C O R R E C T E D   V E R S I O N

PORT OF MELBOURNE SELECT COMMITTEE

Inquiry into the proposed lease of the port of Melbourne

Melbourne — 8 September 2015

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Dr Hermione Parsons, director, and

Mr Peter van Duyn, maritime logistics expert, Institute for Supply Chain and Logistics.

The CHAIR — I reopen the hearing of the Legislative Council select committee on the port of Melbourne. I welcome Dr Hermione Parsons, director of the Institute for Supply Chain and Logistics from VUT, and Mr Peter van Duyn, maritime logistics expert.

To restate the formalities, all evidence being taken today is protected by parliamentary privilege as provided by the Constitution Act 1975 and is further subject to provisions of the Legislative Council standing orders, therefore the information you give today is protected by law. However, any comments made outside the precincts of the hearing may not be protected. 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 is being recorded by Hansard, and you will be provided with a draft version of the transcript in the next couple of days.

We have 1 hour for this session. I now invite you to make a brief opening statement, and the committee will then proceed to questions. Thank you for being here this morning.

Dr PARSONS — Thank you very much. Would you like us to take you through the presentation?

The CHAIR — If you would like to give us an outline as a starting point, then we will go to questions, that would be helpful. Thank you.

Dr PARSONS — First of all, we are very pleased to be here, so thank you very much. As an institute our work is about being independent, neutral, politically neutral and as accurate as we can be about the future of infrastructure for Melbourne and Victorian society. We come to this hearing with that very strong objective. Can I take you through the presentation now?

The CHAIR — Yes, please.

Visual presentation.

Dr PARSONS — We thought it was important to say first of all what is being privatised. We think that definition could help. We believe of course that you understand it implicitly, but we thought it was worthwhile documenting as we see it. As far as we see it, it is not the landside and it is not the waterside — it is the management of the real estate that is to be privatised, along with the ownership and use of the strategic assets, tenure, land developments, tariffs, terminal leases and customer contracts. We see it that the successful bidder is leasing yield and new value through the port of Melbourne growth. That is what we think would be of interest to the buyer. We can give a very brief snapshot, internationally and across Australia, of what port privatisation trends we have been able to see. Shall I proceed with this, or are you au fait with it?

The CHAIR — Yes, thank you. That would be helpful.

Dr PARSONS — Proceed? Okay. During the Thatcher era in the 1980s, a number of UK ports were privatised. The port operators and managers sweated the assets, which meant that quite a lot of freight was moved across to Europe rather than staying in the UK. Only recently has additional capacity been built in. In the European Union most ports are owned by local, state or national governments that promote their ports. Most businesses are private businesses that operate within that footprint. In Asia, India, North and South America, and Africa most capital city ports are not in private hands — ports that do happen to have bulk or dry tend to be in the hands of operators, though. We thought it was interesting that as part of the EU bailout in Greece the government has been ordered to sell off two ports — Piraeus and Thessaloniki — and Maersk and APM Terminals, as well as Chinese companies, are showing interest. We thought that was a good international flavour according to our understanding.

Port privatisation in Australia: Adelaide was the first, with South Australia regional ports to Flinders Ports, a sale of 200 million. Port of Portland and port of Geelong were privatised a while ago in the Kennett era. The port of Brisbane — we thought this was interesting — in 2010 was sold for 2.1 billion. It was resold in 2013 by one of the operators with a 25 per cent shareholding, and that investor had the price doubled, so they did extremely well. Port Botany and Port Kembla in 2013 were bought together, so it was a nice package, but in the side letter compensation is to be paid if the port of Newcastle develops a container facility. We use that as a precedent in our thinking. The port of Newcastle is a bulk port principally, but if industry requires container capacity there, the compensation will be paid to NSW Ports, which owns Port Botany and Port Kembla. Every container that passes through, say, the new port of Newcastle would require a payment to NSW Ports, which owns the wharf in those other two areas. Queensland regional ports in Gladstone and Townsville were being privatised, but the change of government means the sale is now on hold.

Potential ports be privatised: Darwin, Fremantle and the West Australian regional ports, but the mining decline has changed that to be less attractive.

The port of Melbourne is of course the purpose here, so we will now focus on the port of Melbourne. In 2014 both sides of government supported the sale. We know the port privatisation bill was brought in 2015. The opposition has brought about the Legislative Council select committee, and we are expecting a decision by November 2015. As we see it the proposed lease involves 50 years plus an additional 20-year option.

On port pricing, we think that a really important part of any port's success is the cost of putting your container through the port. What we have seen is rent increases for the stevedores over this year going from $18 per square metre to $120 per square metre to $45 per square metre to 2023. What we see is a change in price to reflect the fact that the port of Melbourne is being privatised as a way of attracting businesses to purchase. In the port of Melbourne we have the channel-deepening levy plus the port licence fee, although there is a time limit on those.

We also see with container capacity the numbers change. The more prudent or more cautious and conservative view is that 4.6 million TEU containers is the capacity for the port of Melbourne. Some say 5.5; 6.5 was given to us yesterday as one possibility and 8 million is in the documents. We believe very strongly that 8 million is not correct, and we believe that the capacity is more like in the range of 4.6 to 5.5 million TEU. This issue is an important issue in our proposal or witness statement to you.

We also believe that a second container port is required in Victoria in 15 to 20 years — 'where' is another issue. We certainly believe 15 to 20 years or 20 to 25 years is likely depending on the growth rate the current port yields.

We also see that state or federal regulatory oversight is terribly important. Currently there is minimal regulatory oversight, but the port of Melbourne will be a private monopoly once it is privatised, so we think the role of regulation is terribly important in that.

