



Presentation on behalf of South East Melbourne Councils

Legislative Council Select Committee Inquiry into the proposed lease of the Port of Melbourne

Introduction

Thank you for the opportunity to present to this important inquiry on behalf of the South East Melbourne councils and to answer questions from the Committee. In making this submission, I am representing the cities of Kingston, Casey, Greater Dandenong and Frankston and the Shires of Mornington Peninsula, Cardinia and Bass Coast. I will be confining my comments to matters that are of a regional nature and will not be in a position to answer questions that relate specifically to individual councils other than the City of Kingston. In order to provide some context we represent an area from Mentone to Portsea and Cockatoo to Inverloch, over 3600 square kilometres, home to over 750,000 people.

Economy of South East Melbourne

As a region, South East Melbourne is one of the foremost contributors to the Victorian economy providing:

- a Gross Regional Product of \$63 billion, representing 19% of Victoria's Gross State Product; and
- 513,000 full-time equivalent jobs, employing 21% of Victoria's workforce including the strategically important manufacturing sector that employs 101,000 full-time equivalents.

South East Melbourne is also the single most important destination for import containers through the Port of Melbourne with export containers also being significant. Consequently, the efficient operation of the Port of Melbourne is fundamental to the competitiveness of our regional economy.

Regulation of Port of Melbourne Pricing

While it is accepted that there is 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 competitive markets. 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 the Essential Services Commission. Such a requirement would go a long way to counter concerns over the possibility of price gouging and rent seeking.

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 over-invest due to inappropriate pre-determined 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 leasee 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 pre-determined 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.