CORRECTED VERSION

PORT OF MELBOURNE SELECT COMMITTEE

Inquiry into the proposed lease of the port of Melbourne

Melbourne — 13 October 2015

Members

Mr Gordon Rich-Phillips — Chair	Mr Craig Ondarchie
Mr Daniel Mulino — Deputy Chair	Mr James Purcell
Mr Greg Barber	Ms Harriet Shing
Mr Damian Drum	Ms Gayle Tierney

Staff

Secretary: Mr Keir Delaney

Research officer: Mr Anthony Walsh

Witnesses

Mr Ben McLean, Development Manager, Supply Chain and

Ms Kelly Drew, Development Analyst, Supply Chain, Australian Paper.

The CHAIR — We will resume our hearing with Mr Ben McLean, the development manager, supply chain, and Ms Kelly Drew, the supply chain development analyst for Australian Paper. The committee does not require witnesses to be sworn, but questions must be answered fully, accurately and truthfully. Witnesses found to be given 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 standing orders.

The hearing is being recorded, and you will be provided with a proof version of the transcript in the next couple of days for any corrections. The committee has allocated 45 minutes for this hearing, so I would invite you to make a brief opening statement if you wish, and the committee will then proceed to questions. Thank you for your time.

Ms SHING — Nice product placement.

Mr McLEAN — Yes, product placement! That is just part of the scene setting, I think.

Thanks for the invitation to come along. Australian Paper is a large regional manufacturer based in Gippsland, and we are heavily dependent on our export trade. Anything in regard to the port of Melbourne is going to have an immediate and profound impact on us, potentially, so thank you for giving us the opportunity to come and at least explain where we fit into the economic landscape of Victoria and the significance of the changes that are ahead of us with the port privatisation.

It is a public asset, of course, and that yields certain benefits. We are obviously worried that, if it goes into a non-competitive environment, that will have impacts, but we are not necessarily opposed to the lease, provided there are certain outcomes that are able to help us grow our business and provide a benefit for the Gippsland region. I have a presentation here, which has been circulated, so you might just use that as a continuation of the introduction and it may possibly invite questions as we go, if that is okay.

Australian Paper is owned by Nippon Paper Industries. They are the sixth largest paper manufacturer in the world. They purchased Australian Paper in 2009 for $600 million, and of course they are expecting a return on that. AP’s largest asset is the Maryvale mill, based near Morwell and Traralgon in Gippsland, and we are the only remaining Australian manufacturer of copy paper. We also are the only manufacturer of sack and bag papers, and we make other ranges of papers — around 600 000 tonnes per annum — and 95 per cent of all our raw materials come from Victoria, so essentially the forest resources, fibre, water, power, obviously, and packaging materials.

There are about 1200 direct jobs in Australian Paper and 4000 indirect jobs, and we understand that it underpins around 21 000 Victorian forestry jobs. It is becoming quite clear that the saw-logging industry, the sawmilling and forestry industry, actually benefits from having a pulp mill because of the split of the timber, so that is what we call a symbiotic relationship. The sawmill needs the mill, we need the sawmill and collectively we make an economic forestry industry in Victoria.

A 750 million GDP contribution, 430 million for government revenues. The Maryvale mill is around a 3 billion asset replacement value, and in the last decade we have spent about $1 billion. We are the largest base load renewable energy generator in Victoria and the largest industrial user of gas in Victoria. Our container export trade through the port of Melbourne is equivalent to about 27 000 TEU. We predominantly trade in 40-foot containers, and we are a very large user of the port.

There is a diagram showing where we sit with relation to the regional community. You can see there that we are nearby Morwell and Traralgon, and of course most of our employees at Maryvale mill live in either Traralgon or Morwell.

Ms SHING — A great part of the world.

Mr McLEAN — It is a nice part of the world; that is right. You can see on the map there on the bottom right from Traralgon through to Melbourne, that is our transport corridor. Some would say: why are we in Latrobe Valley? Why did the paper mill get built there in the first place? The rule of thumb is it takes about 4 tonnes of wood to make a tonne of paper, and you need water and power. In terms of logistics you are best placing the paper mill where the trees are, where the water is and where the power is, and then your net logistics costs are lowest. The haul distance from the forestry is very important to us and important for the economics of the forestry industry, so that is why Maryvale was put there in the first place. Of course we need to get from Traralgon to the port, so that corridor from Traralgon all the way through is quite critical.

Nippon has been a good supporter of Australian Paper. Of course they bought Australian Paper in 2009. They have continued to invest. Nippon itself has faced some economic difficulties in Japan, not discounting the impact of the tsunami and other factors in the paper industry generally. That has limited their capacity for investment, but they have continued and their patience has been quite appreciated. The most recent investment was a $90 million waste facility, so this is the recycling facility that used to be in Fairfield collecting the office waste and re-bleaching or cleaning the office waste. We now have 100 per cent recycled products available for office papers.

