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STANDING COMMITTEE ON FINANCE AND PUBLIC ADMINISTRATION

Inquiry into Port Phillip Bay: channel deepening

Melbourne — 6 June 2008

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Mr J. Betts, secretary,
Mr T Garwood, executive director, freight, logistics and marine, and
Mr M. Curry, director, ports and marine, Department of Transport.

The CHAIR — I declare open the hearing of the Legislative Council Standing Committee on Finance and Public Administration. Today's hearing is into the inquiry into the Port Phillip Bay channel deepening project, specifically the business case for the project as presented by the Port of Melbourne Corporation and the Victorian government and the legal and financial arrangements between the Port of Melbourne and Boskalis Australia Pty Ltd and/or its parent company, Royal Boskalis Westminster.

I welcome Mr Jim Betts, the Secretary of the Department of Transport; Mr Mark Curry, the director of ports and marine and Mr Terry Garwood, the executive director of freight, logistics and marine, from the Department of Transport.

All evidence taken at this hearing is protected by parliamentary privilege as provided by the Constitution Act 1975 and further subject to the provisions of the Legislative Council standing orders. Any comments made outside the precincts of the hearing are not protected by parliamentary privilege. All evidence is being recorded by Hansard. Witnesses will be provided with a proof version of the transcript in the next couple of days.

I now invite you to make an opening statement before we proceed to questions.

Mr BETTS — Thank you, Chair. To introduce myself and my team, I am Jim Betts. For the last three weeks I have been the secretary of the newly formed Department of Transport. Next to me I have Mark Curry, director of ports and marine in the department, and next to him is Terry Garwood, executive director of the freight, logistics and marine division of the department.

The Department of Infrastructure became the Department of Transport, DOT, on 30 April. The purpose of the change was to provide a stronger focus on the delivery of transport improvements within Victoria. DOT is responsible for the management and continual improvement of Victoria's arterial roads, its heavy and light rail networks and services, freight and logistics, and the ports and marine sectors.

DOT supports two ministers, the Minister for Public Transport, Lynne Kosky, MP, and the Minister for Roads and Ports, Tim Pallas, MP. My role is to lead DOT in enhancing and implementing government policy for infrastructure planning, investment and delivery in Victoria. Within DOT there are a number of divisions, including freight, logistics and marine, or FLAM. The role of FLAM is to provide support to me and the ministers in developing and implementing the government's agenda for the freight, logistics, ports and marine sectors. The executive director of FLAM is Terry Garwood.

Within FLAM there are four branches, comprising the office of the executive director, freight and logistics, ports and marine, and Marine Safety Victoria. The ports and marine branch of FLAM is responsible for providing advice in respect of the planning, management, regulation and development of Victoria's four commercial trading ports, including the port of Melbourne, and key port projects, including the channel deepening project, or CDP. The director of ports and marine is Mark Curry.

The port of Melbourne is a significant driver of the Victorian and Australian economies. The Victorian government submission to the committee explains the relevance of the port and the CDP to various government policies and strategies and elaborates on the important role played by the port. The port is Australia's largest container and general cargo port, handling approximately 37 per cent of the nation's container trade. It is widely recognised as Australia's premier trading gateway to the world, handling around \$75 billion worth of trade annually. On average, it handles \$90 million worth of exports every day. The economic output of the port in 2004–2005 was estimated by PricewaterhouseCoopers (PWC) to be \$2.5 billion per annum, generating approximately 13 700 jobs. In that year, some 3400 commercial vessels visited the port, and each visit was estimated on average to have produced \$733 000 of economic output, \$334 000 of value-added output and four full-time jobs for each commercial vessel.

Total trade through the port grew by 10.4 per cent for the 2006–07 financial year and Melbourne's container trade has grown by almost 8 per cent on average for the past 16 years. In 2007 the port handled a record 2 million standard containers, or TEUs, in the 12-month period and is expected to handle 2.2 million TEUs in the current financial year. Trade growth is expected to remain strong as Victoria's population and economy grow.

The sustained growth in worldwide container trade has corresponded with increases in the size of container ships, which enable the same number of containers to be shipped with fewer voyages, resulting in lower unit freight costs and other operational efficiencies. As these larger container ships require deeper channels to access ports fully loaded, the issue of comparative depths of channels has become a major factor in competition between ports. In the

context of the world trade market, adequate channel depth is strategically critical if the port is to remain competitive and retain its position as Australia's leading international container port.

In essence, the rationale for the channel deepening project is that, because of insufficient depth of the shipping channels, an increasing number of container ships will need to enter and leave the port with lighter loads than their operators would prefer. This means that ships are operating at suboptimal capacity, which results in higher costs per unit of goods shipped and, consequently, higher prices for those goods.

In the mid-1990s the port reform unit of the Department of Treasury and Finance, DTF, had primary responsibility for ports. During this period DTF oversaw a number of major port reforms, culminating in the enactment of the Port Services Act 1995 and the privatisation or corporatisation of Victoria's main commercial trading ports.

