

CORRECTED VERSION

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

Staff

Secretary: Mr Keir Delaney

Research officer: Mr Anthony Walsh

Witnesses

Mr Colin Rees, Owner

Mr Cameron Jackson, Chief Operating Officer, Colin Rees Group.

The CHAIR — I reopen the Legislative Council Port of Melbourne Select Committee public hearing. The hearing is in relation to the inquiry into the proposed lease of the port of Melbourne. I ask that all mobile telephones be turned off. I welcome Mr Colin Rees, the owner of Colin Rees Group, and Mr Cameron Jackson, the chief operating officer of the Colin Rees Group. The committee does not require witnesses to be sworn, but questions must be answered fully, accurately and truthfully. Witnesses found to be giving false and 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 standing orders. Therefore the information you provide at the hearing today is protected by law; however, any comments made 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 session. I invite you to make a brief opening statement, and the committee will then proceed to questions. We also thank you for the written submission.

Mr JACKSON — Thank you for the time today. We have put together our submission dated 11 September, which obviously you all have a copy of there. We have probably put together around 5 to 8 minutes of some high-level points to talk to with regard to our submission.

We see rail as having two important roles for the port of Melbourne and Victoria. More generally we have the regional exports — around half of all exports are from regional interstate areas, and around half of these rely on rail to get to the port. Most of these rail services are currently subsidised by the Victorian government. If the subsidy goes, then these exports may be lost to other ports interstate.

With metro imports, most imports are destined for the metro area — nearly 90 per cent — and all of these are currently moved by road, so getting port shuttles up and running will significantly increase the capacity of the port.

To make regional rail exports commercially viable without subsidies, the Victorian government has to deal with the last mile. It is a problem at the port end of the rail journey. As outlined in our submission, the solution is an intermodal terminal at Footscray Road to receive regional trains and allow direct on-dock delivery of rail containers so as to remove inefficiency and cost from the export supply chain, but the government needs to have control of how this is developed to ensure we do not end up with a more expensive or anticompetitive bottleneck.

What we need is for the government to remove the Footscray Road site from the port lease, and that is certainly the basis of our submission. The government can then engage an operator who can build a low-cost intermodal facility to receive regional trains immediately and also handle port shuttles once they are up and running.

The criterion for selecting the operator has to be the lowest cost so that the current subsidies can be removed — that is, the business case has to be about broader public benefits, such as avoiding the \$5 million a year government has to pay to keep regional rail services viable and not a narrow focus on maximising the dollar return for the site. Only government can make that broader public benefit business case.

Solving the regional export problem in this way is also a step forward for the use of rail for metro imports as it preserves and enhances the government's ability to progress metro port shuttles as there will now be an intermodal terminal at the port. Government has to retain control of the site to ensure the above outcomes and to enable government to facilitate an efficient interface between the terminal and the port for the transfer of containers.

What we propose to the committee today is — and this may not be what it is eventually called — a port–rail facilitation committee. That is how we would see this being handled. The port rail facilitation committee would be chaired by government and comprise: the new port leaseholder; the stevedores; the rail networks; rail operators that carry port freight; intermodal terminals that service port freight, metro and regional; and the operator of the port terminal at the Footscray Road site.

The objective of the port rail facilitation committee would be to ensure that the supply chain for the port rail freight, metro and regional, minimises total cost to importers and exporters and also meets the quality of service requirements of importers and exporters.

The focus of the port–rail facilitation committee would be on looking at how to improve port rail supply chain performance and efficiency, how to overcome operational and interface bottlenecks and how to achieve the type of long-term whole-of-supply-chain planning found in the highly efficient, vertically integrated supply chains.

The rationale we can offer for this proposal is recognition that one of the reasons for inefficiencies in intermodal port rail is the fact that there are different functional elements of the rail supply chain owned by different people. Each of these will have different commercial incentives and a tendency to make decisions about investment and operational practices based on what maximises return for their own shareholders, not on what is best for the overall chain. What produces the most efficient and profitable outcome for one person in the supply chain often introduces more inefficiency and more cost for another person in the chain, making the overall result a less efficient and more expensive rail supply chain for the customer, thus creating the need for government subsidies. In whole, what we are talking about there is the request to put the framework in place that separates the Footscray Road site to ensure that we have an intermodal terminal at the dock — at the wharf.

We are seeing tendencies at the moment where we are being invited for pricing in our own businesses for Sydney freight. This is, believe it or not, to take freight from say, Ettamogah, at the moment, which is operational, to the port of Sydney. The reason that is happening is because they have on-dock rail. I am just going to come straight out and say it. Our largest exporter at the moment that we take out of the Ettamogah, or the Albury region, have in the last 14 days asked us for pricing to go to the Sydney port. This is fair dinkum; this is real. We know that the pricing given — it is the last mile that is doing it. If we fix the last mile, the port of Melbourne has a future. If we do not, I believe freight will go to Sydney.

