

## Submission to the Legislative Council Select Committee - Inquiry into the proposed lease of the Port of Melbourne

### **Terms of Reference**

On 5 August 2015 the Legislative Council agreed to the following motion:

A Select Committee of eight members be appointed to inquire into and report on the proposed lease of the Port of Melbourne as contemplated by the Delivering Victorian Infrastructure (Port of Melbourne Lease Transaction) Bill 2015 and, in particular —

- a. the structure and duration of the proposed lease;
- b. the potential impacts of the proposed lease on the development of a second container port in Victoria;
- c. the potential impacts on the environment of the further expansion of the Port of Melbourne;
- d. the 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;
- e. the effectiveness of the proposed regulatory framework in dealing with the transfer of a monopoly asset from the public sector to the private sector;
- f. 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; and
- g. any other relevant matters.

The City of Greater Dandenong welcomes the opportunity provided by the Legislative Council Select Committee of the Victorian Parliament to provide a submission to its inquiry into the Victorian Government's proposed Port of Melbourne leasing arrangements.

In particular, the City of Greater Dandenong will focus its submission on terms of reference:

- b. the potential impacts of the proposed lease on the development of a second container port in Victoria; and
- d. the 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.

## **The Port of Melbourne lease arrangements must allow for the development of a second container port for Melbourne**

The City of Greater Dandenong has monitored the Victorian Government's policy of effectively privatising the Port of Melbourne through a long term lease arrangement. The City of Greater Dandenong is seeking to prevent a situation where the terms of the lease or contractual arrangements for the Port of Melbourne:

- prohibit the development of a second container port for Melbourne
- prevaricate the timely planning, development, construction and operation of a second container port for Melbourne
- prevent the possibility of the transfer of trade from the Port of Melbourne to Hastings in the interim period (before Port of Melbourne reaches its maximum capacity).

Clear and effective safeguards, in keeping with Government pronouncements about its intent in framing its *Port of Melbourne Lease Transaction) Bill 2015* now before the Victorian parliament for consideration, are necessary to mitigate against the risk of unwanted impediments to the detriment of good ports policy for Victoria.

To this end the City of Greater Dandenong seeks the following to be enabled through policy, legislation and contract:

- A process to determine the site of a second container port for Melbourne
- Identification of a development timeframe for a second container port
- Selection of an agreed trigger point to commence planning and development of a second container port
- Allowance for the transfer of trade from the Port of Melbourne to other ports during the life of the lease
- A regulatory regime that ensures port charges are justified and minimised.

## **Ensuring a second container port for Melbourne is ready when needed**

### **The consequences of not having a second container port ready for overflow capacity from the Port of Melbourne**

A report prepared for Melbourne South East and the Southern Melbourne and Gippsland RDAs by GHD<sup>1</sup> warns of the economic cost to Victoria of not having sufficient port capacity available to take on the surplus trade from the Port of Melbourne when it reaches its maximum throughput.

In examining the economic benefit of the development of a second container port for Melbourne – in this instance to be developed at the Port of Hastings – GHD made the following findings:

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<sup>1</sup> PORT OF HASTINGS ECONOMIC IMPACT ANALYSIS A report prepared for Melbourne South East and the Southern Melbourne and Gippsland RDAs, GHD, November 2013

*'The Port of Melbourne is the largest container port in Australia, handling around 35% of the nation's international container trade. Melbourne itself is the focal point for the Victorian transport and logistics supply chain with a critical mass that decreases transport costs and subsequently improves the international competitiveness of Victoria's business.*

*Victoria requires sufficient port capacity to maintain its national and international competitive advantage. By implication, any disruptions to freight and transport operations – such as reduced container capacity at the Port of Melbourne - could have a serious downward impact on the economy. The issue is likely to be the timing of the construction of any alternative port, and the timelines involved in preparation and planning which can take more than a decade.*

*Given that the Port of Melbourne is predicted to reach container capacity by 2025, not proceeding with the Port of Hastings has the possibility to delay the provision of sufficient port capacity to match future demand. Victoria runs the risk of either losing its strong logistics position, or being a constraint on national logistics efficiency, as other ports along the east coast of Australia will increase their capacity to accept containers.*

*Additionally, the consequence to the economies of Victoria, Melbourne South East and Gippsland of not having sufficient container port capacity available when the Port of Melbourne reaches full capacity would be severe. By 2035, there would be a negative impact to Victoria's GSP of \$2.2 billion and a loss of 4,800 jobs'.*

The Victorian Government must protect the Victorian economy and our employment market against such a risk.

