Submission
No 21

INQUIRY INTO IMPACT OF PORT OF NEWCASTLE SALE ARRANGEMENTS ON PUBLIC WORKS EXPENDITURE IN NEW SOUTH WALES

Organisation: NSW Ports

Date Received: 21 January 2019

NSW Ports

Parliamentary Inquiry Submission

Impact of Port of Newcastle sale arrangements on public works expenditure in New South Wales

NSW Ports | Jan 2019

EXECUTIVE SUMMARY

This submission is made on behalf of six million Australian men and women, working and retired, whose retirement savings are being invested in NSW Ports' assets based on a long established strategic port framework developed by successive NSW Governments and backed by commitments made to investors by Government.

We say at the outset, that the current debate into NSW container port arrangements has been prompted by a simplistic campaign by the Port of Newcastle, with little regard to the facts, that demonstrates only a passing understanding of the container freight supply chain, overstates potential benefits of a container port at Newcastle and either ignores or understates the potential adverse impacts to the State of overturning the long held NSW transport, logistics and ports strategy. The existence of the Port Commitment Deeds, made explicit to and accepted by the Port of Newcastle at the time of their purchase of Newcastle Port, have been used as a lever to agitate for a container port at Newcastle.

We affirm that Port Botany is a major asset for NSW, the heartbeat of the NSW economy, enabled by decades of accumulated investment by taxpayers and the private sector and providing competitive, efficient and cost effective service to the NSW economy. Port Botany underpins the NSW economy, contributing $3.7 billion a year to NSW, and sustains 25,000 jobs. NSW Ports and its tenants have invested $1.6 billion over the last 5 years and are currently investing another $450 million.

Freight is the lifeblood of the NSW economy, with the costs of transport and logistics reflected in the price we pay for goods we consume - and the final price we charge for each item we export to other markets. The cost of the NSW supply chain is ultimately recovered from consumers at the checkout and businesses in the cost of goods they sell.

Proper and dependable long term port planning underpins our container supply chains. The consequence of not getting container planning right is higher cost of goods, loss of export markets and loss of logistics and production investment and jobs interstate.

This submission deals with a number of substantive issues associated with the NSW container supply chain and the Newcastle container port proposal against the context of the Terms of Reference for this Inquiry.

Our submission demonstrates that **the Port of Newcastle sale arrangements do not result in additional public works expenditure in NSW**.

The container terminal proposed by the Port of Newcastle (where half of the container volume is moved by rail) would add more than 2,700 extra truck movements per day to Newcastle's roads, most heading south to Sydney to deliver the containers or goods in the containers. This will increase congestion, with more trucks on the F3 travelling longer distances to distribution centres in Sydney with consequent impact on pollution.

To achieve any reasonable volume of container freight on rail between the Port of Newcastle and Sydney would require billions of dollars in freight rail investment on the Main North Rail Line.

Our submission demonstrates that **the Port of Newcastle sale arrangements do not result in additional costs for NSW importers and exporters**.

NSW now has three container terminals at Port Botany, operated by competing stevedores, with surplus capacity significantly exceeding container volume demand. The third container terminal was introduced relatively recently into NSW, in 2013.

The premise of the arguments presented in favour of a fourth container terminal at Newcastle is not applicable for an industry such as ports which have high capital costs, a high dependence on landside infrastructure investment and long-term relationships with customers who need confidence to invest in associated infrastructure for shipping and warehousing.

Prematurely introducing a fourth container terminal into the NSW market is likely to result in one or more of the following: an infrastructure 'white elephant' in NSW; increased costs to all NSW importers and exporters as additional operating and investment costs have to be recovered across the same volume of containers; or significant short term 'price cutting' until one or more stevedores exit after which those remaining would likely increase prices, setting back government actions over the past decade to introduce additional competition into the container market to drive productivity gains.

Has a sound cost-benefit analysis been offered for abandoning existing policy?

The majority of full containers (72%) handled at Port Botany are inbound freight and the bulk of these containers (80%) are destined for customers within 40 kilometres of Port Botany. Most of the goods arriving by container are household goods that are then distributed to customers primarily in the greater Sydney area. The Sydney market will continue to dominate demand with the trend of development to the west and south west rather than north.

Port Botany has a capacity of more than 7.2 million TEU and currently handles 2.6 million TEU between three stevedoring terminals. The most recent addition has only been able to acquire 13.3% of Port Botany container volumes and after 5 years of operations continues to experience net operating losses. On current projections, a fourth terminal could not be justified until after 2040.

In other words, there is excess capacity at present so lack of capacity is not a driver.

Transport is not a driver either. While inbound freight is destined for customers within a short radius of Port Botany, about half of the full export containers also originate in Sydney. Of the outbound freight that originates in regional NSW, about half is from west and south of the city. Most NSW regional exports (86%) already arrive at Port Botany by rail.

In other words, while the Port of Newcastle container port proposal talks of servicing export markets in the Hunter and north, the current size of that market is about 80,000 TEU, 4% of the two million TEU they state they can achieve.

Cost arguments by the Port of Newcastle do not bear closer scrutiny. We find that a Newcastle container port would require billions of dollars for investment in the terminal, dredging and channel deepening as well as landside investment in road and rail infrastructure.

We believe the modelling undertaken by the Port of Newcastle fails to consider a number of important issues and significantly exaggerates the volume assumptions and economic benefits of a container port at Newcastle.

Is the Port of Newcastle trying to increase the value of their asset at the expense of NSW taxpayers?

The Port of Newcastle Port Commitment Deed is an agreement solely between the Port of Newcastle and the NSW Government. The Port of Newcastle entered into the Port Commitment Deed knowingly and willingly as part of its $1.75 billion purchase of the 98 year lease for the port.

The Port of Newcastle now claims that the sale arrangements are ‘unfair’ and should be changed.

The appropriate method for dealing with changes to commercial agreements is through a commercial negotiation between the parties. Is the Port of Newcastle trying to gain business value uplift at the expense of the NSW taxpayers?

At a minimum, the NSW Government and taxpayer should be concerned that appropriate value is received by Government from any changes to sale conditions, particularly where this would create an uplift in business value for the Port of Newcastle.

Impact on NSW reputation

The Port Commitment Deed reflected NSW’s long-term freight transport planning strategy; a strategy that was well known, widely canvassed and supported by successive governments. NSW Ports’ investors spent $5.07 billion to acquire the long term leases for Port Botany and Port Kembla and port investment commitments since that time by NSW Ports and tenants exceed $2 billion based on this plan.

We referred earlier to the Australian’s who have retirement savings invested in NSW Ports on the promise that, with good management, it offered a stable long-term investment with reliable steady returns based on commitments provided to investors at the time of acquisition.

Imposed retrospective changes could impact on this investment and call into question the State’s reliability and hence attractiveness as an investment destination, particularly for investment in infrastructure. This would impact the State’s reputation and have flow-on effects that could result in higher cost of capital and increase the vulnerability of the State’s prized AAA credit rating.

NSW Ports welcomes the opportunity to provide a submission to this Inquiry. Further details on the points made above are included in the following pages.

