

CORRECTED VERSION

PORT OF MELBOURNE SELECT COMMITTEE

Inquiry into the proposed lease of the port of Melbourne

Melbourne — 30 September 2015

Members

Mr Gordon Rich-Phillips — Chair

Mr Daniel Mulino — Deputy Chair

Mr Greg Barber

Mr Damian Drum

Mr Craig Ondarchie

Mr James Purcell

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Witnesses

Cr Geoff Gledhill, Mayor, City of Kingston,

Ms Suzanne Ferguson, Manager, Economic Development, City of Kingston, and

Mr Paul Kearsley, Group Manager, Greater Dandenong Business, City of Greater Dandenong, South East Melbourne Group of Councils.

The CHAIR — We will resume with the South East Melbourne Group of Councils. I welcome Cr Geoff Gledhill, Mayor of the City of Kingston, Ms Suzanne Ferguson, Manager of Economic Development, City of Kingston, and Mr Paul Kearsley, Group Manager of Greater Dandenong Business, City of Greater Dandenong.

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 as provided by the Constitution Act 1975 and further subject to the provisions of the Legislative Council standing orders. Therefore the information you provide today is legally protected; however, any comments made outside the precincts of the hearing may not be so protected. All evidence is being recorded, and you will be provided with a proof version of the transcript in the next couple of days for any corrections.

The committee has allocated 45 minutes for this session. I would invite you to make an opening statement of no more than 5 minutes if you wish, and the committee will then proceed to questions.

Cr GLEDHILL — Thanks very much, Chair. I thank you and the committee for the opportunity to present to this inquiry on behalf of the south-east Melbourne councils and to answer any subsequent questions from the committee. In making this submission I just want to stress that I am representing the cities of Kingston, Casey, Greater Dandenong and Frankston and the shires of Mornington Peninsula, Cardinia and Bass Coast. I will confine my comments to matters that are of a regional nature. I will not be in a position to answer questions that relate specifically to individual councils other than of course the City of Kingston.

Just to provide some context, although I am sure you are all aware, collectively we cover an area that stretches on the western side from Mentone to Portsea, around the bay, and to the east from Cockatoo to Inverloch. It is an area of over 3600 square kilometres and home to over 750 000 people. As a region south-east Melbourne is one of the foremost contributors to the Victorian economy, providing a gross regional product of around \$63 billion, which is 19 per cent of Victoria's gross state product, with 513 000 full-time equivalent jobs, 21 per cent of Victoria's workforce, including importantly over 101 000 full-time equivalents in the manufacturing sector. South-east Melbourne is also the single most important destination for import containers through the port of Melbourne, with export containers also being significant. As a result what happens in terms of the port of Melbourne and this lease is of fundamental importance to the competitiveness of our regional economy.

I have got about seven points that I am just going to cover briefly, and then obviously there will be questions, and I will read these to be quite specific. The first is regulation of the port of Melbourne pricing. Whilst it is accepted that there is the potential to improve the operational efficiency of the port and free-up public capital for other purposes through the proposed lease arrangement, south-east Melbourne councils are concerned that there is a real risk that a new port operator will be in a position to extract significant economic rent as a result of the transfer of a monopoly asset from the public sector to the private sector. The sale of other natural public monopolies, such as electricity generation, clearly demonstrates that a private operator has the capacity to obtain excess returns above the normal levels that are generated in an otherwise competitive market.

Consequently the regulatory framework around all aspects of the pricing model will need to be extremely robust to mitigate this risk and should include all port prices, not just port charges. The clear objective of leasing the port of Melbourne must be to improve the overall efficiency of the freight and logistics industry within Victoria for the benefit of the whole economy, not merely as a short-term means of raising revenue for the state government. We believe that all pricing opportunities for a private port operator must be subject to scrutiny by — and we have used as an example — the Essential Services Commission. Such a requirement would go a long way to counter concerns over the possibility of price gouging and rent seeking.

The CHAIR — Cr Gledhill, can I just stop you there? We are 4 minutes into the 5 minutes of your opening submission. I was wondering if it would assist if you would like the committee to take your statement as read and incorporate into the transcript.

