C O R R E C T E D   T R A N S C R I P T

PORT OF MELBOURNE SELECT COMMITTEE

Inquiry into the proposed lease of the port of Melbourne

Melbourne — 14 October 2015

Members

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Mr Daniel Mulino — Deputy Chair
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Witnesses

Mr Maurice James, Managing Director, Qube Holdings, and
Mr Paul Digney, Managing Director, Qube Logistics.

The CHAIR — I declare open the Legislative Council Port of Melbourne Select Committee public hearing. This hearing is in relation to the inquiry into the proposed lease of the port of Melbourne. I ask that all mobile telephones now be switched off. I welcome Mr Maurice James, the Managing Director of Qube Holdings, and Mr Paul Digney, the Managing Director of Qube Logistics.

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 provide today is protected by parliamentary privilege; however, any comments made outside the hearing may not be so protected. All evidence is being recorded by Hansard, 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 until 9.45 a.m. for this hearing, so I invite you to make a brief opening statement of no more than 5 minutes if you wish, and the committee will then proceed to questions. Thank you for your time this morning.

Mr JAMES — Good morning, everybody. Thank you very much. At Qube we are fundamentally involved in moving freight in and out of the ports. We are a national logistics company, established seven years ago, currently probably the no 1 integrated logistics provider for moving freight in and out of our ports. We have experience around the country in some 29 ports. Just for the record, the majority of the Qube management and the team at Qube worked together in a prior life building the Patrick organisation, until that was taken over in 2006 by Toll. We re-formed in 2007 and acquired the P & O interest in logistics and started again. Just recently we have entered the ASX top 100, with a market cap in excess of $2 billion. I think we have a long record. Many of us spent a long time in the ports environment. Myself, I have been in and around the port of Melbourne for 35 years, having spent 15 years working in the port of Melbourne in my early days, the Port of Melbourne Corporation, and then moving to the private sector.

We are not against privatisation at all. Our fundamental concern is around the cost of moving freight through our ports and our logistics chain, and therefore our international competitiveness, particularly in regard to exports. We see day to day the cost of moving freight through our ports. You only have to see some of the evidence provided by shipping lines that talk about the cost of moving freight through Australian ports. It is some twice the cost of moving through New Zealand ports, for example. We fundamentally come from a position of trying to deliver efficient, low-cost supply chains in and out of our ports, and so our fundamental concern relates to the potential cost increases associated with the movement of freight through our ports, and the whole debate around Melbourne and Hastings and all of those issues that are under consideration by the committee. I think that is our fundamental issue. From that it drives down into issues around lease rents; about port capacity; about the cost and the balancing between policy frameworks around the port of Melbourne versus potentially Hastings in the future, and a recent commonwealth announcement around maybe more at Geelong; and the whole uncertainty around freight movements and the cost of freight and investment in this state from a logistics player. All those things come together in consideration for the issues that you are looking at.

We are a tenant. We have a substantial lease in the port of Melbourne, certainly not the size of the stevedoring leases. We are at what we call Victoria Dock, a large property there, where we have invested capital. We have a rail siding. We bring regional exports into the port for export. We have just recently completed a large warehouse for Woolworths' imports coming into the port. We are building scale around this site with imports in and exports out and facilitating that movement by rail and by road activity.

A fundamental issue of concern for Qube is around the lease and the potential impacts of lease rents going forward. But in a broader policy framework, I have been quoted for views around Hastings and Melbourne, and I am happy to just start there with my views. I think the port of Melbourne has significant spare capacity and can be developed to significantly increase the volume of throughput through the port of Melbourne. There is no doubt an alternative port, whether it be Hastings or anywhere else, has a huge capital investment required, by the state principally, and its geographically significant distance from Melbourne and the cost impact on logistics.

