CORRECTED VERSION

PORT OF MELBOURNE SELECT COMMITTEE

Inquiry into the proposed lease of the port of Melbourne

Melbourne — 13 October 2015

Members

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Witness

Mr Zoran Kostadinoski, Regional Manager, Victoria, Tasmania and South Australia, Customs Brokers and Forwarders Council of Australia.

The CHAIR — We will reopen the Legislative Council port of Melbourne select committee hearing into the proposed port of Melbourne lease. I welcome Mr Zoran Kostadinoski, Regional Manager of Victoria, Tasmania and South Australia for the Customs Brokers and Forwarders Council of Australia Inc.

The committee does not require the witness 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 at this hearing is protected by parliamentary privilege under the Constitution Act 1975 and further subject to the provisions of the Legislative Council standing orders. Any comments made outside the precinct of the hearing may not be so protected. All evidence is being recorded, and you will be provided with a proof version of the transcript in the next couple of days for any corrections.

The committee has allocated 45 minutes for this hearing, so I would invite you to make a brief opening statement of no more 5 minutes if you wish, and the committee will then proceed to questions. We thank you for your written submission.

Mr KOSTADINOSKI — Thank you very much. Thanks for the opportunity. My name is Zoran Kostadinoski. I am with the Customs Brokers and Forwarders Council of Australia Inc.. We are a member association representing international freight forwarders and licensed customs brokers. It traces its origin back to 1904. If you look at the history, we have represented members nationally for over 111 years. There is a lot of history about the association.

As you know, trade is very important. Australia is an island, so freight forwarders emerged back in the 1960s when customers, like Australian Paper, were looking for service providers that would give them end-to-end solutions. It is about supply chain solution movement of goods. That is what it is all about. I know we are talking about just the port here, but it is all about the trade movement, and the port plays just one part in the supply chain and how efficient goods are moving. I will leave you with that message: we cannot lose focus that the port is only one part of the supply chain. The supply chain is end to end, and it is something that we will talk more through this presentation.

Just to give you an idea, we have over 240 business members, some of which are big brands — we are talking about DHL Global Forwarding, DB Schenker, Kuehne + Nagel. A lot of these freight forwarding businesses and brokerages have changed over the time and they provide end-to-end supply chain solutions. They control over 70 per cent of the international container freight as consignees on the ocean bill of loading for carriage of goods, so when you talk about importers, you consider freight forwarders — 70 per cent of the cargo is consigned to the freight forwarder who is liable by the shipping line to carry the goods. As part of the contract of carriage freight forwarder's responsibilities and liabilities.

We have 43 affiliate business members — I am talking about trade consultants, lawyers, software developers, there are depots — anyone involved in trade. There are 1500 individual members, mainly made up of licensed customs brokers who facilitate customs clearance and barrier clearance. We have 500 students at CBFCA, a small RTO looking after the diploma of customs broking and the diploma of international freight forwarding. We believe the only way to help our members is through training and professional development.

It is becoming more and more complex to move freight. Importers and exporters — and I used to be one — predominantly worry about price and they forget about all the complexity. They expect you to be everything, so a lot of our members are under significant pressure to ensure there are supply chains, there are partnerships, there are costs involved, so education and awareness is very important from a customs brokers and forwarders perspective. The whole role is to assist the facilitation of trade movement through the port — in and out, export/import, supply chain management and consulting. That is the main role, that is where we sit, that is what our members do. I will be talking later on and able to answer some questions related to that.

The CHAIR — Thank you, Mr Kostadinoski. Your submission on behalf of the council concludes by stating in summary that the council opposes the proposed lease of the port of Melbourne in its current form, and you raised the issue of certainty for your members that the lease provides value for money and also that the proceeds are invested to:

> … improve the port and landside logistics network and not held in consolidated revenue to fund non-related projects.

Can you outline what certainty your members require for you, for the council to support the proposed lease, and given the government has flagged that the majority of the proceeds of the lease will be spent on 50 level crossings, grade separations, across Melbourne, whether you are satisfied that meets your requirements in terms of reinvestment of the proceeds?

Mr KOSTADINOSKI — When we look at the whole of supply chain we see our focus, not only in the port but outside the port. When you look at the traffic, 80 per cent of the import containerised traffic moves less than 20 kilometres around the metropolitan area, into Laverton North, Altona, Somerton and Dandenong. When you say about the certainty, you are developing the port capacity with Webb Dock, which has no rail connection, and we heard Australian Paper talk about rail going to the port. There you go! The extra capacity already has limited rail. You talk about one stevedore in DP World on rail, but no one talks about the provision of a share in Patrick. There is competition within the port there. There is a lack of that connection. There is no certainty that there is rail investment to develop intermodal hubs, or you call them inland ports.