We have done a chart here. We actually changed it. We did some presentations yesterday on this, and we changed it according to some very good discussions between a good 70-odd people who were concentrating on the privatisation issue. We changed it to a 3 per cent compound annual growth rate. On this chart you will see the small green patch to the left. To the left you will see a little tiny green bit. That is observed containers going through the port. You will see a purplely line, a bluey line. Could you show the lines, Peter — the 3 per cent? It was not working.

Mr van DUYN — That is observed data. That is the 6 per cent compounded annual growth per annum. That is the 3 per cent compound annual per annum. That is the 5.5 million TEUs, and that is the 8 million TEUs.

Dr PARSONS — What we thought is if we just brought it down to the two potential growth rates of 3 per cent and 6 per cent and we looked at two figures, the 5.5 million container TEU maximum capacity and the 8 million TEU maximum capacity, then we realised that first of all this would show that by 2026, if we are looking at 6 per cent, we would need a new port — that we would have hit capacity.

Mr ONDARCHIE — Irrespective of the life of this lease, it is going to mean we need a new port?

Dr PARSONS — Exactly. This would show if it was a 6 per cent increase then we are looking at between 2026 and 2034 — that is when we need a new port. If we are looking at, say, a growth rate of 3 per cent, which is very much the lower growth rate, then we are looking at about 2038 to about 2050 when we need a new port. We believe absolutely a new port is needed, say in 20 to 25 years. That gives us good time to be planning for it. We would also like to point out that if we were going at a 6 per cent increase, by 2056 we would be equal to Singapore port with 35 million containers, which we think is extremely unlikely, to say the least. We think it is more in the order of between 3 per cent and 6 per cent, and probably towards 3 per cent or 4 per cent. What it does mean is that we need a new port, so we need to be considering this in the privatisation.

With potential consequences, we are concerned that there would be in the privatisation lease the notion of compensation or that a certain container maximum will be warranted, and therefore if it is warranted, we are using the term ‘compensation’. What we are saying is if there is compensation — if the second port is built before the warranted capacity in the lease ends, and the restitution of prepaid capital plus a default payment is required — then we see this as a great impost upon the supply chain logistics industries. We are also very concerned about who would pay. Who would be paying for the restitution of prepaid capital and the default payment should a second port be required within, say, the period of the lease? That is our concern.

Port pricing needs to be competitive for our supply chains industry. Privatisation must support productivity gain, not hamper growth and efficiency. With pricing, the warranted capacity and regulation are all critical. Ultimately, a replacement for the port of Melbourne is needed, which is being recognised, I think, very broadly. What we are concerned about is the time difference between the 50-year lease and when a second port needs to come in, which we see to be about 30 years. If there is compensation, say, for the fact that the new port operator has a competitive port — it could even be a state port, anything that is taking freight away from its facility — we believe then that that 30 years is an issue of payment for Victorian taxpayers that is of concern.

I am going to pass to Peter now as he goes through some technical issues with you.

Mr van DUYN — This gives you some idea of container vessel sizes. The current average container vessel size through the port of Melbourne is this size — about 4500 to 5000 TEU vessels. In the future — in the next 10 to 15 or 20 years — we will get the bigger size vessels coming, more like this size. They can still come through Port Phillip Heads, because the draught is okay, the length and the width, but there is an issue with berthing, especially at Swanson Dock. To give you a little idea of what those vessels look like in a different picture, the Panamax vessels, which are the 4500 to 5000 TEU, the second one down, 12 metre draught, about 280 to 290 metres and about 32 metres wide, 4500 capacity of containers, or TEUs. The next size up, the ones that will be coming in the next 15 to 20 years, we believe, is more like the 350 metres, draught 14 to 15 metres, the width is 49 metres. They can bring in up to 10 000 TEUs in one hit. Somewhere it will grow from that Panamax to the post-Panamax. We think the post-Panamax, that 10 000, will be the ultimate size because of the markets of Australia. We will not get those massive container vessels that you hear about going to Europe.

This is a recent caller, the motor vessel. She is one of those in between. Length overall is 304 metres. The beam is 40 metres wide, which is 16 containers wide on deck, and the capacity of that vessel is 6600 TEUs. It did go into Swanson Dock, but there are some issues about the accessibility of Swanson Dock. It could only go in or come out and turn, because it has to actually turn in the swinging basin. That could only happen during daylight hours, so that restricts, obviously, the use of it. Also both West Swanson, the corner there, had to be empty of the ship, and the East Swanson Dock had to be empty of the ship. This is not actually the particular vessel that was there, but it is just as an example. So that limits the berth capacity obviously, and also the cranes had to be boomed up because of the issue that the vessel could hit a container crane. That is obviously a productivity loss for the stevedores. While some of those larger vessels are able to be accommodated, it will be far more difficult, especially if they become more regular callers.

East Swanson Dock is only 880 metres long, so if you get two of those 330-metre vessels the berth is full — and navigating in there will be fairly difficult. Webb Dock is a little bit different, although it is only a small terminal, currently planned for 650 metres. Again, you can only fit two of those vessels alongside, and the arc capacity is considerably less.

A little bit about international benchmarking: this is where it comes to what we believe is a more realistic container terminal capacity use for the port of Melbourne. It is about quay line, which is where the ships berth, and it is internationally accepted that you can do about 2200 TEU per metre of quay line per annum. Currently, including the new Webb Dock, we will have 2500 metres of quay line. Multiply that by 2200, it is about 5.5 million. That we think is roughly about the capacity.

Yard space is a little bit different. That is the area behind the berth — 40,000 TEU throughput per hectare per annum. We have about 120 hectares, again including Webb Dock. Multiply that, and you get to again 5 million. The potential for increase in yard space: yes, you can do that if you have enough land, or we can move the containers to intermodal ports or off-site quicker by turning them over quicker.

