

# CORRECTED VERSION

## STANDING COMMITTEE ON FINANCE AND PUBLIC ADMINISTRATION

### **Inquiry into Port Phillip Bay: channel deepening**

Melbourne — 5 June 2008

#### Members

Mr G. Barber  
Ms C. Broad  
Mr M. Guy  
Mr P. Hall

Mr P. Kavanagh  
Mr G. Rich-Phillips  
Mr M. Viney

Chair: Mr G. Rich-Phillips  
Deputy Chair: Mr M. Viney

#### Substituted members

Mr B. Tee for Ms C. Broad

#### Staff

Secretary: Mr R. Willis  
Research Assistant: Mr A. Walsh

#### Witnesses

Mr W. Kayler-Thomson, chief executive, and

Mr C. James, senior manager, public affairs, Victorian Employers Chamber of Commerce and Industry.

**The CHAIR** — I declare open the Legislative Council Standing Committee on Finance and Public Administration public hearing. Today's hearing is in relation to the inquiry into the Port Phillip Bay channel deepening project — specifically the business case for the Port Phillip Bay channel deepening project as presented by the Port of Melbourne Corporation and the Victorian government, and the legal and financial arrangements between the Port of Melbourne and Boskalis Australia Pty Ltd and/or its parent company, Royal Boskalis Westminster. I welcome Mr Wayne Kayler-Thomson, the chief executive of VECCI, and Mr Chris James, senior manager, public affairs, VECCI. All evidence taken at this hearing is protected by parliamentary privilege as provided by the Constitution Act 1975 and further subject to the provisions of Legislative Council standing orders. Any comments made outside the precincts of the hearing are not afforded 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. In accordance with sessional orders 22(4) and (5), Mr Brian Tee is substituted for Ms Candy Broad for the purpose of this inquiry. I now invite you to make an opening statement, then we will proceed to questions.

**Mr KAYLER-THOMSON** — The Victorian Employers Chamber of Commerce and Industry has been a longstanding supporter of the ongoing Port Phillip Bay channel deepening project for a range of reasons. Apart from the fact that the port itself provides a competitive economic advantage for Victoria, the project has a number of key features.

It is economically necessary and, as such, has broad support across the community and a range of community groups, with substantial economic benefits spread across the entire Victorian community; it is consistent with other aspects of government policy — for example, both state and federal governments have set ambitious export targets and also want to build infrastructure productivity to fight inflation; the costs of not proceeding are high; the alternatives are too expensive and too risky; the project is environmentally sound — the environmental effects of channel deepening will be short term and limited in impact.

There is broad support for this project, despite the level of public debate. It has the support of Victorian business groups and unions representing thousands of employers and employees. Apart from VECCI, prominent supporters who have been in regular contact with us include: federal and state governments and oppositions; the Victorian Trades Hall Council, and a host of trade unions; the Committee for Melbourne; the Australian Industry Group; the Master Builders Association; the Victorian Transport Association; the Victorian Freight and Logistics Council; the Victorian Farmers Federation; Infrastructure Partnerships Australia; and Shipping Australia.

Turning to the economic benefits, why would such a diverse range of rival business groups and unions come together like this? The project is economically important because, firstly, it will enable Melbourne businesses, employees and consumers to benefit from the economies of scale offered by larger ships, and, secondly, it is important for the broader investment reputation and status of Victoria and the position of Melbourne as Australia's major transport, distribution and manufacturing hub.

Channel deepening is an urgent project and has been delayed for too long. Because of inadequate channel depth, the percentage of containers unable to enter or leave Port Phillip Bay fully laden has increased to 44 per cent during the March quarter 2008, from 27 per cent over 2005–06. There has been at least one instance of which we are aware of a ship being turned back at the Heads in recent years. In 2004 the *MSC Corinna* was refused entry at the Heads by the harbourmaster because it had a depth of 12.3 metres, and it had to sail back and unload some cargo in Adelaide and then come back. Others have had to wait at the Heads to sail at a high tide.

The inability to achieve economies of scale from the use of larger ships that are increasingly being introduced on major trading routes around the globe and are cascading to secondary trading routes that include Melbourne as a destination will have major downstream impacts on port users and the wider Victorian economy. It is estimated by Drewry Shipping Consultants that the cost of each container falls by 15 per cent when shipped on a 4100 TEU ship rather than a 2450 TEU ship. The fact that Melbourne does not have 14-metre draught, like Brisbane and Sydney, is adding costs to shipping lines — so much so that Shipping Australia has commented on the possibility of a special Melbourne charge for containers if channel deepening did not proceed.