A clearly and publicly articulated process for the siting, development and timing requirements of a second container port for Melbourne must be addressed as part of the Government's and the Victorian Parliament's deliberations on the Port of Melbourne Lease Transaction Bill.

The intent in developing and clarifying such a process is to allow the Government to provide certainty to potential lessees of the Port of Melbourne, whilst still meeting the requirements of a growing and competitive Victorian economy, ensuring the logistics and transport efficiency and capacity our industry needs.

This will ensure the Victorian Government can both comply with the terms of the Port of Melbourne lease contract and legislation, and take the necessary measures and investment to provide a seamless increase in container handling capacity by other port facilities serving Melbourne when the Port of Melbourne reaches its maximum throughput.

### **A process for a second container port for Melbourne**

The City of Greater Dandenong has identified the following components necessary to the timely provision of a second container port, ready to accommodate the growing trade when the Port of Melbourne reaches its maximum capacity:

### 1. Infrastructure Victoria to determine site for Melbourne's second container port

*'Infrastructure Victoria will provide independent advice to the government on the best location for and timing of a second complementary port.'*<sup>2</sup>

Hon Tim Pallas MP, Treasurer

As per stated Victorian Government policy, Infrastructure Victoria should be commissioned to advise on the preferred site for Melbourne's second container port.

Infrastructure Victoria should ensure its assessment of all options are conducted on a like for like basis, with all evidence and supporting argument, data and information for each option made public through a submission and review process open to stakeholder input.

Rationale for selection of preferred site, including benefit/cost ratios to be made public.

### 2. Infrastructure Victoria to assess the timeframe for development of a second container port

Further to Infrastructure Victoria's work in recommending a preferred site, it should also be commissioned to advise on the timeframe necessary from outset to completion for the planning and construction of the port, and necessary infrastructure upgrades to support operations.

A ten year plus timeframe has usually been cited for the development of a second container port at Hastings, together with the necessary infrastructure upgrades.

KPMG's 2014 Project Blue scoping study for the previous Victorian Government suggested that:

*"the lead times required between the (development of the business case) and the commissioning of stage 1 of the port development could be up to 9 years..."*<sup>3</sup>

### 3. Commencement of second container port development to be triggered by Port of Melbourne capacity assessment.

*'The ability for Victoria to maintain efficient container port capacity is critical to growing Victoria's employment and maintaining our economic growth. With the impending lease of the port of Melbourne and the development of Webb Dock through the port capacity project, the government very much has time to determine the best option for a second container port. Development of the second container port will be demand driven, with timing determined when the port of Melbourne reaches capacity.'*<sup>4</sup>

The Hon Luke Donnellan MP, Minister for Ports

<sup>2</sup> Victorian Parliament Hansard, 5/8/15, <http://hansard.parliament.vic.gov.au/isysquery/975cb1a7-fd1f-4cfa-921f-77135e11bb0f/1/doc/>

<sup>3</sup> Project Blue Scoping Study, KPMG, March 2014, pg 61.

<http://www.portofmelbourne.vic.gov.au/wp-content/uploads/2015/08/KPMG-Scoping-Study.pdf>

<sup>4</sup> Victorian Parliament Hansard, PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE Inquiry into Budget Estimates 2015–16 Melbourne — 22 May 2015, pg 3

Infrastructure Victoria should be further empowered to develop an accepted methodology to validate the annual performance and future projections for the Port of Melbourne against an agreed capacity figure.

This should provide a conservative and informed guide to the projected period in which the Port of Melbourne will reach its capacity, and allow – by working back – for a second container port to be ready to come on stream at that point.

For instance, through its annual reviews and updated forecasting, Infrastructure Victoria may determine that the Port of Melbourne will reach 90% of its capacity in 2032 (the previous Government was forecasting the Port of Melbourne would reach a maximum 5.3m TEU capacity in 2035). If it had suggested a 12 year timeframe necessary for the planning and construction of a second container port, it would recommend the Victorian Government commence the works program for the second port in 2020.

Clarification, by an independent body like Infrastructure Victoria, of the Port of Melbourne's actual capacity is also required, given the uncertainty that currently prevails around this.

