



**Shipping Australia Limited**  
ABN 61 096 012 574  
Suite 606, Level 6, 80 William Street, Woolloomooloo NSW 2011  
PO Box Q388 QVB PO, Sydney NSW 1230

[www.shippingaustralia.com.au](http://www.shippingaustralia.com.au)  
Tel: (02) 9167 5838  
[admin@shippingaustralia.com.au](mailto:admin@shippingaustralia.com.au)

SAL21005

1 February 2021

Attention: Victorian Essential Service Commission

emailed to: [transport@esc.vic.gov.au](mailto:transport@esc.vic.gov.au)

## **Shipping Australia's submission to Port of Melbourne rebalancing application review 2021**

### **1. About Shipping Australia**

Shipping Australia is an industry association that represents Australia's international ocean shipping industries. We provide policy advice and information to our 29 full members, which include ocean shipping lines and shipping agents. We have over 40 corporate associate members, which generally provide services to the maritime industry in Australia including port and terminal operations, pilotage, insurance, and legal advice among other services. Our members handle the vast majority of seaborne cargo imports and exports to and from Australia. Our members employ more than 3,000 Australians, according to a 2018 survey.

### **2. Purpose of this submission**

This submission is Shipping Australia's response to Port of Melbourne's (PoM's) "*2021-2022 Tariff Rebalancing Application*" of December 2020 to the Victorian Essential Services Commission for permission to significantly increase its container wharfage fees on inward-bound full containers carried on larger ships and to give a minor decrease on its container wharfage fees on full export containers.

### **3. Executive Summary**

The PoM does need to upgrade its port assets to handle larger ships and a predicted larger volume of containerised cargo (see extract from PoM's 2050 Port Development Strategy (2020 edition, below).

It is the private operator of the PoM that will most benefit from upgrading the port to handle bigger ships and larger cargo volumes. The main benefits include greater revenues and profits. The PoM will also obviate numerous severe disbenefits of not upgrading. These disbenefits include:

- severe and ongoing congestion;
- fierce criticism from the public, industry and political representatives;
- action by shipping lines to counter the effects of severe and ongoing congestion;

- an increase in contestability of cargo between Sydney and Melbourne;
- the creation of strong competitors in the PoM's hinterland; and
- ultimately, a potential loss of future market share.

It is unreasonable for a privately-owned port operator to state that the ocean shipping industry should be forced to pay to upgrade assets that will be owned by, and which will benefit, the privately-owned port operator.

The PoM should pay for its own upgrades which will in the long run deliver it greater cargo throughput, revenues, profit; which will obviate a variety of adverse disbenefits; which will greatly improve its own competitive position and will preserve its market share.

In the event that the Essential Services Commission decides to give permission to the PoM to increase its tariff, a proposition to which the ocean shipping industry strenuously objects, then any fee should take the form of a separate and transparent surcharge.

#### **4. Attachments**

Shipping Australia attaches the documents SAL15150 of 08 September 2015 and SAL15180 of 21 September 2015 for information. We also attach the document SAL20288 of 28 October 2020 which forms part of this submission.

#### **5. Background**

Sea-transport accounts for about 99.92% of Australia's international freight by volume and approximately 85% by value.

PoM contributes 19,600 jobs and \$6 billion of economic benefit to the Victorian economy, according to page 3 of the PoM's 2050 Port Development Strategy (2020 Edition). In the same document, on page 8, the PoM adds that 360,000 new cars "rolled off ships into Victoria". Page 25 asserts that PoM delivers \$7.5 billion of economic benefit to the nation of which \$6 billion benefits Victoria with the remaining \$1.5 billion of benefits split between New South Wales, Tasmania and "other" areas.

PoM currently handles about three million TEU of containerised cargo a year. PoM believes, and Shipping Australia agrees, that potential cargo volumes at PoM will greatly increase in the next few years.

PoM specifically believes that its container trade will grow to just under nine million TEU by 2050 (see PoM graphic below). It should be noted that the PoM believes its trans-Tasman trade will grow to about 500,000 TEU over the same timeframe.

PoM is clearly of vital importance to the well-being and economy of Melbourne, Victoria and south-east Australia, and, more generally, to the nation as a whole.