The Hastings debate for me is very much around larger, bigger ships delivering efficiencies for the shipping lines and the question of whether those efficiencies come back to the importer and exporter in terms of lower costs. Generally there is not a good relationship between bigger ships and lower costs for shippers. The relationship is really about competition between shipping lines that drives the freight rates down, and generally freight rates are the same in Sydney, Melbourne and Brisbane — national freight rates anyway. The question is who is paying for a Hastings — the state — and therefore the cost to the importer-exporter, versus a port with significant capacity in it today that has the ability to expand and can be more efficient in terms of logistics in and out. The debate is about efficiencies for a shipping line versus the logistics efficiencies of a centralised port in Melbourne.

Really the debate for me has a little bit been driven by shipping lines advocating, 'Bigger ships are coming, we need bigger ports' and asking the state to fund those billions of dollars — if you talk of $7 billion to $10 billion for Hastings, the state has to fund some of that investment or with commonwealth support. The analogy I draw is that in every other part of the transport chain, whether it is passenger freight — I am sure Metro would love to have longer trains on the network, but the reality is the stations are only a particularly length and they are not going to be lengthened — where rail operators can only have certain wheel loads on the rail infrastructure, or road transport which only has certain wheel load capacity, they are all constrained in some way. I do not think we've seen a serious analysis of the costs to deliver an alternative port for bigger ships versus the cost to the importers and exporters and the economic impact on the state of Victoria.

The CHAIR — Thank you, Mr James. Can I ask you: in respect of your own operation at the port of Melbourne — and you referred to Qube's lease — is that a long-term lease? Have you got a long-term tenure?

Mr DIGNEY — About 15 years is remaining on the lease.

The CHAIR — Does Qube have a view around an appropriate regulatory structure for rents? The committee has heard evidence for and against whether rent should be subject to regulation. Obviously that is something that affects your business directly. Is that something Qube has a view on?

Mr DIGNEY — I have. We have been experiencing privatisation at other ports as Qube. The fundamental frameworks around leases are very similar, but as time goes on and in the hands of private operators we feel that private owners are just trying to maximise profits. That is the obvious thing that you have probably read in a lot of the submissions that you have received. When we renew a lease we get to negotiate a new lease, but usually it is a one-way negotiation, and because you have invested so much money in the business and the property, you need to remain where you are situated because you have got so much capital invested on the site. You get to the situation where you feel that in every possible way within the legal terms of the lease that the owners of the Port will try and gouge the best valuation, and some of those things might be out of step with other property markets for the type of operation you operate. Or they may try and develop an extraordinary land value market, like the previous example with DP World just recently.

I think they should be regulated. I think there is a point now where that is best for the state, especially this state here, because exporters are always under pressure. Another charge of 100 bucks is another 5 bucks a tonne, and $100 on a container is $5 a tonne for them to export. The cost of living is not getting any cheaper here, and import costs will increase. I think we need to keep all costs in line with competing overseas markets and for us to have affordable living standard in Australia.

The other thing too is, if it becomes too expensive for us to operate. We go under a rock. We sort of go to a basic transport model, which is not in the best interests of the state, because we end up running inefficient supply chains. They may be okay for the next 10 years, but in 20 years time everyone is going to say, 'Why are we operating like this?' We are running trucks this way and they have got to go back that way. We then decide to operate where the cheapest piece of land is, for example we relocate out in the far west of Melbourne, but most of the freight needs to go back over to the east. We have all these complications if it becomes too expensive to be located at the gateway into our ports. I honestly believe that we are at a point now that you could establish a base rent, based on where the commercial agreed land values sit today, and then maybe there is some sort of capping mechanism that does not go out of step in regard to other cost increases, which could be by CPI indexing, instead of this situation where you get to this land valuation negotiation process, which may be heavily beneficial for the people who are in power of the negotiation process.

Mr JAMES — I think the difficulty in rents that we have is that we are working with the port industry to facilitate efficient trade. The traditional role of the port corporation was to facilitate trade for the economic wellbeing of the state. We have in part of our business been working very collaboratively with the port corporation in this state to deliver that, but what happens at rent review time is we become combative because of the monopoly landlord situation it does not matter whether it is state-owned or whether it is privately owned they want to extract the highest possible rents. We end up in a process that on the surface sounds very nice — if you cannot agree on the rent, you go to an independent assessor and the independent assessor evaluates the rent. The problem is no-one really can define what market rent is in a port. No-one knows really what market rent is in a port.