With the indulgence of the committee, perhaps we will leave it to the government and the port to discuss the government's economic impact work in detail during their evidence. It might be more productive if we focus on firm-level impacts, the real investment decisions firms make on the ground. However, we do note that the SEES

and the accompanying economic studies presented a strong economic case for the project. The benefit-cost ratio stands at 2.7, with \$2 billion worth of net economic benefit. Most infrastructure projects require a BCR of 1 to proceed, sometimes less if the piece of infrastructure is strategic. This SEES not only highlighted the long-term economic advantages of proceeding but also the long-term damaging economic outcomes of not proceeding, finding that not only would the Victorian economy and community miss unlocking the value the project would create, but would also suffer a net loss if the project did not proceed. The community would experience this loss in terms of lower competitiveness, fewer jobs and a reduced standard of living. This is what occurred in Portland, Oregon, in the United States, when the port was forced to stand down 10 per cent of its workforce after two major shipping lines stopped calling. Judging by our consultations with our members, similar things would probably occur here.

Some specifics: in 2007 VECCI consulted our trade-affected members to get beyond the macro numbers and understand the likely impacts at the level of individual firms. They have all asked to remain anonymous for various reasons, but with the committee's indulgence I can provide some general descriptions. In short the research covered six firms, three of which were largely exporters and three of which were largely importers. They range from food processing to chemicals, textile, clothing and footwear, and outdoor leisure equipment. Their trade throughput in terms of containers is roughly around \$3 billion per annum, with around 15 000 port-related jobs.

In short our work concluded that two firms would move their headquarters-operations base from Victoria if channel deepening did not go ahead; two would make no further plant investments in Victoria; and two would have to remain in Victoria for a range of reasons but would have to absorb increased costs affecting their bottom-line margins. The details of all this are in appendices in the handout that I have provided to the committee. But I will leave you with one disturbing quote from a major food processor that exports per annum over 21 000 containers worth about \$1.3 billion through the port of Melbourne:

The port of Melbourne is an essential part of our competitiveness in a very tough international market. It will wring our neck if shipping infrastructure falls behind and lowers efficiencies. Without channel deepening Melbourne would become a backwater over time. With channel deepening we will continue to grow our international markets.

Our data echoes a similar study by PricewaterhouseCoopers which analysed 11 national and global companies with operations in Victoria. Although they only generated around 6 per cent of Melbourne's total container throughput, they reported annual turnover of \$9 billion per annum, employed 13 000 persons in Victoria and exported around \$4 billion worth of commodities each year. One firm, Simplot, indicated that it saves 10 to 20 per cent in logistics costs using Melbourne rather than Sydney. All mentioned the importance of regular and reliable shipping services to meet customer needs.

In terms of broader reputational issues for Melbourne, the fact that nearly 40 per cent of Australia's containers pass through our port underpins and reinforces our status as the nation's transport, distribution and manufacturing capital. In many ways we are the Chicago of Australia. Competitor ports such as Adelaide and Auckland have completed their channel deepening projects. Portland in Oregon, USA, has commenced its long-delayed project, and the Panama Canal deepening has been approved. Other channel deepening projects recently completed, under way or on the drawing board include New York, Shanghai, Antwerp, Long Beach in Los Angeles, Charleston, Hamburg, Felixstowe and New Orleans. We speak regularly to overseas chambers of commerce and ports, and the problems we have been having with our port project are widely noted — the eyes of the world are truly upon us.

In terms of channel deepening alternatives, a number of alternatives to channel deepening have been proposed in recent years. None would provide a short to medium-term solution to the problem of fully laden container ships not being able to enter or exit the bay. All proposals are flawed in one way or another, and in the interests of time I will refer members to our handout and suggest we perhaps save this discussion for question time.

In terms of the environment the SEES concluded that although some ecological effects will arise from the project, 'no long-term effects on the health of the bay have been identified'; and that of the ecological effects that will arise, specifically on habitat within the deep canyon and on some seagrass in the south of the bay, these will be confined in scale and will recover in the short term. The panel inquiry into the SEES confirmed that the project 'can be delivered with low to medium risk, and moderate impact'. Subsequently, two Federal Court decisions have upheld the project against legal challenge, and it was able to commence on 8 February 2008. So far, with well over 15 per cent of the project complete, none of the predictions of environmental disaster or damage have come to pass. Both the port and the environmental monitor have reported no non-conformances, as has a team from the *Herald Sun* newspaper. Water surging into Port Phillip Bay as a result of storms has caused higher turbidity readings than the

dredging. VECCI also notes the SEES concluded that the project's effects on social values and business uses, mainly tourism, would only be temporary. Despite some disruption to recreational diving and associated businesses during the period of dredging, these are expected to recover soon after project completion.

