Australian Dairy Industry Council Inc.

Submission to the

Upper House Select Committee Review of the *Delivering Victorian Infrastructure (Port of Melbourne Lease Transaction) Bill 2015*

September 2015

Level 2, Swann House, 22 William Street, Melbourne, Victoria, 3000 AUSTRALIA
Telephone: +61 3 8621 4250   Facsimile: +61 3 8621 4280
ABN: 76 673 412 879

This submission is made on behalf of the Australian dairy industry by the Australian Dairy Industry Council (ADIC).

The ADIC is the national peak policy body for the Australian dairy industry and represents all sectors of the industry on issues of national and international importance.

Its constituent organisations – the Australian Dairy Farmers Limited (ADF) and the Australian Dairy Products Federation (ADPF) – represent the interests of dairy farmers, manufacturers, processors and traders across Australia.

Introduction

A vibrant export trade is in the dairy industry's, Victoria's and Australia's best interests. The importance of the dairy industry to the wealth of Australia and Victoria, to employment and the viability of rural communities has been readily acknowledged by the Commonwealth and Victorian Governments.

This status has been achieved through innovation and exceptional quality standards across the value chain; in spite of the challenges presented by drought, floods, growing international competition, volatile terms of trade and assorted trade barriers.

Victoria is the number one dairy state in Australia, producing some 66% of the total national dairy output of 9.7 billion litres. Victorian dairy companies depend heavily on export markets for ongoing profitability and currently export 60% of milk produced as milk powders, cheese, butter and other products.

At a rate of 44,600 TEU per annum (2014) the dairy industry is the 5th largest user of the Port of Melbourne. The Port of Melbourne is not only the point of export for Victorian producers and dairy companies, but also for the dairy industry located in Tasmania and parts of South Australia and New South Wales.

Over 85% of Australia's total dairy exports go through the Port of Melbourne.

It is thus understandable that the ongoing cost-effectiveness and efficiency of the Port of Melbourne is of paramount importance to dairy industry stakeholders now and into the future

It is in this context that the ADIC is responding to the draft Port of Melbourne Lease Transaction Bill 2015.

Dairy Industry Concerns

The key dairy concerns relate to the lack of detail around how current users of the Port of Melbourne will be protected in both the short and long term, the potential for rising port costs and the lack of detail available on crucial issues, particularly those with regard to safeguards to be implemented.

1. There is a conspicuous lack of detail in the conditions, operations and delimitation of the proposed sale of the POM Lease. In concert with no stated business plan the lack of information precludes effective planning by users of the Port. This creates an unacceptable business risk that is of particular concern since commitments up to 70 years duration are integral to the sale conditions currently under consideration by the Victorian Government.

2. Consolations offered by Victorian Government Members have not been substantiated. For example Treasurer Tim Pallas claimed the Government has "put in safeguards to ensure that the port will be even better and more efficient for Victorian farmers" but has provided no supporting evidence for this claim.

3. Australia's domestic consumption grows only slightly over time, in step with a slow population increase (1.8% population growth in the 2014 calendar year). Per capita consumption of dairy products is already relatively high at around 300 kilograms per year; by comparison, the per capita consumption in an export target market, such as China, is approximately 30 kg per year with an obvious significant scope for increase. Export markets provide an alternative to the domestic market and it is crucial that Australia maintains competitive access to international markets to ensure the industry's ongoing viability.

4. Where dairy food processors operate across state boundaries (as many do) they will opt to ship dairy exports from other ports.

5. In August this year the Port of Melbourne Corporation reached agreement with DP World on a new 50-year lease agreement (to 2065). The new lease requires DP World to meet key performance indicators and efficiency incentives.

   The lease also includes incremental rent increases over the 50-year tenure starting with inflation-linked increments in 2015 and 2016 to nominally $45 by 2023, and agreed escalations to 2028.

   The first market rent review will take place in 2028 and subsequently every five years.

   The ADIC is concerned at the rents rising from the current levels of $16-$20 to $45 by 2023 which will, on face value, see the rent more than double in just 8 years.

6. The ADIC is also concerned that other Port of Melbourne usage fees will rise to cover administration, maintenance and improving infrastructure of the port and its surrounds.

7. Further to the un-capped nature of Port of Melbourne fees generally, the dairy industry has very real concerns of the impact on port users if a major export commodity group (such as grains) chooses to redirect exports through other ports. Such action would precipitate the need for the Port of Melbourne to reapportion and further increase the fees charged to continuing port users.

8. The dairy industry uses only food-grade containers for shipping its products. Since the number used for exports exceeds the number used for imports there is often a requirement to import empty containers to meet needs. Consequently, the stevedoring costs associated with the movement of the empty food-grade containers amplify the impact of any rent impost.

   As a major user of the Port of Melbourne the dairy industry will bear an unreasonable and disproportionately high percentage of this new cost.

9. The funds raised by the Government through the increased rent are not committed to improving port facilities, but will instead be directed to the State's consolidated revenue. This will have repercussions for port fees in the future and provide no direct benefit to the dairy and other manufacturers that use the port.

10. In Victoria, the construction of a second container port is likely to be needed in 15 years as the Port of Melbourne reaches capacity. It is essential that the lease agreement encourages competition and efficiency and allows for the development of a second port to provide required capacity for our export industries into the future.

    The ADIC does not want to see the state's container capacity, nor the competition a second port could deliver reduced or priced out due to excessive compensation arrangements.

Conclusion

The dairy industry does not object to the sale of the port per se, however is deeply concerned about the lack of detail around how current users of the Port of Melbourne will be protected in both the short and long term.

Rising port costs is only one issue around numerous other ramifications that will be precipitated by the port sale.

On behalf of port users generally, and the dairy industry specifically, the ADIC requests greater consultation and urges that issues raised in this submission be addressed by the Victorian Government, particularly those with regard to safeguards to be implemented.

The ADIC also endorses the comprehensive arguments and concerns, issues and questions put to the Review Committee by the Victorian Farmers Federation (which includes the United Dairyfarmers of Victoria) in their submission.