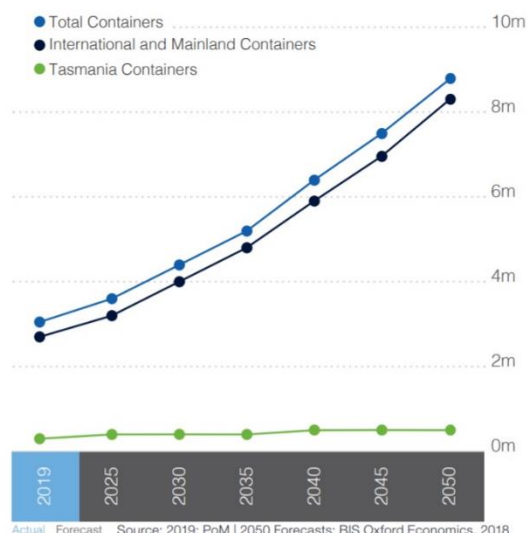
## Container trade forecasts

We forecast that total container trade volumes will grow over the long term by 3.5% per annum, from 3 million TEU in 2019 to around 8.9 million TEU by 2050.

Drivers of growth of the container trade at the Port are economic and population growth for Victoria and south eastern Australia is the principal factor driving this forecast.

### Tasmanian trade

The Tasmanian trade is an important component of the overall trade at the Port and provides a vital connection between the Tasmanian and mainland Australian economies. Tasmanian container volumes are forecast to grow by 1.5% per annum to 0.5 million TEU by 2050 and wheel units are expected to grow by 3.1% per annum to 1.4 million mass tonnes over the same period.



Source: 2050 Port Development Strategy (2020 edition), Port of Melbourne, page 23.

## 6. Larger ships will likely carry larger cargo volumes

PoM has recently stated in its document, "Business Update and Tariff Rebalancing Stakeholder Consultations" of September 2020 that: *"large ships present a challenge as they need infrastructure upgrades that are very costly but big ships do not increase the cargo volumes, they just change the ship visit profile"*. See Section 3.1 2050 Port Development Strategy Creation and Drivers, third bullet point.

In the same document, at Section 4.2, "Big Ships Strategy Marine Update", PoM noted that there is a fast demolition rate of the 5,000-8,000 TEU capacity ships and that the global fleet of 5,000-8,000 TEU ships continues to fall. The statement further notes that the majority of newbuild ships are either vessels of less than 3,100 TEU or are in the 10,000-15,000 TEU capacity range. The implications are clear – there will be more sub-3,000 TEU ships and more ships of 10,000 TEU plus ships than there will be mid-size ships in the near future.

Shipping Australia takes issue with PoM's argument that large ships only change the profile of ships calling at the port and do not change the volume of cargo carried. While that statement might be true today, it is not likely to be true in the near-future.

This change will be driven by per-TEU costs.

Shipping Australia estimates that the daily cost of a ship (excluding any port fees or the cost of ship finance) at the time of writing for a 2,000 TEU vessel is approximately US\$52,087. We estimate that the daily cost of an 8,500 TEU vessel is approximately US\$135,559. Note: these figures change over time and according to a variety of frequently changing factors.

Assuming each vessel is full to capacity, dividing the daily cost by TEU capacity reveals that a 2,000 TEU vessel costs about US\$26 per TEU per day. An 8,500 TEU vessel costs about US\$16 per TEU per day.

We now know from the above calculations that a larger fleet of smaller container ships is generally more costly for a shipping company to operate compared to a smaller fleet of larger ships.

An ocean carrier with a larger cost base may have to charge shippers a higher freight rate compared to ocean carriers that have a lower cost base. Or, alternatively, more expensive carriers might not be able to generate as much profit, or retain as much capital for future investment, compared to less costly carriers. Or perhaps the more expensive carrier will be disadvantaged in some other (e.g. less ability to carry out sales and marketing activities). Regardless of how the competitive disadvantage manifests, it is likely that the more expensive ocean carriers will be at a competitive disadvantage compared to less costly carriers.