That is one of the biggest uncertainties, and I support a lot of the guys who talk about rail — we have not. We talked about it and the previous government talked about rail. We have not allowed smooth movement of containers. When I was meeting with DP World they said, 'We sit on a very expensive piece of real estate'. I said, 'Yes, what is that mean?' and they said, 'We sit there. We move boxes. We want to get them out as quick as possible. We are not here to make storage or we're not a holding yard'. If you are not a holding yard, no matter whether you lease it with your own needs, we need certainty that there is a process and, as you touched on earlier, there is an operation set in place that would allow the movement so when we are sleeping, the network is utilised.

We do not believe there is a rail network connection from the port to landside closer to the customer base that will give you certainty of service, instead at the moment, there are so many different rail providers but no port rail service. There is no regulation in the process; the costs are higher. There is nothing uniform about that rail movement. We spend millions of dollars on separating Footscray Road with the bridge. It is not utilised. That is one of the biggest certainties in relation to lack of rail.

The CHAIR — And your other threshold issue around support was the reinvestment of the proceeds. Does the investment of those proceeds in grade separations meet the council's view as to appropriate reinvestment?

Mr KOSTADINOSKI — We are concerned that we have seen before that money goes into consolidated revenue. Our port licence fee went into part of the port charges. You have got all of these other costs that went in there, and we said, 'Look that is the proper model to collect port charges'. You said, 'All right, better that way than through transport and other things. It is already regulated. It is controlled'.

But in a new environment with the new owners, there is no certainty that that money will be invested in rail to the port— when you talk about investment in rail crossing — I was analysing it last month when this came up — much of the containerised traffic and tarped trucks that move around are not really affected by the rail crossings. It is the general public and the commuters that are affected by that. Not many rail crossings in the west — in Laverton, in the north. Where the industrial hubs of these companies where we have invested are, there are not many rail crossings. A priority to remove rail crossing for freight is not my priority.

I have always said freight does not vote. If freight was voting, the whole priorities would have been switched around, but it is people who are voting. If freight was voting, I can tell you, you would not be doing rail crossing. You would be expanding the freeways and other things. There is no certainty that that money will be spent in rail connection, expansion, capacity of the port, development of hubs and improving and widening roads around the distribution centres. Our members are spending millions of dollars for warehousing distribution on a single lane around Laverton — anywhere. Somerton is the same; Dandenong is the same. You look at the DHL warehouse. How many trucks and unpacking are on one road? There is not even a light!

When we talk about certainty of where money is spent, it is not about the freight. Rail crossing is not freight. We are not certain, in any of those submissions or all the documents, that there is really a thought process into where the money is going.

Mr MULINO — Thanks for your submission and your evidence. I wanted to touch on a couple of issues. Firstly, you have mentioned in your submission that if the port of Melbourne lease goes ahead, it should be subject to economic regulation to avoid vertical integration and monopoly pricing. I want to touch on those two things. Have you had a chance to review the government's submission and the draft pricing order that are on the web?

Mr KOSTADINOSKI — I had a general look, yes.

Mr MULINO — What is your view of the fact that what is being proposed is an economic regulatory regime that goes from price monitoring to a 15-year CPI cap and then a building block approach?

Mr KOSTADINOSKI — As an association I do not have an issue with the prices. I do not have an issue with a CPI pricing model, because we are used to a regulated environment, as I said earlier, under the port tariffs that are set. We lobbied hard for certain things, port charges, and I am not questioning costs because as a service provider we will pass on the costs down to the supply chain, because these costs are regulated costs. It is not a problem for a freight forwarding business to pass on the cost down the chain, and ultimately our kids will pay more — and future generations.

Mr MULINO — So you support the building block approach?

Mr KOSTADINOSKI — I support a CPI build model but we would like to see certainty. If we talk about rent, someone comes in and they could increase rent. Rent is not regulated. Port charges I assume will be regulated. Currently they are monitored by the ACCC.

Mr MULINO — So it is a strengthened regime on charges.

Mr KOSTADINOSKI — Correct. That has to be expanded — a whole-of-port pricing — and you heard other people. I am sure they talked about it. They are worried about a private investor trying to increase — even the port. What they were doing is trying to increase their rent of course to make it more appealing for sales. This is what the perception of the industry is. That is the concern.

Mr MULINO — And on the rents, are you aware that recently the government announced that after discussions with the ACCC it has agreed to periodic reviews by the economic regulator for the state on rents?