I have been through processes where valuers say, 'No, it is the South Melbourne industrial rents that should be applied to the port'. The reality is a port tenant has a lease with a specific purpose — if you take it to the extreme of a stevedore, which we are not, they cannot operate anywhere else but beside the water. So what is that market valuation here in Melbourne? You end up with valuers making judgements. As a tenant, we are the entity that ends up copping what an individual valuer determines. I can assure you, over the times that I have been through this, valuers all have different views. It is a lottery as to what you might end up out of a dispute mechanism on rent. For that reason, we feel very strongly about having a mechanism in there that assures that rents do not go out of kilter. That is the driver for the view around some form of regulation.

The CHAIR — The government announced two weeks ago that it would require a negotiate and arbitrate mechanism for rents. Does that give you comfort, as opposed to an actual regulation of rents that you outlined earlier?

Mr DIGNEY — I personally have not had the chance to study that in detail. What does that mean? That is the uncertainty in this whole process. If that process solves the concern that we have, then I can live with it, but I am not sure it does in terms of negotiate and arbitrate, because who is arbitrating? I do not come from a policy framework — neither of us does; we are operators. What we see is that there needs to be a mechanism somehow that gives the government the ability to step in. There needs to be a mechanism through the ESC to constantly review rents to ensure they are not out of kilter and that gives the government the ability to step in. Maybe it is rolled into that process of negotiate and arbitrate as well, but there needs to be a mechanism to ensure that we do not get out of kilter and rents do not go up excessively.

Mr MULINO — I just wanted to go back to one of your earlier comments around port capacity and whether you think there is significant additional capacity. Is that view based in part upon the work that led to the 2006 and 2009 reports by the port?

Mr JAMES — I cannot recall those specific reports but I managed the Patrick container terminal business for 12 years nationally, including the port of Melbourne, and managed the investment into Patrick's terminal in particular to a straddle operation from 1994 through till 1996 so I have a very good understanding of capacity of container terminals and no-one can really give you a specific figure around container terminal capacity.

As technology is advancing, that number is constantly changing, so you can look around the world and look at international benchmarks that will tell you it is so much per metre of quay line, or you can look at it and say that it is based on area constraints so it is so much per hectare, but I certainly know that our container terminals here in Melbourne are what I would call medium density-type stacking terminals; they are not high-density stacking terminals. There is certainly scope at Swanson Dock to introduce high-density stacking, which is what is proposed to go into Webb Dock, and increase the capacity of the port significantly.

Whether it is 7 million or 8 million TEUs, people will give you different views. In my history, no-one has ever been right in hindsight when you look back and it is the same issue with trade forecasts. Lots of people around the country and economists have spent a lot of time on trade forecasts but never ever got it right. The two factors in that are really: what is the capacity and what is the time frame over which trade will grow and Melbourne will reach potential capacity?

Mr MULINO — But you are broadly comfortable with the kinds of numbers, the band that the port suggests, which is about 7 million to 8 million?

Mr JAMES — Yes.

Mr MULINO — Again, this is something you alluded to. In light of that, it is likely that the incremental costs over the next 10, 20, possibly 30 years of the increasing capacity of the brownfield site of the port of Melbourne is going to be lower cost for the supply chain than building a greenfield site.

Mr JAMES — Without a doubt. The numbers that have been talked about for Hastings are $7 billion to $10 billion and an increase in road infrastructure and rail infrastructure. There are certainly rail connection issues into Hastings in terms of how we get freight back into regional Victoria and the efficiencies around that. But there is so much infrastructure already in the port of Melbourne that the incremental cost to increase that has to be significantly less than a new port.

Mr MULINO — On that very complicated question of where a second port should go, are you supportive of that going to Infrastructure Victoria for a thorough look at?

Mr JAMES — I am supportive of that going to Infrastructure Victoria. I have been on record as saying that I never believed that Hastings would be ready in the time frame that was proposed previously, around 10 to 15 years, because there is significant capacity in the port of Melbourne and the port of Melbourne logistics will be more efficient by working in and out of the port of Melbourne. For what that time frame is you will get different forecasts on trade growth; you will get different forecasts on capacity at that point.