It is therefore reasonable to conclude that ocean carriers are less likely to opt to haul large volumes of containerised cargo on a multitude of smaller ships than they are likely to opt to haul large volumes of containerised cargo on larger ships.

Incidentally, the fleet orderbook figures quoted above indicate this trend is already likely underway. As the PoM has indicated, more of the smaller vessels and more of the larger ships are being built. Fewer of the mid-size ships are being built.

Ships are built to service a cargo flow and a trade. Smaller ships are likely to be deployed on short haul, small volume trades such as the short-sea (coastal) trades, on intra-regional trades or as feeders on the short-haul spokes of a spoke-and-hub trading pattern. Bigger ships, because of their much greater efficiency, are likely to be deployed on the long-haul, long-run, hub-to-hub trades such as the Asia-Europe and the Trans-Pacific trades. Mid-size ships are effectively squeezed out by both smaller and larger ships.

It follows that, in due course, the PoM's forecast of greatly increased cargo throughput at Melbourne will likely, in the main, mostly be carried on larger container-carrying ships.

We can therefore conclude that, in the near future, it is likely that larger ships will call at the PoM and they will carry larger containerised cargo volumes than they do now. Given that boxes attract a per-container wharfage fee it is reasonable to believe that larger ships calling at the PoM will in due course generate larger revenues and profits for the private operator of the PoM.

## **7. Charges by other parties are not relevant**

The rebalancing application (page 10) and the PoM's cover letter of 23 December 2020 observes that various parties in the Australian logistics industry have introduced a variety of charges into the supply chain. Shipping Australia submits that other charges introduced by other parties for other purposes in other contexts (some of which are very short-term) are not relevant to the specific decision of whether or not the Victorian Essential Services Commission should allow the PoM to increase fees for the purpose of funding an upgrade to PoM assets that will ultimately be used to generate revenues and profits for the private port operator. No weight should be given to the fact that other parties have introduced charges to the supply chain.

## **8. Buyers of Port of Melbourne should have factored in port upgrade costs at privatisation**

At the time of privatisation, the future buyers of PoM were aware – or ought to have been aware – that there was, or there would be a need for, further investment in the

port's ability to handle bigger ships. This need was foreseeable and was in fact highlighted during the privatisation (see SAL correspondence SAL15150 and SAL15180, attached). Accordingly, the likely future costs of upgrading PoM should have been figured into the bid price at the time of privatisation.

**9. A mandatory price rise to pay for the private port operator's infrastructure upgrades is a form of subsidy; PoM should pay to build its own assets**

Allowing a price rise is equivalent to effectively requiring a third party (the ocean shipping industry) to subsidise the investment plans of a private port operator. As a general principle, it is unreasonable that a third party (the international shipping industry) could be required to fund a private port operator (PoM), which will then use those monies to build assets that it will own. Those assets will then be used by PoM to increase its future throughput. As port revenues and profits are driven by cargo throughput, the assets – which will have been paid for by the ocean shipping companies – will generate future revenues and profits for the PoM.

When a private ocean shipping company decides to expand its business by placing an order for a fleet of new ships at a shipyard, the ocean shipping company itself pays for that new-build order. It either pays for the new fleet directly from its balance sheet or it borrows money from banks to do so. Similarly, the PoM should use its own resources, or borrow money, to fund investment in its own assets from which it will benefit through increased throughput, revenues and profits.

**10. Port of Melbourne is, in effect, proposing that it be allowed to charge multiple times**

As ships get larger, they are likely to carry more shipping containers. So, if the PoM is allowed to increase prices as proposed then it will in effect be receiving revenues as follows:

- wharfage fees on inbound full containers that it would have received without price rises
- the uplifted rate on inbound containers; and
- larger volumes than it currently handles thereby generating increased wharfage fees.

If PoM is going to be handling larger volumes of ocean-shipped containers, for which it will receive larger revenues, then why does it need to source an extra-influx of capital from the ocean shipping industry through price rises? Given that the purpose of the upgrade is to allow bigger, greater-cargo-carrying, ships to call, why does PoM not simply recover its investment costs from its non-hiked, inevitably-increased revenues?

