

CORRECTED VERSION

PORT OF MELBOURNE SELECT COMMITTEE

Inquiry into the proposed lease of the port of Melbourne

Melbourne — 14 October 2015

Members

Mr Gordon Rich-Phillips — Chair

Mr Daniel Mulino — Deputy Chair

Mr Greg Barber

Mr Damian Drum

Mr Craig Ondarchie

Mr James Purcell

Ms Harriet Shing

Ms Gayle Tierney

Staff

Secretary: Mr Keir Delaney

Research officer: Mr Anthony Walsh

Witnesses

Mr Noel Dent, General Manager, Operations and Logistics, and

Mr David Munro, Manager, Business Development, ANL Container Line.

The CHAIR — I welcome Mr Noel Dent, general manager, operations, and Mr David Munro, manager, business development, for ANL shipping.

The committee does not require witnesses to be sworn, but questions must be answered fully, accurately and truthfully. Witnesses found to be giving false or misleading evidence may be in contempt of Parliament and subject to penalty. All evidence taken at this hearing is protected by parliamentary privilege under the Constitution Act 1975 and further subject to the provisions of the Legislative Council's standing orders. Therefore the information you provide today is protected by parliamentary privilege; however, anything said outside the hearing may not be so protected. All evidence is being recorded, and you will be provided with a proof version of the transcript for any corrections in the next couple of days.

The committee has allocated until 10.30 a.m. for this hearing, so I invite you to make a brief opening statement of no more than 5 minutes, if you wish, and we obviously have already received your written submission, for which we thank you. The committee will then proceed to questions.

Mr MUNRO — I have just a brief statement to start proceedings.

The CHAIR — Thank you.

Mr MUNRO — First of all, I would like to thank the committee for allowing ANL to be represented at these hearings, and we are very pleased to be able to provide our written submission to the inquiry. As mentioned in our submission, ANL is a major user of the port of Melbourne. Its headquarters is in South Wharf, we have 350 employees and we have been in Melbourne, as our headquarters, for a very long time.

We have a number of concerns about the proposed legislation to privatise the port, especially in relation to price controls, and I would like to see a strengthening of the regime which governs the prices that the port can charge once the port moves into private hands. We do not see the current so-called light-handed approach by the ESC as sufficient safeguard against monopolistic pricing. We would like an independent arbiter to approve the prices that a private port operator can charge users of the port.

Our submission has a number of other comments about issues around pricing. The freezing or capping of charges in the short term only means the private operator will factor in much larger increases when these restrictions no longer apply. The up-front payment of the port licence fee means that the ports' charges will include an interest component going forward, and the income from property leases needs to be included in the review of port pricing as these charges to tenants will flow onto importers and exporters.

In relation to the capacity of the port, the proposed legislation indicates that a new port will not be developed until the capacity of the existing port is reached. In determining the capacity of the port, ANL would like to see the physical constraints of the port of Melbourne, which limit the size of vessels that can come into Melbourne, to be taken into account. Our submission lists three of these: the limited draft at the heads, the size of the swinging basin at Swanson Dock and the air draft restriction for vessels going under the West Gate Bridge. Bigger vessels will come to Australia, and other Australian ports are gearing up for them. Melbourne should not be left behind but will jeopardise its place as the no. 1 port in Australia if it does not move soon enough to cater for the big ships and develop a second new container port in Melbourne.

That is the end of our opening statement, so I would be pleased to answer any of the questions of the committee.

The CHAIR — Thank you, Mr Munro, and I open the floor to Ms Shing.

Ms SHING — Thank you, gentlemen, for attending the committee today and also for the materials that you have already provided by way of your submission to the committee. At the outset I would just like to get your views on the government submission to this particular inquiry, which sets out, as you may be aware, a number of comparisons between the proposed transaction and the way in which that would be regulated and operate on the one hand versus the status quo, and also a comparison with other jurisdictions around Australia in terms of market. Do you have any view on how the transaction builds upon a strengthened regulatory framework?

Mr MUNRO — No, I do not.

Mr DENT — No, I cannot comment on that, sorry.

