

CORRECTED VERSION

STANDING COMMITTEE ON FINANCE AND PUBLIC ADMINISTRATION

Inquiry into Port Phillip Bay: channel deepening

Melbourne — 5 June 2008

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Mr J. Begley, chair,
Ms R. Elphick, chief executive officer, and
Dr R. Noakes, consultant economist, Victorian Freight and Logistics Council.

The CHAIR — I welcome Mr John Begley, chairman of the Victorian Freight and Logistics Council; Ms Rose Elphick, chief executive; and Dr Robert Noakes, consultant economist. All evidence taken at this hearing is protected by parliamentary privilege and provided by the Constitution Act 1975 and further subject to the provisions of the Legislative Council standing orders. Any comments made outside the precincts of the hearing are not protected by parliamentary privilege. All evidence is being recorded by Hansard, and witnesses will be provided with a proof version of the transcript within the next couple of days. I now invite you to make an opening statement if you wish, or we can proceed to questions.

Mr BEGLEY — Thank you, Chair. Just a few words, if I may. The Victorian Freight and Logistics Council has been interested from the inception with regard to channel deepening relative to the fact that our responsibility, or our interest, is in the supply chain, and as far as channel deepening is concerned and the port it is a very important part of the supply chain process.

Five years ago we were approached by Shipping Australia relevant to the fact that larger vessels would be coming on board. We had started to see those a number of years ago and the incidence has crept up quite considerably. In fact only in the last month ANL has replaced three of its existing vessels with three brand-new vessels of 4250 TEU capacity, which started to replace existing vessels of much smaller capacity on the north-south route to Asia, and that has been of increasing significance for a period of time. With the number of vessels that are coming here, and we are reliant on that percentage from the Port of Melbourne, there is significantly more cargo coming on the larger vessels than what there are on the lesser trades on the smaller vessels. VFLC was interested, going back a number of years, to look at the economic case relevant to channel deepening, but we decided that on the basis of looking at it we were interested to establish what the situation would be if channel deepening did not eventuate, because we thought there was plenty of other economic activity around justifying it the other way. We were concerned about if channel deepening did not proceed — keeping in mind that I think it is clear on an international basis that ports are the lifelines of countries and of cities and of states — and we were particularly concerned about as far as Victoria was concerned with the loss of investment that would come about by the fact that we had an inability to take ships of deeper draught. We were concerned that it would be lost from Victoria and go to other states, which would mean a significant loss of employment in terms of this state. As such we proceeded to look at the analysis, on the basis of channel deepening not of proceeding over a 20-year period. The concept of estimating the economic cost to Victoria of not proceeding is a similar concept to that applied more recently by Nicholas Stern in estimating the economic cost of not addressing climate change. We asked Dr Robert Noakes, here on my right, to undertake that activity for us.

In December 2005 the VFLC assumed the total cost of channel deepening was \$800 million, which was the figure available at that point in time. The economic costs of not proceeding were estimated at \$8.5 billion, and I want to stress that we take that as a very conservative figure because the details that we have expressed in the table that we have presented to you were conservative and were figures that were known to us at that particular period of time. The project was estimated then at an economic loss of \$8.1 billion, giving us a benefit-cost ratio of 10.5. As of 4 June this year we have updated those figures using the new figure of 969 million. The economic costs of not proceeding were estimated at 8.5 billion — we have maintained that figure — and the figure then came down to a benefit-cost ratio of 8.5, which well and truly justified channel deepening proceeding. The VFLC's position is quite clear that without the project the economic penalty of not proceeding would be substantial. The Victorian — and not just the Victorian, because the port of Melbourne is an essential artery not just for Victoria but also for Tasmania and other parts of Australia — economy just could not afford for the project not to be undertaken. That is where we stand.

The CHAIR — I note from your submission that you refer to, and I quote:

It is the view of council members and the independent reviewer of this work that the benefits and avoided costs associated with the channel deepening project exceed those credited in the SEES documentation and within our own conservative assessment.

By that paragraph are you referring to the costs of not proceeding with the project that you have just referred to?

Mr BEGLEY — I will refer those economic costs to Dr Noakes.

The CHAIR — Certainly. Dr Noakes?

Dr NOAKES — Can you rephrase that question and be more specific, please?

The CHAIR — My question relates to the paragraph in your submission that I have referred to and the reference to benefits and avoided costs exceeding those credited in the SEES. Are you referring to the costs that Mr Begley has just spoken about of not proceeding with the project?

Dr NOAKES — Yes, we are. Basically what I started off on as a consultant was to work with a proposed project cost of 800 million. I then looked at what would be the range of cost penalties starting from in the port right across to the reduction in the levels of economic activity around the port. The NPV I estimated, back in December 2005, at 8.5 billion over a 20-year period. Subsequently I have gone back and looked at the revised project cost of 969 million and recalculated the NPV figures based on a new set of costs which we believe to be appropriate, so actually we have two sets of results, one of 2005 and more recently one as of 4 June. Basically we have revisited the project costs and I revisited the project benefits, and as Mr Begley pointed out, because of the uncertainty of future investment we have not looked at particular forms of direct new investment in port-related activity or cargo equipment handling that might or might not take place with or without the project. That range of data was too uncertain, so we did not include that. There is a chunk of benefits out there from investors, such as automated straddle containers in the port et cetera. Those investment decisions have not been taken and are unlikely to be taken until there is more certainty about the future of the port. To that extent avoided investment costs have not been included as an economic penalty.

