

CORRECTED VERSION

STANDING COMMITTEE ON FINANCE AND PUBLIC ADMINISTRATION

Inquiry into Port Phillip Bay: channel deepening

Melbourne — 5 June 2008

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Ms J. Warfe, president,
Mr B. Robinson,
Mr G. Howard, and
Ms J. Muir, Blue Wedges Coalition.

The CHAIR — I reopen the select committee on the finance and public administration hearing into Port Phillip Bay channel deepening project. I welcome representatives from the Blue Wedges Coalition: Ms Jenny Warfe, president; Mr Barry Robinson; Mr Gary Howard; and Ms Judith Muir.

All evidence taken this afternoon is being taken under the provisions of the Parliamentary Committees Act and the standing orders of the Legislative Council and is protected by parliamentary privilege. Any comments made outside the precincts of the hearing are not so protected. All evidence is being recorded, and you will receive a proof version of the Hansard transcript in the next couple of days. I now invite you to make an opening statement of no more than 5 to 10 minutes, or we could proceed straight to questions.

Ms WARFE — I do have an opening statement of a few minutes. I also have a PowerPoint presentation, which might stimulate more questions, but we will see how we go with our opening comments.

The CHAIR — The committee has received the written submission, so we are keen to proceed to questions. So if you could keep it to no more than 10 minutes, please.

Ms WARFE — Okay. We welcome the opportunity of analysing the numerous issues which were specifically excluded from the SEES process, possibly by design. The purported project benefits are based on modelling over a 27-year period, whereas all the costs incurred over that period are not included in the benefit-cost analysis, and the benefits are based purely on assumptions over the life of the project. Barry can speak more about that. The major costs that are excluded are the maintenance of the channels and the rock surveys in the entrance that have come to light very late in the SEES process; adequate monitoring of the toxic dump, we would say; some infrastructure work; and certainly business impacts, which Judy will be able to speak about.

The project benefits are totally reliant on perfect competition — if you want to call it that — and the absence of changes in competition from any other port or any other state, to predict this 97 per cent pass-through of any savings derived from using larger vessels, which is what the project is predicated on. Meyrick in the SEES, however, admits reasonable competition. Reasonable competition to us does not deliver a 97 per cent pass-through of savings. Indeed there is not any evidence that any amount of competition does deliver that unrealistic figure, which is what the project is entirely predicated on — a 97 per cent pass-through of benefits. We would ask where is the evidence that we can expect any of those savings to be passed through, let alone the 97 per cent that is claimed.

The port in its 2004 submission to the ESC review admits that the Victorian public will not be the major beneficiary of channel deepening. It states: ... in the light of such significant private benefits and given the large proportion of these benefits that flow to non-Victorians, it is not appropriate for the POMC's investment program to be funded by Victorian taxpayers.

Gary can speak more about that. But we would note that to date it has been funded by the taxpayer really to about \$300 million, if you add in the costs of the assessment process as well as the \$150 million allocated in the last budget.

In terms of the discount rate, that is very relevant in terms of an alliance being used for this project, and Barry and Gary can talk more about that. Alliances are generally used in complex or high-risk projects, but this economic analysis used a discount rate appropriate to low-risk investments. Even the panel discussed using an 8 per cent rate rather than a 6 per cent rate as dictated to Meyrick by the Department of Treasury and Finance. If the 8 per cent discount rate is applied instead, this reduces the benefits to \$1.4 billion. It certainly knocks a hole in the purported benefits, and there is considerable informed opinion that even 8 per cent is inappropriately low for this project, which Barry can speak about more. Boskalis's record and their corporate behaviour is pertinent, I think, as outlined in our submissions. That history suggests that high risks are involved and further underscores that a 6 per cent discount rate is inappropriate.

Furthermore, we note that costs are already being increased for shippers by way of the levy for channel deepening in spite of the project justification being to reduce the costs, and already these costs are being passed on to consumers, as is evident in an appendix to our submission. Furthermore, opinions that benefits are substantial are now being revisited, even by people whose work was used to justify the project, and I cite Dr Brain from NIEIR, who said in January of this year that the costs should be revisited. So we would say that if this committee is looking at the real economic impact of this project, it should not rely on artificially low rates dictated by the Department of Treasury and Finance; nor is it appropriate for government to dictate to an independent consultant which discount rates should be used to assess a higher risk project, and Gary can speak more about that. We would say Meyrick

was doing the bidding of the Department of Treasury and Finance and he has not provided independent analysis, at least in relation to the use of an appropriate discount rate. In his response to our written questions at the SEES inquiry in July 2007, he stated in writing that the 6 per cent discount rate was mandated by the Department of Treasury and Finance.