Mr KOSTADINOSKI — I do. Definitely, I do.

Mr MULINO — So it sounds like you are broadly supportive of the economic regime.

Mr ONDARCHIE — Hang on. Do not put words in the witness's mouth. Let him answer.

Mr MULINO — I am asking.

Mr KOSTADINOSKI — Rent is a commercial arrangement — When people were lobbying for DP World, I was thinking, 'Why are you? No-one is lobbying for my business'. Why are we lobbying for DP World? DP World and the port of Melbourne is a commercial arrangement. It is not up to an association to lobby others to jump on board; it is more about setting processes, setting the regulation of prices to ensure that they do not damage the Victorian economy, because one of the biggest issues, as you have seen in Brisbane and Sydney, is that with a bit of the privatisation, costs have gone up, rent has gone up. Movement on freight — we have not seen a great return on investments, so there is danger that Victoria will become very expensive for a lot of the importers and exporters to use the port.

Mr MULINO — But just firstly, on monopoly rents you are supporting the strengthening of the economic regulation regime?

Mr KOSTADINOSKI — Strengthening of regulation for pricing definitely. I am not going through the specifics of how and what, but also you have to include the whole of the port — rent and port charges — the same concept that applies now for stevedore monitoring.

Mr MULINO — And on vertical integration, do you support the fact that stevedores will not be able to bid for the port? Do you support that restriction which has been proposed?

Mr KOSTADINOSKI — Correct, because stevedores should not be running the port. They are experts at running the terminal operation and unloading ships.

Mr MULINO — Do you support the ACCC retaining all of its current regulatory oversight of vertical integration post-lease?

Mr KOSTADINOSKI — Definitely. In the absence of any other body? Yes, they are the best placed.

Mr MULINO — So you support that proposed regulatory arrangement?

Mr KOSTADINOSKI — Yes. Definitely.

Mr MULINO — And do you support the fact that rail investment proposals will have to be submitted by bidders and that they will be evaluated explicitly as part of the bid? Do you support that being the requirement?

Mr ONDARCHIE — Only in a general sense.

Mr KOSTADINOSKI — In a general sense, there has to be control. Yes.

Mr MULINO — And do you support a regime, both in legislation and the regulatory environment, that provides incentives for the new operator to invest in capacity appropriately going forward?

Mr KOSTADINOSKI — Providing the port becomes efficient for the movement of freight, we support any of that. We know that it costs money to build something efficient, seamless, to move cargo.

Mr MULINO — So would you agree with the proposition that it is a long-term investor asset and that it is appropriate for the state that, in order for supplies to the supply chain costs to be lowered, we need to see appropriate investments that are incentivised with that measure?

Mr KOSTADINOSKI — There has to be incentive for private investors. There has got to be a level playing field out there. We cannot afford to have a monopoly when it comes to building a supply chain. There has to be a level playing field for everyone if you want that investment.

Mr MULINO — Just one final question. I would be interested in any further comments you have if you have a further review of the pricing order in relation to monopoly issues and also any further review of enhancements of that that the government announced subject to and following on from discussions with the ACCC, given that it sounds like you support a strengthened regime. I would just be interested in whether you have views on the details of that once you have had a chance to review it.

Mr KOSTADINOSKI — Look, my involvement with ACCC has been more a negotiation on rates and part 10 of the consumer act, and all those other things, so without going into too much detail I will summarise again. Any regulation that covers cost, misuse of market power and all those kinds of things has to apply regardless of who owns the port. The same applies at the moment for the operators of the port, so why cannot the same thing operate for whoever has the port? People are concerned that, if you sell the port, costs will blow out for whatever reason — whether it be rent or any other thing. There is no investment body for the new port operator that they will invest money into that. So those regulations have to be put in place in any negotiation. I am not a negotiation expert, but all I want to make sure is — —

Mr MULINO — I am just giving you the opportunity that if your organisation wants to review the pricing order in more detail, because I think it does answer a lot of the concerns you are raising, there will be an opportunity, like for other witnesses, to provide — —

Mr ONDARCHIE — Not necessarily.

Mr KOSTADINOSKI — I understand. I have heard that and I have read some of the transcripts and I know that is something that you guys have been referring people to, but simplistically, as an operator, we do not care about the identified fine print on any of those regulations, we just want to make sure that there is regulation that covers all those. That is why I go back to the basics and answered your question that regulation is needed in this environment to ensure the investment and protection of the supply chain movement. Operational improvement is much, much needed today — not in 50 years' time. We are not performing at a level where we should be in comparison to global standards. You talk about lack of investment. People in submissions said they did not have the incentive to invest. These are not my critical comments, these are from people who are investing money. But we will go back and have a look and provide more detail.

