers:

- Victoria's position on current roles and responsibilities in the Australian ports system and how this is performing.
- The Victorian Government's activities supporting the efficient operation of our commercial ports including through the introduction of the Voluntary Port Performance Model (VPPM).
- Key matters for the Commission to consider for recommendation in preparing its report.

## Summary Comments

The Productivity Commission has been asked to undertake its work due to a range of concerns industry has raised with Government over the last decade since the Global Financial Crisis (GFC), as changes have occurred in the international shipping industry and the commercial arrangements governing the management of our ports. Issues include:

- Shifting the mix of cost recovery from waterside to landside ports users.
- Increasing market power held by shipping lines relative to other industry participants following consolidation in the industry post the GFC.
- The ongoing impacts associated with the shipping industry being allowed to coordinate their pricing behaviour because of exemptions the industry holds under the *Competition and Consumer Act 2010*.
- Increased private management of port land through long term leases, reducing the direct role of State Governments in the operation of our container ports.

- Increased competition in the market for stevedoring services across Australia's eastern coast ports.
- Impacts associated with the management of labour relations at stevedore terminals.

These issues are varied and complex, but they all come together to have an impact on pricing and performance of our ports. For any response to be fully effective, it needs to be national and coordinated through greater collaboration between the federal and state governments. Neither the States nor the Commonwealth acting alone will be able to achieve the best outcomes for our ports.

The Victorian Government is actively playing its role in managing the impacts of these issues within the scope of its powers and responsibilities, however without an agreed national approach, there is a risk states and territories will develop inconsistent, jurisdiction specific approaches.

Given the national and international nature of the port and maritime industry, further action would optimally be driven through a more collaborative, national and coordinated approach than is currently the case. Victoria is clear in its position that a closer working relationship between the Commonwealth and State Governments should be a critical input into improving the effectiveness of Australia's Maritime Logistics System.

This will support the development of a national plan, that provides a consistent and clear guidance on Australia's vision, benchmarking and the subsequent action needed to guide a more effective and efficient nation maritime logistics system.

### **Victoria's Recent Action and the Role of State Government**

The Victorian Government is always striving for continuous improvement in how we manage port pricing and performance. Over the past four years, the Victorian Government has completed a nation leading review into the performance our ports supply chain – the *Port Pricing and Access Review*. This review was set up to respond to industry concerns with new and rapidly increasing landside access charges being levied by stevedores. This same increase in these charges is occurring across Australia.

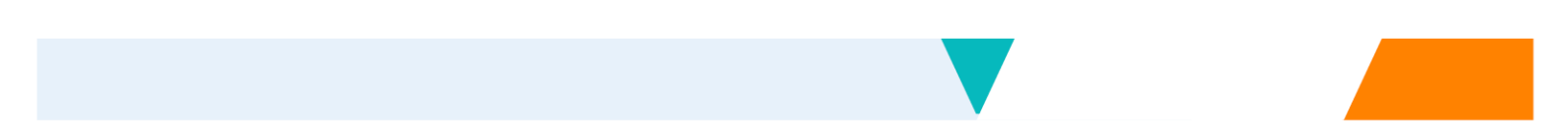
The Victorian review found that while some changes in how landside access charges were being announced and explained would be of benefit, there was no case to regulate these charges. Instead, the Review found issues in the pricing and performance at our ports existed both on the waterside and landside of the supply chain and that stevedore infrastructure access charges were largely influenced by broader national and international pressures.

The State has, in response to the Review, put in place new voluntary pricing arrangements which stevedores have actively engaged with and supported – these arrangements provide industry with clear rules governing the timing, communication and engagement between stevedores and users regarding any price changes. Stevedores and users have found this new model to be of genuine benefit. Whilst some continue to advocate for further action, including regulation, Victoria is of the view that any further, more formal regulation would add to the current, increasingly siloed state by state approach to port pricing and performance matters.

Victoria's nation leading work has confirmed that we need to be, as a nation, applying a more coordinated and holistic approach to the management of performance at our commercial trading ports. Victoria has also confirmed that for any further action to be truly effective in managing pricing behaviour and performance, it can only be effectively delivered as part of a nationally led plan.

### **Need for coordination of nationally-consistent benchmarks**

We need more action and commitment to leading the assessment and analysis of port performance at a Commonwealth level. The ports and maritime industry has been servicing Australia's borders since Federation - the Commonwealth Government is the long-standing



lead authority in our federation with powers over the operation of our international gateways and has always led any process of reporting and review of port performance. While states play an important role, this role has been largely operational in terms of owning and overseeing ports themselves and managing and regulating transport access to ports. The Victorian Government has made a significant contribution to responding to pricing and performance issues at our ports. To more effectively support the States' responses to port pricing and performance, there needs to be a national policy framework which guides the States' as they continue to manage their port assets. Currently, there is a limit to what states can do in the absence of any clear national understanding of:

1. Current performance levels of our national port system.
2. What performance Australia should be targeting across our ports.
3. Where performance may not be meeting agreed targets.
4. Where States could target action to specifically address performance needs to be improved.

