



# Business update and Tariff Rebalancing Stakeholder consultations

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*October 2020*

*Freight & Trade Alliance (FTA) & Australian Peak Shippers Association (APSA)*

Port of Melbourne



# Agenda

## 1. Introduction and purpose

Vlad Jotic

## 2. Trade update

Vlad Jotic

## 3. Port Development Strategy

Darryl Mutzelburg

## 4. Big Ships Strategy

Darryl Mutzelburg

## 5. Tariff rebalancing

Michael Black

# The Port of Melbourne team



Darryl Mutzelburg  
CFO



Michael Black  
HEAD OF REGULATION



Vlad Jotic  
HEAD OF BUSINESS DEVELOPMENT

# 1.2 Port of Melbourne

## Swanson Dock West

DPWA  
Coode Island bulk trades

## Swanson Dock East

Qube  
Patrick Terminal  
ACFS  
AAT  
Emerald Grain

## Webb Dock East and West

VICT  
Toll  
SeaRoad  
MIRRAT  
PrixCar / Autocare



PoM Precincts

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Map Author: Pinar Gungordu (GIS-Survey)

Map Reference: GDA\_00257\_Precinct\_Plan\_A3

Date: 15/02/2019

Scale: 0 500 1000 Metres

## 2. Trade update



## 2.1 Current challenges

The Port of Melbourne supply chain is experiencing unprecedented challenges:

- ↓ Climate
- ↓ Supply chain disruptions on both demand and supply side
- ↓ Operational disruptions
- ↓ Ongoing impact to vessel schedules
- ↓ Landside congestion
- ↓ Shift in vessel and port calls

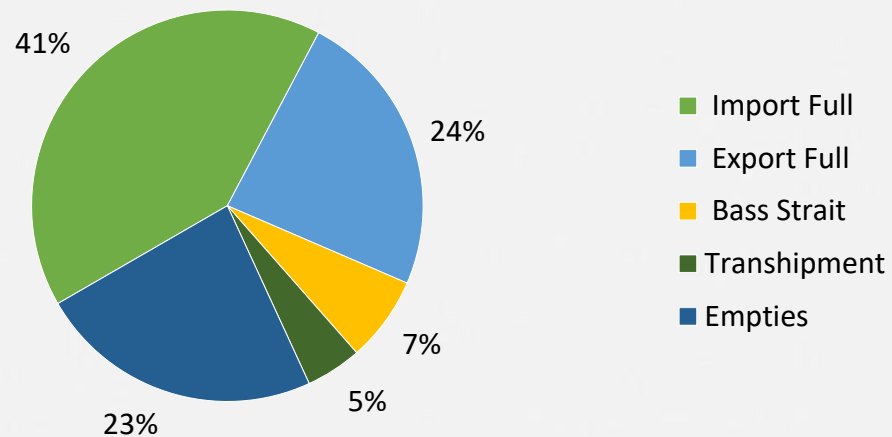
# 2.2 FY20 Trade Update

## Historical trade volumes

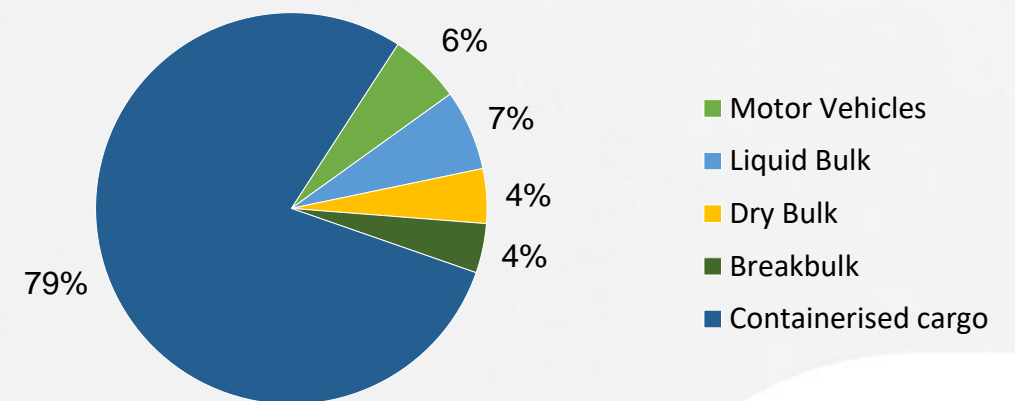
Container throughput '000 TEU	FY20		FY19
Import full	1,183	-3.3%	1,223
Export full	684	-2.3%	700
Bass Strait	203	0.5%	202
Transshipment	133	-21.3%	169
Full containers	2,203	-4.0%	2,294
Empty containers	678	-6.5%	725
<b>Total container throughput</b>	<b>2,881</b>	<b>-4.6%</b>	<b>3,019</b>
In RT equivalent	72,077	-4.2%	75,223

