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Dear Dr Fallon,

Objection to MIRRAT Proposed Price Increase – July 2023

The Federal Chamber of Automotive Industries (FCAI) is the peak industry body for the importers and distributors of new motor vehicles and motorcycles in Australia. FCAIs members represent companies providing over 99% of new motor vehicles to the Australian market.

FCAI has noted the reasons listed as supporting a price increase in the MIRRAT letter of 1 May 2023 and requests a review of the proposed increases based on the following.

MIRRAT have claimed that they have faced cost increases, including fixed cost increases, and that they face an inability to recover these increases through increased volumes. MIRRAT notes that there have been significant supply chain restraints in the last twelve months. While no one would deny this, it is important to note that the international evidence is that these constraints are loosening and the volume of vehicles available for delivery to Australia will, in all likelihood, increase over the 2023/24 financial year.

Additionally in respect of this claim of an inability to recover costs, increased volume is not the only way that this could be achieved, as is clearly evidenced by the owner (100%) of MIRRAT who have noted significant increased income. For example, they claim that:

> *Revenue increased 19% QoQ, almost exclusively due to the strong Oceania biosecurity activities, while all terminals are challenged with congestion and other disruptions. EBITDA increased 50% as a direct result of increased revenue in Oceania.*

Clearly, the alleged inability to recoup increased expenses through a gain in volumes, which MIRRAT hold as their main capacity to recover cost increases, is not a valid claim. Increased expenses have been recovered through other activities.

One of the key drivers for MIRRAT is the volume of new/used motor vehicles handled through the terminal. While it is always difficult to accurately predict demand and supply, it is the view of the FCAI that the volume of sales in 2023/24 will increase over that seen in 2022/23 for a variety of reasons. One of these is the potential renewal of the fleet at an accelerated rate due to demand for new power trains. This trend can be seen in the significant growth in sales of electric and hybrid vehicles over the last year. Our VFACTS December sales report is attached to assist in this observation.

As can be seen the Victorian market saw growth at the rate of 5.3% in that year, significantly above the national average 3% growth. The trend in electric vehicle sales growth (549% compared to 2021) and hybrid vehicle sales growth (16% compared to 2021) supports this observation around the trend in fleet renewal. Coupled with this is the Federal Governments anticipated fuel efficiency standard, which is currently being finalised, and will again potentially increase demand for certain vehicles leading to shortened fleet renewal periods.

FCAI also notes that the MIRRAT advice refers to a significant capital investment in lighting. Given the announced move of the terminal, FCAI questions the logic in significant capital expenditure of this nature at this time. Surely the Port of Melbourne should be underwriting this expenditure if it is to be short lived given terminal relocation initiatives?

There are more general comments attributable to the WW group, the owner of MIRRAT, that do not support any need for any price increase. For example,

> *Due to the rigorous decontamination processes, the volume of contaminated cargo outweighed the terminal capacity, contributing to congestion and operational challenges in and around Australian ports. While this had a negative impact on shipping volumes and profitability, **our terminal operations saw improved earnings for the quarter, as the additional decontamination services boosted margins in the region**. This illustrates the resilience of our integrated supply chain business model.*

So clearly there has been an improved financial situation at the MIRRAT terminal yet they are claiming the need for very significant price increases. This belies logic when the above is considered.

Further,

> *Volume development was strong on the Auto side, partially due to the stabilization in the global parts supply chains, but also due to seasonality, as some customers push volume for their fiscal year end.*

Again, no reason for a price increase off the back of this.

If we look to the future financial year, the company suggests the following:

> *Market demand remains robust despite the current economic slowdown, and we expect continued high volumes and a tight market balance in 2023. The fundamentals also look strong longer term, though with higher levels of uncertainty. This is related to the newbuild additions to the global fleet, the macro economic situation, and any deterioration in geopolitical dynamics. **Further upside potential relates to pent-up demand for vehicles, the shift to low-emission vehicles and renewal of multi-year customer contracts at higher rates.***
>
> *Overall, we expect to further strengthen our financial position in 2023, enabling us to deliver on our financial targets and dividend policy.*

It is also noted that the proposed tariffs apply a significant, and considering the above, monopoly rent for the cleaning of vehicles subject to biosecurity direction. Current published charges are $199.80 per unit, or a total of $440.70 for vehicles that require underbody as well as external cleaning. The proposed tariff sees the general cleaning fee, regardless of the degree of cleaning required, rise to a phenomenal $690.00 per unit. On top of this, MIRRAT propose an additional $200.00 per unit for vehicles that have "Heavy Contamination". So, in the best-case scenario, their most profitable activity by all accounts, is now going to support even greater profitability through a 58% price increase, or potentially an increase of 102% for vehicles with heavy contamination.

To add further, the proposed tariff increases are not increases in published prices for all activities. They also introduce new charges, for example the proposed $15.00 per unit per day charge for all vehicles where the queue for biosecurity cleaning contains more than 600 vehicles. Neither the current nor the revised tariff reveal the current charge of $58 per day for all vehicles stored at MIRRAT awaiting cleaning if they are not moved within the available demurrage period, when the queue exceeds 2000 vehicles. So, on the one hand MIRRAT is seen to be potentially reducing charges yet on the other adding additional charge points. Even more revealing is that the tariff proposed appears to exclude any free time storage for vehicles awaiting cleaning if the queue for cleaning is greater than 600:

> *Quarantine Congestion Surcharge (QCC) is applied to all units on quarantine hold, once the number of quarantine held units onsite exceeds 600 units. The QCC is applied to all held units inclusive of those in the MIRRAT treatment queue.*

In addition, and it is not clear how this is determined, quarantine capacity is said to be 2000 units, and any units held over and above this "limit" are charged the standard demurrage rate of $62.78 per day. FCAI can only assume this applies after the free storage period however it is not clear from the proposed tariff.

FCAI hopes that it is clear from the above that the monopoly RORO import facility is taking advantage of that situation to propose increases that will lead to not only a comparatively expensive operation but one that would, if the price increases are approved, lead to economic profits.

It is the view of the FCAI that the model applied to consider the validity of the MIRRAT proposed tariff adjustments and new charges required for the adequate return on the investment to run the Melbourne terminal must be urgently adjusted if the model results in an outcome contrary to the published improved financial situation that actually applies.

Please contact me on 0410 451342 for any further information as necessary.

Yours sincerely,

Tony McDonald

Director, Industry Operations

16 May 2023