By the late 1990s DOT began to progressively assume responsibility for ports matters, particularly in relation to policy and planning. In 1999 DOT and DTF jointly commissioned the Victorian ports strategic study, which was completed in January 2000. The aim of the study was to enable the government to gain a long-term perspective of the infrastructure issues associated with the Victorian ports. The study identified inadequate channel depth in the port as a major emerging infrastructure constraint — this was in 2000. Around this time, VCA commenced initial inception and feasibility work on the need for channel deepening, and liaison on the project commenced with DOT.

VCA commissioned an initial study by Drewry Shipping Consultants which indicated that there were sufficient benefits to be derived from channel deepening to justify further investigation. VCA then commissioned seven preliminary feasibility reports to consider channel design, port operations, geotechnical conditions, environmental considerations, hydraulics and sedimentation, economic benefits and the economic impact of channel deepening on the Victorian economy.

Two economic studies, undertaken by the National Institute of Economics and Industry Research and Booz Allen Hamilton, considered alternatives to deepening the shipping channels serving the port, including: developing an alternative container port elsewhere in Victoria — Hastings was assessed — and moving freight through an alternative Australian port and land bridging it to and from Melbourne.

These studies demonstrated that the preferred option was to deepen the existing channels to the port and fully utilise, and therefore maximise the benefits from, the existing infrastructure and facilities within the port. The NIEIR study, in particular, identified the higher transport costs of the Hastings and interstate options and the higher opportunity cost associated with the capital expenditure needed for Hastings infrastructure. The study concludes:

The channel deepening scenario is clearly the preferred option. Even when using very pessimistic values for the key assumptions, the preference for channel deepening over the other two options remains unambiguous.

In December 2001, following positive results from the preliminary studies undertaken by the VCA, which indicated that there were no insurmountable technical impediments to deepening the channels and that significant economic benefits would flow from the proposal, the government gave its in-principle support for channel deepening on the following bases: first, the proposal meeting the requirements set down in the Environment Effects Act; second, the satisfactory resolution of all technical issues relating to the proposal; and third, the acceptance by government of a sound financing strategy for the proposal.

In March 2002 the Australian government Minister for the Environment and Heritage decided that the CDP was a 'controlled action' under the Environment Protection and Biodiversity Conservation Act 1999.

In May 2002 the Victorian Minister for Planning confirmed that an environment effects statement was required under the Environment Effects Act 1978 for the CDP. Shortly after the Australian government Minister for the Environment and Heritage decided that the approach to be used for assessment of the CDP under the commonwealth act was assessment by accredited process — that being the process under the Environment Effects Act 1978.

Since the government gave its in-principle support to the project in 2001, a number of mechanisms to review, advise on and support the project have been implemented, including the establishment and administration by DOT of the Channel Deepening Advisory Committee and the Channel Deepening Project Taskforce; the DOT Project Review Committee; the DTF Gateway Review Process; and the joint commissioning by DTF and DOT of an independent economic impact study. Each of these mechanisms fed into the final government approval in December 2007. I will now describe each of them in more detail.

The Channel Deepening Advisory Committee was established by DOT in 2002 to provide whole-of-government input to POMC in the development of the CDP and the EES for the project. The committee comprised representatives of relevant government departments and VCA, and then POMC.

The Channel Deepening Taskforce was initially established in April 2005 as a result of a recommendation from the panel inquiry into the EES that a high-level project management group representing interested government departments and agencies and POMC be convened. The requirement for the task force was confirmed by the Minister for Planning in his statement in response to the panel inquiry in July 2005.

The broad purpose of the task force is to support and provide advice to POMC in taking the CDP forward and to coordinate whole-of-government input to the project. The task force comprises members from DOT, DTF and POMC as well as the departments of Sustainability and Environment, Premier and Cabinet, Industry, Innovation and Regional Development, Primary Industries, and Planning and Community Development. The Environment Protection Authority and the Office of the Environmental Monitor also attend in an observer capacity. Terry Garwood, the executive director of FLAM, is the current chair of the task force. The task force continues to meet on a monthly basis, and I rely on Mr Garwood to brief me as necessary on the progress of the CDP. Mr Garwood and Mr Curry also provide regular briefings to the minister on the progress of the project.

Next up, the Project Review Committee of DOT is an internal review mechanism established by the department to review major project proposals over the value of \$10 million. The PRC ensures that such projects within the DOT portfolio have been developed to a high standard — for example, that projects have demonstrable strategic and economic merit and that they are accurately costed, scoped and planned.

The CDP proposal was initially considered by PRC in July 2003, in conjunction with the preparation of the EES. The proposal did not proceed to final endorsement at that time as, after considering the EES process, in 2005 the Minister for Planning required the preparation of a supplementary EES. As the SEES process approached finalisation, the CDP proposal returned for consideration by PRC in August 2007 and was reviewed and finally endorsed by the committee in October 2007.

In parallel with the PRC process, in November 2004 and September 2007 the CDP business case was subject to the Gateway Review Process established and managed through DTF. POMC has advised that it received a favourable report for the CDP proposal from the Gateway Review Process in September 2007.

In 2006, in order to provide an economic assessment of the CDP independent of the proponent of the project, DOT and DTF commissioned PWC and the Monash University Centre of Policy Studies to prepare an economic impact study of the port and the CDP. The EIS was released in March 2007. It found that, based on a conservative and robust methodological approach, in 2004–05 the port generated a total economic impact of \$2.5 billion per annum, and the port supported 13 748 full-time equivalent jobs. The EIS modelling estimates an overall net national welfare gain from the CDP of \$2.2 billion in net present value terms. It is important to note that the economic modelling assumes that the costs associated with the CDP are borne by its beneficiaries. The increased tariff implemented by POMC is therefore reflected in the modelling.

