# CORRECTED TRANSCRIPT

# PORT OF MELBOURNE SELECT COMMITTEE

## Inquiry into the proposed lease of the port of Melbourne

Shepparton — 29 September 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

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Secretary: Mr Keir Delaney
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Witness

Mr Graham Allen, General Manager, Trading, Australian Grain Link.

**The CHAIR** — We will resume with Mr Graham Allen, General Manager of Trading, Australian Grain Link. 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 further subject to the provisions of the Legislative Council's standing orders. Therefore the information you provide at the hearing is protected by law; however, any comments made outside the hearing are not so protected. All evidence is being recorded, and you will be provided with a proof version of the transcript within the next couple of days for any corrections. The committee has allocated 45 minutes for this session, so I will invite you to make a brief opening statement, if you wish, and the committee will then proceed to questions.

**Mr ALLEN** — Thank you. I guess the best way to start would be to go through the Australian Grain Link company profile so that you have an idea as to the sector and business that I am representing. Australian Grain Link is a privately owned business, operating out of the Riverina region of New South Wales. Our head office and operations are focused around the thriving regional town of Griffith in western New South Wales. The western Riverina intermodal freight terminal and agribusiness centre is Australian Grain Link's future logistics hub for western Riverina. Some of you may have heard of that facility, which is still in the development stage but is gaining support from various agribusinesses, as well as the major rail provider in the region, which has purchased land at WRIFT and is proposing a move from the town centre out to the freight hub to take that activity away from the town centre and create some efficiencies.

Australian Grain Link has three other grain sites. These are located at Benerembah, Coleambally and Carrathool. The natural farming systems utilised ensure that our products are clean and green and are PRF, or pesticide residue-free. Our partners, Terra Ag, in agronomic services ensure non-GMO seed, and our markets are very much focused on human consumption and export of human consumption products, especially wheat, into the north Asia region, which is very focused on that PRF status and non-GMO status. We export specialty grains to discerning south, north-east and Asian markets under the clean and green image. We have full supply chain control and strong grower relationships and ensure point-of-origin ID at all times. Ultimately we are the classic paddock-to-plate type of business. We have investment through the supply chain and heavy investment at the farm level. We are producing in-house upwards of 100 000 tonnes, which represents about 20 per cent of the business's storage capacity.

If you have a look at the location map on page 3 of the handout, you will see ultimately the major area that we have, our natural tributary too in terms of our sourcing of raw materials and then subsequently working by rail down into the port of Melbourne. On page 4 you will see an overview of the agribusiness centre, or WRIFT terminal, where we have labelled current investors in the project. The purpose of showing you this is to identify that we are not here representing just a single grain-focused business; this is about, ultimately, all container movements out of the Griffith region and subsequently to the east on that rail line as well. So, to cap that, the rail line from Griffith through to Wagga, which at the moment is tributary to Melbourne, but, I must say, also has options to go to Sydney. As we move into the discussions I will elaborate on the relevance of that. I guess from an introductory point of view, that will just about tide us over.

I have some key points I would like to go through, and one is that as a supply chain business Australian Grain Link is constantly monitoring changes in cost and analysing the effects on the supply chain — costs and efficiencies. An increase in costs would have the following impacts to the containerised grain supply chain. Increased port charges will be added to someone in the supply chain. My understanding is that it will likely be a cost incurred ultimately by the shipping line, which will then pass that back through in the form of freight rates. So as an exporter buying a 20-foot or 40-foot container, that additional cost will show up in the rate. It will have the effect of making container exports, particularly on grain, less competitive against bulk exports. As parts of Asia develop and invest in infrastructure, if we become less competitive, it will only encourage it more so to develop bulk facilities.