The main line rail operators need volume. That is what rail is all about — it is about volume. Where they pick that volume up from is along all the main line. As we have proven with an efficient short line model at Ettamogah, you can put together valuable rates for freight for the main line operators, and they are attracted to it. Pacific National do all of our freight at the moment, and it does add a great bottom line to their train. Everyone will look abroad. The question we had from our major exporter has thrown us a little bit too. They are aware of efficiencies getting into Sydney now. I will say that the Premier, Mike Baird, has done a fantastic job in opening up his port. Now it is our opportunity to open up ours, and I believe that will only be done with on-dock rail.

That Footscray Road site is just a no-brainer. It has to come out of the lease, it has to be controlled by government and it has to be an open access terminal, so that everyone can access that piece of land and facility — and then run by the most efficient rail operator, whoever that may be. That terminal operator must be the most efficient operator there is. That is our opening address.

The CHAIR — Thank you, Mr Jackson. Mr Rees, do you want to add any opening comments?

Mr REES — No, I think Cam has done a very good job there. I have been in this job now 40-odd years, and it is been a battle — there is no doubt about that. We started CargoSprinter back in 2002 as the first unsubsidised port shuttle. Maybe we were ahead of our time, as people claim. At the end of the day we believe that the solutions and what Cam has just talked about are there to be done, but they need good government policy and a regime that actually supports what you want to do.

The CHAIR — Can I ask with respect to the Sydney proposition for on-dock rail, what sort of competitive advantage do you believe that is? Can you quantify it?

Mr JACKSON — In dollar terms?

The CHAIR — Yes.

Mr JACKSON — You do chew up a bit of it in the line haul — it is a longer haul into Sydney, so you chew up a bit of that — but you are saving lifts of the containers and you are saving the pick-up and delivery. You are on dock, which means you are touching it once. Everything we do in this game is about touching it. As soon as you touch it, there is a cost. So if you can limit the amount of times you touch it, you have a significant advantage. We believe at the moment that in the exercise we are doing for our major exporter Sydney will come out just a little bit under Melbourne.

The CHAIR — Net of increased travel costs?

Mr JACKSON — Correct. We are seeing the trend of people. We are seeing that Sydney's volumes have gone up; Melbourne's have gone down. That is a fact. Why? I do not think it is all port shuttle, but 90 per cent of it would be. What we are hearing from people is that cutting out that last mile — that expensive journey — is why they have moved ahead. They have also backed a major freight terminal within a short distance — I would say 12 or 15 kilometres, from memory — from the port, in Moorebank, which has huge on-rail warehousing availability. Someone who builds a warehouse of any size these days that is not on rail needs to have a really hard think about it, when they deal with import or export, because again you are not touching it — you are not picking it up again — when you are directly on rail. Big players are making that switch.

The CHAIR — Can I ask you about your key proposition about quarantining the Footscray site — excluding it from the lease? The committee has heard earlier evidence in some of our Melbourne hearings that suggested that the lease should not proceed until the intermodal issues are resolved. You are quite comfortable with the concept, though, of simply setting that parcel of land aside and proceeding with the lease; would that result in a satisfactory outcome? But that does not need to be settled prior to the port going into the hands of a private operator.

Mr REES — We have looked at similar ventures such as rail consolidation over the years. My experience is that the undertakings that are put in as safeguards are extremely difficult to manage and control, and they tend to get lost in the ether, because the things that are happening are happening well down the path, and what was agreed to simply evaporates. Therefore the ability to work around the undertakings is quite easy, and people know this. If you do not manage it, you are not going to get the outcomes. Really you need somebody who is a pretty tough, bruising fellow to sit down next to the CEO and say, 'Now, sir, could I talk about these undertakings that you agreed to 18 months ago?'. But that never happens.

The CHAIR — It is a bit like some privatised airport leases.

Mr REES — Yes. You have got to be able to manage it. That is the key. And if you do not manage it well, it gets lost in the ether. We have got too much at stake here with this one since building Ettamogah and involving ourselves a lot deeper in regional communities. The young folk of the future need us to stand up and be counted here so that when they come into this transport and logistics game, they are going to be able to make the difference that their youth and enthusiasm is all about.

That supply chain needs to be efficient, and it needs to have velocity. Velocity is about freight moving through the supply chain and hitting its target all the time. If you can get that to happen on a regular basis, then you will find that the person at the other end — the very important person who is pressing the reorder button — will start the whole chain off again. They are critical in this process.

The CHAIR — One of the points you made, Mr Jackson, in your opening statement was with respect to an operator seeking to maximise profit from part of the supply chain, which may not be in the interest of the overall efficiencies of the chain. How do you overcome that same issue, though, with quarantining the Footscray site and then going through a process to select a private operator to develop that as the rail terminal? Do you not get into the same situation where the selected operator is going to seek to maximise returns on that rail facility, which may not be the most efficient outcome for the supply chain? Equally you mount the same argument with the private operator of the actual port lease. How do you actually overcome that, short of the subsidies you are seeking to avoid?

Mr JACKSON — I think in all honesty that is a framework the government puts in place that shows — —

The CHAIR — A regulatory framework?