Trade volumes '000 revenue tonnes (RT)	FY20		FY19
Motor vehicles	5,402	-21.5%	6,884
Liquid bulk	6,083	-6.8%	6,525
Dry bulk	4,123	1.8%	4,049
Breakbulk	3,737	-15.0%	4,399
Total non-container	19,345	-11.5%	21,857
Total container	72,077	-4.2%	75,223
<b>Total trade</b>	<b>91,422</b>	<b>-5.8%</b>	<b>97,080</b>

Composition of container volumes by TEU



Composition of total trade by revenue tonnes



## 2.3 Trade Update

### Comparison of Containerised commodities FY19 to FY20 – Overseas trade

Imports (TEU)	FY18-19	FY19-20	-/+	%
Miscellaneous manufactures	103,780	100,432	-3,348	-3.2%
Furniture	86,040	85,786	-254	-0.3%
Metal manufactures	76,791	68,360	-8,431	-11.0%
Domestic appliances	54,460	54,370	-90	-0.2%
Non-electrical machinery	55,481	49,697	-5,784	-10.4%
Electrical machinery	46,153	43,318	-2,835	-6.1%
Clothing	45,038	40,890	-4,148	-9.2%
Paperboard	40,687	40,837	150	0.4%
Raw plastics	39,093	39,358	265	0.7%
Textiles	39,575	38,620	-955	-2.4%
All other	679,534	654,135	-25,399	-3.7%
<b>Total</b>	<b>1,266,632</b>	<b>1,215,803</b>	<b>-50,829</b>	<b>-4.0%</b>

Mainly manufactured goods

Exports (TEU)	FY18-19	FY19-20	-/+	%
Timber	86,129	84,102	-2,027	-2.4%
Meat	50,057	51,742	1,685	3.4%
Fresh fruit	27,265	28,840	1,575	5.8%
Scrap metal	27,034	25,534	-1,500	-5.5%
Hay, Chaff, Fodder	21,247	24,864	3,617	17.0%
Miscellaneous manufactures	22,938	24,351	1,413	6.2%
Pulp and waste paper	27,972	22,920	-5,052	-18.1%
Non-ferrous metals	24,667	21,414	-3,253	-13.2%
Wine	24,163	20,985	-3,178	-13.2%
Wheat	9,498	15,401	5,903	62.1%
All other	385,129	359,232	-25,897	-6.7%
<b>Total</b>	<b>706,099</b>	<b>679,385</b>	<b>-26,714</b>	<b>-3.8%</b>

Mainly produced goods

Port of Melbourne



## 2.4 Trade Update

### Comparison of Containerised commodities FY21 (Sept) to date – Overseas trade

Imports (TEU)	FY19-20	FY20-21	-/+	%
Furniture	21,285	28,856	7,571	35.6%
Miscellaneous Manufactures	25,774	27,503	1,729	6.7%
Domestic Appliances	12,085	18,194	6,109	50.6%
Metal Manufactures	17,589	18,980	1,391	7.9%
Machinery - Non Electrical	13,843	15,231	1,388	10.0%
Toys and Sporting Goods	9,691	10,952	1,261	13.0%
Textiles	9,221	12,024	2,803	30.4%
Clothing	10,771	11,393	622	5.8%
Paperboards	10,454	10,630	176	1.7%
Electrical Machinery	12,538	12,286	-252	-2.0%
All Other	171,392	174,570	3,178	1.9%
<b>Total</b>	<b>314,643</b>	<b>340,619</b>	<b>25,976</b>	<b>8.3%</b>

Mainly manufactured goods

Exports (TEU)	FY19-20	FY20-21	-/+	%
Timber	22,296	34,100	11,804	52.9%
Fruit, fresh	10,103	10,736	634	6.3%
Meat	11,989	9,567	-2,422	-20.2%
Hay, Chaff & Fodder	4,310	6,591	2,281	52.9%
Wheat	2,156	5,106	2,950	136.8%
Pulp and Waste Paper	4,899	5,732	833	17.0%
Scrap Metal	6,316	6,865	549	8.7%
Wine	5,244	5,661	418	8.0%
Miscellaneous Manufactures	5,997	4,828	-1,168	-19.5%
Non-Ferrous Metals	6,120	4,825	-1,294	-21.2%
All Other	92,549	85,927	-6,626	-7.2%
<b>Total</b>	<b>171,979</b>	<b>179,938</b>	<b>7,959</b>	<b>4.6%</b>