In conclusion I would urge the committee to note that the project has already been underpinned by an SEES, an independent panel inquiry into the SEES, a trial dredge, a separate Treasury economic assessment and two favourable Federal Court hearings. Secondly, industry, not the taxpayer, is paying for most of the project — 85 per cent on current estimates. Thirdly, government-owned corporations such as the port need to invest in capital expenditures as a matter of course to underpin economic growth, sustainability and competitiveness. These expenditures need to be encouraged in the current climate, where intense competition is occurring between states wishing to complete infrastructure projects for engineering and project expertise. Stakeholders should be wary of frightening away footloose capital. Inflation has emerged as a significant economic problem over the past year; clearing infrastructure bottlenecks is a priority in this respect. In short this project is necessary for the ongoing economic efficiency of our members and the economic development of Melbourne and Victoria, and this is the reason for our support. Thank you for your time. We are happy to answer any questions.

**The CHAIR** — Thank you, Mr Kayler-Thomson. The committee appreciates the written submission that VECCI has also made to this inquiry. I would like to ask you about one of the points you raised in your statement, on page 4, which was the reference to benefit-cost ratios. You indicate:

Most infrastructure projects require a BCR of 1 to proceed, sometimes less if the piece of infrastructure is strategic.

Could you expand on that point, particularly if you have any examples of projects proceeding that have BCRs lower than the channel deepening project?

**Mr KAYLER-THOMSON** — I think what we are talking about here is projects of significant scale that are really described by the commonly used term of 'nation building' projects — projects that have long-term impacts and long-term benefits to the economy. Therefore the reference is to the fact that sometimes if the infrastructure is more strategic, as is port infrastructure, then the normal sorts of ratios one might use in assessing capital expenditure projects need to take that into account. The sorts of projects that have proceeded in recent times, without knowing or recalling the specifics of what the cost-benefit ratios might be — but typically other transport infrastructure, for example, road and rail infrastructure — are the sorts of projects that have long tails of economic benefit, as opposed to shorter-term projects. Perhaps the easiest example I can give is those that businesses use regularly in assessing their own capital expenditure, where they are looking for much shorter return-on-investment ratios than would otherwise be the case for public infrastructure. So although this infrastructure is being funded primarily privately, the recognition that there is a piece of public infrastructure that has longer-term benefits needs to be taken into account.

**The CHAIR** — So it is VECCI's view that within the portfolio of infrastructure projects channel deepening, with a BCR of 2.7, is at the higher end?

**Mr KAYLER-THOMSON** — Yes. We would see it as quite or very acceptable.

**The CHAIR** — You gave examples of case studies of firms — your members — that will benefit from this project, and there is more detail in the appendices to your opening statement. Do you believe those benefits as outlined are adequately reflected in the business case published by the Port of Melbourne?

**Mr KAYLER-THOMSON** — We suspect that perhaps they are not. The impact statement takes into account direct impacts — direct costs. It does not take into account opportunity costs to a full extent; it does not take into account indirect benefits. So in many respects you could judge that it is actually an underestimate of what might be the real benefit. It is quite appropriate for it to deal with just direct benefits, but we do need to take into account that there are much broader benefits from a project such as this. Some of the examples that we have outlined give you some insight into what those impacts might be. It is difficult in undertaking an assessment project like that to be able to assess all of those rifts, if I can call them that, but these would be some of the downside impacts. There are also the upside impacts if the port does expand the opportunity for Victoria to retain its position, as the amount of throughput through the port will have the sorts of impacts that we have identified there. But in general terms the financial reports have pretty much only dealt with direct impacts.

**Mr JAMES** — Just to add to that, the reports assume that the channel deepening project will not promote or add to trade.

**The CHAIR** — Yes.

**Mr JAMES** — Whereas we believe it will.

**The CHAIR** — Does VECCI have a view as to the quantity of that impact? Can you quantify the —

**Mr JAMES** — It is extremely difficult to measure. There was a report a number of years ago, the well-known Australian Council for Infrastructure Development report conducted by NIEIR, which suggested benefits of almost \$15 billion. That had a fairly wide definition of indirect economic benefits, and that was going out to 2030. That adopted a very wide scope in terms of counting economic benefits. As far as we can tell, this particular work that has been done is extremely conservative, because it does not talk about the promotion of trade but also does not include analysis of trades going off to Adelaide, Sydney, Brisbane or wherever; it does not take that into account either.

**The CHAIR** — The NIEIR report you referred to, what was the time frame for that? How long ago was that completed and how contemporary is it?

**Mr JAMES** — I would probably have to take that on notice, but I think it was around 2001–02, around that particular time frame.

**Mr VINEY** — I just wanted to pursue, if I might, the matters just raised by the Chair in relation to your assessment, I take it, of the PricewaterhouseCoopers analysis. Just to clarify, it is your view that that is a conservative assessment of the economic benefits?

**Mr KAYLER-THOMSON** — That is correct.

**Mr VINEY** — So where that says, for example, that the total employment impact of this project is a gain of 13 748 jobs, it is your view that is an underestimate?

**Mr JAMES** — Yes, that is correct.

**Mr VINEY** — It is an underestimate of direct jobs created as a result of the project — in other words, of the growth of employment as a result of channel deepening?

