

INDEPENDENT PRICING AND REGULATORY TRIBUNAL REVIEW OF MAXIMUM
SITE OCCUPATION CHARGES FOR CRUISE SHIPS
IN SYDNEY HARBOUR

Tribunal Members

Dr Peter Boxall AO, Chairman,
Ms Catherine Jones and Mr Ed Willett

Members of the Secretariat

Mr Hugo Harmstorf, Ms Fiona Towers, Ms Melanie Mitchell,
Mr John Smith and Ms Jenny Suh

At

The offices of IPART
Level 15, 2-24 Rawson Place, Sydney

On Tuesday, 23 August 2016, at 10.00am

1 OPENING REMARKS

2
3 THE CHAIRMAN: Welcome, and thank you all very much for
4 coming. My name is Peter Boxall and I'm the Chairman of
5 IPART. With me today are my fellow tribunal members
6 Catherine Jones and Ed Willett.

7
8 I would like to begin by acknowledging that this
9 hearing is being held on the traditional lands of the
10 Gadigal people of the Eora Nation.

11
12 As I said, I'd like to welcome you all today and thank
13 you very much for making the time to attend this morning's
14 hearing. Today's hearing relates to our draft
15 recommendations on maximum site occupation charges for
16 port services to cruise ships in Sydney Harbour.

17
18 As you know, IPART has been asked by the
19 NSW Government to review and recommend site occupation
20 charges for cruise ships in Sydney Harbour. We have
21 recently released a draft report which sets out our draft
22 findings and recommendations. In making these, we have
23 considered a lot of information, including expert advice on
24 efficient costs from AECOM and a number of factors outlined
25 in our terms of reference. The Port Authority is the only
26 provider of site occupation services to cruise ships in
27 Sydney and it is important that charges reflect as much as
28 possible outcomes that would have been in a competitive
29 market.

30
31 Our draft recommendations provide a more cost
32 reflective charge for larger ships that use the Overseas
33 Passenger Terminal, while encouraging greater utilisation
34 of the White Bay Cruise Terminal by smaller vessels. As
35 there is restricted access to White Bay, we have formed the
36 view that there are separate, albeit related, markets at
37 the Overseas Passenger Terminal and at White Bay. Our
38 draft recommendations are based on ensuring that the cruise
39 industry pays only the efficient costs for these
40 facilities, and that the Port Authority is able to continue
41 managing the terminals for the long-term benefit of NSW.

42
43 Today's public forum forms an important part of the
44 public consultation process that the tribunal undertakes.
45 We are keen to hear from stakeholders on our analysis and
46 draft recommendations.

47

.23/08/2016 2

Transcript produced by DTI

1 Shortly, Melanie Mitchell from the IPART Secretariat
2 will provide a short overview of our draft findings and
3 recommendations. Then Mike Stoke and Simon Ward from
4 AECOM will give an overview of the advice they provided to
5 this review.

6
7 Philip Holliday, the Chief Operating Officer and
8 Harbour Master for Sydney from the Port Authority, will
9 then have the opportunity to comment on our draft
10 recommendations and findings. Following this, there will
11 be ample opportunity for stakeholders to ask questions or
12 comment on the draft decision.

13
14 A transcriber is present to record the proceedings and
15 a transcript will be publicly available. So that we can
16 have a complete record, please introduce yourself when you
17 start to speak.

18
19 With that, I now invite Melanie to make a short
20 presentation.

21
22 OVERVIEW OF IPART DRAFT REPORT AND
RECOMMENDATIONS

23
24 MS MITCHELL: Thank you, Peter. I'm Melanie Mitchell,
25 part of the IPART Secretariat.

26
27 As most of you know, we were tasked with recommending
28 the maximum site occupation charges and charging
29 arrangements for cruise ships using all berths and moorings
30 in the Sydney Harbour area.

31
32 Although we were only asked to recommend site
33 occupation charges, we also looked at pilotage and
34 navigation costs, and the cruise component of those costs
35 as well. Part of the reason for that is because our terms
36 of reference asked us to consider, amongst other things,
37 avoiding any cross-subsidies between different cost sectors
38 and also a number of other somewhat competing factors,
39 including commercial viability of the Port Authority's
40 cruising structure, the viability and growth of the cruise
41 industry and also making sure their price mechanism was
42 allocatively efficient and provided certainty for the
43 cruise industry. That is something which came up a lot in
44 the terms of reference and was simple to update going
45 forward.

46
47 These are the draft recommendations that we have

.23/08/2016 3

Transcript produced by DTI

1 developed. Notably, we have recommended a per call charge
2 at OPT of around \$80,000 per call, and a per passenger
3 charge at White Bay 5 and White Bay 4, which is not a
4 dissimilar level to what it is currently, at \$32.60 per
5 passenger. At White Bay 4 we have kept the same structure
6 that it is at the moment, which is 50 per cent of the
7 White Bay 5 charge, to reflect that the facilities and
8 services at White Bay 4 are a lot less than what you would
9 get at White Bay 5.

10
11 We recommended no change to the Port Authority's
12 charges for other buoys and moorings, and found that these
13 are roughly cost reflective and less due to the infrequent
14 use of those buoys and moorings as well.

15
16 We recommended updating annually by CPI and reviewing
17 periodically to see if there have been any other changes to
18 cost drivers to support any negotiations between the
19 Port Authority and its customers on charges.

20
21 We also recommended a demand adjustment mechanism.
22 Our recommendations rely quite heavily on forecasts of ship
23 numbers and passenger numbers and, as we go further into
24 the future, that becomes more uncertain, so we recommended
25 that at the beginning of the charging year, if demand is
26 5 per cent more or less than what our current forecasts
27 are, then the demand adjustment mechanism will come into
28 play and the charges will be adjusted accordingly.

29
30 I guess the key thing is that we recommended different
31 charging arrangements for White Bay and OPT. The key
32 reason for that is that we think there are separate but
33 complementary markets at OPT and White Bay. White Bay is
34 really not a substitute for OPT in the majority of cases
35 because of the size of ships that are able to fit under the
36 bridge and to use White Bay. This and the trend towards
37 having larger cruise ships means there are growing capacity
38 constraints at OPT which are also not the case at
39 White Bay.

40
41 If you looked at OPT, a per call charge would be more
42 cost reflective, and AECOM will talk a bit more about that
43 in their presentation. However, if we were to implement
44 that at White Bay, they would not be able to respond to
45 that by having larger ships, and therefore, reducing the
46 per passenger cost. That would actually mean a quite
47 significant increase in charges at White Bay, and that

1 would probably be at the sort of level that would
2 discourage ships from using White Bay. A per passenger
3 charge would help to continue to attract smaller ships into
4 White Bay.

5
6 Our draft recommendations are based on looking at the
7 site-specific costs for each of the terminals. This is
8 what they look like here. As you can see, the majority of
9 the costs relate to the return on and of the capital base.
10 Notably, as well, the costs at White Bay are about
11 80 per cent of those at OPT. However, the demand at
12 White Bay is a lot less than what it is at OPT. If we were
13 to strictly implement the site-specific charges, the
14 charges at White Bay would be significantly higher than
15 what they are now, and, again, we felt that that would be
16 at the level that would discourage use of White Bay. So we
17 based our recommended charges for White Bay on the demand
18 projections at OPT during the peak which reflects a more
19 mature level of utilisation of the asset, and then in the
20 off-peak we just used the same forecasts for White Bay.

21
22 The implications for the Port Authority, particularly
23 having the lower charge at White Bay, means that they would
24 recover about 74 per cent of the costs of White Bay over
25 the next five years and 88 per cent of the costs overall.
26 However, looking at what impact this would have on the
27 Port Authority's finances, we determined that it wouldn't
28 affect their ability to provide the same level of services
29 to cruise ships that they do at the moment.

30
31 As to implications for cruise operators, we determined
32 that about 87 per cent of cruise ships that can only berth
33 at OPT would be paying less than the Port Authority's
34 proposed \$35 per passenger in the 2016/17 financial year.
35 On average, it is about \$30 per passenger, which is the
36 same as the current charge. However, it does vary,
37 depending on the size of the ship, so it could work out to
38 be anywhere between \$23 and \$39 per passenger, depending
39 on the size.

40
41 As I mentioned before, at White Bay the recommended
42 charge is similar to what it is at the moment - a bit
43 higher than it is at the moment, but a bit lower than what
44 was proposed by the Port Authority.

