

# CORRECTED VERSION

## PORT OF MELBOURNE SELECT COMMITTEE

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

Horsham — 27 October 2015

#### Members

Mr Gordon Rich-Phillips — Chair

Mr Daniel Mulino — Deputy Chair

Mr Greg Barber

Mr Damian Drum

Mr Craig Ondarchie

Mr James Purcell

Ms Harriet Shing

Ms Gayle Tierney

#### Staff

Secretary: Mr Keir Delaney

Research assistant: Ms Annemarie Burt

#### Witness

Mr Ken Wakefield, Managing Director, Wakefield Transport.

**The CHAIR** — I declare open this 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 switched off so we do not have interference with the Hansard equipment.

I welcome Mr Ken Wakefield, the managing director of Wakefield Transport. The committee does not require witnesses to be sworn, but questions must be answered fully, accurately and truthfully. Witnesses found to be giving false or misleading evidence may be in contempt of Parliament and subject to penalty.

All evidence taken at this hearing is protected by parliamentary privilege as provided by the Constitution Act 1975 and further subject to the provisions of the Legislative Council standing orders. Therefore the information you give in this hearing today is protected by parliamentary privilege. However, any comments made outside the hearing are not so protected. All evidence is being recorded and you will be provided with a proof version of the transcript in the next couple of days for any corrections.

The committee has allocated 45 minutes for this session, so I invite you to make a brief opening statement if you would like to, and the committee will then proceed to questions. Thank you for your time this afternoon

**Mr WAKEFIELD** — Thank you for the opportunity. I will probably go back and forward a bit. I have a few notes here that I scribbled on the plane when I came out of Brisbane at 5 o'clock this morning.

Wakefield Transport is located in north-west Victoria. We are positioned in a place called Merbein, which is 10 kilometres west of Mildura. We run three rail services a week with export and import produce from the area and supplies into the area from Melbourne. We rely very, very heavily on the Melbourne port. We employ 85 people. We run 34 B-double trucks to support the rail business, and we are predominantly an import-export logistics company.

We do use the port of Adelaide on occasions, but that port only has three direct calls a week and seven sailings a week, including bulk vessels and whatever. Melbourne port has 37 direct calls a week, so the competition out of Melbourne for sea freight services is far superior to Adelaide and is comparable with Sydney. It is very important for our regional location. I did hand out to you a couple of sheets of paper that sort of give you a snapshot of the amount of produce that comes out of the Mallee. It is the largest food bowl in Australia, and it is critical that we have good connections to the port and that we have a port that is the most competitive port in Australia to ship in and out of.

Exports out of the Melbourne port represent more than 65% regional — I worked it out last night on last night's latest Melbourne data — 65 per cent that come from regional Victoria. There is one in there for manufactured paper, and I think that comes out of Traralgon, out of APM. If you take that into consideration and consider that is a regional location as well, it means 90 per cent of the exports that go out of Victoria through the port of Melbourne come from regional locations. It is absolutely imperative that the Melbourne port is the most competitive it can be.

I will say a couple of things about the lease. I would say I am on the side of a port lease. I think Brisbane is a commercial port — not owned by the government — and so are the ports in South Australia, Sydney and just a week ago, the Northern Territory. The Fremantle port is going through the process at the moment of being commercialised as well. So really Melbourne is the largest port in Australia and it is still run by government per se. If you have a business-business dealing you should get a commercial outcome; if you have a business-government dealing you get a government outcome.

I am supportive of the port lease, but there needs to be a framework in place so that price gouging does not occur. One of the things that I am very keen to see happen is that any port lease should be conditional on rail infrastructure actually accessing the waterfront. We see there is a trend pretty much Australia wide to bring rail directly to the waterfront. It is working very efficiently and effectively in Sydney ports. They have actually gathered some freight from the Riverland and gathered some freight from lower New South Wales that generally fed into Melbourne, and now it goes through the Sydney port. You would be aware that Brisbane are looking to do on-dock from regional locations as well.

I think the port lease should have in it some criteria that any new port lessee should have to invest, whether it is a co-contribution from government and the private sector, but the port needs to be efficient, and one way that you make it efficient is to have on-dock rail deliveries.