**Mr KAYLER-THOMSON** — Yes.

**Mr VINEY** — What about your assessment of the loss of jobs if it did not proceed? Have you done any thinking about that as a result of those case studies?

**Mr KAYLER-THOMSON** — We have not done any calculation of what it might be, but simply by raising these examples that we have given it gives you a pretty clear indication of what could be the impact. Given that government policies, federal and state, are about increasing exports, that gives us further comfort that there will be more jobs created by opening up trade opportunities. But similarly, using those examples that we have from our direct members on clear impacts that they would see, again that is probably an underestimate of where they would see the impacts when you expand it out to all the other businesses that rely upon them as major exporters or importers.

**Mr JAMES** — For example, one of the members that we spoke to employs 90 people in Melbourne, and they said that 72 of those jobs would be at risk if channel deepening did not go ahead, because they would look at relocating their headquarters to Brisbane. That is just one example of many.

**Mr VINEY** — You mentioned in your evidence an example of, I think it was, Portland in Oregon. You said that the port had started to decline. What were the reasons the port was being bypassed? What was the background to that?

**Mr JAMES** — They had a channel deepening project on the books, a bit like Melbourne, and it was delayed for some years by the relevant state governments and also the federal authorities in the face of strong

environmental opposition, with the result that two shipping lines stopped making direct calls there and it had an immediate impact on the port workforce. They had to stand down employees at a fairly rapid rate with the result that the trades went off to Seattle and Vancouver. As I understand it the trades are starting to come back to Portland now they have commenced their channel deepening project.

**Mr HALL** — Just a quick one; given the fact that the users largely will be those who bear the cost of this particular project, have any of your members from VECCI drilled down to the cost projections that will be imposed upon them as individual users of the port services?

**Mr KAYLER-THOMSON** — Part of the announcement by the government does increase the container charge. Our view has consistently been that the public good from this project deserves a greater government contribution than has actually been committed thus far, because it is an opportunity to grow exports with further encouragement. The extra costs that have been imposed in order to fund the project, our members are telling us that is acceptable. They would prefer it, obviously, to be less so that we retain our competitiveness, particularly with Adelaide and Sydney, so it reduces that competitiveness gap. Obviously anyone in business would always want to maintain the best competitive position they can. But nevertheless they see that the value of this project is of such importance that they will wear those costs as a means of growing their business. I guess the positive aspect of that is that the port has a very strong reputation of working very well with its importers and exporters. The relationship is very robust and very strong, the port infrastructure is strong and therefore the track record would give the encouragement for businesses to wear that cost on the basis of increased activity.

**Mr BARBER** — I think you said at the beginning that you surveyed your export-oriented members; is that right?

**Mr KAYLER-THOMSON** — Export and import.

**Mr BARBER** — How many was that?

**Mr KAYLER-THOMSON** — As indicated in our evidence, we specifically spoke with six, three of each.

**Mr BARBER** — So you picked six. How many of your members are export oriented?

**Mr KAYLER-THOMSON** — I will have to take that on notice, but it is a difficult question to answer in terms of where the direct businesses are. What we chose was those who are the obvious importers and exporters, and the scale, as we mentioned in our evidence, gives a very clear indication of effectively applying the 80:20 rule, if you like.

**Mr BARBER** — And you surveyed them, what, with a written questionnaire or you just went and spoke to them?

**Mr JAMES** — Yes, we had a set range of questions, and we went and spoke to them. We tried to choose a range of businesses, importers and exporters, across a range of industries. In our view it was qualitative research rather than quantitative.

**Mr BARBER** — Sure.

**Mr JAMES** — But it did actually give us some very good on-the-ground insights.

**Mr BARBER** — I do not know if this would be useful, but would you be willing to send us a copy of the questions that you asked?

**Mr JAMES** — Yes.

**Mr BARBER** — In your submission you say that 44 per cent of the ships coming in are draught constrained. I will read you what it says:

Because of inadequate channel depth, the percentage of containers able to enter or leave Port Phillip Bay fully laden has increased to 44 per cent (December quarter 2007) from 27 per cent over 2005–06.

That figure is not referenced the way a number of your other statements are. Can you tell me where you got that 44 figure from?

**Mr JAMES** — The Port of Melbourne Corporation.

**Mr BARBER** — Did they just give you the number 44 or did they give you data on that?

**Mr JAMES** — I am not sure what you are driving at, but we got it from their website, and we believe it indicates that the ships coming into Melbourne are getting bigger.

**Mr BARBER** — I think I read the same statement. Is it from one of their press releases or something? Where do I go to get the original 44 is what I am asking you?

**Mr JAMES** — I can help you with that on notice, if you like. Otherwise you can go to their website, their channel deepening section, or telephone the port or question them during their evidence.

