

CORRECTED VERSION

STANDING COMMITTEE ON FINANCE AND PUBLIC ADMINISTRATION

Inquiry into Port Phillip Bay: channel deepening

Melbourne — 6 June 2008

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Witnesses

Mr S. Bradford, chief executive officer, and

Mr N. Easy, executive general manager, channel deepening project, Port of Melbourne Corporation;
and

Mr R. Yeung, alliance general manager, and

Mr J. Haak, senior legal executive, Boskalis.

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

I welcome Mr Stephen Bradford, the chief executive of the Port of Melbourne Corporation; Mr Nick Easy, the executive general manager, channel deepening project for the port of Melbourne; and Mr Jan Haak and Mr Raymond Yeung from Boskalis.

All evidence taken at this hearing is protected by parliamentary privilege, provided by the Constitution Act 1975 and further subject to the provisions of the Legislative Council's 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, if you would like to, or we will proceed to questions.

Mr BRADFORD — Thank you, Chair. With me today is Nick Easy, who is the executive general manager of the channel deepening project; Mr Jan Haak, who is the senior legal executive from Papendrecht in the Netherlands for Boskalis; and Mr Raymond Yeung, who is the alliance general manager, based in Melbourne for the project. Handed out to members of the committee is a detailed submission for the Port of Melbourne Corporation and some slides which I will talk to shortly — I am not intending to read that detailed submission, I will address slides — our annual report and our pricing schedule. After I have presented these slides, Mr Haak would like to make a brief statement on the Boskalis position.

The CHAIR — Thank you.

Mr BRADFORD — Just briefly describing the port of Melbourne, 70 per cent of the ports business is containers; 86 per cent of the channel deepening benefits relate to the container trades. Yes, we are the no. 1 port in this country for the import and export of motor vehicles. We have a smaller trade in grain, petroleum, cement and other products, but Melbourne port is characterised by the container industry. We handle over 2.2 million containers a year, or TEUs — 20-foot equivalent units — and for 16 years we have had consecutive growth at an average of 7.8 per cent per annum. We handle around 38 per cent of the nation's container trade, equivalent to Fremantle, Adelaide and Brisbane combined. That is worth about \$100 million in exports on average every day through the port, and we believe trade generates tens of thousands of jobs. In world terms, we are about no. 55 in world ports. For a nation of 22 million people, we think we punch above our weight.

The Port of Melbourne Corporation is governed by the Port Services Act. The Minister for Roads and Ports, in consultation with the Treasurer, appoints the board members, chairman and deputy chairman of the corporation through the Governor in Council process. The board's role is to recruit and retain the chief executive officer in consultation with the two ministers, and it is my role to engage the management team.

I refer to the alliance between Boskalis and the Port of Melbourne Corporation. The board, which is effectively the alliance executive team, has four members: Nick Easy and myself from the Port of Melbourne Corporation, Mr Mattys Siebinga and Mr Martin Dekker from Royal Boskalis.

Talking about the project alliance, why did the VCA at the time embark on an alliance and not more traditional forms of project management? This is a unique and complex project with a high risk at inception. Whilst the Port of Melbourne and the VCA had regularly done maintenance dredging in and around the berths, the last major maintenance program was in 1986. In that time, the Port Phillip Heads were blasted. That is inappropriate in 2004, 2005 or today, so it required a new solution. The VCA determined that the best way to do that was to embark on a worldwide study of who would be best suited to tender for this work.

The world of dredging is made up of four major dredging companies — they are typically Dutch or Belgian — and a few others that most independent observers would admit are probably lower order or particularly focused in the United States. In doing that assessment they made an assessment that they should invite six parties to tender, and also, of course, appointed a probity auditor to oversee the project. No local or Australian-owned dredging company was available or capable of doing a project of this magnitude. This, in port of Melbourne terms, is a very large

capital project. The largest project previously probably was the Coode canal in the late 1880s. This is a significant project.

The planning and approval process was thought at the time to require considerable intellectual input from the selected dredging partner. Time has proven that that was exactly right and how much involvement with the partner was required was probably underestimated. Of course, the environmental controls for delivery must be discussed with the partner through the process, and the alliance concept has served us well.

The alliance agreement was signed by the Port of Melbourne Corporation with Boskalis in 2004. There are other experts who assist the corporation and Boskalis in this project. The part of the direct cost estimate that I will explain shortly is based on actual direct costs of Boskalis or of contractors it uses and of wages it pays. We have appointed KPMG to independently audit those costs to show to both parties that they are actually costs and that they are not being inflated.

Secondly, Boskalis felt that the port of Melbourne's knowledge of dredging was not equivalent with their own and would benefit by and strengthen the alliance by appointing an alliance partner who had expertise in dredging, an alliance independent consultant. You will see in our papers Evers Consulting, or Heini Evers Consulting, performs that role. Also, with the approval of the secretary of DSE, we could use Mr Nick Bray, who is part of the expert panel.

In setting the alliance, of course you have to test the health of the alliance to make sure that both parties are abiding by the spirit and intent of the agreement from the original days. SRD Consulting performs that. Staff working in the management area of the project are all pre-trained by SRD, so they understand that this is not a master and servant, this is not a contractor dominating those paying the bills; this is an alliance worked on a simple principle of 'best for project'. The alliance partners share and manage the risks and responsibilities collectively.

The most important part to start is the direct cost estimate. The alliance management team was required to come up with a final direct cost estimate taking into account known risks and sharing those risks and explaining those to the alliance executive board and explaining how they came up with a final direct cost estimate, built on direct costs — no overheads, no profit, no add-ons, no kickbacks from suppliers. This is direct cost.

You would expect that in doing that, to give you a few examples of the risks, they considered weather. Weather in Melbourne is not always consistent. Would weather affect the Heads, and therefore how should the partners approach that? So we discussed that at length. The potential for industrial disputes: reasonably infrequent in Victoria, but a potential. How would we handle that, how would the project manage it? They were part of effectively sharing the risk.

Key performance indicators were also agreed by the parties, particularly on the environmental side. Strong incentives are on Boskalis to achieve the environmental management plan. The environmental management plan is the rule book; that is the rule book by which this project is governed. We wanted them not only to say, 'Well, that's interesting'; they are committed.

The pain-gain share regime is another way of saying: if Boskalis does a good job, if they are ahead of schedule, if there are cost savings compared to the direct cost estimate and they achieve the environmental objectives, they will share the profits of this project. If they take longer, if costs exceed the direct cost estimate, they will share those costs. The percentage of those costs shared is a matter that the parties agreed before they set the direct cost estimate. So effectively this is a pain-gain. There is no incentive for Boskalis — as some people may well suggest — why wouldn't they just go rip, tear and bust, and take the sand away? Because if they did and if they breached the environmental management plan they would get nothing. If they have misread badly the dredging market or some of the risks, they will bear some of the pain, as will the Port of Melbourne Corporation. This is a true alliance, where you have to align two parties to achieve a common objective.

The overhead and profit margins were established in 2004. One of the first roles was to robustly, as a partner would do, discuss and agree: what are the appropriate overhead and profit margins? They were agreed some years ago. The market in dredging has changed since that time. What occurred since then, there has been an explosion in the demand of coal and iron ore by China and the desire of the Middle East, particularly Dubai and the United Arab Emirates, for dredging projects. The dredging market is probably at its peak; this is a very good time to be a dredging company. The profit and overhead margins agreed in 2004 apply today. If we were to tender today, we would pay much, much more.

It also involved intimate involvement in the planning and development phase. So the parties worked together to understand, including discussions on matters: how would the corporation assess the work that is actually done? How do you do that independently and how does Boskalis prove it? The trial dredge program was suggested by parties external to the corporation and external to the alliance. It proved to be invaluable in the supplementary environment effects statement. The alliance agreement gave the Port of Melbourne Corporation through the alliance the ability to ask Boskalis to bring their major dredge to do an eight-week program. If we did not have an alliance program, I would doubt that any dredging company in the world, at a time when their business is growing, send their most significant vessel to Melbourne to trial so that the intellectual property gained would then be shared to the world. Why would you do it? They did not expect to do it. It came, as we would admit, as a surprise, but an excellent suggestion by the person who made it. It was valuable learning in completing the supplementary environment effects statement.

The project commencement followed all approvals. We now have all requisite state and federal government approvals. We are at day 120 of this critical infrastructure project. We are in full compliance with the environmental management plan, we are ahead of schedule, we are under budget, but it is day 120. Our role is to achieve that when the project completes.

As I said, it is a major marine infrastructure project. Some of these matters were discussed by others this morning, so I will not dwell on it. It basically went through a significant and lengthy planning and development phase and the project scope and requirements for delivery fully crystallised at the point of approval.

So what is the project? It is about access for 14-metre-draught vessels. The big users of this, 86 per cent, are the container traders. People look at the bay and see the very large cruise ships, they see the very large car carriers. Channel deepening is not for them. This is about draught, this is about weight — this is about the weight of containers and the displacement of water, this is about the container traders. The dredging itself and the placement of material is conducted over four main areas: the Yarra River and Hobsons Bay, the north of the bay, the south channel, and at the entrance. The works include not only just the dredging but berth upgrades, particularly east and west Swanson Dock. The Swanson Dock complex is the most significant container facility in this nation and will be for at least the next decade. The banks of the Yarra need to be protected at points, and the swing basin. That is the area near Lorimer Street, across from Swanson Dock entrance. It has to be widened to allow the longer ships to swing and then reverse into the dock.

Of course this requires a complete revision of navigation aids, because the channel dimensions are changing, so they are being refreshed and renewed through this project. An added feature — or complication, I guess — for the project is that there historically are a number of services under the Yarra River, beneath the bed of the Yarra River, most significantly the Melbourne sewer. There is also a gas pipeline and electricity — CitiPower — and other pipelines.