45
46 In "Other Findings", we based our modelling results on
47 the value of the land at both of the terminals, based on

1 its existing use as a port. However, the Port Authority
2 did provide an alternative valuation, which valued the land
3 if it was being used for residential apartments, and that
4 provided a much higher value. If that value was used in
5 our modelling, the charges would be at least double what
6 our recommended charges are at the moment. However, we
7 felt that that wasn't consistent with our terms of
8 reference which asked us to consider the impact of our
9 charges on the cruise industry's viability and growth.
10
11 The second thing - and AECOM will talk more about this
12 in their presentation as well - is that the majority of
13 ships, I think it is something like 95 per cent, actually
14 sail into OPT in the morning before 7am and leave again in
15 the late afternoon or evening, which leaves a lot of the
16 24-hour slot that they are allocated as spare capacity.
17 However, obviously that spare capacity is not really
18 attractive for the industry to use, but we did think about
19 how we could try to get better use of that capacity.
20
21 In the end, we determined that there probably wasn't a
22 one-size-fits-all solution and it would be best if the
23 Port Authority were able to negotiate with its customers
24 and provide some incentive to use some of that spare
25 capacity. However, in the long-term, it's obvious that if
26 growth continues along the current trajectory, there will
27 be new capacity required east of the Sydney Harbour bridge.
28
29 Lastly in our other findings, pilotage and navigation,
30 we found these charges were roughly consistent with
31 efficient costs. Again, similar to the site occupation
32 charges, the costs are largely fixed, so per call charge
33 would be more cost reflective. We did determine that there
34 was no economic basis for the Port Authority to pay RMS a
35 channel fee from its navigation revenue. The channel has
36 an indefinite life. Its historic costs have already been
37 recovered and with no constraints on capacity in the
38 harbour, we felt there was no economic basis for the
39 charge. So our modelling excludes the channel fee. On
40 that basis, the navigation charges we found, with the
41 current discounts that are currently applied, are too low.
42 Navigation discounts are about 10 per cent more than what
43 they should be, if the charges were to be cost reflective.
44
45 That is all from me. Thank you.
46
47 THE CHAIRMAN: Thank you very much, Mel. Now we will hear

1 from AECOM, Mike and Simon?
2
3 PRESENTATION BY AECOM
4
5 MR WARD: Our remit was to look at efficient costs of port
6 services to cruise ships. Those costs then fed into the
7 IPART model. We broke our model down into the four steps.
8 The first thing we looked at was the operational cost
9 structures. We worked very closely with the
10 Port Authority. We went through the asset register. We
11 looked at the costs that they put in there for asset
12 valuations, which is where the box on the right then comes
13 in.
14
15 As a separate task, we looked at valuing each of the
16 assets. We did that using DORC principles as opposed to a
17 book value. The reason we used DORC was for a number of
18 reasons. That is typically the way assets are valued for
19 regulation. It also values an asset on the basis of
20 re-providing the level of service as opposed to the
21 investment in an asset. The way we approached that is that
22 it is an attempt to simulate what it would cost a new
23 entrant to develop an asset which delivers the same level
24 of service as the asset is currently providing.
25
26 We do that in a number of steps. The first thing we
27 did is to look at MEA principles, which is modern equivalent
28 assets. We look at the assets they have got and work out
29 how we provide that to date using current day techniques
30 and materials. We then applied our construction rates to
31 that from the database that we have in-house with a
32 replacement cost for each asset.
33
34 We then look at opportunities to optimise those
35 assets, and that is really about whether the asset provided
36 is over-providing the level of service - whether we could
37 say that you can deliver the same level of service with a
38 smaller or cheaper asset. In this case, we identified very
39 little, really, in terms of optimisation. I think the one
40 area we identified was opportunities to perhaps reduce the
41 pavement on White Bay because of its previous use, but it
42 wasn't material.
43
44 Having looked at optimisation, that gives us an
45 optimised replacement cost. We then depreciated it to
46 recognise that the assets have aged, and we do that on the
47 basis of their condition and how much of their residual

1 operating life is left. That gives us a depreciated
2 optimised replacement cost, which is the DORC value that
3 goes into the asset column.
4
5 We then looked at how costs are built up and how they
6 are allocated; how much of those costs are allocated to
7 cruise based on, in some cases, the number of vessel calls.
8 In the case of the OPT, we did that on the basis of the
9 area of the building that was used for cruise, and
10 similarly in White Bay. We then put that into the
11 financial model and we came up with a series of cost
12 efficient models for input into IPART.
13
14 If we go to the next slide, this is the vessel
15 turnaround times Melanie was talking about. This looks at
16 OPT. That's showing the majority of vessels, 89 per cent,
17 were at OPT for less than 13 hours. At the moment they are
18 charged on a 24-hour slot. One of the concerns was that
19 OPT is struggling with capacity. We know the demand is
20 significant. There is an opportunity here to try to reduce
21 some of that turnaround time and free up some extra hours
22 within those 24-hour slots. That is what this was
23 suggesting. Fifty per cent of the vessels turn around in
24 less than 12 hours, and 89 per cent take an hour longer.
25 Is there some way of incentivising those to turn around
26 quicker and releasing some capacity which might help in the
27 short-term?
28
29 Then the final slide, which is a summary of where we
30 got to. These are the key points, really: the OPT cost
31 structure is essentially fixed. What we are saying is once
32 there is a vessel on the berth, that's it. The asset is
33 occupied by vessel calls. There has been one occasion, I
34 think, in the period we looked at, which was data from July
35 last year to April 2016, where two vessels were at OPT, but
36 they were very small vessels and would typically have been
37 able to go to White Bay. Generally, it is one vessel at
38 OPT, in which case the costs associated with that asset are
39 incurred by one vessel regardless of size.
40
41 The resource we are looking at is either time
42 alongside the utilisation of the berth, and that time is
43 usually typically now sold in 24-hour slots. The previous
44 slide we looked at indicated there might be opportunity
45 there to reduce that slot period perhaps to 12 hours and
46 recover it through a 12-hour period. So, the cost
47 recovery, we found, was if it was a fixed cost, it is

1 driven really by the number of visits per year, not so much
2 on the size of the vessels. So the recovery should be on a
3 per visit basis rather than on a passenger basis.
4
5 It is common, though, and we recognise it is common,
6 to try to recover those costs by a passenger charge. What
7 we are saying is in the case of OPT, we know it's
8 constrained for its capacity, so we ought to be trying to
9 incentivise larger vessels to come, in which case a per
10 visit call might do that. If we can turn around times in
11 less than 12 hours, there is scope potentially to give us a
12 little bit more room before we run out of capacity at OPT.
13
14 Unless Mike has anything he wants to add? No, okay.
15 That was all I had to say.
16
17 THE CHAIRMAN: Thanks very much, Simon. Now I invite
18 Philip Holliday from the Port Authority to comment on the
19 draft recommendations and findings.
20
21 PORT AUTHORITY RESPONSE
22
23 MR HOLLIDAY: Thank you. Just to make sure I don't go off
24 piste, I have it written down.
25
26 The Port Authority appreciates IPART's, assisted by AECOM,
27 work that you've done in performing a comprehensive
28 review of the provision of cruise services in Sydney
29 Harbour. We consider that many of IPART's recommendations
30 and findings will assist in promoting efficiency and
31 transparency and simplicity in the provision of cruise ship
32 services in Sydney Harbour. In particular, the cruise
33 industry needs a simple framework for pricing that promotes
34 transparency and predictability, and IPART's use of a
35 building block framework to recommend the level of prices
36 to the CPI, we believe, delivers that.
37
38 The Port Authority welcome's IPART's findings that we
39 are operating efficiently. This, we believe, reflects the
40 concerted efforts that we have made to reduce the costs.
41
42 The Port Authority also welcomes IPART's
43 acknowledgement that at current and proposed levels of
44 prices, the community of New South Wales is in fact
45 subsidising the cruising industry. Because charges do not
46 recover the opportunity costs of our cruise services, we
47 believe that this is important in considering potential

