

State Development - Inquiry into Port Infrastructure

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The Hon Tony Burke MLC
Chair
Standing Committee on State Development
Parliament House
Sydney.

Dear Mr Burke

Inquiry into Port Infrastructure

As foreshadowed in my email of 23 January 2004, attached is a submission by Australian Business Limited on the issues raised by the Inquiry.

Please let me know if we can further assist in the work of the Inquiry.

Yours sincerely,

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**Submission to the
Legislative Council Standing Committee
on State Development Inquiry into Port
Infrastructure in New South Wales**

FEBRUARY 2004

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INTRODUCTION

Australian Business Limited (ABL) represents over 19,000 businesses, the majority of which are located in NSW. All sectors of commerce and industry are represented, especially manufacturing and the services sector.

Through affiliations with the Hunter and Illawarra Business Chambers, ABL brings to bear the interests of member businesses across the State in considering the future of sea freight transport through NSW ports.

ABL is a service provider to exporters and importers through:

- its partnership with Austrade
- delivering the Commonwealth Government's Tradestart program for first-time exporters,
- delivering Trade Consulting services, including export market research, analysis and advice to expand the export capability of individual businesses; and
- providing export documentation.

Scope of this Paper

ABL welcomes the concept of planning for the growth of sea freight to service NSW and the Ports Growth Plan is a good start.

More work is required to add substance to the bare outline that the NSW Government's Ports Growth Plan represents. At this preliminary stage in the development of the Plan, this paper is restricted to identifying principles and outcomes to guide further research, analysis and the distillation of detailed recommendations.

WHY A PORTS GROWTH PLAN IS NEEDED

The NSW Ministry of Transport summarises the need for a Plan as follows -

'NSW is dependent on international trade for economic growth.

Port infrastructure requires significant levels of investment and long lead times.

Industry needs to plan for structural adjustments. It is therefore important Government initiates planning now to ensure timely delivery of new capacity.

With the global move to containerised trade in 1970, the NSW Government established a long-term containerised trade strategy.

A new terminal was constructed at Port Botany, and commenced operations in 1979. The original plan was to construct four terminals at Port Botany, and initially two were constructed at the Brotherson Dock complex, containing a total of 7 berths.

Construction of a third runway at Kingsford Smith Airport in 1994 curtailed the ability to achieve the original 4 terminal complex at Port Botany.

The original concept for the existing Brotherson Dock at Port Botany was a capacity of 650,000 TEUs (twenty foot equivalent units), based on the equipment and work practices of the 1970's.

In the current year, the complex is likely to handle in excess of 1.1 million TEUs.

Today's equipment, ships and work practices allow this larger capacity. For example the largest ships visiting Port Botany have capacity for over 4,000 TEUs. On other international trading routes ships already have capacity for 7,000 to 8,000 TEUs.

Failure to plan for port growth would lead to uncertainty for industry, employment and regional development with unsustainable pressure building on Sydney Harbour and Port Botany.

The Ports Growth Plan introduces certainty for future port development.

The Plan will distribute the benefits of port growth more equitably between Sydney, the Hunter and Illawarra regions of NSW, provide long term capacity for containers, bulk goods and general cargo and enhance the economic efficiency of New South Wales' ports.¹

CURRENT STATE OF SEA FREIGHT TRAFFIC INTO AND THROUGH NSW

This has been well summarised by the NSW Ministry of Transport as follows

'Containerised Goods

- Since 1970, containerised trade through NSW ports has grown at an average rate of 7% per year, achieving throughput of 1 million containers or TEUs in 2000.
- In 2002/2003 containerised trade through Sydney Ports grew by 15% to 1.16 million TEUs.
- NSW containerised trade is dominated by the import of consumer goods to service (predominantly) Sydney's population of 4.15 million.
- At current growth rates NSW will need to handle in excess of 3 million TEUs per annum by 2020 - 2025.
- The economic efficiency of global containerised trade is dominated by scale efficiencies for international shipping lines and stevedoring operations.²

Sydney Ports Corporation notes that Container Terminals in Sydney Harbour will close although a 'working harbour' will remain, as container volumes in Sydney Harbour have dropped from more than 100,000 TEUs to less than 50,000 TEUs in the last three years.