I suppose the point that I would make to the committee is that I am not sure whether consideration has been given to actually leasing the port of Hastings with the port of Melbourne. For the committee, one of the discussion topics is obviously around potential compensation to a purchaser of the port of Melbourne. If you take the helicopter position and say, ‘Why is it separate?’, Hastings has been a political football for the 35 years I have been in this port. It sat in the traditional ports and harbours; it went into the port of Melbourne; it went back out of the port of Melbourne; it went back into the port of Melbourne and it went out again. It has been a yo-yo going in and out. I am not hearing that the port of Hastings is about competition with the port of Melbourne, in fact I am hearing that Hastings is about progressive take-up when the port of Melbourne reaches capacity.

The competition argument in the industry has traditionally been around competition between stevedores, not necessarily competition between ports, but I will put that one up as a thought or a view that I have. Maybe there is an easier mechanism — to lease the two together and the bidders perhaps be asked to put a value on the port of Hastings. They are not going to want to put a high value on it because the returns will go down. They put a value on it and then at some point in the future, if the government decides it does need Hastings for whatever reason and decides to invest, there is a benchmark for discussions with the private operator around the state investing in Hastings versus the value that has been put on that acquisition.

Mr MULINO — Just one final very quick question. Just to clarify a point that you raised earlier in discussing rents — it is an issue that has been raised by a number of witnesses — by the sounds of it, you think it is an improvement on what was originally proposed if there is a periodic review of the degree of market power by the government, with the potential for step in, should there be — —

Mr DIGNEY — That is certainly better than where we were.

Mr BARBER — Just in terms of these extra operating efficiencies, do you think it makes any difference whether the port is owned by the state of Victoria or a bunch of superannuation funds in terms of driving those efficiencies?

Mr JAMES — With respect, it is quite clear. If I took a personal view, when privatisation started I had a view that ports are essentially monopoly assets in this country and they should stay with government. Having seen what has happened elsewhere, I no longer have that view. I think the biggest advantage of the ports being in private hands, with respect, is that it takes a lot of it out of the political processes that we are in and the political influences that happen through ports.

We have experienced a high degree of frustration around the port here. I am not taking sides, because there has been different governments over the last few years, so I am not taking a political position here at all. But the frustration at the bureaucracy around wanting to improve this port and deliver efficiencies is quite a contrast to what is actually happening in New South Wales now, where a private owner is really focused on improving the efficiency of their port — in cooperation with the government — improving the efficiency of the port and looking at how to attract trade. Melbourne is losing trade to Sydney. Melbourne is going to lose trade to Tasmania; there is international shipping going back into Tasmania. The private ports are far more responsive, proactive than they are in government ownership. That is the experience we have had.

Mr BARBER — So what are your checklists of efficiency measures that a private operator is going to want to grab?

Mr JAMES — There is a range of checklists. They are proactive in terms of encouraging trade. They are driven by volume. The reality is that if you look at the market share that Melbourne has had — Melbourne has been the no. 1 container port in Australia for many, many years and we boast and we are proud of it, but it has been losing market share. I am not saying that is necessarily as a result of private versus public ownerships, but we clearly see a difference in the approach of the private operator compared to the public.

Mr BARBER — I am literally asking you: if this port is sold, what changes am I going to expect to see down there that will boost efficiency from your operation's perspective?

Mr JAMES — I think a private operator will spend a lot of time looking at rail efficiencies that we are not even seeing in this port corporation. We have been a big advocate for years of rail in and out of the port. We are doing a lot of intermodal rail work in Sydney. We are handling 300 000 TEUs on metro intermodal in Sydney, and quite frankly we have given up in Victoria. We have exited the Somerton intermodal terminal on 30 June 2015 essentially because no-one in the Port of Melbourne Corporation is really focused on metropolitan intermodal rail. There has been no government drive for that. There has been a lot of talk around it and a lot of ideas, but the reality is nothing has happened. So we are very much focused on regional rail into the port, which we can run through Victoria Dock, but we have just formed the view that there is no political will — there has not been — for metro intermodal rail, which is happening in Sydney. The majority of that has come from a lack of drive, we believe, from the Port of Melbourne Corporation.