Southern New South Wales production will find its way to Sydney ports as an alternative market. Ultimately the market determines where product goes if we have higher costs in Melbourne. At the moment our rail is very fixed on running southern New South Wales to Melbourne. The balance — there is not that much in it. Under market pressure that train could easily run to Sydney. I do not have the total train number of TEUs on a daily basis, but at its peak that train is 1.5 kilometres long, running six services per week. Major products are coming out of that region obviously. I would say the no. 1 supporter of that service would be the wine industry, closely followed by a number of industries: grain, cotton and fresh produce — fruit and veg. At certain times of the year obviously grain is very much seasonal and can represent a much larger proportion.

On the flipside, if we see productivity gains out of a change of environment at the port of Melbourne that can ultimately reduce costs, then we see that as a good thing. That is a very important aspect of this, that we are looking for some productivity gain. Ultimately, long-haul freight in Australia needs to be focused around rail, so servicing that ability to easily have rail enter and exit the ports is very important.

**The CHAIR** — Thank you, Mr Allen. Thank you for your submission, presentation and opening statement. Can I take you to that question of the split between the port of Botany and the port of Melbourne. Obviously you are pretty uniquely located, with a head office at Griffith, in terms of geography between the two ports. How flexible is the decision to take product through Melbourne versus Botany, and how easily would that be changed if price came into play?

**Mr ALLEN** — As an exporter there is really no difference from a shipping perspective. A shipping line will equally show a service out of Sydney as they will out of Melbourne. From that perspective it is quite straightforward. I guess it is a change in culture within the rail industry, certainly it is a natural and historical path, the Griffith to Melbourne path. Sydney has its own logistical issues in allocating and getting trains into and out of the port; however, there has been work done on that. As you would know, with the work getting done around Moorebank or the western areas there is a plan in place to improve that access for rail. It really comes down to a commercial decision, but if the customers or the clients of the rail operator said, 'We are paying 1, 2, 3, or $400 a box more to run through Melbourne; we need you to run to Sydney', I would see it is not that big a deal. It is really not a big decision.

**The CHAIR** — Is that the sort of price differential you would need to make that decision? Would you need to pass the $100 a box threshold before that would come into play?

**Mr ALLEN** — I honestly do not know the answer to that one in terms of what it would need to turn it. I think we would need input from the rail operator themselves on why Melbourne is the preferred route at the moment.

**The CHAIR** — In terms of making that switch from Melbourne to Sydney or indeed from Sydney to Melbourne, in practice how quickly would such a decision be made? Is it something you could decide the containers going out next week or next month will go through the other port, or is it something with a much longer lead time to make that shift between the two ports?

**Mr ALLEN** — It could be done fairly quickly because there are multiple rail providers. Australian Grain Link has a vested interest in working with the Patrick train. However, there are other operators that could turn on a service quite quickly.

**The CHAIR** — In the space of a month, for example?

**Mr ALLEN** — Yes.

**Mr MULINO** — Thanks very much for your evidence, Mr Allen. It is a very interesting perspective to look at somebody who has a choice between two ports as you do. Just looking at some of the comparative points between the two ports, does the proposed 2.5 per cent per annum export discount for the first four years provide an assistance to choosing Melbourne over Sydney?

**Mr ALLEN** — I think we would have to see what that means in relative cost that comes back to us. It is not something that directly is coming to Australian Grain Link.

**Mr MULINO** — We have talked a lot about the proposed regulatory regime going forward, and one of the aspects of the proposed regime is that the breadth of prescribed services will be larger — there will be more services regulated and they will be regulated according to a scheme which puts more controls over them as opposed to the current regime, which is price monitoring. I just raise that because that is important, I think, given that the port of Botany is still under a regime which might be described as more akin to what we currently have here. By strengthening our regulatory regime in Victoria that should make us more attractive relative to Port Botany, shouldn't it?