1 charging arrangements.
2
3 Of course, we do believe there are some issues within
4 the report that require further consideration. Primarily,
5 the recommended site occupation charges across
6 Sydney Harbour would recover less than efficient costs and
7 result in the New South Wales community providing higher
8 subsidies than would otherwise be required to support the
9 viability and growth of the cruise industry. We don't
10 consider this was the intended terms of reference.
11
12 Charges at levels of \$35 per passenger, as we have
13 proposed, would provide for a lesser subsidy, whilst still
14 continuing to support the viability and growth of the
15 cruise industry. The Port Authority continues to consider
16 that this is a reasonable level for site occupation
17 charges.
18
19 The recommended fixed site occupation charges to OPT,
20 we believe, would lock in the subsidies to the cruise
21 industry at their current levels. In fact, the quantum of
22 those subsidies would increase, so we consider that the New
23 South Wales community should be able to share in the growth
24 of the cruise industry, and that the subsidy should only
25 remain to the extent that it is required to support the
26 viability of the cruise industry. We believe the best
27 model for that is retaining a per passenger component to
28 the charges.
29
30 The differential charging arrangement proposed at OPT and
31 White Bay 5 we believe may have unintended consequences
32 on incentives for the use of these terminals. For example,
33 under the proposed charges almost half of the ships
34 currently berthing at OPT could save money by berthing at
35 White Bay 5, and those berthing at White Bay 5, in reverse,
36 would be charged more to go to the OPT.
37
38 We believe it is important to emphasise the importance
39 of flexibility for the Port Authority and the cruise
40 industry in how we proceed from here. The Port Authority
41 considers that the IPART review process has been extremely
42 valuable in highlighting issues that are important to the
43 future of the cruise industry in Sydney Harbour. The
44 findings and recommendations of the review will be
45 important in shaping the Port Authority's approach to
46 pricing and customer engagement going forward.
47

1 For example, we consider that IPART's proposal for a
2 fixed component in pricing has merit, alongside a per
3 passenger charge. There may be benefits in determining
4 different levels of fixed charges for OPT and White Bay 5
5 to incentivise increased utilisation of White Bay 5. We
6 consider that there may be merit in a declining per
7 passenger charge to allow cruise lines that bring larger
8 ships with more passengers to Sydney Harbour to retain more
9 of the benefits for their innovation while still
10 contributing to reducing the subsidies. We are considering
11 new ideas in this space, and once we have formed some
12 tangible options, it is our intention to consult on these
13 with our customers.
14
15 Flexibility in pricing is extremely important to the
16 Port Authority and underpins our current operation. It is
17 important that we move forward and continue the ability to
18 innovate our pricing. This may include introducing one or
19 more of the options discussed earlier, and it could also
20 involve providing discounts for the double stacking that
21 was being talked about in the presentation, or, indeed, for
22 special arrangements for customers that we ask to move
23 terminals for operational reasons.
24
25 The Port Authority considers that whatever
26 recommendations IPART makes, they should be set out so as
27 to make clear that the optimal structure for charges is
28 something that is best determined in negotiations and
29 discussions between the Port Authority and the cruise
30 operators.
31
32 THE CHAIRMAN: Thank you very much. Now opening to
33 the floor, are there any comments or questions from the
34 audience?
35
36 MR LINWOOD: Neil Linwood from the Cruise Lines
37 International Association. I think I'd just like to make a
38 couple of opening remarks and comments about the very
39 technical approach when we are talking about cost models,
40 and there are many ways of doing that, and pluses and
41 minuses.
42
43 This word "subsidy" - I'm sure the New South Wales
44 community would love a block of flats on OPT, and I notice
45 in the IPART review that there is no account taken of any
46 economic benefit to any of the community around the growth
47 of cruise tourism and tourism in general.

1
2 If we are going to have a conversation about this
3 so-called subsidy of the industry and how the New South
4 Wales community is subsidising that, then we ought to have
5 a similar conversation about the benefits that will be
6 foregone from the cruise industry slowing down its growth.
7 I don't think we can have a one-sided conversation around
8 that issue.

9
10 The other comment I'd like to make is that we are in a
11 global marketplace in the cruise industry. I'm here
12 representing the international cruise association, and
13 95 per cent of the cruise industry are our members. We
14 play in a global stage and it is a competitive marketplace
15 globally. Again, it's nice to understand how models work,
16 but we need to be cognisant of how competitive Australia is
17 in terms of what else is happening, particularly in Asia,
18 which is the new growth area of our industry and has some
19 significant potential benefits to Australia, so long as we
20 remain a competitive destination.

21
22 I won't go into any more detail; I'll be putting some
23 of this in our submission around just how competitive or
24 otherwise Australia looks and the likelihood of other
25 destinations perhaps having our lunch, in which case the
26 subsidies are going to look a pretty insignificant issue
27 for us. Those would be the first couple of remarks I'd
28 make.

29
30 I would also like to just talk about the 12-hour slot.
31 Again, operationally turning a ship around is a very
32 complex operation. There are a number of issues around
33 that. The ship has strict ILO regulations around crew,
34 hours. I think it needs to be differentiated that a cruise
35 ship is providing a holiday, not a form of transport, so
36 the idea that we are going to be encouraging passengers to
37 turn up at 6 o'clock at night or get off the ship at
38 6 o'clock at night and the ship leave somewhere around
39 5 o'clock in the morning, in terms of this idea that you
40 can constrain one to 12-hour slots and then have two of
41 them, there are a significant number of operational issues
42 with that.

43
44 We have done some work around the idea that you might
45 be able to come in, go off to an anchorage, come back and
46 share the prime alongside time, and I know that one or two
47 cruise lines have already tried to do that and the costs

1 are in excess of a couple of hundred thousand dollars per
2 call. I don't think any discount of the \$80,000 gets close
3 to the challenges of managing that.

4
5 Those are the three key issues I wanted to put on the
6 table to start with.

7
8 THE CHAIRMAN: Thank you very much, Neil. Anybody else
9 around the table?

10
11 QUESTIONS AND COMMENTS FROM OTHER STAKEHOLDERS

12
13 MR MYRMELL: I am the president of P&O Australia. I'm
14 responsible for the P&O brand here in this market, but
15 I also represent the seven other brands within the
16 Carnival Corporation that operates in and around Australia.

17
18 I am here with Peter. Peter is vice-president for P&O
19 and has been operating in the port business for Carnival
20 for some time, so he is well qualified to join us here.

21
22 With nine ships in this market, plus a number of
23 seasonal ships, we represent about 70 per cent of the
24 business of the cruise industry in this region. We have
25 made a commitment and we are building a new ship in Italy
26 at the moment, investing a further billion dollars into
27 this market. This whole deliberation by IPART is very
28 important to us. We see this as a gateway to the country,
29 a gateway to cruising in the region, and for cruising to be
30 a success for both us and for New South Wales, we need some
31 certainty and we need competitive pricing, which was Neil's
32 point, not just for our new ship, but for our entire fleet.

33
34 Before I go into any more detail, I'd like to thank
35 the tribunal for giving us the opportunity to present to
36 you and to talk to you. Cruising is a complex and truly
37 global industry. It's extremely price sensitive and it's a
38 discretionary product that is very unlike other regulated
39 industries such as trains and taxis and water and energy.

40
41 I would also like to congratulate IPART for identifying
42 the challenges that we have with infrastructure in
43 Sydney Harbour. The OPT is fully booked during the
44 December, January and February period and we are now seeing
45 that we are approaching capacity during the shoulder months
46 as well. We already see ships at anchor - Neil mentioned a
47 couple of scenarios - and, as an operator, we are actually

1 refraining from adding Sydney to certain itineraries
2 because we cannot get the port bookings required. So this
3 is a very real and current constraint on the growth of the
4 industry here in Sydney. It's not necessarily something
5 that is a constraint in 2018 or beyond; it is a constraint
6 today.
7
8 There are a few items that we will address in more
9 detail in our submission, but there are a couple of key
10 items that I think it is important to mention now. We,
11 like Neil, disagree with the tribunal's view that the
12 industry is subsidised. The industry contributes
13 \$3.6 billion to the national economy, the majority of that
14 to New South Wales. That number is growing. In other
15 parts of the world, the value of the cruise industry is
16 well understood and, as a result, has a very deliberate
17 approach to pricing. That includes mechanisms such as
18 volume and long-term incentives that encourage companies
19 that add value to the port and to the community as a whole.
20
21 Sydney is one of the most expensive ports in the
22 world. We know that to be the case as we negotiate tariffs
23 and long-term agreements all over the globe. We believe
24 that IPART's report uses published tariffs which can be
25 misleading, as it doesn't take into consideration any of
26 the commercial negotiations that take place between ports
27 and operators around the world.
28
29 We would also like to make a comment about the
30 assessment of the land value for OPT in White Bay.
31 It doesn't take into consideration a holistic analysis of
32 the contribution that cruising is making to the economy as
33 a whole. There is no land value, as such, for the best use
34 of OPT. It's a heritage listed site, and any other use of
35 that is difficult and unlikely to derive as much income as
36 the cruise industry will do. We also argue that the cruise
37 industry adds value to that precinct that Neil also touched
38 on.
39
40 The third point - and the most important point that
41 I would like to raise - relates to the pricing structure
42 specifically. We recognise IPART's challenge to draft
43 calls to White Bay, and that's been addressed in some of
44 these statements made just now. We feel that that process
45 is already managed and is better managed through the
46 Port Authority's current booking process. That's an
47 effective way of ensuring that you get the smaller ships to