Increase in quay line: no, not to my knowledge. Where can you go? That is the issue, and that is why we think this 5.5 is about right. Back to you.

Dr PARSONS — Thank you very much. I should have said in the introduction, too, that at the institute we are industry and government people first. We happen to have PhDs and masters degrees et cetera, but our institute is all about having commercial people and people who have worked in the industry participating in our business. Peter's job previously was national manager for Patrick stevedoring across Australia, and he is a master mariner out of Port of Rotterdam et cetera. I just thought I should say that.

In terms of Melbourne's next container port, it is agreed we will need a second container port, but when and where and how we establish it after port of Melbourne is privatised is of great interest to us, and we believe this needs to be dealt with up-front in the lease. Of course you will know that plan of Melbourne and the very strong development that is occurring in the west and the north of Melbourne, which is of course terribly important in terms of where the subsequent port would be developed, rather than it being at Hastings. We have done a lot of work on that last year.

Just simply urban development programs, and you will have seen, I hope, maps like this that show, in dark blue, industrial land supply. The hashed blue is industrial proposed land, and to the west and north of Melbourne this is very significant. To the south-east this is much less significant, but the expanse of Melbourne and these sorts of maps show we do have some very serious need coming forward. Where does that leave us in terms of shipping and landside issues?

First of all there is a really terribly important point that we emphasise at all times — that ships are sent to markets, not to ports. What a government policy says and government investment is does not mean that shipping companies will change their behaviour at all. They are commercial creatures, and they are sending their ships to the markets. In Australia that is to each capital city; it is not Australia per se, but each capital city. The next thing is that Melbourne is a very small market on the world scale. The third is that we are an end destination port on a national shipping system.

The CHAIR — Dr Parsons, I am just mindful of the time, and obviously the committee would like to proceed to questions as well.

Dr PARSONS — Sorry, I am nearly there. The shallowest port in the national system largely determines vessel size, so it is the shallowest port rather than having the deepest port that matters, hence our belief that the larger, larger vessels will not come. And in the future a larger class of vessels — we are saying up to probably 8500 — may well visit Australia's ports, including Melbourne, and that would be in circa 15 to 20 years. I think I might leave it at that point — or I will skip along quickly to our very last point.

The CHAIR — We have the slide pack if you want to talk to it.

Dr PARSONS — If I go to the last slide: we cannot afford to get privatisation wrong. We believe that is absolutely the point here. And my previous slide, which I zipped through: we believe that we have to rigorously assess this in terms of multigenerational impact. This is a very serious issue in our minds. We, as supply chain industry people, know that the smallest regional unit is national; it is not Victoria. Most of our businesses are national businesses in freight and logistics and supply chain. They have distribution centres across the various cities, and they will be making cost decisions about transport and about any extra cost that is imposed upon them.

So a business like Nestle in Altona or Laverton can well make a decision about if it will stay in Altona when the West Gate Bridge is very congested, or if it will move up to Craigieburn, where the congestion will have less impact on transport costs. Similarly, other businesses are deciding if they will stay warehousing in Brisbane or if they will look at investing in Moorebank in Sydney and doing their national business from there. We have to see national systems in all of this. We cannot see it as a Victorian issue with the port of Melbourne.

We do also come at everything as a whole-of-supply chain. The port is an important point, but it is only one point, and it can be got around if the costs are too high. So we are very strong about realistic assessments, realistic assumptions and also really testing those with peer review and that they would be independent. There ends the presentation.

The CHAIR — Thank you, Dr Parsons and Mr van Duyn. That is very helpful and obviously covers material that the committee has not previously received. So thank you very much for your presentation and submission. It is particularly useful.

Mr DRUM — That is the first time I have seen the actual detail and the figures behind capacity. We have had opinion from the Department of Treasury and Finance, and we have had opinion from the port. So where is the difference? Can you explain to the committee where the difference is in your figures and your calculations versus the calculations of others that are saying that capacity can easily get to 7 to 8 million?

Mr van DUYN — What I said before is that they are the international benchmarks. That is what ports across the world work on; that is how they build them. If they build a new port, they work on those figures. As I explained, it is not only the quay length, but it is also the size of vessel that will be coming to Australia. They will not be the massive ones, but they will be the bigger ones, which, especially for Swanson Dock, will create some issues. There is no doubt about that.

Mr DRUM — So how can the others be so far above your estimation?

Mr van DUYN — I do not know. I do not know what sorts of calculations they used. I have not been privy to that.

Mr DRUM — I mean, the difference that we are talking about is effectively the entire operation of the port as we see it today.

Mr van DUYN — Yes, correct. I must say that we had a forum yesterday and the Treasurer was talking more about 6.5 million now, while initially it was 8 million. So there seems to be some movement on that. But, as Hermione said, I worked for the Port of Rotterdam and I worked for 20-odd years as the general manager of all the container terminals for Patrick's, including the automated one, so I think I know a little bit about it.

Mr DRUM — Irrespective of when we get there, most certainly within the first third or the first half of this lease we will need a new port. The cost is somewhere around $12 billion to develop a greenfield site. There does not seem to be any way that that can happen or go ahead without government investment. Would you agree with that?

Mr van DUYN — Probably, yes, because it does not just need the port, it also needs infrastructure. It needs roads and rail. It is being done, but usually not these container terminals and usually not to the extent that you would be thinking about a whole new port. As Hermione said, most — 99 per cent — of the businesses that operate in the port are already privately owned. It is just that the running of ports in most countries is done by a state or federal government. For example, the city of Rotterdam is very proud of its port. It has a massive visitor centre in the port itself. It is even on TripAdvisor.