Ms SHING — No? Okay. What the government's submission actually does set out — and I would encourage you, if you were inclined to take this on notice and to read that submission and to perhaps provide any feedback that you would like to provide to the committee to consider — is a set of parameters that effectively creates an economic regulatory framework which is more robust than any other jurisdiction in Australia. In addition to that, we have heard, and you would have read this, recent developments following discussions between the Treasurer and the ACCC which have resulted in further strengthening of the way in which the ESC will have oversight and will continue to have oversight after that 15-year period has finalised, as you referred to in your opening statement. What is your view on that further set of developments that have occurred in recent times to again take the ACCC's concerns into consideration?

Mr DENT — Again, I think we will have to take that under advice. Certainly in the past, in terms of the port charges, the ESC has been the regulatory authority. As a shipping line, we have been very disappointed with what they have done to date. Essentially the port of Melbourne puts forward their yearly increases and they really just get rubberstamped as far as we can see, and that seems to be year after year. The charges from the port of Melbourne just keep going up without any recognition of the state of the industry, not only our industry but manufacturing in this state and the agriculture industry as well.

Ms SHING — Again, to go directly to that point and to the concerns that you have raised, I think that you said in your submission that the transaction 'basically extends the current role of the ESC which is to a large extent a toothless tiger'. Again, this is why I would be very interested in your feedback around the outcome of discussions and positions put by the ACCC around the need for regulatory reform and a greater role to be played in the way in which substantial market power and rent setting and negotiation might occur in the future. I would welcome anything that you can provide on notice.

Mr DENT — We will have a look at that.

Ms SHING — Fantastic. The other thing I would like to take you to is that you refer in your submission to the 50-year lease being well past all forecasts of when the current port will reach capacity. What about the port of Melbourne's own forecasts in relation to the capacity issue?

Mr MUNRO — My reading of what the port has said is that over the last 10 years it has had a number of goes at capacity, and it takes a lot of the improved efficiency assumptions into account. It has pushed out that capacity on the basis that something is going to happen in the future. They have already factored in efficiencies that are not there today. Our view is that the capacity is going to be reached in the next 10 to 15 years.

Ms SHING — We have heard witness evidence throughout the course of this particular inquiry that varies enormously around the time frames. I think that one thing that everyone has agreed is that nobody knows for sure. On what basis do you say capacity will be reached in the next 10 to 15 years?

Mr MUNRO — When I say capacity, I am also referring to the physical limitations of the port. We can see that big ships are imminent.

Ms SHING — You mean post Panamax or — —

Mr DENT — We see ships of up to 8500 TEU potentially arriving here along the east coast of Australia within perhaps the next five years. To go back a bit, what we refer to as the working horse, the stock standard ship, a few years ago was the 4250. We operated a number of those in our trades. We took our first fleet of 5 around eight years ago. Around two years ago we started phasing those out, replacing them with 51s. The 51s we are now replacing with 57s, and within the next, I think, two weeks we will have our first 6500 TEU ship coming into the port of Melbourne.

Very quickly you are getting the bigger ships in here, so very soon around about the 57 will be the standard-type ship and be operated by the main carriers. You will still have the minor carriers operating 2800s, 35s, 42s, but the major operators will all be operating 57s and above on the east coast of Australia very soon. Above that are 6½s and 8½s. That is pretty much it. We see our own projections are 8½s potentially coming in in about five years time, and that will be for the main trades up to Asia, so it will be east coast ports — Melbourne, Sydney, Brisbane.

Mr MULINO — Going back to that issue of port capacity, obviously you have got some familiarity with the port's work from 2006 and 2009, which I understand involved some consultation with port users and shipping lines. Are you broadly comfortable with the reasoning and the conclusions of those reports?

Mr MUNRO — I am not sure that I have got enough information at hand to be able to answer that question.

Mr MULINO — Right, but when you think about port capacity, you are not calling into question any of their fundamental conclusions or reasoning, by the sounds of it?

Mr MUNRO — They take a lot of assumptions into account. We have not done a lot of study into the validity of those assumptions, but they are already factored in the efficiencies which are going to happen into the future, so I put a question mark on that, because you cannot see it today.