This is part of our strategy for our office papers, and the Maryvale mill also makes a big range of packaging papers. In fact our packaging papers — the papers that go into cardboard boxes, pizza boxes, bags et cetera — is actually a bigger part of our business, and that is a growing market. That is a growing market in many countries that we are close to, so Australia is actually well placed for access to the Asian region. With the sea trade, if you like, from Melbourne to Asia, we do actually have freight benefits in our location. Our job is to line up the fibre resources all the way through to the port and all the way through to the customer, so we think about that as a complete supply chain, and every part of that supply chain needs to work quite efficiently for us to be able to compete well.

Export market is around about 300 000 tonnes annually — around 300 million in sales revenue — and it is about half of our sales volume. The reason we are dependent on export sales is because paper machines, for them to be efficient, need to be big, and typically they are about double the domestic market. Reflex, for example, is made off a paper machine that makes nearly 200 000 tonnes. We have got a high market share — the most we can ever expect is about 50 per cent market share — and therefore about 50 per cent of its volume has to be exported. That economics essentially extends over all of the different paper segments, whether it be sack, bag, packaging, cardboard boxes or office papers. Each paper machine has its own special function and own special technology to hit those markets and achieve the quality and performance that is needed.

We have seven sales offices and they export to all 68 countries, 37 shipping lines, so we have quite a deal of resources and people dedicated to that entire export challenge. Export, as you can expect, is a highly competitive market. There are very low margins. We are a price-taker. Unfortunately, because of the ability to invest or the limitations to invest, not all of our paper machines are actually world's best class and so in many markets we are a price-taker: we cannot dictate the price, we are essentially copying or trying to enter into a market by providing a lower price in many cases.

Over onto the next slide. This is a media release that was announced by our COO back in February which announced the turnaround plan:

> Australian Paper today announced that a turnaround of its business is required following a fourth year of consecutive losses. The turnaround plan includes a holistic review of all areas of the business, and a restructure of the corporate operations —

which is underway right now.

> 'This situation has been driven by tough operating conditions and a flood of imported paper from Asia. We want to see paper production continue in Australia, however, we have now reached a point where without significant improvement to our cost structures, the ongoing competitiveness, and therefore, viability of our operations will be severely tested,' Peter Williams, Australian Paper's chief operating officer, said …

We have had four years of losses. So despite the investment and support by Nippon Paper, our viability is being tested at the moment. Australian P's viability requires significant cost reductions. As I mentioned, we cannot pass on costs. We do not have the ability to actually increase costs to our customers, so if there is any impact in port charges it will just hit AP's profitability; there is just no question about that. And of course we are a long-term regional employer and so that is the challenge we have.

In terms of the port of Melbourne port access, AP has a dedicated train. We run the equivalent of a 100 TEU train approximately six days a week. That is currently operated by Qube Logistics. And we have two stores in Melbourne, one located at Enterprise Road, Victoria Dock. You can see that off to the west of Bolte Bridge. If you go to the Bolte Bridge and look down to the left, all those containers are ours. Most of them are full of paper. To the north is the Dynon Road facility, which we use principally for our domestic stock. We also run the train into Dynon Road, and we use that train to transfer product into the domestic store, which then goes by truck to customers in Sydney, New South Wales, and Victoria. We use the train for WA, we use the train for Queensland, and we are looking at the option of using the train into the port to access coastal sea freight to WA as well.

In terms of costs, as I mentioned we are critically reviewing all areas of the supply chain. I am working with our wood suppliers. Our operations are obviously working with chemical suppliers, and we are also working with logistics. We are critically questioning all aspects to ensure that we have a viable operation.

What appears to be the case, if you look at the published documentation on the fees and charges for the port of Sydney and port of Melbourne, is that we are already paying 36 per cent more than the equivalent cost to export a box out of Sydney. Our competitors are exporting from Sydney. Visy Paper have an operation in Tumut mill and they export exactly the same products via a train through the port of Botany. They are going to similar markets, and we need to be as efficient as them; if Victoria wants to continue to be a manufacturer and exporter, we need that to be more efficient than Botany.

On the proposed port of Melbourne lease, I guess the terms of reference that you are all considering is a very long-term decision — 50 and 70 years — and the implications of what do you do with a second port, where do you put the second port. There are many complex questions that various people will give you contributions on with all their own interests. I guess for us, for Australian Paper, there needs to be a reduction in freight costs from Gippsland. At the end of the day if any of these changes are to be considered a benefit for employment, it has to result in a lowering of the costs. We are not talking about capping increases, because that just takes too long. There needs to be a dropping of the costs, and the mindset needs to be a fairly substantial dropping of the costs.

So if we are moving from a public asset into a private asset which is potentially a monopoly, then obviously there needs to be a regulatory framework that drives the cost down and then keeps it there. I am not going to sit here and explain how best to do that — there are probably others that are better at that.

Mr ONDARCHIE — We are not sure.