Mr DRUM — So if we just play this out, if the government accepts a lease arrangement where the capacity is levelled at 8 million TEUs per annum, in your opinion it is nearly impossible to reach that level. However, there is a need to develop another port somewhere in Victoria, and it just seems that compensation is going to be a necessity. If the government has to move to create further capacity or further trade within this state and yet we have not yet reached the agreed capacity within the port of Melbourne, where does any future government move in this space?

Dr PARSONS — I think I can go on to answer that and also one of the ones before too. The first thing is that the critical issue is what that number is in terms of compensation. If that number is 5.5 million, which we believe is realistic, then the compensation that would be paid is far less than the fictitious figure, which we believe is fictitious according to the maritime side, the quay line side. Possibly, in answer to your question, the 8 million capacity statement could be because it has been looked at from the landside perspective. If we had freight terminals and road and rail shuttling and a really great port system on the landside, then yes, I believe that a great deal more capacity is possible there. But in terms of the quay line and the maritime side, then, no, we do not believe so.

Our concern also is that we have always said that we believe the larger vessels probably could come. The larger ones that we are referring to are, say, 6500 to 8500 TEUs, then we get to the problem that Peter has just shown you in terms of the quay line issues and dealing with the east and west Swanson, not Webb Dock. But what we are talking about is that 8 million and what amount of compensation needs to be paid.

At the moment we are only at 2.2 to 2.5 million TEU, including Tasmanian freight. If we say 2.5 at the moment and we are looking at doubling it to about 5.5 — we are also looking at realistic forecasts on, say, 3 per cent and when that would actually come in — if the lease represents that picture, maybe the port and the privatisation will bring in far less cash, but future generations will not have to pay as much compensation. If we are saying 8 million, which we believe to be totally over the top — and I might also say that we have very, very strong industry networks and we are getting the very strong opinion that our views are being supported by very serious operators from all different parts of the supply chain — then if we were looking at that 8 million as realistic, I think we would be irresponsible if we suggested that was true. We truly do not believe that from all the work we have done.

The other question you asked was, 'Where is it from?'. I have only seen it in the last year or so. Previously I worked at the Port of Melbourne Corporation. I was in the government for five years, then the port for two years, and I have been at the institute for five years. In that time the capacity of the port of Melbourne usually was spoken of as 5.5 million TEUs, including the port capacity project. I came across the 8 million only recently — maybe it is because I have not read broadly enough, but I do not think so — and it was in an *Age* article quoting KPMG saying it was happy that it could now use that figure. If we could have transparency in this process it would be great to see the actual information that was used to build up that 8 million, and we would be happy to give you a peer review on it.

Mr DRUM — Sure, thank you. I have just one last question. What would you expect, just as a back-of-envelope time, to be the lead time when a government would need to start work on a second port before it was actually possible to start loading containers and using that second port?

Dr PARSONS — Given environmental approvals and the planning — I was involved in the channel deepening supplementary environment effects statement process, and that alone took a year to 18 months just to get the supplementary report through — I would say probably in a 10, 15, 20-year time line of needing a new port, we would need a good 10 years, I would say — 15.

Mr DRUM — Thank you.

Ms TIERNEY — I am quite interested in the presentation and in particular, given the evidence that we have received from Treasury and through our tour of the port, that the capacity, they say, is around the 8 million mark. I am wondering in terms of your work, say between the years of 2006 and 2009, what sort of work did the institute do in terms of capacity issues and port of Melbourne issues with the then state government?

Dr PARSONS — I took over as the director of the Institute for Supply Chain and Logistics in 2009, and our first project was actually the port of Melbourne container chain logistics study, which was also funded by the Department of Transport and the Essential Services Commission. That was a mapping of all containers to and from the port of Melbourne for a survey period of two weeks. The target was 25 000 containers. We were able to get 75 000 containers into the survey because we used a business relationships methodology. We had the operators, the stevedores, the importers, the exporters, the transport companies, the freight forwarders, customs, et cetera downloading their transactional information to us so we could accurately show the industrial geography of Melbourne according to container freight movements. We were able to show it by the container number, the type of truck, the route that it took, the type of container, the time stamp and the address. It was the most comprehensive piece of research so far undertaken that actually mapped the container chain movements through the port of Melbourne.

We also included in that study the research for all of Dynon, which is the interstate freight — it has nothing to do necessarily with the international freight — by rail and all of Bass Strait freight. We conducted that piece of research which basically underpins a lot of the work and all the forecasting that has happened since then. That was 2009.

Ms TIERNEY — Would it be true, though — to have it reaffirmed — that the previous government did have a policy overlay that did restrict the capacity of the port to 5.3 million?

Dr PARSONS — I do not know about that.

Mr van DUYN — We were not privy to that information.

Dr PARSONS — I am not privy to that.

Ms TIERNEY — In terms of what you say are restricted operational matters within the port, the turnaround of the vessels, have you had an opportunity to have a conversation with the port of Melbourne about what you consider to be those restrictions or limitations, given that when the committee went out to the port of Melbourne two weeks ago they took us through those issues and did not think that it would be a hindrance to the potential lease arrangements?

Dr PARSONS — We were not there. We have enormous respect for the Port of Melbourne Corporation. I worked there for two years and have great respect and fondness for the work I did at the Port of Melbourne and for the people who were there. I have enormous respect for their understanding. But we also have a situation where politics is involved in this too. One of the interesting things is looking at the governance relationships between corporatised statutory authorities and the state government and looking at a situation where the minister for transport is also in charge of the port as well as the state government department of transport. When I was working at the port I saw that tension that existed which meant that the free-flowing, good information was really not quite as possible as one would hope under a public sector. It is not putting it to the port or the state government; it is merely the governance and the tension that exists in that model. That is my personal and professional observation.