**Mr ONDARCHIE** — There is still some prescribed stuff.

**Mr MULINO** — In terms of the prescribed services.

**Mr ONDARCHIE** — That is only part of it, though.

**Mr ALLEN** — Yes, okay. Once again, I hate to have the blinkers on for you, from my point of view I am very much a service buyer. I am buying freight. We are buying each part of it other than the specific parts of the chain that the business has investment in. If it influences our price, then our decision is obviously governed by that. I will make the comment in response to that question though: Sydney seems to have quite a simplified rail operation model whereby there is a very narrow opportunity of rail container parks, but as a result of that I think there are efficiencies. The shipping lines just make sure that the containers are at fewer parks.

One criticism of the Melbourne arrangement is that there could be 20 empty container parks that our rail provider has to go out to with road transport to collect and to bring to the railhead. That in itself works fine if in a perfect world everything that I did would run on a Patrick train through a Patrick terminal with empty containers available out of the Patrick empty container park, but that is not how it works. Shipping lines make containers available at all of the metropolitan container yards. The nature of that means that congestion within Melbourne is exacerbated, whereas in the Sydney option if I ran a train to Sydney, I would have containers available at Coode Park and that is about it. Your train would have a very simplified model: it would run to one point, the shipping lines have all the containers there and you are just taking things out — a much simplified model.

**Mr MULINO** — Just looking for one moment at the rents, which has been something discussed based on evidence from many parties. This is the small part of charges that are not prescribed and are not going to be regulated by the ESC. We have had evidence that the rents at port of Botany are higher than at port of Melbourne and that they are basically regulated according to the same mechanism, which is that rental disputes are arbitrated by an independent expert. Is that your understanding of the current situation?

**Mr ALLEN** — I can actually obtain for some of my customers cheaper sea freights — which is what I am purchasing — out of Sydney than I can out of Melbourne. I do not know if that helps answer the question, but I do not get to see the rents as you are talking about it. I buy freight. My concern about Melbourne is that when I go and buy freight it becomes more expensive than other parties are paying out of Sydney, so I am competing against other people who are exporting. If they are buying cheaper freight than me out of Sydney, then that is my concern.

**Mr MULINO** — Last question. Clearly it is a matter of what is passed on to you that is important, and that is going to be a whole lot of different factors at different ports, so it is hard to compare the subcomponents, but clearly, all other things equal, what you want is a post-lease arrangement which puts the most downward pressure on each of those different subcomponents. It puts as much pressure on those, in a sense, to be passed through to you as possible.

**Mr ALLEN** — Transparency. I think it is important that up and down the east coast we do not get scenarios where one port is more expensive to operate through than another. As a freight buyer I do not want the location to be a factor in determining the price of shipping. Whether we are going from Melbourne to Beijing or Sydney to Beijing, there technically should not be any difference in costing.

**Mr BARBER** — What are some of the problems and challenges you are seeing with your current Griffith to Melbourne rail service?

**Mr ALLEN** — What are some of the problems?

**Mr BARBER** — Yes.

**Mr ALLEN** — I am not authorised to speak on behalf of the rail provider, but I guess if I look at the service that is provided to us, one of the issues that we have is often delays in getting in and out of the port. What that in turn means is I have trains arriving late and the subsequent operational flow-on effects there. The issue of, I will say again, the nature of the container parks and locations — that seems to me to create a whole lot of inefficiency, rather than having parks closer into the port and to the railhead, but once again it seems to be market driven. But ultimately it is timeliness. The key to any efficient rail operation is quick load and quick discharge so that the train is back on the line and moving.

The other one would be that there are limitations in train size. For the business to grow out of that region, we are limited by not so much the number of services but ultimately by the train size. We are dealing with a maximum length of train that can run, and part of that is to do with not so much — my understanding is that they can go longer on the main line but once they hit the metropolitan area there is no significant marshalling capabilities to brake the train in and quickly run it in and out to port.

**Mr BARBER** — Just back to what you are saying earlier about pricing, I think what you said was that for some of your clients you can get cheaper prices through Sydney than Melbourne. There is a fairly recent privatisation up there. What is going on with the relativities of those different prices as you have observed them over the last two years — Melbourne versus Sydney?