Mr McLEAN — But the test case will be if I come back here in the not-too-distant future and say, 'Yes, it was successful. You did actually drop the cost for Australian Paper, thank you very much'. That will be the acid test.

Not to harp on about it, but to be of benefit to AP we have some more specific observations. It is two things. It is the port handling charges, of course, which we will get to in a second, but it is the cost to get from Gippsland to the port. So any future port operator has to implement port efficiency improvements or demonstrate how that will be the case, including facilities to enable port–rail shuttles.

The CHAIR — Sorry, I am just conscious of the time. We have about 25 minutes left for questions, and I am sure committee members are keen to get to questions.

Mr McLEAN — Yes, no problems. We can start to move onto that very quickly. I think the infrastructure needs to be set up to allow the rail. We are fairly agnostic about rail or road. We think both efficient rail and road access into the port is needed. We have a train running there now. We would like it to be more efficient. We have invested heavily in a train asset and we are not getting the savings that we thought we might. This is principally because we are the only user. There needs to be an arrangement where that asset can be shared so the fixed costs can be shared against other users, and that would actually bring around significant savings.

It is maybe outside the terms of reference for this committee, but of course the funds released from the sale need to be dedicated back into freight infrastructure. If it is a sale of a freight asset, the funds need to go into freight infrastructure. So I appreciate that your changing level crossings will help everyone get to work a little bit faster from all the distant suburbs and that is nice, but this needs to manifest itself in a corridor from Gippsland to the port, and it is not just certain parts of it. The entire corridor needs to actually be considered as part of that plan — all ends of it. There is no point having a train if it stops 500 metres from the port and you have to go onto a truck.

Then of course there is lowering the port charges themselves. As I mentioned earlier, there appears to be a difference between the way Botany charges versus how Melbourne port charges. We do not see those things. We see that they are embedded in the shipping rates, and we only ship out of Melbourne, so we do not have very accurate information about the charges out of the Botany port. But on the ones that we do know, we do see a difference; it does appear to be more expensive to ship out of the port of Melbourne. So we need an arrangement where the charges are set up in a way that it actually encourages the exporting of product. Keep in mind that we know that the port of Melbourne exports mostly empty containers, and think of it this way: if Australian Paper did not exist, those containers would still flow out; they would just have less product in them.

The CHAIR — Thank you, Mr McLean. The committee appreciates your presentation and the handout you have provided this afternoon. We have 20 minutes available for questions. May I ask Australian Paper's view on the regulatory regime that is proposed by the government to follow the port lease, which involves an initial 15-year CPI cap and then an oversight regime beyond the 15 years? You have indicated that you need to see nominal real prices decline. Is Australian Paper, firstly, comfortable with the regime that is proposed to regulate prices into the future, and, secondly, picking up your issue around needing real price reductions, would you prefer to see a CPI minus X price cap rather than simply CPI for the first 15 years?

Mr McLEAN — Definitely CPI minus — definitely. A capping indicates that an operator can spend up to about that amount of money. As I mentioned, in the port of Botany fee structure you can see that the export boxes actually cost less than import boxes, so they have priced it differentially. That is a mechanism that could be built into the regulatory framework — that the actual heavy lifting, if you like, is being borne by the very necessity of the inputs.

Ms DREW — We import as well. We import pulp, chemicals and machinery. Obviously the preference is to have a higher cost for the import boxes, which we would be of benefit to the community, I would imagine, and exports obviously lower. I think the 15 per cent, or the cap you are proposing for the 15 years, is perhaps okay for import, but we do not think it suits export.

The CHAIR — And are you confident that the regulatory regime that is proposed will be adequate to keep your costs under control?

Ms DREW — I do not think it includes lease, though, does it?

The CHAIR — No.

Ms DREW — So no, it certainly does not. That element as well — we have had explained that the Enterprize Road DCs within that port precinct, and we are quite concerned about the lease there. That has not been capped at all, so the lease is probably a large concern for us.

Mr McLEAN — If there is a fundamental increase in costs that needs to be shared by the community, the question is how that actually gets shared. As an exporter, as I mentioned, if we bear the brunt of that, it just hits profits. It does not get passed on to the community, essentially. It appears to make more sense that the imports of finished goods would flow through the retail sector to consumers far more easily than it would be for a manufacturing exporter. It is a dilemma, obviously, for people importing raw materials into manufacturing operations, but of course the quantity being imported for those processes is quite low.

Mr MULINO — Just on a couple of topics, very briefly on the regulatory framework, have you had an opportunity to look at the government's submission which looks at the regulatory framework?

Mr McLEAN — Not in detail, no.

Mr MULINO — There is just a table in there which compares the proposed regulatory framework with other jurisdictions, and it basically points out that what is being proposed is more robust and broader than exists at any other port, and this is something which the ACCC itself confirmed in its evidence — that it will be the strongest regulatory regime. I would be interested in your views once you have a look at that submission, but if that were the case, would that be a point of comparative advantage for exporters through the port of Melbourne versus other ports?