**Mr BARBER** — Okay. So they literally gave you the number 44; they did not give you the raw data on ships, sizes, depths and so forth?

**Mr JAMES** — We did not seek that.

**Mr BARBER** — You did not seek it, okay. But that is actually the crux of the case, is it not, and the reason for channel deepening is that there is a high degree of constraint associated with ships?

**Mr JAMES** — To effectively answer your question I will quote from that journal of record, the *Age* — —

**Mr BARBER** — Yes, I read it in the paper too. I do not know whether you got it off the website or in the paper. I am just asking VECCI if VECCI has ever examined themselves the degree of constraint of ships entering the port?

**Mr JAMES** — I am not quite sure what you are driving at with that question.

**Mr BARBER** — It is just a question. Have you ever done it?

**Mr VINEY** — I think he wants to know whether you have gone out and measured the ships, and put the tape measure up, put the snorkel on and ducked underneath.

**Mr JAMES** — We are not equipped to go out and do that sort of work. We have to rely on experts.

**Mr KAYLER-THOMSON** — We take in good faith the experts of the Port of Melbourne Corporation who measure these things as part of their business.

**Mr BARBER** — That is fine. I am just trying to get extra information for the benefit of the community, but if you are just effectively quoting the port, I will go to the port on that. I suppose when you say 27 per cent over 2005–06, that is also from the same data source.

**Mr JAMES** — Yes; that is correct.

**Mr BARBER** — The 05–06 document that originally said 27 per cent, you do not know what document that is either?

**Mr JAMES** — It is from the port's website. I am not sure if the information is still up there, but that is where I obtained it from.

**Mr BARBER** — That is cool; we will move on. Does VECCI support national competition policy? You can give me a real quick answer if you like.

**Mr JAMES** — If you want the full answer, yes.

**Mr BARBER** — Okay. Good.

**Mr JAMES** — I am wondering if it still exists or not, but we were strong supporters at the time.

**Mr GUY** — So do we sometimes.

**Mr BARBER** — So you support the port operating as a commercial entity under its current act and under its current framework?

**Mr JAMES** — Yes.

**Mr BARBER** — So it should achieve a commercial return and it should pay a dividend, and that commercial return should be a certain hurdle rate?

**Mr KAYLER-THOMSON** — Yes; that would make sense.

**Mr BARBER** — And that hurdle rate should be better than just like the risk-free rate; it should be a commercial return that any private or public port would return?

**Mr KAYLER-THOMSON** — Yes; the principle is certainly sound.

**Mr BARBER** — In your submission you spend a considerable amount of time talking about why the taxpayer should contribute a much larger proportion of this cost, and you say:

The CDP is based on the proposition of attracting larger ships, leading to reduced per unit costs for importers and exporters, and subsequent benefits to the wider economy. This must not be compromised by a cost recovery regime that imposes user charges that erode these benefits or the competitive advantage of the port ...

Do you believe this cost-recovery regime that the government is using to finance this report is going to compromise the benefits of the project?

**Mr KAYLER-THOMSON** — It is relevant to the answer I gave before. It is achievable under the current regime, but we believe that the economic benefits are so broad to the public good that there is a justifiable case for an increased investment from the public purse.

**Mr BARBER** — So you want us to subsidise the operations of the port to make it easier for business?

**Mr JAMES** — No; what we are saying is there are public good elements to the project, including the studies that have been done, the environmental work, public safety benefits, and so on and so forth.

**Mr BARBER** — Speed limits are a public good. Should we subsidise truckies for having to obey them?

**The CHAIR** — That is a bit wide of the terms of reference, Mr Barber.

**Mr JAMES** — We build roads.

**Mr BARBER** — Yes; let's get to that. You note here that the port pays a significant dividend each year to its major shareholder, the state of Victoria. Do you have a problem with the port's dividend policy?

**Mr KAYLER-THOMSON** — No; that is an appropriate process.

**Mr BARBER** — So I guess what you are arguing, then, is that dividend, having been paid by the port to the taxpayer, who are the shareholders, from achieving a commercial return, that actually that should really be recycled back in to benefiting again port users.

**Mr KAYLER-THOMSON** — Benefiting the broader Victorian community.

**Mr BARBER** — Would that not defeat the purpose of the port running at a commercial level and paying a dividend? If the dividend is not really a dividend, it just goes to propping up the same — —

**Mr KAYLER-THOMSON** — I cannot speak for the government. It is up for them to determine what sort of level of rate of return that they require to match that, and taking into account the costs that they impose on the port, for example, through this process, the extra costs that have been incurred and how they invest their dividend income.

**Mr BARBER** — Let's speak for the government. In the Port of Melbourne's pricing policy statement they note that when the Port Services Act was set up in 2003 the second-reading speech from the minister states:

... the new corporation will be subject to similar financial and accountability mechanisms applying to other government-owned corporations, including adherence to tax equivalents and dividend frameworks ...