Mr JACKSON — I believe so, yes. That terminal, that intermodal terminal, must operate in a certain way. It cannot get itself in there and then all of a sudden say, 'Right, a lift is going to be \$300 a box'. It must have a framework around it that controls it. The government must govern this terminal.

The CHAIR — Going back to Mr Rees's point, that is more than just a straight — this is a contractual arrangement, it actually needs a regulatory — —

Mr JACKSON — Absolutely. You will not find that everyone wants to play in that space, but what you will find is the right operator. And I mean that. You will find the right operator. There will be people who will not

want to play there because they will be looking at bottom lines and stuff like that — they are not looking at the entire game here. But you will get the right operator by doing that. It must be a smart operator. Anything we do in this business must be smart.

Mr REES — I can tell you that — this is the trouble when you get old: you remember a bit of the history. Chris Corrigan started the rural trains on the basis that he wanted to consolidate the freight to the Patrick terminal. That was a big part of his whole theory of running their own services. That has been an absolute failure. I can tell you today, even under Patrick, that that is a failed system. The supposed gain you get out of it falls away when you realise that the customer, who owns the container, has the relationship with the shipping company, and if that shipping company is not Patrick, then the box has to go round to DP World.

It is a fallacy thinking that, ‘Well, if I ring-lock the boundaries, I am going to get more freight into my terminal’. In actual fact you are better to have that terminal that is a common-use terminal that is managing the freight in, so instead of getting a mixed train coming into either Patrick or DP World, you actually, where you can, make sure that the DP World containers and the Patrick containers are in separate parts of the rake so you run them into each section. You do not bring them in, unload them and then have to truck them, as they do now. That last mile, that ring-locking the boundaries, the one and only key to the gate that you cannot get round — and believe me it was tried awfully hard — that has got to go, because it is just an impost on the good businesses in regional areas that are trying to be competitive in a very commercial, competitive world.

The CHAIR — I am conscious of the time; I will have to move on to the Deputy Chair. Just a final question I would like to ask: given that, what is your view on vertical integration in the ports business — that is, the port operator potentially being a stevedore or indeed potentially operating the intermodal terminal?

Mr REES — I would like to make one comment there. I have travelled extensively in the US looking at their model, and their model after the Staggers act of 1980 was certainly a vertical-integrated model that gave people the confidence to invest. That system over there at the moment, I continue to keep learning on the successes that they have had. Vertical integration in the rail industry is not an ugly word now in my view, because the freight train absolutely survives — its whole sustainability is about volume. If you take volume away from the train by saying, ‘We are going to increase because we are going to have more competitors’, but this is different to running trucks. Trains run 500, 600 metres in length. To load that on a consistent basis, if you not up around 80 per cent to 85 per cent, you are going to be losing money. So competition in rail — in short-line rail or regional rail — can actually send these operators to the wall. So there are challenges there.

It can be done. We are looking now at a short-line system where we actually load the freight onto passing interstate trains, and that is proving in two years with Pacific National — I will give you the figures. The first year we put \$3.5 million on to their Brisbane train, and last year it was 3.2. And that was for a half-hour stop at Ettamogah and a 10-minute drop-off time when they were returning the wagons. So it can be done, but it is all about changing the old habits, the old ways of the way railways ran. This is about having people who are multiskilled. This is about when the train pulls up — —

We have only got manually operated points at Ettamogah, but we are qualified to operate them, so when the train pulls up he is on the radio to the drivers so they pull up at the right spot, they back in, release, we adjust the back of the train for them and they are gone — 10 minutes. ARTC would not see a blip on their screen, but that is what you have got to do today. I think what we have done — I do not think it, I know it — we have actually demonstrated that the attachment on and off trains out of regional areas is very successful. It can be done. And I think it certainly does away with this idea that freight trains only run capital city to capital city. The dynamics of freight are changing, and we have realised that there is a lot of freight produced in regional areas. The dynamics now, where trucks used to do it all — trucks now have a whole heap of issues in drivers and compliance they are dealing with, so rail has a real opportunity here to step up to the mark. But it is all about change. You cannot go with the baggage or the past as the way we did things in the past. Multiskilling is key.

Mr JACKSON — I do not like to say this, but I feel this is our last chance, and part of that is what we are talking about today. It is our last chance to get this right. If we do not get it right today, I think we are putting a nail in the coffin.

Mr MULINO — Thanks very much for your evidence. I think you have raised a lot of interesting points. I think you have also conveyed both the importance of the last mile but also the complexity of a lot of the issues here. For example, in your discussion of vertical integration, it is obviously a worry for a lot of regulators, but in

a lot of contexts there can be some upsides. I guess I just wanted to tease out a couple of the issues around this last mile and in particular rail links. It is fair to say once you are talking about rail in that last mile, you are talking about a lot of capital, often, in various projects.

Mr REES — Capital in the train set?

Mr MULINO — Or just in the kinds of infrastructure that will be needed. It becomes a capital-intensive kind of discussion.