Currently for us, one TEU, which is a 20-foot equivalent container, so an FEU is a 40-foot-equivalent container — where we are delivering to, which is the Patrick terminal in Coode Road, we are only probably 100 metres from East Swanson Dock, and it costs us over \$109.50 for a 20-foot container to do that short journey, but it costs us over \$138.50 for a 40-footer to do the same journey. It is a great impost on our regional exporters, for that short distance, to be charged that amount of money when, if I take the same container by road, I can go straight into the port and I do not get charged anything — \$7 for a timeslot; that is it. That is why I am so keen to get this on dock, so we can bring in some efficiencies.

There has been a lot of contention over the capacity of the port. The Melbourne port have done studies to say, 'It will reach capacity at this time, it will reach capacity by 2050, 2045'. I think it needs to be considered as part of the port lease what the new owner will do with the port. Obviously there are plans that have been around for a long time to extend the quay to take in Coode Road and go back to Footscray Road. Also the Footscray Market has been sold so that virtually from Dynon Road through to the quay side can be an import-export precinct, so we could have the MIS — that is still probably a way off yet — locate into that precinct as well.

I would like to understand, or I would like the lease to reflect, that the new port owners have some conditions to increase the capacity of the port in line with what the Melbourne port studies have reflected and the work this government and previous governments have undertaken to ensure that Melbourne remains the premier port of Australia.

The other thing about the capacity issue is that there are technologies that are adopted within Australia and overseas for straddles to operate with our drivers and whatever. I think the existing port capacity is limited by technology at the moment, but it will not be limited in another 5 years, 10 years or 15 years.

I believe port capacity can increase significantly, through technology and through the increase to the quay side. Also if capacity is still an issue, we have got the cars. There has been a study — the coalition did a study — into moving the cars to Geelong. We have got Hastings down there, and 30 per cent of the new cars are sold into the east of Melbourne, so there is an opportunity to maybe move those cars to Hastings.

There are a lot of port-related activities that do not involve containers that can be removed from the port to increase the port capacity for containers. What I am saying is I would like to see that reflected in a lease. I do not know how to do it — I am not a lawyer or anything like that — but I am sure there is a way that infrastructure could play a significant part of any future port lease.

The term of the port lease does not really bother me. I think if the lease is structured in the correct manner it should have the opportunity to grow through some of the things that I have just outlined. I am not fully over the top of what is being put forward for the port lease and how it is structured. I understand that they are looking at a 70-year term. Most western lands leases, most commercial leases from governments, are 99 years, so I cannot see 70 years being a particular issue, as long as the port lease is structured in a fashion that puts responsibility onto the port owner to increase that capacity to be competitive and to put the on-dock rail in, whether that is done with co-contribution from government and the private sector or how that happens, but it needs to happen as part of this process.

One of the other things that affect probably Melbourne port the most but all ports in Australia is the pan-Australian rates. Pan-Australian rates are where ships call to Australia but all the rates need to be the same in each individual port. This is only my opinion, but pan-Australian rates, after the Melbourne port lease is finalised, should be something that the federal government should look at, and that would bring further competition. I would hope that Melbourne would come up trumps in relation to that, because shipping lines currently charge higher rates into Melbourne because they may have to call at Adelaide, where they cannot lift as much cargo and it does cost them more. So the shipping line charges differential rates at different ports. That is because of the pan-Australian agreement. If you take that pan-Australian agreement out, then the most efficient ports should have the cheapest rates.

I have got some things here, but I just need to have a look at it. The Melbourne port did not increase the export rates in the 14–15 year, so in effect there was a 2.5 per cent CPI increase on all rates pretty much over the full range of services, but exports did not attract that, so there is a negative 2.5 per cent rebate that goes to exports. Obviously Victoria being a premier exporter and regional Victoria being a premier exporter of food and fibre, we need to ensure that any new port lease has a similar understanding of how important the exports are to the

Victorian economy and the Australian economy. I would like to see some way that we reflect within the port lease that there needs to be priority given to regional exports going through the port.

**The CHAIR** — Ken, I am conscious of the time. If you could just end your opening comments there and perhaps proceed to some questions so we can give the committee the opportunity to canvass a few other issues.

**Mr WAKEFIELD** — Can I just say one more thing?

**The CHAIR** — Please.

**Mr WAKEFIELD** — There has been a lot of talk about ship sizes. From the research that I have done I cannot see in our lifetimes that we are going to see 15–20 000 TEU vessels coming to Australia. The bigger the ships get, the less vessel calls they will make, so the land bridge. I think we will top out in the next 75 years at 8000 TEU vessels. So we will not have an issue with the bridge, we will not have an issue with the current dredging limitations.