So you think that is appropriate the port should do that? You are not seeking to change the port and turn it back into a government department or anything like that?

**Mr KAYLER-THOMSON** — No, we do not have a specific view about that. I think you need to address that to the government and to the port.

**Mr BARBER** — You do not have a specific view on that?

**Mr KAYLER-THOMSON** — I have already answered before to say that it is appropriate for it to operate with a commercial rate or return. As to what that acceptable rate of return is, it needs to take into account what additional costs are being applied by the government to the port as opposed to coming out of the core public purse.

**Mr BARBER** — Let us say what is appropriate. Again in the same document it says that the:

POMC will earn a return on capital employed in the provision of prescribed services that is at a minimum equal to its weighted average cost of capital. In doing so, POMC will provide a return on capital that is appropriate for the risk profile of the government's investment.

Do you support that?

**The CHAIR** — Mr Barber, you are getting a bit wide of the terms of reference here.

**Mr JAMES** — Look, what the government does with its dividend is up to it. It is the same as dividends from water authorities. What the government does with its dividend is up to it.

**Mr BARBER** — Chair, I will tell you why I am not getting off the terms of reference. They are coming in here saying that the taxpayer should fund this project, whereas every other setting that we have got from national competition policy, the act itself, the Essential Services Commission, the regime by which this port is regulated all say the opposite. They actually say user charges should cover it.

**Mr KAYLER-THOMSON** — Chair, I think the evidence is being used for an alternative purpose here. That is not what we said. We have said in our submission it is quite appropriate for the taxpayer to fund a proportion. It is primarily being funded by industry. Our view is that the value of public good should be a further increase in it. We are not saying it should be totally funded by the taxpayer at all. It is really a question of the margin as to what is an appropriate level of government subsidy for the actual capital expenditure in the dredging process, which is a piece of public infrastructure. I am not saying that it should not be funded by the taxpayer entirely.

**The CHAIR** — Thank you, Mr Barber. We are going to have to rotate, so if you have another question we will move to Mr Tee.

**Mr BARBER** — Yes. Good on you. Thanks.

**Mr JAMES** — I will just make one point, that in terms of national competition policy I would challenge Mr Barber to produce any documentation from the original national competition policy that indicates public investment in infrastructure is somehow contrary to the principles of national competition policy.

**Mr BARBER** — There is the 1993 Industry Commission report *Port Authority Services and Activities*. Some of the recommendation were:

ports should be constituted as statutory bodies, which are separate from the departmental structure of government;

ports should be exposed to a tax-equivalent regime, be reimbursed for any community service obligations ... and pay dividends from after-tax profits ...

Are you going to argue that this is a community service obligation which the port should be paid, or, alternatively, do you want to go back to the old regime where the channels were run by a separate entity and the port was the port?

**Mr JAMES** — With due respect, you have not answered my question.

**Mr BARBER** — That is because you do not get to ask questions, mate. You are a witness.

**The CHAIR** — Thank you, Mr Barber. We will move to Mr Tee.

**Mr TEE** — I want to turn to your evidence in relation to, I think it was, the 2001 report, which talked about the additional benefit to trade of \$15 billion. Is VECCI's view that that is an accurate reflection of the type of benefit that we are looking at?

**Mr JAMES** — In short, yes. We would not necessarily quibble with those figures.

**Mr TEE** — Within the ballpark, is what you are saying?

**Mr JAMES** — Yes, probably within the ballpark.

**Mr TEE** — Thank you. I am just having a look at page 6 of your submission, where you talk about your job data echoing the study by PricewaterhouseCoopers. I want to talk a bit about the PricewaterhouseCoopers study. We have got a submission before us today from the Blue Wedges group, and they say that that PricewaterhouseCoopers examination or analysis was perfunctory. Would you agree with that description?

**Mr JAMES** — Here it is here; I would not call that perfunctory.

**Mr TEE** — It is quite detailed?

**Mr JAMES** — Quite detailed.

**Mr TEE** — I just want to turn to some of the issues that Mr Barber raised. Firstly, in relation to the study or the survey of the six members, in case there is any suggestion that that is somehow not representative. I know you have focused on the six, but are their views in any way inconsistent with anything else that you have heard from your members in relation to the impact that not proceeding with the dredging will have?

**Mr KAYLER-THOMSON** — I guess what I would say in response to that is we have had ongoing forums and members meetings and policy task groups on a whole range of topics over the whole period of this process, and without question there is virtually unanimous support for the project and the downstream benefits of it. We are happy to take on notice and provide you with some further detail around those six in terms of what is the quantity of their trade relevant to others, but we have nothing but unilateral support.

**Mr TEE** — Similarly, I think you were asked questions in relation to the 44 per cent of ships and whether there was a high degree of constraint. I think implicit in that was a suggestion that that evidence came from the port website, in essence. My question is: is that figure within the ballpark in terms of any discussions that you have had with the importers and exporters that you represent? Does that figure seem about right to you, based on your discussions with your members who are involved in the import and export business?

