

CORRECTED TRANSCRIPT

PORT OF MELBOURNE SELECT COMMITTEE

Inquiry into the proposed lease of the port of Melbourne

Horsham — 27 October 2015

Members

Mr Gordon Rich-Phillips — Chair

Mr Daniel Mulino — Deputy Chair

Mr Greg Barber

Mr Damian Drum

Mr Craig Ondarchie

Mr James Purcell

Ms Harriet Shing

Ms Gayle Tierney

Staff

Secretary: Mr Keir Delaney

Research assistant: Ms Annemarie Burt

Witnesses

Ms Jo Bourke, Executive Director, and

Ms Tammy McDonald, Project Officer, Wimmera Development Association.

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.

I welcome Ms Jo Bourke, chief executive officer, and Ms Tammy McDonald, project officer, from the Wimmera Development Association. 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 provide today is protected by parliamentary privilege. However, anything you say outside the hearing is not so protected. All evidence is being recorded. 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. I invite you to make a brief opening statement if you wish, and the committee will then proceed to questions. Thank you.

Ms BOURKE — Thank you. For the benefit of members not aware of this, Wimmera Development Association consists of five municipalities in the region. We have been operating for almost 25 years. Our main focus is business and community development, and we support the councils with regional advocacy.

I will start off by saying that our comments are general in nature on this issue, but we view the proposed lease of the port of Melbourne as an important change in the freight and logistics operations of the state.

Our region has a major export focus, primarily grain. We produce about 16 per cent of the Australian grain export. You would have heard discussion around the potential for the expansion of the mineral sands industry in the region.

Regionally we are competing globally. Our grain leaves the region in both bulk and containerised transport. The markets that we are servicing are developing in probably non-traditional areas around the world, and the markets are changing, so we need flexibility in the export arrangements that we access. Our region is very focused on maintaining the competition between road and rail freight as part of that export supply chain.

The focus of our discussions around the port of Melbourne is based on efficiency and costs. The port is only part of the supply chain, and we are very keen to see how it links effectively with the rest of the supply chain. That needs to be taken into account with the arrangements for the lease. For example, the investment in road and rail links, the ‘last mile’ as it is termed — those efficiencies are critical to the viability of the businesses in our region.

I suppose there is some concern about the interface with other transport infrastructure investment and the interface with public and private investment in the supply chain. We see a potential role for Invest Victoria in the oversight and planning of that. We very strongly support the Essential Services Commission regulatory oversight, and whilst I do not pretend to understand the complexities of some of that regulation, I think having the ESC in that role is positive for the industry, I believe.

Given the complexity of the commercial arrangements around freight and the port, we strongly support the transparency of the process. We understand the commercial-in-confidence requirements of the process, but the transparency of the process is very important to give people, particularly industry, confidence in how the issues are resolved. Particularly with the changing global shipping environment — the size of ships, trends in containerisation — these things need to be taken into account as well. We strongly believe that there needs to be a separation between the lease ownership and the operating services, and I think that comes through in the information available.

There is some concern in industry about the potential for short-term responses, potentially political responses, through this process that may have long-term unintended consequences, so we need to really take a strategic view of the decision-making for this. We strongly support the competitive environment for the second container port not being compromised through this process, mainly because of the lead time required to service the need of the state and the industry need. We think that needs to be a key consideration in the response.

Just in closing, whilst the focus is on the lease arrangements around the port, we strongly put that it is really about the supply chain efficiencies, and decisions need to take account of the full supply chain and the interface with other services. We believe that there needs to be a separation between the infrastructure and services, regulatory oversight through the ESC and the opportunity to review and to incorporate innovation and new opportunities that we may not yet be aware of.

The CHAIR — Thank you, Ms Bourke, and thank you for your comprehensive opening statement, covering a large range of the key issues around the lease. Can I ask you: in respect of your knowledge of local activities, particularly agricultural activities here in the Wimmera, how price sensitive are local businesses, agricultural businesses, to increased port charges?

Ms BOURKE — I would say there is a high sensitivity to changes in port prices. Perhaps to explain it, the supply chain costs and efficiencies are probably a greater part, so inefficiencies in the linkages into the port — sometimes it is time critical, operational — those things are really important. I am not sure how to actually weigh them up with the actual port charges because there are different arrangements depending on the export arrangements. In some cases grain is contracted from the farm; in other cases it is at different points through the supply chain. With the overall cost structures, there is quite a bit of work being done now around the competitive arrangements compared to our global competitors, and I think that probably the cost to get the product to market overall is where people are making the comparison now. So any changes along the supply chain, if I have explained that very well?