The CHAIR — Can you tell the committee what is the breadth of matters included in your NPV estimate of 7.5 billion?

Dr NOAKES — I am not quite sure whether the committee at this stage has a copy of the tables.

The CHAIR — We have.

Dr NOAKES — There is a table 1 and a table 1A. If you look at table 1A, which is a later figure, and if you look across the spreadsheet, you will see there are a range of private-sector-related cost penalties and there are also a range of public-sector-related cost penalties. In the far column there is a total of the cost penalties which could be avoided with channel deepening, and they are summarised there on an annual basis. Then there is an NPV at a discount rate of 7 per cent, which is the state government discount rate. Back in 2005 interest rates were not as high, and the discount rate I used then was only 6 per cent. Basically we are looking at a range of economic penalties based on experience internationally where we have seen what happens if port upgrading does not take place and what happens in terms of the shrinkage of economy over time. Basically what we have got here are a range of what we would consider direct economic penalties. There are no multiplier effects, and there are no additional impacts associated with the forms of investment that we just spoke about.

The CHAIR — How appropriate would it be to include these cost penalties in the BCR prepared by the port?

Dr NOAKES — I have done that. There is a subsequent set of tables, tables 2 and 2a.

Ms ELPHICK — This is the one prepared by the port.

The CHAIR — I am asking, in your professional opinion, should these costs have been included in the port's BCR assessment?

Dr NOAKES — I am not sure what the Port of Melbourne has done or has not done. I am simply saying from our perspective, for the economic analysis I prepared for VFCL, I looked at it in terms of the capital costs, the likely operating costs and the economic benefits of the project being the penalties that would be avoided. We have calculated, way back in December 2005, a benefit-cost ratio of 10.5, and an economic rate of return of 37 per cent. I have since revisited those figures and the benefit-cost ratio has come down to 8.5, although the economic rate of return has gone up and that is a statistical anomaly in terms of the time period taken. Basically what we are saying is that, yes, if you look at the economic benefits as being avoided costs, and you match those against the capital investment, it would appear to be a very sound investment for the state of Victoria to make, based on conventional project cost-benefit techniques, based on the methodologies that are quite proven; World Bank and Asian Development Bank techniques, which I am familiar with having worked for the World Bank and the Asian Development Bank for 10 years. That is the basic methodology.

The CHAIR — You have done your calculations based on a discount rate of 7 per cent.

Dr NOAKES — More recently 7 per cent. By December 2005 the discount rate was 6 per cent then.

The CHAIR — Yes, which is the same as the port has used in its calculations.

Dr NOAKES — It may well have done, I cannot speak for the port. I have not looked in detail, but currently the discount rate is 7 per cent, as I understand it.

The CHAIR — Can I ask you, in your professional view, should the current figures that are being used by the port be adjusted to a 7 per cent discount rate rather than 6 per cent?

Dr NOAKES — I think the opinion would be from Department of Treasury and Finance I presume if the figure is 7 per cent. I have not checked recently I am now living in Queensland; the discount rate might be slightly higher now, I do not know.

The CHAIR — It has been used based on 6 per cent and continues to be based on 6 per cent.

Dr NOAKES — As I understand it, it is now 7 per cent here in Victoria, but I stand to be corrected.

The CHAIR — The channel deepening work is all based on 6 per cent.

Dr NOAKES — As far as I know DTF here in Melbourne uses currently a discount rate of 7 per cent. That is my advice from what I understand recently.

Mr VINEY — I completed my postgraduate studies in business administration now about 15 years ago, so for my benefit and for others can you take us through what a net present value calculation actually is.

Dr NOAKES — Okay. We all know that over time with inflation the value of money depreciates. If you have \$100 today and you receive \$100 in five years time it will not be worth as much. Basically what we have got is, we take what we believe to be the current discount rate, which is a combination of a return on capital and an inflation factor — in this case 7 per cent — and you run, from a discounting point initially, a process on a simple spreadsheet basis. You used to do it with calculators once upon a time, you now use a computer. You are basically saying over a 20-year period a benefit that is \$100 now, what is it in 20 years time? It is probably something like \$40. You add them up each year and you end up with a total figure. If you would add up all the benefit without discounting you would overvalue the impact.

Mr VINEY — The discount is at 7 per cent, so what you are saying is that the total benefit over that time period, taking into account a discount of 7 per cent, is \$8 billion. The investment now delivers \$8 billion worth of benefit in 20 years time, including the discount?

Dr NOAKES — What we are saying is if you did not undertake the project, the economic penalties would amount to \$8.5 billion. In order to avoid those penalties you have to undertake the project and the project we started out at \$800 million has now got to \$969 million, so that is the basic logic. Without the investment those economic penalties would kick in and they would be fairly significant. If you waited 20 years you would find, we believe, that the port would shrink and the economic-related activity would shrink and you would find that the state of Victoria would be penalised to the extent of about \$8.5 billion, or in this case slightly less now with a higher discount rate.