Lastly, I refer to currency fluctuations. Meyrick used the long-term average of 70 cents in his analysis, and it has not been that now for three years or so. His sensitivity analysis using 80 cents reduced the benefits by \$176 million. We now have an exchange rate of around 95 cents, and it is heading past parity, so it looks like this project is already under water. Those are our opening comments.

The CHAIR — Thank you. I take you to the issue of discount rates and the reference you made to 6 per cent. Is it not the case, though, that the cases published by the Port of Melbourne in the supplementary EES model 8 per cent and that even at 8 per cent they still suppose a net benefit?

Mr ROBINSON — Chair, it is true that in the sensitivity analysis by Meyrick in the SEES documentation he used a 4 per cent, a 6 per cent and an 8 per cent rate. The point that we are making here is that nowhere in any of the documentation at any stage that I certainly can recollect did he state that the Treasury had mandated that he use the 6 per cent rate. We have heard here earlier today that the lower the rate, the greater the benefit for any particular project. Looking at the figures provided in the table — this is in appendix 4 of the SEES report of Meyrick — on page 53, if we use the rate that is being used here in the left-hand column under revised results, the net present value benefit is \$1.936 billion. However, if you use an 8 per cent rate, what we are looking at here is that we come down to a net benefit of \$1.4 billion, which is a drop of nearly half a billion dollars. If we go back to the SEES inquiry report on the economics of the project — pages 201 and 202 — on page 201 it states that:

Mr Meyrick has used 6 per cent, the long-term Treasury bond rate, as his discount rate. The Department of Treasury and Finance support this as appropriate to government. In theory, there may be some merit in considering a higher discount rate ...

On the next page, it states:

If environmental and social impacts are ... tested in the sensitivity analysis, could cover the cost of all likely adverse effects without serious damage to the BCR.

The discount rate they are stating under those conditions is appropriate, but nowhere in this SEES inquiry report — although it has made that statement about an 8 per cent rate — does it state that if you use an 8 per cent rate, all of a sudden you decimate the net present value benefits from \$1.9 billion to \$1.4 billion. But they do go on to say that they consider that the net present value basis is robust enough 'to absorb the effects of adverse deviations from key assumptions'. We state that that is not true. It cannot be true where you can take half a billion dollars off and you still say that you have a good net present value basis when you are starting from \$1.9 billion. We heard this morning from other advocates that a 7 per cent rate or perhaps an 8 per cent rate could be applicable. I have no doubt that you will hear economists at this inquiry who will be more happy to put a 10 to 12 per cent rate on it, which would definitely put the project under water.

Another point that was made, and I have emphasised this, was that nowhere was it stated that Treasury had mandated a 6 per cent rate until Mr Meyrick, who shall we say was under a bit of pressure when he was doing his response to questions from the SEES inquiry, stated that the use of a real discount rate of 6 per cent was not an independent judgement — bearing in mind he is an independent consultant — made by Meyrick and Associates but was mandated by the Department of Treasury and Finance.

Another point I would make here is that when Mr Hehir, the secretary of Treasury, did his presentation at the SEES, he did not mention two aspects of this project which I believe are relevant seeing that they both come out of his department. One is the discount rate, which Meyrick says was dictated, and the other is the alliance with Boskalis. It is the department of Treasury that sets out the information in relation to the alliance document, which supposedly, and I will mention that later, Boskalis and the Port of Melbourne operate under, the terms of which are unknown. It was outside the terms of reference for the SEES. You can argue the merits of why not. To me, it should have been included. It is a cost, and how can you assess the costs of a project if not all of the costs are in it?

We have got project benefits on an assumption basis out for 27 years, and we maintain that not all the costs are included. In our opinion, the net present value basis ratio, and we have heard all sorts of ratios, is at a cost of \$969 billion, and we have already reduced the cost on our assumption to 1.4. Then there has since been a change of currency rates, which is now 95, 96. Looking at the tables, the same tables I mentioned before on the SEES

documentation, there has been a decrease in the rate — and he has used a 70 cent rate. When questioned about that at the SEES inquiry, he said, ‘I have used that because I have taken an average’, and he produced a graph. It has not been at 70 cents for over three years. So we believe there is a further amount to come off the net present value basis on that basis alone. We come down to around about \$1 billion worth of costs for \$1 billion worth of benefits.

The CHAIR — On the issue of exchange rates, given you are looking at a 30-year time frame, where would you say the estimate should be based, if you are saying that 70 cents is too low?

Mr ROBINSON — I am an ex-banker, and I would not like to make an assumption on that.

The CHAIR — But an assumption has to be made.

Mr ROBINSON — But by the same token, 70 cents in my opinion in the current climate when the SEES was held was far too low.