**Mr KAYLER-THOMSON** — We have no reason to doubt it, and we take it on expert evidence of the port, that is actually managing this day to day.

**Mr TEE** — You have indicated today that we are now 15 per cent of the way in terms of where we are up to with the dredging; we have done more than 15 per cent of the dredging. You have indicated, not in your statement today but in your written submission on 24 April, that there would be some disruption to recreational diving and associated businesses during the period of dredging, but that these are expected to recover soon after project completion. Can you give us a sense of the disruption that has occurred to industry as a result of the dredging?

**Mr KAYLER-THOMSON** — We have mixed reports that have come to us from some of our members who are active in the tourism and recreational area. Some have indicated to us that the level of inquiry is actually

higher than what it had been previously, the level of business was actually higher. Some have indicated that, yes, there has been some downturn in inquiries and bookings, and there have been some that have also expressed concern to us that the actual debate that has been going on around the project has been of more detrimental impact on attracting people to the bay than what would otherwise have been the case. So we have mixed reports either way.

**Mr TEE** — And I take it that that debate is not assisted by, I suppose, the work of committees like this, which are going to add to the controversy?

**Mr KAYLER-THOMSON** — We have long had the view that the project needs to be got on with and completed.

**Mr GUY** — Thanks for your submission; it is fairly thorough. In relation to page 7 under alternatives you state:

A number of alternatives to channel deepening have been proposed in recent years. None would provide a short-to-medium term solution to the problem ...

Could I ask: what do you see as other options that may provide a longer term solution to the situation of the congestion at the port of Melbourne?

**Mr KAYLER-THOMSON** — We have long had the view as part of our broader advocacy into transport infrastructure that we do need a long-term plan for Melbourne's infrastructure. We do need a plan that includes the ongoing development of the port. We need a plan that considers Hastings as an alternative, but that brings with it a whole range of additional transport infrastructure requirements that can only be dealt with in a long-term view. But our view is that there needs to be a total integrated, long-term plan that takes those things into account. Also the reality that the port is constrained within a broader CBD activity, which will have limitations if you look in that longer term. We need an efficient port at the centre, but we also need to be considering those other alternatives in a long-term plan.

**Mr GUY** — Is there any feedback you have received either from government or private feedback in relation to the long-term time frame even with the expansion in the markets territory that the Port of Melbourne might have in its current location?

**Mr KAYLER-THOMSON** — No, not specifically.

**Mr JAMES** — I suppose it is fair to say that container growth is proceeding pretty rapidly — probably at the moment faster than expected. This is probably the key reason why we say that planning for Hastings should commence, not as a substitute for the port of Melbourne but as a supplementary port. Probably some time in the middle of the next decade Webb Dock will have to be made open to containers. I could not give you an exact estimate as to when, but that will have to occur and then Hastings will probably have to come on-stream as a supplementary port some time in the next couple of decades.

**Mr GUY** — Fair enough. I just asked that in the thought of an overarching transport logistics strategy, if you like. Is VECCI involved in the production of a freight transport logistic strategy for Melbourne?

**Mr KAYLER-THOMSON** — We have been encouraging that to occur. We have been talking with both sides of politics about the need for that. This is again a very important aspect of dealing with short-term congestion, but long-term congestion, long-term population growth, long-term trade growth. We are at a point that Melbourne and Victoria are performing well economically, but we need to look over the horizon to see where those constraints might be and plan for that so that we do not lose that competitive advantage long term. We have indicated our active willingness to participate in that process. We currently have active policy task groups that are commencing work on our thoughts and ideas into that process. It is one that we think needs a collective input if we are really going to ensure that we are competitive in the longer term and we provide the lifestyle that people want in the long term.

**Mr GUY** — How much feedback has the government asked VECCI for its freight logistics strategy?

**Mr KAYLER-THOMSON** — We are actively in discussions regularly about that. I could not give you a specific about what specific things that it has asked for. We probably tend to be leading the debate at this point to

encourage that direction. We have participated in a number of forums the government has organised to provide our input into it. We are encouraged by that. But we continue to advocate a longer term approach than perhaps had been previously considered.

**Mr GUY** — I guess I asked in the terms that I note there was budget allocation made in 2002. It is now six years down the track. Is there any feedback as to when you think it might be finalised or there might be something formal that might come from where we are at now?

**Mr KAYLER-THOMSON** — I cannot speak for the government, obviously, but the indications it gives to us in considering things like the Eddington report, that it will propose later on this year to release a broader strategy.

**Mr BARBER** — Do you support the ESC continuing to regulate prices at the port under the model they do it, which is price supervision?