Cr GLEDHILL — Certainly yes, if that is suitable. No problems at all. I am more than comfortable.

The CHAIR — Thank you. That will be incorporated. Would you like to make any concluding statements in the last minute before we proceed to questions?

Cr GLEDHILL — Simply that, as a group of councils, a number have made individual submissions that I am sure the committee is aware of. We have discussed the matter collectively and have looked at it from a regional perspective, and we have obviously in our consideration been very mindful of the terms of reference of the committee. We have been careful to confine our concerns to that. Any questions that I may get that I cannot answer, obviously I have got two people with me who are more than capable possibly of answering these questions, but beyond that we are certainly happy to take any on notice and refer them back to the committee.

The CHAIR — Thank you, Cr Gledhill. We appreciate your printed submission, which will be incorporated into the transcript. I will start by asking you about the issue of pricing regulation and the collective views of councils on the issue of regulation. You said you would like to see all service charges regulated, not just those narrowly defined charges. What is your rationale behind that desire to have the full scope of charges subject to regulation?

Cr GLEDHILL — We have been researching what has happened in previous instances and other ports. There has been significant discussion around the number of charges that a shipping company can incur from the time a ship arrives, through its unloading and all of that process. It has been suggested to us that there are a number of opportunities where, given the right circumstances, significant price pressures can be placed on those companies, on those organisations, if there is not a structure there to protect against that sort of behaviour. Our problem and our concern is the end impact that has on the businesses that we have collectively within our region. That is our focus. We do not come here as experts on the shipping industry, but more we look at the industry as such an important part of the businesses that we support within our communities and that as a result support our communities. That is basically where we have come from on that.

The CHAIR — Would you like to add to that?

Mr KEARSLEY — I just think it is important to understand the issue related to business efficiencies and those costs, which no doubt the committee would be very much aware of. We have examples of businesses within our region. For them, in shipping a container to somewhere like New Zealand, the cost to get it from the port to New Zealand is cheaper than getting it from the region to the port. I think those things need to be very much looked at with regard to those additional costs that companies face, and if there is not a sense of competitiveness then the businesses will possibly look elsewhere. They will downsize with regard to their job opportunities. There is a flow-on effect of not keeping efficiencies for the businesses related to freight costs, especially in our region where quite clearly it is the biggest user of the port of Melbourne in terms of containers. That is something we are very mindful of.

The CHAIR — The committee has heard previous evidence that under the current proposal around 86 per cent of revenue items of the port would be subject to regulation, but your concern is that if you constrain that 86 per cent, the remaining 14 per cent plus any new charges, new revenue lines, could be subject to uncontrolled price escalation with the flow-on effects to business?

Cr GLEDHILL — Basically, yes.

The CHAIR — So you would like to see 100 per cent of current revenue subject to regulation and, presumably also, any new revenue lines, which as yet have not been implemented but potentially could be by a new port operator, also subject to some oversight?

Cr GLEDHILL — Correct.

Mr MULINO — I was going to touch on pricing as well, but just before I get to that I want to understand this. What is your position in relation to the level crossing removal program that will be funded by parts of the proceeds?

Cr GLEDHILL — Speaking from the perspective of the region, obviously it is a program that has been in various forms under way for a number of years, and I think each area that is the beneficiary of a grade separation, given that it is one that involves a particularly congested or dangerous interface between rail and road, is appreciated. We think it is a program that is very worthy. I suppose with hindsight we often say, 'Wouldn't it have been good if that had been done a number of years ago'. It was not, so it is something we are happy to work with, but as with anything I think it has to be considered in the context of what other costs are

involved in completing the program in a prescribed period of time. Whilst it is something we support, we are in discussion with the various authorities now in terms of the rate of these grade separations.

Mr MULINO — Just in relation to pricing, firstly, on the prescribed service, and secondly, I will touch on the rents. On the prescribed services, which cover 86 per cent, you would support, I imagine, moving from price monitoring to a stronger regulatory arrangement, the building block method, which will contain costs more transparently and more prescriptively?

