Patrick Terminals
Gate B105A Penrhyn Road
PORT BOTANY NSW 2036
AUSTRALIA
ABN 33 065 375 840

10 December 2020

Mr. Praveen Reddy
Executive Director
Freight Victoria
Department of Transport
GPO Box 2392
MELBOURNE VIC 3001

praveen.reddy@transport.vic.gov.au

Dear Praveen,

Notice pursuant to the Voluntary Pricing Protocols

I refer to the new Voluntary Pricing Protocols and our recent discussions on fee matters.

The purpose of this letter is to notify you that Patrick proposes to increase certain VBS fees and import storage charges with effect from 1 March 2021.

Patrick continues to experience a rise in its costs in providing landside services. Patrick has a long history of under recovery of landside investment and simply is not in a position to continue to absorb these costs, without jeopardising Patrick's ability to continue to invest in delivering further efficiencies and productivity improvements in a challenging market environment. This has ultimately led to the decision to increase Patrick's rates in East Swanson Dock from Monday 1 March 2021. To provide additional context to support the changes in charges we attach in an appendix details of current market themes along with the well-known industry challenges being faced by stevedores in the current market.

To achieve our targeted date of 1 March 2021 we respectfully request Freight Victoria to respond to us on or before 29 January 2021. This would enable us to provide 30 days' notice to our customers of the increased charges. We intend to notify industry via an announcement on or about 29 January 2021 and provide you with an advanced copy of this notification prior to the announcement.

Patrick reiterate our commitment to the Voluntary Pricing Protocols and working with Freight Victoria to transition to the new industry administrative requirements.

Please let me know if you require any further information about the proposed changes to ancillary charges.

Yours sincerely,

Michael Jovicic
Chief Executive Officer

Subject:	Storage and Yard Ancillary Charges
Port(s):	Melbourne
Effective Date:	01 March 2021
Industry Advisory:	**Issue Date:** 29 January 2021

Rates Schedule

Patrick Terminal

- Melbourne

1. Storage

ISO Containers; per TEU per day or part thereof

1) day 1 to 2 of storage	AUD	141.70
2) day 3 and onwards	AUD	299.75

2. Ancillary Charges

1) Yard Handling Fee; per ISO container	AUD	144.45

3. Surcharges

1) Reefer Services; per ISO container per day or part thereof	AUD	140.00
2) Dangerous Goods; per ISO container per day or part thereof (Note 1)	AUD	267.75

4. Other Commodities or non-standard Containers — POA

5. Other Matters

1) Storage charges will be payable on all import containers/goods not collected within three (3) working days including day of availability. A minimum of one Yard Handling Fee will also be applicable on day one, along with all relevant surcharges.
2) Charges will otherwise be applicable as required for handling and storage of each container.
3) All tariff rates are exclusive of Goods and Services Tax 'GST' which is payable in addition.
4) All transactions are subject to Patrick's Standard Conditions of Contract which may be viewed online at the Patrick website at www.patrick.com.au Patrick's Standard Conditions of Contract exclude Patrick's liability in certain circumstances and include indemnities which benefit Patrick.
5) Credit Terms; payment is required prior to release of any import containers/cargo. Charges for other movements are subject to Patrick's standard terms and conditions.
6) Rates, Terms and Conditions are subject to change with notice in accordance with Patrick's Standard Conditions of Contract.

Notes:

1. Storage of Dangerous Goods at Patrick Terminals are subject to compliance with specific limitations at each terminal and may be subject to additional charges as outlined under the "Dangerous Good Charges" tariff.

Subject:	Vehicle Booking System (VBS) Fees	
Port(s):	Melbourne	
Effective Date:	01 March 2021	
Industry Advisory:		Issue Date: 29 January 2021

Rates Schedule

Patrick Terminals

- Melbourne

Item	Rate
Booking Fee - Electronic	AUD 29.50 per container
Booking Fee - Telephone	AUD 36.50 per container
Stack/Bulk Run Fee Note 1	AUD 7.50 per container. All stack/bulk runs are subject to terminal arrangements for minimum volumes per booking.
No Show Fee	AUD 215.00 per container
Terminal VBS Subscription Fee	AUD 185.00 per User account renewable 1 July each year
Terminal VBS Join/Rejoin Fee	AUD 185.00 per User account valid until 1 July
SMS Fee	AUD 1.00 per message
R&D Processing Fee Note 2	AUD 79.15 per container
Wrong Time Zone Fee Note 3	AUD 82.50 per container
Side Loader Fee Note 4	AUD 62.50 per trailer

Notes

1) All rates are **exclusive** of Good and Services Tax (GST) which is payable in addition.
1) All transactions are subject to Patrick's Standard Conditions of Contract which may be viewed on-line at the Patrick website at www.patrick.com.au Patrick's Standard Conditions of Contract exclude Patrick's liability in certain circumstances and include indemnities which benefit Patrick.
2) Rates, Terms and Conditions are subject to change with notice in accordance with Patrick's Standard Conditions of Contract.

