C O R R E C T E D   T R A N S C R I P T

PORT OF MELBOURNE SELECT COMMITTEE

Inquiry into the proposed lease of the port of Melbourne

Horsham — 27 October 2015

Members

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Witnesses

Mr Mark Johnson, Managing Director, and

Mr Gary Pilgrim, Horsham Operations Manager, Johnson Asahi.

The CHAIR — I declare open the Legislative Council Port of Melbourne Select Committee public hearing. This hearing is in relation to the inquiry into the proposed lease of the port of Melbourne. I ask that all mobile telephones now be switched off, having regard to problems with them feeding through to Hansard's equipment. I welcome Mr Mark Johnson, managing director of Johnson Asahi, and Mr Gary Pilgrim, Horsham operations manager.

The committee does not require witnesses to be sworn, but questions must be answered fully, accurately and truthfully. Witnesses found to be giving false or misleading evidence may be in contempt of Parliament and subject to penalty. All evidence taken at this hearing is protected by parliamentary privilege as provided by the Constitution Act 1975 and is further subject to the provisions of the Legislative Council standing orders. Therefore the information you give today in the hearing is protected by parliamentary privilege. However, anything you say outside the hearing may not be so protected. All evidence is being recorded and you will be provided with a proof version of the transcript in the next couple of days for any corrections. The committee has allocated 45 minutes for this hearing, so I invite you to make a brief opening statement, if you would like, and the committee will then proceed to questions. We have received your written statement this morning, and we thank you for that.

Mr JOHNSON — Thank you. As the submission we put to you this morning indicates, I am here wearing three hats: one for J. T. Johnson & Sons, which is in South Australia; one for TMR Feed Solutions, which is a factory we own in Nhill; and another one here, Johnson Asahi, which is an exporter of hay out of Horsham. All three companies utilise the Melbourne port. As you can see, we are doing some large volumes with Johnson Asahi, with plans to increase up to the equivalent of 8000 TEUs. All of those move into the Melbourne port and out of the Melbourne port, destination South-East Asia, China, the Middle East — all those types of countries.

We sort of sit on the fence with the sale of the port. We do believe it is a good thing for the state. We do believe it is good if we see that money especially goes into infrastructure — we like to see regional, especially the Wimmera country. However, the dollar figures ourselves we see an increase that occurs — and we work on dollars per tonne. If you want to bring it back to container costs, it works out to about $80 a container for us, which is equivalent to about $4 per tonne. So effectively it is increasing our costs. We farm, ourselves, as well, but we also purchase from a lot of farmers directly in a radius of 200 kilometres of the Horsham area.

The issue we see is how can these costs be reimbursed? They always, normally, get pushed back to the farmer. Unfortunately the farmer these days is taking on all the final costs. It is something that we are just a bit concerned about. We do sit on the fence. We would like to see, if any infrastructure came back, that it could reimburse some of this $4 a tonne or these increases to $80 a container to exporters like ourselves from this region — but not only from this region. Our company in South Australia wants to move about 70 per cent of our exports, which would be up around maybe 5000 or 6000 TEUs, through to the Melbourne port. However, if the sale does go ahead and these costs do rise, we would then obviously need to revisit that option of us utilising the port of Melbourne.

Just to summarise, we sit on the fence. We would like to see if there was a sale, how we could somehow get some type of assistance or look at the reimbursement of that $80 a container, which is a bit of a worry to us.

The CHAIR — Thanks, Mark. Can I ask, just with your operations currently from Horsham, your containerised hay, if that is on rail or road? Do you use the terminal or — —

Mr JOHNSON — We use the rail terminal out at Dooen with Wimmera Container Line — or SCT which purchased them. So all is done by rail, yes.

The CHAIR — Just having a look at your written submission, you make reference to the port licence fee, which is now roughly $80 million a year for the port, and you comment on the impact that has per container and per tonne. One of the proposals under the lease is that the port licence fee be payable upfront by whoever buys the lease for the full 50 years. So rather than pay on an annual basis, that is paid as a lump sum along with paying the lease cost of the port. Do you have a view on the appropriateness of requiring that to be paid up-front from the perspective of what it would mean to users of the port?