**11. Argument that PoM does not have ability to self-fund should be given little weight**

Shipping Australia notes the statement by PoM on page 9 of the rebalancing application that: *"PoM's ability to fund this investment under the regulatory regime is limited..."*

Firstly, it is a general commercial principle that a business which decides to invest in expansion will itself bear the risk of not recovering its capital and / or not generating a desired return on investment. If an ocean shipping company decides to build a new fleet of ships then the ocean shipping company, its suppliers and its customers would

reasonably expect that the ocean shipping company itself would bear the risks of that investment.

Why should the PoM be any different? Why should the PoM be allowed to insulate itself from free-market risk by getting ocean shipping companies to pay for infrastructure upgrades?

Secondly, we can infer from the fact that the PoM wants to upgrade its assets to handle larger ships that PoM itself does not truly believe there is a meaningful risk that bigger ships (and therefore bigger volumes of cargo) will not come. If it were otherwise, the PoM simply would not announce a desire to upgrade its assets to handle larger ships. And it would not have filed an application to the Victorian Essential Services Commission seeking permission to hike prices.

Thirdly, we know that PoM is reacting to customer feedback that it needs to be able to handle bigger ships. In its price-hike application, PoM says that: *"it is important that Port Users and other port stakeholders can understand what has driven PoM to propose its tariff rebalancing... over the course of the last two years, PoM has engaged extensively with stakeholders on its plans and approach for developing the capacity and efficiency of the Port via the 2050 Port Development Strategy (PDS) and the Tariff Compliance Statement (TCS) consultations: Port capacity was one of the key issues raised by stakeholders in their feedback on the draft PDS. In particular, there was a strong call to accelerate key projects in direct response to capacity demand to accommodate larger container ships"*. (See 2021 – 2022 Tariff Rebalancing Application, December 2020, pages 7 and 8).

If customers are demanding that there be an upgrade in assets to handle larger ships, which are needed to carry greater volumes of cargo, it seems reasonable to assume that revenues and profits derived from increased volumes of cargo-handling will also grow.

Fourthly, PoM's own data analysis indicates that it believes that larger ships are coming. PoM quotes vessel size data, sourced from respected international shipping analyst Alphaliner, detailing the current fleet capacity and orderbook (See 2021 – 2022 Tariff Rebalancing Application, December 2020, page 88). If bigger ships are coming (and in fact they are already here – there have been some instances of 8,000 plus TEU ships calling at both Botany and Melbourne), then they are coming because there is a bigger demand for the carriage of more goods.

Fifthly, containerised goods are shipped to destinations that have both a substantial population and a high disposable income. A **decrease** in demand for goods to / from the Melbourne area (and therefore for shipping services to carry cargo to / from Melbourne) would require there to be a substantial de-population of Melbourne's port hinterland, a large reduction in disposable income of the population, or a fundamental change in everyday human needs, wants and demands. None of these, or any combination of these, seem particularly likely.

For the reasons given in the paragraphs above, it seems likely that bigger ships will bring bigger volumes of cargo on an ongoing basis. PoM will likely experience bigger revenues derived from a greater volume of container handling fees. The argument that PoM's ability to self-fund its investment should therefore be given little weight.

Meanwhile, if PoM's balance sheet does not, right now, contain a sufficiently large amount of capital to pay for the upgrade then it can acquire debt finance to pay for its bricks and mortar – just like millions of everyday mortgage-holding Australian families do every year.

During the consultation process, it was suggested to Shipping Australia that there could also be an argument that PoM needs to defend itself against the risk that its investment would be wasted if bigger ships do not actually call at PoM in the future following an upgrade. In response, we would argue that the paragraphs above apply, and that little weight should be given to an argument that bigger ships will not call.

## **12. PoM will itself benefit – and will obviate disbenefits - if it upgrades to handle bigger vessels**

The most obvious direct benefit for the PoM of upgrading to handle bigger vessels is that it will be able to handle larger cargo volumes and will therefore generate greater revenues and profits.

But it should also be noted that the PoM will also obviate a variety of disbenefits by upgrading.

These potentially obviated disbenefits include avoiding the operational stresses and frustrations of chronic and extreme congestion. It will also avoid frequent, repeated and fierce criticisms from the public, the industry and political leaders. It would also avoid an adverse effect on its public reputation.