Mainly produced goods

Port of Melbourne



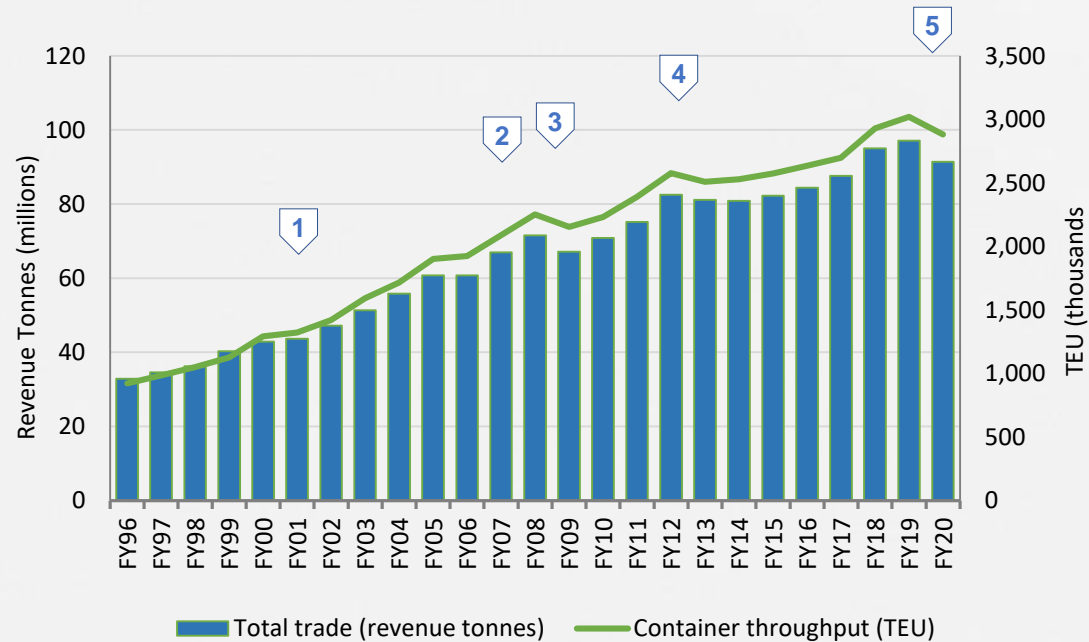


# 2.5 Trade Update

## Historical trade volumes

### Growth trend

- FY20 year-on-year growth of -5.8% in total trade volume and -4.6% in container throughput
- Last 10-years ending FY20 CAGR of +2.6% for both total trade volume and container
- average Australian inflation of 2.1% per annum and average Victorian population growth of 2.1% per annum over the same period



**Chart Notes – Global supply chain / economic shocks**

1. 2001 US/Europe Recession
2. 2007/8 Millennium drought
3. 2008 Global Financial Crisis
4. 2012 volumes were particularly high due to operational issues at Botany resulting in higher transshipments at PoM
5. Generally weak economy, bushfire and COVID-19

## 2.6 Future opportunities

The supply chain is seeing unprecedented events:

- Climate
  - Operational disruptions
  - Supply chain blockages on both demand and supply side
  - Ongoing impact to vessel schedules
  - Shift in vessel and port calls
  - Landside congestion
- 
- How will PoM ensure that it can handle future opportunities in trade and the port supply chain?

# 3. Port Development Strategy 2050



## 3.1 2050 Port Development Strategy – Creation and Drivers

**The 2050 PDS was recently completed and will be published in a few weeks. It will soon be available on the PoM Website:**

- The PDS was created to deal with the issues of growing trade, increasing ship size, industry changes and a city growing around the port.
- The PDS provides a roadmap for how PoM will grow to support increasing trade volumes.
- 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. Big ships also put pressure on terminal facilities.
- A key part of the plan is sweating the asset and timing investment to provide capacity when required.
- There has been extensive consultation over the last few years as we finalised the plan. Some of you will have been part of that process.
- It kicks off 10 years of development activity and projects, with planning work commencing in FY 20/21.
- The plan will be reviewed every 5 years to ensure our plans meet the needs of port users.

## 3.1 2050 Port Development Strategy – Creation and Drivers

- The PDS work has shown that PoM needs to create additional container capacity by around 2030. This will be at Webb Dock and to build this new terminal there needs to be a series of tenant relocations. This will be a long term project that requires significant capital investment and a protracted project spend.
- The initial activities are:
  - the redevelopment of the Victoria/Appleton Dock area in preparation for the Bass Strait trades to move up river
  - the expansion of the rail assets around Swanson Dock and planning for a Webb Dock rail connection.
- As a city port, PoM has to find ways to balance expansion with community concerns. Stakeholder engagement will be a key component of all major projects.
- Changes will occur in conjunction with Tenant discussions and planning. Delivery is about joint work between PoM, tenants and broader industry.
- If you have any queries on the PDS, please contact us.

## 3.2 2050 Port Development Strategy – Plan

The 2050 PDS has been prepared to guide the port's high level plans and approach for developing capacity and efficiency over the next 30 years

### Overview

The PDS lays out how the port will handle a doubling of containers to circa 6 million a year by 2040 and also accommodate growth in all the bulk trades and Bass Strait volumes.