1 White Bay and the larger ships get preference at OPT.
2 Price, on its own, we do not believe is an effective way
3 for maximizing the use of OPT.
4
5 Apart from being the largest tenant at OPT,
6 Carnival Corporation is also the major user of White Bay.
7 We represent about 93 per cent of the calls at White Bay.
8 So the draft recommendation means that a ship that can get
9 under the bridge will pay \$32.50 per passenger, or \$32.60 I
10 think I saw on the screen just now, while a larger ship
11 that cannot get under the bridge could end up paying in the
12 order of \$19 at OPT per passenger, if you take the capped
13 fixed charge and spread it across the passengers.
14
15 We feel, and we feel strongly, that such structure is
16 unfair, and it creates an uneven competitive playing field
17 for the industry as a whole. We believe that the simplest,
18 fairest and most equitable approach is to have one pricing
19 structure on both sides of the bridge, to have one per
20 passenger charge where everyone is paying their fair share
21 of the cost of operating the port. It would be highly
22 unusual, as far as we are aware, to have a monopoly port
23 owner implementing two different pricing structures for the
24 one harbour. That is not something that we have seen
25 anywhere around the world.
26
27 We also believe that pricing needs to reflect volume
28 incentives to further encourage the growth of the industry
29 and for making long-term commitments, and to us it doesn't
30 make sense why you would seek to disadvantage the largest
31 and only year-round operator in Sydney for our commitment.
32 Negotiated price contracts between cruise companies and
33 port owners are commonplace around the world, and Ports
34 just indicated that that may be a preferred way of taking
35 this forward. An agreement like that provides long-term
36 certainty for the port operator, and the certainty and the
37 conditions that the cruise industry needs to continue
38 growing and to support the overall tourism industry.
39
40 Again, I would like to thank the tribunal for taking
41 the time to consult with us. We think that through
42 dialogue and discussion we can come to the right solution.
43 At this point, we feel that the proposal as it stands today
44 is not in the best interests of the cruise industry as a
45 whole.
46
47 THE CHAIRMAN: Thank you very much. Anybody else at the

1 table?
2
3 MR ARMSTRONG: Good morning, I'm Adam Armstrong,
4 Managing Director for Royal Caribbean cruise lines in Australia
5 and New Zealand. We operate three brands in Australia. We
6 have a market here of about 22-23 per cent. Our three
7 brands are the Royal Caribbean, Celebrity Cruises, and
8 Azamara Club Cruises. We carry about a quarter of a
9 million guests from Australia and just over 20 per cent of
10 those guests are internationally sourced. We are the
11 biggest user of the OPT terminal and, in fact, we are the
12 largest cruise liner in Sydney over the summer season. We
13 operate the largest, the newest and most modern cruise
14 ships out of Australia. They include the brand new Ovation
15 of the Seas, which will become the biggest ship ever to be
16 based in Australia from the end of this year, carrying
17 around 5,000 guests. We also have smaller ships from
18 Azamara that carry about 650-700 guests, so we cross the
19 spectrum. All of our ships, apart from one Azamara ship,
20 cannot get under the bridge and they all dock at OPT.
21 That's a bit of context.
22
23 In general, we agree with the majority of the
24 recommendations in the IPART draft report. We have a
25 couple of comments to make as well as some on some of the
26 supporting analysis from AECOM.
27
28 Firstly, in terms of the proposal to introduce a flat
29 charge for the OPT, we agree with that draft recommendation
30 in that it's based on cost recovery. Most of the
31 Port Authority's costs, as the report shows, are fixed and
32 we believe a fixed charge that recovers those costs is the
33 most equitable way for the Port Authority to recover its
34 costs, plus the reasonable margin in that.
35
36 We also think it's a good way to send a message to the
37 industry regarding the benefits of maximizing the
38 utilisation of the rare slots available, so it encourages
39 larger ships to come and use that berth, as we have done.
40
41 In the absence of additional slots at OPT, as a
42 corporation the only way for us to pursue growth there was
43 to replace smaller ships with bigger ships - so, take a
44 2,000 guest ship and replace it with a 5,000 guest ship.
45 We know that other operators are having to pursue a similar
46 approach. We kind of started that trend. So, we
47 congratulate IPART for acknowledging the fixed cost charge

1 as the most appropriate way to recover the costs, and
2 rewarding those like Royal Caribbean who invest in the
3 future by bringing bigger, more modern ships.
4
5 In terms of the absolute calculation of that \$80,000
6 charge, we'd like IPART to review the number of expected
7 ship calls that has been used to derive that number. We
8 believe the number for the 2016-2017 season is close to 215
9 calls, whereas the number used was 187. The exact numbers
10 can change, but generally we plan our programs well in
11 advance and cancellations are very rare. So the
12 discrepancy of more than 10 per cent seems to be unusual.
13 If you adjust to the 215 calls, the 80,000 becomes more
14 like 70,000.
15
16 Just briefly on navigation charges, similar to the
17 flat charge for fixed costs, we agree that the current
18 regime discriminates against larger vessels, so we agree
19 with the conclusion that a fixed fee should be charged per
20 vessel, just in order to recover the fixed navigational
21 costs only.
22
23 Briefly on Athol buoy, the tribunal found mooring fees
24 were acceptable for the use of Athol buoy and Point Piper.
25 Really, this buoy is just utilised as an emergency, as an
26 overflow, in times of high congestion. Just a note on the
27 use of Athol buoy: it's weather dependant and it can only
28 provide temporary casual relief from congestion in times of
29 inclement weather. So it's an unacceptable use for
30 long-term planning for the industry as an alternative to a
31 land-based terminal.
32
33 Just turning to the demand projections, perhaps the
34 most relevant observation to make regarding the
35 projections by the Port and by the government, official
36 estimates have consistently underrated the growth of the
37 cruise industry. We have advised government on several
38 occasions over the last decade about the ticking capacity
39 clock. In 2009/10 we as an industry sat on an advisory
40 committee into the future terminal viability in Sydney, and
41 that committee projected that the Overseas Passenger
42 Terminal would be full by 2015, which did turn out to be
43 correct, but the response until the past year has been more
44 to speak of adopting a more incremental response.
45
46 We think AECOM and the Port Authority have used fairly
47 low levels of industry growth, 2-5 per cent, and they are

1 unrealistic. In the last decade, much higher rates of
2 growth have been driven by new entrants to the market, such
3 as ourselves in the last seven or eight years, but also by
4 existing operators introducing newer and larger ships. We
5 expect both of those trends to continue.
6

7 In addition, with the emergence of Asia as the newest,
8 biggest and fastest growing cruise market, which is
9 seasonally complementary to Australia, that offers a third
10 potential for growth of the industry in Australia, only
11 limited by not having places for us to berth ships.
12 Ovation of the Seas is a demonstration of that; we share
13 the ship between China and Australia seasonally.
14

15 A further final factor in terms of projecting demand
16 is that some cruise lines who operate in the region will
17 need to replace older, smaller tonnage in the next decade.
18 These ships, as P&O demonstrated, will inevitably be
19 replaced by larger ships that cannot get under the bridge.
20 They offer greater economies of scale for us as operators,
21 but they also drive considerably larger growth rates than
22 the 2-5 per cent that's been used.
23

24 Neil has already touched on the double handling option
25 and we support the findings are clear. We don't believe
26 consideration of delaying the need for another terminal in
27 Sydney by introducing two movements per day is either
28 practical or in the best interests of guest experience or
29 the industry. It's logistically difficult. There are crew
30 issues, guest experience issues and the operational costs
31 are significantly higher, so we don't believe that double
32 handling is an option at the OPT for large ships of 2,000
33 guests and above. It may be an option for smaller ships in
34 the luxury sector.
35