Mr PURCELL — I appreciate your comments and it is certainly a different perspective. One question I have is: I think we are agreed that during the period of this lease the port will be full if the lease goes ahead. You are probably in as good a position as any to have an opinion on where you think the new port should be built. As to Hastings or Bay West, do you have an opinion on either of those?

Mr KOSTADINOSKI — Based on the investment made by our members, who control 80 per cent of the freight, and the location of their customers, when you take on containerised movement plus the deconsolidation and then tarp truck movement to the store, to the consumers either in the north, east and west, I honestly believe with current infrastructure that lives on the west, somewhere on the western side makes more logical sense in that it will cost less to develop. With the previous Hastings proposal, its stage 1 was going to cost billions. That is without rail. If you take the west and you take Laverton — we are talking about the majority of boxes being staged around that area and then redistributed to the north-west, and with the growth of the west; I show on the map in our submission - the problem is we have to get it to the east to the supermarket chain. I honestly believe that the western side is the most preferred option for a second container port.

Mr ONDARCHIE — Zoran, thanks for coming in today, and thanks for your presentation. I just want to touch on your views about regulation and on making sure that industry is protected. Mr Mulino talked about periodic reviews of the rent — whatever that means — —

Mr MULINO — It means periodic reviews.

Mr ONDARCHIE — We do not know what the detail of that is.

Ms SHING — You are a businessman. You know exactly what that means.

Mr ONDARCHIE — Under the 70-year monopoly that is proposed here; are you saying that to protect your industry — I know you will pass it down, but ultimately someone has got to pay for it — that the rent should be regulated?

Mr KOSTADINOSKI — Based on recent experiences — and that was the port of Melbourne, as the port manager — that could happen. So can you imagine a private ownership without any regulation? It is not up to me to say, but people do not have confidence that that can be managed. Based on the experience that we have seen with DP World and what we have seen in Brisbane and Sydney since the privatisations of ports, I believe there is not that much confidence in industry that without any regulation it can be controlled and managed.

Mr ONDARCHIE — In your submission you talked about some of the proceeds from the sale going back into the freight infrastructure or the supporting infrastructure that supports the freight industry. I know the government is bandying around 200 million as some sort of great contribution, but it is only about 3 per cent of the sale price anyway. When you talk about appropriate road and rail infrastructure, is something like the east–west link valuable to your industry?

Mr KOSTADINOSKI — Definitely. I think it is more important the west–east at present than east–west for the reasons that I mention.

Mr MULINO — That is what the analysis says.

Mr KOSTADINOSKI — Yes, if you look at where containers are going — —

Mr MULINO — Should not have gone east–west first.

Mr ONDARCHIE — You still paid a billion bucks not to do it, though. Strange, $1 billion not to do something.

Mr KOSTADINOSKI — When you also consider that, with Holden and all the automotives going, everything will be imported — when you take all the cars and pre-car inspections in the west and all those things — it is going to grow. The west–east is a more important connection. You need the east–west right through, but the west–east is more important to get to around the port area in the absence of any rail because there is no proper short rail. I strongly support a short-haul rail investment. I am not batting for them, but I know the Salta Properties have a good model. I will give you a reason why.

At the moment we use rail movement. Ships that do not call in Adelaide discharge in Melbourne and overnight they are on a rail and into Adelaide; so seamlessly you get this movement of containers outside of the port into the area where the customer is. There is no reason in the short term for government to take ownership of the rail development to Laverton, Somerton and Dandenong. What you do as a freight forwarder and a shipping line is sell your goods consigned to the hub. Port of discharge is Melbourne; final delivery is Dandenong. All the customers that are around Dandenong will be buying freight, with another $200 extra for the rail through to Dandenong. If I was an importer, I would buy through there. You could do the reverse — the same as if you were getting paper. You can buy ex works from wherever Australian Paper is through the port.

When I was an importer, I was buying ex-Chicago. To give you an idea, Chicago was closer to the US east coast ports, but rail was more efficient from Chicago to US west coast Long Beach than to Melbourne; so I was buying ex works. You explain to me how this model works in rail, but they have a network that allows them to. Port landside network in Melbourne does not work, and I think that this money has to be spent to develop a network that works. You look at the European model: multimodal, crossing countries, different customs regulations, and they do it well.