¹ NSW Ministry of Transport Ports Growth Plan Summary, www.transport.nsw.gov.au, Nov 2003

² Ibid

Subsequent to the announcement of the Ports Growth Plan, P&O have closed their container operations at White Bay moving them to shared facilities with Patricks at Darling Harbour.

General Cargo Stevedoring

The Ministry of Transport summary of the current state of sea freight continues

- 'The two major stevedores, Patrick and P & O, operate general cargo terminals at Darling Harbour and White Bay (White Bay now closed) in Sydney Harbour.
- Vessels calling to Darling Harbour and White Bay (White Bay now closed) predominantly have "mixed" cargoes of containers and break-bulk cargo that cannot be cost effectively stevedored at the major Port Botany container berths due to a combination of irregular shipping timetables, and specific equipment and storage requirements.
- The stevedores have indicated a preference to relocate their existing general cargo stevedoring trade to Port Kembla by 2006.
- Port Kembla's available berth space and back up land, road and rail network connections and proximity to the Sydney market provide a solid base for this trade to grow.³

Discussions with stevedores and Port authorities confirm that

- Patricks terminal (now shared with P&O) at Darling Harbour is likely to close after February 2006
- Roll on Roll off cars will remain at Glebe Island until 2017 (current lease expires with an option to extend to 2017) operated through the Patricks-P&O joint venture, Australian Automotive Terminals. Sydney Ports Corporation has recently invested \$20 million in rejuvenating Glebe Island and White Bay.
- Compared to Glebe Island, Port Kembla is more or less equidistant from the inland automotive pre-delivery and holding facilities. It should be noted however that there is a move to avoid storage and pre-delivery costs by sending motor vehicles direct from the wharf to dealers rather than to holding facilities.

³ ibid

WHAT DOES THE PORTS GROWTH PLAN CALL FOR?

The Ministry of Transport summarises the plan as follows.

'The core directions of the Plan are

- Containers, general cargo and car stevedoring from Port Jackson will be progressively encouraged to relocate to Port Kembla as existing leases expire, subject to satisfactory commercial negotiations being completed between the lessees and the Port Kembla Port Corporation.
- The former BHP steelworks site at Newcastle Port will be secured for port use. When Port Botany reaches capacity Newcastle will be the state's next major container facility.
- An Independent Commission of Inquiry will be held to examine Sydney Ports Corporation's Development Application and Environmental Impact Statement to expand container facilities at Port Botany. The Commission of Inquiry will be open to community submissions.
- In relation to Sydney Harbour port lands, the Minister for Infrastructure Planning and Natural Resources will develop a masterplan to:
 - Retain White Bay for working maritime uses;
 - Create an unbroken run of public access to the foreshore of the harbour between Woolloomooloo and the Anzac Bridge; and
 - Preserve Millers Point for a future iconic development.
- The Minister for Infrastructure, Planning and Natural Resources will examine how to increase the proportion of containers moved by rail to and from the ports to intermodal terminals in both the Sydney metropolitan area and regional NSW.

The Government will work towards the implementation of the core directions of the Plan in consultation with industry groups and the community.⁴

OPTIMAL USE OF STATE INFRASTRUCTURE

In its report 'Regional infrastructure: new economic development opportunities for the Hunter, Illawarra and Western Sydney Regions',⁵ the Australian Business Foundation makes the point that better connectivity – in physical and electronic senses – between the three regions and with Sydney was essential for them to fully capitalise on Sydney's global links.

The report says, '...while the infrastructure for moving ideas is crucial to success in the new economy, efficient ports, road and rail links to the ports, and indeed, efficient cross town road networks remain as important as ever'.⁶

⁴ ibid

⁵ Australian Business Foundation, 2003, <http://www.abfoundation.com.au/ext/Frame.nsf/pages/Research>

⁶ ibid, p16

In focussing on those physical links between the three regions and central Sydney most likely to encourage regional business development and access to global markets, three initiatives were identified

- High speed rail links between Sydney and both Newcastle and Wollongong
- New options for freight
- Expanded port opportunities

Rather than the current incremental approach to improvement and realignment of existing rail tracks over 25 years, which the report argues is a constraint on regional development, the approach should be to get travel times to less than an hour to and from Sydney. This 'catalytic' level of investment in fast rail travel would

- provide opportunities in investment growth,
- increase capacity for clusters of industry and people around stations and regional centres
- encourage commuters onto rail and increase the attraction of the Hunter and Illawarra to 'knowledge workers'
- improve access to advanced business services in central Sydney.