The role of the project is either to protect those in situ, particularly the Melbourne sewer, or in the case of the CitiPower pipeline and Telstra, relocate them. The cost you will see in the total cost includes the berth upgrades and all those issues. Not all of that work is being done by Boskalis. For instance, the contractual arrangement on the berth upgrades is a direct contract from the Port of Melbourne Corporation to the contractor doing that. The reconfiguration, for instance, of the Telstra network nationally is being funded by the Port of Melbourne Corporation directly with Telstra — who else would be best suited to reconfigure their network? Our role is to protect those in situ, and with the agreement of the service owners remove the pipes that remain for those which are no longer viable.

As I said, it is 120 days. All major dredging equipment is now being mobilised. I can give another example of how the alliance works. The *Cornelis Zanen*, the dredge working in the north of the bay at the present time, requires — as vessels do — its routine dry docking. Boskalis can do that to suit themselves, but they apply the alliance principles, to say, 'When we send it to Brisbane or Newcastle or overseas for a four-week dry docking, we will do it at the point where it is best suited for the environmental management plan', which is October–November this year. We think that is a sensible alignment of the environment and the alliance contract. I will not go through the individual cubic metres, except to say that we are about 15 per cent complete, there is still quite a way to go.

The physical berth upgrade works have commenced. The environmental monitoring, of course, is every hour, every day; and we are in full compliance with the environmental management plan. Mandatorily, this project must be completed by 31 December 2009. We have no approval to undertake this project past that day.

The benefits will allow 14-metre draught vessels to access this port. The expert studies suggest this provides an asset to this state for 30 years. At the end of the project, Drewry and others estimate, about 7 per cent of vessels will be draught constrained. There has been discussion at length this morning — and I was very interested in the committee's questions — about the 44 per cent of container vessels. Yes, 44 per cent of the container vessels that enter this port would have the potential to load more if the channels were deeper. We are not saying that every ship would load to the gunwales on every single visit — that is clearly impractical — but we know that if the draught was available they would start to use it, particularly in the peak export periods, and particularly in the peak import periods. The Christmas retail part of Victoria is a boom for imports. The Boxing Day sales are a boom for imports. They would use it.

In understanding container vessels and why they are constrained, this is not about bulk vessels or fuel vessels, which are going from one port to another delivering a full cargo, or partial cargo. This is about typically a network of eight ports — it could be nine, it could be seven — with a number of ships of which the market demands a weekly call in Melbourne. Most of the major shipping lines call here weekly. They could call monthly and have super-ships, except that would be devastating to our economy because of the just-in-time system; much more stock would have to be held and our exports would get away more slowly, so the pressure on the market on both importers and exporters has been for weekly calls. We do not expect that to change in the foreseeable future.

Those vessels operate to a timetable determined months and years ahead. What using the extra draught of the tide half a metre means is that you are saying to major container vessel operators, 'You should configure your program to take into account the vagaries of the tide in Melbourne when you arrive here', which is one in eight ports, when you are trying to run a weekly service. For instance, APL announced last week that its market research says its vessels from China should arrive in Melbourne on Saturdays. That allows the boxes to be available to importers on Mondays, and exporters of course in the week coming up to that Saturday to get their containers into the facilities. That seems to make sense to me. But then you cannot say to them, 'Yes, Saturday, plus or minus 6 hours'. That is why the tide extra draught is not used. That is why most of the container vessels do not use it. I will come back to it later, if you wish, to talk about market share and how competitive the bluewater component is.

The benefits of this project are not all about Victoria, even though that is what the Port of Melbourne Corporation is interested in. Sydney and Brisbane have the same constraints. They have the same vessels, because the vessels come to the largest port. That is how they are draught constrained. They already can handle 14-metre draught vessels. The reason the shipowners do not put in larger vessels is that if you cannot come to the biggest port, why would you? You need therefore effectively to match your business to reflect the smallest draught, particularly if it is the largest port. We believe failure to deepen will affect the competitiveness of Victoria and lead to suboptimal efficiency in sea transport.

Let us talk about the costs and where they have gone since they were first conceived. The feasibility work has used historically the best cost estimates available at each stage, predicting the known requirements. The final project budget — and we have said this consistently through the Port of Melbourne Corporation's evaluation presentations — was going to be determined following project approval, because we were not to know until we got the final approval from both the state and federal ministers what would be the conditions they would put upon this project. At the conclusion of those approvals that provided our ability to confirm project costs and inform not only government but the shipping and cargo interest community.

All the feasibility and economic assessment that we have seen, including the sensitivity analysis, has indicated the project is viable both technically and financially, there are positive benefits and the benefit-cost ratios (BCRs) are above 2. That is a bit of a history on the cost changes in the project. I have not gone back to before 2004, because before that they tended to be done, for instance, on the VCA only on the matters affecting the VCA. In those days the berths were a matter for the then Melbourne Port Corporation; and at that time others felt that the services were a matter for the former Department of Infrastructure. Of course this is holistically looking at the project; that changed, and you can see the changes in both the cost and the BCR over time. That has come from sophisticated refinement and knowledge of the final requirements. As to the latest cost benefit, I have put in a BCR of 2.57. That is the latest advice we have had from Meyricks. I think Mr Meyrick will be here later this afternoon and he can answer questions on that.

The PMC board approved the project on a budget of \$969 million and signed off the business case for submission to government. The government approved the project, and you know our position on talking about matters in the business case.

Where have the cost increases occurred? A number of areas — confirmation of channel depth to 14 metres; confirmation of channel design, the final channel design with a two-way channel navigation system; the services protection and design and relocation. Even late last year we were talking to the service providers of the cost to reconfigure their networks and to get agreement with that — that was done towards the end of the project, for instance. Designing the Melbourne sewer protection was part of the intellectual property developed by the corporation. Boskalis was the designer of the Yarra tree, which is a 23-metre structure Victorians will see in the next two to three months. It will sit on the base of the Yarra River to allow precision dredging above that Melbourne sewer pipeline — very critical work. It also includes all the land-based works project development and contingency.

The final matter we have to consider as a management team and then recommend to the board was the level of contingency for a project of this nature; therefore, 'Have you considered all the risks?'. That was robustly discussed, as you would expect inside the corporation. There was the refinement of all dredging costs — things that change, for instance. The learnings of the trial dredging program said that doing the Heads should be done by leaving a lip on the edge, so effectively to reduce rock fall into the canyon — that came at a cost. The addition of the sand-capping of the bund came at a cost. They were all part of the dredging approval project and they are in the final cost.

Fuel — I will not need to say much about fuel. The price of fuel has risen quite considerably since 2004. The previous national government also made the decision to change the tax arrangements. The Port of Melbourne did not win from that; we lost. That is part of life. That is now reflected in the cost estimate, as are the final foreign currency movements.

The trial dredging and the environmental and all the technical studies — the environmental offsets, we paid, as part of the condition and the approval conditions.

A lot was said this morning about what return the Port of Melbourne should receive on projects. What would the private sector accept as reasonable? Let us get down to tin tacks. The only container port in this nation that has a price regulation is the Port of Melbourne. The Essential Services Commission reviews our pricing annually. It is a light-handed approach. We must return a profit of no greater than our weighted average cost of capital. That determines profit, that determines how the corporation works. If our profit in one year is higher, we then have to factor that in lower cost to the users in the next year, to effectively give it back.

We have issued a pricing policy statement. In working out our pricing model and the capital requirements of this corporation over the next 30 years, we have developed a long-term strategic business model. That is to feed in all the cost inputs and all the capital requirements of the corporation to develop the final cost model.

We receive our revenue in three basic ways: from rent from the land ownings we hold and that is not impacted by channel deepening; tonnage levies, which we have made a change to tonnage levies; and the most significant one, wharfage — that is the \$31.50.

Given the decision to provide a government contribution, we felt, was a matter for the government and not for the corporation to comment on, we worked the channel deepening project on the user-pays system. The costs are reflected or published in our pricing statements reflect user-pays. The decision by the state government, we are appreciative of, to provide \$150 million has been reflected in that. I am happy to explain later how, if you wish to know.

The pricing model on a 30-year basis is based on a levy of \$31.50 plus GST per TEU on all full international containers — 5 cents per tonne, 1 cent only to Geelong on vessels with a draught exceeding 12.1 metres. All these charges apply from 1 April 2008.

Future escalation in accordance with our model and accordance with what we published will be in the order of CPI plus or minus 1 to 1.5 per cent, dependent on a number of things — trade growth, cost impacts on the Port of Melbourne and other developments. We are reasonably confident that would reflect a 30-year model. No other port in this country has ever published 30-year pricing model or a 30-year port development plan. The draft port development plan is on our web site today and has been for 18 months. We are the most cost-effective port on the eastern seaboard. If you wish, later I can outline how the costs are worked out on port and how they charge users.

That ends my short presentation. Thanks for your attention. Mr Haak would now like to say a few words.

Mr HAAK — I hope the members of the committee do not mind my Dutch accent; so apologies for that in advance.

The CHAIR — Not at all.

Mr HAAK — The origins of Royal Boskalis Westminster go back to 1910 in the Netherlands. Since then, Boskalis has grown steadily both in the Netherlands and elsewhere in the world. Boskalis today is a widely recognised player in the global dredging market. Boskalis has one of the largest and most technically advanced fleets in the world. Our leading edge expertise and equipment allows us to tackle the largest and most complex infrastructure projects.

Our fleet at present consists of over 300 units. With its partners, Boskalis has around 8000 employees worldwide. In Australia, Boskalis has been present for a period of some 50 years. In this country we have successfully worked and at present we are successfully working for various other major Australian companies, port corporations and multinationals — to name just a few: Woodside Energy, Hamersley Iron, Newcastle Coal Infrastructure Group, the Dampier Port Authority and Port of Brisbane.

With respect to the Port Phillip channel deepening project it is to be realised that Boskalis is one of the only four companies worldwide with the capability to perform an operation of this size. Boskalis believes it was successful in its tender for this project because of its demonstrated track record in Australia and overseas, the competitive nature of our tender and Boskalis' environmental and technical expertise.

Technical expertise is based on proprietary information developed over years of operation in the dredging industry. In this respect, it is important to note that Boskalis, contracting in an alliance, was and is required to disclose to the port more commercially sensitive information than would be the case if a standard contracting approach were to be adopted.