We are focused on the port, and until we open our focus and look at the network that works I think we will struggle, so investment has to be in developing a network. And people will use it: freight will use it, people driving cars will use it and the tarp trucks will. We are harping on containerised trucks, which only congest the road by 1 per cent congestion of containerised traffic. We are forgetting every Tom, Dick and Harry has a truck moving less than a pallet and congesting the roads every day. There are more of those domestic vehicle redistributions of freight to meet the demand, and you look at the growth of online — more vans out there delivering all sorts of things that we buy online these days. Without a network, none of that will work in 20 or 30 years time if nothing changes, if money is not invested in that network. Hopefully I have answered your question, but all of our investment has to go back to that network development of rail, road and west–east connection —

Mr ONDARCHIE — Yes, that makes sense.

Mr KOSTADINOSKI — closer to the customer, because at the end of the day what drives trade? Consumers. We are all driving trade. If we buy, they will bring it in. We do not manufacture a lot. We are not going to have manufacturing in the future. There will be more imports than exports, and we are predominantly a commodity exporter. I can only see trade grow, not go the other way.

Mr ONDARCHIE — Yes, that is fair enough. The government wants to use the proceeds of this sale, save for a tiny little bit they want to put back into the industry, to fund their level crossing removal program in the south-east of Melbourne. Would you like to see a firmer commitment to infrastructure for your networks that you have talked about before this bit of legislation proceeded?

Mr KOSTADINOSKI — Definitely. I would say we would like to see — now it is needed — an infrastructure investment into this rail model that is proposed to take trucks away from the port precinct, because if you take the traffic outside the port precinct, you remove the local resident issues about trucks around Footscray, Yarraville and all that every day. Also you increase capacity, because if you move the right containers — basically what DP World and Patrick will tell you is, 'We're not a staging yard here; our role is to move them out quickly' — you are moving 20, 30 or 40 per cent out without even impacting. The terminal has got space to then position, re-export and other. This is only one point. This is only one small point. We are all bidding for this one movement.

Everyone goes through the port, so if you are not going to expand it, and if you want to keep port of Melbourne without building a second, you need to invest right now into this network — to take the boxes now, before any lease. If you decide to do a second port, that is fine, however it is done. We support that as well, but by 20 or 30 years we might decide that port of Melbourne is no longer viable and we need a port, one port. Wherever it be, east or west, it has to be one port — bigger.

Mr ONDARCHIE — We have got to fix that first, as we say.

Mr KOSTADINOSKI — But you have to fix that now, because under this model we talk about the port — for 20, 30 or 50 years we have got to facilitate trade. If we do not, I can tell you — I was sitting next to the Nestlé logistics manager at a forum, and I said, 'How do you make decisions on using Melbourne or Sydney?'

He said, ‘We are keeping a very close eye on Sydney because they have an intermodal terminal. You might be better to use the port of Botany via the rail network to distribute Nestlé nationally’. We have a risk of losing our big importers and exporters from the port of Melbourne due to the lack of infrastructure.

Ms SHING — Thank you, Zoran, for the evidence that you have provided orally to the committee and also for the submission that has been provided on behalf of your organisation. I would like to ask you a number of questions following on from what has arisen in the course of the oral evidence that you have given today and the way that fits with your submission. Are you aware that we are mandating rail as part of the lease in terms of that being a factor for any successful bidder to consider?

Mr KOSTADINOSKI — I am aware. The detail is still unclear. Mandating rail there, yes, but on mandating rail the point I was making is if it goes into the port it has to have both options for both stevedores to operate. Mandating rail and having rail only for DP World to use is not appropriate.

Ms SHING — That was developed by DP World, though, as it was developed in Sydney.

Mr KOSTADINOSKI — Correct, because DP World currently have on-dock rail, but it has to be for both stevedore operators to utilise. A network of rail into the port has to be open for both.

Ms SHING — You are aware, then, based on previous evidence, if you have looked at transcripts, that operators are keen to minimise the costs associated with the last mile and that based on the information that has been put around the costs for lifting, that last lift, would involve necessarily a positive consideration of rail?

Mr KOSTADINOSKI — Yes.

Ms SHING — Have you read the Department of Treasury and Finance submission that was made to this particular inquiry?

Mr KOSTADINOSKI — I did, yesterday.

Ms SHING — So you would have seen the table at the back of that particular submission. It is basically a comparison document. It talks about the various elements of the transaction as they are proposed versus the status quo as it operates at the port of Melbourne, versus other jurisdictions nationally on everything from pricing to rent regulation.

Mr KOSTADINOSKI — Yes.

Ms SHING — Which in fact occurs at no other port in Australia. So I would like to get your views on how it is that you say this particular transaction does not provide the level of certainty or consistency to get value for money when in fact it has as part of its terms the most comprehensive economic regulatory framework of any other port?