ABL members would agree with the Foundation's assertion that improved management and movement of freight is essential for keeping business costs to a minimum. Land use planning needs to be better integrated with transport planning to ensure that employment land (that earmarked by planners for commercial and industrial use to provide jobs) generating significant freight is located on arterial routes.

Upgrades to rail freight infrastructure are necessary to reduce the pressure on road networks. The current freight strategy aims at getting freight through the metropolitan network using dedicated freight tracks and better use of trunk and feeder lines.

The Foundation report acknowledges the debate as to whether NSW can sustain Sydney, Newcastle and Port Kembla ports. Some argue that congestion issues work against centralising port facilities in Sydney, as has happened in Brisbane, while others suggest that ports should be looked at in terms of their specialisations and geographic reach. The report goes on to say, 'This lends itself to a planning framework for ports that evaluates expansion in capacity by measuring externalities associated with congestion, investigations of specialisations and complementarities, and detailed assessments of minimum economic scale.

It also starts from the proposition of better utilisation of under-utilised sunk cost infrastructure. In an age of financial constraint and doing more with less, it is imperative to make assets work harder and look firstly at what we can do with what we've got.

Such an approach has the potential to not only make the best use of Sydney's ports, but also to open up opportunities for Newcastle and Port Kembla to further develop high value added container terminals and links to international shipping companies.

In any event, a more rigorous and open debate about expanded port opportunities for Sydney, the Hunter and the Illawarra is warranted, with the end goal being a solution which optimises the economic benefits as a whole to three of Australia's great industrialised regions.⁷

LAND TRANSPORT INFRASTRUCTURE

Competitiveness of the businesses exporting and importing through NSW ports is paramount – with Australia's increasingly open economy, the luxury of anything other than least cost solutions is not an option.

Consequently, costs of moving freight between customers and intermodal terminals and/or the wharf need to be taken into account as well as costs between wharf and terminal. While these costs are dependent on the capacity and quality of land transport infrastructure, the general rule holds that the greater the distance between the customer and the port, the greater the land transport costs. Clearly, this relationship will break down as the congestion costs of geographically proximate areas increase.

The current strategy appears to be to maximise the use of rail freight within Sydney but it remains to be seen whether this is a permanent solution. In fact, the Ports Growth Plan assumes that it will not be and states that 'when Port Botany reaches capacity Newcastle will be the State's next major container facility'.

For this to be a commercial proposition, transport costs between Sydney and Newcastle will need to be reduced through what can only be significant new infrastructure investment.

Some participants have argued that the idea of competition between the Ports of Newcastle, Sydney and Port Kembla needs careful consideration. For example the representative of ship owners and agents, Shipping Australia Limited, makes the point that ports have evolved to service the trade from their 'catchment areas' and port development depends on the availability of cargo. 'Ships will call at ports providing there is sufficient cargo inducement and the port is efficient, reliable and ...safe'.⁸

Demand for port facilities by freight generators – importers and exporters – depends in part on the cost of getting freight to and from ports. Such cost structures are partly responsible for the creation of the catchment areas referred to by Shipping Australia.

To make the Ports of Newcastle and Port Kembla more competitive for freight that might otherwise have been handled by Sydney's ports – principally containers, major improvements in access to, and investment in, rail and road transport are needed. Similarly, to make the planned expansion to Port Botany's Brotherson dock viable, improved land transport is essential.

⁷ *ibid*, p18

⁸ Shipping Australia Limited, Submission to the Standing Committee on State Development Inquiry into Port Infrastructure, p2

Required improvements include

- Rail infrastructure needs to be upgraded
- Rail track access needs to be nationally consistent
- Dedicated rail freight lines are required to avoid conflict with passenger rail needs
- Arterial road access to new and existing intermodal terminals is required.