Note 1 (Stack Run Fees)

A fee per empty container is applicable for all empty stack/bulk runs from 01 March 2021.

1) No Show and Wrong Time Zone Fees will not apply to stack run containers.
2) No Show bookings or bookings cancelled less than 12 hours before their Time Zone will be subject to a cancellation charge based on minimum volume arranged with the terminal.
3) Stack runs arriving in the Wrong Time Zone may be treated as No Show bookings and the stack run rebooked at terminal's discretion.

Note 2 (R&D Processing Fee)

1) Applicable at Patrick Terminals only when the full or empty container booking has not been manifested or manifested incorrectly in the Vehicle Booking System (VBS).
2) Autogate transactions that require processing at the R&D office as a result of a Patrick Terminal error, a late notice status change (by DIBP Australian Border Force by AWE Biosecurity or by Customer (Vessel or Container Operator), and, empty container stack runs (SRIs) will be exempt from this charge.

Note 3 (Wrong Time Zone)

1) Applicable at Patrick Terminals only when a truck arrives outside of its designated time zone.

Note 4 (Sideloader Fee)

A fee per trailer is applicable to all side loaders from 01 March 2021.

1) Applicable at Patrick Terminals to side loaders accessing the straddle grid.

Appendix: Key Market Themes and Challenges

- **COVID-19 impacts** – Patrick has remained operational through the 'lockdown' period to ensure cargo continued to move into and out of the country. It has been a very disruptive period with a significant number of void (blank) sailings with reduced container volumes and challenges faced in managing the pandemic risks. The productivity of operations has been impacted by increased number of off window vessel arrivals resulting in increased yard congestion and loss of productive work hours resulting in overall loss of productivity. Patrick has increased its cleaning, sanitization and PPE costs to mitigate the risk. Patrick has received minimal to no financial relief or support from government or port landlords during the period. It is disappointing that monopoly landlords have not extended any rental relief given the challenges being faced by stevedores.

- **Negative Market Growth** – Negative market growth for the year, with negative market growth pre-COVID-19 of circa 4%, exacerbated by the COVID-19 pandemic with market growth dropping to circa negative 10% YoY, with potential for further deterioration. The soft market conditions have been aggravated further by the global shipping lines pricing pressure on Australian stevedores

- **Service Consolidation** – Following a wave of shipping line consolidation in prior years, the 2020 financial year saw an unprecedented level of service restructuring and consolidation with approximately 50% of Patrick's services changing across the year. This has led to significant renegotiation of contracts and terms with the shipping lines. Through this re-contracting period, Australian stevedores were exposed to the material increase in the bargaining power of global shipping lines with substantial market power - the top eight global shipping lines control close to 80% of global capacity. This has led to a further reduction in stevedoring rates with the ability of Australian stevedores to maintain contracted pricing levels decreasing further as shipping lines exercise their power over the market.

- **Vessel Upsizing** – Through this period of service restructuring and consolidation, the shipping lines have also changed the size and mix of vessels calling in Australia, with the global trend of upsizing to post-panamax vessels penetrating Australian trade. Of particular significance has been the impact on competitive market dynamics in Melbourne given the physical port constraints of Swanson Dock, which has created a monopoly market for certain larger vessels at VICT. VICT has used these service changes to quickly secure over 30% market share in Melbourne, to the detriment of long-standing operators Patrick and DPW. Vessel upsizing and service consolidations have and will continue to result in less service calls into and out of Australia and increased container exchanges, creating more pronounced peaks and troughs in operations. Vessel upsizing requires additional investment in operator capability, including larger cranes. Larger vessels result in significant operational savings for shipping lines. Larger vessels result in certain operational inefficiencies for terminals, particularly when combined with inflexible labour arrangements. Fewer shipping services coupled with capacity overhang has delivered lower stevedoring tariffs to shipping lines. A reduction in overall shipping capacity has seen prices for blue-water freight increase significantly (despite lower operating and stevedoring costs). Whilst shipping lines have deployed larger vessels and consolidated services, the overall volume of trade in/out of

Australia does not necessarily require or warrant these larger vessels. The number of services calling Australia continues to decrease i.e. fewer / larger services.