Cr GLEDHILL — Being in the local government space we are obviously ourselves moving into an area where there is perhaps a closer regulation of costs, if you like. We are quite agreeable to that type of process being applied to this, because we do have a fear that if it was to proceed as proposed, certainly it leaves the way open for some increase in costs. We believe a justified increase in cost is fine; that is business. We accept that. But we just feel that a mechanism that provides some sort of review of that is worthwhile.

Mr MULINO — When it comes to the rents, there has been some contention around how they should be handled and there have been some concerns raised by various witnesses, many in industry. As a general proposition, economic regulators tend to only want to regulate where there is a clear demonstration of market power, and even an organisation that is considered to be a monopoly might exercise monopoly power or market power in some aspects of its business and less market power or no market power in other aspects. Would you support a review by, for example, the Essential Services Commission using its expertise to examine the extent to which — —

Mr ONDARCHIE — You can get the Treasurer in to make the announcement if you like. He has just done a press conference outside about it, saying — —

The CHAIR — Order!

Cr GLEDHILL — I think — —

Mr ONDARCHIE — It is policy on the run; that is the problem.

Cr GLEDHILL — What I have to make clear is we are — —

Mr MULINO — Mr Ondarchie is obviously very upset about — —

The CHAIR — Order!

Mr ONDARCHIE — No, it is just that you make it up as you go along.

The CHAIR — Mr Ondarchie! Mr Mulino!

Cr GLEDHILL — We are saying — and I did make the point earlier on — that we do not come here as experts on every aspect of the shipping industry, but we certainly believe that if something as fundamentally changing to the structure of the port of Melbourne as what is proposed is taking place, then it is an opportunity to review all the aspects that are involved in the running of the port, and pricing is one of them, so we would welcome a position where there was adequate review of pricing.

Ms FERGUSON — Can I just add something on the pricing?

Mr MULINO — Sure.

Ms FERGUSON — In the monopoly situation whilst they may not exercise necessarily total monopoly power, the imperatives for efficiency gains and for those efficiency gains to be passed through is also not there. So the efficiency gains themselves can then be just internalised to the lease operator so that the users of the port may not get increases in costs, but they also will not get the efficiencies that should be passed through in a competitive situation.

Mr MULINO — That is a very valid point. My understanding of the building block method is that it is reset every five years with a view to the regulator trying to capture those efficiency gains and pass them on. But I agree, passing those on is clearly important in the medium term.

Mr PURCELL — I would just like to expand on one of the issues you have included in your submission and also in the background — that is, the port of Hastings as being the next port. We have heard numerous submissions, and as far as I know you are probably the first to think the port of Hastings is the best location. Bay West seems to be for a number of reasons put forward by most as being the preferred. I thought I would look through your submission to see why, and it really was difficult to see in the submission. Probably the last sentence on page 4, where you say:

We fear that should a port be established in an area other than the south-east, investment and employment opportunities may be lost in the region leading to more far-reaching social and economic problems.

I would have thought that maybe the dredging issues or freight movement issues or even local issues would have been included or considered in the submission. Do you have any other reasons why you think Hastings would be the best port?

Cr GLEDHILL — Through the Chair, those issues that you raise, Mr Purcell, are included in the submission. One of the important points to make is that we look at the leasing terms of the port of Melbourne in as much a holistic way as we can in the sense that transportation and freight movement through our region from wherever a port is is a critical issue, the health of the bay is a critical issue, and those items do lead us to the conclusion that from a regional point of view we have always expressed a favourable attitude towards the port of Hastings, notwithstanding the size of the manufacturing and commercial precinct to the south of Kingston and certainly including Dandenong.

In terms of why we would choose Hastings, we have held great concerns in terms of this project's impact on freight movement through our region and we believe it is something that has, as far as we are concerned, barely been addressed. I was sitting listening to previous submitters talking about the expected volumes that may go through the port of Melbourne in the future. My question is: if we are going to double or treble the volume in the port — and I am not arguing about where that figure sits — how are we going to get this stuff to and from it? What is being invested in either rail or road? I am not talking anywhere outside of Melbourne at this point, but basically in greater Melbourne what is being considered in terms of how we are going to put up with an extra 30 per cent of B-doubles or semitrailers trying to get into the south-east of Melbourne or get down the M1, because they cannot do it now.