The CHAIR — Can I ask: in that context, you spoke about WDA's support for ESC oversight of port charges, which obviously flows through to cost to your producers.

Ms BOURKE — That is right.

The CHAIR — That ESC oversight is only partial in that it only covers what is currently 86 per cent of revenue but leaves an area that is not subject to oversight, and obviously if you put a cap on this section, you would expect the other section to be — the selection of charges to be there if it rises. Would your association be more comfortable if that ESC oversight extended to all charges?

Ms BOURKE — I do not know that that would be possible.

The CHAIR — Things like port rents, for example.

Ms BOURKE — I do not know. I had not actually considered it. I think I would properly have to go and speak to a few of the industry representatives to really give an opinion on that.

The CHAIR — Sure. We would be very happy to receive that as a subsequent response.

Mr MULINO — Just on that issue, when you do seek views — and we would be very interested to your reaction to that — one of the recent changes in the proposed regime is that the ESC would have quite prescriptive powers potentially in relation to the 86 per cent but that following discussions with the ACCC and other stakeholders the government is going to task the ESC to have a close look at the other 14 per cent, the rents, and basically look at whether there is market power in some or all of those arrangements and also that there would be certain requirements in relation to dispute resolution mechanisms to go into those rents. It would be good to get your feedback in relation to those changed arrangements.

I just wanted to follow up on some of your comments about the fact that the port is obviously critical but we need to look at this in the context of the supply chain. I think everybody agrees that Victoria's population is growing, our export industries are growing and we are obviously very keen to facilitate that at very high rates, and so the throughput of the port is expected to grow quite rapidly. We have heard a lot of people from industry in this area and other regional areas talking about the importance of rail. One of the proposed aspects of the leasing, of the bid process, is that the government is proposing to require bidders to include rail proposals, supplementing the rail access that is currently at the port, in their bids and that that will form part of the formal evaluation. Is that something that you are keen to see?

Ms BOURKE — Absolutely we support that, with the proviso, I suppose, that it is not done in isolation. We see a huge opportunity, particularly with the Murray Basin rail investment by the state government, to add value to that investment in some of the grain deregulation, change practices. Any of that thinking that has been done

about the port needs to be connected to those industry plans and the activity outside. That is one of the real opportunities that drops out of the port lease arrangements, I believe.

Mr MULINO — And I think, given that the lessee is going to have a 50-year lease, we are going to want to put in place the right incentives so that they undertake appropriate investment. Rail access is quite capital intensive, so we need to make sure that the regulatory arrangements and the lease structure are such that the lessee is incentivised in the right way.

Ms BOURKE — That is right, and I would have thought that, even if it were not included in the formal arrangements, for long-term productivity and growth it would be part of planning anyway. But to incorporate it I believe is very positive.

Mr MULINO — Final question. You have raised the issue that it is important that we separate the lessee from the operational side, and I think there is broad agreement on that. I just want to touch on a couple of proposed aspects of the transaction. One is that stevedores are going to be prohibited from bidding. I imagine you would support that, given those earlier comments?

Ms BOURKE — Yes.

Mr MULINO — Secondly, there is a proposal that in relation to vertical integration issues post-lease the ACCC retain its current regulatory powers in relation to the port and that they would essentially need to tick off or not any extension of the lessee's operation. Is the ACCC, do you think, a sensible place for that regulation to stay?

Ms BOURKE — I do not know that there would be another option.

Mr MULINO — But you would like to see it regulated?

Ms BOURKE — Yes. It definitely needs to happen. I suppose it goes to the terms of reference for that oversight.

Mr PURCELL — Thank you for the presentation. The composition of the Wimmera Development Association I know is the municipalities. Is it the mayors on your board? Do you operate under a board system?

Ms BOURKE — Yes, we do. We have representatives of each of the five councils — generally the CEO and a councillor representative.

Mr PURCELL — And you meet regularly to go over all the issues that cover a fairly big geographical area?

Ms BOURKE — We meet monthly.