Mr JOHNSON — Not really, no.

Mr PILGRIM — No.

Mr JOHNSON — We do not really have a view on that whatsoever. No.

The CHAIR — Instead of paying $80 million a year for the next 50 years it would be a lump sum of — depending on who you listen to — $2 billion to $3 billion paid up-front.

Mr JOHNSON — How is it looking to go? Is it up-front?

The CHAIR — The proposal currently would see that paid up-front. Rather than paying it on an annual basis, it would be paid in a lump sum brought to book in the next 12 months, which would then obviously have the flow-on financing costs for the port operator —

Mr JOHNSON — Right. Okay. We do not really have a view on that.

The CHAIR — conceivably with cost impacts for the users of the port.

Mr PILGRIM — Any increase in cost will end up flowing down the system, I would imagine. It usually ends up with the farmer at the end of the day, because our major competition export-wise is the United States. There are probably 20 hay-processing plants in Australia that compete with the United States, and any extra cost obviously makes us less competitive. At the end of the day it always flows back through the system.

The CHAIR — In terms of export charges, how competitive are we now?

Mr JOHNSON — Compared to around the world?

The CHAIR — Yes, compared to the markets you compete in, such as the United States.

Mr JOHNSON — We are not 100 per cent sure. Long Beach, for example, out of California is probably one of the largest. Their port charges are very cheap. For example, they can get containers, including DTHC, from Long Beach to Shanghai for about $13 per tonne, which equates to around $300 and something — maybe US$350. We have a freight company which we use, a broker called Fildes, a very reputable company. They have been in the industry for 40 years. We use them as our freight brokers. They have noted to us that if this does occur, Melbourne will be the most expensive port here in Australia. That is their belief.

Hearing suspended.

The CHAIR — Gentlemen, we are back on line. Apologies for the interruption. Mark, you were talking about the comparison with Long Beach, $350 a container into Shanghai. What would be the comparative cost out of the port of Melbourne?

Mr JOHNSON — Obviously it would increase by about $80 a container or thereabouts, so we are talking around $18 a tonne, so up around — —

The CHAIR — As compared to, was it, $13 a tonne?

Mr JOHNSON — Yes, so about $450 a container. That is a 40-foot container.

The CHAIR — In terms of the capacity for growers in the Wimmera to absorb cost increases, what is your view on that?

Mr JOHNSON — It is pretty tough. They are doing it very tough here at the moment, especially around the Wimmera, and have been for maybe the last three or four years. It has been pretty hard. We seem to be going further and further away to try to find more product, which again adds cost to deliver it here to Horsham. Logistics is our business basically. We bring in 100 000 tonnes of product here to Horsham. We press it up and we move 100 000 tonnes out. Obviously the closer we can get it, the more economical it is going to be. So making sure that B-double accesses, A-double accesses — we are seeing a lot more in Queensland. Even in SA we are seeing the government, or the DPI, or the department of transport, opening up more A-doubles, which are effectively longer B-doubles. They have become very economical and can assist in some of these increases that do sometimes occur. Just to answer your question, it would be pretty tough on the farm, yes.

Mr MULINO — Thanks for your submission and your verbal evidence as well. You have raised a lot of important issues. I just want to touch, firstly, on an issue which a lot of witnesses talked about, which is the prices and charges at the port and what might happen after the lease. Obviously you would like to see downward pressure on those prices and charges in order to remain as competitive as possible. Do you support, in broad terms, the Essential Services Commission having a strong role in regulating those aspects of the port which are monopolistic and have market power?

Mr JOHNSON — I would support that. One thing that probably would be a bit of a worry on many companies' minds would be the 50 plus 20 — is that right?

Mr MULINO — Yes.

Mr JOHNSON — A lot of us around that time might not be here, but if there is no governance on those possible extra increases that could occur on a yearly basis or a CPI basis or whatever it may be, that could be detrimental, definitely, for the port of Melbourne and for companies — export companies for sure. Could I ask, 'What about imports?'. This is also effective for importing companies as well — is that correct?