36 On a related topic around reducing the turnaround time
37 from the current 12 hours, we should point out that that's
38 entirely dependent upon the terminal infrastructure itself.
39 We can, as an industry, and do, have quicker turnarounds,
40 but these are generally newer, larger, purpose-built cruise
41 terminals. We do this effectively in Port Canaveral, where
42 the purpose-built terminal for the Oasis-Class, the largest
43 cruise ships in the world, over 6,000 guests, we do a curb
44 to cabin check-in of 15 minutes, which is a sensational
45 achievement, but it's because it is a large purpose-built
46 terminal. Older, smaller terminals like the OPT present a
47 completely different challenge. Notwithstanding the

1 commendable efforts that have been made to upgrade the
2 terminal, it does remain within the approximate physical
3 envelope that it was originally built to, so our ability to
4 reduce turnarounds for large cruise ships up to the size of
5 5,000 guests is limited.
6

7 For example, the case in point with the Ovation of the
8 Seas, we can't do a full baggage lay-down service for
9 Ovation, so we are unloading the equivalent of 10 Qantas
10 A380s' worth of luggage. In Port Canaveral, we can lay all
11 that out in one go. In the OPT we have to do that in
12 three, sometimes four stages. That delays and slows down
13 the disembarkation process. It is all entirely doable, it
14 is just slower.
15

16 Two final comments: one, firstly on the OPT upgrade, which
17 I just touched upon, the redevelopment in the past two years
18 was designed to maximize OPT's passenger handling
19 capacity within the physical constraints of that existing
20 site. That, we believe, is to ships of around 3,500
21 passengers, so the terminal does remain suboptimal for
22 vessels like ours of up to 5,000 guests and requires some
23 modification to the check-in and disembarkation process.
24 We can physically dock at the site with Ovation due to the
25 extending of the pier and the new berthing dolphin, on
26 which we commend the Port Authority, but the terminal
27 building itself presents some challenges in terms of guest
28 turnaround.
29

30 Finally, in terms of timing of a new terminal, which
31 was alluded to in the AECOM report and the IPART report,
32 there are varying estimates around when the new terminal is
33 required in Sydney. 2018, 2022 - the reality is, as we
34 have stated in our own submission, OPT is already full and
35 we need a terminal east of the Harbour Bridge now.
36 Unfortunately, we are not able to count the ships that will
37 not come through the lack of slots at the moment, or that
38 are not already coming.
39

40 That concludes everything from the Royal Caribbean and
41 we thank you for the opportunity.
42

43 MR DAVEY: My name is Richard Davey. I could probably
44 describe myself as an advocate for small and medium ships.
45 With the greatest of respect for the big ships, nothing
46 excites me more than seeing Adam's Celebrity Solstice or
47 Sture's the Queen Mary 2 in the harbour. The facts are,

1 and I look up here, and I probably missed this when I did
2 the original reading of the 70 pages, it is said here that
3 large ships are more valuable to the city. I would
4 outright refute that.
5
6 As Sture knows, there are certain ships in the luxury
7 sector on which the food spend alone is double, maybe three
8 times a big ship. We are going to see ships this coming
9 season which are themselves spending so much on ancillary
10 activities, such as New Year's Eve. There are two ships
11 here for New Year's Eve spending hundreds and hundreds of
12 thousands, one reputedly a million, on entertaining their
13 guests on New Year's Eve alone. The benefits of a small
14 ship to the city are often understated because the net
15 worth of these individuals, the fares that they are paying,
16 are far higher than the average on the big ship. As I say,
17 I'm not against big ships at all, but we need to consider
18 the needs of the small ship fleets.
19
20 Very interesting, your recommendations about the
21 pricing. If those were adapted, I did an exercise on what
22 would happen to the deployment of ships in Sydney Harbour.
23 It would cause presumably all of the ships that can go
24 under the bridge to choose to do so. This would actually
25 cause, believe it or not, an absolute equality based on the
26 year ahead's figures. I took the figures from 1 July this
27 year to 30 June next year, and if adopted today, we would
28 see as many ships, calls, port days, on the western side
29 than we do on the east.
30
31 I ask that the consideration of small ships be given,
32 and that they be remembered. I believe that we are
33 actually going to hit a point early next year where there
34 is more traffic under the bridge than to the east. This
35 means that our need for facilities in overflow is just as
36 much as the big ships on the eastern side. I don't know
37 where we are going to go. Once we exhaust the two
38 White Bay berths, where do we go? I understand that Glebe
39 Island is not in the best of conditions.
40
41 In my lifetime we have seen the disappearance to this
42 industry of Walsh Bay, Barangaroo, Darling Harbour and
43 Pyrmont, as well as Woolloomooloo. The big ships could
44 have had Woolloomooloo if we hadn't developed that. We
45 must be very careful on maintaining the facilities that we
46 have west of the bridge and also seriously look at
47 implementing more. I have looked at the order book, the

1 cruise industry forward bookings of ships that have been
2 built in the shipyards mostly of Europe, and this actually
3 shows, if we take history as any guide, the companies that
4 send all their ships here, such as Seabourn, have two ships
5 in the yard, one of them is about to be completed, it's
6 coming here as a brand new ship early next year; Celebrity,
7 the popular Solstice class, as I have said in my
8 submission, have five ships in their new class, only one of
9 which has come here.
10
11 When we look at the order book that is planned for the
12 next few years for deliveries, we are not going to see all
13 those big ships coming here. Yes, we are seeing a trend of
14 greater deployments to Asia, which will mean greater
15 deployments here, and we welcome the big ships, but believe
16 me there are more small ships coming and we need to
17 consider them. Thank you.
18
19 THE CHAIRMAN: Thank you very much, Richard. Other
20 questions or comments?
21
22 MR MYRMELL: I have one further comment on White Bay
23 versus OPT. For operators that have multiple ships with
24 multiple sizes, you could end up with the scenario where a
25 ship that could go under White Bay is being replaced with a
26 ship that is slightly bigger that can't go under the bridge
27 and, therefore, go to OPT because the per passenger charge
28 is a lot less. You could end up with a scenario where you
29 are putting more pressure on OPT rather than less pressure
30 on OPT. We firmly believe that having a flat charge per
31 passenger charge creates an equal playing field and will
32 encourage smaller ships to come in rather than discourage
33 them.
34
35 THE CHAIRMAN: Thank you. Would you like to say
36 anything, Philip?
37
38 MR HOLLIDAY: I think the comments put forward have just
39 endorsed the complications around this, and the
40 recommendations that have come through in the IPART review
41 are good and valid recommendations, but they are not the
42 only ones that are possible. We believe that through
43 working together with the cruise industry, we are able to
44 find the best way forward which is fair and transparent,
45 avoids the unintended consequences of larger ships paying
46 considerably less than the smaller ships, and where do
47 those ships go.

1
2 The allocation of the cruise terminals at the moment
3 is done on an operational basis. If a cruise ship can fit
4 under the bridge, then we generally put it under the
5 bridge, but if it doesn't need to go under the bridge and
6 there's space at OPT, we'll put it at OPT. So there is
7 complete flexibility at the moment. I think having that
8 flexibility in where things go, having a consistent
9 charging regime, enables us to maintain the efficient cost
10 structure that we have got now and also to recognise that,
11 as things progress, if and perhaps when a new terminal
12 arrives, it falls neatly into the whole picture as well.
13
14 I think there's been some valuable work done here with
15 the IPART review. We are very pleased with much of the
16 review and much of the findings, and we think now is the
17 time to work with the industry to find out precisely where
18 we go from here.
19
20 THE CHAIRMAN: Thank you.
21
22 MS JONES: I have a question for the cruise industry.
23 I heard a couple of things there. You are both saying you
24 think that the Sydney Harbour is already constrained, but I
25 heard a couple of things: one was that the cruise industry
26 is dealing with it by just bringing in the bigger ships,
27 still using one dock but they have more passengers, but
28 then also Richard mentioned small luxury ships which make
29 more money. You seem to be concentrating on more small
30 ships at the moment but then you are saying you are going
31 to replace with some of the big ones. Are there different
32 strategies happening here? Is that all from the constraint
33 or is the market changing?
34
35 MR MYRMELL: We have a range of ships from small luxury
36 ships to really big ships. We haven't quite got to Adam's
37 size yet, but we are working on that. So, yes, the ship
38 that P&O's building is going to be significant in size, the
39 biggest year-round ship, the first ship purposely built for
40 Australia. It will carry close to 5,000 passengers.
41
42 MS JONES: Is that because customers are demanding bigger
43 ships or is that just because of the capacity constraints?
44 Is it more than that?
45
46 MR MYRMELL: It's the way ship-building has evolved.
47 Larger ships are typically more efficient and more