**The CHAIR** — That is pretty consistent with what we have been hearing from other witnesses.

**Mr WAKEFIELD** — Is it? Okay.

**The CHAIR** — In your introductory comments you spoke about a framework to prevent price gouging, so price gouging does not occur — that is the term you used. The proposed lease has the Essential Services Commission looking at 86 per cent or thereabouts of revenue items at the port of Melbourne. It does not include rents at the port, so there is a 14 per cent gap of revenue that will not be subject to oversight, and obviously if you keep a cap here the prospect of other items increasing is very real. Given your views on preventing price gouging, would you prefer to see all revenue items at the port subject to regulation by the ESC?

**Mr WAKEFIELD** — Business will find a way, and if you give them a loophole like that, they will definitely exploit it. If rents increase, the stevedores will then increase their charges back to the exporters and the importers.

**The CHAIR** — What would you say to the counterargument that it should be subject to competition rather than regulating prices — that the market should determine those rents?

**Mr WAKEFIELD** — As I said about the pan-Australian rates, the pan-Australian rates do not really allow the most competitive port to have the most competitive price. There are other levers that can be used to, I suppose, put downward pressure on some of these things that fall out of the basket. If you look at the performance of Sydney port since it has been privatised, it has taken a considerable amount of cargo from Melbourne port. A business will wish to grow and wish to grow the revenue base, and the way that they do that is having more ship calls and more containers going through their facility.

I do not know whether I have answered your question. I would like everything to not have the opportunity for price gouging, but in the real world the cargo will leave the port if it is not competitive. Obviously we cannot afford that to happen, because the train does not run to Adelaide and Sydney — it only runs to Melbourne.

**Mr MULINO** — Thank you for your comments. They were very broad ranging and very informative on a whole series of issues. I just wanted to touch on the capacity issue. You have talked in some detail about some of the options for increasing capacity, so increasing the key line, moving some aspects of the port operations to other places in the port or other ports, and also technology — investing in technology. Are you comfortable in the ports assessment that 7 to 8 million is going to be possible? Is that the ballpark?

**Mr WAKEFIELD** — I think it is harder to predict what the port capacity will be in 20 years time than it is for the size of vessels coming in. It is harder because we do not know. Some of the technology that will increase efficiencies has not even been designed yet. But I think there will be a significant increase in port capacity with on-dock rail. We have seen that in Sydney. If you go to Canada, Toronto, they virtually strip and reload a vessel in a 24-hour period. On-dock rail will just naturally increase the port capacity. So I do not have any problems with the 7000 TEU at all, and I think it will outstrip that as well, but how it is going to do it, at this stage I do not know. But there is has to be some investment to ensure that that happens, and that is what I would like to see reflected in the lease.

**Mr MULINO** — Just on that investment issue, one of the big issues has been reducing supply chain costs for the state. Is it your assessment that up to the point where we get to 7 million, 7.5, 8 — whatever — that it is likely to be the lowest cost solution for the state to increase capacity at the brownfields site of the port of Melbourne rather than building an entire new port?

**Mr WAKEFIELD** — I believe that whether you build a new port or not, you have facilities available where you can actually move some cargo without too much disruption and increase the capacity of the port. You have got Webb Dock, which takes the cars currently. You take the cars away, all of a sudden you have got more key line. You have got increased capacity by moving some of those products out of the port. There was a lot of work on taking them to Geelong — I do not know the outcome of why that did not happen — but it does make sense to me for the east, because there are so many cars sold there, that Hastings could be an option. I have never visited Hastings, so I do not know too much about it. All I know is that it is out that side, and with a car carrier it is only one delivery — it is not like a container ship. A container ship is not going to go to Hastings and then the port of Melbourne. It is not going to go to Bay West and the port of Melbourne. So we need to consolidate the containers in one location. Melbourne is already set up to handle containers, with container parks, ancillary services, freight forwarders and everything positioned there. I cannot see why you would move that cargo to another site outside Melbourne. You would just increase the capacity within the port.

**Mr MULINO** — But I think key to what you are saying is that in a sense you would expect the private operator to have some incentives to increase throughput — it is the nature of their business. But you are also saying what you want is a lease structure and a regulatory environment that provides the right incentives for them to invest in extra capacity as is appropriate, given it is a long-term arrangement.