**Mr JAMES** — We do not have any particular problems with that model at this stage.

**Mr BARBER** — Because the port itself again in its pricing policy statement in May 2005, which was published when this project was well under way — it had already signed the contract with Boskalis — and certainly where it envisaged investment in this project, states:

Inevitably, the benefit of POMC's investment program will be shared by non-Victorians. Allocative efficiency and the interests of Victorians will be served best by POMC funding most of this program on its balance sheet and recovering its costs, including a commercial return, over the long term through its prices. Competitive forces invariably lead to the efficiency benefits associated with improved port facilities being passed on to ultimate users. Thus, while users such as cargo owners may bear immediate price changes, efficiency and volume effects should lead to lower long term costs for those users.

Do you agree with that as the basis of the port's operating policy.

**Mr KAYLER-THOMSON** — Yes, we agree with that. We have also made the point, however, that the public good for Victoria and indeed the commonwealth is a worthwhile process for those governments to consider making a contribution.

**Mr BARBER** — You cannot agree with this statement and then subsequently contradict it by saying it is a public good.

**Mr KAYLER-THOMSON** — It is not a contradiction.

**Mr VINEY** — It says most; it does not say every single cent.

**Mr BARBER** — Except for the SEES, which was paid for by the government.

**Mr VINEY** — It does not say every single cent, though, does it?

**The CHAIR** — Mr Barber?

**Mr BARBER** — I do not think I have got anything further.

**Mr VINEY** — You said in your evidence, I think, that if the channel deepening were not to proceed, there could be a need for additional charges in any case on containers; is that correct?

**Mr JAMES** — Yes, Shipping Australia did indicate last year that shippers might look at a Melbourne charge if channel deepening did not proceed. As far as we understand, that has not been modelled in the PricewaterhouseCoopers work, but it was certainly something that we took seriously and we viewed with some level of alarm.

**Mr VINEY** — What would be the basis of the additional charge?

**Mr JAMES** — It would cost shippers extra to come to Melbourne in terms of not being able to get through the heads fully laden and having to wait for high tide, so on and so forth.

**Mr TEE** — You have given evidence in relation to what occurred at Portland, Oregon, where you indicated that two shipping lines refused to come into the port, and I think there were significant job losses. Is that the scenario that is facing the Port of Melbourne if the channel deepening did not proceed, essentially ships not coming and job losses?

**Mr JAMES** — Potentially, whether that be ships not coming or ships that would have otherwise come not coming. I will just read you some comments from the Mediterranean Shipping Company, published in the *Age* of 3 February 2006. Kevin Clarke, the Australia and New Zealand managing director, said:

While most of its ships in Australia carry 3000–3200 containers, Mr Clarke said he envisaged the company would soon need many vessels with 5000-container capacity to get the correct economies of scale.

These size vessels already have problems with the channel in Melbourne ... We have had several vessels take off cargo in Adelaide because they couldn't get into Melbourne fully loaded.

MSC brought here the largest container ship to enter Australia — the *MSC Fabienne*, which visited Sydney in April 2004.

Another big ship, the *Matilda*, could only berth at daylight and at high tide in Melbourne. It was so long, there were also problems with the turning circle ...

That is the sort of information we are getting from the shipping companies.

**Mr VINEY** — Just very briefly, Mr Barber was asking you questions about the Port of Melbourne's advice in relation to the number of ships that are not coming in fully laden. Can I ask you a couple of questions: is VECCI aware whether new ships that are being built are much bigger and need a deeper draught; is that true?

**Mr JAMES** — Yes, that is the trend worldwide.

**Mr VINEY** — Can I ask you, are those ships also more fuel efficient per container?

**Mr JAMES** — Yes.

**Mr VINEY** — So their contribution to greenhouse gas is significantly less?

**Mr JAMES** — Yes; potentially, yes.

**The CHAIR** — Thank you, Mr Viney. One of the issues that has been raised with the committee about the business case is the exclusion of sunk costs in calculating the BCR. Does VECCI have a view on whether it is appropriate that sunk costs be excluded from the cost side of the BCR?

**Mr JAMES** — Yes, we do understand that some of the costs associated with the study have been excluded from the BCR. It is in the order of between \$100 million and \$200 million, from what I understand. It is probably a matter of debate as to whether that is appropriate or not, but it will not alter the fact that the BCR remains positive.

**Mr BARBER** — What are those sunk costs? What do they consist of, to your knowledge?

**Mr JAMES** — You might want to clarify this with the port, but I believe the bulk of it was to do with the studies that had taken place up until last year.

**Mr BARBER** — That is \$100 million; what about the other \$100 million?

**The CHAIR** — That is probably better asked of the port tomorrow. If there are no further questions, we thank you for your evidence here this morning and also your written submission to the committee. We will have a draft version of the transcript to you, hopefully, in the next couple of days for any corrections that you may wish to make. Thank you very much.

**Witnesses withdrew.**