Finally, and most importantly, it will greatly limit the possibility that currently non-contestable cargoes could become contestable, that third parties (whether private or public sector) will fund an expansion in competitor seaports, and it will greatly limit the opportunity for competitors to seize cargo volumes. Upgrading the port to handle larger ships will thereby maximise the opportunities of the PoM to generate revenues and profits for itself.

In the paragraphs below we will show how PoM obviates a variety of severe disbenefits by examining what would happen in a scenario in which larger-ship infrastructure upgrades are not made.

## **13. What happens if the PoM does not upgrade?**

PoM handles about three million TEU a year at the moment. If PoM is currently congested at about three million TEU today then, if the PoM does not upgrade to handle larger ships and more cargo, it is reasonable to assume that the PoM will become increasingly congested over time.

As the PoM hits the 2050 forecast volumes of nine million TEU, the port would likely be extraordinarily and severely congested on a continuous basis if there is no upgrade. However, if there are no upgrades to handle bigger ships it is questionable whether PoM would be able to handle nine million TEU or any volume anywhere near that mark.

### **What happens if there is ongoing and severe congestion at PoM?**

Unfortunately, we already know what land-side and marine-side port congestion and its consequences look like.

As has been widely reported in the industry publication, "The DCN", the PoM is as of December 2020 and January 2021, thought to be congested. This congestion is likely because of COVID-induced trade boom in the second half of 2020. That boom looks like continuing for some months yet. Australia's logistics-related industries also experienced extensive marine-side delays because of industrial action carried out at Port Botany in mid-2020.

Congestion leads to extensive delays (days, even weeks) for ships coming into berth, ships skipping congested ports, cargo being dropped off ports other than the intended destination and transported back at great cost and delay, escalating costs for all in the supply chain, increasing delays for all in the supply chain, massive problems with empty container management and re-positioning, empty container yards becoming chock-a-block full, blank sailings, and, ultimately, an end customer who experiences massive and unexpected costs and delays in shipping and receiving cargo.

Worst of all, if a port cannot facilitate the timely flow of cargo so that supply meets demand then there could be a supply shortfall at the shop-shelf level of the supply chain.

#### **14. Likely public, shipper / importer, landside logistics industry and political reaction to ongoing and severe congestion**

Extreme land-side and marine-side congestion will likely provoke fierce reaction from a variety of parties. PoM would suffer adverse effects to its public reputation.

Members of the general public will likely complain to the PoM, to local political representatives and to the media about landside truck congestion and noise. They may also complain about shortages and delay in getting goods and increasing costs if the congestion affects availability of goods on shop shelves. They may take direct action in the form of protests and blockades. We also know from the panic buying experienced in 2020 that the general public does not react well if there is even the perception that the supply of essential goods is not meeting demand.

Local importers and exporters are highly likely to complain about delays to goods and increasing costs and surcharges. See e.g. "The hidden cost of your shutdown shopping spree", James Thomson, Australian Financial Review, 22 Jan 2021 <https://www.afr.com/companies/infrastructure/the-hidden-cost-of-our-covid-shopping-spre-20210120-p56vks> for an example of local importers complaining about costs and delay in the supply chain that have been induced by the global COVID pandemic. Affected parties may also consider taking out litigation against the port. Importer and exporters may also consider, where it is possible for them to do so, to direct cargo via other seaports. Accordingly, in future, PoM is at risk of losing market share.

Similar complaints about costs and delay have been made by industry associations and logistics-focused academics too. In the event that Melbourne becomes subject to ongoing and severe congestion along with the myriad of landside-congestion related issues, then it is reasonable to assume industry bodies will make their displeasure known to the industry through media campaigns and public appearances. They are likely to also seek to effect legislative or regulatory change through making representations to political representatives and various responsible official bodies.



Given the importance of the PoM, local, state and national political representatives are likely to make extensive adverse comments in parliaments, to media and in various political and industry arena. Political representatives may also seek to effect legislative or regulatory change in parliament or through making appropriate representations to various responsible official bodies.

If PoM were to invest in upgrades now, then it would obviate these future adverse effects.