Mr REES — So you want the ability to be able to have that common user terminal. For years in this country everybody has held their ground beautifully to keep only one operator in each terminal, but in actual fact at Ettamogah we can handle three and sometimes we can handle four different operators in one week. And we are in a little town at Ettamogah — hardly a blip on the map. Yet when you get to the big cities they say, ‘Oh no, we could only possibly have one train in’. So you have got to get that mindset changed.

Mr MULINO — And given that you are proposing common access to certain aspects of the port, then clearly an access regime of some sort becomes relevant. But another aspect of the regulatory regime is the pricing of capital-intensive investments. It is fair to say here I think you have alluded to some of the complexities because you want to provide, in a sense, confidence for those putting up the capital — because they have got to have the confidence they are going to get a return over a long period — but at the same time you want to keep costs contained so that you are actually providing efficiency.

Mr JACKSON — Yes.

Mr REES — Absolutely.

Mr MULINO — So it is that trade-off where you need only efficient costs to be captured — —

Mr REES — Volume is key. You must keep that volume coming, so if you take port shuttles to one side and you put regional to another, you are just increasing your costs. You have got to have a terminal that can manage both. You need all the volume you can get in this country. When you look at the models, and I look at railways in America, of course you have got 300 million people and you come back to us with 22. It is a lot different amount of freight that you have got to move around, but the principles of what they are doing are still very much aligned with the directions that we could take in this country.

Mr MULINO — Just a couple of very high-level. In broad terms you are comfortable with the ACCC continuing to regulate things like access, which they are already regulating?

Mr REES — In the world we live today nothing stays the same, does it? You have got to be up for change, you have got to be up for review. So all these things at the moment, what is right today, more than likely we are going to be reviewing it down the path somewhere, aren’t we? You do not lock anything in. But for now I would not be changing those too much at this point.

Mr MULINO — In terms of those pricing issues, you are supportive of a regulatory regime which tries to balance off that need for long-term certainty but keeping prices down?

Mr JACKSON — Correct.

Mr REES — Yes.

Mr MULINO — Just one last question. The agriculture jobs and investment fund is being pointed to — \$200 million as a start. Is that something you support as a step in the right direction?

Mr REES — Absolutely.

Mr JACKSON — Yes.

Mr MULINO — It will be focused, I understand, on the first and last mile, and they are both critical.

Mr REES — Absolutely, because when you look at young folk today with our manufacturing position as it is at the moment, the supply chain of logistics, transport and all the different four modes, when you look at

people who do not really want to take a university path but are very good hands-on, the supply chain and the modes are an excellent way for those young people to get involved and hone their skills. If you are good at it, the world is your oyster. You could take the career right around the world if you are good at logistics.

Mr BARBER — Cameron, when you refer to on-dock rail, does that literally mean you touch the container once when you put it on the train and the next time it gets touched is when it is taken off and put on the ship?

Mr JACKSON — In an ideal world. In a really ideal world the rail line goes beside the ship and you pick it up once and you put it on the ship. That is the ideal world, to have it when we say on dock as well, but to have it in the dock so it literally comes off the train and is ready to go by the shuttle carriers et cetera, to then get picked up by the overheads, we still fix the problem.

Mr BARBER — But does that not mean then that if the points get stuck at Ettamogah, the train is effectively stuck at the other end or on its way back? If there is no intermediate step where the container is taken off and sat there for an hour or a day, it has got to run like a Swiss watch.

Mr REES — It effectively is at the dock. This is what Cam is getting at. That area at Footscray Road gives you the ability. The straddle carrier is one of the most important pieces of equipment because when you take the truck into the dock, it is the straddle carrier that unloads the truck. It takes the box either into the stack or to the ship. What you can do in Footscray Road is exactly the same principle — to position it for the stevedore, and the stevedore picks it up with a straddle and he takes it into either the stack or to the ship.

You have got a buffer, but if you are managing your terminals correctly back up, it is that whole-of-supply chain activity. At the moment if you get too many interfaces and too many people involved, you cannot coordinate to be able to say, 'Hang on a minute. We've got another day before we need to get these containers onto the dock'. You have got to have that overview picture that is balancing what is in transit, what is down at the dock and what is coming and ready to go. They are the areas that have been difficult in the past because rail has just had too many interfaces. You only have to get an interface slightly ajar and you are either going to add time or you are going to add cost in doing the job.

Mr BARBER — Whether it is the last mile or the last 100 feet, you are saying it is about the number of times it is handled that is probably the key issue.

Mr REES — It is a big part of it. It is not the one and only, but it is a big part of the equation to get the velocity that that container starts its journey and ends up with the customer who pays the bill.

Mr BARBER — Sitting where you are you are seeing trains take away containers in both directions — into New South Wales and across Victoria.

Mr JACKSON — That is right.

Mr BARBER — How would you characterise the difference between the two governments' responses? Why is it that this thing has not happened yet at Footscray Road in Melbourne?