Whilst the states and territories have tools to be involved in delivering action to address issues in performance through management of port land and transport networks, they have limited ability to effectively gather and analyse data at a national level. Without this complete and national view of the subject matter, it is very difficult for the states to effectively assess whether there is a problem that requires intervention and, if an intervention is proposed, what broader economic impacts it may have

The Victorian Government is of the clear position the Commonwealth needs to be doing more to take a lead, in collaboration with the States and territories, to respond to challenges in the sector as they emerge. Already the Commonwealth leads on monitoring and reporting of performance through the ACCC's annual stevedore monitoring report and Bureau of Infrastructure and Transport Research Economics' (BITRE) Waterline report.

The Waterline reports tend, however, to be relatively passive in their depth of investigation and analysis and do not highlight areas where improvement is needed to reach an accepted standard. While the ACCC's annual stevedore monitoring report, while providing great level of insight into stevedore operations, without data sharing arrangements between the Commonwealth and State Governments it is difficult to develop an understanding of the appropriate next steps to respond to the ACCC's findings.

The Commonwealth also already plays a lead role in performance of the port sector through its administration of the *Competition and Consumer Act 2010*. This Act provides ocean shipping liners with access to a wide suite of exemptions from Australia's competition law. This arrangement pre-dates the *Trade Practices Act 1974* and, while initially necessary to ensure reliable and efficient sea freight services to Australia, Victoria considers the ongoing exemption arrangement within the Act does not reflect recent shifts of market power from the landside to the quayside, which has contributed to rising terminal access charges.

The Commonwealth had committed to review the exemptions, however, there has been limited progress on responding to the key issue which is contributing to strengthening the market power of shipping lines in the Australian market. Victoria continues to advocate for the Commonwealth Government to deliver on its commitment to review what is among the most permissive regimes of liner protections used by a developed country.

Both the Commonwealth and the states and territories have roles to play in overseeing and managing the performance of our port sector. The Commonwealth is clearly best placed to work with the States to develop a nationally consistent benchmark for performance and pricing standards supported by effective data collection and analysis. In turn, the states and territories often have the local context and policy levers to be best placed to take action responding to pricing and performance issues at a state level.

In summary, the Victorian Government proposes that the Productivity Commission consider:

- Greater collaboration between the State and Commonwealth Governments to develop national benchmarks for performance of our port sector supported by analysis of current performance relative to these benchmarks to identify areas where improvement is most needed.
- Consideration of a forum between the Commonwealth and States to provide a platform to more closely work together and coordinate responses to port performance issues.
- A review of existing Commonwealth Government policy, such as the Waterline Report and ACCC stevedore monitoring report to determine if there are opportunities to strengthen existing performance policy through greater collaboration with State Governments.

Under this approach, both the States and the Commonwealth retain their current roles – the Commonwealth sets national policy, and the States manage and operate their port assets. By developing a more coordinated national approach to Australia’s maritime logistics system, both the States and Commonwealth will be better placed to deliver their respective economic objectives by enabling, and responding to, a whole of system view of port pricing and performance.

### **Further Background – Victoria’s Current Action**

#### **The Voluntary Port Performance Model: Overview and context**

The Victorian Government is committed to playing its role in addressing any performance issues including fair pricing and performance transparency at the Port of Melbourne. In 2019, the Minister for Ports and Freight commissioned the first state-based review of landside terminal access charges in response to industry concerns around access and supply chain costs at the Port of Melbourne.

Key findings included that:

- There was no compelling case for economic regulation of stevedore charges at the Port of Melbourne currently.
- While costs have risen because of increases in stevedore charges, costs being levied by others, particularly shipping lines, are arguably having a bigger impact on increasing costs.

The report recommended the implementation of a voluntary scheme to establish fair, transparent, and clear protocols around stevedore pricing and create the creation of an agreed set of performance indicators which are consistent, measurable and meaningful.

In response, the Minister for Ports and Freight announced the creation of the Voluntary Port of Melbourne Performance Model (VPPM) in July 2020. There are two parts to the VPPM:

- 1) Voluntary Pricing Protocol: These protocols represent Victoria’s commitment to fair pricing and transparency at the Port of Melbourne and establishes clear protocols around notification periods for price increases or the introduction of any new landside charges, explanations of price increases, and the timing of price changes.
- 2) Voluntary Performance Monitoring Framework: This framework publishes performance indicators to provide transparency to industry and Government on the performance of the Port of Melbourne landside container supply chain.