Mr McLEAN — If it translates into a lower cost per box, then yes, that is right.

Mr MULINO — So what is being proposed is a regime called the building block method, but it is basically a very standard regulatory approach to cover 86 per cent of fees, and for the remainder there is a proposal to have the Essential Services Commission undertake periodic reviews. As I said, that is compared to a price-monitoring regime which is in place at other ports and is currently in place here. I would be interested, if you wish to provide any feedback, if you have a chance to look at that and also the ACCC's commentary on it.

Secondly, on your comments around the use of funds, you have said that you would like to see the funds, or at least some of the funds, go towards efficiency and the freight network. What is your view of the potential productivity gains from the level crossing removals on the Cranbourne-Pakenham line, which I imagine would potentially improve the operation of at least some of your services?

Mr McLEAN — There is always noise with our operator, Qube Logistics, about dealing with Metro and getting freight paths. Not being a practitioner in that area, it is a bit hard to give you a comment specifically, but there is always noise about changing freight paths and getting more trains to run. It does occur. It takes some time to navigate through the four or five different authorities, I think, to get the changes in place. But if there is a removal of level crossings and it is on our train line, that would certainly assist — definitely.

Mr MULINO — If you could improve the interaction between the metro and the freight, that would be a good thing.

Mr McLEAN — Absolutely.

Mr MULINO — And a second more general point: to the extent that asset recycling, which is something both major parties went to the last election supporting, is about transferring brownfield assets to the private sector so as to free up funds for productive investments, even if the direct investment from a particular transaction does not go towards a particular thing, it might well be that, given that it increases the government's overall capacity to spend on investments, it increases the government's overall capacity to invest elsewhere. It might be, for example, that if you have certain projects that you would like to invest in, by increasing the government's capacity to invest by however many billion dollars is ultimately freed up, within a responsible government spending framework, there should be some capacity in an overall sense to improve.

Mr McLEAN — There should be, and I agree with that statement. It is just that I suppose what I am trying to sharpen your focus on is that it is the corridor all the way between Maryvale, or Gippsland, and the port. The isolated changes are good, but for us to get an immediate impact we need them all done in a fairly short time frame.

Mr BARBER — Given that you use both road and rail and put the same product into both at the same place and take it out at the same place, you are in a pretty good position to compare the advantages and disadvantages of both. Can you explain to us the issues between the two different modes and what improvements you think need to be made in some more detail?

Mr McLEAN — It digs into a bit of detail about where you have your warehouse and the product range. For some very basic product ranges, or a product range like copy paper, we only make two or three different products, and it is a generic product that is exported. It is quite easy to pick up an empty container, have it travel to the paper mill and then put the paper in the container and have it travel back to the ship.

When you have got a far more complicated product range that is essentially made to order, export markets are quite demanding about having a range of different sizes and then optimised into the payload of the container. That requires us to have what we call a pick face. Paper is made on batch from the paper machine but then the reels may go into a completely different combination of containers. We might make two or three days of production, but reel no. 1 from day one might go with reel no. 65 from day three into the same container for the same customer. The timing of getting the empty container down to match the production to have it going back to the port and hit a boat slot is very difficult to manage on the train.

The answer is in storage facilities. What we are trying to do is work out where best to put those storage facilities. If the investment is going to be in rail and rail is in time going to be the most cost-effective way, we can continue to invest in warehouses in locations that are suited to the rail mode. In a road mode, of course putting a container on a truck is not very wise. It is possible, but the tare weight or the steel of the container you are carrying on the road reduces its cost effectiveness. The high-productivity vehicles are a much better idea.

Super A-doubles, road train-type trucks shuttling product from the Gippsland area to, say, a store in Dandenong and then consolidating it into containers for a train shuttle into the port may actually be a better choice. From Maryvale, it is how far can we get the product down the road, and then the product range will decide whether we need to put it into store and cross-dock into a container. It depends on the product range. We like the flexibility to have both because different markets have different requirements.

In a nice world if the train was running and there were other customers that used the train as well as us, we could then have a choice of 'the train suits this product range; the truck suits this product range'. Then we have the flexibility, we also have competition and we also have price pressuring from both of those modes.

Ms DREW — As long as the train went directly into the port. Obviously lifting it off is where the costs add up; it is the lifts that kill us. With the difference between the road and rail, they both have the same problems for us — that is, payload, so the amount of product we can get in there. Ideally we would like to have a route review from Traralgon to Melbourne that allows high-productivity freight vehicles, or essentially we would like to have higher weights on the train.

The CHAIR — Your product is particularly dense in a container.

Mr McLEAN — It is, yes. We hit maximum payload well before we hit the space limitation in most cases.

Ms DREW — Yes.

Mr BARBER — So heavier trains moving faster, you would still probably run the same number of trains. But also in here or elsewhere you have talked about your intermodal terminal with Qube. Is that about adding some other products onto your train as well?