### Key projects:

- Upgrading Swanson Dock East & West berths (1)
- Port Rail Transformation Project (2)
- Expanding Webb Dock East (3)
- Developing Webb Dock North (5)
- Relocation of Tasmanian terminals (4)
- Webb Dock Freight Link (6)
- Northward integration with Dynon (7)
- Develop new liquid bulk berth (if required) (8)
- Develop Yarraville precinct (9)

Indicative  
2035 Port  
Layout



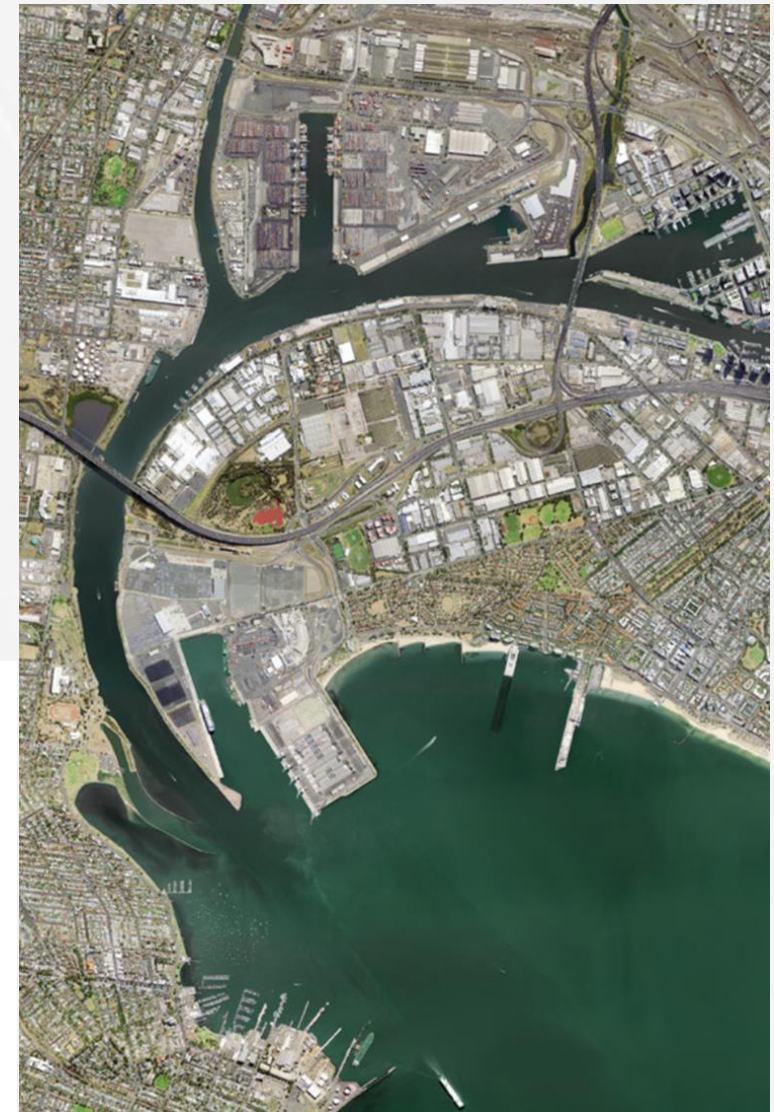
# 4. Big ships strategy



# 4.1 Big ships strategy – marine update

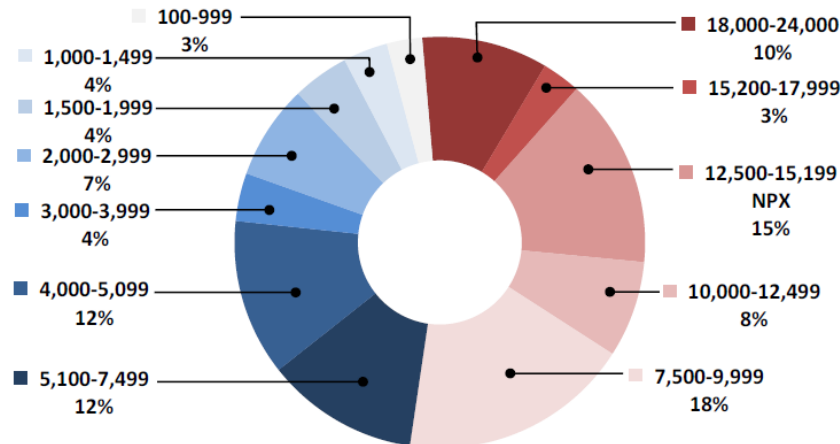
## Objectives:

- Enable larger ship access to the port.
- Optimise built infrastructure by timely development of existing assets and innovative use of technology.
- Support growth by adding new facilities to enhance port capacity as per PDS.
- Facilitate efficiency by minimising potential shipping bottlenecks in Oceania.

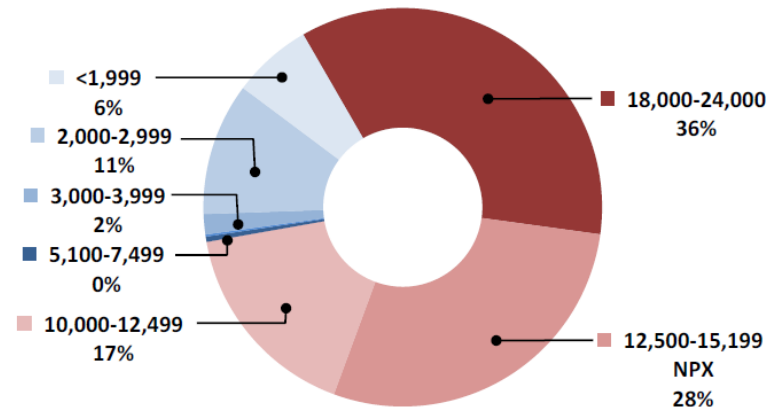


PoM design vessel  
300m LOA x 40 m beam

Fleet Capacity Breakdown by TEU size range



Orderbook Fleet Capacity Breakdown by TEU size range



Source: Alphaliner Report Jan 2020.