**Mr ALLEN** — Ultimately it is a market-driven environment, so shipping lines — I think they actually work their own supply and demand. If they are long empty containers looking to get boxes back to a certain location, they will discount the rates. Sydney, being the major importing city on the east coast, tends to have the greatest long position in empty containers, whether it be 20 foot or 40 foot. The largest export in 40-foot containers out of Sydney are 40-foot containers empty.

**Mr BARBER** — So the repositioning of those containers in the region is what is creating some of the bigger fluctuations?

**Mr ALLEN** — Yes.

**Mr PURCELL** — Does all of your product go out by container?

**Mr ALLEN** — No.

**Mr PURCELL** — The grains?

**Mr ALLEN** — Obviously as an exporter — with that hat on — yes, it does.

**Mr PURCELL** — So all of your export grains go are containerised?

**Mr ALLEN** — By shipping container, yes.

**Mr PURCELL** — Is it more expensive to ship grain by container than bulk?

**Mr ALLEN** — I think to answer that question properly is no, because the products that we are shipping are specialty products going to — soft wheats, noodle wheats, durum wheats and some pulses that the markets are wanting to buy in smaller quantities and they do not have the bulk-handling infrastructure to deal with bulk at the destination.

**Mr PURCELL** — The bulk that go through Portland or Geelong, for instance, are to bigger producers, bigger customers?

**Mr ALLEN** — A lot of the time they are going to markets. I mean, in recent times you could use China as the example, so barley going in bulk to China. It is not so much going to the bigger user. It is going to a larger distributor, if you like, who has the bulk infrastructure and then, I am led to believe, from time to time it will go bulk to container once it is in China, to be distributed up the river systems.

**Mr PURCELL** — You are basically saying that Melbourne is the preferred high-capacity port rather than Sydney or Newcastle. Why would Melbourne be the preferred high-capacity port?

**Mr ALLEN** — Sorry, can you say that again?

**Mr PURCELL** — It is in the notes. In the background it says that Melbourne is the preferred high-capacity port, and just from what you have actually said earlier I was wondering why it is the preferred high-capacity port.

**Mr ALLEN** — That comment would be driven from our current rail service. Our rail provider has a preference to running to Melbourne.

**Mr PURCELL** — Right, I see, rather than you in particular.

**Mr ALLEN** — Yes.

**Mr PURCELL** — Just looking at the agribusiness centre where you have got oat and hay, is that actually containerised as well?

**Mr ALLEN** — Yes, it is. That facility officially opens in three weeks time. The plant is nearly — it is in the commissioning stage, and the first load of hay, I noticed, was being delivered in there last week.

**Mr PURCELL** — Interesting.

**Mr ALLEN** — It is going to be hay bales coming in, compressed and put into 40-foot shipping containers.

**Mr PURCELL** — Marvellous. Thank you.

**Mr ALLEN** — Just further to that one, there is cotton. Raw cotton bales will also be getting containerised in 40-foot containers and actually going to China for ginning rather than being ginned here.

**Mr ONDARCHIE** — Graham, I want to talk to you about your comment about from a sea freight perspective it is cheaper to get stuff out of Sydney than it is out of Melbourne in the current environment. One of the interesting things about this legislation is that, whilst the government talks about the 86 per cent of costs that will be regulated, the focus on the 14 per cent that is not regulated is really interesting, particularly around stevedore rents. They will be subject to the new lessee striking a deal with the stevedore, and they will pass it on, all the way down the line, I suspect. What is your view about a 50-plus-20 — 70-year — monopoly on unregulated rents at the port of Melbourne and the likely effect that will have on your business and your customers' businesses, and the probability of that moving more containers from Melbourne, in your preference, than going to Sydney?

**Ms SHING** — Just for the 50-year lease?

**Mr ONDARCHIE** — Fifty plus 20, 70.

**Mr ALLEN** — Craig, I do not have a view on that. That might sound strange, but I don't.

**Mr ONDARCHIE** — It does.

**Mr ALLEN** — Because I honestly do not know what a proposed lease will mean. We have had no feedback on if it will influence pricing or will not influence pricing, and that is my direct interest: if this goes ahead, will it or won't it influence pricing?