Mr BARBER — And just in terms of rail operations, so you are already dealing with a number of regulated monopolies. I think if you run a train from the Maryvale siding to Melbourne, you probably have to deal with V/Line, Metro and VicTrack.

Mr JAMES — Frustrations.

Mr BARBER — But again, this is the sort of regulated monopoly entity with the ESC oversight and the pricing principles and all that kind of stuff, so how come that has not delivered the efficiencies that we would all hope for?

Mr DIGNEY — Because there is not one body sitting over it.

Mr BARBER — So a bit of good old-fashioned central planning and drive might be the answer, rather than letting the invisible hand of the market kind of sort it out.

Mr JAMES — I think we are a victim of history in our rail networks, unfortunately. We have this same issue around the country where to run a train from a specific location to a port you might need to go through three different access providers, three different regimes, and that is part of why I do not believe that rail has played its part as it should have, particularly rail in and out of capital city ports, like Melbourne. The balancing act here with rail is that we constantly continue to argue that if it does not go on rail, it will go on road. We are always balancing our rail cost structures against our road cost structures and if it does not stack up on rail, we will put it on trucks. That is the simple decision that we make. With those regulators we are constantly in discussion around pricing and access issues.

Mr BARBER — Do you think it is right that that access regime requires a sort of full cost recovery of the so-called impacts that you have by running a train, whereas next door there is a road there that is subsidised by taxpayers?

Mr JAMES — I think that is the frustration of the rail industry and has been for a long time — that investment in rail is generally done on a user-pays principle, yet investment in roads has been on a broader economic evaluation and an economic analysis. That is part of the failure, we believe, and why rail has not succeeded. It is looked at differently.

Mr DIGNEY — Going back to your first question about whether a private port becomes more proactive, time will tell, I think. We think that a private port operate would be able to engage quicker and make decisions quicker. But if you are talking about getting to over 5 million TEU through the place, things will need to happen and change. If someone has invested in the port, spent a lot of money to buy the 50-year lease or 70-year lease, whatever, you have to make sure that come 20 years' time, the Port is not at gridlock. So that gives us a bit of hope that with some of the frustrations we have been through in the past, that with a new private owner putting a lot of cash into this investment, they are going to have to listen to us a bit more about inland hubs concepts and other ideas that are going to move freight more efficiently through the Port gateway. Maurice was making a comment about, 'Yes, the quay line can do it and the wharfside can do it, but then can we get it out?'. Do we end up coming to a gridlock, or does the whole place just shut down? Does Melbourne become where Sydney was? Having better proactive discussions are the sort of things we would hope a private operator can do for us, you know what I mean? However on the other side of the conversation, we are concerned that a private owner will have a key strategy to price gouge rents etc at any opportunistic time they can.

The CHAIR — We will have to move to Mr Purcell. Sorry, Mr James, did you want to make a quick comment?

Mr JAMES — One of the things I learned in an MBA course many years ago was that managing in the public sector is actually more difficult than managing in the private sector. You have multiple masters and multiple objectives in the public sector, and you do not in the private sector.

Mr ONDARCHIE — Absolutely.

Mr JAMES — That is really what is happening in New South Wales today with the port, where they are saying, 'We want more volume'. It is not just about price there — 'We want more volume. They are out there encouraging efficient movement of volume. We want that volume through the port'. You do not have that drive here in Melbourne, you do not have it in government ownership and you did not have it in New South Wales under government ownership either.

Mr BARBER — But under this arrangement there will be a volume ceiling after which you just start collecting a cheque with the cap on TEU.

The CHAIR — Mr Barber, we will have to move to Mr Purcell.