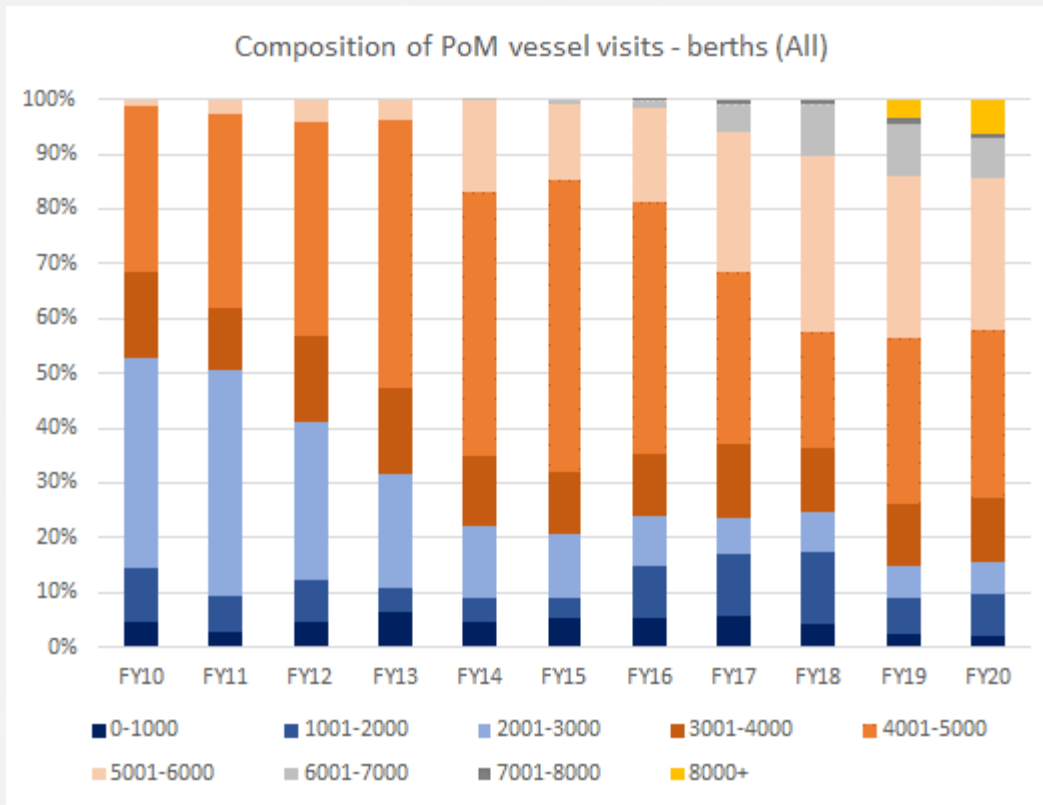
## 4.2 Big Ships Strategy – Marine Update

### Key Observations:

- Faster demolition rate of 5,000 - 8,000 TEU capacity ships.
- The global 5,000 - 8,000 TEU fleet continues to decline with no new orders.
- Majority of new builds are less than 3,100 TEU or in the 10,000-15,000 TEU capacity ships.



A proactive change management –  
to support competitiveness



## 4.3 Big Ships Strategy – Marine Update

PoM has undertaken significant infrastructure improvements and analysis to facilitate acceptance of larger ships including:

- Vessel simulations program;
- Yarra River channel deepening;
- Swanson Dock Berths 3 (East and West) Mooring Bollards upgrade;
- Detailed designs for SDE & SDW Berths 2 Mooring Bollards upgrade (scheduled for completion in 2021)
- Rehabilitation of SDE Berths 1 & 2 (will be completed Dec 2020);
- Detailed planning and design for SDW rehabilitation underway (works scheduled to commence in July 2021);
- Commencement of Webb Dock East – Southern Mooring Dolphin (due for completion in second quarter of 2021);
- Detailed design and planning for Webb Dock East Berth 4& 5 Extension underway.



## 4.4 Big Ships Strategy – Marine Update

The following vessel sizes are acceptable subject to operational controls outlined by the VPCM Harbour Master:

### Swanson Dock (DP World and Patrick ICTs)

Simulations, swing basin and 150t bollards installed on SD West and SD East:

- Ships up to **337m LOA x 45.6m beam** and/or
- Ships up to **315m LOA x 48.2m beam** (Bosporus Class)
- Maximum **draft: 14.0m**
- Maximum displacement limit **98,000 t**, until the implementation of a Docking Aid System; max displacement of 140,000 t will apply after that.