Mr REES — Tim Pallas gets it. Tim Pallas understands transport. For a decade or more now that I have known Tim he has a very good handle on transport. As Treasurer, though, I guess he has got other winds that are blowing pretty hard at him to do other things. It is difficult at the moment to get that cohesion with the Victorian government as we see it. I think what we see with Mike Baird is he is a good operator. You need that cohesion to be able to get your systems in transport in a way that the government policy and the regime to support it are in sync. At the moment the crazy part with rail, if we come out of the Riverina, we have got an interface with John Holland for our track access. When we get to Junee, we have now got to interface with ARTC. Coming into Melbourne there are certain parts there where we now have to interface with Metro. These are all areas where if that interface slips a little bit, you are not going to make your target. The one ultimately that affects is the customer who is paying the bill.

You have got to make that supply chain like a string you pull tight. You put a little bit of whatever on it, and that container has got to go to that customer as smoothly and efficiently as you can possibly get it. If you do all that correctly and you do it consistently, you have got every chance he is going to give the good folk back here who are making the products — —

Because we can make products. There is no doubt about that. We cannot beat the Chinese on cheap labour, but by God we can make good product. So if we make good product and we get it to the customer on a regular basis, we have got every chance that that order will be repeated.

Mr JACKSON — Think too with the movements — and we were looking at it the other week — about every time you clip the ticket. If you grab a business card and a hole punch and you think about the move, you pick it up at Ettamogah and you put it on a train; that is one clip. It goes by train down to a current terminal; that is another clip. It gets picked off that breaker wagon and put down; that is another clip. Then you pick it up again and you put it on a truck; that is another clip. Then the truck takes it to the port; there is a clip for the truck and there is a clip off. All of a sudden we have taken three or four of those out with on-dock rail. That is where we are getting smart.

Mr BARBER — Salta, who appeared previously, have got their own set of proposals. Have you had a look at what is being proposed there? Is that along the lines of what you are talking about?

Mr REES — We have had a number of discussions with Sam and his crew, and we are in the main. We are on the same page, except Sam, being a big developer of properties, wants to make sure that the metro shuttles get up and running because his customers are very demanding of that. He is very focused on metro. Of course we have had our time in the metro area with Cargo Sprinter, but we are very focused now with the regional freight and getting that through to the port. We just see that is where we start to combine volume, and volume is what it is all about.

Mr PURCELL — Thank you, gentlemen. I understand your intermodal terminal proposal and agree with it. I think it is the right way to go. Would you suggest it would work for imports as well as exports, or would you particularly think it is an export process?

Mr REES — I would be doing both because once again it is volume. The more volume that you put through, the smarter your terminal will be. If you look at what they have done at the port with some of the robotic machines that are taking those laborious labouring jobs that nobody wants to do, they have automated them and come up with some very smart technology. Could we do that in a terminal at the dock for both metro and import/export? You bet we could.

Mr PURCELL — So it could be done for both.

Mr JACKSON — Absolutely.

Mr REES — It is too big a bow at this point to put all that on the table.

Mr JACKSON — But think about imports as well. If you are coming into the port of Melbourne, it comes off the ship and it could go onto a rail wagon, and you open up the industrial meccas of Melbourne. Your Laverton area — another terminal could be created out there. We speak about that with the inland rail route. It is all about the less we touch it. If we got it to that industrial mecca of Laverton, all of a sudden you have got a very short PUD. You have not got those longer PUDs, the traffic coming out of the port et cetera. We can extend to that. We are not here to talk about that today, but we need to have a vision here and think about what we could do.

Mr PURCELL — In your submission, and thank you for that, I am not sure I see whether you have said in there whether you think the lease is a good idea or not or whether you have an opinion on it.

Mr JACKSON — It is dangerous getting me started on the lease. I have a whole other vision which will probably not happen. I would like to see the port of Melbourne developed and Bay West be built. I come from a lot of years of industrial development, and I see billions of dollars' worth of land and hundreds of thousands of jobs over a long period. But we are not here to talk about that; we are here to talk about what is in place, which is the lease of the port.

If the government holds the golden key, if you like, which is the access to the port, which is separating Footscray Road, which means the government governs that key that gets you into the port, then the lease can work as long as the regulatory framework is in place. But these things must be together. If we forget about the golden key, I do not agree with it. I think it is dangerous.

Mr PURCELL — And reading into that, you are saying the second port or the alternate port — people keep saying second; I am not sure whether it would be a second —

Mr JACKSON — It would be an alternate.

Mr PURCELL — would be Bay West.

Mr JACKSON — Absolutely. I will give more than 2 seconds on it, but from a development point of view the port of Melbourne land is the most valuable land getting around. It is of huge value. We can create hundreds of thousands of jobs, and I mean hundreds of thousands of jobs. We secure a building industry for a long time, which is where I cut my teeth — I am a carpenter by trade — and I fell up the corporate ladder. That is where I ended up, in industrial building. If we build Bay West, let us give blokes that have been good to this industry, like the Lindsay Foxs of the world, their day in the sun. He did not buy Avalon to fly Jetstar in and out of there. Give them their day in the sun and have a think about it. That is the ultimate solution.