The CHAIR — But an assumption does have to be made for the purposes of the assessment.

Mr ROBINSON — Okay. I have got a figure here, an assumption of 80 cents, which he has used in his sensitivity basis, so we take another \$174 billion off the benefits. So you can argue in terms of whether we use the 70, 80, 90 or parity, but it is certainly not 70.

The CHAIR — A point that Ms Warfe referred to in the introductory comments was that major costs excluded maintenance of the channels. Do you contend that the maintenance costs of the channels will be higher as a consequence of the dredging project, versus maintaining the existing channels? Channels have to be maintained whether they are the newly-dredged channels or the existing channels.

Mr ROBINSON — Perhaps if I could answer that, Chair. I know that the Port of Melbourne and Meyrick contested that it is irrelevant because you have got to do the maintenance dredging over the period, but the amount that is to be dredged in the maintenance period is about equal to the total amount taken out for this particular project, so someone will have to convince me that there is no additional cost involved. I think there is to be and should be an additional cost involved. We also have, shall we say, a cost involved in monitoring the contaminated spoil ground that is being created in the middle of the bay. The contract, the alliance, call it what you will — which we do not know the full details of — with Boskalis, it would appear on the figures provided by the Port of Melbourne, finishes when the dredging is completed, so they are certainly not involved in the monitoring of the contaminated spoil ground. That has to be maintained at least until the period of the project, and this is one of the issues that I mentioned before. We have not included all of the costs for the period of the project.

Ms WARFE — A very significant additional cost, too, is the issue referred to of monitoring the mobile rock that is now going to be in the shipping channel, which was only revealed by the port on the last day of the inquiry basically. There is going to be a shipping hazard in the great ship channel caused by the mobile rock created by the project. The consultant there suggested very regular surveys of that, obviously, otherwise there would be a shipping incident which would add further costs to the environment of the bay and this project. That is potentially a highly significant impact and certainly an ongoing cost to maintain the great ship channel, let alone the fact that it is elementary that the deeper you dig a hole in the sand the more often you have to maintain it.

The CHAIR — I am conscious of the time, and there are a lot of questions from the committee so I will move to Mr Viney.

Mr VINEY — Thank you for your submission, and I appreciate the interest of the range of community groups that you represent in the project. You have talked a lot about the need to include costs that you do not believe have been properly included. Have you had the opportunity to do some detailed analysis of all of those costs that you see, or are you just giving us some examples here? I have not seen you present us with a final NPV, if you like, based on your own assessments.

Mr ROBINSON — I am glad you raised that question. I am also glad that you raised the point that we are a community group. We have been involved in this for the EES and the SEES as a result of our concerns, and our background information is such that we are, I would say, pretty reasonably analytical people, but, no, we have not done any specific surveys.

Ms WARFE — We have done an analysis of just two of the industries in the bay in terms of what benefits they would be providing to the economy by the year 2035 if they also grew at 5 per cent per annum, as the port is claiming that it is going to in its business case. On those figures that I have there, the recreational fishing in the bay currently contributes about \$350 million to the Victorian economy annually. By 2035 that would be \$1.4 billion per annum. Diving alone — and that is not including any of Judy's business or any of the other ecotourism-related industries in the bay — contributes currently \$60 million. By 2035 that would be \$220 million, if they were allowed to grow at 5 per cent per annum until 2035. We draw the analogy there with the channel deepening project, which is contributing at most \$2 billion in total over 28 years. That is to the national economy. It has admitted that a proportion of those benefits are not going to be flowing to Victoria anyway, whereas those other two businesses, which we have done that analysis on, are entirely Victorian.

Mr VINEY — Are you suggesting that those industries cannot survive?

Ms WARFE — I am suggesting that they could well be impacted. Even the port admits that recreational fishing could be affected for two to three years post-project — that is, five years in total.

Mr VINEY — Affected, but have you done an assessment of the degree of effect?

Ms WARFE — The port itself did an assessment on the degree of effect for the dive industry. I think you will be addressed by somebody from the dive industry tomorrow, but maybe Judy would like to talk about that.

Ms MUIR — The assessment done by the port was just to say the only impact would be the cost of fuel to take a prospective diver from the original dive site to another dive site. Given that they are dredging most of the area that is involved in the dive site hotspots, if you like, which is the southern end of Port Phillip, where would that be? Perhaps interstate. I think if tourism is displaced, either by perception or by deed and outcome, it is a very long time before it picks up again. If you look at places like Bali, for instance, and the Philippines with coral bleaching and other areas, we know that diving does take a big impact, and tourism is very fickle.

Mr VINEY — But surely it is not your contention that these industries will be destroyed by channel deepening?