**Mr ONDARCHIE** — We are as short on detail as you are. But put yourself in that position where you have bought an asset, you are the monopoly provider and you have a couple of tenants that have nowhere else to go because all their fixed assets are on the ground in your facility. Is there a chance, in terms of improving your return on your investment, that the rents would increase?

**Mr ALLEN** — Of course there is a chance, yes.

**Mr ONDARCHIE** — And how would that flow through the market then?

**Mr ALLEN** — Once again, if we see Melbourne becoming an expensive place to export from, it will change the dynamics; it will change the flow. I speak from a southern New South Wales perspective.

**Mr ONDARCHIE** — Sure, who has options: Sydney or Melbourne.

**Mr ALLEN** — Who has options. So it is quite simple. I have an east-west line that joins the main line at Junee. We are virtually equidistant to Melbourne and Sydney. I keep harping on the fact that it is purely a cost scenario for me.

**Mr ONDARCHIE** — So it is possible, then, under that scenario that Melbourne could be uncompetitive?

**Mr ALLEN** — Correct.

**Ms SHING** — Thank you very much, Graham, for your evidence and for the presentation you have given to the committee today. I will just pick up on a couple of things that Mr Ondarchie has asked you about. You have indicated earlier that increased port charges would likely be incurred by the shipping line and then be passed on to freight rates, and just then in a response to a question from Craig you have indicated that Melbourne could well become uncompetitive were rates to go up to a point where they were not able to be sustainably accommodated.

Is it not also correct that the same could be said about Port Botany, where market-driven demand for that port goes up and in a situation where those rents are not regulated — which is the case; whilst you may be getting a discount now, in the event that that port continues to grow, those discounts may evaporate and Port Botany might also become uncompetitive where there are other unregulated changes to market rates?

**Mr ALLEN** — The answer is yes; however I do not like to use the term, in a market environment, 'discounted'. So supply and demand determine rates, just like buying and selling grain, which is our core business. It is purely supply and demand driven. It is not about someone necessarily discounting. I have a view that certainly with Sydney having surplus empty containers, the shipping lines have a keen interest in getting those back out — —

**Ms SHING** — You indicated earlier in your evidence — —

**Mr ALLEN** — That is a market dynamic.

**Ms SHING** — Yes.

**Mr ALLEN** — I would not say — if I have said the word 'discount', I do apologise for that.

**Ms SHING** — Okay, that is fine. Just earlier you — —

**Mr ALLEN** — What I am getting at is I am not calling it — things are not being discounted, one against the other; it is actually entirely driven by a market dynamic.

**Ms SHING** — Yes, okay. So market-driven demand would therefore mean that Port Botany could increase rents based on demand for its particular logistics and service delivery for freight?

**Mr ALLEN** — That would make sense.

**Ms SHING** — Yes. Thank you. You have also indicated that long-haul freight in Australia needs to be focused on rail, in response I think to a question from Mr Barber. I would like to take you to the impact of the Murray Basin rail investment of $416 million and what effect that will have on delivery of goods to market.

**Mr ALLEN** — I guess Australian Grain Link is just disappointed that we were not able to share in some of the spoils that were going around in that instance. There was quite a bit of industry in the Griffith region that did share, and with the development that we are doing around the WRIFT proposal, or the WRIFT site, that has all been done — everything to date has been done internally and privately funded to create an environment of increased efficiencies out of the region.

**Ms SHING** — In relation to those efficiencies within the region and also in response to a question from Mr Barber about issues between the Griffith–Melbourne route, one of the things that you raised was trains arriving late. Do you think a private operator which is required to incorporate rail and freight into a bid for the lease will enable the provision of greater efficiencies in minimising, or perhaps removing, those clogs or logistical delays?

