

# CORRECTED VERSION

## PORT OF MELBOURNE SELECT COMMITTEE

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

Melbourne — 30 September 2015

#### Members

Mr Gordon Rich-Phillips — Chair

Mr Daniel Mulino — Deputy Chair

Mr Greg Barber

Mr Damian Drum

Mr Craig Ondarchie

Mr James Purcell

Ms Harriet Shing

Ms Gayle Tierney

#### Staff

Secretary: Mr Keir Delaney

Research officer: Mr Anthony Walsh

#### Witnesses

Mr Paul Zalai, Director, and

Mr Peter Hodder, Victorian Representative, Freight & Trade Alliance.

**The CHAIR** — I welcome Mr Paul Zalai, director, and Mr Peter Hodder, Victorian representative, from the Freight & Trade Alliance.

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 law; however, any comments made outside the precincts 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. I invite you to make a brief opening statement of up to 5 minutes, and the committee will then proceed to questions. Thank you.

**Mr ZALAI** — Thank you, and thank you for the opportunity to present today. Just a bit of background about Freight & Trade Alliance. It was formed three years ago, on 26 September 2012. The main focus of the advocacy group is to support the international trade sector, particularly on border-related issues and also landside logistics issues. Since that time we have grown to be representative of 210 businesses, primarily freight forwarding companies and customs brokerages but also increasingly a large number of importers. Some major importers have come on board, the likes of Myer, Woolworths, Toshiba, Pacific Brands and the like, primarily on the back of a lot of customs reforms that are currently taking place. I am the director and founder of Freight & Trade Alliance. Peter Hodder, my colleague here, is our Victorian representative. Peter also has a day job, running his own logistics business.

Just in relation to some of our core focus, it has been quite a good time to be doing advocacy. We are actually in an era where the federal government agencies are looking to do some significant reforms. We have the Department of Immigration and Border Protection now running with the trusted trader program to facilitate legitimate trade where they have got demonstrated compliance history and secure supply chains. Similarly, the department of agriculture as well has an approved arrangement framework. So after many, many years where we had rigid processes, we are now getting some more innovative and flexible solutions facilitating activities at the border.

Similarly, I suppose, we are getting a better environment at the port interface as well. We have experienced in Brisbane and Sydney with the introduction of competition — with Hutchison up there — we are definitely getting a much better opportunity for improved processes with the stevedore operations. Having said that, I think we still have a fair way to go.

The reason for that background is to just sort of highlight that with our membership the issues we are hearing on a day-to-day basis are not so much they are customs issues, or quarantine issues — they know how to deal with that. The bigger issues are the logistics issues — the difficulty of getting cargo off the wharf.

In relation to the port privatisation, we understand that it will go ahead. Both sides of Parliament down here are supportive of it, and we see some benefits from it as well. Without trying to be offensive, we have seen quite a revolving door of port ministers in different states. I think to have a bit of longevity in management of the port is probably a good thing, but I think we do need some boundaries to that as well. We need some safeguards. You have a control of a major asset here now for 70 years. And the monopoly provisions as well: it will remove the opportunity for intrastate port competition as well, something that was taken away from New South Wales with the sale there of Port Kembla and Port Botany as the one package, and taking away the opportunity for containerised trade at Newcastle basically gave the monopoly environment there. Potentially, from what we can see here, Victoria will probably be in a same situation where you will lose that opportunity for any intra-port competition.

But I think there are some opportunities with the changes as well, with some smart regulation. I mentioned what is happening now at a federal level, which seems good. But what we are experiencing here, like I said, is the difficulty of getting cargo off the wharf. We are finding now increasingly that industry is having to stage container movements as well. Stevedores are operating 24 hours a day. Traditionally most importers want to take delivery during normal business hours Monday to Friday, so the logistics industry is the one left coming up with the solutions, and with that we are getting containers being staged. At the moment here in Victoria they are being staged by road, so they are being taken out from the wharf, staged at holding yards and then secondary

deliveries the next day. If that is already an operational reality, we think a more efficient way of staging container movements would be by rail. I think that is probably where Victoria is now starting to fall behind New South Wales.

New South Wales going back a few years ago was a bit of a basket case, but it has had some significant improvements through regulation there in the Port Botany Landside Improvement Strategy, which put two-way regulations on both the stevedore operations and the logistics industry, and also the increased focus on rail. It still has some way to go, it is not perfect yet, but there is a lot of work being done in that space with the likes of locations like Moorebank, Villawood and Minto in the south-west providing great opportunities and allowing for that stage movement process to take place. That is basically a bit of an overview as an introduction.