Ms MUIR — We are saying they will be affected at more than the cost of just taking somebody somewhere else to dive. The cost of fuel, it was \$15 or \$25 per person, was the only cost given by the port.

Mr VINEY — For example, what would be the biggest risk to the recreational fishing industry? What is the biggest risk to that industry?

Ms MUIR — Loss of fish stocks.

Mr VINEY — But surely the biggest risk to the recreational fishing industry is commercial fishing. Is that true or not?

Ms WARFE — I do not think so.

Mr VINEY — People in the recreational fishing industry have expressed that view to me. Am I getting the wrong advice?

Ms MUIR — The recreational fishing industry equals the commercial fishing industry outtake and income, in terms of that there are that many recreational fishers, whether they are the person who dangles a line off the end of the pier or whatever, equaling almost the value — or equal to the value — of the commercial fishery. I can give you a 'for instance', and it is very recent. In Queenscliff, where we slip our boat each year for its annual maintenance — and we undertook that last month — at the Queenscliff boat harbour there is a personality there in Queenscliff, a barracouta fisherman of many decades, who said that the barracouta fishing total for one boat this season was 18 barracouta whilst the dredging is taking place. It is anecdotal, but it was 18 fish — not boxes; 18 fish. And they bring in, like, 300 boxes a night.

Mr VINEY — Do you agree that there is appropriate commercial use of public assets like Port Phillip Bay? Do you see that there is a commercial value to Port Phillip Bay? Does the coalition agree that there is?

Ms WARFE — Obviously, yes. That slide in itself says that. We are not denying that the port of Melbourne should exist. We are saying that its case for its further demands on the bay and expansion are not well justified.

Mr VINEY — And so do you accept that there is a problem in relation to the increasing propensity for there to be constructed larger vessels which will need access to Port Phillip Bay? Does the coalition agree with that view?

Ms WARFE — I could probably address that better if I went through my presentation, but we are saying, in part, that the port's shipping projections for the future are not robust either and do not take into account any of the very different future that we are obviously facing. Your government is committed to being proactive about climate change, but climate change is entirely driven by our continued expansion and our continued consumption of goods and all of those things that I am sure you do not need to be told about, which this project is predicated on. This project is predicated on quadrupling the trade through the port by the year 2035, regardless of whether channel deepening goes ahead in fact. As the PricewaterhouseCoopers analysis says, there is going to be the same amount of boxes through here by 2035 regardless of whether channel deepening proceeds or not.

Mr VINEY — So your projection for the future economy is essentially a smaller economy? You think that is the way to deal with climate change — that we have to have a smaller economy.

Ms WARFE — I did not say we had to have a smaller economy. I am saying we have to do things very differently. The economy does not need to continue to grow by 8 per cent in the way that we have grown it in the past, which is by being very demanding on the environment and polluting of the environment.

Mr VINEY — Jenny, we are not going to disagree with that, but I am trying to understand. You are saying that the Port of Melbourne's projections are wrong because you see that in 30 years time we are going to have a different economy, but you have also said you think we cannot grow at that rate. I take it if it is your view that we cannot grow at the rate, then, as a consequence, you would predict that the Victorian economic activity in 30 years time will be less than it is today — that is your view — or less than we are projecting.

Ms WARFE — Maybe not. We might be doing things very differently to achieve an expansion in the economy, which is not as intensive.

Mr VINEY — It is your contention there will not be a need for the same level of economic activity through the port?

Ms WARFE — Not a need for the same level of the same sort of activity.

Mr HOWARD — In terms of activity, it has been openly admitted by Meyrick at the SEES inquiry that the port of Melbourne with or without channel deepening will continue to grow at the now rates. Now that has been a point that has been made by Meyrick at the SEES hearing and what I have heard today about the port of Melbourne disappearing is just frankly crap — that is the only word for it. That is from their own experts, that the port of Melbourne will continue to grow at the present rate with or without channel deepening.

Mr VINEY — Can I ask you about the assessments that we have also heard in relation to the costs of not proceeding: does your group have a view about that analysis that has been done?

Mr HOWARD — I would actually like to step back a point here if I could. We have heard a fair bit about discount rates and what is appropriate and what is not, but I think there is a more critical factor to be determined first. The benefits as calculated by the Port of Melbourne are basically nearly all reductions in shipping costs. They are earned by international shipping companies. The Port of Melbourne and their experts have put forward a case where they reckon that 95 per cent of those cost savings will be passed back to the Victorian economy. I will refer to my notes and go through it. Meyrick on page 56 of the SEES channel deepening cost-benefit analysis states that:

In the first instance, the benefits will flow to shipowners. However, because competition in the market for shipping services is reasonably competitive, the benefits (or at least the vast majority of them) will be passed on to those who pay for the shipping services.