Another important thing to realise — and Mr Bradford already mentioned it — is that since the alliance agreement was signed in July 2004, the demand for dredging services worldwide has changed significantly. If the project went out for tender today it is very likely that Boskalis and also its competitors would have submitted substantially higher prices, but Boskalis is here and the alliance is in place, dedicated to complete the project for the benefit of the state of Victoria.

Even several court cases surrounding this project did not chase Boskalis away and some 120 days ago the dredging for this project commenced. As pointed out already earlier, at this moment the project is on time, within budget, and Boskalis is meeting all environmental parameters. Honestly speaking, Chair and members of the committee, Boskalis does not know what it has done wrong.

Despite the positive news surrounding this project, Boskalis has some serious concerns about this parliamentary inquiry and Boskalis' unsolicited involvement in it. Boskalis has read the submissions on the committee's website and is very concerned that the committee would publish a series of allegations naming Boskalis, which have the potential to damage its hard-won reputation, and apparently without regard for the truth. In general, these allegations are incorrect, baseless and have no relevance for this business case, but more important, they are beyond the terms of reference of this committee.

More specifically, and with respect to the matters that might be relevant for the business case, Boskalis is extremely concerned that its confidential, commercial information — and that is information not disclosed when it contracts anywhere else in the world — has the potential to be disclosed in this process. Disclosure of this confidential commercial information will cause substantial damage to Boskalis' interest, both in Australia and elsewhere in the world. Needless to say that the confidential, commercial information provided by Boskalis under the alliance agreement has significant value to Boskalis' competitors and to those with whom Boskalis may be invited to contract in future.

I trust the committee also realises that disclosure of Boskalis' confidential information will not only damage Boskalis' commercial interest but may also potentially damage the interests of the people of Victoria. I think there is a serious risk to the state of Victoria that those with specialist expertise, knowledge and ability will not be prepared to contract here because of the risk of disclosure of this type of information; or if they are prepared to contract, they will only do so at a higher price.

Nevertheless, despite these serious concerns, Boskalis is happy to be here and we are willing to answer as much as possible any questions you may have and that are relevant to the committee's terms of reference. Thank you.

The CHAIR — Thank you, Mr Haak. To address a couple of the matters you have raised in your comments with respect to the committee's processes: the matters that have been canvassed in submissions received by this committee are not positions that are endorsed by this committee. They have been received as submissions relative to the terms of reference. Under the requirements establishing this committee, they are required to be published on our website, but they are not endorsed by this committee, or those views supported by this committee. The committee will express its views in the report that it produces.

With respect to the matter of confidential information from Boskalis, the only information that has come to this committee is that which has been provided jointly by Port of Melbourne and your company with respect to the alliance agreement. We assume that is on the basis that you are happy for this committee to have access to that information?

Mr HAAK — That is correct.

The CHAIR — Thank you. I go back to one of the points made by Mr Bradford in his presentation relating to the 44 per cent of vessels that are potentially depth constrained.

This has obviously been a key issue that has been raised with this committee through the course of its proceedings. The committee understands the theoretical concept of 'potentially constrained'. Are you able to give the committee any evidence as to the vessels in the last 12 months, 18 months, whatever, that have sought to access the port of Melbourne but have been actually constrained in the volume of cargo they can carry into Melbourne and have, as a consequence, either bypassed Melbourne or had to offload at one of the other ports before coming to Melbourne?

Mr BRADFORD — The short answer to that is, obviously for import cargo the ship owners would not load to greater than the 11.6 metres draught at all times; or if they are in a situation to wait for the tide, for 12.1. They do not approach the corporation and say, 'Can you handle 13 metres?' because our regulations are 11.6 or 12.1.

In terms of exports, there is a great opportunity because at the point of loading the ship owner may take the decision to take extra boxes if they think the departure time will actually coincide with the tide. You have to be reasonably careful about that because with ½ metre tide and a 4-hour transit zone, it actually has to go the right way to enable that to occur. Certainly we would expect when the grain trade is moving in bulk — it is very quiet now because of the drought — they would attempt to use the 12.1 metres of draught.

If I could just explain how the corporation works out that 44 per cent because I think it was under quite some debate this morning: it is based on the published summer draught of vessels entering the port of Melbourne. The published summer draught is what the classification societies have deemed the capacity for the vessel. We particularly check it to make sure that we are getting our correct tonnage due because they are based on gross registered tonnes.

In the December quarter, ship movements — I might just read this out so you can get the actual number of ships. I am only talking about container ships at this point:

Container ship movements in the March quarter decreased from 715 in December to 706 in the March quarter.

313 of these ship movements were by ships having a maximum summer published draught of 11.6 metres or more. This was 24 less than the December quarter 2007.

I will go to the next bit:

Of the 313 movements by container ships with greater than 11.6 metres of summer draught, 18, or 5.8 per cent, operated at a draught of at least 11.6 metres.

In other trades the numbers obviously are less, because this is a container port. The issue is: if it was available, would they use it? We would suggest yes, but not every ship every time. Two recent examples: ANL, who have a significant market share in this port and this nation, two or three weeks ago introduced a brand new vessel; it has a summer draught of 12.8 metres. It is dedicated to the Australian-Asia trade. Mitsui OSK, a prominent Japanese shipping line, has put a second-hand vessel on the trade, but that is quite normal. It has a summer draught of

13 metres. They know the cargo is increasing, and they are looking to see how they can grow their market share and become very competitive.

The CHAIR — Does that demand exist now in the port?

Mr BRADFORD — Yes, demand continues. In the year to date, the total trade of the port, to the end of April, has increased by about 7 per cent. I expect the year to June to finish up in the order of 6.9 to 7 per cent. April, interestingly enough given the evidence given earlier, was the biggest month for full-loaded exports in this port in its history; 65 500 full export containers is a record for the port of Melbourne in the month of April. To give you the full picture, the year to date for April, full exports growth, is in the order of 2.8 per cent. What we are seeing is obviously the drought is certainly impacting exporters, but there are new emerging export industries that are replacing them.

The CHAIR — I probably should have phrased the question differently. Is there unmet demand in the port now — that is, are there ships coming into the port of Melbourne that are leaving containers behind because they are draught constrained currently?

Mr BRADFORD — You would have to take evidence from the individual shipping lines based on peak seasons. Clearly they are setting up their strings to fill their ships to the capacity they are able to at the present time — not all fill it to that — and how their marketing works. There would be times when, yes, cargo is left behind. Is it a daily event? I would suggest not.

The CHAIR — You mentioned at the beginning of your introduction 16 consecutive years of growth at an average of 7.8 per cent. Why do you see that continuing? Why is 8 per cent the basis of the business case that has been used?

Mr BRADFORD — The business case I believe is less than that. It is between 5 and 6 per cent. The historic growth of the container trades in the last 16 years in this nation and other ports has interestingly been double GDP. There is a correlation between GDP and container growth. Why do we think it will keep growing at 5 per cent compound?

There are a couple of reasons: this state and city are growing. The population is predicted to increase by a million people. A million people consume; they buy retail. That will force import containers to come into this country.

Exports: there have been some interesting price rises in more recent times. I think the dairy industry, apart from the drought, are reasonably happy with the price rises they are achieving. Exports are in pretty tough times with the Australian dollar very high to the US. I appreciate that makes it hard for some of our exporters, and you heard some of that pain this morning — the effect of that on their businesses. But a new and emerging trade is effectively wastepaper and waste plastics. Ten years ago this city would put those into landfill. Today they go into containers, and they are exported. They are leaving this country. That is another industry. Grain is moving to containerised processes.

If you look at the world exports on trade growth, we think 5 to 6 per cent over 30 years is a reasonable estimation. We review that annually, as mentioned earlier. We take views. For instance, we did not predict 7 per cent growth this year. Our budget growth was 5.5 to 6.

The CHAIR — One of the issues that has been raised with us is a factor not included in the business case, the cost of maintenance dredging of the deepened channel. Can you outline the sort of quantum involved in maintenance dredging, the frequency that will be required and how that will change from the existing channel as a consequence of a deeper channel?

Mr BRADFORD — Yes. The reason maintenance dredging was excluded — and we believe for the correct reason — it was considered by those who would give us approval and those who were doing the supplementary environment effects statement, would it not be best to determine the outcome of the capital projects, the major channel deepening project, before approval was given for maintenance dredging so that the conditions in the EMP, if required to be changed, could actually be reflected at the time? So that is why maintenance dredging was left out.

The port has routinely, for a century, we have regularly been dredging. The berth pockets are done annually. New areas of the channel — we do not expect the Heads to change, but the south channel, a significant body of sand, we will closely monitor the requirement for maintenance dredging over a long period of time. We will set up — we run our own hydrographic survey group and they will manage the depth of the channel and what maintenance dredging is required and then reflect that on how the EMP/MP works with a capital project.

It is not particularly urgent because the dredging of the south channel, this is an asset for 30 years. Do not expect on day 1, 14 metre draught vessels to come steaming through the Port Philip Heads. This is about slow, incremental growth over 30 years and the reason we did 14 metres now is because environmentally it is best to do it once. It certainly is economically, but environmentally it is best to do the project once. Maintenance dredging is something that will we determine in the years ahead, but we have examples of the current maintenance dredging of the port of Melbourne channel. I would expect the first maintenance dredging program to be contemplated about five years after completion.

The CHAIR — Is that not an inevitable consequence of doing the channel dredging project, that you need to maintain it and therefore that is an inevitable cost of undertaking the CDP?

Mr BRADFORD — As is maintaining berths at 30 years out, as are constructing extra berths or maintaining any asset. The broad costs on how we would do maintenance dredging are of course reflected in our business model. We have to make estimates on that. We have to make estimates of where wage growth will go.

The CHAIR — But with the maintenance dredging, is that not a direct consequence of the deepening project? I take your point about maintaining berths but that would occur presumably irrespective of whether you undertook the CDP. With the existing channel you would still need to do berth maintenance.

Mr BRADFORD — I think the reasons for not seeking approval are quite sound.

The CHAIR — It is not so much a question of seeking approval as a question of counting the cost in the business case of the CDP.

