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Sent: Tuesday, October 19, 2004 10:07 AM
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Cc: "Alf Cocco" <Alf.Cocco@mail.treasury.nsw.gov.au>
Subject: Port Botany

Please find attached for your information a copy of a letter which was sent yesterday evening.

Treasurer of New South Wales Australia
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Commissioner Kevin Cleland
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Dear Commissioner

I refer to your call for submissions dated 30 August 2004 on the supplementary report by Sydney Ports Corporation in response to the additional terms of reference announced by the Minister for Infrastructure Planning and Natural Resources in May 2004.

I note the new term specifically referred to potentially feasible alternatives (to Sydney Port's proposal) at Port Botany. However, in relation to this term, and the listed matters (i), (viii) and (xi) in the original terms of reference, I anticipate you will receive submissions that deal with the Government's announced Port Growth Plan. A key component of the Plan is selecting Newcastle as the long term site for container expansion once Port Botany reaches capacity. Port Kembla will also take over from Port Jackson as the principal port for handling general cargos.

I attach a comprehensive explanation of the Plan provided by the Government to the Legislative Council Standing Committee on State Development Inquiry into Port Infrastructure in NSW. To be of assistance to the Commission I am happy to provide the following additional explanation of the processes followed in developing the Plan, and the underlying policy rationale.

As the Commission is aware, NSW has enjoyed, and looks likely to enjoy for a sustained period, robust economic growth which in turn will fuel ongoing growth in containerised trade. The growth in container trade is also affected by higher levels of international trade. Container growth in NSW may be restricted by the capability of existing infrastructure,

including port infrastructure. This in turn could significantly increase transport and handling costs for NSW businesses and increase the cost of doing business, and ultimately constrain growth of the NSW economy.

The Government was presented with several potential alternatives to deal with this challenge. This included new container ports at Newcastle and Port Kembla and expansion of the existing port at Port Botany. In addition, the Government was also confronted with the historic decline of general cargo and container shipping in Port Jackson.

The Government therefore developed an over-arching framework policy. This will provide strategic guidance to Government agencies, and the private sector, for the development of major long term transport infrastructure and for urban planning. A key requirement is that the framework is sufficiently flexible to deal with potentially widely divergent future scenarios for trade growth and transport productivity (including, but not limited to, port productivity). It was in this context a detailed and strategic evaluation of the alternatives was undertaken. Matters considered included:

- Future growth projections for container trades and for stevedoring productivity;
- The cost of port, road and rail infrastructure;
- The transport cost from both a customer's and the Government's perspective (as providers of the road and rail network);
- The environmental impact (particularly of transport); and
- The impact on employment and regional development.

The conclusions which were drawn from the evaluation, undertaken in 2003, were broadly as follows:

- The current container capacity at Port Botany (roughly up to 2 million twenty foot containers ("teus") per annum) could be exceeded in the next eight to ten years. Growth could continue at an average exceeding 5% pa, effectively doubling demand every 10 or so years. This could mean that in around 20 years time container traffic could be around 4 million teus per annum;
- The incremental throughput opportunities presented by all three NSW ports could be required to satisfy this demand (and certainly will be required to meet demand beyond this time). Significant new port and transport capacity will also be required to meet the expanded requirements of the coal industry in the Hunter, and possibly the Illawarra, and to accommodate the shift of trades, including general cargos and motor vehicles, away from Port Jackson (and the growth in those trades);
- There is considerable uncertainty concerning each of the future potential container port developments and the restrictions which may be placed upon them which may limit their achieving a theoretical capacity; and
- Similarly, expectations about the future productivity of current and new container facilities are not certain and depend upon a series of assumptions about future port and

off port operations and the financial case for future investment by private stevedores. **The Government therefore decided not to prematurely close off any option for future container expansion at any port. The key issue was not where increased container capacity will be provided but in what order and in what timeframe it should be brought on line.**

Major elements of the Plan subsequently developed included:

- The identification of Newcastle as the next major container Port following the exhaustion of the capacity available at Port Botany and the reservation of land for that purpose (at the former BHP site).
- The continuation of a current proposal to develop a container terminal at Newcastle, leveraging off local and some specialist trades. This development could utilise existing transport and other infrastructure while facilitating a smoother transition to a much larger container shipping chain in the Hunter.
- An ongoing shipping emphasis in the Hunter on bulk trades, especially coal and grain. Export coal, where Newcastle is already one of the world's largest export ports, continues to make increasing calls on both rail and potential port infrastructure. The economy of the Hunter, and the State, remains crucially dependent on meeting this trade which may exceed 100 million tonnes per annum in the near future;
- Proceeding with the Commission of Inquiry to investigate the proposed Port Botany expansion. The long lead times required to deliver the an expansion, combined with a level of uncertainty about future growth and productivity rates meant, responsibly, it should be bought forward as soon as practicable; and
- The current available port development capacity at Port Kembla will be dedicated to meeting the requirements of the trades which currently utilise Port Jackson (including containers, general cargos and motor vehicles as leases expire). The Government considered several alternative proposals to manage container growth (given a notional expansion target of 1 million teus as a benchmark). These included:
 - **Newcastle solely** - The estimated total cost of expanding Newcastle solely (including road and rail costs) was materially higher than for the proposed Port Botany expansion and had higher transport costs both in environmental and customer terms. Lower port development costs (given the availability of a site) were more than offset by the significantly higher cost of road and rail upgrades. Thus, subject to the findings of the Commission, an expansion of Port Botany should occur before a similar capacity expansion at Newcastle.
 - **Dispersed development** - An alternative, of dispersing the expansion target between the three ports, and leveraging as much as possible off existing latent capacity (both in port and transport infrastructure) was also considered. However, this would conflict with the need to accommodate ex Port Jackson trades at Port Kembla and the current demands of the coal industry, in both Newcastle (and possibly Port Kembla) for increased port and rail access and does not have any cost advantages. There were also considered to be significantly different risks associated with the dispersed options (and of Newcastle alone) compared to expanding Port Botany:
 - Port Botany is currently a commercially viable container port and is expecting

throughput, and productivity, to increase strongly. It could be expected to enjoy the economies of scale and scope associated with extending an existing capital intensive facility. It avoids (or defers) the potentially significant ramp up penalties in attracting business to a new facility and achieving an efficient scale of operations; and

- The strong preference of the shipping and stevedoring industries would be to maintain existing logistic arrangements at Port Botany (other than trades locally sourced) until Port Botany's capacity were reached. There is therefore uncertainty as to whether Port Kembla or Newcastle could grow quickly to become major container ports. A major consideration for Government in setting the Ports Growth Plan was the promotion of a competitive shipping and logistics industry in New South Wales, which assists a strong and growing state economy and job creation by holding prices down.

The Government believes the growth in container capacity should be delivered in a way that advances this objective. In particular, the Government is keen to provide opportunities for additional competition in stevedoring and the logistics chain generally. This interest does not necessarily align with the desires of existing industry incumbents.

The Government supports a terminal design at Port Botany that facilitates the entry of a new stevedore and/or an increase in the level of competition between existing market participants. In this regard the Government is mindful that stevedoring lease arrangements may vary considerably over the next decades. Indeed, the level of growth forecast will provide significant opportunities, and incentives, for new entrants.

A new entrant at the same location as its competitors may be more viable than a start up at a regional port, particularly in the short term. For example, a new entrant at Port Botany could directly pitch for existing Sydney based customers with local logistic infrastructure (transport, warehousing and distribution).

I trust this information assists.

Yours sincerely
Michael Egan
Treasurer