The Victorian government submission to the committee explains in some detail the evolution of the financial and economic analysis for the CDP and the key findings which underpin the business case. I would like to reiterate and reinforce some key points. From the time of the project's inception to achievement of final approvals in December 2007, the project's design, scope and estimates of costs and benefits have been progressively refined and confirmed as technical and scientific knowledge has increased and environmental compliance requirements have been clarified. All standard economic analyses undertaken for the CDP have indicated that it would give rise to significant benefits for the Victorian and Australian economies. Those are set out in our submission.

In preparing various economic analyses Meyrick and Associates undertook a range of sensitivity tests, including a test involving a 20 per cent increase in project costs. This translated to a nominal project cost of \$767 million, or a direct project cost of \$944.7 million, and a present value cost of \$708 million, resulting in a revised BCR of 2.7.

After completion of the SEES, the direct cost estimate for the CDP increased from \$763 million to \$969 million due to a range of factors including the cost impact of implementing the recommendations in the Minister for Planning's assessment, additional environmental monitoring, updated costings for fuel and exchange and updated alliance costs. As the cost figure used in the sensitivity analysis by Meyrick and Associates was not significantly

less than the final cost estimate for the project, the BCR was considered unlikely to deteriorate to any material extent and was not revisited when the government considered the final business case.

Since lodgement of the Victorian government submission to the committee, Meyrick and Associates have, at the request of POMC, prepared a final estimated BCR for the CDP. I can advise the committee, for your further information, that the final BCR is 2.57, based on PV benefits of \$1936 million and PV costs of \$754.1 million. This produces a net present value of \$1181.9 million and an internal rate of return of 13.3 per cent.

In terms of the economic impact assessment undertaken by PWC and Monash University Centre of Policy Studies, the increase in project cost is not expected to materially impact on the estimated net benefit over the life of the CDP. It remains reasonable to assume that the net welfare gain would be in the order of \$2 billion, and on this basis the modelling was not revisited.

I now turn to the alliance agreement. The Victorian government submission to the committee sets out the background and rationale for the use of an alliancing approach in procuring dredging and related services for the CDP. Ultimate responsibility for procurement for the CDP rests with the POMC as project proponent and, as noted, POMC has all the necessary powers to enter into a range of contracts and agreements as appropriate to carry out its functions.

Alliancing is a widely recognised form of procurement applicable in well-defined circumstances, as set out in the *Project Alliancing Practitioners' Guide* released by the government in April 2006 and attached to the Victorian government submission. DOT assisted VCA and POMC in the selection process for the preferred alliance partner and provided advice to POMC in the process of finalising the project alliance agreement with Boskalis.

In the government's view, the alliance agreement provided the most effective approach for managing the development and delivery of such a unique, large and complex project. It enabled a collaborative approach, leveraging Boskalis's extensive international experience and expertise, to be taken to solving the unique technical problems associated with dredging at the entrance. In particular, the alliance agreement facilitated the conduct of the trial dredge program by Boskalis in 2005, which was critical to proving the effectiveness of the technology ultimately incorporated in the project design.

Similarly, the alliance approach enabled the cooperative development of effective approaches to management and mitigation of environmental impacts of the CDP through adaptation of project design to minimise impacts and the development of a comprehensive, robust environmental management plan for the project.

I understand that POMC and Boskalis will be appearing before the committee later today and they will be in a position to provide further information on this aspect of the project as may be required by the committee. I now welcome the committee's questions.

The CHAIR — Thank you, Mr Betts. I would like to take you back to an issue you touched on at paragraph 24 of your statement in relation to other projects. One of the criticisms this committee heard in evidence yesterday was that the channel deepening project has been considered in isolation from other possible projects. You have referred to the study by Booz Allen Hamilton and the National Institute of Economic and Industry Research, which considered the port of Hastings and alternative Australian ports. Was any work other than that particular review undertaken by your department or the project review group to consider alternatives to the channel deepening project?

Mr BETTS — There is plenty of work going on in the department around a range of different options to improve the performance of the supply chain's freight and logistics industry in Victoria. I might ask Mark Curry to give you a little bit more background on that, if it is okay.

Mr CURRY — There is considerable work being done in the department, as Mr Betts said, in terms of long-term strategic planning for the port system in Victoria. The Victorian Ports Strategic Framework, for instance, in 2004 looks at the roles of the different ports in Victoria and sets out a sequence of development over the next 30 years, and that certainly considers the role of Hastings in the future. Planning has been initiated for Hastings as an overflow port for Melbourne to come into effect in around 20 to 30 years time, once Melbourne reaches capacity. Beyond that, there has been work done on relative costs of land bridging, for instance, from other ports, as is reflected in view NIEIR work and in the Booz Allen work. I think the simple answer is that the results of the

NIEIR and the Booz Allen work were quite compelling in terms of the cost advantage of channel deepening as opposed to using other ports.

The CHAIR — So at the time the government reached its in-principle support for channel deepening, which was December 2001, the other alternatives were discounted on the basis of the Booz and NIEIR work.