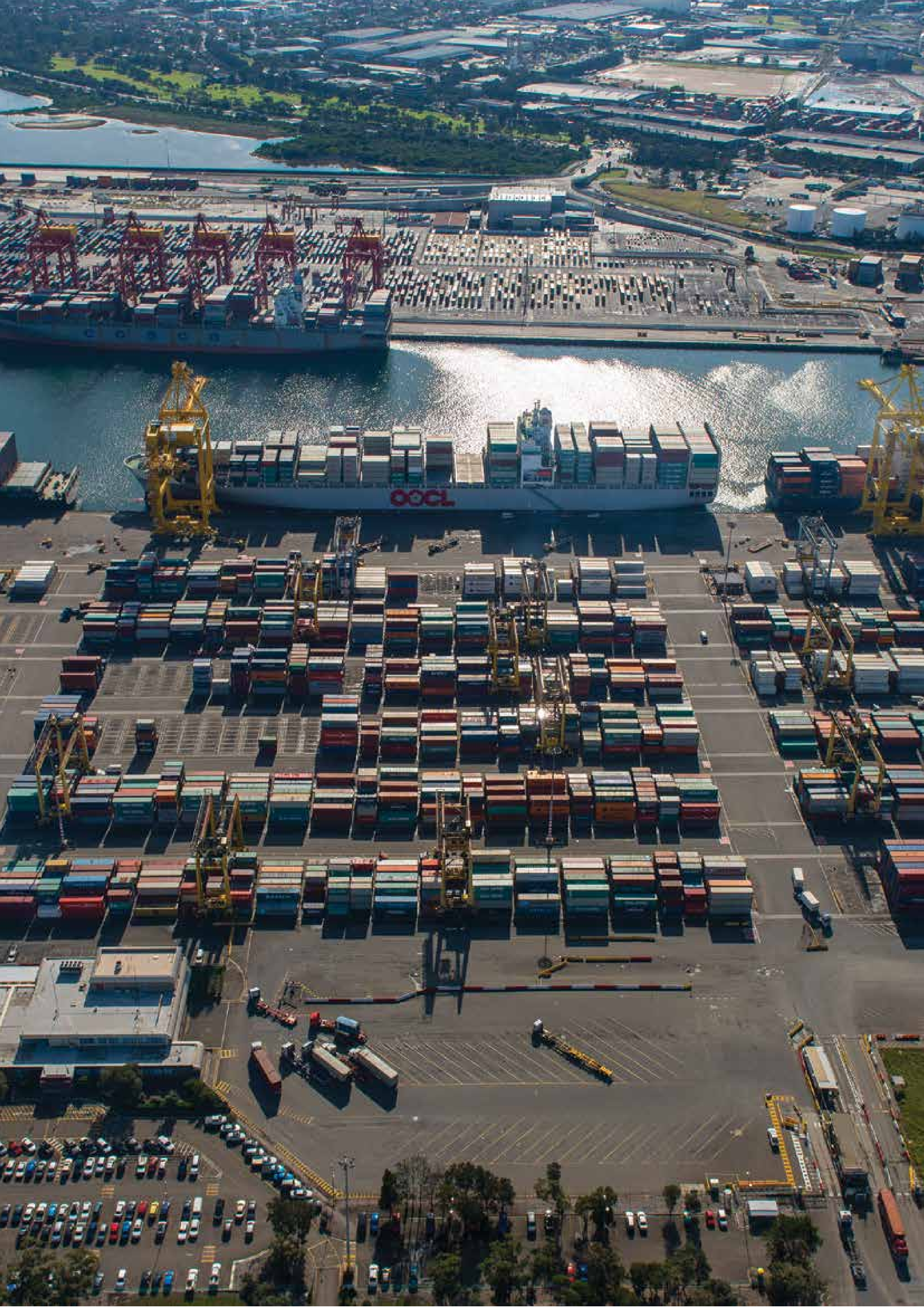
Marika Calfas
Chief Executive Officer
NSW Ports

KEY SUBMISSION POINTS

1. **The Port of Newcastle sale arrangements do not adversely impact on public works expenditure in NSW.** Existing committed infrastructure investments are required to service the broader commuter and freight needs to support a growing Sydney. Optimising utilisation of existing freight infrastructure (such as through finishing the duplication of the Port Botany freight rail line in an existing and dedicated freight rail corridor) makes economic sense.
   - **The Port of Newcastle container terminal would generate more truck kilometres travelled with higher vehicle emissions and extra trucks congesting the road network between Sydney and Newcastle.** Assuming half of the container volume is moved by rail, a container terminal at Newcastle would add more than 2,700 extra truck movements per day to Newcastle's roads, most trucks heading south to Sydney on the F3 to deliver the containers or goods in the containers.
   - **The Port of Newcastle container terminal would require significant additional investment for the terminal, dredging works, road upgrades around the terminal and rail investment connecting to Sydney.** To achieve any reasonable volume of container freight on rail between the Port of Newcastle and Sydney would require billions of dollars in freight rail investment on the Main North Rail Line
2. **The Port of Newcastle sale arrangements do not result in additional costs for NSW importers and exporters.** The NSW container market is highly competitive with three separate and competing stevedores at Port Botany, each having significant surplus capacity, and competition from interstate ports at Melbourne and Brisbane. The most recent container stevedore commenced operation in 2013 and is handling only 13.3% of Port Botany container volumes and recording net operating losses each year.
3. **Prematurely introducing a fourth container terminal into NSW is likely to have adverse economic consequences.** This could result in one or more of: an infrastructure 'white elephant' in NSW; increased costs to all NSW importers and exporters from the recovery of additional investment and operational costs across the existing volume of containers; or significant short term price cutting that sees one or more stevedores exit following which those remaining would likely increase their prices. A fourth container terminal is unlikely to be sustainable until after 2040.
4. **The Port Commitment Deeds mirror long standing and well planned NSW Government policy in respect of container terminal development and the planning required to service the State's container freight task into the future.** This policy is that Port Botany followed by Port Kembla will support NSW's container needs. This policy reflects the population, demographic and economic shift which is to the west and south-west of Sydney.
5. **The Port of Newcastle Port Commitment Deed is an agreement solely between the Port of Newcastle and the NSW Government.** The Port of Newcastle (owned by China Merchants Port Holdings/The Infrastructure Fund) knowingly and willingly entered into the Port of Newcastle Port Commitment Deed as part of its sale arrangements and now claims that this is 'unfair', seeking to have the Deed changed without appropriate compensation to the NSW Government. The Newcastle Port Commitment Deed does not prevent the Port of Newcastle from operating a container terminal, nor does it require the cost to Newcastle Port to be passed on to the container market participants. Is the Port of Newcastle trying to gain business value uplift at the expense of the NSW taxpayers?
6. **Changes to commercial agreements are appropriately dealt with through negotiations and agreement between the parties.** Any imposed changes to the terms of NSW Government commercial agreements could have adverse consequences. This could impact the investment of 6 million Australians who have their superannuation savings invested in NSW Ports' assets. It would also impact the State's reputation as an attractive investment destination and could affect NSW's prized AAA credit rating. Changes to commercial agreements are appropriately dealt with through negotiations between the parties.

PORT BOTANY – CONTAINER SNAPSHOT

- Port Botany underpins the NSW economy, contributing $3.7 billion a year to NSW, and sustains 25,000 jobs.
- Port Botany is a premium container port with a number of key competitive advantages over interstate competitor ports at Melbourne and Brisbane. Combined with long term, stable, port planning this has provided confidence for significant business investment in logistics and distribution hubs in NSW leading to job creation.
- Since 2013, NSW Ports and port Tenants have invested $1.6 billion and are currently investing a further $450 million.
- NSW container demand is driven by imports filled with goods for use by the people and businesses of NSW.
- Imports make up 72% of full containers handled at Port Botany. Less than 2% of full import containers are destined for the Central Coast, Newcastle and Hunter regions.
- The contents of more than 80% of full import containers arriving at Port Botany will be unloaded within 40 kms of the port's gate.
- 42% of all items in a Sydney household have arrived in an import container through Port Botany.
- Full exports make up only 19% of total containers handled at the port, with half of the volume originating in regional NSW.
- Half of regional NSW exports originate from west and south of Sydney. Most NSW regional exports (86%) already arrive at Port Botany by rail.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INTRODUCTION

The Terms of Reference for this Inquiry essentially pose the following questions:

- Whether the sale arrangements for the Port of Newcastle, including the Port Commitment Deeds, contribute to:
    1. increased pressure for infrastructure in NSW;
    2. additional costs for NSW importers and exporters.