Mr McLEAN — That is about that cross-docking, picking to the container arrangement. What we do now is we make en masse, on batch, out of the paper machine into a loop container, we call it. It goes down on the train, and all of our product gets unloaded into another store. Then when the ship is due to leave, those containers are brought round and we pick reels no. 1, 2, 3, 68, 54 and consolidate them into a container.

Mr BARBER — Has Qube had any success in getting other customers from Gippsland to use your facility yet?

Mr McLEAN — No, not yet.

Ms DREW — No. When we first did the contract with Qube we believed there were going to be high savings on rail, and that came down to having high payload, which we are not achieving. It was about 29 tonnes the payload. We are nowhere near that. We are down to 22, 23 into the store. That is for store stock obviously, because otherwise it would go on the road — and that is a whole other level of complication. But it is just not possible; it is just not happening.

The other saving was that we were going to get other freight, or Qube was going to get other freight, to put onto the train to share the fixed cost, and that has not happened either.

Mr McLEAN — That is right. At the moment we are about five and a half to six services a week. I think with the existing capacity with the train and the slots available we could quite easily do nine.

Ms DREW — Nine easily.

Mr McLEAN — There is an easy 30 per cent of capacity there waiting.

Ms DREW — Getting to that 9 or 10 would obviously be easier with the removal of the crossings, so that would be great. But at the moment I do not see it being any benefit to us because we are only getting the five to six trains. We do not really actually need it to go faster at this point until there is more freight.

Mr PURCELL — The port of Melbourne costs, are they a significant part of your total cost of getting product to market?

Mr McLEAN — I would not say they were significant; they are a factor. My review — and if these translate into the actual shipping charges, it is $100 a TEU, $200 per FUE. We are talking $10 a tonne, that sort of thing. Average revenue of our exports is about $1000, so it is a relatively small percentage, but we do a high volume. In my numbers here, if we could translate a $25 per TEU saving, that is nearly $1 million for Australian Paper, so that gives you some — —

Mr PURCELL — So it does add up.

Mr McLEAN — It does add up. As I said, we are critically reviewing every single point in the supply chain, because if we have those types of percentage savings all the way along, that actually makes us a viable business.

Mr PURCELL — Yes, little bits add up and make big bits.

Mr McLEAN — That is exactly right.

Mr PURCELL — Your position or submission — probably position rather than submission — is a bit unique because you are actually asking for the costs to go down rather than be pegged. Do you think that is realistic?

Mr McLEAN — We put the same question to most suppliers — and the port of Melbourne is a supplier of ours — and many other suppliers are finding ways to reduce their actual costs via efficiencies. So yes, I think it is realistic, also keeping in mind that Australian Paper seeks to find efficiencies where there is already infrastructure existing, so what we call a backload in the freight. We have a situation where we have trucks leaving the paper mill to a customer that can only take a truck. We have started up our new recycling facility in the Maryvale mill, so that truck was then going to go back to the mill empty. We now put fibre in it and take it back to the mill, so we are putting a lot of effort into making sure that that truck is full both directions. There is an example.

The same thing could occur with the port of Melbourne. The majority of product coming into the port is full containers; our containers are going out full. There has to be a way for those full containers coming out of the port to be destuffed and those empty containers to then be made available so they can efficiently flow to Maryvale, be refilled and moved back to the port, therein closing the loop, if you like, to make sure that those containers, as much as possible, can be full going in both directions as far away from the port as possible — say, into Gippsland or part-way into Gippsland, maybe Dandenong or Pakenham or somewhere like that.

That infrastructure of moving the product full — fully loaded containers and fully loaded trucks and trains moving from the port to the central demand areas. The number in my mind is that in the Greater Dandenong area there is an importing requirement of about 29 000 containers, which happens to line up pretty well with our exporting demand, so if the shipping containers and the shipping company and the empties availability can be matched up, we can see great savings.

As a rule of thumb, if you are going to move a B-double truck from Melbourne to Maryvale, it is about $900 — $900 to move a truck from Melbourne to Maryvale. If you can get that truck backloaded, it is about a third of that cost. The truck is going there anyway. You are paying the labour, and that is essentially being absorbed in the trip where the truck is loaded. For that truck just to simply divert for an hour, pick up a load and come back to the mill — —

Mr PURCELL — Under a monopolistic situation, what incentive would a monopoly have to pass those savings on to the customer? Why would they?

Mr McLEAN — 'Why would they?' — exactly.

Mr PURCELL — Just finally, you have said that you reckon the port charges should be reduced to help Victorian manufacturing. You think it should be $25 to $50 per — —

Mr McLEAN — I just interject that that is our review of what it would be to at least be on par with Botany. What I am suggesting is that it needs to be that kind of order of magnitude or more for it to have a real effect in our supply chain.