Mr CURRY — Including on the basis of the Booz and NIEIR work, yes.

The CHAIR — And there was other internal work at that time, which — —

Mr CURRY — As I said, there was general consideration of the costs of utilising other ports and land bridging and the like, but they were the primary pieces of work.

The CHAIR — And subsequently there has been no further consideration of those projects in the context of evaluating the channel deepening project in the subsequent studies.

Mr CURRY — There have been no specific studies commissioned.

Mr BETTS — Certainly not as alternatives to the channel deepening project. Clearly we think strategically about the role the port of Hastings can play in the future, and it will have a role to play.

The CHAIR — One of the issues — again it was raised in evidence yesterday — was the benefit-cost ratio, and I see there is a revised one you have included today. With respect to wider work done by the department of infrastructure and now transport — presumably your project review group — what is a typical range of BCRs where the department considers a project viable for a large infrastructure project?

Mr BETTS — Clearly the BCRs for projects will vary very considerably depending on their purpose, scope and so on. We would generally regard a project with the BCR of greater than 1 as a project which should be given very serious consideration for implementation. In the scheme of things, a BCR of 2.5 to 2.57, for instance, would be regarded as a very healthy project in terms of its generation of benefits relative to cost.

The CHAIR — In the delivery of this project were other models considered besides the alliance model that is being used now? For example, was the PPP model considered and was that dealt with through DOT or the Port of Melbourne?

Mr CURRY — I understand it was the VCA at the time, the predecessor of the Port of Melbourne Corporation, which was responsible, was the proponent at that time, and did consider other more traditional contracting models, but the proponent considered the alliance approach to have significant advantages over those alternatives and that was the approach opted for at that time.

Mr BETTS — For any major project where we were approaching a procurement phase, indeed a business case stage, we would look at the full range of different procurement options available. Obviously we would look at traditional contracting methods. Private finance is always considered in major infrastructure projects.

Alliancing is something which is coming to the fore now in Victoria. It has been used now for many, many years in the oil sector, for instance, but is now finding its application more generally. It has considerable attractions relative to other methods of project delivery, particularly where a project is complex, has multiple stakeholders, and where many factors are unknown at the project's inception which require the development over time of a more sophisticated approach to developing project scope and to pricing it. We are seeing alliancing now, not just in the channel deepening project, but in some of the rail projects which are being undertaken by the department.

The CHAIR — One of the issues raised yesterday was that if this project was so compelling why is the private sector not jumping to get involved? Do you want to address that in terms of the considerations you gave to getting private involvement?

Mr BETTS — I guess the same criticism could be levelled at any interaction between the state sector and the private sector. The purpose of an alliance agreement is to ensure that the private sector and the public sector come together to team up to manage the risks associated with the project in such a way that those risks are minimised overall.

If the private sector makes a profit from that, that is not a crime, but the way alliance agreements are generally structured is in such a way that there is a fair distribution of benefits between the parties and there is a fair distribution of costs, should they arise during the course of the project.

Mr BARBER — It is not so much a matter of ‘fair’, as who is best equipped to manage the risk, isn’t it?

Mr BETTS — That is right, and alliancing underpins a view that where risks are jointly tackled through collaboration, that is often the best outcome in managing a project.

Mr VINEY — Yesterday we had evidence before us that questioned some of the assumptions that the business case has been developed on, in particular some questions, assumptions about growth of trade through the port.

Have you got any comments on that — and I assume that was based on the Meyrick and Associates’ work, those assumptions — or do you retain confidence in that work and still have a view that future trade through the port will grow?

Mr BETTS — I will pass that over to Mark Curry to answer in a moment. Clearly when you are putting together a project which has implications over many decades you are required to make a series of forecasts and assumptions. Each forecast and each assumption is eminently contestable. There is no absolutely provable scientific answer.

The criterion I would apply is whether the assumptions being used are as reasonable as any other assumptions that could be used, whether it is forecast levels of trade or whether it is discount rates or whatever.

There is no absolute, right answer and I think we need to bear that in mind as the debate plays itself out. I will hand over to Mark because I think our general view would be that the business case is based, if anything, on conservative assumptions.

Mr CURRY — Just to pick that up, I think it talks in the statement about, over the past 16 years, the average rate of growth of container trade to the port of Melbourne has been of the order of 8 per cent per annum. That is a very rapid rate of growth. Containerisation is a relatively new phenomenon. It really only commenced in the 1960s and 1970s and there has been a very rapid take-up of that as a method of trading.

The projections going forward over the next 20 to 30 years in the business case that Meyrick has developed are lower than those. They are of the order of 5 to 6 per cent, so significantly lower than the historical trends. That is based on, I suppose, a conservative assumption that containerisation will not continue to increase as rapidly as it has in the past.

The argument would be that they are reasonable and conservative assumptions. If anything, you might argue that they could be seen to be on the low side. Certainly there is a risk of higher growth than that. That has been seen in the last few years in the port where that rate of growth has continued at a higher level than was perhaps anticipated around 2000, for instance.

The other crosscheck, if you like, that the department has had is that there are figures also produced by reputable bodies such as BTRE which look at trade growth forecasts for Australian ports generally and they are very similar to the sorts of rates of growth that are used by Meyrick in their projections.

