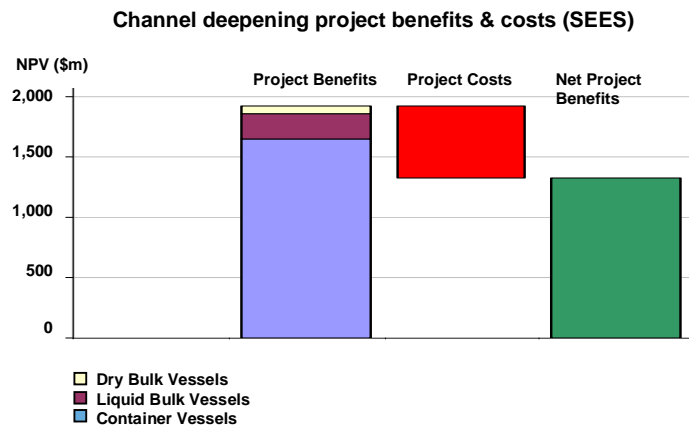


## Port Phillip Bay Channel Deepening Project – an economic critique by Economists at Large and the Australian Conservation Foundation

We are seeing a rapid erosion of any net benefits as the costs of the project continue to increase. What we can say for sure is that the net project benefits to the state of Victoria are very different now from the assessment by the Supplementary Environment Effects Statement (SEES) panel.

**The PoMC description of costs and benefits in the SEES <sup>1</sup>:**

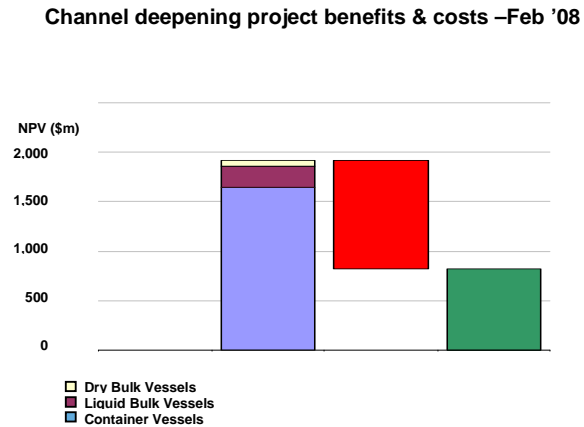
**Project benefits:** \$1,936 million  
**Costs:** \$ 590 million  
**Net benefits:** \$1,346 million



**Source**  
 Extrapolated from SEES data

**Best estimates from available data as at 13 February 2008:**

**Project benefits:** \$1,936 million  
**Costs:** \$ 996.75 million  
**Net benefits:** \$939.25 million



<sup>1</sup> Meyrick & Associates (2007), Channel Deepening: Benefit-Cost Analysis–PoMC SEES Appendix 4.

**Changes in costs/benefits:**

- Project costs have been revised upwards by \$379 million since the SEES presented figures in 2007 – from \$590 to \$969 million<sup>2</sup>
- Sunk costs were not included in the SEES, but have been included in our updated analysis – \$26 million incurred in 2005 and '06<sup>3</sup> – predominantly on the trial dredging
- Cost of delays to the PoMC: seven days (1–7 February) at \$250,000 per day = \$1.75 million (dredging commenced on 8 February)