Mr DRUM — Two-way. Exactly, it is two-way.

Mr JOHNSON — Yes, it is a two-way effect.

Mr MULINO — Yes, and obviously for consumers any costs on the import side is going to have an impact.

Mr JOHNSON — Sure.

Mr MULINO — So what has been proposed is that there would be a 15-year CPI cap on the vast majority of current charges — about 86 per cent of charges are covered by that. Then, following that 15-year period, there would be a review by the ESC, which would be based upon the way they generally regulate monopolies. Then for the other 14 per cent, which is essentially rents, which are at the moment governed by dispute resolution clauses in rental agreements, the ESC would have an oversight role which is stronger than is currently the case. So it is a beefed-up version of what currently exists and would, I think, broadly be seen — and the ACCC certainly accepted this — to be stronger than the regimes in place in New South Wales and Queensland. So is that moving in the right direction, to your mind?

Mr JOHNSON — I would say so, yes.

Mr PILGRIM — The Essential Services Commission, I suppose, is the obvious body to oversee the charges of the levy. There might well be some other organisation that is set up to do that, but I see the Essential Services Commission as the one.

Mr MULINO — Another issue that you have raised, again which has been discussed a fair bit, is this issue of larger ships, deep-sea port — the bay has certain constraints. It is a fairly complicated issue in that there are many variables at play. One is: when will the port reach certain levels? It is hard to extrapolate growth rates with any great certainty because they change. The assumptions in various studies recently have evolved post-GFC and so on. You have also talked about Portland having deep-sea capacity. So there are a range of factors in play. The question I had was: there is a proposal by the government that, in examining the issue of where a second port should be and when the government should look to start developing that second container port, they are going to put that question to Infrastructure Victoria, a new independent body which has been set up with some expertise around infrastructure issues. Do you support that broad approach to looking at those complicated long-term issues?

Mr JOHNSON — Yes, for sure, definitely. We were under the impression that the proposed port was going around the other side of Melbourne there.

Mr PILGRIM — Hastings.

Mr JOHNSON — Hastings site, yes.

Mr MULINO — So there are two major options. I mean, I do not think Infrastructure Victoria is going to be limited to just looking at those two, but Hastings and Bay West, near Avalon and Geelong, are the two main options being considered at the moment, and each of them seems to have pros and cons. We have heard lots of witnesses, some ambivalent, some supporting one or the other, but the intention is that Infrastructure Victoria will fairly soon be receiving a request to examine that issue in detail.

Mr JOHNSON — You know, you look at other countries around the world and the size of ships that come in — you probably know that NYK are pulling out of Australia. They might have dropped I think it was around $90 million last year, then the previous year around the same if not more. It comes back to scale. The shippers are looking to get big vessels in around the place and move them in and move them out. Maersk are a big believer of that. So obviously, to make the port more efficient, and even the new ports you are looking at, those large vessels need to be cared for, definitely.

Mr MULINO — A final question: on that issue of additional port capacity, we have heard evidence suggesting that you obviously do not want to delay too long, because you do not want to get stuck in a situation where you do not have the capacity that the economy needs, but you also do not want to build it too early, because then you have a whole lot of infrastructure costs which have to be passed on. So I imagine as a user not wanting to have undue charges laid that are hit on you, are you similarly inclined to say that what you want to get is, as much is possible, the port timing just right? You do not want it too early, you do not want it too late, if there are going to be additional ports, and you want incremental capacity to be at the lowest costs. So that might mean the port of Melbourne is increased for the next 10, 20 or 30 years or however long it can increase.

Mr JOHNSON — So your question was?

Mr MULINO — Basically, is that your perspective on those bigger, longer term issues — that you do not want it too early, you do not want it too late?