Specifically the Inquiry seeks to understand whether the Port Commitment Deeds lead to additional transport and infrastructure requirements in Sydney and increased costs for importers and exporters in NSW.

The suggestion being that in the absence of the Port Commitment Deeds, there would be less public works expenditure required on NSW infrastructure and NSW importers and exporters may benefit from reduced costs.

The simple answers to these two questions are:

1. No. The Port of Newcastle sale arrangements and Port Commitment Deeds do not adversely impact on public works expenditure in NSW.

On the contrary, the container port proposed by Port of Newcastle would result in more than 2,700 additional truck trips per day between Newcastle and Sydney on the F3 (assuming 50% of boxes use rail) and require billions of dollars to be spent on freight rail capacity on the Main North Line in order to achieve a reasonable volume of container freight on rail, failing which the number of trucks could double.

2. No. The Port of Newcastle sale arrangements and Port Commitment Deeds do not result in additional costs for NSW importers and exporters.

Prematurely introducing a fourth container terminal into the NSW market is likely to increase the cost to all NSW importers and exporters.

It could also have the effect of creating significant 'price cutting' in the short term that sees one or more stevedores collapse after which survivors would likely increase prices. This would set back actions over the past decade to introduce additional competition into the container market to drive productivity gains and investment.

Further, we understand that the Port of Newcastle Port Commitment Deed, which the Port of Newcastle willingly agreed to as part of its purchase of the 99 year lease for the port and which formed part of sale arrangement consideration, does not place the burden of the payment on the container market participants. The payment burden is placed on the Port of Newcastle and we suggest it is a form of deferred payment to the State of NSW for the benefit of being able to operate a container terminal – a benefit not paid for upfront in the port's purchase. This agreement is between the Port of Newcastle and the NSW Government only and does not involve NSW Ports.

The Port Botany and Port Kembla Port Commitment Deeds, which accompanied NSW Ports' leases in 2013, served to reflect the State's long-term freight transport planning strategies and was used to provide investors with certainty about the long-term shape and function of the NSW freight market. These agreements are between NSW Ports and the NSW Government only and do not involve Port of Newcastle.

Changing (other than by mutual agreement) the terms of a lease entered into by the NSW Government would adversely impact the reputation of the State of NSW for future investment decisions. This presents a risk to the State from a reduced ability to attract investors or increase in the risk premium applied to investments in NSW and could impact the State's credit rating.

PORT BOTANY THE HEARTBEAT OF THE NSW ECONOMY

Port Botany underpins the NSW economy, contributing $3.7 billion annually to GSP and creating 25,000 jobs.

42% of all items in a Sydney household (including food and beverages) have arrived in an import container through Port Botany.

Since the long term leasing by NSW Ports (in 2013), there has been considerable investment by NSW Ports and tenants in road, rail, wharves, terminals, warehouses and equipment. This investment has been driven by business confidence in the port's management, our willingness to partner and invest alongside tenants and our published long term (30 year) strategy, amongst other reasons.

$1.6Bn TOTAL PORT INVESTMENT BY NSW PORTS AND TENANTS SINCE 2013

$450Mn CURRENT INVESTMENTS UNDERWAY

NSW Ports has also taken a modest and predictable approach to port charge increases, broadly in line with CPI.

Port Botany is a premium container port with a number of key competitive advantages benefiting NSW:

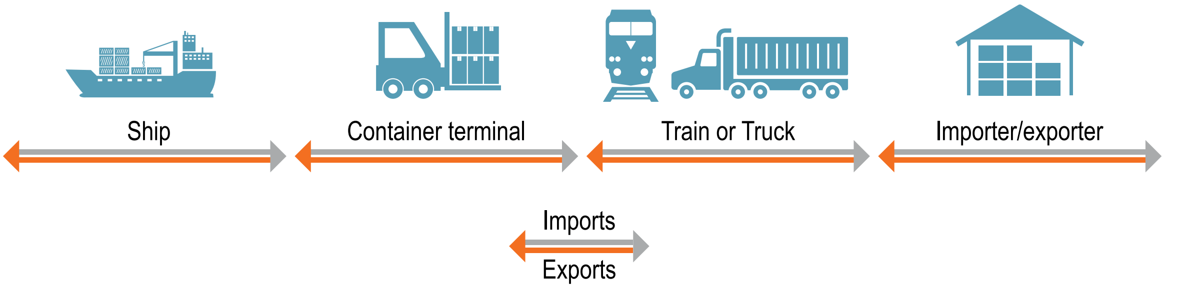
- close proximity to the container market ie. 80% of import containers travel within 40km of the port (compared to 160-200km for the Port of Newcastle)
- short pilotage time from vessel arrival to vessel berthing – 1 hour (compared to Melbourne 3.5 hours, Brisbane 4 hours, Newcastle 2 hours)
- deep and stable channel that does not require continuous maintenance dredging (compared to Brisbane 350,000m^3/yr and Newcastle 650,000m^3/yr)
- freight rail connectivity to the port, including dedicated on-dock rail at each stevedore terminal – the only container port in Australia
- world class truck booking / penalty system – removing truck queuing from container terminals at Port Botany and resulting in world class truck turnaround times. The only container port in Australia and possibly the world. According to Transport for NSW and Deloitte Access Economics, by 2018 the road efficiency reforms at Port Botany will have delivered almost $100 million in economic benefits to importers, exporters, taxpayers and consumers.
- world class performance based stevedore leases – incentivising improved stevedore performance in ship, road and rail servicing through lower rent payments. Unique to Port Botany.
- the only environmental incentives in Australia for ship emissions – encouraging, through financial incentives, vessels with higher standards of environmental emissions performance in our ports. The incentive is applied under the World Ports Sustainability Program.
- investment in sustainable land transport (rail)
  - NSW Ports is developing the Enfield Intermodal Logistics Centre including an intermodal terminal and logistics warehouses connected by dedicated freight rail to Port Botany. This commenced operations in 2016, reducing trucks on roads and increasing sustainability through reduced environmental emissions. Port Botany is the only container port with a network of metropolitan intermodal terminals connected to on-dock rail by dedicated freight rail.
  - NSW Ports is also investing $120million in rail capacity at Port Botany over the next 4 years to double port side rail capacity from 750,000 to 1.5 million TEUs, achieve faster servicing of trains and reduce growth in truck movements on Sydney roads. This is Stage 1 of a three stage investment to achieve 3 million TEU rail capacity at Port Botany

UNDERSTANDING THE CONTAINER MARKET

AUSTRALIAN CONTAINER PORTS

Ports are but one part of a total supply chain from producer / manufacturer to consumer.

A simple supply chain illustration:



All container ports require road and/or rail infrastructure to provide connectivity between the port and the disbursed locations of importers and exporters.

Ports therefore have to be considered in the context of government's strategic infrastructure planning, in order to ensure that importers and exporters can reach the port gateway efficiently.

The Commonwealth Government recognises the national importance of port gateways and their supply chain connections for the economic wellbeing of Australia and is developing a National Freight & Supply Chain Strategy to achieve efficient and productive supply chains to serve this country into the future.