The benefits have been calculated on the basis that international shipping companies will pass on 95 per cent of the cost saving to those that pay for the shipping services. This percentage is a critical variance that determines the viability of the project, yet to date there has been a blanket acceptance of this figure of 95 per cent. By way of

example, how viable is the project if only 25 per cent or 50 per cent of the cost savings are passed on to those who pay for the shipping services? One must question whether it is financially responsible to assess the viability of a billion-dollar project on the basis of international shipping companies passing on 95 per cent of cost savings.

More importantly, can the Port of Melbourne guarantee that 95 per cent of cost saving benefits will be passed on to the Victorian and Australian interests? Clearly the answer is no. The critical variance that determines the economic viability of the channel deepening project is the extent to which international shipping companies will pass on the cost savings to Victorian and Australian interests. Not even God can predict or quantify the extent or percentage of the cost savings over a period of 26 years that may include varying supply-demand cycles, commonly known as maritime cycle. I think it is a joke.

Mr VINEY — Can you think of any business project or infrastructure projects that are determined without there being some assumptions, though?

Mr HOWARD — This is an enormously critical variance. This is the only case that I could probably recall where the initial incident benefit goes to a non-resident.

The CHAIR — We are going to have to move on, Mr Viney.

Mr HALL — Thanks for coming in and making this presentation today; we appreciate that. I want to start on that issue of cost savings when we are saying that 95 per cent of the cost savings are going to be directly paid to the shipping companies, or will be achieved by the shipping companies. Are there really going to be cost savings once you add the additional costs of delivery and the repayment for the project back onto those owners? Do you believe that there are going to be cost savings to them?

Mr HOWARD — No, I think, in terms of the local economy, no, the costs are going up. The Port of Melbourne has been advocating cost reductions — I will cover that later if I get time to speak on my paper — they have been advocating cost savings when in fact costs are going up. There are a couple of documents here I would like to table. I think it has been referred to already, the Port of Melbourne Corporation's response to the Essential Services Commission port regulation issues review paper, and also pricing policy, which I think sets down certain rates of return. Could I possibly table these?

The CHAIR — Thank you, Mr Howard.

Mr HOWARD — I think if you read the statements made by the Port of Melbourne in response to that, and compare them with the documents on what has been said at the other hearings, you will see a big variance in what has been said.

Just while on the question of cost passing, another submitter at this inquiry, Frank Beaufort, who is president, Australian Peak Shippers Association, the designated peak shippers body, stated that:

... dredging would bring no benefits to exporters. It would only boost the profits of some ... international shipping companies.

That was in the *Age* on 21 February 2005.

Mr HALL — What is his basis of the claim that there will be no benefit to exporters?

Mr HOWARD — He believes that the international shipping companies that derive these benefits from cost savings will not pass them back to the Australian economy. Given the nature and behaviour of shipping companies over the long period of time, frankly, I agree with him. When I read that article I actually phoned Frank Beaufort and he told me that not one dollar would come back to the Australian economy. He is actually presenting at this inquiry. I would also go on to say in terms of the submission he has put in, Frank Beaufort has also stated in a submission to this inquiry that although shippers believe they must contribute to the costs of the project, it is the owners of these large container vessels who stand to benefit significantly from the greater depths who should contribute their share of the cost. It is quite clear.

I do not know how we have got to this point when there has been a blind acceptance that 95 per cent of the benefits of international shipping companies will be passed back to the local economy. It has been argued that it happens through competition. Competition has also been affected. There have been megamergers in the shipping industry.

Meyrick himself in a paper believes that in the year 2025 we will probably be dealing with two major shipping companies. Some competition! I think it is a nonsense.

The CHAIR — Thank you. Mr Barber.

Mr BARBER — No thanks, Chair. I think we are doing fine. I will save questions for follow-up.

Mr TEE — I just want to revisit the issue of the discount rate, and I think you have a concern about the 6 per cent and whether that was high enough. We have a submission — and I think they are giving evidence today — from the Economists@Large & Associates. They have a document and I do not know if you have seen it but what they essentially say is that a discount rate of as high as 14 per cent will give you a positive net present value. My question is, have you seen that and do you agree that conclusion that they have reached?

Mr ROBINSON — What rate has been mentioned?

Mr TEE — They say essentially that you are in a positive right up to and including 14 per cent. At 16 per cent you then start looking at a negative.