Mr VINEY — I take it that you believe there may be additional investments that flow through, from your evidence, to this project, because they are decisions for the future and may or may not be taken and are not part of this calculation.

Dr NOAKES — That is correct. I have spoken to a number of the companies associated with the port, including freight forwarders and stevedores. The comment was made to me, 'We can't decide on new investments because we do not know the future of the port'. The issue of whether in fact new equipment, new facilities, new warehouses should be put in, whether in fact they should invest in Melbourne at all or whether they should in fact move to another port such as the port of Brisbane. These were the issues that were put to me. It would have been quite speculative for me to have included those investment figures, because simply I could not source them. As Mr Begley has pointed we are aware, through the members of the council, that there is a range of investments that are pending and that will take place if the future of the port is more clear.

Mr VINEY — Where you have a column that says ‘Total private sector cost penalties’ — —

Dr NOAKES — Yes.

Mr VINEY — That is the total of the preceding columns one to six.

Dr NOAKES — One to six, that is right.

Mr VINEY — I am just trying to understand. Does this relate at all to the economic activity generated and jobs and so on? Where does that factor into this analysis?

Dr NOAKES — We have a range of interests that are directly affected by the future of the port. We have stevedoring activities, we have exporters, we have various users of the port that have an interest in seeing cost structures change. They all relate to the private sector. Then we have a range of what would call public sector benefits, which are related to whether the port grows or does not grow or the rate at which the port grows. So we have got the private sector activity on one side and we have tried to encapsulate the public sector benefits on the other. If you put them both together, that is the total economic benefit.

Mr VINEY — And there is a ‘Reduced employment levels’ column under the public sector-related activity.

Dr NOAKES — That is right. We looked there at the public sector employment in terms of saying, regardless of where they are from, the level of payroll tax and the level of income that is available for expenditure in the local community is related to that. In other words, if the workforce shrinks, take out tax, the income for groceries, food, living, rental, whatever, that will drop off.

Mr HALL — Just to set the scene as to where you come from, John, could you just give us a quick background on the freight and logistics council, who you are, what your purpose is, how your membership is arrived at?

Mr BEGLEY — The Victorian Freight and Logistics Council is actually four years old on 1 July. It came about by the fact that previous to that, back in about 1998, there were separate councils formed by the government at that point in time to handle the affairs relevant to the various modes of transport. We had a sea freight industry council, a road freight advisory council, a rail freight advisory council and an airfreight council. The government decided in early 2004 to bring together the road freight council, the rail freight council and the sea freight council and formed the Victorian Freight and Logistics Council. The Victorian Airfreight Council still stands as a single council. Members of the council, at full strength, are around about 26 people. They are mostly from industry. There are union members and two government people usually sit there from the departments appropriate to the area of activity that we are involved in. In addition we have working groups covering various areas of activity. We have a channel deepening working group; we have an infrastructure working group; we have a freight intermodal efficiency working group. We only recently did an assessment of the number of people from industry who participate in the Victorian Freight and Logistics Council, and the contributions came from 140 different people from various parts of the industry. They come together to make recommendations and finally form the decisions that the Victorian Freight and Logistics Council makes.

Mr HALL — How does one get to be a member of the council?

Mr BEGLEY — They are invited by the minister concerned to participate to be a part of that organisation, usually in consultation with the council and usually on the basis that it is trying to ensure there is a balance across the council covering all the modes we are interested in. It is not just a city-centric council; we have representatives from areas such as Mildura, Portland, Geelong and Hastings; areas of activity where freight and logistics are. For example, we are currently reviewing the membership of the council because it is a rotating situation. People are appointed for three years; 50 per cent retire every 18 months, and we are looking to introduce new people from time to time, some city, some from the rural areas.

Mr HALL — Ultimately upon invitation your various sector groups in the transport area submit names to the government?

Mr BEGLEY — No.

Mr HALL — And the government therefore appoints members ultimately?

Mr BEGLEY — It is usually the executive of the council that do that. We make some recommendations to the minister. It is up to the minister to either accept those recommendations or not.

Mr HALL — Which minister do you report to do?

Mr BEGLEY — Minister Pallas.

Mr HALL — Do you receive any government funding for the work undertaken by the council?

Mr BEGLEY — Yes, we do. We are dependent on both commonwealth and state government funding.

Mr HALL — Any industry funding?

Mr BEGLEY — There is industry funding, yes, usually for specific projects that we are undertaking. Where we clearly see a need for activity for some particular project we may wish to undertake we then canvass. We have a fairly tight budget but we do canvass industry for support.

Mr HALL — I note in your submission, and I can understand why, that the council is focused on the economic costs associated if we do not proceed with channel deepening. Do you have a view on the government business case for proceeding with channel deepening, and do you think it contains the necessary rigour and veracity required by the people that you look after?

Mr BEGLEY — I will ask my CEO to respond to that because she has been very much involved in it.