Port Botany competes with interstate ports, particularly the Port of Melbourne and Port of Brisbane, for containers. Competition for imports is driven by the location of population and distribution centres. Competition for exports is driven by road/rail efficiencies and connectivity to each of the ports.

Logistics business decisions, such as the location of distribution hubs and production facilities, include consideration of port and supply chain efficiencies and competitiveness. This directly impacts on State selection for business investment and jobs. NSW's long term port and freight strategy has been a key attractor for logistics based investment in the State. Distractions around intrastate competition that go against long standing and robust port planning policy will impact on business confidence and decision making and increase the competitive threat of interstate ports, taking investment and job creation away from NSW.

Port Botany is not unique as the single major container port for a State. There is one major container port in each state of Australia.

NSW is not unique in setting long-term State port planning strategy. Infrastructure Victoria identified Bay West as the preferred location for a new container port once the Port of Melbourne reaches capacity of 8 million TEU around 2055[1].

There are three key elements to Infrastructure Victoria's advice to government, consistent with NSW container port planning:

- Capacity at Victoria's existing commercial ports should be optimised, having regard to social and environmental factors, before any investment in a second major container port.
- A new container port will not be required until capacity at the Port of Melbourne reaches approximately 8 million TEU, which is likely to be around 2055.
- Bay West is the preferred location for a second major container port.

There are no plans for a second container port in Brisbane.

1 Infrastructure Victoria, May 2017, http://www.infrastructurevictoria.com.au/node/94

UNDERSTANDING THE CONTAINER MARKET

A comparison of key attributes of the ports is below. This comparison shows Port Botany as a competitive Australian container port for Australia with better infrastructure than the other ports.

	PORT BOTANY	*PORT OF MELBOURNE*	*PORT OF BRISBANE*
Number of container ports	1	1	1
Number of stevedore terminals	3	3	3
Total TEUs Handled 2017–18 (million TEUs)	2.73	2.74	1.3
TEU Share (of total national container volume)[2]	34.1%	34.2%	16.6%
Container Quay Line Length	3,793m	2,472m	2,469m
Number of Quay Cranes	21 (as of Jan 2019)	20 (as of Oct 2018)	16 (as of Nov 2018)
On-Dock Rail	Yes	No	No
Rail Mode Share (total TEUs moved by rail in 2017)[3]	399,500 TEUs	248,500 TEUs	26,800 TEUs
Metropolitan intermodal terminals operational	5 (Enfield, Chullora, Minto, Moorebank, Yennora)	4 (Altona, Spotswood, Laverton, Somerton)	2 (Acacia Ridge, Tennyson)
Average lifts per ship-hour at berth (lifts per hour)	41.5	49.7	38.3
Port Charges			
DP World Infrastructure Charges (2018–19)[4]	$63.80	$85.30	$65.15
Patrick Infrastructure Charges (2017–18)[5]	$41.10	$47.50	$38.25
Wharfage Charge – Full Exports[6]	$81.94	$95.80	$95.01
Wharfage Charge – Full Imports[6]	$123.10	$109.31	$95.01
Port Interface Costs – Total fees and charges ($/TEU) based on 50000–55000 GT ships (July-December 2017)[7]	$950 per TEU exports $1,020 per TEU imports	$978 per TEU exports $1,002 per TEU imports	$960 per TEU exports $968 per TEU imports

2 From ACCC Container Stevedore Monitoring Reports 2017-2018 and Report no. 16 dated October 2014
3 Waterline 62 – October 2018
4 ACCC Container Stevedore Monitoring Report 2017–2018
5 ACCC Container Stevedore Monitoring Report 2017–2018
6 From each ports published charges – Port of Brisbane charge shown is wharfage/harbour dues and cargo access charge which is equivalent to the wharfage charge shown for Botany and Melbourne
7 Waterline 58 and Waterline 62

By international port volume standards, NSW is a small market, and in 2017 was ranked 72nd on the list of the largest container ports by volume.

The table below provides further examples of container ports in other regions around the world.

2017 RANK	PORT	COUNTRY	REGION	2017 ANNUAL THROUGHPUT (TEU)	NO. OF STEVEDORING TERMINALS	AVERAGE TEU PER TERMINAL
1	Shanghai	China	Asia	40,233,000	7	5,747,571
2	Singapore	Singapore	Asia	33,666,600	1	33,666,600
9	Dubai (Jebel Ali)	UAE	Middle East	15,368,000	1	15,368,000
11	Rotterdam	Netherlands	N. Europe	13,734,334	6	2,289,055
17	Los Angeles	USA	North America	9,343,192	8	1,167,899
33	Tokyo	Japan	Asia	4,500,156	3	1,500,052
43	Felixstowe	United Kingdom	N. Europe	3,849,700	1	3,849,700
66	Durban	South Africa	Africa	2,699,978	1	2,699,978
72	Sydney (Botany)	Australia	Australasia	2,530,122	3	843,374

NSW CONTAINER MARKET

The NSW container market is driven by demand for full import containers filled with goods for use by the people and businesses of NSW. Imports make up 72% of the full containers handled at Port Botany.

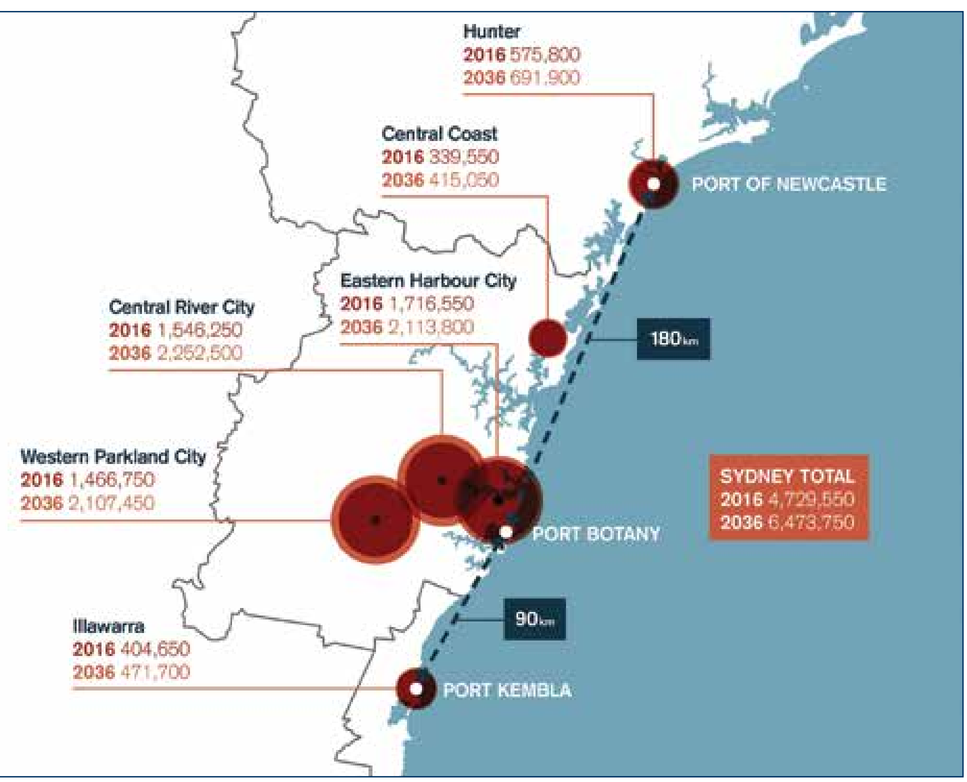
NSW's container volumes are driven by population growth and economic conditions. Sydney is the most populous city in Australia, with 5 million people. That is why 80% of all import containers travel no further than 40km from Port Botany. Newcastle's population by comparison is only 575,000 people.