Mr MULINO — Just going back to the price regulation. You have looked at the light-handed regulation which has existed in the past and which is very similar to what occurs in other ports in Australia, and the ACCC, I think, is on the same page. They describe light-handed regulation as an oxymoron and no regulation at all in most cases. So what is being proposed post lease is something more akin to what occurs with utilities. Without going into all the detail — but of course, as Ms Shing said, we would welcome any comments you had when you have a chance to look at the government submission and the price order — you would support a move more in that direction towards the kinds of economic regulation, the approach to regulation we see with other entities with market power?

Mr DENT — Sure.

Mr MUNRO — The new private operator is going to have a monopolistic stance so you are going to need a fairly heavy-handed approach in terms of price monitoring and — —

Mr MULINO — Yes, okay, so that broad approach. As Ms Shing said, any further comment is welcome, but that is interesting to hear.

Mr DENT — I think if you look at what happened in the other states — New South Wales and Queensland — when their ports were leased on a long-term basis, all the operators are required to do is to notify the state government of increases. All they have to do is notify it, and that is it — the increases go through.

Mr MULINO — Exactly.

Mr DENT — The state government cannot actually turn around and say, 'No, your increase is too high; it is unreasonable'. That is it — notification only.

Mr MULINO — Just two more quick questions. One is: if other states have what is called a light-handed approach, and we go to something more akin to what is in place with utilities, that would give us a comparative advantage over the medium to longer term.

Mr DENT — Yes.

Mr MULINO — Finally, you have raised issues around the longer term prospects for the port. I think you would support, as would most stakeholders, the need for there to be the right incentives in place for investment over the longer term. We want the lessee to have the right incentives. The previous witnesses gave evidence that they have seen some of that occur in New South Wales to date, but you would support both a regulatory regime but also legislative elements of the lease which provide incentives to the lessee to invest in the port so that its capacity can increase.

Mr DENT — We do need that. The bigger ships are coming, and we need the port — either this port or another port — to be able to accommodate the bigger ships. We just cannot say that they are not going to come; they are. It is as simple as that.

The CHAIR — Can I take you to the issue of the larger ships? You said 6500 TEU at the minute, in the next month or so —

Ms DENT — That is what we are bringing in within two weeks.

The CHAIR — and 8500 within five years. Do either 6500 or 8500 TEU have constraints due to the draught at the heads, the air draught under the bridge or the swing basin?

Mr DENT — The 6500 is okay, so we are bringing it in. It depends on the design of the ship. I should add that ANL is an Australian shipping company, but our shareholder is CMA CGM, the big French shipping company, the third-largest shipping company. We tend to get a lot of our vessels from CMA CGM. We have looked at all the CMA CGM fleet and that coming into the port of Melbourne.

The 6500 TEU ship that will be here within a couple of weeks can come into Melbourne, but there is an issue of air draught under the West Gate Bridge. We are fortunate in that this vessel has a mast that can actually tilt to get it under. It can come up to Swanson Dock, it can swing, it can get in. It draws 14.5 metres, but the depth of the channels is 14, but because of where we operate, the ship is never down to 14.5; it will be around about 14, so it can come in.

The issue, though, is the next class, the 8½s. They are 335 metres, so they cannot swing in the swinging basin. The swinging basin is 300 metres, and up to 320 metres on a case by case, so these vessels cannot swing. Again, there is an air draught issue, but the vessels that our parent company has have tilting masts, so they should get under the West Gate Bridge. Draught wise, again they draw 14.5, but because we would be operating them in the Asian trades with lighter cargoes, that should not be an issue. The big issue with these ships is that they cannot get into Swanson Dock. They are also quite wide — they are 42.8 metres — whereas Swanson Dock is guaranteed at about 40. So that again, the beam, is on a case-by-case basis.

The CHAIR — Is there also a restriction on beam at the heads?

Mr DENT — There is an issue at the heads. It is not coming into the heads; it is exiting the heads, and it is a safety issue, but we understand that at slack water the vessels should be able to get out. So if the tide is running at a certain speed, then these vessels will not be able to get out, but at slack water, say twice a day, they should be able to get out. With these vessels, the big ones, the only place that they can actually work in the port of Melbourne will be at Webb Dock, at the VICT, when it is developed and operational late next year. The problem with Webb Dock is that it is a small terminal — 660 metres berth length — and these ships are 334–35 metres. So you can only get one big ship and one small ship on Webb Dock at the same time. That is the issue at Webb Dock. Initially when these vessels start coming in, they could start calling at Webb Dock — you will only get ones and twos coming in — but then as they become the norm, then there is a problem.