While the foregoing are all good arguments as to why PoM should upgrade its infrastructure to handle larger ships, they do not in any way detract from the argument that it is the PoM that should pay for its own asset upgrades.

### 15. Possible ocean carrier reaction to ongoing and severe congestion

Severe port congestion can create marine-side delays of many days. As noted above, ships are subject to high ongoing daily costs. As estimated above, at the time of writing, the approximate daily costs of a 2,000 TEU vessel are US\$52,087 and the approximate daily costs of an 8,500 TEU vessel are US\$135,559.

Delays are therefore potentially very expensive in terms of wasted costs:

	<b>One day delay</b>	<b>Seven days</b>	<b>14 days</b>
<b>2,000 TEU</b>	US\$52,087	US\$364,609	US\$729,218
<b>8,500 TEU</b>	US\$135,559	US\$948,913	US\$1,897, 826

Severe congestion can lead to a range of delays. Industrial action at Port Botany last year led to congestion which, in turn, led to a series of delays ranging from a few days to 14 days or more.

No ocean shipping company can afford to absorb the costs of such delays.

Although noting that each individual shipping line makes operational and pricing decisions by itself, there are several actions that different ocean carriers have been observed to adopt to cope with congestion. These include carriers opting to skip calling at the congested port and / or delivering cargo to the next port of call; changing port of call rotations; changing sailing schedules; issuing surcharges.

In the event that the PoM does not upgrade and has severe ongoing congestion, it is possible that ocean carriers could adopt any of, any combination of, or all of, these actions. There would, inevitably, be a series of flow-on effects in the supply chain.

If PoM were to invest in upgrades now then it would obviate these future adverse effects.

While the foregoing are all good arguments as to why PoM should upgrade its infrastructure to handle larger ships, they do not in any way detract from the argument that it is the PoM that should pay for its own asset upgrades.

## **16. Investing in an upgrade now will likely protect or cushion PoM from future competition and loss of market share**

As we have indicated above, if the PoM were to invest in its assets now to handle larger ships, then it is very powerfully acting in its own interests as those upgrades would likely protect or cushion it from future competition from other seaports.

There are a variety of seaports that are located in the PoM hinterland that do not today compete in a substantial and / or meaningful way with the PoM. In the event of severe and ongoing congestion, several of these seaports could potentially draw cargo away from PoM provided they invest in their own expansion and / or there is appropriate road and rail investment in the wider geographic area.

The seaports that could potentially cargo away include Adelaide, Geelong, Hastings and Burnie (Tasmania).

Hastings and Burnie are of particular note as there has been debate for several years about investing in and upgrading them. Burnie is especially noteworthy as TasPorts has announced it intends to commit \$80 million funding to build an international container terminal. TasPorts also states that the three main ports in northern Tasmania (Devonport, Burnie and Bell Bay) today attracts about 500,000 TEU throughput. It is noteworthy that PoM forecasts that, by 2050, its trans-Bass Strait trade will stand at approximately 500,000 TEU. Clearly there is now a substantial trans-Bass Strait trade and one that may experience more volume in the future.

If there is extreme and ongoing congestion at PoM, then it seems likely that TasPorts will accelerate its plans to develop Burnie so as to attract international shipping. Previously, TasPorts has dismissed the ideas of consolidating throughput at one port, however, that was some years ago, under previous management, there was not a fast-growing trade, and in a situation where there was not continuous and ongoing congestion pressure at PoM. In PoM-congested scenario, it seems likely that TasPorts would attract the vast majority of the future trans-Bass Strait trade away from PoM.

It is also entirely possible that a future State government, or a consortium of private investors, could commit to funding an expansion of Hastings in the event of severe and ongoing congestion at PoM. That would also attract throughput away from PoM. How much throughput would very much depend on the nature of the expansion. Future investment at Hastings would likely benefit Victorian consignors and consignees through increased competition.