Less than two 2% of full import containers are destined for the Central Coast, Newcastle and Hunter regions. Less than 1% of import containers are destined for other regional areas.

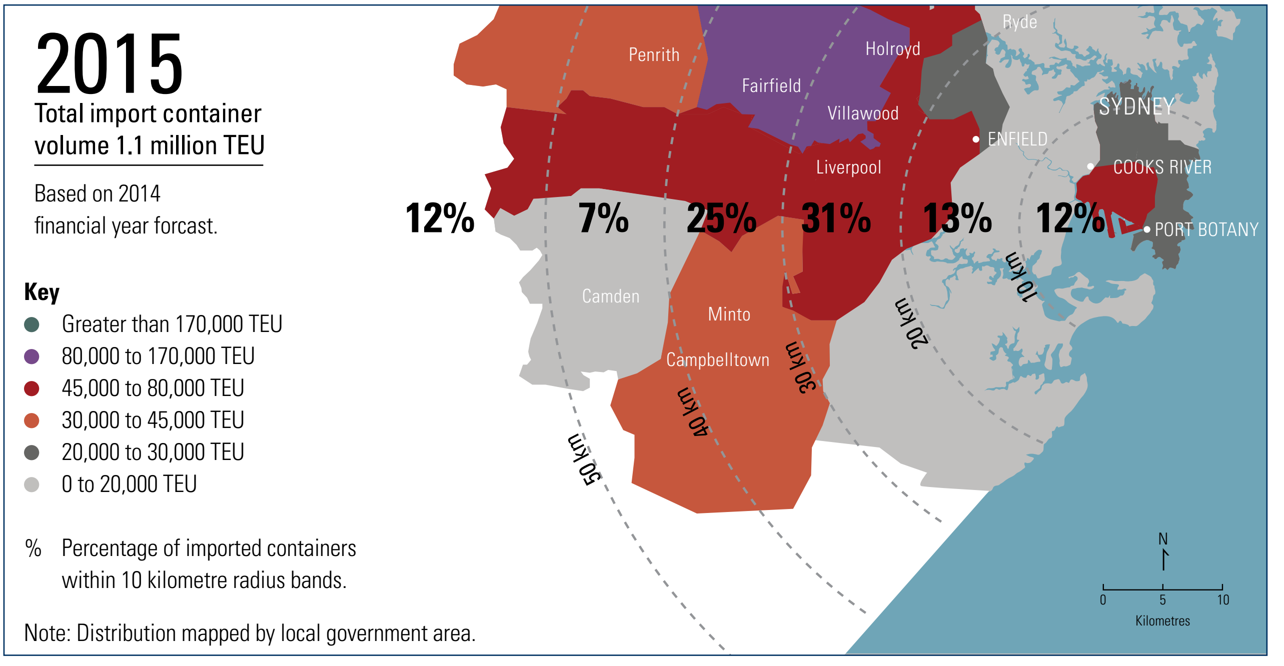
Imports: What's in the box?

Populaton growth drives import distribution

Population growth will be in Sydney's West and South West *(NSW Department of Planning)*



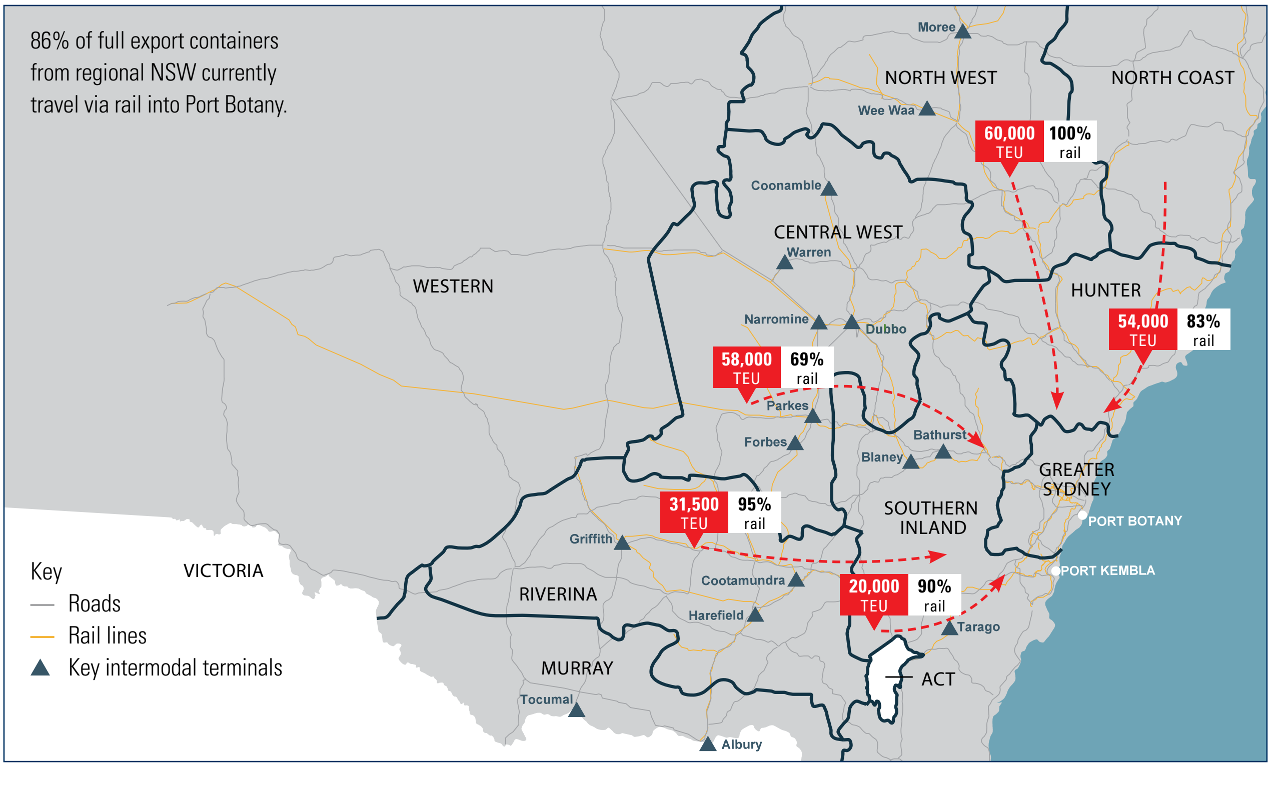
80% of import containers travel no further than 40km from Port Botany



Full exports make up only 19% of total containers handled at the port. Approximately 50% of full exports are from regional NSW (about 220,000 TEUs), with 86% of these exports arriving at Port Botany by rail – not road.

Efficient connections to/from the port to the importers and exporters of NSW are fundamental to minimising costs to NSW importers and exporters.

Majority of regional exports to Port Botany travel by rail



THE NEXT CONTAINER TERMINAL FOR NSW

Investment in a container port at Newcastle is premature. Development of a fourth container terminal, located in Newcastle will not provide the benefits which have been suggested by its proponents.

The Port of Newcastle has run a public relations campaign using the existence of the Port Commitment Deeds and the availability of vacant land as the basis for gaining media and political interest in exploring the role of a container terminal at Port of Newcastle.

Port of Newcastle suggests that long standing government port policy should be changed to favour the port as the next container port for NSW. This policy, which was established in 2012 and has been maintained across successive governments and reinforced again recently is that – when Port Botany approaches capacity, Port Kembla will be the location of the second container port for NSW[1]. This policy position was reinforced in the recently released NSW Freight & Ports Plan 2018–2023 and NSW State Infrastructure Strategy 2018–2023.