Your question is very relevant to us in terms of the way we look at it and how we have come to our decision. We realise that there has been extensive discussion as to where a new port should be. I understand that people who may be from Hobsons Bay and that sort of area and generally the west of Victoria are going to be more supportive of something located there. I accept that, and I think that is well worthy of a future debate and discussion; but certainly from our point of view in that case we again would ask the question: if something was landing in Werribee for instance, how is it going to get around to the south-east? That comes back to what we do, and we try to provide amenity, we try to provide as best we can employment. That is what we are doing in an area that, if you take the city of Casey, I think they are expecting the requirement for 150 000 jobs over the next few years, and where are those jobs going to be?

If that manufacturing sector and that employment precinct that we have got is placed at risk, then that is our concern. While we may not have articulated that as concisely in that submission, we believe that all these issues we have raised are interwoven.

Mr ONDARCHIE — Mayor, the legislation before us has been through the Legislative Assembly, mind you they have not voted in favour of the legislation in its current form. But we know through this inquiry there are so many unanswered questions, and as we speak today the Treasurer has done a backflip on part of the legislation and has said he is going to make some adjustments. What is really interesting is this is a classic example of policy on the run, but, given there are so many unanswered questions here, would you be in favour of us not putting this through until those questions are answered?

Cr GLEDHILL — Collectively we have got a lot of questions and we have a lot of questions in our submission, so obviously our responsibility from a municipal perspective is to be able to answer those questions on behalf of our residents as best we can. I have to say, and I know I do speak for the other mayors in the discussions we have had, many of those questions remain outstanding. When we are considering and when a government, whether it is a state or federal government, is considering about a project of such magnitude, then really if we look back on history — and you can go back as long as you like — there have been some

sensational blunders because the whole aspect to a program or project has not been thought through effectively. That is just critical. I do not think there is any government that wants to make that sort of blunder again.

Ms SHING — Thank you for your submission, which is taken as read, and also for providing answers to the committee for questions that have come up today. In relation to the issues that Mr Ondarchie has just raised, is it your view that in going ahead with a transaction of this nature it is important to refine the process as we go along in order to get the best, most robust and most transparent process possible as far as a lease of this nature?

Cr GLEDHILL — With anything one embarks on you can learn on the way. I think one of the great dangers — and I will refer back to the movement of freight through metropolitan Melbourne — and a fear we have is if we take the position that has often been the case that, ‘We’ll take care of that first and then that is certainly something we’ll come back to in the future’, we do not seem to come back to it. That is a concern, because when we embark on projects of this nature and this scale I think governments at every level have a responsibility to look at this process. We are talking about a 50-plus-20 lease, then I think in fairness everything else that is possibly going to be impacted on by this change should be looked at in terms of a 50-plus-20 consequence. I know we do not have a crystal ball, but we can certainly make some pretty accurate estimates and we can certainly go a long way towards making decisions that mitigate obvious problems down the track, or obvious challenges, I should say.

Ms SHING — So including safeguards as we go along and as they are identified would in fact, to your minds, be a sensible course of action around reducing the risk of the blunders that you have referred to in relation to earlier transactions of this nature around Australia?

Cr GLEDHILL — I would have to say that I would like a process that had done its utmost and, perhaps by agreement, exhausted applying its mind to any future problems or challenges that may exist, and addressing those.

Ms SHING — Yes.

Cr GLEDHILL — But then also go into the project with a mindset such as you have described that would say, ‘Yes, as things come up we are going to address them’. But to say, ‘Well look, here we are today, we are going to change something and we are going to just go forth and as things crop up we will address them’, I think is probably selling the whole project short. I think we really need to have done a little bit more work.

Ms SHING — Okay. So in terms of an economic regulatory framework — comparatively speaking, and you will see this from the DTF submission and the way in which it refers to this proposed arrangement being much more robust than anything else that exists around Australia at this present time — do you see that that sort of proactive action will in fact give greater certainty to the organisations and entities that you represent at a local government and commerce level?