Ms TIERNEY — But you do say that there is increased capacity possible — significantly increased capacity — if there were greater road and rail linkages. Is that correct?

Dr PARSONS — No, I was saying, if you recall from our presentation, that we split it up between the landside and the maritime or the quay line. If you look at it in terms of the landside, I think great things are possible. My job at the Port of Melbourne Corporation was in creating the strategy for the landside of the port of Melbourne to 2035. With good freight terminals, good road, good rail, good shuttling, fabulous things are possible for the port of Melbourne, but we do have this serious impediment, which is east and west Swanson in terms of larger vessels like the 6500 to 8500 TEU ships.

Mr van DUYN — I will give you a small example. Currently for each container, when it has been discharged to when it goes out the gate or when it arrives at the gate and is being loaded on the ship, the average time at the container terminal is about three or three and a half days. So 100 times a year — 365 days a year — that particular container slot gets turned over. If you halve that time by moving it off the terminal quicker or you bring it in later just before the ship arrives, on that same plot you can double the capacity. That is not the issue. The landside is not the issue. In my humble view I think the vessel side is the biggest issue.

Ms TIERNEY — Can I ask a really simple question: why do you think DP World would have signed a lease for 50 years based on a 5 million capacity?

Mr van DUYN — As an ex-stevedore, I am astounded. I am absolutely astounded that they committed to that. I am not privy to the details. There might be some out clauses. To see that for the next 50 years they will have a terminal there, I do not believe so. But that is my humble opinion.

The CHAIR — Dr Parsons, the chairman of the ACCC, Rod Sims, has commented publicly around this transaction and effectively warned the government that seeking to maximise revenue up-front can be at the cost of the long-term interests of the Victorian economy with this transaction. Do you have a view on that?

Dr PARSONS — I agree.

The CHAIR — Why?

Dr PARSONS — We do a lot of work across Asia Pacific with APEC and ASEAN. We are doing a lot of work with different countries like Indonesia and port work, with whole-of-supply chains involved. What we are seeing all the time is a hungry world market that is looking at costs and anything to minimise costs for global competitiveness of supply chains and regions. The reason I think it is wrong in Australia is because I am very concerned that exporters and importers cannot afford the extra costs that are brought about because institutionalised arrangements, such as a port privatisation process by government, impose extra costs.

So I am wondering: if compensation has to be paid — that decision is made — and if compensation is through the warranted figure, and that figure is wrong and has to be paid, who is going to pay it? Realistically, usually, the payments are pushed onto the supply chain and pushed along the supply chain. We have many, many examples of where export businesses will say, ‘I can’t compete if I have to put an extra $100 on the cost of my transport’. Transport cost is a really big issue in supply chain and logistics. My concern is that if the compensation is too great and if a private company gets the value of that rather than the competitiveness that is built into our infrastructure to support exporters and importers going forward, then I believe that type of extra money could actually put our businesses at risk, and that is why I agree with him.

The CHAIR — You mentioned the compensation mechanism. Is there an incentive there for government to agree to a higher warranted level of capacity, with a view to creating revenue up-front, acknowledging that the compensation will be paid in 30, 40, 50 years time by another government in another environment, another generation? Does that mechanism open itself up to front-loading revenue today by setting the bar high, with someone else paying the compensation in a decade’s time?

Dr PARSONS — I will pass this maybe over to Peter in a minute. I am not a financial person. I am not a person who is adept enough to answer that. I can tell you what my layperson view is.

The CHAIR — Please.

Dr PARSONS — My layperson view is: it does not make sense to me as a society and as a public sector proposition. Yesterday we had a forum that involved a whole range of people, including K & L Gates and various merger and acquisition representatives — —

Mr van DUYN — Merrill Lynch.

Dr PARSONS — Merrill Lynch. They are people who can answer that question. The impact of their statements yesterday was that they were not supporting it and they could not see the sense. One comment was made that given the AAA rating maybe we should be borrowing the money rather than putting up that sort of compensation issue, but I am a total layperson in that regard.

Mr van DUYN — Hermione mentioned the example of the Port of Brisbane where one of the owners — there are four owners — bought it for $500 million and sold it three years later for $1 billion. That is a half a billion dollar loss to the taxpayer in three years. I come, like I said, from the Netherlands. We would not in a million years think about privatising a port. It is, like you said, the front-loading; you are paying 20, 30 years out. Depending on the financial arrangement — I am not privy to that — you end up paying probably a lot more than you would, as you know. You could borrow the money at 3 per cent, government bonds for 10 to 15 years, and do it outright. So my personal view is that, no, I do not think it is good, and it depends also where you set the limit. Like you said, at $8 million, and at $5.5 million the port is full, you end up being up for $2.5 million for compensation.

The CHAIR — But there is an incentive to set it at $8 million and get more revenue upfront.

Mr van DUYN — Yes, obviously you have to do a good financial calculation, and I am not experienced enough and privy enough to that particular kind of calculation. But, yes, front-loading is certainly being done. But I think the big issue is that in other ports, like in Brisbane, they have got the capacity to go out. I do not know, but you might be familiar with the Fisherman Islands set-up, where they can just keep going further out. In Sydney they have done a wonderful job. They tied up Port Kembla and Port Botany. They have plenty of capacity. On the waterside they have got about 5 kilometres worth of berth length, so that is $10 million on my calculation. Then they have Port Kembla’s overflow and they have stitched up Newcastle — no new container port unless you pay compensation.