Mr PURCELL — And you are saying that the export charges should be lower than import charges. I am not disagreeing with that. Do you think they should be included in the legislation?

Mr McLEAN — It should be part of the regulatory framework, definitely.

Mr ONDARCHIE — Ben, Kelly, thanks for coming in. In regards to this 70-year monopoly — —

Mr MULINO — Fifty-year lease.

Ms SHING — Fifty-year lease.

Mr ONDARCHIE — Fifty plus twenty, anyway. You made the point that the sale of a freight asset should then — I am trying to paraphrase what you said — repatriate some funds back to the freight industry itself. A lot of these funds are going to level crossing removals in places and some others to other programs. I know Ms Shing is a big supporter of regional support as well. Picking up the point that some money should go back and also noting that out of the country roads and bridges program, the government we have at the moment, 10 of those bridges are in the — —

Mr MULINO — This is totally irrelevant. It is editorialising, Chair. On a point of order — —

Mr ONDARCHIE — They are in the Premier's electorate of Mulgrave; that well-known regional city of Mulgrave is getting 10 new bridges. Would you like us to ensure that there is some support for regional Victoria, particularly around the freight industry, before this legislation goes through?

Mr McLEAN — Ideally, yes.

Mr ONDARCHIE — Thanks. That will do.

Mr McLEAN — Yes, or in parallel to it.

Ms SHING — In parallel to it?

Mr McLEAN — I have faith that the government will try to encourage Victorian manufacturers, so — —

Mr ONDARCHIE — Do not spend your dollar on that. I am telling you, that is a big bet. You might have to move to Mulgrave.

Ms SHING — Thank you very much for coming along and giving your evidence today. Gippsland is my backyard and AP is a very significant employer in that area, with the Maryvale mill, particularly after the closure of Shoalhaven and the contraction of operations that has meant that it is actually critical to make sure we take care of that particular part of the industry. Food and fibre is indeed one such part of the Future Industries Fund and various components of the Regional Jobs and Infrastructure Fund.

I would like to take you to the media release that you referred to in your opening submission, Ben, where you talk about the turnaround plan. To overlay that with your comments around how port charges, you would not say they are a really significant part of overall costs, but they are one component and that you are in fact looking at the entire supply chain and trying to eke out as many savings as possible through changes to costings — I will not call them discounts, because that is part and parcel of the lease transaction itself in terms of rates. You talk about how a 25 per cent TEU saving would in fact add up over the course of everything. Given the investment that you have made of some $90 million into the waste paper recycling facility at Maryvale to produce 100 per cent recycled paper and the way in which the recycled paper policy from the federal government is no longer proceeding with the certainty that you relied upon, what sort of impact will that have on the rollout of the turnaround plan now that there is no certainty around commonwealth procurement of paper from the Maryville Mill?

Mr McLEAN — In the short term obviously there is a profit impact. I think it has more to do with the story that Nippon see about what Australian operations can provide to Nippon Japan. Nippon Japan have invested the money with quite a deal of worry at the commencement of the project and now we are at a point where the operation is running and these changes have occurred in the government. They are now worried of course about future investment. So I think it is the story that goes back to our investors. That is probably the most important issue.

The story coming back out of this — the question about what we do with the port of Melbourne privatisation — needs to be that Victoria is actually encouraging and open for business, if you like, to give the confidence to Nippon to continue with the investment. The Maryvale mill is one of those mills like any large asset-intensive industry that absolutely has to have a continual flow of capital coming into it. You cannot remain stagnant otherwise your performance, your paper, just drops and your price drops away and then, like we are seeing now, the profitability is low — no profitability, no investment, so it is just spiralling down. I would have to say that it is the story that goes back to the investors.

Ms SHING — That then forms a bit of a narrative that fits in with what I think you described earlier, Kelly, in relation to Qube and the 22 to 23 payload as opposed to 28, so a significant saving not being realised there, with around 30 per cent of capacity still available, meaning that the savings along freight routes are undercut by that lack of uptake in that line.

Mr McLEAN — That is right. With the Qube changeover we had some wins. We definitely saved money from changing to Qube, without a doubt, but we did not save all of our money. So we get to the review with Nippon, Nippon say, 'Why didn't you achieve all of your goals?', and you step through the reasons and of course they walk away with the impression that the ability for Qube to realise the savings and pass them on to Australian Paper through the infrastructure issues, the government's structural issues, that that is actually a blocker, and that is what caused the concern at Nippon.

Ms SHING — So in terms of the failure by the commonwealth government to invest in that paper acquisition as far as driving demand is concerned, what is your view on first mile/last mile initiatives such as the agriculture fund, which is $200 million proposed to be spent on actually assisting regional jobs and growth development that adds on to the Regional Jobs and Infrastructure Fund and the Future Industries Fund, of which pulp and paper is part as one of the six sectors to drive growth, as far as what the state is doing to shore up this really important industry?

