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11 September 2015

Keir Delaney  
 Secretary  
 Port of Melbourne Select Committee  
 Parliament House  
 Spring Street  
 Melbourne VIC 3002

**RE: Inquiry into proposed lease of Port of Melbourne**

Dear Keir,

Bega Cheese welcomes the opportunity to provide a submission to your inquiry into the proposed lease of the Port of Melbourne. In principle, Bega Cheese does not have an objection to privatising the Port of Melbourne, and in fact, believes that there may be some benefits to the business community in terms of increased efficiencies, improved access, increased responsiveness to customer needs, and appropriate investment to maintain the port's competitive advantage. Most of the major ports in Australia have now been privatised, and we have seen the positive impact on competitiveness with the Port of Botany in Sydney, such that it is now winning volume at the expense of other ports including the Port of Melbourne. However, Bega Cheese does have some concerns in relation to ensuring fair pricing, efficient access for all users, the maintenance of competition, and the unhindered development of the second container port in Victoria.

In response to the specific aspects being considered by the inquiry, Bega Cheese makes these points:

- **Structure and duration of the proposed lease** – We accept the need for a long term lease and don't have an issue with the proposed initial term of fifty years. However, we ask that stipulations be included in the legislation to ensure that parliamentary approval is required to exercise the proposed twenty year extension. Consideration should be given to the inclusion of terms in the lease agreement aimed at ensuring that the private operator cannot reduce current levels of competition through vertical integration into stevedoring or the like. Further, there should be robust provisions included that identify and manage breaches of the lease terms. The Australian Competition and Consumer Commission (ACCC) should have the authority to review the proposed lease from an impact on competition perspective.



- **Potential impacts of the proposed lease on the development of the second container port in Victoria** – On its own, privatisation of the Port of Melbourne should not impact the development of the proposed second container port in Victoria. The reality is that the Port of Melbourne will run out of capacity at some stage in the next twenty or so years, notwithstanding expected capacity upgrades, and the planning process for a second port needs to be a priority. The proposed lease should not skew this process by advantaging the private operator of the Port of Melbourne by way of compensation if a second container port goes ahead, and by way of guaranteed container volumes. Such a move would create an uneven playing field between the two operators and reduce competition to the detriment of all parties.
- **Potential impacts on the environment of the further expansion of the Port of Melbourne** – Bega Cheese does not have enough information on this subject to provide an informed view. It is expected that environmental and sustainability considerations will be catered for in the lease provisions, and that regulatory overview will be applied as per normal practice.
- **Potential impacts of the proposed arrangements on the competitiveness of the Port of Melbourne, the supply chains that depend on it and cost effects on goods passing through the Port of Melbourne** – One cannot look at the impact of the proposed lease on the Port of Melbourne’s competitiveness without also considering the contribution of the associated infrastructure to this question. Exporters and importers develop transport and distribution strategies to reduce total cost and increase speed. Bega Cheese currently uses the Port of Melbourne as its main export port, and the vast majority of its imported raw materials and goods come to the Port of Melbourne. Bega Cheese recently established a new manufacturing plant and a significant warehouse operation at Derrimut in the west of Melbourne, and one of the considerations was proximity to the Port of Melbourne. Bega Cheese’s export volumes are expected to grow substantially over the next few years, and likewise, the quantity of imported items is also expected to increase. As such, any negative impact on the competitiveness of the Port of Melbourne would be a major concern, and would lead Bega Cheese to consider other port options, especially Sydney. The history of port privatisations is not encouraging, with substantial rent increases often a feature. This was true of the recent privatisation of the Port of Brisbane. Any increases to the rents charged to stevedores and other operators at the port would be passed on to users making the Port of Melbourne less attractive to exporters and importers such as Bega Cheese. As stated earlier in this submission, Bega Cheese believes that there could be a number of benefits from the privatisation of the port including increased efficiencies and improved access, and this will be required to maintain the port’s competitive advantage.



- **The effectiveness of the proposed regulatory framework in dealing with the transfer of a monopoly asset from the public sector to the private sector – Fully transparency of the rent review mechanism for the stevedores is required.** The legislation does not appear to regulate rent reviews and is an obvious gap. It is hoped that the legislation’s provisions related to port charges will be robust enough to prevent unjustified price hikes and the introduction of new charges. The legislation must contain provisions that facilitate and not hinder the role of the Victorian Essential Services Commission to scrutinise and challenge proposed rate increases.
- **How the proposed lease balances the short-term objective of maximising the proceeds of the lease with the longer-term objective of maximising the economic benefits to Victoria of container trade –** Bega Cheese understands that proposed privatisation of the Port of Melbourne is seen by the government as an opportunity to raise substantial money from the private sector to fund government commitments, including the removal of rail crossings across the state. Whilst this is a legitimate objective, this should not override the need for the Port Melbourne to maintain its competitive advantage. Bega Cheese is concerned that the government is not adequately balancing these two imperatives by inflating the sale price through artificial means. Consideration should also be given by the government to staggering the payment by the new owners to minimise the impact on port costs and rents as the new owners seek to recover their investment.

Regards



Aidan Coleman  
CEO