Mr ROBINSON — I cannot comment on that because I am not an economist and they are. You have heard from economists this morning. Far be it from me to dispute what they are saying, but I remember that last year at the SEES the rates put forward by Francis Grey, Economists@Large, with a 10 per cent discount rate I thought showed the project to be close to underwater. So that is something perhaps you can take up directly with him.

Mr TEE — Yes. This is Francis Grey and their table shows 14 per cent but they are giving this evidence this afternoon.

Mr ROBINSON — I am older than him and my memory would not be as good.

Mr TEE — Thank you. The other issue is that what you are saying, as I understand, is that if you take into account all the costs you are effectively spending \$1 billion to make \$1 billion. I suppose the concerns I have with that are numerous, but the other evidence we have had today from the Victorian Freight and Logistics Council and from Victorian Employers Chamber of Commerce and Industry says that the figures that the port have used are hopelessly conservative. They say that the real benefits are in the ballpark of \$15 billion or the cost of not proceeding are around \$8 billion. It just seems to me from your evidence that you are sort of chipping away at bits and pieces of port's modelling but the real picture if you believe VECCI and the freight and logistics council is that it is pretty academic because the benefits are so large, really.

Mr ROBINSON — All right. I will answer that one. It is an interesting one but I think we have to bear in mind that, with due respect to the two parties that you mention, they do have a vested interest. From my point of view and from Blue Wedges point of view we have not still included all the costs. One of the issues that gives us great concern is the little thing called the alliance agreement with Boskalis which was put in place in July 2004 before they did a trial dredge. Questions were asked at the EES inquiry about what is the make-up of this alliance, what does it consist of? In part H in the Port of Melbourne's response they listed issues relating to the alliance which is in very brief point form: 7.30, 7.31, 7.32, in which issues such as risk and risk sharing were mentioned. Profit was also mentioned. Our concern was, what does this really relate to in dollar terms in the project? It is interesting, and again I mention Mr Hehir's submission to the SEES inquiry where the alliance was not mentioned. The alliance is a Treasury document. It is put forward under its umbrella and — —

Mr TEE — Sorry, my question was really do you disagree with the economic analysis that VECCI and the freight and logistics council have done?

Mr ROBINSON — Shall we say that I do not have the knowledge to compete with their knowledge. I think it is a question, with due respect to the committee, that should be asked to the economists who will be appearing later on in this inquiry.

Mr TEE — I know. Their economist appeared this morning.

Mr ROBINSON — But I would still like to make a point with due respect in relation to the alliance, because the alliance is — —

Mr TEE — Someone else might ask a question about the alliance. I have only one more question to go.

Mr ROBINSON — I am sorry. Right.

Mr TEE — I am sorry. If there is someone else — I am happy to hear it. Just the other issue and it came from what Mr Howard was saying, and really as I understand your evidence, Mr Howard, it is that the costs are not really being passed on. Savings will be gobbled up, as it were, by the shipping companies rather than passed on ultimately, I suspect, to the consumer.

Mr HOWARD — Correct.

Mr TEE — And again as I understood the evidence from the business community — from the VECCIs of the group — really what they were saying is costs are an issue and they would prefer government — much to my friends' annoyance here — to put in more but ultimately their problem is they just cannot get the ships in. For them the bigger picture issue is just not getting access and I think the figures that they used, which they got from the port, were 44 per cent of ships just could not get it and that really was a problem for them rather than the issue of cost which they ultimately would have to wear.

Mr HOWARD — Sorry, can I just cut across. In terms of — —

Ms WARFE — Sorry, can I just put onto the end of that that what they did not make clear this morning was that that \$15 billion worth of the benefits they were talking about are indirect benefits. They are not nor have we looked at the other side of what the indirect costs are of this project, like having a toxic dump in the bay.

Mr TEE — To be fair, I think they were clear it was indirect, or perhaps I was not that clear when I framed the question but they were quite clear that they were looking at indirect benefits, that is right.

Mr HOWARD — Just on the question of 44 per cent, I think — whilst I hate to keep quoting Frank Beaufort — in response to 30 per cent he previously stated that he believed the figure was more likely 15 per cent. And we do have the question as to how empties get moved around the world. As you have heard today, I think the empties are about 20 per cent. The perfect time to take empties out is on ships that are partly laden, so I do not know whether that cost factor has been factored in.

Ms WARFE — This slide that I have gives you the facts as they were in 2005–06 reporting year. Of 1356 container ships that used the port, only 2 per cent of those elected to use tide assistance; and 30 per cent of them were designed to draw more than 11.6 metres if they were required to, but only 2 per cent of them did. Only 3 per cent of the ships with a draught over 11.6 metres were exiting and less than 1 per cent were coming in. As was said earlier, 20 per cent of container trade is empty containers and 40 per cent of exports are empty containers. Claims that over 40 per cent of ships cannot load to capacity are misleading because that is really talking about some theoretical figure of potentially being draught constrained. If you look at the port's media releases now, they do use the word 'potentially' about draught constrained — if there were goods to be put on them, they may be constrained by the draught.