Mr PURCELL — You would be in a very good position, then, to identify major projects in the area that need support from government, whether they be road, rail or other infrastructure. What would the major ones be for this region?

Ms BOURKE — The major infrastructure projects are road and rail because of the freight tasks. We are strongly supporting the Murray Basin rail investment, duplication of the Western Highway, investment into the Henty Highway north and south and, through the councils, concerns about funding for C-class roads. Other advocacy is around that we are in a black spot radar-wise, so we have an ongoing discussion with the Bureau of Meteorology around improving weather services for the agricultural sector. We work with the councils on other infrastructure issues, such as the national broadband network rollout and the black spot mobile phone processes as well.

Mr PURCELL — Considering that list of things that need to be done, it leads me to the question that, as you know, through the sale there is proposed to be about 3 per cent to come back into regional projects?

Ms BOURKE — Yes.

Mr PURCELL — Considering all of those, do you think that is a reasonable percentage out of the lease?

Ms BOURKE — It would always be nice to have more, but I think that the competition for this money needs to be freight and regional and agricultural productivity. I think that is key. To be frank, we are at the moment doing a business case for the radar project, to position that for consideration under that fund when it eventuates, because we see that as a key requirement for improved productivity in the agricultural sector, having improved weather information for the region. I think naturally the focus for some of that funding will be in the freight networks, and we would support that. Three per cent is more than we have at the moment. I suppose the context is that the industry hope is that this process will improve the port arrangements and provide some money to improve some of the supply chain issues as well.

Mr ONDARCHIE — Thank you, Jo and Tammy, for being here this morning — I might give Tammy a chance to have a bit of a say as well — and for your advocacy for the Wimmera. Picking up your comments about the supply chain support needing to be taken into account, that the last mile is critical and that this process must ensure some confidence from the industry — and I think it is more about respect for the industry as well — are you pleased that 97 per cent of the revenue that will come from the sale of the port of Melbourne will go into metropolitan Melbourne?

Ms BOURKE — I suppose it goes to my comments about the supply chain. Some of the biggest issues in the supply chain for exporting our grain are in the metropolitan area. I suppose I take the view that we are all Victorians. Any investment that smooths the way for increasing the investment and efficiency in the infrastructure that we need regionally does not have to be in our region. In the supply chain through to export, that is critical. Regionally we have had a history of supporting the investment in the duplication and upgrade of the Western Highway, including the works done at Deer Park. I think there is a maturity in the industry to understand that, while the investment may not be in our backyard, we get the benefit of it. I understand what you are asking, but those decisions, as long as we can direct it so that we can get a benefit from that investment, are a positive for us.

Mr ONDARCHIE — Then let us take that up and ensure that you get some benefit from this investment. The government will say to you, ‘We might ask Infrastructure Victoria to have a look at and see what is available’, and at some point into the future, probably when I am well retired, they might think about doing that. That is a bit of a ‘Trust us’ sort of statement. The other point is about that last mile. The government will say to you that they will ask for proposals from potential bidders to consider offer options for that last mile, but that is not a commitment. Given that is critical — as you said — would you like to see this proposal have a commitment for that last mile before we go through the ultimate sale?

Ms BOURKE — I would have thought that, with just the structure of the discussion at the moment, there is a level of commitment to investment in that last mile if there is a requirement to have the rail interface.

Mr ONDARCHIE — They are only asking for proposals. What I am asking you is: should there be a firm commitment to completing that last mile, as part of this process — not just go through the process and let us hope for the best?

Ms BOURKE — I do not know.

Mr ONDARCHIE — Given you have said it is critical —

Ms BOURKE — It is critical.

Mr ONDARCHIE — would you like to see a commitment to it as part of the lease process?

Ms BOURKE — I would say, yes, I would then. But I would think just on a commercial basis going into a lease arrangement for that time frame that the last mile issues are the obvious place for a lessee to invest.

Mr ONDARCHIE — Or you hope so, but you said you would like a commitment, too, at the same time. Thanks.

Ms BOURKE — Yes.

Ms TIERNEY — Thanks for being here, Tammy and Jo. My first question is in relation to the current port of Melbourne, and there are differing views on what the capacity of that is. I am assuming by some comments that you have made about the need for infrastructure planning that you would be supportive of an organisation

such as Infrastructure Victoria being the body that would analyse and make recommendations in respect to the location and the veracity. Is that correct?