Mr VINEY — There was also some questioning about the assumptions or the position in relation to the number of vessels that are coming in or out, not fully laden, and there was a suggestion that these figures had been overstated. Has the department done any sort of checking of those underlying assumptions about that question of shipping and the capacity of ships coming in and out of the port?

Mr CURRY — The number of ships which are potentially draught constrained — that is, that actually could use greater depth than currently is available in the port — are figures that have been provided to us by the port and regularly recorded by the port.

The department has not done an independent audit of those figures but those figures are consistent with the pattern that we would expect and with the information that we get from industry about their deployment of larger ships to

the Melbourne services, and are certainly consistent with our understanding of the rate of increase of those kind of vessels in this area.

Mr GARWOOD — Just to add to that, that is something that the Port of Melbourne Corporation could talk in detail about, but obviously the Port of Melbourne Corporation has detailed technical information about ships that are coming in for safety purposes, for its own financial purposes et cetera, so those figures provided by the port we are absolutely quite satisfied with. I am sure the port would provide further information to the committee in relation to that.

Mr VINEY — The third area that we heard yesterday, of criticism of the processes, was the approvals process and it was alleged that this project had not followed some of the normal procedures for approvals. Have you got any comment or can you shed some light on that?

Mr BETTS — What was the criticism; what approvals were claimed to be lacking?

Mr VINEY — I think that is a good question. What was put to us was that the normal processes of evaluation and approval did not take place on this project.

Mr BETTS — Again I will hand over to Mark, but I point out that I think eight years worth of work has gone into a project which commenced earlier this year, so to suggest that this is a project which is light on review or light on approvals intuitively does not make sense.

Mr CURRY — Look, I am not aware of any — certainly all statutory approvals for the project have been complied with, both at a state and federal level, and all the normal processes of internal review, as Jim said, and government approval have been complied with. So I am not aware of any stage of approvals or form of approval that has not been secured for the project.

The CHAIR — Can I ask that witnesses and the committee ensure that their mobile phones are switched off, because they are interfering with the Hansard recording system — possibly that one there.

Mr GARWOOD — If I could just add to that, the approvals process, from our point of view, was a very rigorous approvals process, both from the state and the commonwealth level. More than that, it was also subject to legal challenge at the federal level for further scrutiny in relation to the approval process at the commonwealth level. So in terms of all the relevant statutory requirements, those approvals were obtained and the lead-in to that of course was the EES process and the supplementary EES process, and the committee has been provided with the volumes of material associated with the lead-up to that, which then culminated in the Minister for Planning's assessment, which then led to the subsequent statutory approvals, both from the state minister and the commonwealth minister.

Mr HALL — First of all, thank you, gentlemen, for your comments this morning. Could I, first of all, ask what is the working relationship between the Department of Transport and the Port of Melbourne Corporation?

Mr BETTS — The Port of Melbourne Corporation is formally established under statute and reports to the Minister for Roads and Ports. The department's role is to work very closely with the port to advise the minister on port-related issues, and therefore there is regular and intensive interaction between the two organisations, DOT on the one hand and the Port of Melbourne Corporation on the other. Mark Curry is our key contact point for Stephen Bradford and the team down at the port.

Mr HALL — In terms of DOT's involvement in this project I think you have said in the submission, Jim, that it came around the year 2000 when the VCA, the Victorian Channels Authority, commenced initial inception and feasibility work on the channel deepening project. Was that your first involvement at a departmental level in this project?

Mr CURRY — Yes. I think, as the statement also says, in 1999 the DTF and the department commissioned a joint study entitled the *Victorian Ports Strategic Study*, which was a major piece of work looking at the role, future growth potential and infrastructure needs of all ports. It came to the finding in looking at infrastructure generally and the adequacy of infrastructure that channel deepening or the depth of channels in the port of Melbourne was a particular concern going forward, was going to be a constraint, and that was one of the key studies which initiated the VCA as the proponent or the waterside operator of the port of Melbourne, to start to

consider the need for channel deepening and start to launch into its inception studies, the Drewry shipping study in particular. It was roundabout that time that the conversations and discussions and interaction with the VCA department started to focus on the issue of channel deepening.

Mr HALL — Thank you for that. Can I also ask about the project review committee. I note at paragraph 37 of the submission you talk about the project review committee for this particular project you also mention that a similar processes established for any project over the \$10 million. So for any project that DOT is involved with to a value of over \$10 million, is a separate project review committee formed for each of those projects?

Mr BETTS — The project review committee is a standing piece of machinery within the department which reviews each project as it comes through — each project in excess of \$10 million in value. So there are parts of the department — we have a capital planning and review division which dedicates its life to making sure that as projects are proposed they are properly scoped, properly justified, properly costed. So, yes, each project, whether it is a rail project or a road project or a ports project, will be subject to review by that committee.

Mr HALL — And the workings of that committee, the outcomes, are they public documents or just simply advice to government?

Mr BETTS — It is advice to government.

Mr GARWOOD — I would just add to that that there is also a peer review element built into the project review committee, which is that we have to engage outside independent experts who are put onto the PRC process for the purpose of adding outside expertise in the reviewing of projects. So it is an additional element, quite apart from the fact that a range of the divisions of the department are represented and as well departments aside from DOT. So the Department of Premier and Cabinet and the Department of Treasury and Finance are also involved.