1 economical than smaller ships. Smaller ships tend to be at
2 the higher end of the luxury market, where people pay more.
3 We have both options. A large ship for us would, under the
4 recommendation, be better off going to OPT at the fixed
5 charge, but we also have ships that are smaller, that can
6 go under the bridge, that we think are being unfairly
7 penalised by going under the bridge and paying much higher
8 per passenger charge.
9
10 Smaller ships also have less economy of scale to carry
11 these additional charges. The higher you make that charge
12 the less competitive they become. We believe that if you
13 have the flat fee, if you take your costs that you need to
14 recover and you spread out the costs the passenger pays,
15 then you come up with a per passenger charge that is then
16 the same for everybody in the industry.
17
18 MR BRADFORD: Stephen Bradford from the Australian
19 Cruise Association.
20
21 Just briefly, we represent the Australian part of the
22 cruise industry ports, tourism authorities, events, ground
23 handlers. We are a small peak association.
24
25 I think what you've heard this morning really sums up
26 the conundrum of the industry for the foreseeable future.
27 Sydney is the number one cruise port in Australia and will
28 remain that well into the future. It's competitive between
29 various types of vessels needing the berths at either side
30 of the bridge. I think your paper is quite thoughtful but,
31 in going forward, you have to consider how will that
32 pricing withstand growth and help the industry use all of
33 the fixed infrastructure to the fullest - not an easy task.
34
35 We would just caution on the pilotage costs. Yes, you
36 can charge per ship and have the lowest possible price.
37 I'm not convinced, given the pilots serve both Port Botany
38 and Port Jackson, that going to a per ship basis would
39 advantage the cruise industry over freight. It may well
40 disadvantage them. I'd like to see in your report some
41 recognition that pilotage in Sydney Harbour is critical,
42 and there are safety aspects. It's not just about price.
43 It is arguably one of the great harbours in the world and
44 has lots of marine craft on it.
45
46 THE CHAIRMAN: Actually, this is quite a difficult issue.
47 Sture, you and others raised the issue about having a per

1 passenger charge across the board. The other side of that
2 is that if you do that you are, in effect, penalising
3 larger ships versus small ships in terms of the cost that
4 they are imposing on the system. That's a balancing.
5
6 What we have tried to do in the report, taking advice
7 from AECOM and others, is to look at what is cost
8 reflective and, in general, the costs of the Port Authority
9 are fixed, so that if you have a ship at OPT which is
10 bigger, and one that's not so big, they are both using up
11 the same space, they are using up the same resources, so
12 there's an argument: why don't they pay the same fee?
13
14 Clearly, per passenger would be cheaper for the larger
15 boat. That's part of economies of scale. There are also
16 economies of scales elsewhere in the industry, which is one
17 reason why the industry's building large boats.
18
19 You then get to a situation where in White Bay, where
20 we have looked at that and we believe in a sense that the
21 Port Authority should just recover 77 per cent of
22 White Bay. In that graph that went up, you could have just
23 one building block for the whole of the Port Authority,
24 merge them all, one building block, work it out and have a
25 pricing range which comes from that.
26
27 We are saying, well, we are not quite in the same
28 market because not all ships can go to both terminals.
29 Only some ships have the option of going to both terminals.
30 So we have done two building blocks and, as we have said,
31 we believe that the Port Authority is operating very
32 efficiently. We believe that for OPT, the Overseas
33 Passenger Terminal, all the costs should be recovered.
34 That's where we have come out.
35
36 For White Bay, and this is not the Port Authority's
37 fault, in a sense, you have capacity there which they have
38 taken over from previous government decisions and we have
39 made an argument that we don't think the cruise industry
40 should pay all of that. It's not really the
41 Port Authority's fault, it's stuff that they have inherited
42 from previous government decisions. We get this all the
43 time. There's an issue about should the cruise industry
44 pay for some decision made by a government ten or 15 years
45 ago which, in effect, gave them more capacity than they
46 need, or not quite the right capacity.
47

1 We have come to a view, which is arguable, which we can debate,
2 that roughly 77 per cent of that should be recovered.
3 In total, that's 88 per cent for the total of their business,
4 but what we are saying is recover the whole lot from
5 OPT and 77 per cent from White Bay. So then you get to a
6 situation, well, how do you encourage or how do you provide
7 incentive and, more particularly, don't provide a
8 disincentive from using White Bay. That's why we came down
9 on the per passenger charge. That's the logic of it.
10
11 These are ongoing judgments, there is no question
12 about that, that is why we have these, and this has been a
13 particularly good forum to get this stuff out, and these
14 are issues we'll need to take into account in our final report.
15
16 Another thing which came up which really interested me
17 was the ability that Port Authority wants to deal with the
18 cruise industry, the members of the cruise industry want to
19 deal with the Port Authority; we do need to keep in mind
20 that we have been asked to make recommendations on
21 maximum fees. There is still scope for negotiations.
22
23 We deliberately didn't go into the double berth,
24 12-hour, we don't know enough about that. That's an issue
25 that's very idiosyncratic. It needs to be negotiated.
26 It won't work for everybody for the reasons that we have
27 heard. In a sense, we have been asked to do the maximum
28 fees so we are trying to set the maximum fees which allow
29 negotiation within that. In setting those maximum fees, we
30 are very conscious that the cruise industry should not be
31 paying for assets which are not fully utilised, which is
32 not the fault of the Port Authority; it stems from previous
33 government decisions.
34
35 So they are judgment issues that we need to come down
36 on and this has been particularly helpful. Are there
37 questions, comments, reactions?
38
39 MR LINWOOD: Could I just get clarification on the
40 reference to the 1200 passenger minimum base of the fee
41 structure? I'm presuming that's gone? .
42
43 MS TOWERS: I think our draft report continues that for
44 White Bay.
45
46 MR LINWOOD: In which case doesn't that completely counter
47 the idea of attracting smaller ships to White Bay, if the

1 minimum they are going to pay is the assumption that they
2 are carrying 1200 passengers, when they could be carrying,
3 200, 300, 400?
4
5 MS TOWERS: The way we included it, that's the current
6 charge and we think that's subject to negotiation in terms
7 of attracting smaller ships to White Bay.
8
9 MR LINWOOD: It's still there. Okay.
10
11 MS TOWERS: The same thing as Peter was saying, we are
12 recommending maximums and then you can negotiate.
13
14 MR ARMSTRONG: I think to Richard's point earlier, for the
15 luxury segment, most of their ships are under 1200 guest
16 ships, so prejudice is against the luxury sector.
17
18 THE CHAIRMAN: We'll take that on board. It introduces in
19 a sense a quasi fixed charge up to a point. We'll take
20 that on board.
21
22 MR LINWOOD: Thank you.
23
24 MS JONES: I have a question for Adam. You mentioned that
25 you didn't agree with our growth estimates. We were
26 looking at things like global headwinds and low inflation,
27 that sort of thing. Are you saying that Asia's looking to
28 buck that trend because of the way that their middle class
29 is growing?
30
31 MR ARMSTRONG: Look, the projection of the growth is
32 partly art, partly science, so we can argue over
33 percentages, but Neil and Claire have done some good work
34 on behalf of the industry in terms of plotting out to 2040
35 what we think, assuming we have additional berths in
36 Sydney, assuming that the Asian cruise market continues to
37 grow, assuming that Asian tourism grows, particularly from
38 China, and we have come up with an estimate, perhaps where
39 we can talk to where we think the market will be by 2040.
40
41 MR SMITH: In our report and in AECOM's report, we talk
42 about growth projections in the modelling and that they are
43 conservative relative to recent growth rates. It's for that
44 reason we recommended the demand management
45 mechanism. Essentially that takes away any unders or overs if
46 demand is higher or lower than we forecast, and in future that
47 mechanism will deal with that. We have gone that way