As somebody said at the seminar yesterday, Melbourne is one of the more difficult and closer to capacity already on the waterside. That is one of the issues here, I think. Then you get the tricky bit. How do you incorporate? Maybe you should give the option to the new owner to start the new port? That is one of the suggestions. That is how they did it in Sydney. Then you will certainly front-load the sum paid.

Mr MULINO — Thank you for your evidence, Dr Parsons and Mr van Duyn. There is a lot of complexity around trying to figure out what is going to happen over the coming decades, and this is something which exists in all walks of life. On slide 7 you have set out a number of scenarios, and that is useful to set some outer bounds around what we think might be realistic. Is it fair to say that over the next two to three decades it is quite likely that the lowest cost for the state, for our economy, in terms of incremental TEU capacity, is going to be at the port of Melbourne rather than building a greenfields site — albeit that we all accept that at some point in the next few decades we will need to build a second port — but that the immediate steps over the coming 10, 20 years will be to facilitate investment at the port?

Mr van DUYN — Definitely. It is like striking the essence, and the stevedores would like that. But then at some stage the ships are going to get too big, and then you get those problems. Then when you do build the second port, which will be nice and new and big and the ships will be able to come in there, they are not going to call at Melbourne and the new port. That is the other issue. They are not going to go to two ports, so you could potentially lose a lot of that.

Mr MULINO — I just want to clarify: so we do need as part of our overarching arrangements to ensure that we have the right incentives for the lessee to invest over the coming 10 to 20 years. That is something I think we can all agree on.

Dr PARSONS — Yes.

Mr van DUYN — Yes, and a lot of that investment will be done by the private leaseholders.

Mr MULINO — I am just clarifying; I think we all agree on this.

Mr van DUYN — NSW Ports put a strategic plan out, and I think they are going to spend $30 million for the next 5 or 10 years — so not a lot.

Mr MULINO — I think this is stuff that is in your presentation. Given what DTF presented this morning in relation to the growth facilitation regime or compensation clause or whatever it is called by various parties — and I think this is consistent, Dr Parsons, with what you were saying — if we can agree on a sensible capacity for the port as the threshold, then my understanding from what you have said is that you would not have a problem with the structure of that arrangement per se because it would provide a bit more certainty and it would provide an incentive to invest if it was set at a sensible level, and that then would mean that compensation would not be payable if the second port was developed at a point when port of Melbourne reached a sensible capacity.

Dr PARSONS — I agree, and I also think that there is a very key incentive for the development of a new port — that is, the landside efficiency. The competitiveness of supply chains globally is increasing at an exponential rate, so what we need to be able to do in creating the infrastructure for our supply chain industries is ensure that we give maximum opportunity to sweat the asset, to be efficient, to be able to utilise very good, say, road and rail transport wherever it is possible — whatever is possible to make it more efficient and more productive. I think that is a huge incentive for a new port, but I agree with you, as you are saying, that both sides of government support privatisation, so my view is that this sort of a structure would work but the reasonableness of the figure is very important.

Mr MULINO — My sense is you are happy with the structure; what we need to work out is a sensible number and, as Treasury stressed this morning, there will be a bid-ability to that number, which is an important competitive tension. I think it is important to stress that what you are talking about is the number and not there being a clause per se.

Dr PARSONS — I would prefer, probably, that the new port was built into the lease so that the operator was going to be part of the new port going forward, because I think that would make them hungry. I do not want them to get any money because they are being compensated; I want them to have to work hard for it.

Mr MULINO — Just to clarify an additional aspect that DTF talked about this morning in relation to that clause, if a threshold was set and the clause was triggered, that would only arise if a second port was built and operated by the state and the state was gaining revenue from containers actually passing over. That is where the compensation would come from.

Dr PARSONS — I think that is a double dipping on costs though, because someone is going to have to pay; and who is going to pay for that?

Mr ONDARCHIE — The taxpayer.

Dr PARSONS — I have a problem with that description, as you have given it. If the figure is 8 million and we need a new port at 5.5 — —

Mr MULINO — But let us for a moment just say the figure is a sensible figure.

Dr PARSONS — Say it is 5.5 million, yes?

Mr MULINO — Let us say it is — —

Dr PARSONS — Or 5 million.

Mr MULINO — Just stepping back for one moment from disagreements about the figure, let us say we agree that the figure is a natural sensible capacity. Then the state would only be triggering that if it was actually obtaining revenue prior to the private owner reaching that level.

Dr PARSONS — Yes.

Mr MULINO — In a sense, the state would be gaining revenue from something it had built.

Dr PARSONS — Yes.

Mr MULINO — In a sense, before it made sense to.

Mr van DUYN — But it would gain the revenue anyway, because the container gross goes up so you would get the revenue anyway.

Mr MULINO — The question is when it should build that second port.

Mr van DUYN — The other thing is if you have these sort of issues where you are trying to reach this figure, in the meantime your supply chain costs could increase because it becomes less competitive. If it was a private consortium building a new port, they would make sure — in my view — they would draw away some of that volume from the port of Melbourne to their new port. They would incentivise that, because the container industry is a volume industry. The sunk costs are very expensive, with, you know, your cranes, the hard stand, all that. So if you get a lot of volume through it, then that makes sense.

Like I said, ships through the Melbourne market are not going to call at two ports. That is one of the big problems. Even if you did set it, as you say, at a reasonable level, 20 years down the track you might draw some of that volume away from the port of Melbourne. The capacity then, or the throughput then is, say, 4 million and the figure was set at 6, you would still end up paying the 2 million in compensation — or whatever you want to call it — for that 2 million gap. Unless I see it wrong; I am not privy to some of the detailed documentation that DTF has.