Mr ONDARCHIE — Cam, I am interested by your comment about this is our last chance and you are worried about it. Clearly there is more to Ettamogah than just a pub.

Mr JACKSON — We are the hub near the pub.

Mr ONDARCHIE — It is good that you are here. I do share your view that what is at risk here are jobs if people decide it is more economical to ship stuff to Port Botany than it is to Melbourne. I am wondering about your view of the potential sale of this asset that could realise \$7 billion, of only something like 4 per cent of it going into regional Victoria. The dialogue is changing daily about what will happen with that money. The government is saying it could go to roads and bridges, it could go to support agriculture, and here today we are hearing it might help the last mile. Every time we ask the question the dialogue changes.

Ms SHING — We are running out of time.

Mr ONDARCHIE — I am just wondering what your view is about this big sale, the biggest asset realisation this state might ever see. That money is going into level crossings in south-east Melbourne, how you feel about only 4 per cent of it going back into the industry.

Mr JACKSON — It should not go to level crossings. Adopt the Japanese model and sell the air. Sell it to a developer. Two levels of retail, two levels of office.

Mr ONDARCHIE — This is the level crossings you are talking about?

Mr JACKSON — Absolutely.

Mr ONDARCHIE — I am more talking about the amount of money that is coming out of this sale. Only a very tiny per cent of it — —

Mr JACKSON — No, I know, but some of that money is destined to go to level crossings.

Mr ONDARCHIE — Most of it, I think.

Mr JACKSON — Well, it should not. There is another way to do that. Follow the Japanese model and what they did. They sold the level crossings and the overpasses. You got brand-new stations. People come home from work, they are in a lift, they are up to their retail area, then they go up to their apartments.

Mr ONDARCHIE — So you are saying we should not confuse the port of Melbourne sale with the need to fund level crossings, is that what you are saying?

Mr JACKSON — No, no.

Mr ONDARCHIE — Okay, so how then do you feel about the only commitment right now is a miserly 4 per cent of the whole sale going to regional Victoria?

Mr REES — Let me say one of the things, you never stop learning in life and one thing I have learnt through working in the regional towns, the local government, is just how well those communities bond and

work together. Quite frankly, I think we could do a lot more to enhance people that are doing a wonderful job in regional Australia with some extra funding in some areas which they would use exceptionally well. They are very good at community, at support, at their efforts in getting young people into work and one thing or another. In my opinion, it is to be commended.

Mr ONDARCHIE — Thank you, Col. Would you like to see in this legislation that is before us some firm commitment — not a maybe, could have, should have, would have, but some sort of firm commitment to regional Victoria and also to that last mile before we proceed?

Mr JACKSON — Absolutely.

Mr REES — It would be lovely.

Mr ONDARCHIE — Okay, thank you.

Mr JACKSON — An absolute commitment to it.

Mr ONDARCHIE — I then want to go on to ask you about the potential effect of this 70-year lease.

Ms SHING — It is a 50-year lease.

Mr ONDARCHIE — Just so my colleagues are clear, it is 50 years plus an option for 20 that can be exercised at any particular time, so 50 plus 20 in my adding up is 70, Col, I think. Ms Shing will follow, trying to unlock this, but let me just say 70 years of unregulated rents for the stevedores. If you buy an asset and pay all this money for it and you are trying to get a return on that investment and you have the opportunity to charge whatever rent you want to DP World and Asciano, whose assets are all on the ground, if those rents go up, what are the potential flow-on effects into your industry, bearing in mind that I started talking about jobs at the start? How will this affect it?

Mr REES — I think what you will find is the port of Sydney will get very busy.

Mr ONDARCHIE — At the expense of Melbourne?

Mr REES — At the expense of Melbourne. That will be the breaker, because what else can people do? You are not going to sit there and just cop it. What you are going to do is you are going to go out in the market. You are going to see where you can put your freight in another direction. There is a company in the Riverina, they would love to have options. At the moment they come down through Melbourne, but all their freight is shelf life. The ship goes Melbourne, Sydney, Brisbane. As I have said, if you are going to Sydney, we would think you are wonderful. If you went out to Brisbane, obviously it saves them four days in shelf life. Sometimes you have got to get above the politics, above everything else and think about your customer. What is best for your customer? This customer is employing 450 people in the Leeton area currently today — what does that mean for regional Australia? — with the opportunity to a third grow the business again. For a country town, that is huge.

Mr ONDARCHIE — My word. To pick up Cam's point, this is our last chance. If we do not get this right, it is going to cost jobs in regional Victoria.

Mr REES — We have got to get it right.

Mr JACKSON — It will, and I am very passionate about the bush. It means everything to me, and I mean that. There is only one reason why I left corporate Australia, and that was to join Col and get in the bush and look after regional areas. This is a huge part of it, guys, we need to get this right.

Mr ONDARCHIE — Okay, thanks, Cam.