The VPPM is publicly available on the Department of Transport’s [website](#).

## Voluntary Pricing Protocol

The pricing protocols introduced under the VPPM aim to establish fair pricing and transparency, clear protocols for the introduction or increase of additional landside charges as well as rules around the explanation and timing of price changes.

The key aspects to the protocol are:

- Frequency: Stevedores are requested to change pricing no more than once per annum
- Notification: Stevedores must provide 60 days initial notice providing details and reasoning for a price change. Subsequently, a 30-day final notice is also required which addresses any feedback from industry received on the 60-day notice.
- Engagement: The industry engagement period requires any comments to be provided to the stevedore in writing, to support increased consultation between parties on price changes.

Recent industry engagement indicates that there is a broad consensus in favour of these pricing protocol's notification periods, especially from transport operators and freight forwarders. Reportedly, annual price changes and structured notification periods help facilitate conversations with customers to adjust prices. This helps reduce the period a transport operator / freight forwarder must absorb the burden of these prices before they can be recovered from customers.

The Voluntary Pricing Protocol has also supported a measurable difference in stakeholder behaviour. Stevedores have all largely committed to the principle of reviewing landside charges no more than once per annum, instead of the previous practice of reviewing prices every 6 months. DP World Australia has also committed to providing 30 days additional notice to industry for proposed and final pricing charges than what is required under the pricing protocol.

Continued alignment with pricing processes across the nation is an important consideration of the VPPM and has been a focus of recent engagement with the National Transport Commission on its proposal for national voluntary guidelines for stevedore charges.

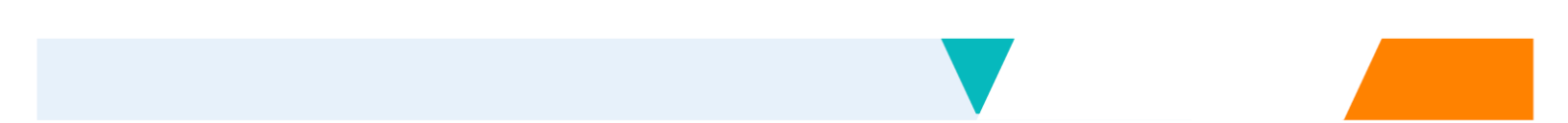
## Voluntary Performance Monitoring Framework

The second stage of the VPPM is a Voluntary Performance Monitoring Framework (VPMF), which publishes a quarterly set of performance indicators to provide greater transparency to industry and Government on the operations of Port of Melbourne's landside container supply chain.

To support a consistent and standardised data set from stevedores, definitions are consistent with the Commonwealth Government's Waterline reporting and exclude bulk run data from all metrics. This meets the objectives of the VPPM by providing greater transparency to industry on land-side port operations as data is reported monthly and not aggregated at the port level.

While most indicators have originated from Waterline, others have been introduced including:

- Load-discharge ratio which reports the ratio of total exports to total imports (full and empty), aggregated across the three stevedores at the Port of Melbourne. This indicator shows whether trade is generating or removing surplus empty containers at the port.
- Direct Return Empties (DREs): A DRE is a container that is de-hired directly at a stevedore terminal/CargoLink, as opposed to an Empty Container Park (ECP) and is held within the terminal/CargoLink for short-term storage prior to evacuation. This



performance indicator provides a greater understanding of how the empty container supply chain is operating. Given that DREs go direct to the stevedore's terminal/CargoLink facility, it avoids the intermediary leg to ECPs which reduces truck movements on roads.

A total of 19 performance metrics are reported in the VPMF, with work underway to expand the report into other parts of the supply chain, such as the empty container system.

### **Learnings and Next Steps**

Over the last 18 months, the VPPM has delivered a strong foundation for the Victorian Government in relation to the pricing transparency and operational performance of the landside supply chain at the port. The Department of Transport has commissioned an independent review of the VPPM's implementation and performance. This includes consideration of recommendations, as appropriate, to strengthen, enhance or improve the VPPM for potential inclusion in the Victorian Ports Strategy which is expected to be released mid-2022.

Key considerations:

- While initially intending to maintain consistency with Waterline's report, new indicators have been added to reflect the detail and types of data that best supports an improved understanding of supply chain performance. Without an agreed national approach, there is a risk that further new measures will develop a performance monitoring framework specific to the Port of Melbourne, with the potential for each State to develop their own performance framework.
- The Department will continue to monitor the progress of the VPPM and more formal approaches to monitoring pricing and performance may be considered. However, at this stage its considered that both the VPPM and VPMF are developing as effective and useful voluntary policy tools.