Mr BRADFORD — Mr Easy?

Mr EASY — I think, as indicated, maintenance dredging does occur and will occur on a routine basis moving forward for the port. The long-term strategic business model for the corporation includes all capital costs but also recurrent costs moving forward. So the maintenance dredging program would be a recurrent cost for the organisation and is included in the model and therefore the tariff reflects that expense for the organisation in the future.

The CHAIR — Will that cost be incrementally higher as a consequence of the channel deepening project than it would have been if you were maintaining the existing channel? Is there a difference to the expected maintenance cost going forward as a consequence of the CDP?

Mr EASY — In the assessment that was undertaken there was an examination of the volumes of material for maintenance dredging in the future, and there was an indication based on previous history of sedimentation rates that it would be generally consistent. What we do know, though, perhaps, is that the controls that might apply to those maintenance dredging programs will be similar to those imposed on this project, and that will only be determined once approvals have been issued for those programs in the future.

The CHAIR — On the port's annual report last year you had an amount of about \$7 million or you had capitalised previous maintenance dredging and amortised that over four years. Are you familiar with that particular — — ?

Mr BRADFORD — No, not specifically. I would need to take that on notice. That is a detail.

The CHAIR — I was just wondering if that \$7 million amortised over four years is reflective of the cost of a maintenance dredge process.

Mr BRADFORD — No, I do not think it is because that would be berth maintenance, particularly around the berth pockets of the annual maintenance. I think maintenance of the South Channel will be higher than that but I do not have the figure in my head.

The CHAIR — Okay.

Mr BRADFORD — Why would the amortisation occur? You would expect that if the maintenance dredging has a life of four years in normal accounting treatment, you amortise it over the life and we follow the Australian Accounting Standards, but we would probably take a pessimistic view on that rather than optimistic.

The CHAIR — Thank you.

Mr VINEY — One of the key criticisms of this project from opponents has been that the Port of Melbourne Corporation has overestimated the growth of demand for port service, particularly container movements, over the next 20 to 30 years, and it was put to us that your estimates they are based on an 8 per cent compound growth. Are you saying that that is not correct? That it is on 5 per cent?

Mr EASY — I think what was indicated was that if you look at the historic growth it has been 8 per cent compound growth over the last 10 years, but the forecasts that have been identified are upwards of a period of 2030, they indicate an increase up to a figure of around 8 million containers and that reflects a 5–6 per cent growth rate.

Mr VINEY — That is what the business case is based on, that growth?

Mr EASY — That is correct, yes.

Mr VINEY — Have you done any work assessing the validity of that estimate? It seems that a lot of the evidence we have had from people who have supported the project have accepted the Port of Melbourne Corporation's assessment of growth, and I guess this is now the opportunity to hear the degree to which that is a robust assessment and a reasonable one. That is what I want to hear from you.

Mr BRADFORD — We believe it is a robust assessment. In the port development plan we outlined the growth, particularly of Swanson Dock and when it would reach capacity. We think it will reach capacity at about 3.4 million containers. Interestingly enough, the two stevedores think its capacity will be 4 million. Traditionally, the port has always been more conservative than the terminal operators in this state. To make sure we actually got the forecasts right, we robustly viewed the model on an increase in container growth and a decline, so what would happen. If you take perhaps a pessimistic view and say, 'What if it only grows at 3 per cent? What will be the impact on this port?'. First of all, you postpone the development of the next port of Hastings for potentially X years.

That is a significant cost to users at that time. That would not necessarily be a bad thing. The pressure on the corporation would be, have you factored in your debt levels to work through a period of, perhaps, recession? The short answer to that is yes we have, unless it was a prolonged national recession that affected this nation, which I think would then affect every other port and every other industry. That is the sort of doomsday scenario that we did not think was a highly probable circumstance.

Mr VINEY — And it was put to us that with climate change there could be significant change in the way business is done and that that may affect imports and exports. Have you done any assessment of that?

Mr BRADFORD — We have done our own assessment and relied on that of others and listened to people like the farmers federation. Where do they see grain going? Where do they see farm exports going? How do those who do demographics and population growth do their assessments? And work it through that way. I think this committee has an interesting task, with four economists each taking slightly different views — it is a bit like duelling economists — so we are trying to be helpful. We try to come at it from a very practical way. Nick, would you like to add something to that?

Mr EASY — Perhaps just to add to that, the organisation obviously treats the forecasts and the growth in trade as very important because it does influence a number of matters and operational requirements within the business. In producing our land use and our projections for infrastructure for the next 30 years we have reviewed our forecasts, and they have consistently come up with a figure in the order of 5 per cent as a reasonable long-term projection for growth in container trade. It was also consistent with trends worldwide, and there are consultants like Drewry and others who undertake this on a global basis and they have consistently and repeatedly on a number of occasions indicated a 5 per cent growth rate on a global basis and that has been also considered reasonable within the Melbourne port.

Mr VINEY — Have you done similar analysis of a greater than 5 per cent growth?

Mr BRADFORD — An explosion in trade?

Mr VINEY — Yes. Have you done an analysis on the basis that perhaps it is a conservative estimate, and what does that show?

Mr BRADFORD — How do you define ‘conservative’? We looked at could an 8 or 9 per cent long-term growth rate be sustained, and what impact would that have on the corporation and its facilities. If that commenced to occur, for instance, over a five-year period, it would suggest to government — and it is ultimately their responsibility to develop the port of Hastings; we are the Port of Melbourne — I think that their long-term plans would need to keep an annual very close watch on that, so if trade grew at a greater rate, it would then bring forward other developments. It would certainly make the channel-deepening project very viable.

Mr EASY — To add to that answer, with this analysis the corporation has used what is considered to be a reasonable long-term forecast. We consider it is conservative, based on what some of the actual growth is that we are experiencing, particularly over the last 10 years. But if there was to be an explosion or a change of that, the actual benefits and the viability of the project would only improve.

Mr BRADFORD — The corporation takes the view at the direct waterfront container terminal that we like to see the facilities operated by the private sector to have a buffer of at least 15 per cent, so if there is a sudden surge in trade through Melbourne, are you able to handle through the acquisition of cranes — which have to be here a year in advance — and that model has existed for at least the past five years.

Mr VINEY — One of the criticisms that came also this morning was that you failed to do any sensitivity analysis. It sounds from your evidence that you have done that. Is this analysis factored into your thinking in this whole — —

Mr BRADFORD — Yes. Without divulging board confidences, you would expect the Corporation’s board to take that issue very seriously and robustly, to question management and understand how they came up with their estimates.

Mr EASY — I could also suggest that in the inquiry and the work done for the supplementary environment effects statement there is sensitivity analysis that was included and published with that work. That included discount rates and the capital costs, plus or minus 20 per cent. It also included variances in exchange rates, so there was work that was produced as part of the examination of the project.

Mr VINEY — I have a question for Mr Haak in relation to Boskalis. It relates to the issue of concern that you expressed about your company’s reputation and so on. As a pretty significant company you are doing channel-deepening and dredging-type work across the globe, as I understand it?

Mr HAAK — That is correct.

Mr VINEY — How would this project sit in terms of the obligations you have as part of this whole business process to ensure you meet environmental standards? Where would this project sit as a comparative internationally?

Mr HAAK — I can tell you that Boskalis has recently been awarded several projects, not for its price level but for its environmental approach. In this project there are very strict environmental requirements, and we are complying with these requirements.

Mr VINEY — When you say those environmental requirements are very strict, are they internationally? Have you got an assessment of whether internationally they stand up as good practices — or average? Where would you place it?

Mr HAAK — I think nowadays these are normal requirements.

Mr HALL — Thank you very much, and thank you for all the information that you have put before us. Mr Bradford, the Chair was talking about how you actually reached that figure of 44 per cent of vessels that are

potentially draught constrained. Can you use measures of, say, ships with a bigger draught actually using Sydney and Brisbane, where I think you have indicated they do have 14-metre draught capacity?

Mr BRADFORD — I do not have specific examples of that — of Sydney receiving vessels larger than 11.6 metres. I do not doubt they would have, only because Sydney is a very heavy import port and Melbourne has a higher percentage of exports. They could unload and then come to Melbourne.

It is interesting — if I could give you a bit of an explanation — to note the competition of the bluewater component in shipping rates. In the full year to 30 April the port of Melbourne handled 1.9 million overseas containers. If you handled 15 per cent of that as a shipping company, you would be no. 1 in market share. There are 25 shipping companies that come to Melbourne, plus a few more. Their annual volumes range from 2000 to 250 000. It is a highly competitive industry. This is not about two major operators or four pillars of banking.

Economists may argue, but this is probably the pure competition model where 15 per cent market share gets you to no. 1. If there was an advantage in using the half a metre of tide, I would have thought at least one of those lines would have actually tried to factor that into their thinking. I think they have, and I think they have worked out — like we have — it just does not work. At all times you need reliability. This is about a regular production chain.

Mr HALL — So you are not sure, in respect of Sydney or Brisbane, what percentage of their shipping movements — —

Mr BRADFORD — No. I do know that most of the vessels on the eastern seaboard in the container trade, you would expect, would come through both Brisbane and Sydney, but not necessarily in that order.

Mr HALL — Can I now refer you to the pricing structure in the submission — the tariff schedule provided in the submission? First of all, do those tariff schedules have to be approved by ESC?

Mr BRADFORD — No, they do not. The ESC regulation is light-handed, so after the event they examine the pricing schedule and the profitability of the corporation, and compare it to weighted average cost of capital over a five-year period.

Mr HALL — In respect of the summary that you have provided about the key tariffs, I notice the channel infrastructure fee is charged to cargo rather than a charge on vessels. Why do you structure that fee in that way?

Mr BRADFORD — That is a good question. That was an issue we gave a lot of thought to. If I look at the history of container charging in this nation, I think it was led by the Port of Brisbane in order to encourage shipowners to come to Brisbane when there was a lot of consolidation in Sydney. They then changed the pricing structure to put more reliance on wharfage and less on tonnage. It is saying, 'We will attract you to come to this port'.