Ms ELPHICK — I think our considered view on analysing the material that is in the public domain is that perhaps some of the benefit streams are extremely conservative and in fact underestimate the benefits. There are some costs such as the cost of bunker fuel. In the work that was done by the port and that was used in the benefit-cost analysis, bunker fuel was \$250 per tonne. We can tell you that it is now double that and does not look as if it is going to get any less. That is a very important input to the benefit streams of being able to cater for larger vessels; so there is one example there. We also believe some of the other estimates such as the benefits to marine safety, which in many ways is a public benefit, have been underestimated and not perhaps drawn out as clearly as has been the case. There is ample material in the public domain on the types of benefits, the avoided costs of accidents and so on that we felt could have been used. We also believe that the container forecasts used by the port in its economic analysis are perhaps on the low side, particularly over the next decade. Already they are being outstripped. The growth over the last 10 years has been well over 8 per cent per annum. The figures used in the BCR were, I think, 6 or 6.5. I do not know that any of us expected Victoria's population to rebound with the speed that it has, and where there are people there is trade, so we believe their forecasts in terms of volumes may in fact be low.

Mr HALL — Do you have a view on the current estimated cost of the channel deepening project of \$969 million? Do you believe that is going to be a final figure, given that there has already been one change in terms of — —

Mr BEGLEY — I do not have any expertise to make a comment on that. I think we have to rely on the Port of Melbourne Corporation. They are the people who are responsible for that activity.

Mr BARBER — Do you have any other staff apart from those who are represented here?

Mr BEGLEY — We have two members of staff. Rose is our CEO and we do have an administrative assistant.

Mr BARBER — And I presume your budget allows you to consult with various people to deliver your work?

Mr BEGLEY — Our areas of consultation are fairly limited, but I must say that after much discussion around the council table channel deepening was a significant thing on which we felt that we had an important role to make a contribution, and in that instance that is why we have sought the services of Dr Noakes.

Mr BARBER — So your budget allows you to bring in consultant expertise at various times?

Mr BEGLEY — On a very limited basis. In fact some of the consulting we do on project work is because we have the resources from industry to be able to do that.

Mr BARBER — So your members have to do the actual work. It becomes the output?

Mr BEGLEY — We have lots of working groups and we also involve the industry in much of what we do, through seminars, meetings or whatever, to obtain that information.

Mr BARBER — And where are you physically based?

Mr BEGLEY — We are based in Nauru House.

Mr BARBER — Sort of in the DOI area.

Mr BEGLEY — We have our own offices in Nauru House.

Mr BARBER — Just maybe for Dr Noakes, this table 1 — can I just ask you about some of the assumptions behind it?

Dr NOAKES — There is table 1 and there is a table 1a in this one.

Mr BARBER — Table 1 will do me, I think, since that is the one I looked at. Given that a lot of these things are based on per TEU costs, I presume as we run down through the years there is some assumption there about the growth in the number of TEU?

Dr NOAKES — That is correct. I think there should be somewhere a set of footnotes — table 1 notes, footnotes 1 to 14 — which try to provide some exposition of the — —

Mr BARBER — But note 1 does not tell me whether you have got assumptions, or what your assumptions are, on growth in TEU.

The CHAIR — Note 2 does.

Mr BARBER — No.

Dr NOAKES — In the growth figures there are assumptions associated with trade. I think I used a figure of 8 per cent; I think that was the overall underlying port container growth trend, although, as I said, it would now be considered to be a conservative figure.

Mr BARBER — So 8 per cent growth in TEU through to 2027?

Dr NOAKES — That was the basic trend that I took.

Mr BARBER — ‘In-port container delay costs’ and its footnote ‘Assumes 300 TEUs per week, growing to 900 per week in 10 years, not handled, at an average delay in terminal cost of \$130 per TEU’. What does that mean exactly — not handled?

Dr NOAKES — Not being able to be picked up, not being able to go out in that particular ship; those containers left behind for the next ship.

Mr BARBER — So it is the load factor?

Dr NOAKES — That is right, load factor. These figures came from interviews when I spoke to the shipping company, through the members of the council, and reflected basically discussions I had as to how the port constraints were affecting individual shipping operations.

Mr BARBER — Is that not just another way of talking about shipping costs overall?

Dr NOAKES — I think it is trying to get to the industry perspective in terms of what it really means on a day-to-day basis if a port is constrained. In other words, the issue is now if in fact a container shipment is

available — Murray Goulburn, for example, or some of the rural exporters, have a product or a range of products to go out, and they find that on that particular day that the particular shipping line cannot take all the boxes out and they are left behind, that is the penalty. How it — —

Mr BARBER — But loading factors are built into shipping prices, right?

Ms ELPHICK — There is a finite physical capacity within a vessel. It is in some ways related to demand and supply, yes, but it is simply a physical limitation on what can be loaded.

Mr BARBER — Is it true that 20 per cent of all containers going through the port are empty, import-export?

Ms ELPHICK — That is correct, yes.

Mr BARBER — Forty per cent of those on the export side are actually empty containers?

Ms ELPHICK — Yes, under current conditions where there is strong demand out of China, particularly for 40-foot containers. You think of it this way: for around \$200 you can reposition an empty container; if you are a shipping line, it is your equipment. You can take that up into Asia, load it up and achieve maybe \$1800 for shipping across to the US or to Europe, or you can take an export out of Victoria and perhaps receive less than that waiting for a heavy 20-foot box coming down from the country. That is the reason China needs those containers — to fill them and get them out. So it is a matter of profit.