Mr McLEAN — I do not really know that much detail about it so I am not too sure, but if it does attend to the first mile and the final mile, then of course that will be of assistance to us. That is where most of the issues occur. At least that is where the issue is right now — the bottleneck is right now. We are getting some support from the Victorian government at the moment on our first mile, at the Maryvale end, which we appreciate.

Ms SHING — The Treasurer was just talking about it in Traralgon on Friday.

Mr McLEAN — That is right. So the cooperation from that area has been terrific in recent days.

Ms SHING — Excellent. Just finally, the issue of rail is required to be considered by any bid to the proposed lease. I note that DP World has actually incorporated implemented on-dock rail as part of its West Swanson operation and that it is anticipated that that will take up to 27 000 vehicles off the road every year. That sort of thing, along with it entering into a further 50-year term with the port of Melbourne, is in fact giving a greater degree of confidence to the way in which operations at the port of Melbourne will be able to evolve over time. Do you have any view in relation to how that could be rolled out across other stevedores operating at the port of Melbourne once the lease goes ahead?

Mr McLEAN — No, I do not know enough of the detail, but certainly again the noise from Qube is that the train is not able to currently run into the port very efficiently. It is a rare occurrence and it needs quite a lot of coordination for it to occur and there is not a lot of willingness by the stevedores to do it.

Ms SHING — If it gives you some comfort, that is a requirement for any sort of expression of interest as far as a bid is concerned — to be considered.

Mr McLEAN — I would hope so.

Ms SHING — Thank you very much.

Mr DRUM — The Victorian Farmers Federation gave evidence a couple of weeks ago along the lines that they thought this was a once-in-a-lifetime opportunity — once in a generation opportunity — to get the operation of the port up to world's best practice, with the potential of maybe making it the cheapest. However, they thought that the government's attitude was one that was mainly trying to get the most money they can for the state.

Mr MULINO — That is verballing.

Mr DRUM — Ultimately they were saying, Maybe the priorities need to be back around the other way — that you put in place world's best practice, put in place the most efficient and modern operation of the port that you possibly can, maybe make provisions for the future port, because we understand this one is going to be full within the life of the lease, and you put in place the best provisions you possibly can, guaranteeing the most efficient operation of the port for the foreseeable future, for the next 100 years, and freight in and out of the port, and then if there is any money left over, all good and ready. However, they saw that the priorities had been switched around. 'Let's get the most money we can for the sale and then let's put a whole range of safeguards and provisions around that sale to make sure that things don't escalate out of control' — —

Mr MULINO — On a point of order, Chair, that is about eight statements apparently made by somebody else being put to a witness. Why cannot Mr Drum just ask the witness what they think about something, instead of verballing some other witness with some lengthy submission?

Mr DRUM — I am asking whether Australian Paper agree with the view of the VFF.

Ms TIERNEY — On what?

Mr MULINO — You have made all sorts of vague statements — —

The CHAIR — Order, Mr Mulino! Mr Drum is not the only member of the committee to attribute statements.

Mr DRUM — Chair, it is disappointing when you sit here and you let the government have their say for half an hour and as soon as you put your question — —

The CHAIR — Mr Drum, continue with the question.

Mr DRUM — As a rough outline of what VFF have raised their concerns around the priority of the sale, would you agree with that analogy?

Mr McLEAN — I am not aware of the specific detail of that but clearly if infrastructure needs to be developed, the money needs to come from somewhere. So obviously the releasing of the asset and freeing up funds to invest in infrastructure is a possible necessary step. If we were to look 50 years or 70 years down the track and Maryvale mill is still there and getting a truck through Melbourne's busy traffic and/or even a train through the highly busy metro network, how do we get to the port? The Hastings port is obviously a far more attractive option, if you build it at Hastings. If it is at Bay West, it probably will not be. But for us to use that Hastings port it needs to have all the shipping lines there. I need to still be able to get the box to the boat at a lower cost than we do now, which needs the rail, the warehousing, the truck services and a critical mass of loads going in and out — exactly the same story as I mentioned about the port of Melbourne. You need full containers coming out, being destuffed and full containers going in.

If you can create that scenario with Hastings in the next five years, it is of interest to me. But really it is so far out into the future it is a little bit esoteric. That is why the statement on the last page is that the real test is if in the short term the sale needs to go ahead to free up funds to develop the infrastructure, it may be a necessary step, and at least there are funds in the community to actually do that and to build Hastings at the same time. That is what you would need to do. To be of benefit to us you would need Hastings to lift and the investment in the port of Melbourne infrastructure would need to continue so we can access it in the meantime.

Mr DRUM — The government is pretty committed to getting Infrastructure Victoria to look into the aspect of the second port, whether it be at Bay West or Hastings. But what you are saying, and you have a preference for one, is that ultimately we should be making provision within the sale with the proceeds we are going to get from — —

Mr McLEAN — I agree with that.

Mr DRUM — We should make provisions for the future of our trade with part of the proceeds of what we are currently going to receive through this sale.