Comment

There is no point boosting the capacity of ports without planning for the distribution of freight to NSW customers and the transport of exports to shipping facilities. The final point in the core summary of the plan partially acknowledges this by asking the Minister for Infrastructure, Planning and Natural Resources to examine the issue of maximising the use of rail to transport freight to intermodal terminals.

However, business customers of land and sea freight services who seek fast, quality services at a fair cost will want to see the whole transport chain dealt with in any examination of land transport elements. The benefits of better port facilities and more efficient handling must not be masked by inefficient land transport at any point between the shipper and customer.

Equally it is necessary to recognise the following 'realities'

- the stevedoring oligopoly of P&O and Patricks have sunk investment in existing facilities making them reluctant to move until existing leases expire
- the increased costs of multi-port discharge
- shipping companies are looking to create larger economies of scale by moving to larger ships with fewer ports of call.

Recommendations

The objective in creating a NSW Ports Growth Plan should not favour one port at the expense of others – the NSW economy and business relationships are integrated and there is value in better integrating them.

Recommendation 1

The end goal of expanded port opportunities for Sydney, the Hunter and the Illawarra is a solution which optimises economic benefits to the State as a whole.

The issue of land transport including transport between ports and intermodal terminals and between intermodal terminals and customers requires more analysis.

Recommendation 2

The planning objective should be to create a land freight transport plan integrated with the Ports Growth Plan. This integrated plan should deal with land freight to and from the customer's gate as well as between ports and intermodal terminals.

Recommendation 3

To avoid a fragmented approach and to ensure that the entire freight task is planned in a co-ordinated manner, the Minister for Infrastructure, Planning and Natural Resources and the Minister for Transport should establish a mechanism to ensure that they and their Departments work closely to produce an integrated land transport and ports growth plan covering NSW.

REGIONAL DEVELOPMENT

A prerequisite to economic development including port facilities is that surrounding communities must want it. Both Newcastle and Port Kembla meet this requirement while community sentiment is likely to be a barrier to medium and long term development at Port Botany, certainly beyond that currently proposed.

Planning for ports growth in the Hunter and the Illawarra is essential if Sydney's 'overflow' population is to move to these regions with good job prospects. Expanded port facilities, over time, will create job opportunities in their construction and operation but also by servicing the needs of existing, expanding businesses and those looking to re-locate from Sydney.

For example a shipping freight terminal in Newcastle would create 1200 direct and indirect jobs in its construction and 600 in its operation⁹. On top of this, efficient sea freight links would enhance the Hunter region as a location for new and re-locating businesses.

In the Illawarra, it has been estimated that a container terminal would generate 2000 additional jobs not just through its operation but through the transport service industries that would accompany it¹⁰. This would be in an area with high levels of unemployment.

In responding to the need to foster balanced development throughout NSW the need for economically acceptable solutions for port service providers, ship owners, land transport operators and most importantly, customers, will need to be borne in mind.

For regional development prospects to be realistically planned, the position of ship owners needs to be taken into account. Discussions with players in the sea freight chain confirm that the economic interest of shipping lines lies in minimising the number of calls their ships make along the East coast of Australia. NSW ports are competing at least in part with Brisbane and Melbourne and some would argue that three container stops may already be one too many. A NSW outcome needs to bear this in mind and it again reinforces the need for major improvements in land transport in realising the potential of port facilities outside Sydney.

⁹ Hunter Business Chamber, Submission to Inquiry into Port Infrastructure, p5

¹⁰ Illawarra Business Chamber, submission to Inquiry into Port Infrastructure, p4

Recommendation

Recommendation 4

Every opportunity to sensibly develop regional sea freight handling capacity should be taken so that the benefits of growth in the NSW economy can be shared.

NEXT STEPS

ABL looks forward to working with the NSW Government as it further develops the NSW Ports Growth Plan. The need for expanded port facilities to handle expected trade growth is clear – so too is the need for development that benefits the State as a whole.