Mr JOHNSON — Yes, obviously. I suppose that is probably the smarter way to do it. We do not really have too much of a view on that. You want your current port to be at close to full capacity before you look at doing anything else, so obviously the brains in the Parliament and people working on that will come to that understanding, to answer that question. But from our point of view, obviously more costs that come to an exporter have to get passed on somewhere, and we either start becoming non-competitive in the marketplace and/or it burns farmers' back pocket as well. Our export industry is high volume. It is all about numbers — grain, fodder and even mining. Any extra little cost, those little 1 per centers, do add up and do hurt, for us to be competitive in the marketplace. With the dollar where it is right now, that is obviously a great help, so you probably can say, 'Yes, we can absorb some of these costs', but if that dollar goes back to 80-plus or 85, there are going to be some big issues.

Mr BARBER — Just a little bit more about your business, if that is all right. I presume sailing time from here to Shanghai and Los Angeles to Shanghai are broadly similar. Maybe we are a bit quicker. Their volume must be truly massive.

Mr JOHNSON — Yes.

Mr BARBER — So do you mind disclosing to us what proportion of your costs are transport costs by the time you deliver it to your market?

Mr JOHNSON — Off the top of my head, I reckon our base rate would probably be about 250. I reckon 250 to 300 would be our base rate. So that is the sea freight, then the other charges are port charges — so your low-loads, your DTHC and all that type of stuff.

Mr BARBER — And as a proportion of the price you are getting, what would that be? Would that be a third of the price going into just the transport part of your — —

Mr JOHNSON — It would be just the transport part itself — as in, the sea freight.

Mr BARBER — No, from here to Shanghai.

Mr JOHNSON — From here to Shanghai? From here it costs —

Mr PILGRIM — $50 a tonne, isn't it, from here to Melbourne?

Mr JOHNSON — $1350 a container. So $54 a tonne, it costs, to get from here to Melbourne and then $18 a tonne from Melbourne to Shanghai.

Mr BARBER — Okay. And have you had instances where you have lost sales or market share due to the cost competitiveness issues, if the US is your main competitor?

Mr JOHNSON — Only when the dollar was up high. Apart from that there is currently a subsidy system, I believe, in sight for this rail terminal here. If that subsidy system was not in play, we would have to go onto road, and road would not make it effective. We would have to probably revisit our site — whether we move closer to Melbourne or stay in the Wimmera.

Mr BARBER — Very interesting. Do you get to put your charges up by CPI every year the way this port operator is going to be able to do?

Mr JOHNSON — It would be nice to, but no, we cannot.

Mr BARBER — Are you getting to put them up by CPI this year?

Mr JOHNSON — No. We are coming down on our prices actually because of the market situation.

Mr BARBER — You describe yourself as a processor. Pardon my ignorance, but can you tell me what the processing involves?

Mr JOHNSON — The processing itself, out at Horsham here we take large bales and we cut them down and compress them into usable 25 kilogram bales, and then they get maxed out in the containers where we try to utilise 26.5 tonne. Some ports into China and some into the Middle East can accept heavy weight of boxes, which is 28.5 tonne. Obviously we would like to utilise those, but there are restrictions in some areas. I am not sure if it is inside the port here. There are areas where you are restricted to utilise some of those extra heavy boxes.

Mr BARBER — So you just squash it as tight as you can and then pack it into a container?

Mr JOHNSON — Yes, pack it in, and it goes to dairy farms around the world.

Mr PURCELL — Thank you for the submission. You have covered a lot of areas. You have actually researched the proposal quite well. Most of yours is going in 40-foot containers, and you put the 26 or 28 tonne into those?

Mr JOHNSON — Yes.

Mr PURCELL — The issue with that is: do you have any options? I know you said that you would have to consider your options if the port fees went up too high. What are your options?

Mr JOHNSON — Not much, to be honest with you.

Mr PURCELL — I could not work out what the options were.

Mr JOHNSON — The only other option would be — and I could not see it being viable — we are using a loop system at the moment with the rail with SCT, ourselves, Fildes and Hamburg Süd, we have got a partnership going on, and with Holden's closure we are worried about containers available in South Australia, in Adelaide, and we could look at utilising that rail loop and back-loading containers, this back-load system, and putting it out of Adelaide port. However, the services out of Adelaide port are quite poor and they are all tranships. A good part about Melbourne is that you have got lots of boxes to offer and you have got direct services to a lot of main ports, so for the customer the Melbourne port is a good service. Adelaide is a bit of a clunky port.