Mr KEARSLEY — Yes, I think anything that can give greater certainty in an economic environment, which is probably fairly scary for a lot of people at the moment, especially in the manufacturing areas that we certainly represent, to enable them to have a future, they need to be able to rely on some certainties with regard to that ongoing cost issue, the pricing issue, to ensure that Victoria and Melbourne and the south-east of Melbourne actually stays competitive.

Ms SHING — So periodic reviews of fees and charges and anything that might actually be knocked on to the people you represent would be an important part of that?

Mr KEARSLEY — Yes, I think they need to see that in a transparent way so that — if a business is making a commitment, whether it is an overseas investor or a Melbourne-based or interstate investor — they can actually see their cost imposition or cost increases over a 5 or 10-year period, bearing in mind that there will always be an understanding of other issues that are raised at shorter times; I mean, those things have to be relevant too.

Ms SHING — That is the nature of business as well, yes.

Mr KEARSLEY — That is correct, but at least in terms of people making investment decisions which are crucial to the south-east region, and have been crucial over the last 30 to 40 years in that region, they need to be

given some, I suppose, transparency and some guidance as to how they make those decisions, and port costs and freight costs need to be included in those.

Ms SHING — Thank you — I am so sorry, Suzanne.

Ms FERGUSON — I will just add to that. From the businesses that I have spoken to, it is not just the price of what they pay through the port of Melbourne but it is the price of the congestion as it grows. So it is the delay in having their containers delivered, it is the certainty of planning for their production processes, so the costs are much broader than just the pricing and the charges.

Ms SHING — So road-based congestion you are talking about?

Ms FERGUSON — Yes, the road-based congestion.

Ms SHING — Around level crossings and those sorts of areas?

Ms FERGUSON — Yes.

Ms SHING — Okay. Thank you very much for your answers.

The CHAIR — Thank you. We have a couple of minutes left. Cr Gledhill, I take you back, in the minutes remaining, to the conclusion that the south-east councils have reached with respect to, to quote your statement:

Consequently, while south-east Melbourne councils are supportive of maximising the proceeds of the lease of the port of Melbourne for investment in grade separations, particularly along the Frankston and Dandenong rail lines, this return to the Victorian community should not compromise the longer term objective of maximising the economic benefits to Victoria of container trade all within the context of best-practice environmental standards.

Has the group formed a view as to whether that balance has been appropriately struck between the upfront proceeds and the longer term interests of the economy, the logistics industry and the environment?

Cr GLEDHILL — Thanks, Chair. I think that, given the number of outstanding questions that we have, the answer to that would be no. I think the discussion has been a very informed one to this point. I understand that there is a commitment being made to some, obviously the civil works with grade separations and the like. But I think that even if I go back to the health of the bay and I look at the possibility of larger ships coming to Melbourne or being used by companies overseas to move containers, I do not think that matter has been sufficiently addressed.

As a group — and it is in our submission — we are quite steadfast in saying that the bay is quite a delicate place. The heads serve a purpose in regulating the amount and rate of water in and out. Larger ships would not get into the bay — some of the larger ships that the companies are talking about using would not get into the bay — so I do not think that has been addressed, nor has the level, the volume, that the port of Melbourne would have to get to before a second port could even be considered, given the compensation suggestions around that. There are a lot of questions. I would really like to see, and the group of councils would certainly like to see, some of those questions answered and some further discussion take place addressing those issues before we were completely comfortable with it.

The CHAIR — Thank you, Cr Gledhill, Ms Ferguson and Mr Kearsley. The committee appreciates your presentation on behalf of South East Melbourne Group of Councils and the statement you have provided as well.

Ms FERGUSON — Thank you.

Mr KEARSLEY — Thank you.

Cr GLEDHILL — Thank you.

The CHAIR — We will have a proof version of the transcript to you in the next couple of days for any corrections. Thank you very much for your time.

Witnesses withdrew.