Mr BARBER — At the end of the day the real reason is that we import a hell of a lot more than we export through this port.

Mr BEGLEY — I think there is something that we should qualify here too. The average person in the street sees a 20 and a 40-foot container and they simply see them as a 20-foot container and a 40-foot container. Within each of those sizes there is a variety of different types of boxes. Some are insulated, some are purely dry, some are food-grade containers, and there are restrictions as to what you can put in certain containers. There are high-bulk containers. So you have got this complexity of containers — —

Mr BARBER — You have got to get them all in the right place at the right time.

Mr BEGLEY — That is exactly right. So that is why this movement of containers, of empty boxes, is there — simply because of the need to get the flat-rack or the open-top or whatever it might be to its destination, back to where it is going to be used effectively.

Mr BARBER — So Victoria's single biggest export in containerised terms at the moment is air.

Ms ELPHICK — No.

Mr BEGLEY — No, it is not air; it is the shipping companies.

Mr BARBER — Not in dollar terms, but certainly in volume terms. I am just wondering how that relates to this issue of inefficiency in terms of 'we cannot load containers'. It is not a function of ships or weight or depth or anything, it is just a function of not having enough containers in the right places. But just going on to 'Additional container shipping costs', footnote no. 3 says, 'Assumes an annual economic loss of shipping revenue from less than optimal voyage loadings, increasing as the number of ship calls are affected, with less than full berth slots utilised'. Is that effectively the same issue we have just been talking about?

Dr NOAKES — No, it is a slightly different reflection. We are then talking about grain ships and bulk fuel ships, which are something that in most of the discussion has not been given perhaps enough attention, and so we are talking about, in this case, bulk products, as distinct from containers.

Mr BARBER — Fair enough. On to 'Avoided container handling savings in terminal', which is footnote no. 6, it says, 'Assumes a reduction in investment in advanced container handling equipment in the terminals and losses of productivity savings of \$15 per TEU'. How do you derive a figure of lost productivity of \$15 per TEU?

Dr NOAKES — This gets back to the issue of whether in fact the port will encourage new investment. We are talking about basically stevedoring operations. If in fact there is uncertainty as to the future of the port, the logical commercial behaviour is for the stevedoring companies to defer their investment, and so the forms of container equipment are not as modern, they are not as productive, they are not as time-saving as you would find, for example, in the port of Singapore or in some of the other Asian ports.

Mr BARBER — I do not think we can be compared with Singapore.

Dr NOAKES — I just suggest to you that the productivity of 25 boxes per hour versus 55 in Singapore is not just about labour productivity; it is about how modern the equipment is. Those decisions about investing in new equipment relate to whether people have a perception about the security and the future of the port.

Mr BARBER — On 'Empty container access costs' you say, at footnote 7, that is 'Based on a reduction cost of \$500 per TEU from Adelaide when exporters are limited in the peak availability of empty containers'. What does that mean, in simple terms?

Dr NOAKES — That means we had some examples that were in fact as a result of ships being not able to leave the port and containers having to come from out of those by rail. This is the economic penalty of the land bridging — when in fact containers cannot be handled out of Melbourne.

Mr BARBER — Quite a number of our containers do go — given that certain shipping lines do not stop in Adelaide — they come to Melbourne and then go over to Adelaide.

Dr NOAKES — If in fact cargo is left behind in Melbourne, there have been examples where they have in fact gone to Adelaide. It is a question of what is the least cost. Does the container that cannot be taken out stay in the port or does it get out in the next best option, which in some cases is going to Adelaide?

Mr BARBER — You are talking about empty containers now?

Dr NOAKES — Yes, empties as well as full. As I understand it, there is an increase in the shortage worldwide of containers. So containers themselves are valuable products.

Mr BARBER — And redirected container costs, put in that no. 8 based on a repositioning of containers from Adelaide of \$800 per TEU.

Dr NOAKES — That is what I was referring to earlier. I found that in the port of Melbourne it really is about what is the best use of port space, and in some cases if cargo cannot be handled in Melbourne, it is more appropriate to send it to Adelaide than trying to send to Sydney.

Mr BARBER — Sure. So all of these numbers that you have just told us — these per TEUs — behind them in a spreadsheet there are actual numbers of TEUs multiplied by dollars?

Dr NOAKES — That is right.

Mr BARBER — Do you think maybe you could send us the raw spreadsheet?

Mr BEGLEY — Yes.

The CHAIR — Mr Barber, we will need to move on to Mr Tee. We could come back if you have further questions.

Mr BARBER — Yes, that will do us.

Mr TEE — Thank you very much. I just want to have a look at table 1a, the revised economic cost penalties. I am just trying to get a handle on really what it all means. Starting at the end, I think what you are saying is that the total cost penalty is some — when I say at the end; your total is \$8.1 billion in terms of the cost of not proceeding.