Mr PURCELL — Yes. Just in regard to your product again, you are saying you have to go further afield to get your product because of the dry conditions, and that obviously — because there are others competing for it — would increase the prices and therefore you have to pay more for it. Probably the back side of that is that anyone else in the same market has to pay more for it as well, so it increases the cost of farming here. The product from here goes into Shanghai, by the sound of it, even though your company is partially owned by the Japanese?

Mr JOHNSON — That is correct — 50 per cent owned the Japanese. Seventy per cent of the product goes to Japan, and then the remainder goes to China and Korea and Taiwan.

Mr PURCELL — You said dairy farms — would they be feedlot dairy farms?

Mr JOHNSON — Yes, that is correct.

Mr PURCELL — So into feedlots; okay. They would obviously be very price sensitive.

Mr JOHNSON — Yes.

Mr PURCELL — Did I hear correctly that you said that to get the product from here to Melbourne is $54 a tonne, and from Melbourne to Shanghai it is $18?

Mr JOHNSON — That is correct, yes.

Mr PURCELL — Okay. I think that probably is the crux of the issue, is it not, when you compare the short distance from here to Melbourne and then to get it from all the rest of the world it is a quarter of the price?

Mr JOHNSON — Yes.

Mr ONDARCHIE — Mark, about 90 per cent of your business is export?

Mr JOHNSON — More than that — 99 per cent.

Mr ONDARCHIE — Okay. Your key competitors are interstate and in the US as well?

Mr JOHNSON — Yes, traditionally the US.

Mr ONDARCHIE — What would 80 bucks a container mean to your competitiveness?

Mr JOHNSON — Like I said, it adds that extra $4 a tonne. At the moment with the dollar around 70 cents we could probably absorb a fair bit of that and make it work. In the current marketplace we could make that work.

Mr ONDARCHIE — The dollar moves, though.

Mr JOHNSON — If the dollar moves above 80, we start getting in a bit of strife then.

Mr ONDARCHIE — Okay.

Mr JOHNSON — Eighty to 85 cents is when we start getting very sort of non-competitive in the marketplace.

Mr ONDARCHIE — One of the things that people have been saying to us, Gary and Mark, is around the fact that only 3 per cent of the ultimate sale price, or thereabouts, will go to regional Victoria, so 97 per cent of that revenue will flow back into Melbourne.

Mr JOHNSON — Is that right? Okay.

Mr ONDARCHIE — How do producers in regions feel about a miserly 3 per cent being thrown at them as some sort of, 'Here, we really love you, but we don't'?

Mr PILGRIM — Most people are unaware of the port sale for a start, and they would be unaware of any increase in costs. I do not think most people care really, but they might care when the imported goods start rising. That is the only care they would have.

Mr ONDARCHIE — When I talk about money for infrastructure, there is some serious infrastructure needed in regional Victoria — driving up here yesterday, it is plainly obvious — but the government is talking about $200 million only for the regional fund, so 3 per cent virtually of the sale price, that they will hand out to regional Victoria for any potential infrastructure.

Mr JOHNSON — That is a bit of a joke in its own self there because you are utilising the port for exports and imports of course. Whether it is milk powder or grains et cetera out of Melbourne port, the money needs to go to regional infrastructure — access to port, access to marketplace, and roads, like I said before, B-double and A-double access — to open up the network a lot more so it makes it more accessible and more cost effective for farmers to bring their product to the market.

Mr ONDARCHIE — Yes.

Mr PILGRIM — One of the main projects I think that has not been funded is the Murray Basin rail project, which is essential to help with freight to port. From my understanding that has not been fully funded yet, but I think it is an essential project.

Mr ONDARCHIE — Also that last mile.