Mr ONDARCHIE — On a point of order, Chair, the witness is entitled to their opinion. They do not need to be badgered or anything.

Ms SHING — I am not badgering. I am asking for further detail.

Mr KOSTADINOSKI — No, that is okay. It is a good question. We are experts in moving freight. We are experts in what is the need and what the customer wants. With all due respect, some of those submissions are written by some lawyers out there, to be quite honest, so when you try to read it from the everyday operator’s view, I wonder how many would quite understand certain things in the Treasury one. There are things that Treasury stated that we do not believe. They believe there should not be a second port, there is no need for other things, so it depends — —

Ms SHING — Where did they say that?

Mr KOSTADINOSKI — There was in one of them; they said — I can quote you exactly what it says:

> The government does not believe it is in the state’s interest to commit to any other port at this point.

Ms SHING — At this point.

Mr KOSTADINOSKI — Yes. As they believe ‘the timing should not be considered’, it says on there.

Ms SHING — So it is ‘at this point’, though; you will appreciate that?

Mr KOSTADINOSKI — It says it is the timing. I am saying the timing. What is the timing? We are talking about a 50-year lease. They are saying we should not consider port development in the 50 years of the lease. So you tell me who agrees with that. So I am not sure who wrote that. But I am not interested in their submission. If you want my views — you called me to talk about how it impacts on us. So when you guys make reference to these other bodies and submissions — Treasury, I do not know, first, where they fit into this whole thing. I do not know whether there is a biased government written submission by Treasury. To be honest I am not sure where they fit it, so I did not pay too much attention to —

Ms SHING — You do not pay too much attention to the government’s submission.

Mr KOSTADINOSKI — what they are trying to say because I am looking at it from an industry perspective. I do not have much confidence in what Treasury or others are stating.

Ms SHING — So if you do not have much confidence in that, and noting that in fact the second port is not excluded as such, have you read the 2006 and 2009 port of Melbourne and KPMG documents and reports on precisely the issues that are important to you and your members.

Mr KOSTADINOSKI — Can I ask you a question?

Ms SHING — Yes.

Mr KOSTADINOSKI — How is that relevant to what you are asking me, if I have read — —

Ms SHING — It is a question of capacity.

Mr KOSTADINOSKI — When I was asked to come in today I was not told to prepare by reading all of your submissions. My submission was made pretty early and very basic compared to something like Treasury’s; they have got a lot of resources.

Ms SHING — I can provide some clarification on that. In the third paragraph of page 2 of your submission you say:

> Based on forecasted future container growth port of Melbourne is expected to reach capacity by 2035 and government consideration must be given to develop a second container port for the state. If a 50-year lease is granted until 2065 the government must therefore consider the possible compensation for 30 years of growth?

Given that those issues are developed squarely within the 2006 and 2009 reports, have you read those documents?

Mr KOSTADINOSKI — Yes, I have read a lot of port of Melbourne — I work closely with port of Melbourne, and these statistics came from the department’s website; I did not make them up. These are about the growth and all those things.

Ms SHING — But specifically, though, the strategic development planning documents and the reports from 2006 and 2009, because that is the whole background to this particular transaction?

Mr KOSTADINOSKI — I do not think so, because I have read a lot of the Victorian transport plans, and they were thrown when the other government came in. We spent time developing other transport plans, being on the supply chain.

Ms SHING — No, but my question is pretty simple. You have not read them.

Mr KOSTADINOSKI — I have not. Look, I have not read some of those documents. The reason why I did not read them was that: one, I was not asked to read all of them; and two, I do not have the time to be reading — we have got to run a business — a hundred pages of three, four or five. I read the key ones. I read the ACCC. I read some of the industry ones, the farmers federation one; I read the VTA transport one — the guys that as an industry we are talking about — and a few importers and exporters so I can get a general understanding of whether their view is the same as the service provider, as the customer. So if that does not explain it, if you ask me about any other submission, I really do not care what the submissions state, because it is important what we are asked to put in there.

Ms SHING — And that includes the government's submission, then?

Mr KOSTADINOSKI — I read some of the government's. I said some of them are high level, very in-depth, very dry reports, very legal junk — sorry, but they are very high-level submissions. To get an understanding of everything that the government is putting in their long submissions, for an industry, it is very complicated.

Ms SHING — A final question, then: you have raised a number of concerns in the course of your submission. What is your view about the way in which the bill has addressed those concerns?

Mr KOSTADINOSKI — Say that again — I was distracted.