Quite a number of cargo owners — not all — have said to us, 'We prefer that, because on the shipping company invoices we can actually see what the port charges are'. They were identified as a port service charge. We feared that if we put it on tonnage, how would we stop the shipping companies clipping the ticket on the way through and adding perhaps a profit margin. Not all would, but some may. How do you prevent that? After all, shipping companies come to Melbourne for cargo; that is all they come for, and as the cargo grows they will come and carry that cargo. We thought, to be transparent to our users and our large customer base, to reflect it in wharfage.

That was our thinking behind that. It is interesting to reflect on wharfage across this nation. We studied shipping company invoices on a routine basis to understand if they are reflecting the actual costs of the Port of Melbourne Corporation. We can actually work it out — 'Yes, you are doing that' — and they virtually all are, except, interestingly, a couple of large lines have taken a national approach, and they have decided to put all the port charges, the wharfage into a basket and average it. As they are single operators, they are able to do that.

That effectively means for the long period of time where Melbourne was \$35 and Brisbane was \$74 and Sydney \$67, Melbourne's consumers were subsidising that differential. Our thinking was, first of all, be transparent. As there is some move to national pricing, if you keep it on a consistent formula you at least have transparency and some way of monitoring it. That is why we did it that way.

Mr HALL — Thank you for that. Given that, the direct cost of this is user-pays, as you say. The user pays and will recover the cost of that.

Mr BRADFORD — It is, except for the government contribution, yes.

Mr HALL — Except for the contribution from government. So that has been borne by the importers and exporters, that cost alone, and presumably the payoff for the shipping companies would be more efficient; they will be able to therefore land a greater deal of stock on Victorian wharfs at a lower price. How confident can we be that that reduction in price is going to be passed on to importers and exporters in Victoria?

Mr BRADFORD — I am reasonably confident. If you look at the history of the growth of the container industry in this nation since it started in the mid-60s since containers were invented, there is a solid review. As bigger, greater ships come onto the market, the shipping lines market heavily to fill those ships in this string of 6–8 vessels going between those ports, and therefore reflect that in lower prices. I do not think we could have a more competitive market in terms of ‘15 per cent makes you no. 1’ in this industry. I think it is a pure economic model that says that this is a competitive industry.

The paying leg for the ship owners is southbound, it is imports. Imported cargo pays a premium because that is the demand leg. Our national exports pay less because they are, to some extent, a repositioning leg. We see that as a good thing. I am old enough to remember when it was a bit the other way.

In that repositioning leg you have also got to realise the weight of containers. Draught is about weight. Typically, imports weigh 8–9 tonnes TEU: clothing, electronics, that type of thing; it is lightweight. Our exports by the fact of our nation are heavy, typically 18–20 tonnes. If there was an equal balance of cargo, we could not actually get all the exports away because they would weight out. Weight means draught.

I think if you look at all that — with the freight rates biased to be higher on imports, lower on exports and then have a charging mechanism that is fair. The Sydney model, by the way, actually differentiates between imports and exports. We thought of that, but the reason we discounted it is that when we checked the shipping lines’ invoices, they actually found it fairly confusing so, as they were able to, they merged the prices together and divided it up. We thought, ‘I think the corporation would like to be in control of that’. That is our thinking behind that. I am not sure if I have answered your question.

Mr HALL — Can I carry that a bit further through? We notice the channel infrastructure fee has been imposed since 1 April 2008. Some would argue this is probably 12 to 18 months before the channel deepening is completed and therefore some benefits hopefully will be returned to the Victorian community. What is the rationale for introducing that increased fee now?

Mr BRADFORD — We considered that at great length. Our earlier thought, if you go back two or three years before, was to bring it in on a staged approach. The corporation has to maintain a solid balance sheet. We knew we were going to have to raise debt — this is a significant capital project — so how is it best to reflect it for users over a longer period of time? We felt to start on the 1 April 2008 would give the requisite 60 days notice to the cargo community of how this should work. We also thought of what was happening with some of the lines nationalising the price and effectively averaging down. April 1 was considered by the corporation as the most appropriate date.

Mr BARBER — Mr Bradford, can you tell me what the current weighted average cost of capital you use in your business planning is?

Mr BRADFORD — I think I will have to take that on notice, Mr Barber, because I am not sure that is a figure that is in the public domain.

Mr BARBER — Well, a figure that is in the public domain is from the information that you disclosed for the benefit of the ESC in 2005 and as you noted, that is a five-year period — and you are coming to the end of that five-year period — and the figure then was 8.7.

Mr BRADFORD — Yes. I do not recall every document. As I said, I am not sure if it is in the public domain. If that is the figure in that report, that would be correct.

Mr BARBER — Okay, but at that time you also told us that the way you work that out is you take the commonwealth government 10-year bond rate which was then 5.5, and is now about 6.5, and you then add to that the debt risk premium, which I gather is the investment rate bond premium, which was then 1 per cent and is now a

2 per cent premium. If all these other things have stayed the same, is it a fair bet that your weighted average cost of capital now is 10.7 or nearly 11 per cent?

Mr BRADFORD — Mr Easy?

Mr EASY — It is in that order of magnitude. That is correct.

Mr BARBER — Okay. As a matter of business practice, would you apply the same discount rate when you are doing analysis of this dredging component of your business case, as opposed to your normal port operations?

Mr EASY — I think when considering the weight of average cost of capital, and we made reference to the organisation's long-term strategic business model, it takes into account all capital investment, all expenses and all revenue when we are dealing with calculations on what is for the weighted average cost of capital (WACC) associated with the overall business.

Mr BARBER — Sure there is an average of your average WACCs but here you are moving really into a major new type of business. Now you are becoming a construction company and that has got a very different set of risks associated with it to the risks of running a port. Are you saying you do not run separate WACCs for the two bits of your investment?

Mr BRADFORD — No, we do not. We do not see ourselves as a construction company. Part of the risk minimisation is to engage alliance partners and contractors who assist us to manage those construction programs.

Mr EASY — The Port Services Act prescribes the functions and responsibilities of the organisation which include dredging. It has done that for its entire existence so it is not a new endeavour or new activity associated with the corporation's roles and responsibilities.

Mr BARBER — We will come back to the issue of how the alliance risks are shared, but I would note that most analysts are putting Boskalis's WACC at about 7.5 per cent, and there must be a component of that, given you share in risks and benefits with it in your WACC. As a matter of your policy, until the government tells you any different, the port through user charges is going to fund on a commercial basis all the works associated with this channel deepening. Is that right?

Mr BRADFORD — Yes.

Mr BARBER — You have got about a \$60 million capital program that you did this year?

Mr BRADFORD — Yes.

Mr BARBER — I guess that is mostly land-side sort of investments?

Mr BRADFORD — Yes.

Mr BARBER — Would you be able to provide the committee with just a list of what this coming year's capital program looks like for the land-side, just so we can get a sense of the other investments you are making in association with this?

Mr BRADFORD — I would need to take that on notice. I do not know that — at the back of mind.

Mr BARBER — Sure.

Mr BRADFORD — I think we could provide the major infrastructure programs that we are planning for this year.

Mr BARBER — Sure.

Mr BRADFORD — It is also instructive to — — the port development plan outlines the major ones.

Mr BARBER — Your cash flow from ops was \$60 million last year, and your capital program was \$60 million. You borrowed \$20 million and paid a \$20 million dividend. Does that mean you were borrowing to pay a dividend?

Mr BRADFORD — That is a detailed question that I would have to take on notice. Our requirement is to pay an after-tax dividend of 50 per cent.

Mr BARBER — That is your dividend policy?

Mr BRADFORD — That is the dividend policy, yes.

Mr BARBER — Okay, that is actually in your cash-flow statement, so you can have a look at that. Earlier on you said in response to another question that Drewry sees 5 per cent growth in containerised trade is a reasonable kind of investment. Are you able to show me any document where Drewry projects 5 per cent growth for the next 30 years?

Mr EASY — I think we would need to take that on notice, but we can produce documentation that supports those forecasts for the future, yes.

Mr BARBER — No, I am asking a specific question. I mean, is Drewry out there saying there is going to be 5 per cent growth for the next 10 years, and then we do not know? Or are they actually out there saying it is going to be 5 per cent for 30 years?

Mr EASY — I think perhaps if we could just correct — the forecast for the channel deepening project originated from work that Meyrick undertook. Drewry is a recognised international consultancy that also does forecasting for many organisations and clients. They have done work that indicates that global trend for 5 per cent growth.

Mr BARBER — Over how many years?

Mr EASY — My understanding is — I do not know the exact time frame, so I would have to confirm that for you.

Mr BARBER — That would be good if you can do that. In your Meyrick analysis, which has formed the basis of your case so far, it was pretty clear what possible disbenefits they were not measuring. What ongoing analysis of the economic impact of this project on others are you doing at the moment? Are you tracking that?

Mr BRADFORD — No.

Mr BARBER — You are not tracking the impact on the dive industry or the fishing industry or any of these other people who have been out there saying, 'It is going to impact us'?

Mr BRADFORD — We have consultation groups and that, but we do not have any specific quantum.

Mr BARBER — Have you at this time received any kind of correspondence, or I suppose anything that is starting to look like a claim from one of these groups about the impact on them?

Mr BRADFORD — One of the groups has indicated in the public domain its intention to sue the Port of Melbourne Corporation to do with this project, and we have received correspondence, yes.

Mr BARBER — Okay. Will there be any contingent liability in your next annual report associated with that?

Mr BRADFORD — I would have to consider that before I sign the annual accounts.

Mr BARBER — In conjunction with appropriate accounting standards, I am sure.

Mr BRADFORD — Absolutely.

Mr BARBER — Okay. The issue of Melbourne Water's sewer line and Ecogen and the turbidity issue with the power station and, I think, the gas main — you have entered into agreements with these people over these issues. Is that correct?

Mr BRADFORD — Yes.

Mr BARBER — I am guessing those agreements would be about what, if any, liability you are willing to take.

Mr EASY — The organisation has entered into agreements with each of the service owners associated with the service protection work and also the works associated with the reconfiguration, and the corporation is responsible for all matters associated with those works.