Mr JOHNSON — Yes, that last mile into port there. It is pretty clunky. If you can go rail straight into port, that would help a lot of things, but I know it is a bit tough.

Mr ONDARCHIE — Indeed. The government would say, I suspect, two things to you. One is, 'Trust us, we'll run it through Infrastructure Victoria and hopefully we'll come up with a project that helps you'. You can make your own value judgement about what 'Trust us' means to you. Or there is another option, which is, 'Let's lock some key bits of regional infrastructure into the deal before we proceed with the sale'. Have you got a preference?

Mr JOHNSON — Yes. We would like to see something like that — infrastructure being more locked in, understanding and knowing that some of the money is going to go to help regional infrastructure access. That could then in turn bring efficiencies, which can help out some of these extra burdens or costs that could come along. I think there might be quite a few people upset if that was the case, if it was only 3 per cent — is that right, what you said?

Mr ONDARCHIE — Yes.

Mr JOHNSON — Yes, there would be a lot of regional people a bit upset to hear that, I would imagine.

Mr ONDARCHIE — I can understand why they come home talking about it.

Mr MULINO — Just a couple of quick questions. One of the aspects of the proposed pricing regime is that there be a differential pricing between exports and imports, and that for the first four years there be a 2.5 per cent discount on exports. Is that broad approach to export facilitation something that you think makes sense?

Mr JOHNSON — I did not know that. It was looking to be a minus 2.5 per cent for exports?

Mr MULINO — Yes, for exports relative to imports.

Mr JOHNSON — Yes; okay.

Mr MULINO — Do you think that is a sensible thing for the economy to try to make us more competitive on the export side?

Mr PILGRIM — Is that only for a limited number of years?

Mr MULINO — Yes, for four years there is going to be a step down, and then that gap will be maintained.

Mr JOHNSON — Okay.

Mr PILGRIM — I do not know about that.

Mr MULINO — The committee can provide you with details on that and get some feedback on that.

Mr JOHNSON — Yes.

Mr MULINO — In principle, though, the notion of trying to facilitate exports is something you are open to?

Mr JOHNSON — Definitely. Yes.

Mr MULINO — In terms of rail, which is obviously critical to your industry and many others, one of the proposed aspects of the leasing process is that the government would say to bidders, 'You've got to include rail options in your proposals, and they will be evaluated as part of the overall assessment of your bid'. Do you think that is a sensible step in terms of forcing some ideas from the private sector in terms of boosting rail access?

Mr JOHNSON — Boosting the rail access into port?

Mr MULINO — Yes.

Mr JOHNSON — What would you currently have? You would have Qube's access there.

Mr MULINO — DP World, I think, has invested.

Mr JOHNSON — DP World.

Mr MULINO — One of the requirements would be that the government is going to say to anybody trying to bid for the lease, 'You've got to come to us with additional ideas, and then we'll look at those proposals as part of our evaluation'.

Mr JOHNSON — I think anything where you can get the economy of the rail, the scale of it, more cost effective — I know it is pretty expensive to run trains and wagons and then access and infrastructure into port — but if they can come up with better ideas in accessing the port, that is well and good. Again, it all comes down to cost.

Mr MULINO — Exactly, but also looking at some of those figures on your first page, Melbourne's population is going to increase dramatically and so is Victoria's. We are all envisaging that the throughput at the port is going to increase substantially over the next 10, 20, 30 or 40 years, and I think most people agree that rail has got to be a big part of that if we are going to achieve that kind of growth.

Mr JOHNSON — It has to.

Mr MULINO — I imagine you are very keen for government to bring forward ideas and investment on the rail side of the port.

Mr JOHNSON — Definitely, yes.

Mr DRUM — How long have you guys been operating in this business?

Mr JOHNSON — Since 1923. Our company is a family business from South Australia. In Horsham we celebrated 20 years this year.

Mr DRUM — Exporting for how long?

Mr JOHNSON — Our company has been exporting since the 50s.

Mr DRUM — Where would you see the potential at the moment for future growth of those overseas markets?