The other point there is that Murray Goulburn, our largest exporter through the port, exports 23 000 containers per annum, approximately. That is, I would note, about six full ships of current capacity, per annum. I would say that there is not any good evidence that importers or exporters or farmers do need channel deepening and that the facts are being distorted at the moment.

Mr HOWARD — If I could just add to what I said a moment ago, I have actually found the reference now. It is an article, 'Exporters break ranks on bay dredging plan':

Mr Beaufort challenged shipping industry figures — often used by the Port of Melbourne to justify the project — that 30 per cent of ships calling to Melbourne must be underloaded to avoid hitting the bay floor.

'That is an exaggeration for press purposes, to make it sound more alarming,' he said. 'It would be more like 15 per cent'.

If I can table that press article.

Mr TEE — My final question, just coming back: if it is not necessary, why is it that we have the VFF and the business community banging down the doors to get the dredging done? Are they being misled? Why is it that these groups are so passionate about the dredging if it is not needed?

Ms WARFE — Well, I can only speculate about that, that perhaps they are doing the bidding of government who are committed to an infrastructure project for the sake of being committed to an infrastructure project, which in my view is now outmoded and should be rethought with a view to the 21st century, not the middle of the 20th century.

Mr TEE — I suspect that if they are committed to infrastructure around transport they would prefer to spend the money on trains but, anyway, that is an argument for another day.

Mr HOWARD — We can't get even a decent bus service down our way.

Mr GUY — Ms Muir, Polperro Dolphin Swims sounds like a small business, to me.

Ms MUIR — It is a microbusiness. I do not come here to represent my own business but rather a geographic area of the Mornington Peninsula, which will be hugely impacted if the effects of the Channel Deepening Project did have the consequences that we so fear from a project of this size, a project of this size that has not been done anywhere else in the world. We do fear that if there is even a perception of harm to the bay there will be a downturn in ecotourism, and this is one of the largest and exponentially growing businesses in tourism. People are seeking that which is getting harder and harder to find, a green experience. Tourism should really all be a green experience, I suppose. We also know that there is a multiplier effect. If you look at the region that I am in, it is geographically constrained. We cannot go somewhere else for a job. We have sea on 190 kilometres of our 210-kilometre circumference, if you like, around there and we have a 5-kilometre edge with Frankston, which does not offer any potential for employment for anybody displaced on the peninsula. In the geography of jobs study it does say that this is the most self-contained area for employment. Most of the jobs on the peninsula — 80 per cent of them — are taken up by locals and the largest employment sector is tourism, and that is from the council's own study.

I understand from Meyrick, when I asked him, he said, 'Well, we just say if we spend \$1 million here and you make \$1.2 million and somewhere else it will make \$1.5 million, we don't care where the losses are as long as the gains are somewhere in the state'. I just think that we do not actually understand the losses that will come from the multiplier effect. We source wetsuits, as do most dive industries, in Dandenong, where they make Australian-made products, locally made goods — this is an example of another industry affected — and there is also the example of our local ships chandlery. There is so much that is sourced locally from a very diverse and collection of microbusinesses. Tourism in Victoria is all about microbusinesses — it is not about large businesses — but collectively the micro-businesses are important. The Mornington Peninsula has the tourism sector as the largest employment provider.

Mr GUY — That is very good. I had only one question — —

Ms MUIR — I am glad I amuse you. I do not know why somebody should be — —

Mr GUY — I am not amused. I have not actually asked the question as yet. I just wanted to more or less know from you, given that this government was elected on a platform that they consulted — that no-one consults except for these guys — I just wanted to know from you, as an operator of a small business, how much consultation you had as the operator of a business before the decision was made.

Ms MUIR — We had a lot of delivery of information. If consultation is a two-way street, then that was limited, initially. That was badly handled. Later on, I was invited to represent on the channel deepening stakeholders committee and that took in a number of people, including myself, as representing tourism in the local area and in the maritime region. Consultation was not the name of the game. It was actually delivery of information on a project that was being imposed, rather than listening to the applied knowledge of people who work on and around Port Phillip and because the project is multidimensional in its effects. I suppose my background is largely environmental rather than economics but we do not have the potential to grow — the potential exists but is limited by the imposition of the project, because we have the constraints of possible threats of the CDP to the industry. This has been five years — five years of not being allowed to grow, and we are on the crest of, really, international iconic status, with being the only industrialised city in the world where you can go and swim with wild dolphins. That is a bit of a drawback. It is also a hook to a whole region. So what might be seen as a microbusiness really has a fairly large impact, if it is extrapolated across a region.