**Mr WAKEFIELD** — Invest — yes, create an environment where they will invest, but it needs to be in the port lease so that there are some conditions on them investing if it gets to this stage or if it gets to that stage and some efficiencies come in because of the volume increase. Like I say, on-dock rail and stuff like that should happen. It used to happen and we took it away because the stevedores owned the spurs that go into the quayside, so they just created another revenue stream by putting a fence up and charging us to take it 100 metres.

**Mr MULINO** — One last question: you flagged the export-import differential pricing.

**Mr WAKEFIELD** — Yes.

**Mr MULINO** — You can frame it as a discount or not increasing as much. Do you support that?

**Mr WAKEFIELD** — Yes, I do.

**Mr MULINO** — I thought you did. I just wanted to confirm that.

**Mr WAKEFIELD** — Oh, right, okay.

**Mr MULINO** — Thanks.

**Mr BARBER** — Just on the subject of levers and incentives, the mode-shift incentive scheme — do you think that is a good scheme?

**Mr WAKEFIELD** — I reckon it is an excellent scheme. It has worked for us, and the understanding that I have had from governments of both persuasions is if they increase the infrastructure so that it can be efficient, which is the rail track and rail lines, increased tonnages and increased speed, then there would not be such a need for an MSIS. It goes back to Lynne Kosky's days. A number of years ago this was put in place, but the infrastructure has not improved. It needs to stay in place until the infrastructure is improved, we can get some above rail competition and we can get some on-dock rail. We need to take that \$200 a TEU out for us to compete against road, because they do not pay anything to go in there and we do, so we have got to remove that impost. Currently the MSIS does not go the full way, but it does help.

**Mr BARBER** — Are you saying those containers would not travel on rail without the incentive?

**Mr WAKEFIELD** — I would say yes, they would not travel on rail without an incentive, but the incentive is only there until the infrastructure is up to standard.

**Mr BARBER** — It is also a way of packaging up all of the externalities associated with road transport as well. You are in both businesses.

**Mr WAKEFIELD** — Yes, I am in both businesses.

**Mr BARBER** — You are unbiased in that respect.

**Mr WAKEFIELD** — No, I am a rail fan because I think it is safer and for all the reasons that externalities play a big part in the formulation of the MSIS. I believe every time we send a container by rail, there is a net economic gain to the Victorian community. I do not think the MSIS is large enough. From our location, by rail 625 kilometres away, the externalities as the department worked it out on our line would be somewhere around \$200, and we do not get \$200. We do not even get half that, so there is plenty of room to move if it was just based on externalities.

**Mr BARBER** — So any proposal that this potential private operator dreams up about how they going to deal with rail down at their end — down on the port end — is all built around the idea that these containers will continue, and that is for the moment at least built around the idea that the MSIS continues. Would you agree? They can say, ‘Sure, we can allow for all sorts of things to happen: the port of Melbourne, rail spurs — rearrange the whole thing around rail if you want’. But at the moment if the MIS — MSIS; do not say MIS.

**Mr WAKEFIELD** — MIS is completely different!

**Mr BARBER** — ‘No, we don’t agree with that incentive at all. I don’t know who dreamt that up!’. If the MSIS was to discontinue, then the case for that from that private operator’s point of view disappears at the same time.

**Mr WAKEFIELD** — Yes, but there has already been a government commitment, and I was standing 10 metres away from Daniel Andrews when he said, ‘This will happen with or without federal funding and the full \$416 million will be spent on the upgraded rail’. That is a fairly strong commitment. That needs to be matched — not matched as in dollar wise, but it needs that last link, that bottleneck, to be improved so that we can actually get the efficiencies at the port. I do not accept that the cargo would leave without an MSIS. It would right now because we are stuck at 50 kilometres an hour, 19 tonne axle weight loadings and \$200 a box to get it into the port, but I would hope that once this infrastructure is delivered to regional Victoria and if we can get some comparable on-dock rail, then whether we had an MSIS or not it would still happen.

**Mr PURCELL** — Thank you for the presentation. You have obviously given a lot of thought to the port of Melbourne over the time. The import-export differential — are you suggesting that there should be a subsidy for the exporting businesses? Is that the process?

**Mr WAKEFIELD** — No, what they did was the other parts — the import and associated lifted by CPI, whereas the exports did not lift by CPI. The reason they did that is they were losing a lot of cargo to Sydney. The private operator needs to show that they can be competitive before they can lift the export CPI. That is what I would say.