As port infrastructure is sizeable and expensive, long term certainty for the purpose of investment is required. Port planning must therefore reflect the long term land use, population and container demand requirements.

Based on the NSW container market and forecast population and land use changes as outlined in the recently released Greater Sydney Region Plan by the Greater Sydney Commission[2], the following changes are foreshadowed:

- Sydney's population in 2036 will grow from 5 million to 6.5 million people, with the greatest growth in west and south-west Sydney. By comparison, the Hunter region will grow from 575,000 to 691,000 people
- Port Botany will remain the closest port to NSW's population centre, followed by Port Kembla (67km and 100km respectively to Sydney's south-west and western areas via road) as compared to Port of Newcastle at (200km and 160km respectively to Sydney's south-west and western areas via road).

Port of Newcastle recently released two reports, by Deloitte Access Economics and AlphaBeta, exploring the case for the development of a major container terminal at the Port of Newcastle.

1 NSW Freight & Ports Plan 2018–2023 (September 2018), NSW State Infrastructure Strategy 2018–2038 (February 2018)
2 Greater Sydney Region Plan – A Metropolis of Three Cities (March 2018)

We do not propose to provide detailed critique of each of these reports, other than to note that the volume assumptions and economic benefits of a container port in Newcastle are significantly exaggerated and unreliable. Key areas of deficiency in the underlying analysis include:

- neglecting the capital cost that would be incurred by freight operators, customers and the government sector, to develop a container terminal at the Port of Newcastle
- unrealistic catchment area assumptions
- failure to adopt a robust 'end to end' cost model to inform conclusions
- assuming that NSW is a 'freight island' following State boundaries rather than part of a complex, interconnected national freight supply chain with interstate competition.

Based on long term forecasts of container demand, container origin-destination, population growth and interstate competition, our analysis finds that when NSW demand reaches 4 million TEU (estimated post 2031):

- At least 3 million TEU would be preferentially captured by Port Botany
- Up to 500,000 TEU could be preferentially captured by Port Kembla
- Up to 300,000 TEU could be preferentially captured by Port of Newcastle.
- The remainder would go interstate

At 6.5 million TEU demand in NSW (estimated post 2046):

- At least 5 million TEU would be preferentially captured by Port Botany
- Up to 700,000 TEU could be preferentially captured by Port Kembla
- Up to 400,000 TEU could be preferentially captured by Port of Newcastle.
- The remainder would go interstate.

When overlaid with vessel feasibility, volumes at the 300,000-400,000 TEU range as shown for Newcastle, it is unlikely that a viable container port would be able to be established at Port of Newcastle as there would be insufficient vessel services and frequency and the volume is insufficient to justify services carrying only Newcastle catchment cargo.

Container vessels will only call at one port in NSW on a round journey. Every extra port stop would cost a vessel operator more than $50,000 a visit, which would be unsustainable based on the potential volume capture at Port of Newcastle.

WHEN IS ANOTHER CONTAINER TERMINAL REQUIRED?

NSW has three container terminals at Port Botany, operated by competing stevedores. These three terminals actively compete for trade. Port Botany's current container throughput is about 2.6 million TEU per year. Port Botany's capacity for containers is estimated at more than 7.2 million TEU.[3]

The third stevedoring container terminal (Hutchison) commenced operations in late 2013 and introduced significant intra-port competition. Hutchison's Port Botany terminal has a current market share of only 13.3% or 346,000 TEU. Over the 5 years since commencement, Hutchison has experienced net operating losses, with increased losses in the last year.

NSW does not currently need a fourth container terminal, with surplus capacity at Port Botany significantly exceeding container volume demand. Premature entry of a fourth container terminal would result in higher costs to importers and exporters due to the need to recover operating and investment costs across a smaller volume of containers if the volume is shared amongst more terminals.

Based on forecast container volumes, a fourth container terminal, such as proposed by Port of Newcastle, would not be sustainable until after 2040.

3 NSW Ports 30 Year Master Plan (October 2015)

INFRASTRUCTURE INVESTMENT DECISIONS

The role of Port Botany as the container port for NSW has informed investment decisions since the 1970s and has allowed Government to service the container freight needs of the State at a central and productive location.

For example, Port Botany is serviced by a dedicated freight rail line, strengthened through historical projects such as the Southern Sydney Freight Line, which has allowed containers to move by rail to western Sydney without conflict with the passenger network. The M5 East Motorway, constructed in 1998, significantly improved road access between south west Sydney and Port Botany and removed Port traffic from local roads in the Inner West and St George areas.

Additional capacity across the transport system will be required, as the freight and wider transport tasks each grow and change. Sustained investment in the transport network – including freight infrastructure – lowers consumer costs and increases the competitiveness of NSW exports.

The need to invest in supporting transport infrastructure is not unique to Port Botany. New ports require significant capital investment and also require supporting landside infrastructure investment as trade grows, with these costs recovered either from the freight market or from taxpayers. Optimising utilisation of existing freight infrastructure (for instance, through the duplication of the Port Botany Rail Line in an existing and dedicated freight rail corridor) makes economic sense.

A container terminal at Newcastle would require billions of dollars to be spent in terminal investment costs and road and rail infrastructure. The terminal investment will include substantial dredging and deepening of the channel and berths, costs that will need to be recovered from the container freight market.

PORT BOTANY

Investments in road and rail connections around Port Botany will produce wider economic benefits for the State, and as the central location for container trade will provide the most efficient use of existing assets.

Road: Port trucks (Large Heavy Commercial Vehicles) on the roads immediately around Port Botany make up only 14% of the traffic volume. The main driver of traffic volume (78%) is non-port related commuter and other commercial vehicle through traffic.

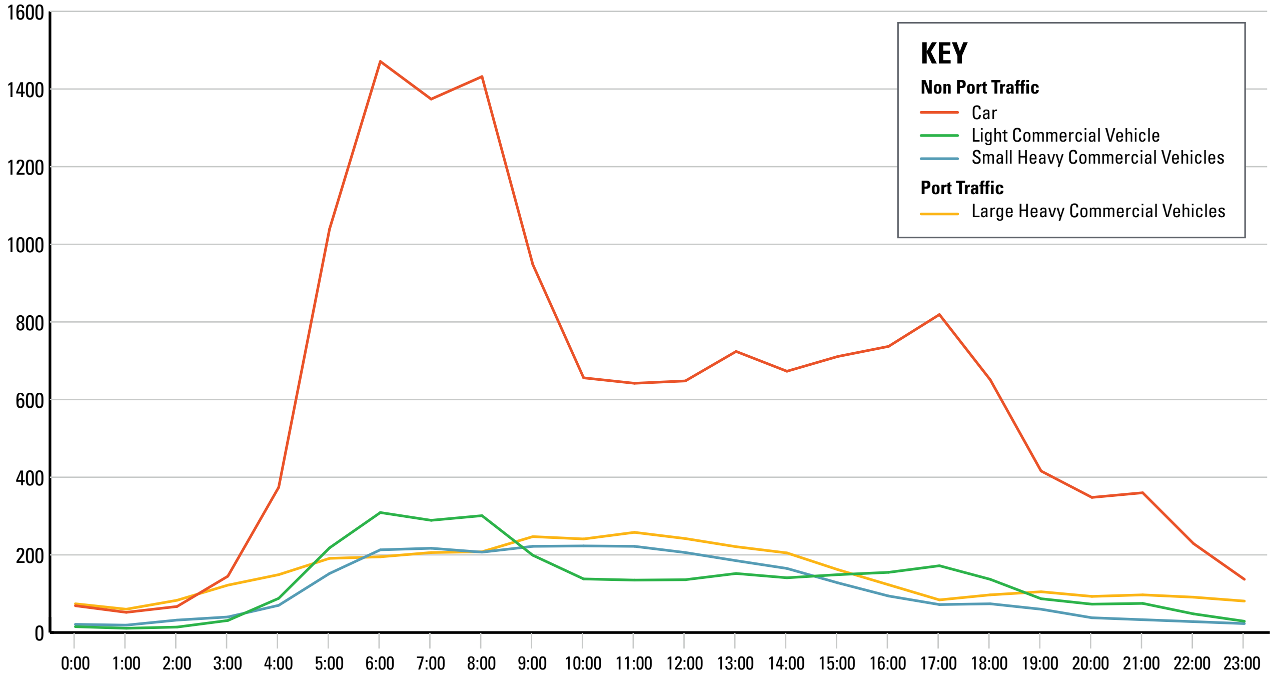
By the time port traffic reaches the M5 East, it accounts for 2% of the traffic during peak periods.

