

Executive Summary

As stated in our initial submission, we believe there is still significant growth potential in Australia and the Brisbane cruise market, if not foreclosed by the proposed agreement for which authorization has been sought, represents a key element of that opportunity.

A key characteristic of that growth opportunity is seasonality. The cruise industry operates globally and it's highly mobile asset base results in strategic deployment decisions being taken on a global/regional basis rather than a country/market basis. In this context Australia's future growth opportunity will be driven by its southern hemisphere location which provides a highly complementary deployment in the northern hemisphere winter. This has already resulted in Australia benefiting from the significant deployments of cruise capacity in Asia (particularly China and Japan) and we see this as being a major driver of future growth. Brisbane's proximity to Asia and the South Pacific puts it in pole position to take advantage of that growth on behalf of the Queensland (and Australian) economy.

We are still firmly of the opinion that the proposed Agreement will unnecessarily restrict competitive access to the new facility, particularly in the Australian summer season and thereby have a major restrictive impact on the growth/benefits of cruise to the local, regional and state economy.

We have set out below our continued concerns regarding the Agreement. We have also outlined an arrangement that we believe would still justify/support the development of the facility while ensuring it operates without unnecessarily restricting effective competition.

We would refer you to our previous submission regarding our credentials and our perspective on the Queensland cruise market opportunity. This continues to underpin our responses to the PPBL/Carnival application.

We are keen to reiterate that we are supportive of the proposed development of a mega cruise ship Facility in Brisbane. However, acknowledging the further submission made by the applicants, we remain extremely concerned about the highly anti-competitive terms of the proposed “Take or Pay” Agreement with Carnival Corporation.

Our concerns are outlined in more detail below:

1. The Luggage Point development ADDS berthing capacity to the region.

Carnival has reiterated that, based on clear and compelling commercial criteria, it will move its business from the existing Portside facility to the new facility at Luggage Point on completion of the development. This will effectively remove +80% of Portside’s current business volumes. With no other major cruise line either operating year-round or operating vessels small enough to access the Portside facility, the future viability of Portside must be seriously questioned. It is well known within the industry that Portside was developed as part of an agreement with the Queensland State Government to acquire the wharfs and adjacent land for commercial development, including residential and mixed use components and Brookfield’s (formerly Multiplex) commitment to provide a cruise terminal as part of that concession expires in 2021. From that time Brookfield will be free to convert the current cruise operations to other more profitable uses compatible with the remainder of the development.

We would therefore respectively affirm that the Luggage Point facility will not add materially to the berthing capacity within the SE Queensland region.

We would also like to remind the Commission of the status of other berthing facilities that the Applicants have unpersuasively claimed create a competitive market place in terms of berth availability:

- a. Townsville and Cairns – both are mentioned as alternative competitor terminals at various points in the applicants’ submission. Neither Townsville nor Cairns can be accessed by large cruise ships (megaliners) due to physical constraints on the channels/passages leading to the terminals. Even under the proposed dredging plan for the Cairns Trinity inlet, most megaliners over 300 metres in length will be excluded from Cairns. Townsville’s suitability as a cruise terminal can be borne out by the very few cruise ships visiting it. No megaliner is able to access Townsville.
- b. Regional terminals – Other so-called “terminals” mentioned in the applicants’ original submission such as Moreton Island, Yorkeys Knob and the Whitsundays, are ports of call only and do not have cruise terminals. These

ports are anchorages only, where passengers are transported to shore by means of small tender boats. The attempt to rely on these locations as evidence of a competitive environment for the provision of megaliner-capable cruise terminals is false and misleading.

- c. The Gold Coast – there have been a number of proposed developments for cruise terminals on the Gold Coast over the last decade and a half. All have failed to get beyond initial concept stages for a number of reasons; chief amongst which is environmental opposition to any terminal located on or affecting The Spit. The current scheme advocated by the Mayor of the Gold Coast Council would avoid some of these concerns but would give rise to other concerns by being located 1 km offshore in the ocean thus flagging very serious reservations on Maritime operational and safety grounds regarding the current proposal.

In summary, the Luggage Point facility will be the only cruise terminal capable of handling megaliners in the entire state of Queensland.

2. Berth Preferences – Foundation and Priority Berthing Rights

We believe that the combination of the Foundation Berthing Day arrangement and the Priority Berthing Day arrangement contained in the proposed Agreement, together with the weekly (4) and monthly (18) berth priority caps would result in a highly anti-competitive situation.

- i. Foundation Berth Days (FBDs)

A key element of the Applicant's submission relates to the arrangement between the two parties for Foundation Berth Days. Carnival has agreed to provide a commitment to 100 berth days on a "take or pay" basis under PPBL's Foundation Berth Day concept. We estimate that this provides PPBL with an underwriting of over 50% of the current cruise calls into the Brisbane facilities. We further estimate that, based on PPBL's terms for berthing rights and indicative operating tariffs, this equates to a minimum guaranteed income stream of A\$6m per annum over the first 15 years of operation. We believe that this provides the investor (PPBL) with a significant level of commitment and support for its proposed investment, a scenario that most commercial development projects could only dream of.