Ms SHING — Gentlemen, thank you for your evidence and also for providing answers to the questions and/or statements and/or monologues from those who have already presented from the committee. A number of quick questions if I may. As you would probably be aware, DP World has started on-dock rail from July, and what that will do is effectively give the Wimmera access to West Swanson Dock. They have also entered into a lease until 2065, which will then on its own reckoning take around 20 000 trucks off the road in surrounding

communities. I am just wondering what your position is in relation to that on-dock rail development at the port of Melbourne as far as ongoing infrastructure investment at that location is concerned?

Mr REES — If you look at where the land is that we are talking about, it is right next door. You want the ability to have that working in harmony, not separately. As long as it can do that and the benefits flow back to customers, then we are comfortable with that.

Ms SHING — That is exactly the sort of development you were talking about in your initial remarks about the need for on-dock infrastructure.

Mr REES — Yes. The only thing is what will probably happen there is that you will find customers that have got Patrick containers will get unloaded at DP World and have to then be lifted again, put on a truck and taken around to Patrick. Where to me, if you have got this in sync, when the trains are coming in you set the rakes up so the DP World rake goes in and the Patrick rake goes in and you avoid the double handling.

Ms SHING — And you are aware that rail and freight operations are actually a required part of any bidder's bid when they go ahead for the proposed port of Melbourne as the preferred lessee?

Mr JACKSON — I do not think the wording is strong enough.

Ms SHING — But are you aware that that is actually part of the requirement?

Mr JACKSON — It is mentioned, yes.

Ms SHING — Okay, thank you. Are you also aware, given what Mr Ondarchie has said about the miserly figures of the \$200 million and what that will mean for first mile/last mile, I just want to make sure that we are aware of the context in which this regional spend is occurring. There is a \$43 million bridge strengthening program; there is the Murray Basin rail of \$416 million; and the Regional Jobs and Infrastructure Fund of \$500 million, which includes the \$200 million Future Industries Fund. I would just like to make clear or get your confirmation that you are aware that there are a number of different funding opportunities and applications that are available for operators to make as part of accessing funds to enhance regional jobs and industry growth.

Mr REES — We are aware. What I would like to see in the future, though, is perhaps businesses like ourselves and others, maybe along the line, Harriet, we get engaged a little bit more.

Ms SHING — It is about the process then?

Mr REES — Because we are with the customers all the time, we are with local government. You know, if there is one thing I have learnt in this job, local government can absolutely be the benefit of the things that we do as long as we share information.

Mr JACKSON — I would like to say in that part too if we look at where all the freight comes from, just for a moment where it comes from, to think that we get that much — —

Ms SHING — From that transaction as opposed to broadly?

Mr JACKSON — Yes.

Ms SHING — Okay.

Mr JACKSON — Yes, if you think about it that way.

Ms SHING — What is your view on Infrastructure Victoria being the independent body to determine a second container port location?

Mr REES — It is too early yet. It needs to be up and running. What do I think? If you are going to get consistent lines of thought in the way you develop the state — —

Ms SHING — To take the politics out of it.

Mr REES — And take the politics out of it, then I think it is very good.

Ms SHING — Thank you. Finally, Mr Ondarchie referred to 70 years, which firstly is incorrect, of unregulated rents.

Mr ONDARCHIE — What is 50 plus 20 in your adding up?

Ms SHING — He has also asked you about what the consequences for economic performance and for jobs are and industry growth at a local level. I would just like to get you to reflect on that, noting that rents are not currently regulated anywhere else in Australia. So in effect there would be no change, comparatively speaking, against Botany or in fact any of the other ports as privatised.

Mr REES — Let us just say that our focus, and we are right there at the heartbeat with regional customers, is that the more efficiency and the more velocity you have got in that supply chain to get their goods to the customer that is paying the bill, to me must be taken. I would work backwards to make sure that it is slick and efficient all the way, because that to me, making sure that supply chain is as efficient, as slick and cost-effective as you can get it, will guarantee the businesses that they will have confidence to invest, they will have confidence to employ people in long-term jobs, not part-time jobs. To me, that whole cycle is about making sure that we get the lowest cost supply chain that gives the best opportunity to the businesses in regional Australia to be successful.

Ms SHING — So a strong economic regulatory framework is part of achieving that end?

Mr REES — It is part.

Mr JACKSON — I just wanted to add too with relation to our youth, the people coming through that are so important to all we are talking about here, I was approached as late as yesterday by a New South Wales minister who saw our operation as very unique. The machines we operate and how this stuff all happens is very unique. There is no specific, if you like, traineeship, that happens in that, and that is something I would love to be approached by the Victorian government for. Something like that could be in place, which would give not only regional youth but also city youth a direction in life, a traineeship to then become a professional operator, because we need smart operators to make all this work.

Ms SHING — Thank you very much, gentlemen.

Mr DRUM — What are your views on the capacity of the port that we currently use, the port of Melbourne? What are your views on what its capacity is? It is currently operating at about 2.6 million TEU. We have heard evidence from Victoria University, people who have had a career in trade and ports. They put it at about 5.3, 5.4. We have heard Treasury and Finance say it is somewhere between 7 and 8 million. With this capacity being such an integral part of the actual clause, of the winning lessee, and the compensation clause and the monopoly clause that is going with that, how do you guys see this whole capacity thing?