The CHAIR — Can I also ask with respect to the future beyond the five-year horizon, beyond the 8500 TEU, the committee has heard two views as to the future. One is that ships larger than 8500 TEU will not come to Australia; the trade volumes are not large enough. The counter view to that was as shipping lines replace their fleets, older ships go to the breakers yard — smaller ships go to the breakers yard — inevitably we will get larger ships, because that will be all that exists in the fleet. Does ANL have a view on that?

Mr DENT — Yes, more the latter. In the past the theory was that the size of the ships will keep up with the demand, but that is not correct. Ships might come in simply because they are available. The Panama Canal has been widened so a whole lot of ships will become surplus. They will get pushed into other trade lanes. That is simply what happens.

The CHAIR — There is a cascade down.

Mr DENT — There is a cascading. Asia to Europe, the big lines are now operating 18 000 to 22 000 TEU ships. The smaller ones have to go somewhere. Just as an example, we are always doing many studies on starting new services and reconfiguring our trades. Around two years ago we were doing a study that required 6500 TEU ships. We get most of our vessels from our parent company, CMA CGM, so we just asked them about the availability of 6500s. At that time they said, ‘No, we don’t have any available, but we can give you 8500s’. They had 8500s surplus. So if we had gone ahead with this proposal, we might have had an 8500 TEU ship, simply because it was available. We did not necessarily want it, but our parent company would not permit us to go out into the market and charter a 6500 if they have got an 8500 sitting available.

Coming back to your point, it is the latter. The other thing is that we have been really looking at vessels up to 8500 — we have not progressed beyond that — but when I was in Sydney just last week I was talking to the

CEO of the port of Sydney. He said that they have no issues accommodating 8500 TEU ships as of today and in fact Port Botany can accommodate 10 000 TEU ships at most of their berths — all but two.

Mr BARBER — In relation to these big ships, it is width and length rather than depth, is what you are telling me?

Mr DENT — That is right. These are all designed at 14½, the ones that we have mapped out — the CMA CGM fleet — but because of the trading conditions, our master mariners have looked at it and they said based on where we would be operating the ships, the 14 metres draught is okay here in the port of Melbourne.

Mr BARBER — How does a port entity, whether private or public, make a decision about this kind of major investment to provide for these ships when initially there is only a very small number of them? If you charge them for the incremental capacity, it would be so expensive that you would actually chase them away.

Mr DENT — I do not know. All I know is that initially there will be a few operators. It was the same when we had the 4250s. There were only a few operators that had 4250s, then all of a sudden very quickly everyone had 4250s. It is all economies of scale. A 4250 is cheaper to operate on a slot-cost basis than a 2800 TEU ship. So very quickly the trades upsize.

Mr BARBER — What would you do if you were the operator of the port of Melbourne?

Mr DENT — The port of Melbourne needs to be prepared for the big ships coming in, because they will be coming in. It is either that or they will potentially lose volume to other ports. I know Maurice very well. He mentioned before how Melbourne has lost cargo to Sydney.

Mr PURCELL — If we can just stay on capacity for a second, capacity at the port — and there is no reason to disbelieve that the capacity of the port may well be 7 or 8 million, which is three times what it currently is — with the restrictions in the heads and Webb Dock and also under the West Gate, it is possible that you never actually meet that capacity because the bigger ships go somewhere else. I am not trying to put words in — —

Mr DENT — Yes, that is right.

Mr PURCELL — So the capacity of the port is not necessarily the number of containers you can handle on the dock; it is actually getting everything in line and getting rid of your bottlenecks. Is that the way you see it?

Mr DENT — Yes.

Mr PURCELL — So the answer is that capacity needs to be more than just looking at the — —

Mr DENT — Number of TEU.

Mr PURCELL — Yes.