Ms SHING — That is all right. You have raised a number of opinions in the course of your submission, which you are absolutely entitled to, so I am not trying to quibble with you on that. It is the role of this committee, and I hope you appreciate, that we actually need to tease out the detail to understand what presenters to this committee view as being key concerns. That is part of what this process is all about. In relation to the detail of your submission, where are the key areas you would like to see change in the bill, if at all?

Mr KOSTADINOSKI — The area, as we said, is a bit more around the regulation from an industry perspective, so we can understand, not the legal junk. Do we know if rent — port charges — is going to be regulated the way it is currently under the port tariff rates? We work closely with the port of Melbourne. There is no discussion of port licence fees, dredging fees — all these costs industry is paying, we are paying at the moment and will be paying for a long time. They have surprisingly disappeared from any discussion. There are fees there that were put in there. They were going to be put into port infrastructure, back to the port development. We have yet to see any of that. A lot of the fees that went in there are just fixing around the port area so it can make it more appealing for sale.

Ms SHING — Which port do you think gets it right, then?

Mr KOSTADINOSKI — Antwerp, Rotterdam, Singapore.

Mr BARBER — Publicly owned.

Mr KOSTADINOSKI — Yes. Let us learn from some of those ports — multimodal movement of freight. It is all about movement and growth, and that is what it goes back to, because there are fees in there that industry has paid for many years and that we are still paying.

Ms SHING — So that is not as a result of the lease, then?

Mr KOSTADINOSKI — No, not a result — but even now. If we do not have confidence that the fees that are collected now — the port licence fee, the dredging fee and all those things that we are paying — how can we be certain that there is going to be some investment out of someone we do not know? If we do not trust the port of Melbourne, who I work closely with, how can we trust someone else that may take the lease? That is my point.

Mr DRUM — Thank you for coming in. You have stated categorically that stevedores definitely should not be allowed to be the lessee of the port. You agree with that; you said it earlier, yes?

Mr KOSTADINOSKI — Definitely.

Mr DRUM — What about the concept of the lessee of the port becoming a stevedore, which is not forbidden in the lease arrangement?

Mr KOSTADINOSKI — Providing there is regulation, as we talked about earlier — that that is controlled. It is all about control and protection to make sure that there is no monopoly, because if you said — now people are worried about Toll. If every time Toll bids for anything, people say, 'Whoa, one big major player monopoly' and all that kind of stuff — as long as there is no monopoly I am not against Patrick or someone or whoever has the money and investment to put in there, providing they are playing by the rules, the rules and the regulations are set and they will invest for the interest of the Victorian economy, consumers and all of us. Then I do not have a problem. We do not have a problem.

Mr DRUM — So how does it differ if you have a third party that becomes a lessee of the port and they become a stevedore, versus if you have one of the existing stevedores becoming the lessee of the port? What is the difference?

Mr KOSTADINOSKI — The difference is — from an industry perspective, we do not care who owns it. We do not care who lifts the containers; we care that there is a consistent approach to fees, charges and operational movement. It should not be like today if you have a problem with DP World or Patrick. It should be a gateway that moves boxes. I know we are not a transhipment hub, but if you were to be like Singapore, where everything is transhipped, then you start to appreciate how a stevedore should operate. We should be a transit hub. Think of Melbourne as a transit hub for every other port, for regional Victoria with rail, for Adelaide — for anywhere as we grow. In Geelong, that area is booming and growing. Freight has to go that way. It depends how you see it. If it is a gateway, we do not care how it is, but at the moment there is monopoly there, there are issues with one and issues with the other. I am not here to talk about the stevedores.

Mr DRUM — Sure. That is fine. This lease is on the verge of going through, and there are all these unknowns that out there. We do not know what the capacity of the winning bid is likely to be put at, so we do not know what capacity is actually going to be taken as gospel. We do not know how the money is going to be spent to improve the logistical throughput. We do not know where the second port is likely to go. Just on capacity, because there is such a great discrepancy in what some people say and what others say, would you like to see that sorted out before we actually go to sale so we know what we are selling?

Mr KOSTADINOSKI — Yes. Capacity and volume growth, none of us will know, because it is consumer driven. We can only forecast based on what experts are saying. The port of Melbourne has capacity of 7 to 8 million. That is a fact.

Mr DRUM — That is your view, yes?

Mr KOSTADINOSKI — That is what they say, that that is what the capacity is.

Mr DRUM — We have heard other evidence which says that the port capacity is limited by the quayside metreage, irrespective. So if you put world's best practice in behind the quayside metreage, it is still limited by how much quayside metreage you have. Victoria University came, and they had some people on this who had extensive experience in the industry.