Dr NOAKES — What we have done with 1a under revision — back in 2005 we had the presumption that the project would start earlier, so in fact we thought that the project would start to deliver benefits after 2008. Quite clearly the best hope is that the channel deepening project will deliver benefits after 2010. So the start point of the

benefits instead of being 2008 is now 2010. The actual quantity of container volumes I have not revised. I believe they are conservative, but I have not adjusted the individual growth rates. I think they are basically the same. Why the numbers differ is that the discount rate, instead of being 6 per cent, is now 7 per cent. So we have got a different time period, and you have got a different discount rate, so we end up with a different NPV.

Mr TEE — Tell me — the column 9 there, which talks about employment levels — —

Dr NOAKES — Yes.

Mr TEE — Am I reading it right if I say that by 2027 — you are saying that if we do not proceed there would be a cost of some 25 800 jobs?

Dr NOAKES — That is right.

Mr TEE — So the cost of not proceeding is 25 800 jobs, and that will — —

Dr NOAKES — The economy would shrink by that level of employment.

Mr TEE — Then in table 2, the additional container shipping costs of not proceeding — you are saying if we do not proceed, each container will cost \$17.11 more.

Dr NOAKES — Sorry, table 2, did you say?

Mr TEE — Yes, running additional container shipping costs.

The CHAIR — Column (ii).

Mr TEE — Sorry, table 1a, column (ii), the 'Additional Container Shipping Costs'.

Dr NOAKES — Yes, that is correct.

Mr BEGLEY — Could I just make a point relevant to the previous question with regard to employment. I think we should put that in context, because people might think that 25 800 is a lot. It is estimated on the figures we have at the moment the total trade and logistics industry here in Victoria represents 14.5 per cent of gross state product. It is a significant contribution to the economy of this state. There are 340 000 people employed in the transport and logistics industry currently in Victoria. So people might think that that is a significant figure and probably question it, but it is relevant when you think that the total current employment is at 340 000 people.

Mr TEE — That is a significant shrinkage — 25 800 jobs.

Mr BEGLEY — It is, but keeping in mind we are thinking here of not having channel deepening. It is a different scenario altogether.

Dr NOAKES — It is the reverse of not having growth. You lose the growth and you decline, so you have a cumulative impact.

Mr TEE — And just coming back to the additional container shipping costs of \$17.11, what is the current cost just to get a sense of what proportion of increase that would be? What is the current cost just roughly of container shipping?

Ms ELPHICK — Where would you like to go to?

Mr BEGLEY — Sorry, when you say what is the current cost, are you talking about what is the port service charge or the Port of Melbourne charge or what is it you are referring to?

Mr TEE — Okay. So the additional \$17 is irrespective really of where you are going and the size of the container is what you are saying — the \$17.11? So this is table 1a.

Ms ELPHICK — Because it is a port restraint, yes. So it affects all.

Mr TEE — All right. Thank you.

The CHAIR — Can I just clarify with that table, the column with the reduction in employment numbers is the only column that is cumulative? All the other columns are single year effects?

Dr NOAKES — Yes, in terms of employment. I looked at it in terms of over a 10-year period and said while after that I could not be more definitive. So yes, they plateau at the year 2020.

The CHAIR — But every other column is an individual year impact?

Dr NOAKES — Yes, that is right.

Mr GUY — Can I just ask do you think there needs to be federal financial assistance to this project?

Mr BEGLEY — I suppose it would be fair to say that we would like it, but I think the federal government made their decision and that is where it sits.

Mr GUY — So if the state government cap of \$150 million costs begin to blow out, are you comfortable that your members, the people that you represent, will be able to absorb any increased costs if there is no federal funding?

Mr BEGLEY — I think it is fair to say that nobody likes paying additional costs. It is also fair to say that the Port of Melbourne has the lowest port service charges of any port in Australia, and I can say that with authority because part of my business is in that area of activity. Even with the current surcharge that is being imposed to pay for channel deepening, it is still cheaper in Melbourne than some other states charge for a single 20 foot container. So that in terms of costs, I think you will always find people that are unhappy about paying any extra dollar, but generally speaking when you talk about a container of product it can range from anything from perhaps \$10 000 retail to up to \$500 000 retail, the amount of extra charge is fairly insignificant when you get up to the high figures. From my clients at this point in time I have not had any backlash or criticism of it. They are more concerned about having access for their product to come into the port of Melbourne because other than that it poses enormous problems for them about the uncertainty. If it is going to be diverted to another port to be discharged, there will be additional costs involved and there will be the uncertainty as to when they are getting the product because the infrastructure is simply not there to bring the product to Melbourne. Can I just make this point too, which is important. The sum total of the containers that go through the three ports of Brisbane, Adelaide and Fremantle, Melbourne is greater than those three ports and when people make comments about just moving the boxes to Queensland or Brisbane and coming down here, there is really no understanding of what problems that would create in terms that we do not have the infrastructure to handle that in any case.

Mr GUY — Just on the infrastructure side, in the council's support of bay dredging, did the business case presented to you involve a freight and logistics strategy?

Mr BEGLEY — From the Port of Melbourne, are you referring to?

Mr GUY — A freight and logistics strategy for Melbourne, including the port of Melbourne as part of it. I would have thought a freight and logistics strategy for this city is central to everything we do, obviously including the expansion of the port of Melbourne.