Mr DENT — The other thing on capacity is that all the shipping lines that operate now are on fixed-day weekly services. We all have services that operate on, say, a 49-day round-trip basis. It could be every Monday we are going to have a ship in Melbourne, and that ship will be in Sydney on Wednesday and Brisbane on Friday. The whole industry operates like that. Whilst you might say, ‘Yes, there is capacity in the terminals for the containers’, there might not be capacities on the berth because you might have a lot of ships all arriving on the Monday. On Friday there might not be any ships on the berth at all, and at times you look down at Swanson Dock and there is not a ship on Swanson Dock. But on other days of the week it is actually at capacity, every berth on Swanson Dock is occupied. That is what also needs to be considered: when you talk about capacity, it is when the lines actually arrive here.

It is not only the windows here in Australia, sometimes it is difficult to change. You can say, ‘There is a window on a Friday, why arrive on a Monday?’, but these ships go up to Asia — they perhaps go up to 8 to 10 ports up in Asia — so we have to try to get windows in every port that match up, and that is difficult to do. Then certain customers, and this is more out of Queensland — the reefer exporters, the beef exporters — they like sailing things out of Queensland on, say, a Friday or a Monday because it means that they can get their product to Japan and onto supermarket shelves by a certain date, and that gives them a longer shelf life. These are the things that go into agreements or deciding the windows.

Mr PURCELL — I think you said earlier that you thought capacity, and maybe it is realistic capacity, is 10 to 15 years. What should happen now, then, in regard to a second port, an alternate port, changes in the port of Melbourne?

Mr DENT — There needs to be some sort of planning for a second port, not leaving it until it is needed. If we look at channel deepening, I will use that as an example, I have mentioned before that we operate at the 4250s. We ordered the 4250s, we had them built in China, and they were to enter service around about the time the channel was to be deepened — but we all know that that got delayed and just got pushed back and back. I think we had been operating these ships for something like three years before the channel was finally deepened, and every time that one of those ships came into port and sailed from port we had 1500 tonnes of space that we could not use because of the channel depth — so every call, 3000 tonnes of unused space. This was a big issue for us. We need plans in advance, we need to know that there is going to be the capacity. Do not wait until we need it, because then it is too late.

Mr PURCELL — Thank you.

Mr ONDARCHIE — Picking up on Mr Purcell's point, in your submission you talk about the lack of definition around 'full capacity'. The arrangement put before us is that the new lessee will determine what that capacity is going to be. It is possible they could create an artificial monopoly by setting the capacity limit too high. Given that could be the case, would you like to see a commitment to a second container port before this proceeds?

Mr DENT — We know that we are going to need a second container point within the 50-year period.

Mr ONDARCHIE — So would you like to see the government commit to doing something about that rather than create an artificial monopoly?

Mr DENT — It would be good to have some certainty.

Mr ONDARCHIE — Okay. That gives me the chance to talk a bit more about certainty, then. The government have asked you already through this committee if you would agree that the regulatory regime that they are proposing is better than it has been in the past, and I think you indicated that you like the fact that it is getting better — but it still does not give you any certainty around what is going to happen. Would you like to see the price regulation, David, have some regulation around rents?

Mr MUNRO — Yes, definitely.

Mr ONDARCHIE — Okay, thanks.

Ms SHING — Gentlemen, do you agree that rents are not regulated anywhere else in Australia?

Mr ONDARCHIE — They might not know that.

Mr DENT — I do not know.

Ms SHING — So, again, what I will do is ask you to look at the DTF submission to this in particular inquiry, which has the table set out about what is and is not regulated around Australia. The reason that I ask that is to go directly to Mr Ondarchie's point about certainty. Where other ports have never been in the position of having rents regulated in the way he is talking about, the changes that have been affected as a result of, again, the discussions between the Treasurer and the ACCC and the way in which those concerns have been taken into account have in large part resulted in a much more robust framework to the one which was already more robust than other jurisdictions, so again I would just urge you to have a look at that.

To go to Mr Ondarchie's other point about a second container port, what is your view on an independent body — Infrastructure Victoria — taking the politics out of the determination of the location of the second container port and making that decision about where that should be located?

Mr MUNRO — Do you have a view?

Mr DENT — Sorry?

Mr MUNRO — The mechanism to get to a second container port, I do not really have a view as to whether that should belong to Infrastructure Australia or be in government hands — —

Ms SHING — It is Infrastructure Victoria, in fact, that is being proposed.