**Mr PURCELL** — Right, yes, that sounds fair. You are in both road transport — 40 B-doubles or whatever —

**Mr WAKEFIELD** — Yes, B-doubles.

**Mr PURCELL** — and also in rail. Is there a change in the percentage that are going through from rail to road at the moment?

**Mr WAKEFIELD** — The problem that rail faces in relation to road is that I have just travelled here from Melbourne, and the amount of overpasses and roadworks — and every time the roads are improved, so does the gross mass improve, so does the vehicle AMTs improve. They call them A-doubles, but we have got road trains running around metropolitan Melbourne now. Rail needs to have the similar sort of investment — not at the same level, because obviously it is only one line, it is not a myriad of roads everywhere — but it needs to have that same priority where you choose trunk lines within the state. You say, ‘We can gather the freight into these trunk lines’, and those trunk lines should be the ARTC minimum standard, which is 23 tonnes and

115 kilometres an hour. Drummy would remember the train. When it ran in the 1970s, the *Vinlander* used to do 90 kilometres an hour. Here we are, it is nearly 2016 and we are doing 50 kilometres an hour.

**Mr PURCELL** — It has gone the wrong way.

**Mr WAKEFIELD** — You need to create an environment where regional Victoria can be competitive, and the port is our gateway to the world. It needs to be competitive too.

**Mr PURCELL** — Yes.

**Mr WAKEFIELD** — Did I answer your question or not?

**Mr PURCELL** — Yes, you did. That is perfect. In regard to your alternatives, obviously Botany is not but Adelaide is. Is it only the frequency of shipping out of Adelaide that means you use Melbourne?

**Mr WAKEFIELD** — Well, the train does not run to Adelaide. Last financial year we sent about 13 000 TEUs — so 20-foot equivalents — by rail. That would mean that I would need somewhere around about 150 B-doubles on top of what I have already got. The B-doubles do not scare me, it is just an asset purchase. It is just trying to find 150 drivers that is a bit of a problem.

**Mr PURCELL** — That is perfect, thank you.

**Mr ONDARCHIE** — Ken, for a start, I am not sure Drummy remembers anything that happened in the 1970s, so we should let that one go through. Where you started with us today, you talked about the importance of rail infrastructure to the waterfront — on-dock, as you called it.

**Mr WAKEFIELD** — Correct.

**Mr ONDARCHIE** — You also said that this must be a competitive port.

**Mr WAKEFIELD** — Yes.

**Mr ONDARCHIE** — The government will say to you that one of the things they are going to ask bidders is for a proposal around what we commonly call the last mile. That is not actually a commitment, that is just a suggestion about how they might go about it. Given how critical this is to your business and the industry in general, would you like to see a commitment to actually getting that last mile done?

**Mr WAKEFIELD** — Yes. I think it needs to be a part of the lease — ‘you will do this by this time’. The proposal for the new port owner will be, ‘Okay, we will spend X amount of dollars and we need this much from the government’. We already pay \$200 a TEU to get that, so if we have to pay a little bit towards that on exports by rail, that is fine — as long as it is not \$300 instead of \$200.

**Mr ONDARCHIE** — Yes, I understand that. But your advice is do not do this without getting a commitment to that last mile.

**Mr WAKEFIELD** — Correct, yes.

**Mr ONDARCHIE** — All right, thank you.

**Mr WAKEFIELD** — The problem is that all the other issues that I have heard — I did not read any of the things, because I just wanted to come in here impartial — but all the other things I heard in the press, they talk about port capacity and they talk about big vessels, none of those things are going to happen unless you have an efficient port with on-dock rail. You cannot increase your capacity unless you change the way that you deliver containers to the port. You just cannot get the amount of trucks and the straddles required in that operating area, you just cannot increase the capacity unless you change the way that you do things. We have seen that happen with other ports and we know that it works, so it has to be critical at some point when they say, ‘Right, when you reach 3 million TEU’, or whatever it is, ‘This has to be in place, this has to be operational’.

**Mr ONDARCHIE** — That is fair enough. I think you are saying that if we are going to do this, you are not against it, we just have to get it right when we do it.

**Mr WAKEFIELD** — Correct.

**Mr ONDARCHIE** — Because we only have one shot at this anyway.

**Mr WAKEFIELD** — We have one shot it — it is a long time.

**Mr ONDARCHIE** — Absolutely. The other thing I want to pick up with you is your point about over 65 per cent of exports coming from regional Victoria, and you have given us some data on that as well. It could be up to 90 per cent, depending on how you look at it.