Mr MULINO — A final quick one, does it provide you with comfort that this arrangement would only be triggered if the other port was fully operational? It does not preclude any development planning and does not preclude the state undertaking works well in advance of that second port being needed?

Dr PARSONS — No, it does not.

Mr BARBER — Back to your slide — international benchmark. You say that the port of Melbourne currently has 2500 metres of quay line, including Webb Dock. On the front of their website they say they have 7 kilometres, but presumably you are talking about quay line that is available for containers. Is that the difference?

Mr van DUYN — Correct.

Dr PARSONS — Yes.

Mr van DUYN — A lot of the other quay line is for dry bulk, liquid bulk —

Mr BARBER — Cement plants and whatnot.

Mr van DUYN — roll on, roll off; automotive. They are going to build a beautiful new wharf or are in the process of building a beautiful automotive facility at West Webb Dock. That is about a kilometre — —

Mr BARBER — Could some of that be used for containers if that becomes the driver?

Mr van DUYN — The backup land there is very narrow, so it would not work all that well for containers, and the other thing is we have just negotiated a 25-year lease to a new leaseholder to put a lot of infrastructure on that wharf, so you would have to wait 25 years unless you want to pay out the new leaseholder before he has started. But, as I said, it is still an issue because the backup land is too narrow for a proper container terminal.

Mr BARBER — The 2200 TEU per metre of quay line, you say that is an international benchmark.

Mr van DUYN — Yes.

Mr BARBER — Do you know what the port is doing now with its existing available — —

Mr van DUYN — Depending on what dock it is, but East Swanson Dock is about 1.1 million TEUs or 1.2 — it varies a little bit — over say 900 metres. So what is that — 1300 a metre. So there is still a bit of a gap to go.

Mr BARBER — What is the best in the world? Presumably a Dutch port?

Mr van DUYN — There was a terminal in Hong Kong, which was a designated terminal for a designated shipping line. It was 300 metres long and it did 3000; it did nearly 1 million TEUs per year. Behind the terminal they had a multistorey building where they stored all the containers, but that was CSX, which is the old Sea-Land Orient terminal.

Mr BARBER — Treasury has given us a nice chart this morning, showing an orderly and systematic, and presumably transparent, increase in capacity. You are suggesting that eventually it hits a hard limit due to the quay line length and that those improvements, if they do not jump up in one big lump, which will be the new development, must be to do with landside developments. Can you guess what it is that that chart is meant to illustrate?

Dr PARSONS — I think the chart has a few problems with it, as I see it, but I am just looking at it very quickly here. It looks like it is in five-year increments, but we do not have a proper scale on the Y or the X axis, but let us say the first green block is now, we should be on about 2 or 2.5 million; it looks like it is more on 5 million or 4 million, so I see that this shows a very small step between each stage, whereas, in fact, it is a very remarkable step if, particularly the fifth block, is 8 million. The first block should be one-quarter of the size of the eight, so diagrammatically I have a problem with that.

The next thing is that we are seeing that the new port would be required, say in 15 to 20 years at 3 per cent — I say 20 years at 3 per cent growth — so that means that the new port would actually have to be coming in and be operating at that point. Peter's point about ships do not call at two-port ports is terribly important. It is a really important point that needs to be built into this chart, so you cannot be a little bit pregnant with the port. You have to have one or the other — would seem to be the way that we view it.

There is the notion of overflow, but if you are going to have proper port operations, you would be looking at one versus you would not be having two in close proximity. Am I right?

Mr van DUYN — Yes, and the new port, be it at Hastings or at somewhere west of Melbourne, will be able to have the larger ships more easily facilitated.

Mr BARBER — The cost of adding those increments — we are told that a brand-new port would cost double to add per unit of capacity. We hear that these people who developed Webb Dock have paid eight times what everybody else is paying for their rent. It is not particularly transparent to us, is it, the cost of adding each of these increments?

Dr PARSONS — You would be better, very quickly, to dispel the Webb Dock issue, by your opinion.

Mr van DUYN — Rumour has it that they paid about $70 to $80 per square metre; currently Patrick's and DP World are about $18 — so they paid well over the odds and the main reason to do that was to get the concession. It is as simple as that; and then, whoever thought of it, thought, 'That is a good idea, we will now raise DP World's rent by 700 per cent because that exceeds the ICT side of the new developer.

What has happened now, by this arrangement with DP World where they go up in the next eight years from 18 to the first two years at CPI, and then after that it goes to 45 per square metre, that puts the new operator at Webb Dock at a severe disadvantage and I am sure they will be knocking on Treasury or whoever's door, to say, 'We are at a severe disadvantage here'. But the problem then is that if you do say, 'You went into that with your eyes open, that is what you bid. If you now want to renegotiate, we will have to reopen the bidding process'.

Mr BARBER — What if some lunatic comes in and pays too much for the whole of the port? What impacts does that have when it comes to them assessing the rate of return on each increment of capacity?

Mr van DUYN — They will try to flog it, and that has happened with other privatised organisations, where Reiss and Deutsche sold Maher Terminals in New York in the US, at a loss.

Mr BARBER — I have a final quick question. In your last slide, where you have various dot points of what is needed to be worked out, can I take it from this that you are saying that to your knowledge none of these things has been done or done adequately?