Mr JOHNSON — Future growth is very strong, especially for China. We are predicting for the next four years between an 8 and 12 per cent increase in demand and sales, subject to availability of raw materials from our end.

Mr DRUM — It is incredible for any Australian business to be looking at a profile of 8 to 12 per cent in growth.

Mr JOHNSON — Yes.

Mr DRUM — It becomes absolutely critical that we do not muck up that capacity or that opportunity with any additional charges at the Victorian end. In relation to the operation of the port, to reach full capacity it effectively means we are going to triple our current operation. We are currently running at about 2.3 or 2.4 million, and estimates are anywhere from 5.5 to 7.5 or 8. In your mind can you visualise a tripling of the current operation with the trucks on the way in and a potential tripling of your movements over time? It is not going to be long before 8 to 12 per cent growth sees you doubling and then tripling.

Mr JOHNSON — From our point of view we have a business plan in already, and we are talking to local council. We would like to see ourselves relocate out to Dooen at the rail head.

Mr DRUM — At the WIFT?

Mr JOHNSON — That is right, yes. We can see an internal saving on the internal leg, which costs about $7 a tonne to get from the current facility out to Dooen. It will end up being a $12 to $13 million project. We would be looking to upgrade our facilities and bring in more technology to boost our production capacity. We would like to double our capacity out of Horsham here. Also, like I mentioned, we have got a factory in Nhill, which is predominantly export. We utilise a lot of different by-products — we bake a cake and send it away — again to beef and dairy. That is only a year and a half old. We have just commercialised it. I would expect numbers to get up to probably 30 000 or 40 000 tonnes in the next few years with that product, so that is more than a tripling of production out of there.

As I mentioned before regarding our South Australian facility, once this GM shutdown occurs, we are really concerned about the availability of boxes. We need to get relocated boxes out of there. We are spending $16.5 million on an upgrade in the Barossa Valley on one of our feed mills. A lot of the feed will go down to Portland for the live vessel trade. We have a hay factory there as well where we produce over 110 000 tonnes of hay and straw going to the overseas market. Currently 30 per cent of that would go on rail out to Melbourne port. With this new system, this loop system and the GM shutdown, to get containers we are expecting that we would probably flip that around, and 70 per cent of our product that currently goes out of Adelaide we would like to go into Melbourne port. I would imagine because of the direct service and the empties that are available, Melbourne port is very attractive for a lot of people, but we do not want to make it the most expensive port for a lot of people.

Mr DRUM — If you could be sitting here in 15 years or 20 years time and the port of Melbourne has reached capacity, what do you see happening then? Do you see a second port operating somewhere?

Mr JOHNSON — I imagine you would have to have a second port operating somewhere. Where is the best location?

Mr DRUM — Let someone else work that out.

Mr JOHNSON — Let someone else work that out. I like Portland. I do not know why I like Portland. You will probably never get boxes down there, but for export there is a fair bit of grain that goes out of there now. You can run a rail system down through there as well. The live cattle and stuff go out of Portland. We like Portland as a port.

Mr PILGRIM — It is a deep-sea port.

Mr JOHNSON — That is right.

Mr DRUM — Thanks for your appearance. Many of the concerns you have raised have been the concerns that we have also been raising in relation to what happens in 15 years time when some of the regulations cease, some of the charges that are applicable to the port of Melbourne only and what that actually means to the cost per tonne, and also the concept of what happens in the future. Certainly there is concern about big ships; we are just not quite sure about the trend of the big ships with the draft getting through the heads. Also the biggest ships are only just getting under the West Gate now, so where that leaves the port of Melbourne and where the future goes is all a bit up in the air. Again I want to thank you because many of the concerns you have raised in your submission are the issues that we have also been concerned about. Thank you.

The CHAIR — Mark and Gary, thank you very much for your evidence this morning. We really appreciate you coming in and giving us perspective on your business and also providing a written submission, which was very helpful. We will have a draft version of the transcript in the next couple of days for any corrections that you need to make. Thank you very much for your time, and apologies again for the break on the way through.

Witnesses withdrew.