- **Stevedores are price takers** – The combination of increasing shipping line power and excess capacity in the market means stevedores continue to be price takers and do not possess market power.

- **Fierce competition and excess capacity in market** – There is fierce rivalry amongst stevedores to secure volumes across a national platform. Delivering superior services for shipside and landside and record low returns for stevedores. There is significant excess capacity across all ports in Australia, which diminishes stevedore bargaining power. Excess capacity has been exacerbated with negative market growth in 2019/2020.

- **Port of Melbourne proposing to add further unrequired capacity** – PoM is proposing to increase import wharfage fees to fund its 'big ships strategy' with a significant part of the proposed investment to be funded by port users to remove the 'knuckle' at Webb Dock across 2021 to further upgrade VICT's terminal capacity. Removal of the knuckle at this time will exacerbate issues of excess terminal capacity, undermine effective competition between stevedores and lead to inefficient utilisation of Swanson Dock including the Port Rail Transformation Project. A reduction in volumes away from Swanson Dock will undermine the Government's rail strategy and lead to an inefficient use in rail capacity. The proposed investment is clearly nor prudent or efficient given the current state of the market.

- **Essential Services Commission findings** – In mid-October (shortly after Patrick extended its tenor at the Port of Melbourne until 2066), the Essential Services Commission (ESC) released their final report into the Port of Melbourne Market Rent Inquiry. Both the existence of PoM power in setting and reviewing rents and material detriment to Victorian consumers were found by the ESC. This behaviour noted by the ESC was consistent with Patrick's dealings with the Port of Melbourne. Similar deficiencies have been noted in the engagement to date in respect to the PoM Rebalancing application.

- **Low profitability for stevedores (even with infrastructure charges)** – Port privatisations have driven up rents and property related costs, this combined with increasing labour and energy costs, subdued market growth and fierce competition within the market has led to stubbornly low profitability for stevedores. The consequent decline in profitability has led to unsustainably low rates of return on investment. Although industry profitability increased slightly in 2019/2020, Patrick's profitability declined and still remains significantly below the required level to achieve a reasonable rate of return on investment.

- **Stevedores continue to invest in delivering new, upgraded capacity** – Enabling deployment of larger vessels by shipping lines and record productivity on shipside and landside. At East Swanson Dock, Patrick is investing approximately $20 million into Rail Development, in conjunction with the Port of Melbourne. In FY20 East Swanson Dock terminal received delivery of two new ZPMC cranes, 4 new straddles and upgraded its Terminal Operating IT System, further enhancing Patrick's capability and service delivery.

- **Improved access and superior outcomes for landside customers** – Competition and investment by stevedores has resulted in superior shipside and landside productivity. Access continues to be provided on a fair and non-discriminatory basis. Capital investment in terminal capacity and the physical interface between truck and terminal has delivered a superior service to the customer. Inability to recover costs from the landside will ultimately lead to sub-optimal investment behaviour and have a negative impact on supply chain efficiency.

- **Long history of investment under recovery** – Patrick has invested $880 million nationally in the last 6-years, improving the efficiency and effectiveness of supply chains, however Patrick has under recovered on this investment, with sub-optimal rates of return.

- **Declining overall supply chain costs** – Total supply chain costs have fallen. Synergies (expert supply chain consultant) estimates that the real costs of exporting to China have fallen by approximately 18%, and the costs of importing from China have reduced by 23% over the past 5-years. i.e. It is now cheaper than ever before to move a container from overseas to Sydney.

- **Stevedore charges are a small part of total supply chain costs** – Stevedores represent one link in a highly complex supply chain. Total charges levied by stevedores represents less than 6% of total supply chain costs.

- **All terminal charges are borne by the shipper** – All terminal charges are ultimately borne by the shipper. The shipper has influence over which terminal it ships its cargo through. Shippers supply chain costs have declined materially in recent years.

- **Industrial relations –** Patrick has been unable to reach agreement on a new Enterprise Agreement to date, with the current agreement now expired (from 30 June 2020). DPW and Hutchinson have been in negotiation with the Union across the year, and as we understand it have been unable to reach an agreement on a new Enterprise Agreement. Further, Svitzer's Enterprise Agreement negotiations have the potential to create additional issues. The lack of industry-wide progress on agreeing new Enterprise Agreements can be partially attributed to the CFMMEU national agenda which has run a long-standing position on various threshold matters including prohibitions on automation, outsourcing of labour, recruitment decisions and an employer's right to manage its employees.