Mr HALL — This process of project review committees would apply to any roadworks — for example, a section of road that is opened — of more than \$10 million in value?

Mr BETTS — I believe that is right, yes.

Mr CURRY — Yes, it would have to be.

Mr HALL — Rail standardisation et cetera?

Mr BETTS — Yes.

Mr GARWOOD — All projects over \$10 million.

Mr BETTS — It is one of the forums that we use to try and ensure that an integrated approach is adopted to transport planning, so that if a proposal is coming forward from the public transport side of the department for passenger rail services, for instance, the interests of rail freight are appropriately looked after.

Mr GARWOOD — I might add it is a rigorous process, and we need to prepare — if you are a proponent division, in our terms, you need to actually do your homework before you present yourself before PRC, I would have to say.

Mr BARBER — Is it the government's position that all the costs and paybacks of this project are going to be borne by port users, taking up those amounts that have already been contributed by the state?

Mr BETTS — My understanding is that the Port of Melbourne Corporation's intention is that the total cost of the project should be financed through user charges over time, such that the residual cost to the port is zero.

Mr GARWOOD — If I could just add to that, there is a contribution from the government — —

Mr BARBER — We know about that.

Mr GARWOOD — It is \$150 million to the project and associated land infrastructure.

Mr BARBER — You say it is the port's intention. I am asking if it is the government position just because a number of your key barrackers turned up here yesterday somewhat taken aback and now lobbying that those port charges should be reduced or constrained or that the state should put in more money. To be clear, that is not the government's position, is it?

Mr GARWOOD — I can be clear on that. The government has made its position clear. It has made a contribution and that the port users are required to pay for channel deepening.

Mr BARBER — So when there the PRC and/or the Gateway groups were looking at these at this project, am I right in guessing that they looked at it as: here are the costs which will be borne by the port; here are the revenues which will be retained by the port; and the business case was effectively matching of those two?

Mr BETTS — Yes. That would have been a subcomponent of the considerations. It was not as simple as that. There was plenty of material which was reviewed as part of the business case but that would be the fundamental financial equation.

Mr BARBER — All the information that is released publicly and that we have been talking about is economic analysis. It is about the benefits to some group of people versus the costs, and so I am asking you to assure me that the analysis of the Gateway group which you said reported in September 2007 looked at this as a commercial project which would be contained within the port's balance sheet.

Mr BETTS — Not having been at the Gateway discussions I cannot comment on that, but I am sure that was right.

Mr CURRY — We would need to get the port to confirm that in terms of the Gateway process.

Mr BARBER — Were not you guys on the Gateway?

Mr GARWOOD — No. The Gateway is a process that is responsibility of the Department of Treasury and Finance. It is not the responsibility of the DOT.

Mr BARBER — So you were not on it?

Mr GARWOOD — No. We were not a part of the Gateway process.

Mr BARBER — Did the PRC do the analysis that I just described, which is expected revenues from user charges and a little bit from the government versus the costs hurdle rate of return that the port is required to deliver — that is your business case. Is that what the PRC looked at?

Mr GARWOOD — Yes, that is what the PRC considered.

Mr BARBER — What were the headline sort of findings at that: the NPVs, rate of return?

Mr GARWOOD — Those are listed here in the submission. Perhaps if you would like us to go through them?

Mr BARBER — No. Sorry, which submission? The government's submission?

Mr GARWOOD — Yes.

Mr BARBER — Does that report the outcomes of the PRC analysis?

Mr GARWOOD — It reports the benefit cost — sorry the BCA process as reported here.

Mr BARBER — Yes, not the public stuff that we have already seen. I am asking about the specific business case — —

Mr CURRY — We are not at liberty to talk about the detailed considerations of PRC because that does constitute advice to government. But I think in the broad we can say that the benefit-cost analyses that are made public here were considered or fed into that process.

Mr TEE — Sorry, where you say ‘here’ in your submission, can you just point that out?

Mr CURRY — Yes.

Mr TEE — And is that in your written submission or in the submission you gave today?

Mr CURRY — In both. The witness statement reflects the government submission — if you go to point 53.3 in particular.

Mr TEE — Thank you.

Mr BARBER — So you cannot tell me what the NPV for the port of this project was as a result of the PRC analysis?

Mr BETTS — The role of the PRC is to review documentation which would in any case have to be prepared in order for the project to be justified — for instance, the business case. Therefore PRC does not generate in and of itself a whole bunch of analysis purely for its own purpose. It reviews documentation which is going to be created anyway, so PRC’s consideration would be focused on the business case prepared by the port at the time.

Mr BARBER — Which would have included an NPV for the port, not the NPV of the project or the cost benefit of the project for a wider group of users — the benefits being things like cheaper shipping charges but actually the revenues that the port thinks that it can or intends to charge. Yes or no?

Mr BETTS — To be honest we would have to take that on notice — —

Mr BARBER — Thank you.

Mr BETTS — Because I do not have the detail of the documentation that went to PRC in my head.

Mr BARBER — No worries. At paragraph 54 of your witness statement you say there is now a new Meyrick analysis produced since the time of your lodging your submission. Are you able to release that to us?