### Docking Aid System Implementation:

- **SDE (Patrick)** – expected implementation – **OCT 2020**.
- **SDW (DPW)** – Awaiting details from DPW

### Webb Dock East Berths 4 & 5 (VICT ICT)

- Ships up to 347m LOA x 49 beam, with a maximum draught of 14.0m.
- Maximum displacement limit of 140,000 t.

### Note:

- Southern Mooring Dolphin expected completion early 2021.



## 4.5 Big ships strategy – investment program

- Around 13% of vessels visiting the Port in FY20 exceeded the port's design vessel (300 LOA, 40m beam) and this is likely to increase significantly in coming years.
- Although larger vessels can create efficiencies in shipping costs, they drive additional costs for ports by reducing the effective number of berths utilised, require berth upgrades, require channel deepening, etc.
- PoM's investment program to support larger vessels include:
  - Bollards, dredging, and simulations at Swanson Dock (around \$20M to-date) in addition to the very significant investments in wharf rehabilitation and upgrades
  - Southern Mooring Dolphin (underway) and planned extension of the quay line at Webb Dock and stage 2 of the bollards at Swanson Dock (around \$60-\$70M planned)
- Port Users will benefit from these investments that support the use of larger vessels
- However, given PoM's available capacity, investing in larger vessels will not in itself generate additional volumes and accordingly PoM needs another funding source to underwrite these investments



# 5. Tariff rebalancing



## 5. Tariff rebalancing – overview

1. Overview of the regulatory framework
2. Objectives of rebalancing
3. Indicative rebalancing approach
4. Feedback and next steps

### Purpose of stakeholder engagement

- The purpose of the stakeholder engagement program is to obtain feedback from Port Users and other stakeholders on the proposed approach to rebalancing tariffs.
- PoM will use the feedback from these consultations to inform the Rebalancing Application, so that tariffs meet the principles in the Pricing Order:
  - Price smoothing (price cap)
  - Efficient cost recovery
  - Efficient tariff structures



# 5.1.a Regulatory framework – Prescribed Services

Port of Melbourne (PoM) provides two types of services:

1. **Prescribed** services that are subject to regulation
2. **Non-prescribed services** that are not subject to direct regulation

Port of Melbourne is the only port with formal price regulation.

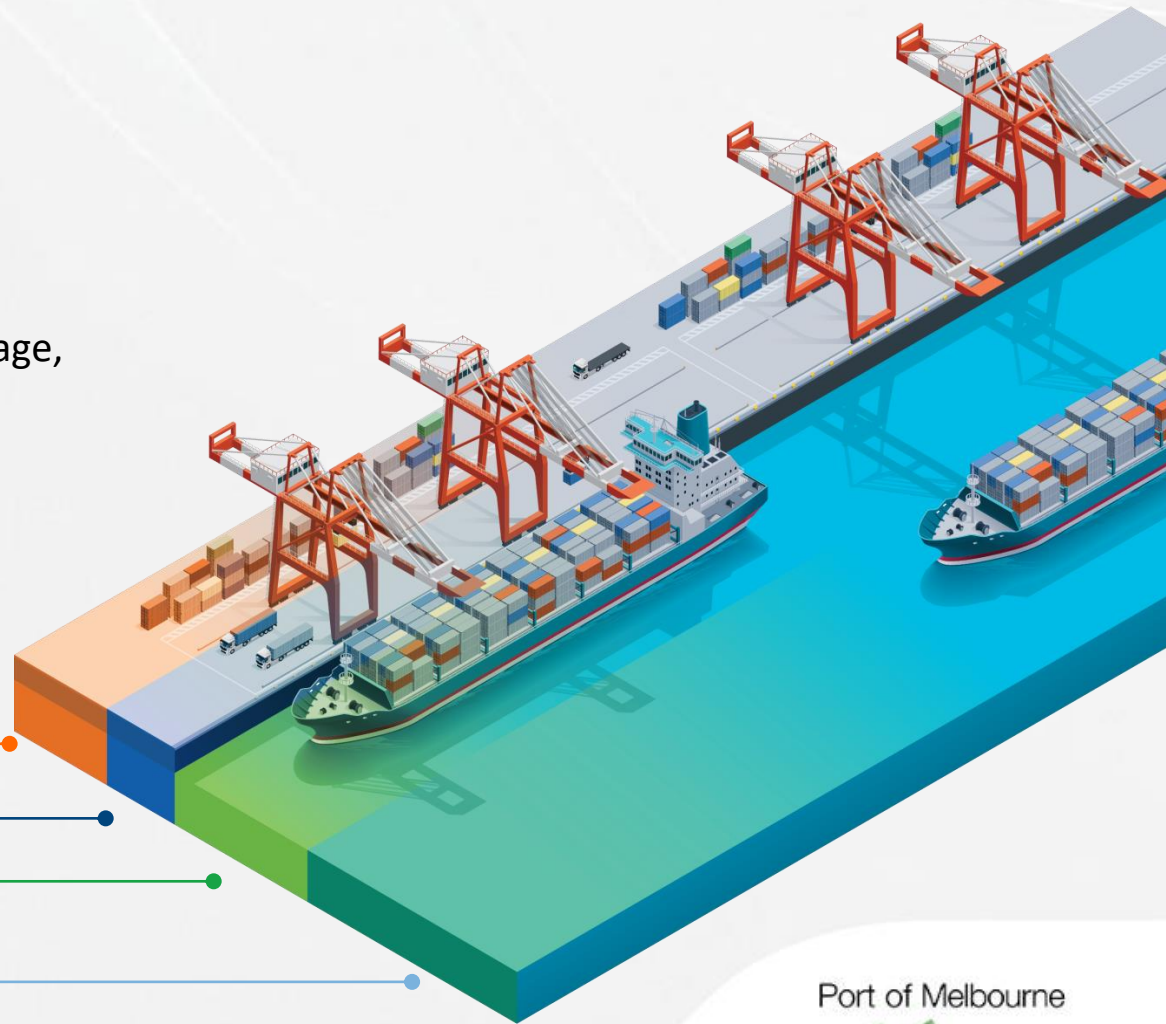
All container ports typically have a charging structure that involves wharfage, channel and berth hire fees. Berth hire fees apply to bulk cargo ships.