KPMG's Project Blue Scoping Study states that "there are a range of views about the potential to expand the capacity of Port of Melbourne even further than 5.3 million TEU per annum,"<sup>5</sup>

We note that industry experts have also questioned whether currently proposed expansion works for the port of Melbourne will adequately cater for forecast demand in the mid-term. ANL, the Port of Melbourne's biggest user suggests that '*previous studies have shown the Port of Melbourne will experience significant capacity constraints by the mid 2020's even with the extra capacity of the new container terminal at Webb Dock.*'<sup>6</sup>

## Transfer of trade to a second port

The City of Greater Dandenong notes the Victorian Government's commitment that 'there will be no compensation from the State for the relocation of trades other than international container trade'<sup>7</sup>.

To facilitate the most efficient usage of the Port of Melbourne, it is crucial to ensure that provision is available for the Port of Melbourne's lessee, the Victorian Government and operators of other Victorian ports are able to make 'as required' agreements on the transfer of trade from the Port of Melbourne to other ports either on a short or long-term basis.

This may reflect changes in profile and quantum of demand for varying types of trade, and the economic, financial and operational 'best fit' of trade across Victoria's port capacity.

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<sup>5</sup> Project Blue Scoping Study, KPMG, March 2014, pg 3.

<http://www.portofmelbournelease.vic.gov.au/wp-content/uploads/2015/08/KPMG-Scoping-Study.pdf>

<sup>6</sup> <http://www.anl.com.au/news/243/anl-press-release-aug-2015-port-of-melbourne-lease-bill>

<sup>7</sup> Leasing the Port of Melbourne, Frequently Asked Questions, DTF website viewed 7/9/15

<http://www.dtf.vic.gov.au/Infrastructure-Delivery/Leasing-the-Port-of-Melbourne/Frequently-asked-questions#Whenwillasecondportbeneeded>

The legislation and contractual arrangements should allow the option for trade to be moved from the Port of Melbourne to an alternate port, by agreement between the relevant parties, at any time during the life of the arrangements with the prospective lessee of the Port of Melbourne.

## **Regulation of Port of Melbourne charges**

Business operators across industry sectors in the Dandenong and south eastern region of Melbourne are concerned about the possibility of the onflow of price increases at the Port of Melbourne under the new lease arrangement.

If not kept to a minimum, rising freight and logistics costs could have a material impact on the competitiveness and profitability of many Victorian businesses.

The City of Greater Dandenong notes and welcomes the Victorian Government's commitment to:

- impose a CPI price cap for at least 15 years, to be monitored by the Essential Services Commission
- strengthen the ESC's regulatory arrangements so that the leaseholder will set prices in accordance with clear and transparent pricing principles contained in a Pricing Order, and
- the scope of regulated charges will be expanded to cover all trade charges for cargo and shipping movements.

## **Safeguarding Victoria's future ports capacity – Port of Hastings**

The City of Greater Dandenong has long supported and argued for the Port of Hastings as the site for Melbourne's second container port.

A second container port at Hastings would deliver thousands of jobs over a ten year period of planning and construction, and once at full capacity would sustain well over 15,000 additional jobs.

Failing to develop the Port of Hastings as Melbourne's second container port would risk thousands of jobs and Melbourne's strategic position as a freight and logistics hub. This would ultimately cost the wider economy through flow-on effects to transport costs, import and export expenses, and lost expertise from Victorians who move interstate to the port that fills the demand.

Developing the Port of Hastings would allow further investment in transport and freight infrastructure across the state and would lead to increased transport linkages with the 21 per cent of Victoria's workforce already in the South East Melbourne region.

Dandenong is already the number one Port of Melbourne destination and is also an important distribution centre for interstate export. As Victoria exports 18 per cent more interstate than it imports, Port of Hastings is ideally located to integrate with Victoria's existing manufacturing and logistics sector to promote Victoria's export industries.

The community of Melbourne's South East and regional business leaders are eager for port progress and predict Port of Hastings development would cause a job surge and exposure to new markets and industries.