Road projects such as Westconnex Gateway are not being driven by container port operations. This investment is enhancing connectivity to the Sydney Airport precinct. The roadworks proposed under the WestConnex Gateway project in fact terminate at the Domestic and International Terminals and do not continue to the port. WestConnex Gateway may divert some commuter traffic away from General Holmes Drive and the Airport Tunnel and provide an alternative route for port trucks to access the M4, thereby relieving pressure on the key port intersection on General Holmes Drive and Foreshore Road. However, this benefit is expected to be modest and short-lived due to the large commuter traffic volumes and its ongoing steady growth.

Westconnex Gateway will therefore be required irrespective of a container port development at Port of Newcastle.

The Port of Newcastle sale arrangements have no impact on the WestConnex Gateway project.

Vehicle movements around Port Botany



Rail: NSW Ports and the NSW Government's long term strategy has been to grow the volume of containers on rail to reduce the growth in truck numbers.

Rail provides an efficient and sustainable transport mode - 100 containers moved on a single train, less CO2 emissions and fewer trucks on the road reducing road congestion and improving road safety.

The Port Botany rail duplication is the final 3km duplication of an otherwise 18km dedicated freight track between Port Botany and Enfield. The $280 million investment is being funded by the Commonwealth Government. This investment will secure the reliability and resilience of the freight rail line connecting Port Botany to metropolitan and regional NSW intermodal terminals. This will avoid a situation where containers have to be transferred to road during rail maintenance or incident. This investment is required irrespective of a container terminal development at Port of Newcastle.

The Port of Newcastle sale arrangements have no impact on the Port Botany Rail Line duplication.

PORT OF NEWCASTLE

The Port of Newcastle Master Plan 2040 identifies a suite of road and rail investment projects that will service port growth:

- Industrial Drive intersection upgrades and road widening
- Golden Highway Upgrades
- New England Highway Upgrades
- M1 Pacific Motorway to Raymond Terrace Link
- Fixing Country Rail and Fixing Country Roads Programs
- Projects for the separation of rail freight on the Main North Line between Sydney and Newcastle
- Northern Sydney Freight Corridor (Stage 2)
- Lower Hunter Freight Corridor
- The Outer Sydney Orbital

While various statements by the Port of Newcastle have suggested a major container terminal at Port of Newcastle would ease congestion within Sydney, these claims do not bear up to scrutiny due to the origin/destination of cargo and limitations in the rail network connecting Newcastle to Sydney.

Trucks: A 2 million TEU container terminal with 50% of the volume moved by rail, as proposed by Port of Newcastle, would add an extra 2,700 truck movements per day to Newcastle's roads, requiring road improvement works around the port to accommodate these extra truck movements, which we estimate at $200 million.

The majority of this additional road traffic would be south-bound, headed to Sydney to deliver containers or the goods in containers. These trucks would then need to return to Newcastle. This means that the majority of the 2,700 extra truck movements would travel on the F3 between Newcastle and Sydney, increasing truck kilometres travelled and vehicle emissions due to the longer journey as compared to Port Botany or Port Kembla.

The F3 Motorway is a vital link for about 70,000 light vehicle trips and 6,000 freight trips each day between Sydney and the Central Coast.

Rail: Port of Newcastle's claim that 50% of a 2 million TEU container throughput would be transported by rail is dubious at best.

The freight rail connections between Sydney and Newcastle lack the capacity to service major container volumes and are subject to substantial operating constraints, as it is shared with the suburban commuter rail system. Port of Newcastle state in their 2040 Master Plan that the Main North Line between Sydney and Newcastle is one of the busiest passenger services on the Sydney Trains network, accommodating local, intercity and interstate passenger services. Passenger growth will further limit the availability of rail capacity over time. We estimate capacity enhancements on this rail line to cost more than $1.5 billion, and even more if full passenger / freight separation is required.

Transporting a container or the unpacked goods by road to its end destination via the F3 and NorthConnex is likely to be a more efficient logistics connection than via rail to a metropolitan intermodal terminal and then to the end customer given the constraints on rail. This would increase the estimated truck numbers generated by a Newcastle container terminal.

A Newcastle container terminal would introduce new north-south traffic into Sydney along the F3, worsening traffic conditions, and requiring further road and significant rail upgrades.

1 Greater Sydney Commission – A Metropolis that Works, October 2018

INTERMODAL TERMINALS

Freight developments such as distribution centres, warehousing and intermodal terminals, and logistics related jobs have drifted west and southwest of Sydney over the past two decades, reflecting land availability and prices, population patterns, long term planning decisions.[1]

This reflects substantial investments by the government sector and private companies, supported by significant all-of-government planning including:

- the Western Sydney City Deal between all three levels of Government;
- the development of the Federal Government's Moorebank Intermodal Terminal;
- supporting rail investments; and
- the development of a new international airport at Badgery's Creek.

These decisions reflect long-term planning and transport decisions that reflect population, demographic and economic shifts. This shift supports NSW Government long term policy that Port Botany followed by Port Kembla will support NSW's container needs.

Intermodal terminals in south west and west Sydney are fundamental to servicing the container market – being Sydney. Even with a Newcastle container terminal, for Newcastle to achieve any material rail mode share the volumes would need to be destined for a Sydney metropolitan intermodal terminal. These are the same intermodal terminals that are being planned and invested in by Government and private sector and connected efficiently by dedicated freight rail to Port Botany.

Therefore intermodal terminals and rail and road connections in southwest and western Sydney would still be required for a Newcastle container terminal.

The Port of Newcastle sale arrangements have no impact on intermodal terminals and rail and road connections in southwest and western Sydney.

COSTS FOR NSW IMPORTERS AND EXPORTERS

Port infrastructure is sizeable and expensive. To keep freight costs low, the costs of port operations and investment need to be spread over the maximum volume possible - so that the cost per container can be kept as low as possible. The ACCC confirmed this in its Container Stevedore Monitoring Report (2014)[1] where it stated:

"Container stevedoring is a capital intensive industry, requiring large and lumpy investment in equipment like cranes, straddles and technology. Efficiencies available to a larger operator, for example, in terms of management and coordination of workforce and equipment, may not be available to stevedores operating on a smaller scale. A higher output allows a firm to achieve economies by spreading these costs over a greater number of units. For these reasons it is generally accepted that there are economies of scale in container stevedoring.

Until a new entrant is able to acquire sufficient market share, it may have trouble profitably offering attractive services and competitive rates to shipping line customers. New operators may sustain losses in early periods until they can attract market share and earn revenues at levels needed to recover initial capital costs."