**Other potential impacts on costs/benefits (not included above):**

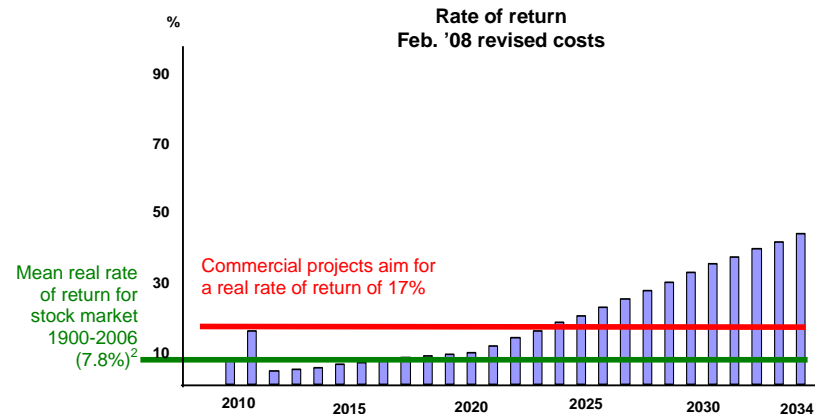
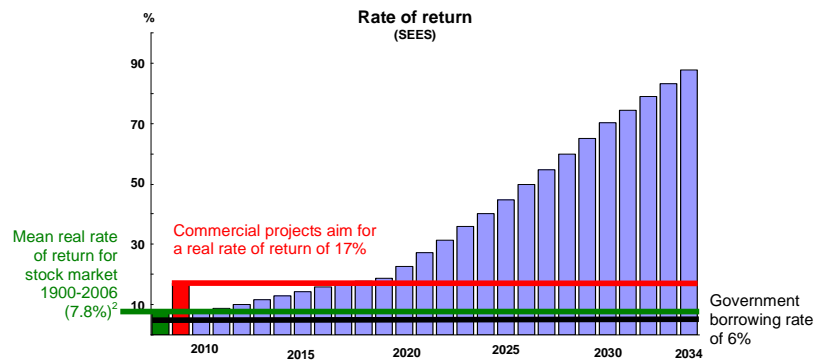
- The impact a levy on shipping containers might have on the Port of Melbourne was not considered in the SEES process. An additional levy of approximately \$32 will cost shipping lines approximately \$82 million per annum (based on current slot capacity of ~2.5 million containers). The net present value of this cost is conservatively \$1 billion over the life of the project. This levy cuts into the savings made by container vessels which represent the bulk of the benefits of the project. By bringing down these net savings, one could assume the port would be used less due to the increased cost, all things being equal – a full study is needed to estimate the price elasticity of shipping lines to determine whether demand would drop and to what extent this would affect the net project benefits.
- Government commitment of \$150 million to support the project was not included in the SEES. This expenditure represents an opportunity cost to Victorians – the capital could be invested elsewhere to gain higher returns or for more direct benefit to the state. The PoMC's Government subsidy indicates the project is not commercially viable on its own,<sup>4</sup> contradicting Mr Brumby's statements in 2005.
- With costs increasing so drastically, the rate of return on this investment is being squeezed to a point where the project is not viable and would not be invested in by the private sector (see rate of return diagram below – SEES versus updated with new costs). With revised costings, the rate of return reaches a commercial rate around 2022, ie. the Government would be better placed to put the public money in an ING account for higher returns (and significantly lower risk) for the next six years, then reassess the project.

---

<sup>2</sup> Media release from the Minister for Roads and Ports, Tim Pallas, 21 December 2007.

<sup>3</sup> Op.Cit, Meyrick & Associates (2007), p.52

<sup>4</sup> Then Victorian Treasurer, John Brumby, quoted in *The Age* on 29 August 2005, "Dredge's Costs and Benefits Unknown": *"This is essentially a commercial project and it will be largely funded by those who directly benefit from deeper channels, and that is those who export and import"*



**Conclusion:** The economics of this project should be reassessed, as the purported benefits are rapidly being eroded. The basis upon which the net benefits of the project were calculated has drastically changed and, with costs inflating substantially, the project is no longer economically defensible. This demands a thorough review of this project as it is now even more marginal than before. Costs have escalated (2003: \$388 million; 2005: \$577 million; 2006: \$590 million; 2008: \$969+ million) – by approximately 250 per cent. Government is now subsidising the project to the tune of \$150 million, demonstrating that this project is not viable on its own. A levy is now announced for ship owners after the SEES process refused to incorporate finance arrangements throughout the assessment process – this has the effect of reducing the net value of the project by making the port less attractive to ship owners. Despite tens of millions of dollars being spent analysing this project, the proponent was unable to accurately assess the costs of the project. This raises questions about the PoMC’s ability to deliver the project. An inquiry is needed to determine why this project has been so poorly managed and assessed.

**Economists at Large & Associates:** “This project is ‘brave’ and whimsical in its willingness to spend capital on revenues that are so far in the future – there is a high risk it can’t deliver.”

**World Bank:** “Good economic analysis should leave no doubts about the project’s contribution to the country’s welfare” WB guidelines 2001, p3