Finally, on this point of market share, it should be noted that the hinterlands of PoM and Adelaide substantially overlap and the hinterlands of PoM and Port Botany (NSW Ports) partially overlap. Cargo in overlapping hinterland is contestable today. If PoM becomes much more difficult and expensive because of port congestion, then imports and exports via Adelaide could become more attractive relative to PoM. Meanwhile, relative to Port Botany, the economically viable hinterland area of PoM will likely contract, and the economically viable hinterland of Port Botany will likely expand. So the proportion and volume of cargo handled by the PoM that may be considered to be contestable will likely increase. It is likely that Port Botany will attract ship calls and cargo volumes away from PoM.

If PoM were to invest in upgrades now, then it would obviate these potential future adverse effects on market share.

While the foregoing are all good arguments as to why PoM should upgrade its infrastructure to handle larger ships, they do not in any way detract from the argument that it is the PoM that should pay for its own asset upgrades.

### **17. In the event that the PoM is allowed to charge higher prices**

If, despite the objections given above, it is decided that the Port of Melbourne is to be allowed to charge a higher price, then there a variety of considerations.

Firstly, the ocean shipping industry most strenuously objects to being required to pay for infrastructure before that infrastructure is ready and available for use. Other businesses do not charge customers in advance for new infrastructure. It would be unthinkable, for example, for ocean shipping companies to require shippers to pay a surcharge to fund the future purchase of new ships.

Secondly, the principle of transparency is important and should be observed. Various parties in the supply chain have long complained about surcharges because they do not understand why a charge has been introduced or what it is for.

Thirdly, if the prices are to be increased for a specific purpose (such as upgrading the port specifically to handle bigger ships) then any increase should be limited to that specific purpose. Any fee or surcharge should not be capable of being re-purposed at a later date, nor should it be capable of being absorbed into other port pricing, nor should it be capable of forming part of the general costs to ships visiting at PoM.

In the event that PoM is allowed to charge an enhanced fee to pay for the PoM's upgrades, a proposition to which the ocean shipping industry objects, Shipping Australia calls for:

- a prohibition on any price increase, tariff, surcharge or other price increase of any shape, form, or kind being introduced to fund infrastructure until such time as the extra infrastructure is actually ready for use;
- any funding mechanism should take the form of a clearly-labelled, discrete and differentiated surcharge that is invoiced on a line-item basis and is provided together with a statement explaining what the charge is, who introduced it and why it is being charged;
- any price increase, surcharge etc should be specifically and publicly limited in amount, scope and duration. There should be a specific prohibition on that mechanism being rolled over, absorbed into other charges or continued or extended in any shape, form, or in any way whatsoever; and
- any surcharge should be given a specific name, with a specific spelling, that cannot in future be changed or amended. There should be a clear and unambiguous explanation in [Plain English](#) prominently displayed on the PoM's website of what the charge is, how it is calculated and applied, how much it costs and when it will end.

### **18. Conclusion**

Whether or not Port of Melbourne chooses to upgrade its assets so that it can handle larger ships is a matter for the private port operators.

However, there is no philosophical or practical reason why PoM should attempt to have a third party pay for its upgrade. As a general commercial principle, if a business wants to invest in its own assets for its own future benefit then it should expect to pay for its own investment.

On a practical basis, even though PoM is today a monopoly actor and therefore in theory should have little incentive to improve its service offering, in reality there are powerful factors that will strongly encourage it to invest in an upgrade to handle larger ships.

The benefits to PoM of upgrading include attracting more ship calls, greater cargo volumes and therefore greater revenues and profits in the future. Perhaps even more importantly, PoM will also obviate a wide range of disbenefits. Firstly, this includes preventing or forestalling fierce adverse criticism from the public, industry and political representatives. Secondly, although the PoM is a near-monopoly / monopoly actor today, if it does not start upgrading now then in the future it will likely face increasingly strong competition, a loss of market share and a possible loss of its monopoly status.

Although there are strong practical reasons that the PoM should upgrade its infrastructure to handle larger ships, there is absolutely no sensible reason as to why it should be anyone other than the PoM itself that should pay for those upgrades.

Shipping Australia therefore recommends that the Victorian Essential Services Commission should be disinclined to acquiesce to the Port of Melbourne's request to change its tariffs as outlined in its application of 23 December 2020.

**Authorised by:**  
**Melwyn Noronha**  
**Chief Executive Officer**