Incorporated by order of committee:

Container throughput

The projected increase in volumes of containers expected to pass through the port of Melbourne each year will necessitate an equivalent increase in the volumes of containers moved on the road network. Consequently, there needs to be clarity around road planning and the investment required to efficiently facilitate this significant increase so as not to impact business productivity and impose other community costs in the form of traffic congestion and pollution.

Plan Melbourne identifies that the southern region will continue to grow substantially and by 2031 it will contain between 400 000 to 480 000 more people and provide an additional 110 000 to 150 000 more jobs reinforcing the dynamic level of change occurring through the region and the imperative to appropriately plan to manage congestion.

We believe that insufficient focus has been placed on the short and long-term impacts that an expanded port of Melbourne will have on localised traffic congestion.

There also needs to be clarity on how the government and port operator plan to accommodate the projected increase in the size of container ships over time, without any deepening or widening of the entrance to Port Phillip Bay.

Maintenance of the port as a public asset

It is also essential that the required maintenance of all infrastructure associated with the port and shipping channels is explicitly prescribed in legislation to ensure that the new operator does not run down the asset, particularly towards the end of the lease term, nor overinvest due to inappropriate predetermined rates of return on capital investment.

Protection of Port Phillip Bay

The protection of Port Phillip Bay must be an integral component of the regulatory framework around the lease of the port of Melbourne. SEM councils are strongly opposed to any future deepening or widening of the shipping channels or the heads in Port Phillip Bay. Any expansion of the port must therefore be done within the constraints of the current shipping channel and to best-practice environmental standards.

The bay is of huge environmental and economic importance to all who live around it. The lessee must not be allowed to do anything that harms the bay or its surrounding environments. The SEM shares the concerns and objectives of the Association of Bayside Municipalities (ABM) when it comes to the ongoing wellbeing of the bay; no capital dredging, no widening or deepening of the heads or established channels.

Melbourne's second container port

South-east Melbourne councils understand that the question of the development of a second container port for Victoria will be referred to Infrastructure Victoria when it is established. While there are differences of opinion around the ultimate capacity of the port of Melbourne and when this capacity will be reached, SEM councils are of the view that the terms and conditions of the lease of the port of Melbourne must not unduly compromise or delay any decision around the location of the second port. Uncertainty will have a significant impact on the investment decisions for companies located in the south and east of Melbourne.

South-east Melbourne councils also want to ensure that there is clarity and transparency regarding any port of Melbourne specified container volume threshold to trigger government investment in a second container port. The implementation of this container volume threshold must be totally transparent. If, for example, it was set at 6.5 million TEUs, what would be the implications if the port of Melbourne was operating at 7 million TEUs and the Victorian government opened a second port which led to a drop in volume for the port of Melbourne below the predetermined threshold?

Specifically, SEM would like to see some transparency relating to the proposed compensation which will be paid to the port of Melbourne operator in the event that a second container port is established in Victoria. Until such time as detail around this compensation is made available, it is difficult to form a position on the basis that we do not fully understand the impact that it will have on the construction of Melbourne's second container port.

As it stands, no detail on the proposed compensation has been made available to the public.

In order not to hamper Victoria's future competitiveness, there must be a clear position where a second container port is able to be developed should the growth projections warrant it.

Clearly the location of a second port is of strategic and economic importance to Melbourne's south-east. South-east Melbourne councils strongly support future container port development at Hastings to enhance Victoria's competitive economic advantage and to drive continued industry development and business innovation within this crucial economic region. The SEM regards Infrastructure Victoria as having a crucial role in determining the location and scale of a future port. We fear that should a port be established in an area other than the south-east, investment and employment opportunities may be lost in the region leading to more far reaching social and economic problems.

Conclusion

The efficient operation of Australia's premier container port is fundamental to the competitiveness of the Victorian economy and to the south-east Melbourne regional economy. Consequently, while south-east Melbourne councils are supportive of maximising the

proceeds of the lease of the port of Melbourne for investment in grade separations, particularly along the Frankston and Dandenong rail lines, this return to the Victorian community should not compromise the longer term objective of maximising the economic benefits to Victoria of container trade all within the context of best-practice environmental standards.