Mr McLEAN — Definitely.

Ms TIERNEY — I have three quick questions. The first one is: could you provide some comment on the export price discount? The second is in relation to your support or otherwise of Infrastructure Victoria. The third is in relation to your manufacturing processes and your pick-to-order situation that seems to be fairly problematic. I am not taking away any sense of the complexity that is obviously involved in that process, but clearly there are lots of other companies that are not close to a capital city that have a large export market and customers that require pick to order and they do that, they make reasonable profit and their businesses are ongoing.

I am wondering, particularly given your connection with Nippon and the Japanese expertise with just in time, whether you have been able to get additional assistance in terms of your manufacturing process — for example, the ability to pick to order close to the point of production. I have to say as soon as I saw this, I turned to the second-to-last page and saw where your stores were located in prime real estate. So much of it to me just does not make sense in terms of the business. I put up my hand — I am certainly not an expert in terms of your business at all — but I am wondering whether there has been some dialogue with the previous government, whether it be the previous government or the current government, in relation to some assistance that might be available to support looking at your just-in-time process.

Mr McLEAN — Certainly we have had assistance with Nippon technically. Nippon are great papermakers. The technical assistance with the paper manufacturing process and the recycling plant example is a lot of Japanese technology to improve the quality of the product. The supply chain in Japan is largely very different to Australia. A lot of the Japanese mills are actually on the port, a lot of the Japanese mills do not export in large volumes and a lot of the Japanese products are fairly homogeneous products, so they do not really have that pick to order. They are a newsprint mill or a commodity copy paper, et cetera. So it is a fairly specialised process in the packaging papers.

You are exactly correct with the location of our stores versus the pick to order. The decision is: do we have the store in our high-rent area or do we build the store at Maryvale? The fundamental question is, if you are going to pick and pack the container at Maryvale, you need a train. Before we invest in a warehouse in Maryvale we need confidence the train is going to be able to deliver a low-cost solution. If that never will be, then we will; put our store somewhere else and we will run trucks down the road, and that is exactly the review we are doing right at the moment, precisely that. Right at the moment I have surveyors at Maryvale mill drilling bores to assess the build costs, and we are also looking at rail costs and truck costs —

Ms TIERNEY — And your rent costs of your current warehousing.

Mr McLEAN — and rent costs. I have a spreadsheet I can show you. On the left side is option one, with a warehouse in Melbourne; option two is a warehouse in Maryvale — you save rent but you have to invest the capital. We have to go to Nippon to say, 'I want $25 million to build stores', and they will say, 'How are you going to guarantee you're going to get a saving?'. That is because I am confident that the rail savings of moving those containers to and from Maryvale, all of that supply chain I am confident about and therefore I will get the savings.

Ms TIERNEY — All right. And a response to the other two questions — about the export price discount and Infrastructure Victoria?

Mr McLEAN — You may have to be more specific with the question.

Ms DREW — Are you referring to our suggestion that export tariffs are lower than import? Sorry, the other way around.

Ms TIERNEY — Yes.

Ms DREW — Yes, okay. We are suggesting that the port of Melbourne would adopt a similar set-up to the Sydney port where there are higher costs on the port charges for import boxes versus export boxes, so having a completely different set of rates.

Ms TIERNEY — And Infrastructure Victoria?

Ms DREW — Can you elaborate on that, sorry?

Ms TIERNEY — There were lots of comments made from various people about Hastings versus Bay West versus anything. Infrastructure Victoria has been set up by legislation — it was an election promise — to analyse future infrastructure projects to essentially try to take, as much as you can, the politics out of infrastructure planning.

Mr McLEAN — Our view on Bay West versus Hastings, if that is your question — —

Ms TIERNEY — No, my question is about — —

Ms DREW — It just about the set-up of the body, is it?

Ms TIERNEY — Yes, about process and decision-making.

Ms DREW — It is interesting. I was listening to something on the radio about that and how the persons on that were selected and that there was no engineer, and various other points of view. We think that anybody who is going to get together and discuss the best things to happen for Victoria have got to be a benefit, because there needs to be industry involvement and a wider range of decision-making personnel involved in those decisions.

Mr ONDARCHIE — It will all happen in the Premier's electorate, though, so do not worry about it.

The CHAIR — Thank you.

Ms DREW — And if something could happen like that for rail, that would be fabulous, because there are so many bodies you have to deal with: VicTrack, V/Line, the department, Metro — it is quite difficult.

Ms TIERNEY — Part of the proposition in terms of the lease arrangement for the port is to ensure that there is more money freed up for other infrastructure spend.

The CHAIR — Mr McLean, Ms Drew, thank you very much for your evidence this afternoon on behalf of Australian Paper and for your presentation, which the committee will take on board. We will have a draft transcript to you in the next couple of days.

Ms DREW — Great, thank you.

The CHAIR — Thank you very much.

Witnesses withdrew.