**Mr WAKEFIELD** — That is right, yes. One of the big ones is the manufactured paper, which I believe is APM — —

**Mr ONDARCHIE** — Yes, it is. But even if you back that out, still a significant number comes out of regional Victoria. So we accept that 65 per cent of exports come from regional Victoria. How do you feel about the fact that only 3 per cent of the value of the sale will actually go back to regional Victoria?

**Mr WAKEFIELD** — I did not know that until you just explained it to me.

**Mr ONDARCHIE** — Yes, it is 200 million, which is about 3 per cent of the sale price.

**Mr WAKEFIELD** — I do not think that is acceptable. The government has set aside money out of the sale of Rural Finance to fund some regional rail upgrades. The noise out there at the moment is that they have allocated 220 million to that, even though they have offered up 416 million. So if they got 462 million, I think, for the sale of Rural Finance, what did they do with the rest of the money? It has to be found — and I think that with the sale of the port, some of those proceeds should go back into regional Victoria.

**Mr ONDARCHIE** — You talked about overpasses and bridges and everything on your journey up today from Melbourne. What the government are saying is that 97 per cent of the proceeds will be used in metropolitan Melbourne.

**Mr WAKEFIELD** — That is disgraceful.

**Mr ONDARCHIE** — Thank you.

**Ms TIERNEY** — Thank you for your contribution — a lot of it I have found not just informative but enjoyable, too. Clearly you have studied this area and lived it for a long time. Infrastructure Victoria was an election pledge from the Andrews government. I understand that there are a number of bodies like this in various other jurisdictions around the world, and the objective is to have a more analytical, transparent and planned way of bringing infrastructure online. I am assuming that you are quite supportive of something like that.

**Mr WAKEFIELD** — I am, but it needs to have regional representation, and it currently does not. They say the VFF is on there — the VFF is a grower organisation, it is not like a Ken Wakefield or a Murray Goulburn. You need to actually have regional representation on that, because at the moment it is pretty much city-centric. I am not 100 per cent sure who the board members are, but I am sure that there will be someone from Geelong, someone from Bendigo, someone from Ballarat and there will be people from Melbourne.

**Mr DRUM** — No, there is not.

**Mr WAKEFIELD** — There are none from any of those locations either? So it does not even go to the suburbs of Melbourne yet.

**Ms TIERNEY** — We can send you the composition of it. In terms of regional input, Infrastructure Victoria and the government generally being aware of the needs of regional Victoria, do you think there is a need for a review of the supply chain in terms of making sure that we have got the most efficient way of getting food and produce from the point of it being made to the port, and whether Infrastructure Victoria is probably in the best place to do that review?

**Mr WAKEFIELD** — I do not know who is on Infrastructure Australia, but I agree with the idea. We have the Asian century happening now, and it does not matter how much we grow, it will not be enough. We need to



operate in the top 2 per cent quartile of what we are selling. We need to be, and we already are, the cleanest, the greenest, the best, the freshest and the best flavoured produce in the world, but we need to ensure that all the people who are growing that produce are actually the beneficiaries of their good work, and currently that is not the case. Costs are too high, and Infrastructure Victoria should be looking at the supply chain outside Melbourne. They should be looking at it from a regional location going through the port, adding value to the whole of Victoria and Australia.

**Mr DRUM** — Ken, with the way it is currently set up for the lease to be entered into, the winning bidder is going to set capacity. The winning bidder will actually say, ‘I will pay you \$6 or \$7 billion for 7.5 million TEU capacity. Someone else might offer a little bit less for a little bit less capacity, someone might offer more but less capacity — but the winning bidder effectively sets capacity. There is such a huge debate at the moment about what capacity is. Victoria University gave evidence here that is right down at 5.3. The port of Melbourne and —

**Mr MULINO** — Everyone else says more.

**Mr DRUM** — the Department of Treasury effectively say yes, it is more — 7 or 8 million. So there is a huge variance, but effectively it is going to be set within the winning bid. Do you see that being manipulated in any way?