Mr BARBER — And what liabilities have you agreed to there?

Mr EASY — The organisation has agreed that if there are any negligent actions or omissions, as would normally be the case, we would be responsible for those.

Mr BARBER — You would normally be responsible, but what sort of agreement have you entered into around that?

Mr EASY — The organisation is operating under the laws that would normally apply in the case where any negligence or acts of wilful damage occur, and we will be responsible for that.

Mr BARBER — So why did you need to write that down with them and get an agreement? Is there anything else in that agreement beyond the norm?

Mr EASY — No. I mean the service protection works are an important element of the project. They are important assets for the state of Victoria. It was important that there was a clear understanding of the nature of the works, and the work methods that will be undertaken in terms of the carrying out of those works. Therefore it is a document that clearly outlines what are the various responsibilities of the parties. We would say that is a very prudent measure to put in place.

Mr BARBER — Would you be prepared to release that document?

Mr EASY — They are documents that are commercial agreements between the corporation and those asset owners.

Mr BARBER — Is that a yes or a no?

Mr EASY — They are commercial-in-confidence documents.

Mr BARBER — So it is a no. Okay. You produced a few figures before — just back to Mr Bradford — about this issue of draught limitations. I was wondering if you would be prepared to basically release to us a full report that describes the various vessels that come through the port, and, from your understanding of your operations — of which you said you had a clear understanding — the sort of TEU they were leaving with and the sort of draught that they were on when they were leaving.

Mr BRADFORD — I do not totally understand your question. Just take me through that again.

Mr BARBER — Would you name the vessels that came in and out of your port in the last 12 months and provide also with the names of those vessels and their sailings the draught that they were operating on when they left, and perhaps also the TEU, which is the figure you started to quote, for those vessels?

Mr BRADFORD — That information in terms of the loadings of individual shipping lines and ships would be commercial in confidence to them and their partners. I can answer your question another way — if you would like a schedule of the vessels that have a summer draught of 11.6 metres or greater, I am happy to provide that to the committee.

Mr BARBER — No, it is about the actual operations and whether they were or were not draught-constrained. That is the information we are seeking.

Mr BRADFORD — No, they were not draught-constrained. We have never said they were draught-constrained; we said they have a summer draught which is capable of greater than 11.6 metres. They effectively sailed inside either 11.6 or 12.1 fixed in agreement with the heads.

Mr BARBER — Of course they did, otherwise they would still be sitting at the wharf, wouldn't they?

Mr BRADFORD — That is exactly right.

Mr BARBER — So what does 44 per cent represent then?

Mr BRADFORD — Forty-four per cent represents the number of vessels in container trades only that entered or left the port of Melbourne with a summer draught of greater or equal to 11.6 metres.

Mr BARBER — You quoted some figures earlier on. Are you prepared to provide — —

Mr BRADFORD — Which figures are you talking about — the numbers of ships?

Mr BARBER — Yes.

Mr BRADFORD — I have said that I am prepared to table to this committee the names and summer draught of container vessels with a draught equal to or greater than 11.6 metres. They are regular callers.

Mr EASY — Perhaps if I could just add to that: the vessel arrival and departures through the port of Melbourne and their summer draught is publicly available information through Lloyd's List now, so the information is available.

Mr BARBER — I would have thought so, but that is not the issue we are discussing, is it? We are discussing how full or empty they were when they left.

Mr BRADFORD — And we would not necessarily know.

Mr BARBER — You told me you measure all the containers because you are charging them per container.

Mr BRADFORD — We measure the loaded and empty containers put on or taken off in this port; we do not record the ones that come on the ships when they have already arrived. Why would we?

Mr BARBER — When the ESC quotes a report, as it did in the Ports Monitoring Report of 2005–06, that 14 per cent were draught-constrained, do you challenge that?

Mr BRADFORD — I have not got the exact figures but, no, from rough memory I would say that is right. There has been an interesting trend in the port of Melbourne. As the months have gone on since 2005–06 the number of vessels with a draught of greater than 11.6 metres has increased; and given that trade is increasing, you would expect that.

Mr BARBER — And when the SEES published a figure of 4 per cent.

Mr BRADFORD — You will have to show me the paragraph you are referring to. Are they the ones who actually used the draught?

Mr BARBER — I haven't got that chapter in the SEES with me. It is in chapter 6. It seems to have disappeared from your website, by the way.

Mr EASY — The SEES refers to two things again — what are the number of vessels that can potentially utilise the deeper draught, and that figure was consistent with what we indicated today. Then it talks about those that actually utilise the draught. I think that is what you are referring to as the 4 per cent figure, and we do not contest that.

Mr BRADFORD — To be clear on the 44 per cent, it is international container ships in and out of the port of Melbourne. It does not include passenger ships, it does not include car carriers, it does not include coastal cargo.

Mr BARBER — Going back to the Drewry report, which was back around 2001, here is a paragraph that said that analysis of actual arrival and departure draughts at Melbourne during a 12 month period shows that only 10 per cent of the affected services' sailings operated at a draught in excess of 11.6 and that many voyages were seemingly not limited on loadings at all. The estimated cost to containership operators of the Melbourne draught limits in 2000 is consequently estimated at \$1.9 million — that was US — compared to a prospective maximum cost of US\$12.2 million if all sailing vessels over 11.6 had been affected. Does that explain the 10-fold difference between the different numbers that we are talking about?

Mr BRADFORD — I think the first numbers you were quoting were 2001.

Mr BARBER — It was 2000 actually.

Mr BRADFORD — It was seven or eight years ago. Clearly the trade in the port of Melbourne as a published statistic has increased by an average of 7.8 per cent compounded over that time. That would encourage ship owners to put larger ships on the run.

The CHAIR — The committee will have to move to Mr Tee's questions shortly. You probably have one more — —

Mr BARBER — Make it 30 minutes. I would like to kill this cat.

The CHAIR — Twenty minutes.

Mr BARBER — I would like to kill this cat, and I think it is in everybody's interest to do so.

Do you have an analysis or do you monitor which lines are currently building and commissioning ships that would benefit from this project?

Mr BRADFORD — Who would potentially put vessels on the trade routes?

Mr BARBER — Yes.

Mr BRADFORD — No, we do not. The reason is that most of the shipping lines treat that as commercial-in-confidence because if they predicted ahead — on the Australian trades we are talking about; this is not worldwide ship building?

Mr BARBER — Sure.

Mr BRADFORD — If they predicted ahead and telegraphed what they were doing, it actually would send a clear signal to their competitors that it is highly competitive.

Mr BARBER — It would be useful information for your business plan, too, wouldn't it?

Mr BRADFORD — Sorry?

Mr BARBER — It would be useful information for your business plan.

Mr BRADFORD — Yes, but would you let me finish the answer. Australian trade, with a nation of 22 million, is not the largest in the world. Clearly Asia to east-coast USA and Asia to Europe are the bigger trades. Historically in the container industry and probably other industries the vessels coming on the Australian trade are vessels that have worked on those and smaller trades and worked their way down rationally to fit a trade of the size of the Australian trade.

You would not expect a shipping line to build a 14 metre draught vessel and allocate it to the Australian trades. They were typically allocated to the American trade, and then shuffle the vessels down. The older vessels of course are then scrapped. It is quite a logical process. Australia is not big enough to feature in world shipping as a leading edge.

Mr BARBER — In paragraph 54 of the Department of Transport's witness statement this morning they gave us some updated figures from Meyricks that have been done even since the government's submission to this inquiry. Are you prepared to release to us the full document where that was worked out?

Mr BRADFORD — I think, to be fair to the committee, you should ask Mr Meyrick that when he appears at the next — —

Mr BARBER — No, they did it for you, at the request of PMC — they prepared an estimate. It is in the DoT's — —

Mr BRADFORD — Yes, we will provide that as commercial-in-confidence if that is acceptable to the Chair.

The CHAIR — You will provide —

Mr BRADFORD — The copy of that letter from Meyricks as a commercial-in-confidence document.

Mr BARBER — Is it a letter? It says that since lodgement of the Victorian government submission — Meyrick and Associates have, at the request of the PMC, prepared a final estimated BCR for the CDP. And then it goes on to say 'I can advise you' — these are the values — 'NPV, IR'.

Mr BRADFORD — Yes, they have provided us with a letter with the information in it, and you are most welcome to ask Mr Meyrick for the detail behind that.

The CHAIR — You will provide a copy to the committee on a confidential basis?

Mr BRADFORD — We will provide a copy on a commercial-in-confidence basis.

Mr BARBER — If it goes to you; you will give it to us — Meyrick?

Mr VINEY — He just said he will.

Mr BARBER — Just getting it clear.

The CHAIR — Mr Barber, we need to move to Mr Tee's questions. We can come back to you if we need to.

Mr BARBER — Yes, right.

Mr TEE — I would like to start, Mr Haak, where you finished. Clearly, after 10 years and a long process I suppose I can understand your concerns about having another process and another committee, and I suppose I am quite alarmed by what you are saying in terms of the impact it might have on businesses such as yours being willing to trade with governments like Victoria, so at this end of the table I share some of those concerns.

What I wanted to ask is probably for you, Mr Bradford. We had some evidence yesterday that one of the models might have been to progress a project such as this in the same way that the CityLink project was progressed. There you have a road which government then effectively contracts out. I am wondering whether that sort of model was something that the port considered and where it ended up — and why it ended up taking a different approach, I suppose?

Mr BRADFORD — The channels are a critical part of our business and the VCA, I understand — and certainly the corporation — would consider that control of the project and working with partners is a key part of the organisation's responsibilities. After all, it is our role, as Boskalis and the alliance complete various parts, to accept those parts as complete. So we would see it as a critical part of the port of Melbourne project. I think, from what I heard on the question asked yesterday — should it be a PPP or financed in another way — that is a question best answered by our shareholder, the state government.

Mr TEE — The other issue that I think emerged was in relation to the horticulturalists who gave evidence. Essentially what they were saying was that the project really benefits importers and not exporters — almost importers at the cost of exporters. I am wondering if you have a response to that?