Mr MUNRO — Infrastructure Victoria — as long as that planning takes place and we as users of the port can see that there are plans to cater for the bigger ships when they arrive.

Ms SHING — So is it your view that an independent process to determine the location for the second container port is preferable to a politically infused or potentially politically infused process to determine that location?

Mr DENT — It should be independent and it should be taking the views of the industry into consideration.

Ms SHING — Yes, great. Thank you, gentlemen.

Mr ONDARCHIE — Given your views that an independent body should be advising the taxpayers on what the best location for a second port would be, and you acknowledge that is good because it takes the politics out of it, in terms of certainty, before we go ahead with this, given we are going to need a second container port and given the limit on what the port of Melbourne can handle is somewhere between 4.5 million TEUs and 8 million TEUs, would you like to see some certainty around a commitment to a second container port prior to this one being sold?

Mr ONDARCHIE — Irrespective of who gives the government advice, would you like to see a commitment to it, in terms of certainty?

Mr DENT — We just want certainty that there is going to be a second container port. This lease is 50 plus 20. I think in our submission we said that we will be at capacity in the mid-20s, or something like that.

Mr MUNRO — Mid to late 20s.

Mr DENT — Yes, we need some certainty that there is going to be further port development that will be able to accommodate the trade growth and the bigger ships coming in.

Mr ONDARCHIE — The government are talking about giving a refund back to the eventual successful bidder, should there be a second container port. If you are going to give someone a refund, it would be in your interest, one would think, to delay a port for as long as you can so you do not have to pay the refund, but you are saying, 'Before you go down this track, we'd like some certainty that you're actually going to build a second container port'.

Mr DENT — Yes, we would like that certainty. We are aware of that 50-year lease and the potential of having to pay a refund.

Mr MULINO — Following up on this issue of the second port, I think we all agree that a second port is necessary, and I think most of us support there being a detailed examination of where it should be and when it should be built. There has also been a majority of evidence that, up to a certain point and for the next 10 or 20 years, it is going to be more cost effective for the supply chain in Victoria for incremental capacity to be at the port of Melbourne as opposed to building an entire new greenfield site. As a key user of Victoria's supply chain, you would not want a second port to be built before it was needed, I imagine.

Mr DENT — No, that is right.

Mr MULINO — So the timing is critical.

Mr DENT — Absolutely, and there have to be efficiencies down here, and Maurice talked about a lot of those efficiencies.

Mr MULINO — So you are broadly on the same page as the previous witness.

Mr DENT — Yes, but we do need the planning and we do need some certainty. On the talk of Western Port, Maurice outlined all the issues down there — the road, the rail infrastructure. There is nothing there, so there is a lot of work to be done down there. From our side, we see that any new port actually has to be outside the heads. There has been talk of Bay West, but with the larger ships coming in, having to dredge Bay West creates a whole lot of other issues.

Mr ONDARCHIE — Given that you said it is possible in your view that the port of Melbourne could reach capacity in the late 20s, how long do you think it takes to plan and build a second container port?

Mr DENT — No idea.

Mr ONDARCHIE — Ten years? Twenty years?

Ms SHING — He has indicated, ‘No idea’.

Mr ONDARCHIE — I am asking the question. I am not asking you; I am asking the witness.

Mr DENT — Potentially five years perhaps. I do not know. It depends on where it is, the environmental considerations and whether it is swampy soil, hard soil. I do not know.

Mr ONDARCHIE — Okay. Whatever the situation, given that it could max out in the next 15 years or less than that, according to what you said, when do you think a government should start committing to planning for another port?

Mr MULINO — That is the same line of questioning you have done three times now.

Mr ONDARCHIE — If you want to be a witness, go and sit over there.

The CHAIR — Order! Gentlemen, I do not know whether you want to add anything.

Mr DENT — No, I think we have said enough.

The CHAIR — Thank you very much for your evidence this morning. The committee very much appreciates your written submission on behalf of ANL and your testimony. It has been very helpful to get the perspective of a shipping line and particularly the details of your views as to the types of ships we can expect to come through the port of Melbourne. It is additional information that the committee has not heard before. It has been very valuable, so thank you very much for your time.

Witnesses withdrew.