1 rather than landing on some specific forecast and leaving
2 it at that.
3
4 THE CHAIRMAN: Thank you.
5
6 MR BONNAFOUS: Lionel Bonnafous from Carnival Australia.
7 I heard your logic in regard to the charges - it made sense
8 for the Port to charge on a per call basis because it's the
9 most cost reflective mechanism.
10
11 I'll just throw something out there. It's like saying
12 a Louis Vuitton bag costs \$100 to make, therefore we should
13 charge --
14
15 THE CHAIRMAN: Sorry, can you say that again?
16
17 MR BONNAFOUS: A Louis Vuitton bag will cost \$100 to
18 make, and I guess what you are saying is, if I play it back to
19 you in a different way, you should charge \$100 for it, or
20 \$110 assuming margin. The thing here is that the cruise
21 industry works on their ability to charge customers. So,
22 for us, a larger ship has got a greater ability to pay, and
23 for some other ships you could argue a greater willingness
24 to pay as well.
25
26 For us, when you are telling us it's fairer to charge
27 on a per call basis, it's not the way we look at it at all.
28 Our ability to make money for each passenger is certainly
29 distorted when you start charging per call. You find
30 yourself on a big ship paying \$19 for a very large ship, to
31 access the port, versus a small ship that will pay \$32.
32 You see the disconnect there. There's one ship that will
33 be heavily challenged in trying to recoup their costs.
34 The concept is quite important to understand. While it
35 makes a lot of sense to recover as a result of reflecting
36 the costs, it just doesn't make any sense for the cruise
37 industry.
38
39 THE CHAIRMAN: Let's just park White Bay for a minute and
40 concentrate on the Overseas Passenger Terminal. You can
41 recover the costs along the lines of having a site visit,
42 which means ships that take up a berth, pay for the berth,
43 whether they are very big or not so big. Or,
44 alternatively, you can work out what it would cost per
45 passenger to cover the costs which would inevitably mean
46 that the larger ships would pay more because they have more
47 passengers than the not so large ships.

1
2 Now, you can argue, well, that's fairer. Other people
3 would argue why should people who go on a cruise on a very
4 large ship, and the reason why they go on a very large ship
5 is because that ship has the economies of scale and their
6 price is cheaper per ticket, why should those people
7 subsidise the ones on the not so large ship for berthing?
8

9 There is no right or wrong here, but that's the logic
10 of it. You say, from your perspective, that's better. We
11 are saying from the perspective of the efficient use of the
12 Port Authority's very scarce asset, which is the Overseas
13 Passenger Terminal, that it's better to charge the cost
14 that the Port Authority incurs in delivering that system.
15
16

17 The reason why we are involved in this is because the
18 Port Authority is the only supplier of cruise terminals in
19 Sydney. Louis Vuitton bags are in a private market with
20 lots of competition, and that whole thing is left up to the
21 market.
22

23 MR MYRMELL: Just to comment, there is a fixed amount of
24 costs that needs to be recouped. That's the basis for
25 setting the charges. If you follow your train of thought,
26 then a ship that comes in for one call, that adds very
27 little to recovering those costs. The annual cost for the
28 port is very little versus the smaller ship that may be
29 there every single week. That provides certainty for the
30 port and provides certainty for recovering all of the costs
31 over a 12-month basis. That's something I think that needs
32 to be taken into consideration.
33

34 THE CHAIRMAN: Yes. That's why you can negotiate that?
35 Under the current system, if there's a recommended
36 maximum fee of, let's say, 80 - these are recommended, the
37 governments can adopt them or not. If there's a
38 recommended fee and that's the maximum fee, then if you can
39 negotiate something with the Port Authority, that's up to
40 you. The Port Authority's unlikely to enter into those
41 negotiations unless there's something in it for them, such
42 as continuity, et cetera, but that's an issue for
43 negotiation, I would argue.
44

45 MR HOLLIDAY: I think our ability to do that is somewhat
46 hampered by less than cost recovery, which is what is
47 promoted in White Bay. Seventy-seven per cent, less than

1 efficient costs recovery and a fixed cost recovery at OPT
2 means that our ability to negotiate across the piece could
3 be somewhat hampered.
4

5 One of the things that we put forward was looking at
6 where we go from here. A minimum charge of 1,200
7 passengers, is that appropriate? Well, I think that's
8 something that we recognise needs further consideration.
9 But also the maximum passenger charge. 2,500 passenger
10 ships generally can't get under the bridge. So we are
11 talking about a point where a ship can no longer get under
12 the bridge, and is it that ship's fault, if you like.
13

14 Perhaps the way forward is not to have that fixed
15 charge, but it's to have a sliding scale so that the
16 benefit of the larger ships is shared both by the
17 Port Authority and the cruise lines, and that evens off our
18 ability to recover costs. It also places us in good stead
19 to build for the future as well.
20

21 MS TOWERS: Effectively, you are asking people that are
22 using OPT to actually fund some of White Bay?
23

24 MR HOLLIDAY: We are asking the cruise ships that come to
25 Sydney Harbour to --
26

27 MS TOWERS: Fund all your costs.
28

29 MR HOLLIDAY: Fund the costs of the port operating.
30

31 THE CHAIRMAN: The point that you are making, Philip,
32 I think is a very good point. If the maximum prices
33 recover the total estimated costs of OPT and 77 per cent of
34 White Bay - and we think there's a good reason why they
35 shouldn't recover all the costs of White Bay because we do
36 not believe the cruise liners should pay for infrastructure
37 which is not appropriate for what they want to use- your
38 point, I think, is that puts a pretty tight bound at the
39 maximum, so it doesn't give you much scope to negotiate
40 with members of the industry where you might want to go
41 above a little in some cases and below a little in others.
42 I think that's a point that we would take on board.
43

44 It sort of goes to the flexibility of it: if it's too
45 tight, it doesn't provide sufficient margin for manoeuvre
46 for the Port Authority and the cruise industry. I think
47 that's a good point we'd like to take on board.

1
2 The other point which recurs quite a bit which often
3 comes up when you are dealing with pensioner concessions
4 and things like that is, well, it's not fair that somebody
5 who can't get under the bridge should have to pay that. In
6 a sense, that's one way of looking at it but, in a sense,
7 the bridge is there, that's an institutional constraint and
8 this is an issue about how you price something given the
9 various institutional constraints like the bridge. It just
10 so happens that the bridge is there, and there are some
11 ships that can't get under it. Therefore, having a
12 terminal west of the bridge is not of much help to them
13 directly.
14
15 Issues about whether it's fair that they should turn
16 around and subsidise people that can get under the bridge
17 introduces issues of equity and things like that. It gets
18 into issues of distribution of income and distribution of
19 benefits. For example, one might argue that the larger
20 ships in general tend to have the lower income people who
21 buy their cheaper tickets, as opposed to the smaller luxury
22 lines which have people of very high net worth. Do we want
23 to design a system which effectively cross subsidises from
24 relatively low income people who travel on large ships to
25 very high net worth individuals who travel on small ships?
26 These are quite tricky issues?
27
28 MR MYRMELL: Again, the key is around recovering the cost
29 for the port. To give you one example, some of our ships
30 that go under the bridge can go to White Bay. We have a
31 choice; in one week we can do a three and four-day cruise
32 and have two turns at White Bay, which will recover a
33 certain amount of money, or we can put that ship on a
34 14-day tender and we only come in once. If you want to
35 encourage use of the terminal, certainly during the winter
36 when there is little concern about congestion, if you want
37 to stimulate use, you want to get a price point that is
38 level and fair across the two berths. Because, as I said
39 earlier, the assets are moveable. You can change
40 itineraries, the length of itineraries, the frequency
41 coming into the port, and if it's all about recovering the
42 costs that the port has, then I think those sort of things
43 need to be taken into consideration as well.
44
45 MR LITTLE: Could I just clarify that not all ships are
46 about luxury in the marketplace. It's not necessarily the
47 case that the larger ships are the lower --