Mr BRADFORD — I think it benefits both parties, particularly as Australian individual container weights are heavy — they are twice the weight of importers. A lot of the evidence given this morning I think was — perhaps, to be fair — anecdotal. I have tried today to give the exact figures of what is happening with trades in this state and what is happening with exports. April was our biggest single month in exports in our history. That is in a

drought and when the Aussie dollar is so high. It really surprised me. I think that is a very clear sign of what is going to happen in Victoria.

I have done some research previously, and I had a meeting with horticultural exporters. They are a key customer, as many others are. I would suggest the main impact on their business has been the rise in the value of the Aussie dollar compared to the US. That appears to me to be the main issue that is impacting their business. Yes, the \$31.50 is clearly important to them. After this meeting I will try and meet with them, because I would like to explain how they can actually — in reviewing their invoices from shipping companies — confirm that the charges of the Port of Melbourne are accurately reflected, because we know that some shipping lines have a national charge. I think that is information the users should be aware of. It is a matter for the individual shipping lines, but we do take a monitoring role to advise customers what is happening.

Mr GUY — Thank you for the material you have provided. In general terms, how much material are we talking about being removed in the whole process, the total volume?

Mr EASY — The total volume of material is 23 million cubic metres.

Mr GUY — And all of it will be stored in the DMGs, the dredged material grounds locations in the bay?

Mr EASY — Yes. There are two DMGs, one in the south and one in the north and that is where the material will be placed.

Mr GUY — Can you just run me through the aspects of the construction of those facilities? Do they exceed the height of the water line or are they located below the water line?

Mr EASY — Both of the dredged material grounds are at minus 15 metres, so that is 15 metres below the surface level. There is very good reason for that, which is associated with the influence of wave currents and tides being able to move or mobilise that material. So at that depth the advice and analysis suggest that they would not be mobilised.

Mr TEE — They do not sort of stand; it is not like a small mountain under the water?

Mr GUY — No, it is 15 metres — —

Mr EASY — Perhaps if I could expand: on the northern DMG is the existing dredged material ground that has been used by the port for decades for the placement of material from dredging, particularly material from the north. There will be a bund structure created, which is effectively a mound under the water, where the contaminated material, or the material that has been recommended for confined disposal, will be placed. Then that will be covered with a capping layer of clean sand, which will come from the south. The dredged material ground in the south will be an open environment because that material is effectively clean material and is recommended for unconfined placement.

Mr GUY — Are there any exclusion zones or anything around any of those two locations, in terms of dive facilities, fishing grounds or anything of that nature?

Mr EASY — There are restricted access areas in place for the project. They principally surround the vessels, the two main vessels, the *Queen of the Netherlands* and the *Cornelis Zanen*. The second area where there are restricted access areas is around the barge and the floating pipeline for the transfer of the contaminated material from the vessel to that northern dredged material ground.

Mr GUY — I just meant in terms of the long-term containment of that site, that is all. I am asking in terms of the long-term facility. I must say that I did not know that there was actually an existing facility as well in the north. Are there restrictions around it currently that would be new or is that something that will be associated with the — —

Mr EASY — There are existing areas. The restricted areas are associated with the operation and safety of the project. They are not about controls that will exist in the longer term.

Mr BRADFORD — Additionally, of course, the recreational craft are not able to anchor in the shipping channels, in the interests of their own safety. They can traverse of course when it is safe to do so.

Mr GUY — In general terms, do you think the federal government should contribute financially to this project as well, given its significance?

Mr BRADFORD — The corporation took the view we were owned by the state government and we should do a robust cost estimate and project budget and deliver this project in accordance with that. We did not lobby our shareholder to contribute; we did not think it was our role. In terms of the federal government, the same. We felt that was more a matter for industry to do that — VECI, the farmers federation, the union movement and others should do that.

Mr GUY — Do you know if the federal government made any commitments in the past to the trade coast in Brisbane?

Mr BRADFORD — I don't know. In my general recollection, I cannot recall a dredging infrastructure project that has been funded by the national government. I cannot recall. I try and stay abreast, but I cannot recall one.

Mr GUY — So could I ask, maybe very cheekily, is \$150 million enough?

Mr BRADFORD — That is a matter for the shareholder to determine. We were pleased to get it. Just to expand on the answer this morning, I think it may be not entirely clear to users how we treated that: \$100 million was to be used for an immediate reduction in the cost of the project to users, so that is reflected in the \$31.50. The other \$50 million was for an infrastructure project which would be of benefit to the port and the community, and in the near future the board will contemplate those projects and seek the state government's consideration of those.

Mr GUY — I asked the department this morning about the process for those projects and the expenditure of the money. Is it your understanding that they are on recommendations that the port will provide to the department as to associated infrastructure projects? That is the case, is it: that you will provide effectively a list to the government, saying 'This is what we see as a priority on the port'?

Mr BRADFORD — Yes. With the current published delegations of what the corporation board can approve, \$50 million would be above its current delegation so it automatically would have to go for the Treasurer's consideration. Given that this was a specific payment to the corporation, we would expect that those giving the money would expect to view the benefits and how that would impact this port and this community.

Mr GUY — Are there any guidelines on how the money can be spent? Could it only be spent, for example, on rail or road? Are there any parameters around the recommendations which you have to provide back to the government as to how it is to be spent?

Mr BRADFORD — Not that I recall. But you would expect that a shareholder would expect us to do a rigorous analysis and present to them a project that has significant benefits to be undertaken. To give you some guide, I guess the port development plan, which is the road map for this port for the next 30 years, indicates quite a number of projects. So we will be looking in the development of the port how best to benefit the users of the port.

I should add one thing which will become clearer when our published results are out later this year: the state government has paid the \$150 million. It has paid it considerably earlier than we had expected, so when we review our pricing for next year we will need to reflect the fact that our interest bill has been reduced for a period because we are still using that money. I think that is good news for users.

Mr GUY — It must be the first time the state government has paid a bill early!

Mr BRADFORD — We are trying to be transparent and explain what is going on. Yes, we had to make an estimate of when people would pay money, when government would pay money, and we got that wrong — it was paid very promptly.

The CHAIR — Mr Haak, in relation to the alliance agreement, what benefit does Boskalis get out of this alliance agreement compared to a traditional procurement, where you would be simply a contractor delivering a dredging project?

Mr HAAK — I think that information is commercial-in-confidence.

The CHAIR — There is nothing you are happy to expand on in that regard?

Mr HAAK — Perhaps the Port?

The CHAIR — Mr Bradford?

Mr BRADFORD — I think I have explained the pain-gain arrangement. Mr Dekker has also explained it to me. He is the most senior executive responsible for this project. He has other duties in the Netherlands and unfortunately could not come at short notice. He and Dr Berdowski, the managing director, take a very long-term view of the future of Boskalis. What they indicated to us very early on in this project was that regarding the growth of the dredging industry, they wish to be leading-edge, key player, and that by being involved with the Port of Melbourne Corporation they certainly chose a project with complexity; but the alliance contracting gives them another model in which to promote their services worldwide. They are presently very busy, particularly in the north-west of Western Australia, on other matters of tenders, so they have been trying also grow their business.

Part of the due diligence we did on the Boskalis alliance was to examine its performance in other ports. I particularly looked at the port of Gothenburg. Whilst it was not directly related in that there is a lot more rock there than there is in Melbourne, it had certain very much key marine issues, such as the lobster industry and how that would be protected. The feedback from the port corporation of Gothenburg was very positive for Boskalis. That was done as part of our thinking and consideration of whom best to award this to. Alliancing requires very close partnership, I think. Both Mr Easy and I have learnt a lot through the process.

Mr VINEY — I just want to get clear this question of the shipping capacity and the questions that have been asked around that. Just so that I understand it in clear terms as a layperson, is it your evidence that 44 per cent of ships have the capacity to go beyond the 11.6 or 12.1 draught?

Mr BRADFORD — About 44 per cent have a summer draught — that is, the ability to go below the 11.6 or greater.

Mr VINEY — So you are not giving evidence nor have you said that all ships will do that? I think what you said was that the ships that are coming through to Melbourne are regular, so therefore they basically load or if they are picking up, they plan to load to that capacity of the port. Is that correct? That is how they plan?

Mr BRADFORD — Yes, that is exactly right.

Mr VINEY — Therefore the position of the Port of Melbourne Corporation is one that if we improve the capacity of the port for larger draught vessels, we are going to increase the number of vessels that load to that increased capacity, is that right?

Mr BRADFORD — That is right. That is exactly right. Just to explain the 44 per cent, you would naturally expect that the vast majority of those would have a summer draught of 11.6 and below 12 metres. There is not a great deal over 13 metres, because that would clearly be uneconomic by the ship owner. They have put bigger draught vessels on in an attempt to perhaps load between other ports. It could be how their fleet has cascaded down from other trades.

As I said, the international container Blue Water components are very competitive and you often see a bit of me-too-ism: that if one company puts on bigger ships the others will follow, because it is marketing initiative to look for growth. They are highly competitive. But we do not actually know the capacity to which they would load. We do not ask them to say how much they would have loaded. That really is their commercial business. They each have their own operating models. Some particularly like matched pairs between ports to maximise profit; others take a more growth-is-better approach and take lots of containers. Each of those 25 shipping lines has their own strategies on how they will be profitable.

It is an interesting industry. It is a risky industry in that the capital costs to enter it are very high. A typical container vessel, I would imagine, is worth about US\$80 million. You would need, just to service Shanghai, Hong Kong and the three ports in Australia, five of them. That would be a small trade. If you have not got worldwide capability and links, that then further reduces your ability. For instance, the New Zealand trades are not typically higher draught because the exchange is not as high. The growth area— clearly as you will see in the annual report — is China.

Mr VINEY — Just on an entirely different topic, we had evidence this morning from the horticultural exporters that they had not been consulted in this process until 18 March of this year. Have you got any comment on that in terms of their criticisms of that process?