Mr PURCELL — I appreciate your input because your 25 years of experience or more is certainly very valuable in these discussions, and it is always good to have that. Having both worked in private and been involved in the government sector as well, each has its complexities because you do need to do things in the best interests of your community. That is why governments do get involved in some of these. It is interesting, though, in some of your comments in regard to costs and New Zealand being 50 per cent of the cost of the port of Melbourne, I think you said. Why and how can they do that? Is it subsidised or what is the reason or how do they do that?

Mr DIGNEY — It is competition.

Mr JAMES — It is competition between ports in New Zealand. It is access charges. I am not an expert on those numbers, but the shipping lines are constantly quoting that and if you want to pursue that, Maersk, the biggest shipping line in the world, has been very public around its costs to enter port. It is a combination of all charges that the shipping line faces, so it is navigational charges, channel charges, the cost of the freight, the wharfage charges, your port corporations. It is a combination of all those that make up the numbers, and they have been public and released stats on it. I think their labour reform, their labour operations, in New Zealand are significantly different, so it goes right through the chain.

Mr PURCELL — So it is a combination of a lot of things, including the competition aspect of it. You would have seen that container throughput increasing significantly over the time you have been there. There are 2.4 million TEU at the moment, and we are talking about three times that. What will actually be in those containers?

Mr JAMES — Container volume growth, in our view, is driven essentially by consumer demand. Import containers drive the volume through your ports, and if you look at statistics, Melbourne traditionally used to be very balanced between its import volumes and its export volumes, but as manufacturing has moved offshore — and that is why you are seeing less domestic freight: The manufacturing industry has moved out of the manufacturing hub of Australia here in Victoria to China and Asia and other places and that volume now comes through our ports. That is why we have seen for quite some time now two, two and a half times GDP as being the volume growth through our ports, because consumer demand drives those volumes. It is everything from clothing to everything you use that is coming into Australia in containers.

What has happened as volume growth has grown is that Melbourne has moved into more of an imbalance, where there are empty containers going back out because we do not have the manufacturing base or the agri-product to fill those empty containers. Sydney is in a worse position, where half its exports, roughly, are empties. For us the volume growth through our ports in our view — the rate of growth — is going to decline. Manufacturing has essentially moved offshore. There are little bits of it, but there are not going to be huge steps. The other factor in container volume growth is that most cargoes that were traditionally what we call break bulk cargoes — so big paper reels, timber, steel — have also been containerised. What was going to be containerised is containerised, and so we see future trade growth coming back to GDP, one, one and a half times GDP, essentially driven by consumer demand for imports.

Mr PURCELL — Just so that I can understand that, you believe the growth in the container will be 1.5 per cent to 2.5 per cent — that sort of figure?

Mr JAMES — No; 2.5 to 4, in that range.

Mr ONDARCHIE — Maurice, Paul, I want to talk about the rents. There has been some suggestion by the government at the last minute that there could be another view about how they treat rent reviews, but there is a lack of certainty around that right now. Given this is a potential 70-year monopoly — —

Ms SHING — It is a 50-year lease.

Mr ONDARCHIE — So 50 plus 20, a 70-year monopoly, and given that in a volume-based business like yours the margins are no doubt getting skinnier and skinnier with the rise of costs, what certainty do you have around this last-minute approach by the Treasurer that, 'Oh, we'll make it better'? It seems to me there are three options here. One is: 'We'll do periodical reviews', whatever that means, or it is: 'Trust us, it'll be okay'. What certainty do you have that going forward this is going to be an amicable arrangement for you?

Mr DIGNEY — Not a great deal, to be honest.

Mr JAMES — I think the answer to your question is that we do not have certainty; we are uncertain about it. We look at it and say, 'The policymakers will determine that', and that is why you are going through this process. As an operator, what we are doing is raising our concerns. We believe they need to be addressed. We do not have the certainty yet. We also have not had the certainty in the structure that exists today either, so our end option is that at the point of expiry of the lease we move out of the port of Melbourne and we do not operate in it if the rents become too high.

That is why I am saying that no-one really knows what the market rents are for the type of operation that we run. We are not a stevedore as such, but competitors in parts of our sector of the market have just gone out west for cheaper land. So the debate for us will always be the cost of the land versus the cost of being out of the port and the extra transport cost to handle it. That just puts more trucks on the road, and that defeats the purpose.