Mr GUY — Thank you.

The CHAIR — Just on that point, Ms Muir, if the project had not been delayed for five years through objections, surely you would not have had that five-year hiatus on being able to grow?

Ms MUIR — And we may not have one shred of tourism or environment left. I am very glad that the processes allowed us to have a voice one way or another, and I can only hope we get the best outcome out of this. But it would be foolish to say in a democracy that there would not be a chance for people in this enlightened day and age to voice concerns about the imposition of a project of these dimensions, a project of dimensions unheard of anywhere else in the world, and while we know that where they have done channel deepening there have been large consequences that have severely impacted local economies in one way or another. I would think that would have been a worse outcome than delaying the channel deepening project for five years for due consideration.

Mr ROBINSON — Chair, in relation to that, because the panel handed down 137 recommendations for further work to be done because they were not happy with the results at that inquiry, that is what led to the SEES. It could be contested that if the Port of Melbourne had done its job properly in the first place we would not have had an SEES and we would not be here today either.

The CHAIR — Thank you, Mr Robinson.

Mr BARBER — A final question. For the benefit of Mr Howard I have the Essential Services Commission's *Ports Monitoring Report 2005–06*. I do not know whether that was one of the documents you passed up before. It is at table 4.1 where the ESC says that the proportion of vessels visiting the port that are draught-constrained is 14.1 per cent. I just have a quick question for Mr Robinson. Given that the nature of the alliance agreement between the port and — —

Mr TEE — You have got your alliance question.

Mr BARBER — And Boskalis is one of our terms of reference, what questions should we be asking if we were to get a look at that alliance agreement which you have not?

Mr ROBINSON — All right. One of the issues we have got is the costs of the project. In my opinion the costs of the project are hidden to a large extent in the Boskalis alliance agreement because that is where the majority of the costs lie, and they are all commercial in confidence. How can you come up with the cost of a project if you cannot delve and sustain and put forward the facts for dissemination and transparency? The department's guide states:

Project alliancing should generally only be considered in the delivery of complex and high-risk infrastructure projects, where risks are unpredictable and best managed collectively.

For some time they have been telling us there is no risk. If there is no risk why are we using an alliance? The other point that comes out of the alliance — —

Mr BARBER — If there is a high risk then there is a high discount rate.

Mr ROBINSON — That is dead right. You cannot have it both ways. They are having a bit each way, and at the moment they are on a winner on both, and they should not be.

One of the issues that comes out of the *Project Alliancing Practitioners' Guide* — their words not mine is 'the absence of legal recourse between participants, except in the event of wilful default and acts of insolvency'. Another point says that 'There is no cap on the potential cost of the project' — their words not mine. And yet here we have the major cost of an infrastructure project which has not been subject to scrutiny.

I asked many questions at the SEES inquiry about Boskalis and, as we well know, it was outside its terms. The questions were answered in the main by the Port of Melbourne. We had a dredging alliance in place when they did the trial dredge in the entrance, and one of the major issues I asked was whether Boskalis was subject to a penalty for the damage they caused in doing the trial dredge? No. Why not? It was outside the terms of the alliance. The alliance only referred to the capital dredging program. My question is: how many alliances are there? What are the terms and conditions? If it goes pear-shaped, who picks up the tab? They are potentially high costs which would blow this project completely out of the water.

Ms WARFE — Particularly given the history of Boskalis's activities around the world, which are documented in our submission.

Mr HOWARD — Excuse me.

The CHAIR — Mr Howard?

Mr HOWARD — Can I just get in one point here? I know you have been talking about comparing the charges in each of the ports. It is not directly related to charges, but I came across another article, once again from Frank Beaufort, who seems to be well involved in shipping matters. His comments are in relation to a previous chairman of the Port of Melbourne saying that Melbourne is the lowest-priced port in Australia. Admittedly the Port of Melbourne Corporation's charges are competitive, but when one adds to these charges the cost of the 4-hour pilotage up and down the bay and the high cost of tugs up and down the Yarra River, the cost of bringing a ship into Melbourne is more than bringing one into Brisbane, Sydney, Adelaide or Fremantle.

The CHAIR — Thank you.

Mr HOWARD — So far as going up and down the bay it is.

The CHAIR — The committee appreciates your attendance here this afternoon, and the evidence you have given, as well as your substantial written submission which I found very detailed. We will have a draft version of the transcript to you in the next couple of days for any corrections you wish to make. The committee appreciates your efforts.

Mr HOWARD — Thank you for hearing us.

Witnesses withdrew.