**Leasing of Land & Facilities – Non-prescribed**

**Wharfage Fees – Prescribed**

**Berth Hire Fees – Prescribed**

**Channel Fees – Prescribed**



## 5.1.b Prescribed Services – Pricing Principles

Until at least 2032, and the latest 2037, the weighted average annual increase in tariffs is capped by CPI. The CPI increase is applied to our tariffs in our Reference Tariff Schedule.

Tariffs must be set based on the following key pricing principles, set out in the Pricing Order:

### 1. Price smoothing

- i. Annual percentage change in March-on-March Australian CPI. This is known as the Tariff Adjustment Limit
- ii. Aggregate Revenue Requirement (ARR) calculated using the Accrual Building Block Methodology (ABBM)

*Applies until at least 30 June 2032 and at the latest 30 June 2037.*

### 2. Efficient cost recovery

Tariffs must allow PoM a reasonable opportunity to recover its efficient costs (the ARR determined via the ABBM)

### 3. Efficient tariff structures

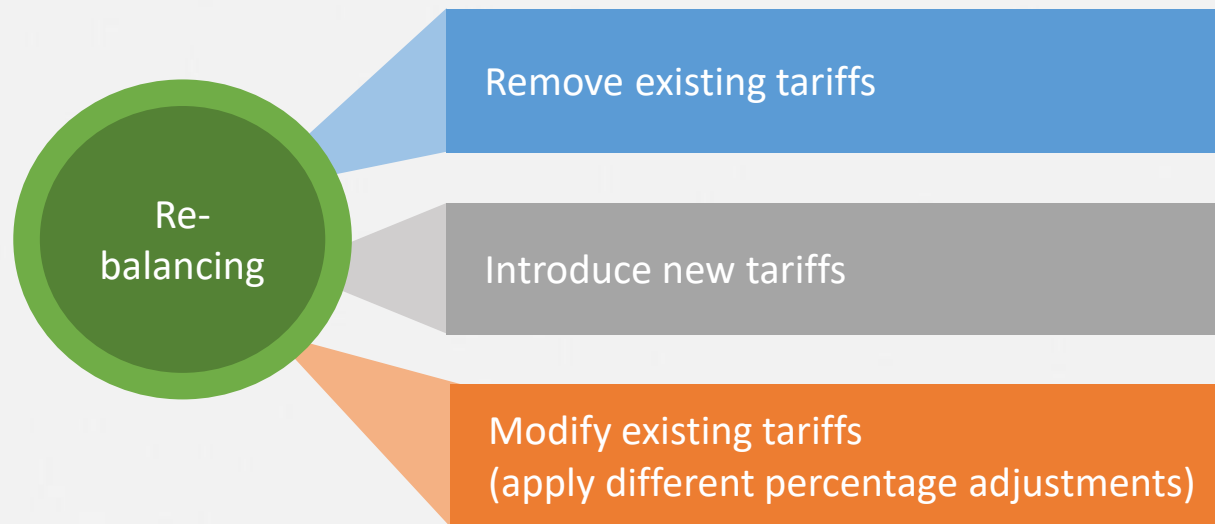
The level and structure of tariffs must have regard to:

- The efficient costs caused by users of the relevant service
- Transaction costs
- The extent to which Port Users are able or likely to respond to price signals



## 5.1.c Regulatory framework – tariff re-balancing

During the TAL period, PoM can make an application to the ESC to rebalance its tariffs to:



### Re-balancing is subject to:

- Approval by the ESC
- Consultation with Port Users
- Meeting the Pricing Principles in the Pricing Order:
  - Satisfy the price cap (TAL and WATI)
  - Allow PoM a reasonable opportunity to recover its efficient costs
  - Have regard to efficiency:
    - Efficient costs caused by Port Users
    - Transaction costs
    - Possible Port User response