Mr BEGLEY — We would agree with you, and there is a freight and logistics strategy coming forward now from the government.

Ms ELPHICK — There was a policy statement put out by the Victorian government in 2004, which was a port strategic framework, which articulated the government's intention in relation to the role that the commercial ports in the state would play. We do not make government policy.

Mr GUY — I understand that.

Ms ELPHICK — Our focus is on how to deliver goods in and around Victoria and in and out of Victoria in the most efficient way possible.

Mr GUY — So if there is not a freight and logistics strategy now, would you not say that it certainly would have been more favourable to have had a freight and logistics strategy produced before we looked at either

expanding the current port or looking at other options for 20, 30, 40 or 50 years in the future as well as the current project?

Ms ELPHICK — We have been advocating for some years the need for a broad freight strategy and even at the national level a broad transport plan. In the meantime you get on with what you can do best, and there has been a framework for the ports.

The CHAIR — Mr Hall has some further questions, but before he asks those I would like to ask, Mr Begley, can you give the committee an idea of what someone pays to ship a 20-foot container through the port of Melbourne? Hypothetically, if you have got a container coming from Singapore to Melbourne, what will be the charging structure that is imposed on — —

Mr BEGLEY — Within the port of Melbourne?

The CHAIR — Overall, obviously the actual shipping charge — —

Mr BEGLEY — I would not like to make a comment. Simply, it varies between — —

The CHAIR — I am thinking more in terms of the actual structure. You pay the shipping company a fee?

Mr BEGLEY — It depends upon which trade you are in. In some trades you pay certain charges incorporated in the ocean freight rate. In other situations you simply pay the pure freight, and then when the cargo hits here, you pay a series of charges, whether it be terminal handling, port service charge, shipping company charges as such. But there is no single fee that I could say regardless of — you have to look at every different trade to see what those charges are.

The CHAIR — What about when the container reaches the heads; is it then consistent in the structure within — —

Mr BEGLEY — You would have to speak to the shipping industry as far as that is concerned.

Ms ELPHICK — There are a range of port costs associated with visiting the port of Melbourne that are published each quarter or six months in the Bureau of Infrastructure, Transport and Regional Economics — it has a new name this week — *Waterline* publication, and Australia's container port charges are compared, ship arrivals, the whole turnaround time in the terminals, et cetera, are all compared. So that data is publicly available on their website. It is called *Waterline*.

Mr BEGLEY — What the importer pays, basically, here is a combination of shipping company charges, port charges and stevedore charges, and they can be expressed in a whole range of different ways.

Mr HALL — Just two more quick questions. I note in your submission that the council has the task of advising federal, I presume, and state government on matters associated with freight in Australia.

Mr BEGLEY — Yes.

Mr HALL — Before the current Victorian government announced it was going to proceed with channel deepening, was your advice sought on this particular project?

Mr BEGLEY — It was sought, but we also gave it voluntarily. We were very up-front with where we stood with regard to channel deepening and were very affirmative in our action towards it.

Ms ELPHICK — In 2002 the former Sea Freight Industry Council published a document called *Future Directions* in which channel deepening was identified as the no. 1 infrastructure project for sea freight in Victoria. So as early as 2002 the former council was articulating the need for channel deepening.

Mr HALL — The other question that has just crossed my mind is: do rapidly increasing fuel costs have any impact on the assumptions that you have used to determine cost penalties, or indeed any consultant might use, in working out cost benefits?

Dr NOAKES — If I could just comment on that. What it means, I would think, without having had a look at the spreadsheet in detail, is that again the economic impacts are conservative. I go to the spreadsheet: there are

two items that I think that would reflect on. One would be certainly the freight rate saving associated with bulk fuel, and more importantly reduced greenhouse gas emissions. I think they would be two areas where that would be picked up. In both cases I am saying the economic penalties I have here are conservative — they would be underestimated.

Mr HALL — So the level of fuel prices worldwide, would that have an impact on the number of containers shipped around the world?

Mr BEGLEY — That is something that people in the trade determine. If you are a person reliant on a product that is only able to be sourced from one area, whether it be minerals or whatever, you will still go ahead for the sake of your business and it will probably be reflected in the world price of that product or the competitive product price of those products. I am sure that it can have an influence, at the end of the day, but I think it would be determined upon commercial needs.

Mr BARBER — Greenhouse gas emissions savings: what is the quantum of savings?

Dr NOAKES — That was basically associated with my discussions with shipping companies associated with modernisation of vessels and it was really about the replacement of vessels. If in fact some of the older 2300 TEU vessels were going to be replaced with 4300 TEU vessels, there would be more modern engines, less emissions and in fact we would have a cleaner operating environment associated with marine propulsion.

Mr BARBER — What is the quantum?

Dr NOAKES — Quantum? I would have to take that on notice to calculate it. What I looked at were the number of ships that switched from being 2700 up to 4300.

Mr BARBER — So TEU?

Dr NOAKES — TEU.

Mr BARBER — Size? Okay.

Dr NOAKES — TEU size and the rate at which vessels were being shipped. It was interesting, as Mr Begley pointed out when he came in, that when I did the numbers ANL had not made any decisions to modernise its fleet. Since then it has made that decision.