Mr CURRY — That was provided to the port at the port’s request from Meyrick and that is a question you might put to the port.

Mr BARBER — You are reporting on it to us.

Mr CURRY — That is the advice we have from the port of those revised figures.

Mr BARBER — Did they write this paragraph for you or did you see the document?

Mr CURRY — They provided us with that information that constitutes that paragraph.

Mr BARBER — So you did not read the Meyrick report — this latest one?

Mr CURRY — We have been provided with that information by the port.

Mr BARBER — This paragraph here?

Mr CURRY — Yes.

Mr BARBER — Okay. So for us and you to know if that is right, we will need to see that latest Meyrick report, won’t we?

Mr BETTS — You will need to talk to the Port of Melbourne Corporation about that.

Mr BARBER — I just wonder if you guys are making a warranty on their finding without having seen it, that is all. Just a couple of other more general questions about transport issues as they relate to the port. I have heard that 15 per cent of containers into and out of the port travel by rail. Do you know if that is right — about 2 million containers?

Mr CURRY — It is roughly correct. It may be a little lower, I think.

Mr BARBER — Do you know where those containers go or come from?

Mr CURRY — In the broad, yes.

Mr BARBER — Is it within Melbourne? Is it outside of Melbourne? Is it other states?

Mr CURRY — In terms of the containers travelling by rail?

Mr BARBER — Yes.

Mr CURRY — A number of them are interstate; a number would come from regional Victoria particularly in terms of export containers.

Mr GARWOOD — But I think in the broad we would say that approximately 80 per cent of the containers stay in Melbourne. They move around Melbourne basically and I think in the broad something like about 10 per cent would be regional Victoria and something like 10 per cent go interstate.

Mr BARBER — Eighty per cent of total containers, whether they travel by rail or truck — —

Mr GARWOOD — Yes, in total.

Mr BARBER — Stay within Melbourne. We know 15 per cent of those are railed containers, so does that 15 per cent come out of the 20 per cent that leave Melbourne, or what proportion of them are travelling within Melbourne is my question?

Mr CURRY — On rail, virtually none.

Mr GARWOOD — On rail, virtually none, yes.

Mr BARBER — So the 15 per cent are probably all outside Melbourne — —

Mr CURRY — Correct.

Mr GARWOOD — Correct.

Mr BARBER — Regional and interstate.

Mr CURRY — As I said, regional and interstate.

Mr BARBER — So if the number of containers is going to quadruple and 80 per cent of the stuff is moving around inside Melbourne, what is your plan to get more rail movement of containers within Melbourne?

Mr GARWOOD — It is a big — you are identifying a significant issue that the department is currently examining in some detail. It is a matter that I can comment on in that the government is developing a Victorian freight network strategy. Included within that strategy, which is due to be released some time later this year, are some directions associated with examining this particular issue about the viability of getting containers onto rail in the metropolitan area. But of course it needs to be something that is economically viable. We have a very efficient road network system and a very efficient trucking industry, but it is a matter that the department is keenly interested in.

Mr BARBER — Just to go back to that issue of draught constrained, did you say when you spoke on that that you had got data from the port, but that you had not necessarily independently verified the issue of what proportion might be draught constrained?

Mr CURRY — We have not done an independent audit of the port's figures.

Mr BARBER — The ESC's ports monitoring report says 14 per cent in 2005–06, and it is a recently released report, so are you interested in why there are so many different numbers floating around?

Mr CURRY — It is the kind of number that will fluctuate from month to month or quarter to quarter. The trend is an upward trend, and it has moved from that to figures around 25 per cent and then more recently, in recent quarters, up around the 40 per cent mark.

The CHAIR — Mr Barber, we need to move to Mr Tee.

Mr TEE — Just on that, you say that you rely on the port's figures in terms of constraint. Have you got any reason to doubt those figures?

Mr CURRY — None whatsoever.

Mr TEE — The other thing is we just talked about Hastings as the alternative. I think you indicated that Hastings is perhaps the future in terms of overflow and capacity and so on. I am wondering if you could give us an idea as to why Hastings is not a viable option now?

Mr CURRY — The reason for that is that the costs and time frames involved in developing Hastings as a significant container terminal facility are very significant. There are a range of issues, as people would be aware, including environmental and social issues, but just to get the transport and berth and related infrastructure in place is an extremely expensive process — multiple billions of dollars; just in transport links in excess of \$1 billion we would estimate. In terms of time frames from the starting point of now, there are major scientific benchmark studies to be done, extensive environmental effects-type processes to go through. As we have seen with channel deepening, it has been at least a five or six-year process.

The Hastings development is a project of even greater magnitude than channel deepening, so optimistically it would take at least 10 years to get a major facility operating at Hastings, and the costs would be many times higher than the cost of channel deepening, so in an economic sense it makes much more sense to invest in the capacity within Melbourne and to plan long term for Hastings.

Mr TEE — Yesterday I think it was Ms Judith Muir from Polperro Dolphin Swims complained or suggested that there was not sufficient consultation. In terms of the channel deepening process can you give us a sense as to what consultation there has been with businesses who may be affected by channel deepening and what opportunities they had to engage in the process?