**Mr ALLEN** — I am not a rail operator, so I could not really answer.

**Ms SHING** — From a freight processing perspective?

**Mr ALLEN** — But from a freight perspective, if the facilities are improved or the timing or marshalling is improved for better access in and out, of course it would help.

**Ms SHING** — Lastly, we have had contributions earlier today from Kreskas Brothers and KB Logistics, who have talked at length about AQIS and the rural tailgate inspection requirement, which has led to significant clogs, delays and issues that require streamlining wherever possible. I am wondering what your position is in relation to the capacity of the Port Botany route to accommodate those sorts of quarantining issues in delivering goods to market in the most effective and efficient way possible?

**Mr ALLEN** — Our industry deals with any quarantine issues at the point of origin, so we employ our own authorised officers to be doing our quarantine work for export. I would suggest mostly that — and I did hear him — the gentleman earlier was referring to imports, maybe, rather than exports. I am not an importer, so I do not experience that.

**Ms SHING** — That is okay. Finally, you are aware that grain would be covered by the regulatory framework, where it is not in fact covered now under the existing economic regulatory framework?

**Mr ALLEN** — I would need some more explanation on that, sorry.

**Mr DRUM** — On page 3 of the book you have given us Sydney has done a runner. Sydney is now where Coffs Harbour is.

**Mr ALLEN** — It is not well presented, is it?

**Mr DRUM** — I do not know what you have done here — not that it is important.

**The CHAIR** — We have 3 minutes, Mr Drum.

**Mr DRUM** — I am looking at the commodities that you export. You mentioned wine earlier. Even though you have the word 'grain' in your name, you actually move into all those other commodities as well? So wine, cotton — —

**Mr ALLEN** — No, no, I did not say that. I said the area — —

**Mr DRUM** — The region.

**Mr ALLEN** — The region and that train that is operating out of the region is well supported by the wine industry.

**Mr DRUM** — So you are predominantly in grain — solely in grain?

**Mr ALLEN** — Absolutely, yes, and the actual development of the Western Riverina Intermodal Freight Terminal, which has support from Patrick's to move to there, and subsequently other industries will be bringing their containers to that site to put onto the train to move to Melbourne.

**Mr DRUM** — Do you ever get the WRIFT get mixed up with the WIFT out of Horsham?

**Mr ALLEN** — I try not to.

**Mr DRUM** — That is, Wimmera Intermodal Freight Terminal. I was just looking at the potential growth for what you are talking about in your particular industry. With Asia predominantly moving into this burgeoning middle class, all looking for some of those niche grain markets, you would be expecting relatively confidently that your industry is on the way up and growing?

**Mr ALLEN** — Particularly on some of the specialty grains that we do, yes — for noodle manufacture and for pasta manufacture. People would not immediately think that Asia is going to go into a massive bread-manufacturing phase — that is not our belief — it is just that next stage of shifting from rice based to wheat based, but extending on to manufactured products like pasta and noodles.

**Mr DRUM** — In your particular area, the Riverina area, are you seeing more land or less land going under irrigation, or is it mainly just opportunistic crops? When the water is available, your farmers will move into those irrigated crops, or are you seeing more tracts of land go under irrigation just as a trend? Is it going either way?

**Mr ALLEN** — As an observation, there is more land, but it is more as a result of more efficient water use. The biggest change to the region has been a shift away from traditional crops to cotton being our major significant player in the region now.

**Mr DRUM** — Are you moving into cotton as well or still just grain?

**Mr ALLEN** — I trade in cotton by-products.

**The CHAIR** — Mr Allen, thank you very much for your evidence this afternoon. The committee very much appreciates the presentation you have given and the insight that you have given, particularly as an operator at the midpoint between Sydney and Melbourne. It has been particularly valuable.

**Ms SHING** — Thanks, Graham.

**The CHAIR** — We will have a draft version of the transcript to you in the next couple of days for any corrections you wish to make. Thank you very much.

**Witness withdrew.**