1
2 THE CHAIRMAN: I'm well aware of that, Peter, and not all
3 large ships have low income people on them. I was using
4 that as a case in point.
5
6 MR BRADFORD: Chairman, it's also not unusual that
7 Port Authorities aggregate their assets and charge a common
8 fee across all berths, so separating berths and looking at
9 the cost and the sum cost of each berth is actually quite
10 unusual.
11
12 THE CHAIRMAN: That's true, Stephen, but in this case we
13 have the Harbour Bridge. Most port authorities, everybody
14 can access them so it's a different issue. In the graph that was
15 put up, instead of having two building blocks, we could just
16 have one. The reason we have two here is because you
17 have an issue that not all boats can use White Bay.
18 Therefore, from the perspective of the cruise industries,
19 they are not the same.
20
21 MR BRADFORD: Thinking forward to a third berth on the
22 eastern side of the bridge, it would probably be
23 inconceivable that that could be established without the
24 users of the OPT funding it.
25
26 THE CHAIRMAN: We understand that.
27
28 MR RICHARDSON: Depending upon who is building the
29 other terminal and in your draft report, Chairman, you
30 indicated that would need to be funded by the industry. It
31 doesn't necessarily have to be brought by the Port Authority
32 to be funded by the industry.
33
34 MS TOWERS: It's a separate process.
35
36 MR RICHARDSON: Just to pick up the point, if you don't
37 mind, Chairman, there are a number of instances around the
38 world, particularly in this region, where there is
39 differential pricing for berths within ports - Shanghai, I
40 believe certainly was, I'm not sure if it still is, but
41 we'll find out for you and provide that in the submission,
42 and certainly in Singapore, where there are height
43 restrictions - in both those ports, by the way, there are
44 height restrictions on old terminals because of bridges,
45 and in the case of Singapore it is because of the cable car
46 and there are differential pricings and always have been
47 for those. Once the new terminals had been built, they are

1 not height restricted.
2
3 MR MYRMELL: I think those examples that you mentioned
4 there are operated by different authorities, different port
5 operators.
6
7 MR RICHARDSON: The reality is that for ships that can't
8 access White Bay, it doesn't particularly matter whether
9 there's one provider or two.
10
11 MR KEMP: Adrian Kemp from HoustonKemp. We have
12 been working with the Port Authority in the context of this
13 review. I just wanted to make an observation, I guess,
14 regarding your points, Peter, on the cost envelope.
15 I think one of the critical questions for the tribunal is
16 to determine obviously what the efficient cost base is, and
17 you've made some observations regarding the efficient cost
18 base with relevance to the current historic value. You've
19 also noted that that historic cost base might not be the
20 true economic cost base given the fact that it could be
21 used for alternative uses, and ideally you would set a
22 price that would recover the costs of those alternative
23 uses in order to achieve the right allocation of land use.
24
25 Putting aside whether that's actually likely to happen
26 or not, I think one of the challenges with just using a
27 fixed fee is that implicit in setting a fixed fee requires
28 you to definitively determine that cost base with reference
29 to an asset value. I think in reality here, we are talking
30 about an asset for which that value is somewhere in that
31 range from that current historic cost to the highest and best
32 alternative use. It's probably neither of those. It's
33 actually probably somewhere in the middle that should
34 ideally reflect a willingness to pay on behalf of those
35 customers that are using those terminals, and that relates
36 obviously to the markets in which people are selling cruise
37 ship services in.
38
39 The only observation I would make is that one of the
40 critical advantages of the per passenger charge is that
41 implicitly it provides some flexibility around what that
42 cost base is. I think historically that's why there's been
43 a per passenger charge. The hybrid-type options that
44 thought has raised I think are actually very credible ways
45 of managing that, or not definitively determining an
46 envelope of costs but allowing the industry as it changes
47 over time to reach the right balance between how much of

1 those costs should be recovered and paid back to the
2 community, as a consequence of the use of that facility, as
3 an alternative to giving those gains back to the industry
4 so that they can then compete in their profits.
5
6 I think it is an important observation.
7
8 MR WILLETT: One of the difficulties is that willingness
9 to pay is a bit more complex with a number of passengers.
10 You're going to get into very complex calculations there.
11 I mean, I understand the pricing approach you are proposing
12 and there's a lot in what you say, but, gosh, there's some
13 difficult practical issues in terms of determining prices
14 in the process.
15
16 MS JONES: In the issues paper we raised some sort of
17 auction system for slots, and there was limited support
18 through the review.
19
20 MR KEMP: I guess the willingness to pay is revealed by
21 cruise ship operators making decisions as to whether to
22 come at the current structure and level, the important
23 point being that both of those together is a very important
24 consideration in revealing that willingness.
25
26 MR RICHARDSON: If I may on that point, Mr Chairman, I
27 think that the experience with the Royal Caribbean over the
28 last seven years would demonstrate that the decisions
29 regarding deployment have been more to do with the
30 availability of berths at the OPT, which you rightly say is a
31 rare resource. Rhapsody of the Seas, which was Royal
32 Caribbean's first ship operating in 2007, no longer calls
33 here because she's too small and she's been replaced by a
34 bigger ship. We do that simply because there are no spaces
35 available over the season for deployment of more ships, and
36 at the moment the only solution is to bring in bigger ships
37 and replace them out.
38
39 We would also make the point that there's nothing
40 historical, other than in the last five years, about a head
41 tax in Sydney. There weren't too many complaints
42 previously on the basis of the previous set of charges for
43 the terminal access hire five years back. So I wonder
44 where the new argument about per capita charging has come
45 from.
46
47 THE CHAIRMAN: Thank you, John. On your point, Adrian,

1 we do take that on board, of course within the maximum the
2 Port Authority can negotiate with the cruise operators
3 along the lines that you suggest. We'll take that on
4 board.
5
6 MR MYRMELL: Just one final comment, when you go through
7 some of the calculations, we have a number of calls to OPT
8 during the winter, outside the congested period, that can
9 potentially get under the bridge. If there is a two-tiered
10 system, those ships need to be taken out of that
11 calculation for OPT, because they will not go to OPT if
12 it's cheaper to go to White Bay. That will then push the
13 price per call of OPT up as well.
14
15 THE CHAIRMAN: We'll take that on board, thanks.
16
17 MR HOLLIDAY: I think just to build a little on the
18 ability to pay discussion, we introduced the per
19 passenger charge a number of years ago, and since that
20 charge was introduced the rate of growth of activity in
21 Sydney Harbour has continued. There's been a continuous
22 move to larger ships and, as John just said, the Rhapsody
23 of the Seas was replaced not because of price, but because
24 of capacity constraints. We believe that the pricing
25 pathway that we were on was fair, transparent and
26 supporting of both the Port Authority and the State and,
27 indeed, the cruise industry itself.
28
29 We believe that the purpose of this IPART review, or
30 the fact that this IPART review was agreed to some years
31 ago was, in effect, to give a health check to the path that
32 we were on and I think I'll reiterate that there is a lot
33 of good and helpful information within the review, but I
34 think, overwhelmingly, the fact that the Port was found to
35 be operating efficiently suggests that we are on a good
36 path, and perhaps we should be allowed to continue on that
37 path with some refinement.
38
39 THE CHAIRMAN: Okay. As you know, Phillip, we are
40 independent, and the way you constrain us is you get it
41 written in the terms of reference. The terms of reference
42 make it clear that we are recommending the maximum fees
43 and site occupational charging arrangements of cruise ships.
44 It is not asking us to do a health check on what you guys
45 have done.
46
47 We have approached this in a very constructive way

1 with the Port Authority and the industry. We have had very
2 good consultation processes, and we continue to do that.
3 At the end of the day we'll be recommending what we think
4 is the best, which just means it's just a little tad better
5 than what you have already.
6
7 MR HOLLIDAY: That's absolutely right, but I just think
8 for the context of where this review came from, I think
9 that perhaps the --
10
11 THE CHAIRMAN: I think you might underestimate the
12 extent to which the feedback from yourself and the cruise
13 industry and the submissions has had on the tribunal's
14 thinking. What we are producing now is what we think is the
15 best, but it's very much informed by the consultation process.
16 So it's all not wasted.
17
18 MR HOLLIDAY: Indeed.
19
20 CLOSING REMARKS
21
22 THE CHAIRMAN: Any other comments, questions?
23
24 It's been a very productive and enjoyable session.
25 I'd like to thank you all very much for coming today and
26 participating.
27
28 The transcript of today's proceedings will be
29 available on our website in a few days' time.
30
31 Submissions on our draft reports are due on Tuesday,
32 30 August. We will consider all feedback received in the
33 submissions and at today's hearing and we will provide our
34 final report to Transport for NSW in October. Thank you
35 very much.
36
37 AT 11.30AM THE TRIBUNAL WAS ADJOURNED ACCORDINGLY
38
39
40
41
42
43
44
45
46
47