Mr CURRY — That is a question that the port can give a much more detailed answer to than I can, but I am aware that through the course of the project there have been a range of forums and advisory committee processes but also processes whereby the port has gone out and about to local government areas, addressed industry and business groups on a regular basis and kept them informed of the progress of the project and the arrangements for its development and implementation. That has been a major focus of the way the project has been managed by the port, so they could provide a lot more detail about that.

Mr GARWOOD — If I could add to that that the EES process and the supplementary EES process in themselves provide a number of weeks of public hearings and public submissions to be taken. So both of those processes were quite extensive and provide absolutely clear opportunities for people to be consulted and be involved. As Mark was saying, the whole process of the port has been around close collaboration and consultation with anyone who is interested in what they are doing with channel deepening.

Mr TEE — Finally, can you indicate as of today how the channel deepening is progressing? We got a figure of around 15 per cent yesterday, but I am wondering if that is right and if you can you elaborate on how it is going?

Mr GARWOOD — That figure is just over 15 per cent. The project has been proceeding quite smoothly from where we sit. We receive daily reports and weekly reports on progress with the project. As I said, it is proceeding quite smoothly from where we see that the environmental requirements are being met. It will continue on that path, we expect, but the department will continue to keep a close watch on how the project is rolling out.

Mr TEE — And nothing untoward in terms of the financial catastrophe or anything of that nature out there?

Mr GARWOOD — Nothing that we are aware of at this stage. Quite apart from the daily reports and the weekly reports and the monthly meetings of the channel deepening task force, the government and the department

are well apprised of progress. I meet with the CEO of the port on a fortnightly basis, as does the minister. The minister also regularly meets with the chair of the corporation, so there is a very free-flowing exchange of information between the port, the department and the government.

Mr GUY — The \$150 million that the government is contributing, what is that actually for?

Mr CURRY — That is to contribute to the cost of the project and any complementary infrastructure projects that would — for instance, on the land side, on the berth side — contribute to the efficiency of movement of the cargo through the port, so it is for that combination of purposes.

Mr GUY — But when you say ‘efficiency of movement of the cargo’, what do you actually mean? Does it mean new rail, new roads or what are we talking about for \$150 million?

Mr CURRY — It could be those kinds of things — to do with the movement of containers, for instance, once they arrive on the land side or are unloaded from the vessels. So there are a range of possible uses that that could go to.

Mr GARWOOD — It is a matter that it would be worth talking with the Port of Melbourne Corporation about. I mean, they have got a range of options available to them, including extension of Swanson Dock, some improvements on the land side in terms of container storage, and improvements on the rail interface and into the port, but the government has made a general contribution, and it is a matter in which they will work fully with the port.

Mr GUY — So at the moment it is just a general contribution to the ports. Will the port determine what it would like the money spent on, or will the port give a list of, if you like, priorities back to government and government will determine it? What is the process?

Mr CURRY — I think the expectation would be that the port will identify what it believes to be suitable projects and consult with the department on the appropriateness of those in terms of the purpose of the project.

Mr GUY — Is there an expiration date of the money if it is not all used by then, or is it all to go in the first couple of years?

Mr CURRY — I would have to take that on notice.

Mr GARWOOD — I do not believe that there is an expiration of the date on the funds, but there is an expectation, if I can just add to Mark’s comment, of liaison both with DOT and with DTF in relation to the use of those funds. I would not like to leave the impression that the port can do what it likes with those funds. In fact, there is a requirement to liaise with government on the use of those funds.

Mr GUY — Did the business case for channel deepening involve a freight logistics strategy?

Mr GARWOOD — No, there was not a requirement, in the way in which you put it, for that in working up the channel deepening project.

Mr GUY — So is there a freight logistics strategy?

Mr GARWOOD — As I indicated earlier, the government is committed to the development of a Victorian freight network strategy. The department is currently working on it at the moment. It has proposed to release such a strategy later this year.

Mr GUY — Who is actually doing it? Is it all internal, no external, or is it all —

Mr GARWOOD — No, the department has committed to external stakeholder consultation in relation to the development of a Victorian freight network strategy. Obviously the movement of freight takes place primarily in private sector business, and therefore it is important that government departments consult with industry stakeholders. That will be done in the period between now and later this year. The consultations around that have already started in terms of meeting with the Victorian Freight and Logistics Council, which represents a range of industry bodies, and also in discussions with the Victorian Transport Association, which is a peak body

representing large freight companies as well, and we expect to have more detailed consultations between now and the end of October.

Mr GUY — Are there any external consultants being used, or is it all being done in-house?

Mr GARWOOD — No, we are calling on external consultancies from time to time, as you would expect, and it is something that is important for the development of the Victorian freight network strategy.

Mr GUY — All right, thank you.

Mr BETTS — It is worth noting that we would not want you to feel that there was not a strategic framework within which the channel deepening project was conceived and the business case presented. Going back to the Victorian Ports Strategic Study, we were looking at strategic infrastructure issues at the time, but the thing called the freight network strategy is something which is in prospect for this year.

Mr GUY — Thank you.

The CHAIR — Thank you. If there are no further questions, I thank Mr Betts, Mr Curry and Mr Garwood for their appearance here this morning and for the department's written submission. We will have a draft version of the transcript to you in the next couple of days for any corrections.

Witnesses withdrew.