- ii. Priority Berth Days (PBDs)

These are available to acquire in lots of 20 berth days with a minimum commitment of 7 years on a "take or pay" basis.

With average cruise durations around the 8 day range, this would require a

cruise operator to commit to a minimum annual deployment period of around 160 days. Given that no cruise operator other than the Carnival Group is currently able to deploy large vessels into the Brisbane market due to infrastructure constraints, the requirement to commit to a minimum of 20 calls from day one is commercially challenging. There is also a berth allocation priority attached to these PBDs; those with the highest number of PBDs will have priority to the extent of the access of PBDs by one user over another.

The combination of Carnival's Foundation Berth Day arrangement and its' Priority Berth Day arrangement would severely restrict access to new entrants and substantially lessen competition.

Carnival will relocate its existing Brisbane-based ships to the New Cruise Facility and will then be able to fill the remaining slots up to 4 per week and 18 per calendar month with a combination of its Australian-based ships and visiting ships from its overseas cruise lines. This will create a massive barrier to entry for any competitor of Carnival in Brisbane. As a result, Brisbane is very unlikely to attract large international cruise operators other than the joint applicant Carnival Corporation and its sub-brands.

As mentioned above, no other cruise line has as yet established a market presence in the Brisbane cruise market. All non-Carnival Corporation cruise lines operate on a seasonal deployment pattern, cruising in Australia over the summer cruise season only (October to April – or approximately 26 weeks). As the proposed Berthing Rules and Contractual Terms stand, Carnival would be able to utilize all of their 100 foundation Berthing Days in this period. This would ensure that in the key summer months, when berth contestability is the most important for any potential new entrant, that Carnival Corporation ships will have priority 4 out of 7 days. As demonstrated in our earlier submission, these arrangements could be easily gamed to ensure that any other berthing opportunities were, at best, sub-optimal.

This significant barrier to entry cannot be justified on the purported ground that it is needed to provide the certainty required by the Port Corporation and its shareholders to invest in the New Cruise Facility. The strength of the position offered by the preferential agreement is completely out of proportion to what would be required to protect the current operations of Carnival. As the established operator for cruises from Brisbane, Carnival's brands have all of the advantages of incumbency including entrenched marketing and sales positions and a far greater knowledge, understanding and established contact with the existing customers.

Nor can it be accepted that the development will bring the economic benefits claimed through growth in the cruise industry. The proposed "Take or Pay"

Agreement will unjustifiably create a monopoly that will lock out the growth and economic benefits that would otherwise flow from effective competition in the Brisbane cruise market.

In short, the preferential treatment of Carnival ships under the proposed “Take or Pay” Agreement will in effect foreclose effective competition in the Brisbane cruise market.

There is no economic or other need for any such preferential “Take or Pay” Agreement. The public detriment of such unjustified preferential arrangements is very considerable. The preferential treatment of Carnival is unjustified and the public detriment of that anticompetitive preferential treatment far outweighs any public benefit the proposed “Take or Pay” Agreement may have.

The applicants have argued that the preferential arrangements are not anti-competitive, in part because the new terminal will be additional capacity in Brisbane. As we demonstrate above, this is not likely to be the case as Portside will be unsustainable and likely to close.

Preferential berthing allocations are not a feature of any Cruise Terminal in the world to our knowledge – except where alternative, like-for-like operations are genuinely available in the same port and the new terminal complements existing capacity. In this case the new berth will replace the existing operation and will be the only berth in Brisbane capable of turning around megaliners (over 270 metres) regardless of the fate of Portside.

We believe that the applicants’ claim that the Luggage Point Terminal will complement the existing facilities in Brisbane is largely irrelevant to most potential competitors in the mass cruise market as all of these operate ships too large to utilize Portside.

3. An Alternative Approach

As we have stated during both this and our original submission, we are fully supportive of the need to develop cruise infrastructure capable of handling the ever increasing size of cruise ships.

However, in our view, the proposed Agreement between Carnival and PPBL in its current form is neither necessary to ensure the development proceeds nor in the best interests of the various stakeholders including the State Government and the regional economy. It is not in the interest of all stakeholders for competition in the Brisbane cruise market to be restricted or foreclosed in the ways indicated in our submission above.

We would propose that an agreement between Carnival and PPBL limit the arrangement for 100 Foundation Berth Days to a maximum use of a FBD of 3 per week.

We would also propose that all other available berth days be made available to all industry participants and allocated on the basis laid out in PPBL's Priority of Allocation proposal – with no advantage from booking a greater number of priority days. This is essentially the way other ports in Australia operate. This provides for the following priority of allocation:

- i. Homeport vessels
- ii. Turnaround vessels
- iii. Transit vessels
- iv. Other vessels

The limit of 3 Carnival ships per week should apply up to the final berthing allocation day, which should be no more than 18 months before the proposed berthing day. This would allow Carnival to access more than their 3 days per week where no other cruise line has sought a booking. 18 months is the latest that any of the lines commit forward deployments.