## 5.2 Objectives of rebalancing

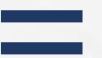
Objective	Achieved by	Indicative rebalancing approach
<b>Cost recovery</b>	Rebalancing tariffs towards high-growth services provides incremental revenue to fund investments, while remaining within the overall price cap (through reductions in other tariffs).	An increase in the wharfage fee for containerised imports on 'larger vessels', for which growth is expected to outpace growth in other services.
<b>Efficiency</b>	Recovering the costs of investments to service larger vessels from port users deploying larger vessels promotes economic efficiency – incentivizing efficient use and investment.	'Larger vessels' are defined as vessels that exceed the design vessel specs of either 300m LOA <u>or</u> 40m beam, as vessels that exceed these specs are a key driver of the investment need.
<b>Trade growth</b>	Providing offsetting reductions to export wharfage fees supports trade growth and competitiveness.  This approach builds on the 2.5% p.a. reductions in full export container tariffs over the last four years.	A decrease in the wharfage fee for all containerised exports, to offset the increase in the larger vessels tariff.

## 5.3 Indicative rebalancing approach

### Indicative rebalancing approach

- The current wharfage fee for full – inward containers (\$/TEU) would be discontinued and replaced with:
  - a ‘larger vessels’ wharfage tariff at a higher rate, based on ‘larger vessels’ that exceed either 300m LOA or 40m beam; and
  - a ‘standard’ wharfage tariff at the historical rate, for ships that do not meet the larger vessel threshold (effectively a continuation of the current tariff)
- The wharfage fee for full – outward containers would be decreased to support export trade growth
- Calculation of the Weighted Average Tariff Increase (WATI) would be based on historical revenues from the 2019-20 Financial Year for all tariffs, with the share between the ‘larger vessels’ tariff and ‘standard’ tariff based on historical shipping data.

Tariff	Scenario 1	Scenario 2	Scenario 3
Wharfage – larger vessel import TEUs	+\$10/TEU	+\$15/TEU	+\$20/TEU
Wharfage – all export TEUs	-\$3/TEU	-\$4.5/TEU	-\$6/TEU
All other tariffs	CPI	CPI	CPI



*Actual tariff movements will subject to changes in CPI and data on historical actual revenues (i.e. the weights in the WATI).*

*The magnitude of the rebalancing scenarios under consideration would shift approximately \$2-\$4m, or 1-2% of total container revenues, from export containers to import containers.*

## 5.4 Key consultation areas

Issue	Key issues and questions for consultation
<b>1. Objectives</b>	<ul style="list-style-type: none"> <li>a. Are the rebalancing objectives (cost recovery, efficiency, trade growth) appropriate?</li> <li>b. Are there other objectives that PoM should pursue or have regard to?</li> </ul>
<b>2. Tariff structure and design</b>	<ul style="list-style-type: none"> <li>a. Should cost recovery target larger vessels, or should costs be recovered more broadly from other Port Users?</li> <li>b. Is the definition of a 'larger vessel' (exceeds the design vessel of 300m LOA or 40m beam) appropriate? Are there alternative definitions PoM should consider?</li> </ul>
<b>3. Indicative tariff levels</b>	<ul style="list-style-type: none"> <li>a. Is the increase in the 'larger vessels' tariff justified given the level of investment and operational savings to larger vessels?</li> <li>b. Is the reduction in export tariffs likely to assist trade growth?</li> </ul>
<b>4. Implementation and transaction costs</b>	<ul style="list-style-type: none"> <li>a. Are cargo-based charges (wharfage fees levied on TEUs) preferred over vessel-based charges (channel fees levied on gross tonnage)?</li> <li>b. Are there administrative challenges (i.e. transaction costs) for the proposal?</li> </ul>
<b>5. Port user response</b>	<ul style="list-style-type: none"> <li>a. How might Port Users and/or cargo owners respond to changes?</li> <li>b. Is the increased larger vessels tariff likely to deter shipping lines from deploying larger vessels?</li> </ul>

## 5.5 Feedback and next steps

- **September 2020:** Port User and other stakeholder consultations to obtain feedback
- **October 2020:** Draft rebalancing proposal taking feedback into account – further opportunity for feedback
- **December 2020:** Rebalancing Application submission to the ESC
- **March 2021:** ESC Interim Decision on Rebalancing Application
- **July 2021:** if the Rebalancing Application is approved by the ESC, rebalanced tariffs will commence from 1 July 2021.

### Feedback

[rts@portofmelbourne.com](mailto:rts@portofmelbourne.com)

[www.portofmelbourne.com](http://www.portofmelbourne.com)

Level 19, 839 Collins St

Melbourne VIC 3000



Level 19, 839 Collins St

Melbourne VIC 3000

+61 1300 857 662

[rts@portofmelbourne.com](mailto:rts@portofmelbourne.com)

   @PortofMelbourne

[PortofMelbourne.com](http://PortofMelbourne.com)

# THANK YOU



**Darryl Mutzelburg**  
CFO



**Michael Black**  
HEAD OF REGULATION



**Vlad Jotic**  
HEAD OF BUSINESS DEVELOPMENT