Ms BOURKE — My understanding of Infrastructure Victoria arrangements is that the advantage is that they will have the capacity to have oversight of the planning of both the public investment and private investment, and to me that is a critical element in this process, to make sure that the interface between different investments actually adds to the efficiency of the system.

Ms TIERNEY — And I think that is the common ground, that we are all about wanting increased efficiency from production — produce, food, products — to port, very much so. In terms of the comments that you have made about the supply chain, would you see an organisation such as Infrastructure Victoria being an appropriate body to analyse and examine the supply chain?

Ms BOURKE — My understanding of Infrastructure Victoria is that they have the opportunity to research. I think that a critical part of that is to have industry input into the research and planning, and probably at a high level but also at individual project level, so that we get the overall picture.

Ms TIERNEY — This is not a question but something I want to say. At the risk of embarrassing you, Jo, I just want to put on record our thanks for your advocacy. I think you are probably one of the best regional advocates we have in this state. Jo has recently announced her retirement, at her choice, and is leaving WDA in three weeks' time. We, I am sure, want to again thank you so much for what you have been able to do and in making sure that the voices here are heard in Melbourne. We wish you well in what we believe will be a wonderful next step in your life in your retirement, so thank you.

Ms BOURKE — Thank you.

Mr DRUM — In relation to the VFF, their closing evidence was along the lines of, 'It would be nice to have seen the government start with the operation of the port in mind so that we ended up with an efficient, nimble, competitive, sharp operation of the port as we hand over this once-in-a-lifetime opportunity to set the regime in place. Start with all that in mind, and then if we make some dollars at the end, great'. Their fear is that it has been back to front and that the whole legislation has been based around making as much money as you can — first starting with a price in mind, and then everything else comes in to try to make sure that we end up with something that is not a dog's breakfast. Would you agree that that would have been a better way to approach this sale?

Ms BOURKE — It goes to the role of government and its capability to actually drive some of those things, and I actually think that sometimes that sits better with private enterprise. There is probably a whole list of things that government could have done in advance of this process that would have perhaps positioned it in a better way. It is the reality of where we are now. I think that I understand where the VFF is coming from; I do not disagree with it.

Mr DRUM — Can I put you in the same framework? As an advocate for the region and for the Wimmera, would you have liked to have seen the efficient, competitive, nimble, innovative operation of the port as the no. 1 priority with the sale and, using that language, if we make some dollars at the end, yea, but not for it to be the prime objective? Does that philosophy sit well with the Wimmera or are you happy with the way it is going?

Ms BOURKE — I am not sure that I can put a Wimmera perspective on that, Damian.

Mr DRUM — Anyway you do not have to. That is fine.

Ms BOURKE — Sorry.

Mr DRUM — No, that is all good. If the government is going to use Infrastructure Victoria for future infrastructure decisions, would you like to see a government that is then bound by those Infrastructure Victoria decisions? I think you have said you agree with the concept of Infrastructure Victoria looking at these future decisions?

Ms BOURKE — Yes, I do.

Mr DRUM — So Infrastructure Victoria spends six months looking at and making decisions about maybe what level crossings are the most dangerous. Would you like to see the government bound by those decisions or do you think it is just up to government to receive advice and then do what it wants to do?

Ms BOURKE — I would be hoping that Infrastructure Victoria with the interface with private investment would be coming up with recommendations that government cannot be held to, that would be encouraging business and other levels of government to be involved with, so I do not know that the recommendations will come directly to the state government. I am hopeful that it will be a really inclusive and successful process.

Mr DRUM — Absolutely. Just so it is on the record, the WDA has no issue with 97 per cent of the proceeds going to Melbourne?

Ms BOURKE — I do not know. As I said, I think if it is invested in the supply chain and we get — —

Mr DRUM — It is going to be in grade separations — 97 per cent is for grade separations in Melbourne — and you have no issue with that?

Ms BOURKE — I think anything that benefits the state — —

Mr DRUM — Yes, okay. That is fine. Thank you.

The CHAIR — Ms Bourke, Ms McDonald, thank you very much for your evidence this morning. The committee appreciates your attendance and participation in this hearing. We will have a draft transcript to you in the next couple of days.

Witnesses withdrew.