Mr REES — It is probably getting a little bit beyond our expertise except that if you were going to build the inland railroad, the key part of that are the terminals at each end, and what is the connectability to ports and rail and air? That is very important. It would appear with all the growth that is happening in the west at the moment, which is quite amazing actually — to go for a drive in the western suburbs takes your breath away a bit, just the development that is going on out there.

It reminds me very much of last year I visited Florida East Coast Railway in the port of Miami, and I looked at a presentation that had the dock, it had the train bringing the goods into a big warehousing and packaging area, and that was connected to an airport. I just leaned across and I said, 'Well, there's Avalon'. It is the whole base that we have got here without disturbing people; it is not a heavily populated area out that way. If we are going to do the inland rail route, it has got to have a good terminal to come to and it has got to have that connectability to get our freight either on a ship or really the imports into the country.

A lot of this comes back to you have got to get up in the control tower and look down on the future and say, 'How do we want this to look 10 years out, 20 years out? What legacy are we leaving for our future transport leaders?'

Mr DRUM — Is it consistent with your thinking that once cities around the world build a second port the ships do not stop twice? They will either go to the old port or they will go to the new port. They are not going to drop off here and then travel 15 minutes up and drop — —

Mr REES — I am not sure that we are going to see the same size ships that head off out of China and head for Japan coming into the port of Melbourne. I think you will find that those 15 000-TEU ships, I do not think we will ever see those here in the port of — —

Mr DRUM — Irrespective of what size they are, if we build a second port because what we call the port of Melbourne now is maxed out — that might be 20 years, it might be 10 or whatever but we build a second one — we have heard many experts in the trade tell us that they do not stop twice.

Mr JACKSON — I would not build a second one.

Mr DRUM — You would — —

Mr JACKSON — I would build one and develop the other one.

Mr DRUM — You would develop a new one.

Mr JACKSON — Build a port for 2080. I do not know how many years away that is. Build it for the future.

Mr DRUM — Yes, exactly. So the — —

Mr JACKSON — And the other one gets developed — —

Mr DRUM — It is called a second port but it is effectively a new port.

Mr JACKSON — Absolutely.

Mr DRUM — Stop using the words ‘second port’ and start using the words ‘new port’.

Mr JACKSON — Melbourne does not need two ports.

Mr DRUM — No.

Mr JACKSON — Just like it does not need two Ferris wheels.

Mr DRUM — Colin, have you had a look at the fully automated ports of Japan?

Mr REES — I have not been into Japan. My travels have mainly seen in the US, Canada, Rotterdam, into Europe. They are the main ones. I have not been to Japan, but they are quite amazing.

Mr DRUM — Effectively it is as you would describe: off the trains onto a driverless tray to a storage area and from there to the ship, and vice versa for the imports.

Mr REES — Last year I watched 40-foot containers coming into the port of LA. I watched them down the side of a transition building and on the opposite side were domestic 53-footers. If I had not seen this, I would not have believed it, but they were taking the product out of the 40-foot ocean box and they were consolidating it in the 53-foot domestic boxes. So the international boxes go back to the shipping line, done and dusted.

At this point, if one of the big chains wants to — they might be lawnmowers selling brilliantly in Omaha — they will make sure that they get double their quantity. When they are doing this transfer, to watch it absolutely took my breath away. Now that all becomes domestic freight. What does that mean? That means when you sit on a station, which I did at Tucson one day and I watched the trains between LA and Houston going backwards and forwards. There were 53 over 53 consistently on every train. There were not gaps, breaks, 20-footers, 40 — 53 over 53. I thought to myself, ‘Have you got this right? There is utilisation for you. There is productivity for you’.

The Americans are just so good. We are the flavour of the month in America. You only have to ring up, tell them who you are, say, ‘I would love to come and have a look at your operation’ and they tailor, put it right out for you. The decision-makers have to get involved. A lot of what we are talking about here for Australia is being done somewhere else, and all we have to do is take the principles and adapt them to what we are doing.

Mr DRUM — Last one. Our issue is: how do we get this work done prior to effectively the finality of the lease being put in place? You have raised about eight different issues and there is a lot of work that needs to be done before we enter into a lease which may preclude it ever being done properly ever again. I suppose with this independent body that has the expertise to talk about your land at Footscray, to talk about the last mile at either end, to talk about the new port that needs to be built, to actually talk about the true capacity of the older port, and on all these issues go. It is not up for politicians to reach answers. It is not up to some money-hungry new lessee to tell us how it is going to happen.

Mr REES — If you let the land go, then it is — —

Mr DRUM — Gone.

Mr REES — Pretty much gone. That is where it starts.

The CHAIR — Thank you. Mr Rees and Mr Jackson, we appreciate your attendance this afternoon and the submission that came in earlier. The committee will have a draft version of the transcript for you in the next couple of days for any corrections, but we very much appreciate your evidence and your insight this afternoon.

Witnesses withdrew.