**Mr WAKEFIELD** — I do not know why it would be set like that. Why would you not say, ‘This is the bare minimum that you need to do, but show us plans for how we can extend the capacity of the port’? Why would you say it is going to be 7 million? I am trying to think of how to explain it. You have to encourage innovation, you cannot just sit on your laurels and say you are going to bid for 7 million. All of a sudden the mindset of the port owner is, ‘As long as I hit 7 million, I am right’. Is that what you are saying to me?

**Mr DRUM** — The various scenarios are all out there in the ether because, as you say today, the only real way to go to that type of capacity is to increase the quayside metreage, because the current quayside metreage seems to happen, even with world’s best practice, off-dock or on-dock. The current quayside metreage capacity seems to be set much lower. However, the increased quayside metreage may be from moving vehicles off Webb Dock, turning land that is going to be vacated by the market and all these other things that are not really — —

**Mr WAKEFIELD** — Part of the mix?

**Mr DRUM** — They are all out there in the ether, but all these things are going to be explained after the sale is done and dusted. We will then be told effectively how the winning bidder is going to explain how they are going to get to the capacity that they have now paid for. I suppose there is a huge incentive for the government to accept the highest capacity which is going to entice the highest bid, but the people who are using the port, like yourself, may look at these plans and say that they are absolutely farcical or that it is fanciful to think that you are going to be able to reach the capacities that the government has accepted. I am just wondering why we would not get the work done so that everybody knows what we are selling, everyone knows the strategy into the future, everyone knows what the future development plans to max out the capacity of the port of Melbourne could be and that is what we then turn around and sell, without any hidden potentials or hidden problems and that sort of thing. Anyway, all these things are out there in the ether and they will hopefully be revealed after the deal is done.

**Mr WAKEFIELD** — That is the way government works, is it? It does not matter which government of any persuasion, is that how it would happen? Obviously you want innovation and you want forward thinking. You do not want to be selling a widget and saying, ‘If you buy 2 widgets, I’ll sell them to you for 20 cents. If you buy 10 widgets, I’ll sell them to you for 5 cents each’. It is about port competition, growing the capacity of the port and being more efficient. What you are saying is that it has nothing to do with that. It is just like saying, ‘If you can reach this target and you pay the most money, you get it’.

**Mr DRUM** — I suppose it becomes a problem when you start thinking about the compensation clause, Ken. Effectively until that capacity is reached at the port of Melbourne, compensation will have to be paid if any government starts operating an additional port. You might have bought the port at an 8 million TEU capacity, you currently operate at 7.2 and it is slow and it is sluggish and it is log-jammed, and the government of the day decides that we need to get Hastings moving or we need to get Geelong moving or we need to get containers

through somewhere else. There is going to be a compensation clause that is going to see you, as the owner of the port of Melbourne, receive compensation up to the next 1 million TEU because you have got a capacity of 8 million.

**Mr WAKEFIELD** — If you have got a capacity of 8 million, or you have accepted that you will do 8 million, should you not show us how you are going to do 8 million, what it is going to cost to do 8 million?

**Mr DRUM** — Yes.

**Mr WAKEFIELD** — It has got to be feasible that you could reach that 8 million because no-one wants to pay compensation.

**Mr DRUM** — No.

**Mr ONDARCHIE** — Transparency.

**Mr MULINO** — That will be incentivised to increase.

**Mr ONDARCHIE** — There is a strange story being told here.

**Mr WAKEFIELD** — You have got to have a plan, like I spoke about — quayside extensions and on-dock rail. Surely someone that is going to be a private owner of the port has to explain how they are going to get to a level of containers — they cannot just pick a number out of the air and then get compensation because they cannot reach it? Am I wrong?

**Mr ONDARCHIE** — The government is saying, ‘Trust us’.

**Mr DRUM** — Again it is all going to be sorted out — it will all be sorted out.

**Mr ONDARCHIE** — Yes. ‘Just trust us’, they are saying.

**Mr WAKEFIELD** — ‘I’m a politician. I’m here to help’.

**The CHAIR** — Any further questions, Mr Drum?

**Mr DRUM** — No, that is fine. I just wanted to try to explain that, if you had to understand how the compensation clause is in fact going to work.

**The CHAIR** — Mr Wakefield, thank you very much for your appearance this afternoon and your insights into how your business is operating and its use of the port. That is very informative for the committee in our deliberations. We will have a draft transcript for you in the next couple of days for any corrections that you need to make.

**Mr WAKEFIELD** — Thank you very much for the opportunity.

**The CHAIR** — We appreciate your time this afternoon.

**Witness withdrew.**