Dr PARSONS — With the final slide I would say that I believe that people who are working in this area are doing their best. What I would say, too, is that the last five years of port discussions have been extraordinarily difficult, because we have talked about another port at Hastings, we have been talking about all sorts of other issues. We have been talking about road, rail and multimodal efficiencies that are required. It is a very complex area. If I can say also that one of the things that I really value is when people do, like government people, start really opening their minds to test things. Already, just yesterday, Minister Pallas was actually testing that thought of 8 million and we were talking about 6.5 to 7.5 million, and that was in a public address. I think that is something to be congratulated, because it is a complex area and forecasting, according to Taleb, is a very tricky thing. If we were good at forecasting, we would all be probably a lot happier maybe than we are at the moment in terms of the world. Forecasting is tricky, but what we need to do is to absolutely test and have the transparency, and I think that is what society requires: it is the transparency. If this KPMG report says 8 million or there is a figure of 8 million, let us look at it. Let us be able to look at that and actually discuss it.

Mr van DUYN — It might be proven wrong.

Dr PARSONS — Maybe; and we will say, if we are wrong, we are wrong. But at the moment, we cannot see it, so I think that would be a very positive step to being able to continue to contribute. What we saw in the last few years around a separate issue — but it still is the port and the next port — was fly-by-night thinking. We saw people grabbing and clutching at different ideas that were not pragmatic or assumptions tested, and when we did apply a pragmatic or assumptions-tested view we were able to dispel the thinking very quickly. I believe that the last few years have been a complex time in port and port planning because of the different political perspectives and hopes for Hastings et cetera.

'The timing of capacity constraints' — that is forecasting, so rubbish in, rubbish out. We happen to be rather good at really bringing in good information, good, commercial, clear information where we test and test and retest our assumptions. 'Realistic assessments of future vessel size' — we can do that if we apply our thinking. But in a way the debate has been so polluted with nonsensical thinking: the mega-ships are coming; 18 000 TEU vessels; that we will have the biggest port in the world, when we are a tiny market and ships are sent to markets, not to ports. We have had so much of that clutter. So by way of saying it is time to declutter the thinking, to make it transparent, so we can make sure that we have got this pragmatic thinking in there, I certainly think that we need to break it down. Our first slide was: what is being privatised here? Is it landside, is it waterside or is it the rental — the landlord — land? I think we need to apply the thinking. Certainly whole-of-chain thinking has to be there, because that is absolutely about cost. So I would agree, I do not think that is in there it all.

Mr BARBER — So I should not vote for this bill until I have seen a bit more information in that regard?

Dr PARSONS — Whole-of-chain thinking is pretty important. If you consider a grain grower from down Geelong way — and you could bring him in; I am sure he would be delighted to talk to Riordan — here we are speaking about a container of freight that would move from his place near Geelong, his farm near Geelong, to the port of Melbourne, versus going to Hastings. That one extra trip for him would cost an extra, I think, $250 per container. That puts him out of the grain export market. We do have to have costs built into our thinking.

The CHAIR — Dr Parsons, I am just conscious of the time. I would like Mr Purcell to have an opportunity in the last couple of minutes.

Mr PURCELL — I will just be very quick because I do know we are out of time. I will start by thanking you for that, because it actually put a bit of meat around some of the thoughts that we are having, particularly the quayside factor in capacity. Whether it is right or wrong I do not know, but at least you put it there, and now it can be challenged. There is something there that can be challenged, and a lot of that is in the same boat. One of the issues, though, that comes to me, and you may or may not be able to answer it, is: the government and the opposition both went to this election to privatise the port. Other than the financial — quick money in the pocket — is there any other reason you see that would be in privatising the port or leasing it or selling it or whatever?

Mr van DUYN — In my view, not really. Capital city ports — Melbourne, Sydney, Brisbane — are a monopoly position, and if you do go out with a private lease, at least make sure there is proper oversight by either ACCC or ESC. But I hope, especially being a bipartisan select committee, that it does not become a political football, as it has been for quite some time now, and that if it does go out, that we reach a good outcome for the exporters and importers and the taxpayers of Victoria. Just quickly on Hermione's forecasting, a lot of the forecasting has been sort of 6, 7 per cent growth, and then we had the GFC, and a lot of it has not been readjusted. A lot of stuff that used to go in bulk, not in container, now goes in containers. But that has sort of levelled out. Even the biggest shipping line in the world, Maersk, has admitted that. Offshoring — you know, manufacturing going offshore — that has sort of been slowed down, and maybe 20, 30 years from now we might have 3D printing where we print it at home.

Dr PARSONS — If I can say a final point to that as well — because I know the time. Over the last few years I think one of the criticisms that the industry has had about government is that implementation has not occurred. Our industries, supply chain industries, actually need investment in infrastructure. We actually need a new port in about 15, 20 years. Watching the way public sector complexity works over infrastructure projects, I think we need to get a wriggle on. It would seem to me that both sides of government agree to this privatisation. I played Monopoly as a kid, and you never got rid of your utilities, but that was when I was a child. Both sides of government have agreed. In coming here today what I would like to do is to suggest that it has been decided it is to be privatised; I think there is some productivity increase in reducing level crossings, I think there is sense in traffic with that, but really the freight infrastructure, the freight industry, needs it.

I am very concerned about what is happening in New South Wales and in other parts of the country where governments are investing and have been investing, and national businesses will add up all the costs and work out where they are going to send their freight. Moorebank is a game changer in my view. My view would be even though I would love whole-of-supply-chain testing on any assumptions — we can do that quite quickly; any consultancy can do that quite quickly to support what you need — but I do think we need to make clear decisions that are really sensible in terms of extra payment going into other generations of cost, because those businesses cannot afford it. We have to reduce our cost of business, not increase it, in global markets.

The CHAIR — Dr Parsons, thank you very much for your evidence, and Mr van Duyn. We appreciate your presentation and your testimony today. Are you looking to make a written submission to the committee? Have you given thought to that?

Dr PARSONS — We will do so.

The CHAIR — Thank you for your time this morning and afternoon.

Witnesses withdrew.