The third container terminal at Port Botany commenced operations in 2013. Five years following commencement of operations, the market share of the third stevedore remains low at 13.3% or 346,000 TEU. It has not yet reached a level where the operator is profitable.

The premature introduction of a fourth container operator could result in:

1. Higher costs to all importers and exporters as capital and operating costs are being spread over fewer containers
2. The collapse of one or more existing stevedores due to insufficient demand, particularly in the event of 'price war' in which stevedores reduce prices temporarily and then increase prices following a collapse in competitors. This would set back actions over the past decade to introduce more competition into the container stevedoring market to drive productivity gains and investment.

Until total volumes reach a 'sustainable' level to support a fourth container terminal, it is premature and risky to the entire NSW economy to introduce a fourth terminal.

1 ACCC Container Stevedore Monitoring Report No. 16 (2014)

PORT COMMITMENT DEEDS

The Port of Newcastle Port Commitment Deed is a 2014 agreement between the Port of Newcastle and the NSW Government. This agreement does not preclude Port of Newcastle from operating a container terminal but we understand that it 'passes-through' any payment obligations that the NSW Government has arising from the handling of more than a specified throughput of containers at Port of Newcastle. NSW Ports is not a party to this Deed and was not aware of its existence until recently. NSW Ports has not seen a copy of this agreement.

The Port of Newcastle is not required to recover the payments to the NSW Government from the stevedore or from the container market such as via wharfage. This fee is to be paid by the Port of Newcastle to the NSW Government. We suggest that this is effectively a 'deferred payment' to the State for the right to build and operate a container terminal. The Port however is agitating that the Deed conditions are 'unfair' and should be removed - thereby seeking to gain value from changes to the sale conditions at the expense of the NSW taxpayers.

The Port of Newcastle (owned by China Merchants Port Holdings/The Infrastructure Fund) entered into the Newcastle Port Commitment Deed with the NSW Government knowingly and willingly as part of its $1.75 billion purchase of the 99 year lease for the port in 2014. The Deed therefore formed part of Port of Newcastle's value consideration. We would expect that the NSW Government and NSW taxpayers would be concerned that appropriate benefit is obtained from the Port of Newcastle for changes to sale conditions where those changes create an uplift in business value for the Port of Newcastle. The Port Botany and Port Kembla Port Commitment Deeds are separate documents, unlinked, to the Port of Newcastle Port Commitment Deed. The Port Botany and Port Kembla Port Commitment Deeds are Deeds between NSW Ports and the NSW Government. Port of Newcastle is not a party to these Deeds. The Port Botany and Port Kembla Port Commitment Deeds formed a part of the consideration by NSW Ports in its $5.07 billion purchase of the 99 year leases for Port Botany and Port Kembla in 2013.

The Port Botany and Port Kembla Port Commitment Deeds contain provisions that allow NSW Ports to make submission to the NSW Government for 'support payments' should the Port of Newcastle handle more than a specified volume of containers for two years (starting at 30,000 TEUs in June 2013 and increasing by the higher of 6% per annum or the container growth rate at Port Botany annually).

The support only applies where NSW Ports can justify that Port Botany and Port Kembla are not at full capacity and the container throughput at these ports is less than would have occurred if Newcastle did not exceed the throughput threshold. The agreement applies until 2063. Significantly, the terms of the Port Botany Port Commitment Deeds do not prevent Port of Newcastle from operating a container terminal.

INVESTMENT CERTAINTY & CONFIDENCE

It was in the context of NSW Government policy based on long-term land use, freight, and population planning that NSW Ports acquired the long-term leases for Port Botany and Port Kembla in 2013 for $5.07 billion.

It is also within that context that NSW Ports invests in its assets to meet the container freight needs of NSW. Removing the certainty that is based on long-term Government policy reduces the ability not only for NSW Ports to invest in productivity improvements, but also in Australian entities to invest in strategic assets in NSW.

The Port Commitment Deeds served to reflect the State's long-term freight transport planning strategies and was used to provide investors with certainty about the long-term shape and function of the NSW freight market.

Imposed changes to the terms of a lease entered into by the NSW Government would adversely impact the reputation of the State of NSW for future investment decisions and has the potential to introduce a level of investment risk to the State of NSW that could reduce the ability to attract investors or increase the risk premium applied to investments in NSW and impact on the State's credit rating.

NSW would be seen as a less reliable investment destination as a result of Government seeking investment of billions of dollars on one set of terms and conditions and then changing those terms some time later.

NSW is one of only two Australian states to have a triple A credit rating. This credit rating helps to provide essential infrastructure and services at a lower cost to the State's residents than it would have otherwise.

NSW Ports is 80% owned by Australian superannuation funds (IFM Investors, Australian Super, CBUS, HESTA, HOSTPLUS) investing on behalf of six million Australian members and are long term investors with interests in a range of Australian infrastructure assets. The Australian funds invested the savings of Australian working families and retirees into the NSW Ports consortium because it offered a stable long-term investment that will provide a reliable steady return. Changing the rules regarding that investment could impact on their investments.

CONCLUDING REMARKS

The role of containers to service Australia as an island nation with significant demand and need for imports is fundamental to keeping our nation's economy growing, people employed and standard of living improving.

Freight is the lifeblood of the NSW economy, with the costs of transport and logistics reflected in the price we pay for goods we consume – and the final price we charge for each item we export to other markets.

Proper and dependable long term planning underpins our container supply chains and is critically important to our State and National economy that it needs to be underpinned by substantiated facts. The consequence of not getting the container planning right is higher cost of goods and loss of export markets.

Our submission addresses the Terms of Reference of the Inquiry with the following conclusions:

- **The Port of Newcastle sale arrangements and Port Commitment Deeds do not adversely impact on public works expenditure in NSW.**
  To the contrary, the sale arrangements in fact mitigate public works expenditure in road and rail investment that would be required to support the additional 2,700 truck trips per day between Newcastle and Sydney on the F3 and the billions of dollars required to be spent on freight rail capacity on the Main North Freight Line in order to achieve any reasonable volume of container freight on rail, arising from a Newcastle container port.
- **The Port of Newcastle sale arrangements and Port Commitment Deeds do not result in additional costs for NSW importers and exporters.**
  Prematurely introducing a fourth container terminal into the NSW market is likely to result in adverse economic consequences. This could result in one or more of: an infrastructure 'white elephant' in NSW; increased costs to all NSW importers and exporters from the recovery of additional investment and operational costs across the existing volume of containers; or significant short term price cutting that sees one or more stevedores exit after which those remaining would likely increase prices. This would set back Government actions over the past decade to introduce additional competition into the container market to drive productivity gains and investment.
- The Port Commitment Deeds mirror long standing NSW Government policy in respect of container terminal development and the planning required to service the State's container freight task into the future. Government's port planning is underpinned by a thorough understanding of the NSW container market. The Port Commitment Deeds do not influence the container freight supply chain analysis.

GLOSSARY

TERM	DEFINITION
Container Terminal	A specialised facility where container vessels berth to unload and load containers
CPI	Consumer Price Index
GSP	Gross State Product. It is a measurement of the economic output of a state and is the sum of all value added by industries within the state.
Intermodal Terminal (IMT)	A facility used to transfer freight from one transport mode to another, for example from road to rail.
Stevedore	A company involved in loading and discharging cargo on and from ships.
Supply Chain	The entire network involved in getting a product or service from a supplier to the customer.
TEU	Twenty-foot equivalent unit. A unit of measurement equal to the space occupied by a standard twenty-foot long container. One forty foot container is equal to two TEU.

NSW Ports

Cover image courtesy of DP World Australia