Mr ONDARCHIE — Agreed. Would you like to see more certainty in this legislation before it goes through a round of rents? Are you asking it to be regulated?

Mr JAMES — We would like to see some form of more certainty around rents.

Mr ONDARCHIE — Because the government will say to you, 'Would you agree that it is better than how it used to be?'. Cars are better than how they used to be too, but it does not give you any certainty. So would you like to see it regulated?

Ms SHING — It is not regulated anywhere else in Australia.

Mr ONDARCHIE — Sorry; I did not realise you were a witness, Ms Shing. Would you like to see it regulated?

Mr JAMES — Neither of us are regulator experts, so I think the devil is in the detail in terms of what that would look like. I think what we are saying is that we would like to see a mechanism, whatever that is, to ensure that the private operator cannot jack up rents above reasonable levels, and in our view that could be set today. We have tried to encourage the port in previous years in our leases, which they will not always agree with, to set a establish of guidelines or a set of principles under which rents are determined.

Mr ONDARCHIE — Like a CPI minus X formula or something?

Mr JAMES — It might be CPI, but also, if there is a review to market, what are the guiding principles that you instruct the valuer to take into account in doing that valuation and not be just an open-slather industrial valuation.

Mr ONDARCHIE — You do not know what they are right now.

Mr DIGNEY — In private hands it is a bit more uncertain, I think, because in state hands we rather have better commercial discussions about the best interests of the state and that sort of stuff, not just here but in other states. I personally feel there is a bit more uncertainty with a private operator. That is why I think there needs to be some sort of mechanism to make sure that we know what the future costs look like, because we are investing in the port as much as the new operators are. We are a part of this journey for the benefit of the state, but for us to have so much uncertainty on our costs, and for the new owners of the port, the only real uncertainty is the size of the financial upside that they can extract from this transaction. I kind of feel that there needs to be a better balance there.

Mr ONDARCHIE — You are exposed; there is no doubt.

Mr DIGNEY — We are exposed, but the person who owns the port, once they have done that — unless they have paid too much; that is their issue — it is in front of them, you know?

Mr ONDARCHIE — Coming to your point about rail and intermodal rail, I note that you have withdrawn out of the AQIS-approved Austrak site. Would you like to see some firm commitment to rail? The government will say that they are asking for proposals in the bid to do rail. They are just proposals; it does not mean it is actually going to happen. The other thing they will say is, ‘We’re going to engage Infrastructure Victoria to give us some guidance on what is going to happen’. That is no guarantee it is going to happen. The other option, of course, is the government saying, ‘Just trust us. It will be fine’. Given your business could do with a lot more support in intermodal rail, would you like to see some firm commitment to creating intermodal rail before this goes ahead?

Mr JAMES — My personal view is that I do not think it is linked to this privatisation. I think it is linked to commercial discussions around how that can be delivered efficiently by the operators in the port.

Mr ONDARCHIE — Yes, but they are going to spend some of that money on rail crossings, though, Maurice.

Mr JAMES — I will finish my point. The point I have said to both governments, and I am not playing politics here, is that unless any new rail intermodal terminal, the $58 million that people are talking about, is available and is built with an interface into the stevedore’s operations and the trains are loaded at the same cost as what the stevedores load road then it will not deliver a modal shift to rail.

In Brisbane the port authority pays for a road transfer. No-one has ever suggested that that should be done here, but if the solution is to spend your $58 million, build an intermodal terminal at the head of Swanson Dock and the industry has to pay for a truck transfer from the terminals to that rail terminal, metro shuttle will not work in Melbourne. So what I have said to both governments is, ‘Unless you can deliver onto the train at the same cost as trucks at the stevedore terminal’ don’t spend the $58 million - that is our view.

The CHAIR — Mr James, Mr Digney, thank you for your time this morning and your evidence on behalf of Qube. The committee appreciates your attendance, and we will have a draft transcript to you in the next couple of days for any corrections.

Witnesses withdrew.