Mr KOSTADINOSKI — Physically the port cannot grow any more.

Mr DRUM — The quayside metreage cannot grow; behind it can always get improved.

Mr KOSTADINOSKI — Correct. You will not be able to reach 8 million and over just by physical land. I have seen the port of Melbourne presentation. You cannot expand the port any more. So the question is: can you create capacity? That is why I said earlier that it is best to create capacity by moving boxes quickly from there through a mode of rail closer to the customer base. That is what I believe is most economic, efficient and environmentally friendly. It takes trucks off the road, and you are not taking business away from carriers because they will be doing short haul and have better planning. They are already whingeing about getting into stevedoring and timeslots in a monopoly, so maybe a lot of that will disappear. If capacity can be gained by those initiatives, then you may not even need a second container port in the next 50 years. I am not expert enough to say that we can gain 30 per cent capacity at a stevedore holding yard space without the need to develop a second port. Maybe it is the case; maybe an expert can prove that, providing we take 30 per cent away from that movement overnight. Utilisation of the network — I use the word 'network' — when it is off peak is critical. We have a great network, but everyone wants to use it between 7.00 a.m. and 9.00 a.m. and then in the afternoon. That is the problem, and importers, and exporters particularly, will only take their cargo delivery between 8.00 a.m. and 5.00 p.m.

Mr DRUM — I suppose the issue is that so many of these issues are unresolved, and we are going to the market effectively saying, ‘You tell us what you’re going to do to it and you tell us what you’re going to pay for it’. There seems to be a very strong appetite for the highest price: let us fatten this pig and let us skin the cat the best way we can. Would you like to see some of these unknowns investigated and arrived at so that we actually know what we are selling?

Mr KOSTADINOSKI — Definitely. I am not 100 per cent clear, to be honest, yet. Fifty years is a long time to be making decisions now.

Mr DRUM — Plus a potential 20.

Mr KOSTADINOSKI — A potential 20 — to be able to say, ‘Yes, we will grow, or volumes will grow’. We do not know. We might hit a recession, and it might go the other way. But based on a general prediction of growth, population growth and all those other things — the demand, Australia being an island, a lack of manufacturing — you would think that by 2035, capacity at the port will be — —

Mr DRUM — Reached.

Mr KOSTADINOSKI — Whether you take a second port or you look at capacity improvement within the port, taking into account all those environmental issues that I said and the pressure around Williamstown and Yarraville and all that — nobody knows what the impact of automotive imports will be. You do not know the volume and the pressure on the bridge once you take automotive cars coming in at Webb Dock — pre-car inspections to then get them to Australian standards and then distribute them to the east, west, north, everywhere, on car carriers — what impact on traffic and movement that alone will have. You cannot move those on rail unless you have a specific car rail carrier. And we are only talking about containerised. There are some significant volume issues and movement of freight that are not even considered here. I just do not think the port itself can cope the way it has been heading with Webb Dock and the port itself in the past 20 or 30 years with volumes.

Mr DRUM — We have heard that the bigger ships that are getting under the bridge are clearing it by about 4 metres. Do you think the trend is just going to keep increasing, or do you think it is going to settle down where it is at the moment?

Mr KOSTADINOSKI — Talking to Shipping Australia and the experts, they say that there is no chance that ships above 8000 TEU will be coming to Australia. We seem to traditionally get the recycled ships, and they keep the massive mega ships for the USA and Europe trade. A lot of them so far have said they would like to get as much as possible, but you would not see more than 8000 TEU. When you talk about height and draught, I cannot see ships bigger than that coming in.

Mr DRUM — That is good. Thanks for your help.

Mr MULINO — I have one question. To clarify something in the submission, where you say that capacity is going to be reached by 2035, that is basically your taking the port of Melbourne’s broad capacity number of about 8 million and then you are basically using the 6 per cent growth line?

Mr KOSTADINOSKI — Yes.

Mr MULINO — So you are broadly comfortable with the 8 million?

Mr KOSTADINOSKI — Based on industry discussions with shipping lines and the port of Melbourne presentation, our association got all of that together based on growth from forecasting and volume. That is our view.

Mr MULINO — I was just clarifying the assumptions underlying that.

Mr KOSTADINOSKI — That is not to say it could be totally out of whack. This is only a crystal ball thing.

The CHAIR — Mr Kostadinoski, thank you for your evidence this afternoon and your witness submission on behalf of the council. The committee appreciates your attendance today, and a draft of the transcript will be sent to you in the next couple of days for any corrections.

Mr KOSTADINOSKI — Thank you very much.

Witness withdrew.