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Shipping Australia Limited Submission on to the Review of the Victorian Ports System

Reference: Independent Review of the Victorian Ports System – Discussion Paper July 2020

Background

Shipping Australia Limited (SAL) is a peak shipowner association with 29 member Lines and shipping Agents and with 44 corporate associate members, which generally provide services to the maritime industry in Australia including: port and terminal operations, pilotage, insurance and legal advice. Our member Lines are involved with over 80 per cent of Australia's international liner container and car trade as well as over 70 per cent of our break bulk and bulk trade. Our member ships' agents are responsible for arranging logistics for visiting ships and for embarking and disembarking maritime crew members. For a list of members and details of our structure and activities please visit: www.shippingaustralia.com.au.

Introduction

The discussion paper was found to be a well balanced and informative document that provides a good understanding of the trajectory of Government strategic directions, evolution and privatisation of Victorian ports over the last twenty five years, and particularly the changes since the Russel Review in 2001.

Shipping Australia Limited is pleased to provide comments on specific aspects of this discussion paper and would be amenable to direct consultation on these matters if so desired. We have not attempted to recommend the mechanics of how the port system should be delivered but focussed on promoting principles for such delivery that would support the overall aim of enabling efficient and sustainable maritime trade. We have not attempted to answer all the questions posed in the discussion paper.

Comments on / responses to the Discussion Paper (ref. paragraph number)

Ref Para 3.4 The structures in place today collectively represent higher costs than exist in ports such as Adelaide or Tauranga and Auckland (NZ) due to the multiple layers of administration and authority. The increased competition in the stevedoring sector has produced some savings however there is a substantial overcapacity across the three stevedores in Melbourne (and ports in other capital city ports) which will not be resolved for some years. Additionally, overheads for the stevedore operations have increased substantially. This has been driven by unregulated increases in land rents, and necessary quayside and landside infrastructure investment to improve truck turn around times and service larger ships. These costs have offset the quantum of any competition induced price reductions.

Q.1. The suggested Vision statement does capture the key desirable attributes

Q.2. Shipping Australia is not impacted by the operation of Corner Inlet. However, the most efficient management of the port should be adopted and there should not be a need of cross subsidisation of local ports or smaller commercial ports from the other declared commercial ports.

Q.3. No comment offered.

Q.4. The complex mix of public and private sector entities does not seem to be the most efficient regulatory or operational model. There must be substantial duplication in administrative and regulatory function by the different Government port authorities VPCM, VRCA and PoHDA and from experience there also seems to be an overlap with Maritime Safety Victoria. That said, we were surprised to note that there are twelve public sector entities involved in the governance of the ports sector. The demarcation of responsibilities and authority is difficult to understand and there is likely to be unnecessary dilution of maritime expertise across them. A strong case exists to develop a single accountable model with responsibility for all regions as outlined in Option 1.

Q.5. No comment offered.

Ref para 5.1 The requirement for price regulation / control or monitoring is driven by the state of the market and where unimpeded competition exists such regulation is not necessary. Conversely where there is not free competition, such as in a monopoly (and even more important where such monopoly is protected from competition by regulation) Shipping Australia strongly supports the concept of price regulation. Ocean shipping lines operate in a very highly competitive market and thus there is no justification for their economic regulation. This paragraph also refers to Part X of the CCA allowing lines with registered agreements to “fix prices”. I should make it clear that this provision of the Act was intended to encourage the provision of shipping services in circumstances that would not otherwise be able to be provided. There are no such price fixing agreements in any registered agreements servicing Victoria.

Ref para 5.2 The assertion that shipping lines are exploiting excess market power is strongly rejected and is factually incorrect. International containerised freight transport is a highly competitive business that has been undergoing a decades-long technology and process-driven evolution. This includes mechanical innovation, such as twist-locks and container specifications; nautical innovation such as increasing the size and optimising the design of container ships and container terminals; and technological innovation such as advanced cargo-management software whether that is aboard the ship or on the shore.

These developments have improved the levels of service and have reduced the cost of sea freight massively over the past 50 years. International sea freight costs are still going down in real terms. The referenced Deloitte report commissioned by the Victorian Government, notes that the nominal cost of importing containers by sea (including all terminal handling and access charges) has increased by 6 per cent between 2010 and 2019 and the nominal cost of exporting had increased 13 per cent. In comparison, the Consumer Price Index had increased by 20 per cent.

Q.6. a. The summary appears to reflect poorly on shipping lines, a premise which we reject (see above). Shipping lines’ investment in improving efficiency, and strong competition in the sector has caused the cost of ocean freight to reduce in real terms for more than 40 years. This has supported globalisation, improving the ability of shippers to transport goods over the vast oceans to buyers, and making it cost effective to expand the range of goods being traded. The increasing use of carriers as “tax collectors” to recover local charges which were once paid directly by shippers to State Government entities, cannot be revenue neutral. Escaping criticism in the summary are the forwarding sector and the transport sector who are reported to apply substantial administrative and other charges to any costs they incur.

b. The recommendations of the report are generally considered reasonable and helpful. However,

the quest for transparency, if it can be achieved, is unlikely to reduce the total shipping line cost of international ocean containerised freight movement but it might shed some light on the mark-up of other players in the logistics chain. As previously mentioned, international container shipping is highly competitive. Lines make individual decisions as to what costs and overheads they cover in their ocean freight rate and what they cover through additional charges. They do this for competitive advantage. If lines are forced to provide a break down of these components it will impact on their commercial confidentiality. In order to stay in business a shipping line needs to cover their costs and sell services at a profit, thus the total of the ocean freight rate and the additional charges will ultimately remain pretty much unchanged – if one goes down the other will go up.