Mr BARBER — A question for Mr Begley. You said words to the effect, and you can correct me if you like, that people are not going to ship stuff up to Sydney and Brisbane to send them out through the port.

Mr BEGLEY — I do not think I made that comment, that people would not ship things up to Sydney and Brisbane.

Mr BARBER — Overland, I mean.

Mr BEGLEY — No. What I was really referring to was in terms of the fact that if Melbourne is going to be restricted in terms of vessels coming here — because we have to keep in mind that shipping schedules are on a worldwide or on a regional basis, they do not just come to Melbourne particularly; they come to Sydney and/or Brisbane and Adelaide, perhaps, even Fremantle; they are on a particular schedule — if vessels have to exclude Melbourne and off-load those containers at another port, that is basically what I was referring to.

Mr BARBER — The Australian Rail Track Corporation, which is a member of yours, have you read its discussion paper about how it is going to fix up the rail line between Melbourne and Sydney and Brisbane and create a new market for shipping stuff around?

Ms ELPHICK — Yes.

Mr BARBER — No, I am asking Mr Begley. Have you read it?

Mr BEGLEY — I have not read it through. I know some of the things it is talking about, but that is also a long way off. If you are looking at the Melbourne–Brisbane, that is still in the investigation stage because the federal government has just put some more money into that.

Mr BARBER — Yes, but I am asking the point of its exercise. Are you saying that it will not relate to movement of things within Australia that are import or export orientated or inputs to those? It will be purely domestic production for domestic consumption?

Mr BEGLEY — I think it should be for the majority of it, because there is a pan rate for shipping whether it comes off in Brisbane, Sydney or Melbourne. The one ocean freight applies simply because coming from, say, Shanghai to Sydney. Melbourne is a longer distance than Sydney. The same rate applies Melbourne, Sydney or Brisbane, so why would you then take cargo off in Brisbane and have to transport it down at an additional cost? I would have thought, too, there would be concern about the additional greenhouse emissions that would be required to transport the containers down to Melbourne.

Mr BARBER — That is what I am asking you. What is the point of its exercise if it is not about import and export-related materials being moved?

Mr BEGLEY — I would imagine it is on a more domestic issue.

Mr BARBER — Domestic consumption, domestic production?

Mr BEGLEY — That is right. Or domestic distribution.

The CHAIR — Mr Viney has a couple of questions before we finish off, so we have to move on.

Mr VINEY — Just in relation to the comment that Mr Barber made about Melbourne's export being of air — Victoria's export being of air — are you able to confirm to me that the port of Melbourne actually handles around \$75 billion worth of trade every year?

Mr BEGLEY — That is my understanding.

Mr VINEY — And that there are a considerable range of goods and parts, both imported and exported, out of that port? From my information the main commodity exports in containers include manufactures, beverages, dairy products, cereal grains, meat pulp and wastepaper, fruits and vegetables, stockfeed, paper and newsprint, paperboards and fibreboards. Are they the sorts of things that you are aware of?

Mr BEGLEY — That is a broad spectrum, yes, and wine. It is quite broad.

Mr VINEY — Alongside all of those raw materials there are about 700 motor vehicles, over 500 tonnes of tea and coffee, 750 tonnes of wood and timber, 1300 tonnes of chemicals, over 2000 tonnes of fruit and vegetables and nuts, 5000 tonnes of cereals, 10 800 tonnes of petroleum. They are the sorts of figures that are consistent with your knowledge?

Mr BEGLEY — I have no knowledge of the individuals. I know they all get exported from here, but I would have to refer back to the trade statistics to get that information.

Mr VINEY — There is a lot more than air going in and out of Victoria?

Mr BEGLEY — Absolutely. In fact my understanding is that, speaking to the chief executive of the Port of Melbourne, April was one of the strongest export months — in fact it was the strongest export month on record — and it was quite surprising keeping in mind the cost of the Australian dollar, the value of the Australian dollar, and the time of year that it was. It was an extremely strong export month. We cannot stress strongly enough — there have been comments made in various places over a period of time that channel deepening is only there for Chinese imports, cheap ones, whether they be T-shirts or whatever — that is so totally wrong, because the channel deepening is so important to our export market. I have not got the figures in front of me, but talking to Shipping Australia there is an average of somewhere in the vicinity of between 8 and 10 tonnes difference between the average weight of an import container compared to an export container. Export containers are 8 to 10 tonnes heavier because of the type of commodities that we export out of Australia; the deepening of the channel is so important to our rural communities for the export of the products that we do. I mean, one of our significant dairy producers, one of them alone, exports around 25 000 containers per year out of the port of Melbourne, and a lot of that product is very price sensitive and it needs to be out very quickly. A failure of goods to be shipped can mean a cancellation to the product even when it is in transit. They are the sorts of things that we do not want to occur that have a disastrous effect on the employers and producers here in Victoria.

The CHAIR — Thank you, Mr Begley. We are going to have to leave it there. The committee appreciates your attendance. We have your notes from this morning and your written submission. We will have a draft transcript to you for any correction in the next couple of days.

Witnesses withdrew.