Mr BRADFORD — Yes, I should have seen the horticultural exporters early. I have certainly apologised. I went out to Knox on 18 March to meet with them, to understand the project. They were clearly not a group we had on our radar. That is a problem with our marketing group. We have marketing executives based in Melbourne, Wagga Wagga and Adelaide watching the growth of trade and where containers move and trade generally. That is an oversight by the corporation. We will now stay close to them. Five thousand they said is not particularly large, but every container is important to the Port of Melbourne.

Can I just correct an answer they gave earlier on the actual wharfage charges and the price of Melbourne. We have actually done a summary, and it will only take me a minute to outline it. The price at Melbourne on 1 July this year is the same as it is today It is \$73.70 — this is including GST. Brisbane is \$74.80 and has been for years. I cannot recall when it started. It is a longstanding charge. Adelaide has just increased its prices effective of 1 July, which will be \$76.78, higher than the cost of the Port of Melbourne. Fremantle has just announced an increase applicable on 1 July. It will go to \$59.64 — they are lower than the Port of Melbourne.

Sydney has a bit of a mixed basket. It is a significant import port. It does not have the percentage of exports that Melbourne has. Melbourne is about 40 per cent full exports. It has an \$89.65 charge on imports, \$51.15. But a number of the shipping lines average it based on the weighted average, which brings it in at \$77.48 on a weighted average, not dividing it by two.

I think that shows that the Port of Melbourne with a \$969 million project to undertake and fund is doing that responsibly. We have tried very hard to mitigate risk. For instance, we have hedged the fuel price to the end of the project. We have hedged the currency, which is primarily euros, to the end of the project. We have taken a 10-year debt funding model. We have locked in those interest rates annually for the next 10 years. The corporation is entering an interesting phase in its existence. It requires risk minimisation. That is what we are trying very hard to do.

The CHAIR — Thank you. We have got time for a couple more questions. Mr Hall has one, and then we will go to Mr Barber.

Mr HALL — Just going back to that channel infrastructure fee of \$31.50: that applies for both containers being exported and containers being imported?

Mr BRADFORD — Yes. For every international container — full international container — pays \$31.50. We have a facility fee directly levied on to shipowners of around \$9 for an empty movement. The coastal trades pay less.

Mr HALL — So you have all that information to send the bill to prospective people from overseas who have sent their product to Australia?

Mr BRADFORD — Yes. The beauty of the port service charge we have found it generally transparent. With a bit of working out you can work out how the shipowner has calculated it, and then you can relate directly to the Melbourne, Sydney and Brisbane prices.

Mr BARBER — When you said you had to put a rigorous business case to the shareholder, you did that via the DTF Gateway process and the DOI's PRC process; is that correct?

Mr BRADFORD — I need to be careful in answering that question, but yes, we abide by government policy.

Mr BARBER — I am just asking if you prepared a business case and put it before those groups. They seemed to confirm that this morning.

Mr BRADFORD — Yes. I am not saying we did not. I said I have to be careful answering that. Yes, we followed the Gateway process and the approval process.

Mr BARBER — What information can you give us about the business case? What can you provide to us?

Mr BRADFORD — What would you like to know?

Mr BARBER — I would like to know the business case. This is an inquiry into a business case. We have not got any documents that represent the business case.

Mr BRADFORD — Under the code of conduct I am not able to talk about that. If you wish to put questions on notice, we will certainly consider them.

Mr BARBER — You are saying it is advice to a minister?

Mr BRADFORD — I beg your pardon.

Mr BARBER — Are you saying that is advice to a minister and therefore you will not speak about it under the code of conduct?

Mr BRADFORD — No, as I believe it, the business case was considered by cabinet.

Mr BARBER — I will get back to that one. Financing for this has been organised by Treasury, yes?

Mr BRADFORD — Yes, the corporation uses the Treasury Corporation of Victoria to assist with its financing. We have our own policies on how we manage debt and interest rates and we follow government policy.

Mr BARBER — What rate will it be at — this 10 years of debt?

Mr BRADFORD — That is commercial-in-confidence. We have taken a 10 year profile with annual risks of expiry. We are trying to spread this risk over a long period of time.

Mr BARBER — Sure, you said it was a fixed interest. You have locked that interest rate in. And you cannot tell me the rate?

Mr BRADFORD — Perhaps I can answer your question another way. The corporation pays the TCV the government agreed rate or agreed rate that is settled for each of the tranches of this project. In order to ensure that the corporation also reflects the private sector model, for instance, we would calculate income taxes if it were the tax act applied. We pay a financial levy to Treasury to reflect the difference between our rating and that government rate.

Mr BARBER — BBBs.

Mr BRADFORD — You said BBBs.

Mr BARBER — BBB means investment grade, doesn't it?

Mr BRADFORD — Yes, but I am not confirming that the corporation is a BBB. We are higher.

Mr BARBER — But your annual report says that you aim to maintain investment grade?

Mr BRADFORD — Yes, our objective is to maintain BBB. Our internal target is to achieve A. The long-term business model confirms that.

Mr BARBER — Why can't you tell me the rate? Your annual report discloses the weighted average cost of debt.

Mr BRADFORD — I will have to take that on notice. I do not have every interest rate.

Mr BARBER — Just in terms of the cost of the project, the published figure you have got at the moment is \$969 million. When we wrote to you and asked you about this you told us there was about \$150 million had been contributed and you also informed us that Boskalis has already reported publicly €300 million — let's say A\$500 million. Where does the other 300 million go?

Mr BRADFORD — I think I explained that. Part of this process is that the corporation is responsible for the direct cost estimate, the pain-gain arrangement, the bonus if any paid to Boskalis, particularly the service

relocation works, the payment to Telstra CitiPower, the berth works — that is considerable, the navigation aids. It is not all about the alliance. The corporation also has parts — all of it is directly responsible — that is in the budget, including contingency.

Mr BARBER — So the €300 equates to the direct part of your alliance agreement — the direct costs?

Mr BRADFORD — Boskalis disclosed to the share market that their value of the project value of the port of Melbourne was in the order of €300 million, yes.

Mr BARBER — Just briefly, in terms of the allocation of risks under the alliance agreement.

Mr BRADFORD — Sorry, the allocation of?

Mr BARBER — Risks. I am guessing that some of the risks that you will bear under this will be break costs if you change your mind?

Mr BRADFORD — Of cancelling the contract?

Mr BARBER — Yes. Or in a major way modifying it?

Mr BRADFORD — Yes.

Mr BARBER — You will bear that. Approvals and any regulatory delays: you would bear those risks?

Mr BRADFORD — From a certain point in time.

Mr BARBER — Direct cost profit and overhead, as you have said, is already guaranteed. Liability for environmental damage and economic damage: how would you deal with that and how would you share that between the parties?

Mr BRADFORD — That is a matter for the corporation in terms of any, as you alluded to earlier, potential action by third parties for costs — it would be a matter for the corporation.

Mr BARBER — Meaning you would cop it?

Mr BRADFORD — Yes.

Mr BARBER — Okay.

Mr BRADFORD — We could have discussed that as part of the alliance agreement. We obviously chose not to because we thought we could better manage it ourselves and that is more risk to us.

Mr BARBER — So the upside, or the pain-share, gain-share as you called it, you could work that out using a bunch of key result areas?

Mr BRADFORD — KPIs, yes.

Mr BARBER — Whatever. They include things such as milestone achievement, stakeholder and community and environmental KPIs?

Mr BRADFORD — They are the type of things you would expect to see in a general alliance agreement, yes.

Mr BARBER — What would the environmental KPIs be?

Mr BRADFORD — I am not at liberty to disclose those, but you would expect that they would be closely linked to the environmental management plan and the achievement of all the rigorous controls expressed in that document.

Mr BARBER — Yes, but are you saying they get paid a bonus for complying with what is in the EMP?

Mr BRADFORD — I am saying that there is a bonus pool and there is a pain-gain arrangement and one of the key criteria for Boskalis as part of the alliance is to perform in accordance with the environmental management plan.

Mr BARBER — They get incentivised for performing, for not breaching the EMP?

Mr BRADFORD — I think that is given the rigorous nature of the environmental management plan. I can give you an example, if you wish, of a matter that has been closed in terms of a KPI.

Mr BARBER — How about stakeholder and community?

Mr BRADFORD — You would expect to see matters of those included in alliance KPIs.

The CHAIR — Mr Barber, we are going to have to leave it there. We are over time.

Mr BARBER — Can I ask one final question of Boskalis, a real simple one?

The CHAIR — A short one.

Mr BARBER — Just for the gentleman from Boskalis: you said earlier that you are engaged in projects all around the world and that they all have rigorous environmental guidelines. Are there any projects you are involved in where that involved dumping material of this sort of toxicity, which we all understand, or think we do, in the water?

Mr HAAK — I think that is a question outside of the terms of reference of this committee.

Mr BARBER — No, it is about risk, it is about the business plan. You brought it up. Can you name other projects around the world that you are involved in?

Mr HAAK — I can name for you various other projects where there are strict environmental requirements. You will find more of them as well in the annual report that I gave. But, for example, some recent projects: one in Brazil in Sepetiba with very strict environmental requirements. Another one recently awarded — Khalifa Port in the UAE with some very strict environmental requirements as well.

Mr BARBER — But do those projects involve dumping and containing toxic material in the open water, because I understand this is a bit of a new thing?

Mr HAAK — I cannot say that but I can say for example in the Khalifa Port project we are talking about working very close to a coral reef so you can imagine the strict requirements that we get there, that are complied with.

Mr BARBER — Where does the dredged material go there?

Mr BRADFORD — Just one point, Chair, the EMP does not allow the dumping of contaminated material. Material has to be carefully placed on the ocean floor, and it will be.

Mr BARBER — Outside the environment.

The CHAIR — Thank you, Mr Bradford. We have to leave it there. We may have some additional questions on notice that we wish to submit to you given that we have run out of time. The committee thanks you for your attendance here this afternoon, and Mr Haak and Mr Yeung from Boskalis, and for your submission. We will have a draft transcript to you in the next couple of days, and as I said, we may have some follow-up written questions. Thank you very much.

Witnesses withdrew.