The implementation of Blockchain transactions could be the next step in efficiency and could assist in providing transparency. directly benefiting importers and exporters exposing administration fees applied through 3rd party collections at either end of the ocean freight component.

Q.7. a. & b. No comment offered. Stevedores and road and rail operators are in a better position to comment on these items.

c. Refer Q.6.b. above. Shipping lines structure their charges in different way to suit their own operational models and commercial interests, but as they operate in a competitive market there is no gain to be made by asking for further transparency in one component of charges which may force reductions in that component and lead to compensatory increases in others – it is a zero sum game.

Ref para. 5.2.2 This entire paragraph is misleading and a simplistic misinterpretation of a complex matter relating to competition policy. Neither does note the fact that no registered liner agreement servicing Victoria includes any coordination of pricing. As a result, the conclusion is non sequitur and should be deleted.

Q.8 Shipping Australia has no major concerns with the current employment arrangements for harbourmasters in Victoria. Across Australia and the world there are various models for harbour masters which seem to all have their advantages and disadvantages in certain circumstances. The most important aspect is that the lines of authority, responsibility and reporting are clearly laid out and understood by all parties.

Q.9 a. Shipping Australia is a strong supporter of competition in services where there is sufficient demand to commercially sustain such competition. This includes pilotage. When APG was established there was clearly a gap in the Victorian safety management structure and an apparent discontinuity or gap between the regulatory authority and the expertise to review and authorise pilots. This gap now appears to have been corrected.

b. There are various models in use across Australia and globally. Some with the harbourmaster as the senior pilot and other where the harbourmaster is not qualified for pilotage. The important matter is that there are clearly defined lines of authority, responsibility and reporting to ensure safe and unbiased operation of the port.

Q.10 a. The safety aspects of provision of towage services for the Port of Melbourne appear adequate. The TRD is an appropriate method to ensure that the appropriate capability is available for port users. From a commercial perspective some concerns have been raised by SAL Members over the need of a clear set of rules relating to the number of tugs required for specific ships in specific conditions so that they can avoid having to book additional tugs at the last minute (if so directed by the pilot) and incur a short notice booking fee.

b. & c. No comment offered

Q.11 a. With the interaction of different authorities / agencies in the same port there is a risk

that there is not a clear line of responsibility and authority for all aspects of Safety and Environment Management Plans. If this is made clear, then the current system could be adequate to ensure the safety of all aspects of port operations.

b. & c. No comment offered

Q. 12 a. Introduction of a Port Safety Licencing system in the current complex and overlapping port management system in Victoria would further complicate the system and provide little practical benefit in our view.

b. Introduction of the new model as described appears to have the potential to clarify the lines of authority and responsibility across the Victorian port system and would be easier to understand for port users.

Q.13 The production of a PDS is of benefit to commercial ports and their shareholders with the additional benefit of early engagement in state infrastructure planning to ensure that it is consistent with the ambitions/intentions of the commercial operator.

Q14. Shipping Australia supports the need for a new Victorian Ports Strategy particularly for the reasons expressed at paragraph 7.2.2 Shipping Australia has previously advocated consideration of the use of barges to disseminate traffic from the immediate confines of the Port. The on-dock rail initiative fall short of servicing all container terminals and the feasibility of complimented this by a barge service from webb dock to a railhead could be considered. Other services to a point along the east side of the Bay (in proximity to freeways servicing the South East and Gippsland region) with another service to the West side of the Bay could also be considered. Around 10% of the port's activity could be managed in this way.

Q.15. No comment offered

Q.16 Looking ahead we can expect the technologies being tested today could disrupt the current paradigm of vessel operations and remove or reduce some of the barriers to coastal shipping such as high crew costs and the traditional lift on lift off stevedoring. Advanced, autonomous RoRo vessels are already under trial in Norway, this concept is an extension of the barge service concept noted at Q.14. This could realistically provide almost autonomous vessels becoming available. Despite these developments, the first and last mile land costs before the contribution to vessel system costs makes the prospect of a sustainable coastal service challenging. Future port thinking should incorporate the concept of auto docking and direct ramp access for

Q17. Shipping Australia was formerly a member of the Victorian Ministerial Freight Advisory council which had a wider freight and logistics scope and was considered a valuable forum but gradually dissolved through lack of Ministerial interest. Ports cannot operate without the transport connections via rail and road (and water?) so I would recommend that a broader freight and logistics consultative body would be reinvigorated and would prove more useful than a narrow focus on ports.

Submission authorised by:

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Chief Executive Officer