### **The economic importance of Melbourne South East and Gippsland**

- Melbourne South East is the single most important region in metropolitan Melbourne for imported products.
- Dandenong is the number one Port of Melbourne destination and an important exporter.
- The region is also the single most important area in Melbourne for domestic trade with Tasmania (both inbound and outbound).
- Melbourne South East is the foremost contributor to Victoria's economy providing:
- A Gross Regional Product (GRP) of \$63 billion, representing 19% of Victoria's Gross State Product (GSP);
- 513,000 full-time equivalent jobs, employing 21% of Victoria's workforce;
- A manufacturing industry that employs 101,000 full-time equivalents.
- Nearly all of Gippsland's containers directly shipped through the Port of Melbourne are for export goods originating from the Latrobe area.
- The Gippsland region also offers considerable potential for growth in containers if timber and grain were to be exported as containerised goods.
- Victoria is the largest food and fibre exporting state earning around \$9 billion each year
- Victoria exports some 18 per cent more loaded pallets to other parts of Australia than it imports. All other states except NSW, are net importers of palletised goods, (and even NSW exports only approximately four per cent more than it imports).
- Victoria's freight and logistics sector contributed between \$19 and \$23 billion (approximately eight per cent) of the state's total economic activity in 2011.
- Over the period 2006-2011, the population of Melbourne South East increased by 8% from 1.34 to 1.45 million representing an annual growth rate of 1.6%, and the number of employed local residents increased by 10% from 621,000 to 685,000. At the same time, the number of local jobs increased by 4% from 512,000 to 531,000.

### **A second container port – right for the region, vital for Victoria<sup>8</sup>**

The economic benefits of a development at Port of Hastings include:

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<sup>8</sup> GHD | Report for MSE, RDA Southern Melbourne & RDA Gippsland – Port of Hastings Economic Impact Analysis, November 2013

- There will be multiplier effects in terms of economic, business and employment benefits across the entire Victorian economy.
- An indicative public capital investment for port and related infrastructure, covering the full development, of around \$10 billion (in 2013 dollars); an estimated \$9 billion will be spent in the Victorian economy with around \$3.6 billion in Melbourne South East and Gippsland.
- There will be an additional estimated \$6 billion in largely private investment for all surrounding trade growth related assets and infrastructure. In the short term during the construction phase
- The Victorian Government's *Freight and Logistics Plan Victoria: The Freight State* identifies that "savings from lower transaction costs due to efficient freight and logistics in turn flow through to productivity gain across the economy".
  - The Plan estimates that the flow on benefits could be an average of **15% in addition to direct transport costs**.

#### Construction phase

- Local capital expenditure during construction phase and related infrastructure will result in:
  - A beneficial economic impact of an average of \$60 million per year in Gross Regional Product (GRP) over a 30-year period;
  - An average 400 jobs/year over a 30-year period.

#### Ongoing operational benefits

- Ongoing operational impacts for the economy of Melbourne South East include benefits of:
  - \$1 billion/year in GRP in the mid-2030s, rising to \$3 billion/year in GRP in the early 2050s
  - An additional 5,700 jobs by the mid-2030s and 15,200 jobs by the early 2050s.

## Conclusion

The City of Greater Dandenong has long been on the record as a supporter of a second container port for Melbourne being developed at the Port of Hastings.

Such a development will have real economic benefit by ensuring Melbourne's industrial heartland across the south eastern suburbs has efficient and effective freight and logistics services and infrastructure to enable it to remain competitive, and to sustain jobs growth, in a global and uncertain economic environment.

Whether a second container port is developed at the Port of Hastings or at an alternative site, critical to the broader Victorian economy and prosperity is ensuring that Melbourne has a well planned port capacity that meets demand in a timely and cost-effective manner, and will be expanded to meet forecast growth in trade seamlessly across multiple facilities.

The Port of Melbourne Lease Transaction Bill 2015, the ensuing contractual arrangements and broader Victorian Government ports and infrastructure policy must all work to realise the best outcomes for the state.



The process put forward by the City of Greater Dandenong in this submission makes the necessary provisions for decisions on the siting, development and timing requirements of a second container port for Melbourne, without inhibiting the financial value or operations of the Port of Melbourne to the State and potential lessees.

It provides certainty for all parties, a clear decision-making framework for Government and caters for the myriad of planning contingencies inherent in such major infrastructure provision.

We would welcome the opportunity to speak with the Legislative Council Select Committee about our submission, and are happy to provide any further information the Committee may require.

Yours sincerely,



John Bennie PSM  
Chief Executive Officer