**The CHAIR** — Thank you very much for your opening statement. I note that you have circulated a submission.

**Mr ZALAI** — Yes.

**The CHAIR** — To be clear, the committee has not received this before?

**Mr ZALAI** — You have just received it.

**The CHAIR** — There are a couple of points I would like to refer to from your submission and your opening statement. The first in fact is your reference to the Port Botany Landside Improvement Strategy assessing the performance of the port, assessing the performance of stevedores and setting KPIs.

**Mr ZALAI** — Yes.

**The CHAIR** — Are you of the view that a similar structure or oversight is required for the post-privatised port of Melbourne, or is desirable?

**Mr ZALAI** — I think some type of solution is required. Ideally you would not have government intervention in this space — we would have a voluntary arrangement — but realistically I do not know we if are going to achieve that. If you have a look at the carrier arrangements between stevedores and transport operators, it is very much a one-way focus on that. There are penalties on transport operators if they do not meet their timeslot arrivals. If they do not meet certain disciplines, they receive penalties, which is probably fair enough, but that is not replicated back to the stevedore. If the stevedore does not turn around trucks within prescribed time frames, there is no penalty on the operator, and it is not uncommon to see trucks queueing to get into the terminal. One of the issues we have got is that even when the stevedores do publicise truck turnaround times, they are talking about turnaround times from their gate to job finish, whereas a more realistic measure is going to be from when a truck actually starts at a queue to when it leaves the terminal gate.

So again our experience in Botany was that it was not ideally wanted, and to be honest PBLIS has also had some other unintended consequences which are not ideal. Those issues are being worked through there. But essentially we have removed truck queues from Botany because of these two-way disciplines, and Port Botany is now seen as a container detention-free waiting time. Transport operators charge up to probably about \$100 per hour for truck waiting times.

**Mr HODDER** — It is 120.

**Mr ZALAI** — About 120.

**Mr HODDER** — We will not quibble over \$20, Paul.

**Ms SHING** — That is 20 per cent.

**Mr ZALAI** — But that is just not charged in New South Wales ports anymore, because if there is a delay at the wharf, the stevedore will be compensating the transport operator directly. Again we make reference to a paper that has been developed by the container transport alliance where it has gone through a lot of these issues in more detail, and it is properly worth looking at. They are benchmarking the PBLIS reforms as probably something that the industry nationally should be working towards.

**The CHAIR** — Thank you, that is very useful. Can I ask you about your views on the regulation of rents? Your submission on page 3 states:

Regulation is required to oversee and administer any rental increase and to prevent costs being recovered via the VBS —

the vehicle booking system. Can you elaborate on your views as to why rents should be regulated? Obviously that is one of the areas of cost which is currently proposed to be excluded from regulation oversight by the ESC. Why do you see the regulation of rent as being critical?

**Mr ZALAI** — I think we recently had a scare with what was proposed for DP World by the Port of Melbourne Corporation. I think it was a 767 per cent increase, which I am sure this committee has heard a lot about recently. I am not sure the best way of managing that, but we do need some form of safeguard in place. Again, attached to the papers you have there is some correspondence we received from Mike Baird at the time as Treasurer of New South Wales and some of the safeguards that were introduced there. Fortunately to date we have not had to test those, but we are only 2 years in to a 99-year lease in New South Wales, so maybe down the track. But to date everything has been okay. Again, for your reference, that is just the approach that was introduced into New South Wales.

**Mr MULINO** — Thank you very much for your oral evidence and also for this submission. You are experts in logistics. One of the issues that has been raised on a number of occasions is the need for more rail investment over the medium to longer term. Do you support the fact that the transaction structure is such that rail options will be required from bidders and that will form part of the evaluation process?

**Mr HODDER** — One hundred per cent plus. I think the best example is maybe New South Wales where DP World has joined with Toll and they are going to have a rail system out to Moorebank. Correct me if I am wrong.

**Mr ZALAI** — To Villawood.

**Mr HODDER** — Villawood, sorry. That will commence I believe in 2017. Is that right?

**Mr ZALAI** — Yes.

**Mr HODDER** — So they are already ahead of us. I mean to say, if you look at, in my opinion, Europe, rail there is predominant. You know, they try to get trucks off the road, for safety purposes more than anything else. So rail is the way to go. I said to Paul at one point when he was preparing this that back in another era when I think John Cain was Premier of the state of Victoria the Labor government at that point built a one-gauge rail line along the south side of the waterfront. To the best of my knowledge it was supposed to cart containers out of the wharf down into holding areas. I do not know whether it was ever used. It might be still there and rusted over. But I mean to say, if you are going to do these things, you have got to think 20, 30 years out. I mean to say, if you are going to privatise the port, this rail scenario which Paul put down in this is paramount — one in together.

**Mr MULINO** — And you would be supportive of the DP World proposal to strengthen rail access into their part of the port?

**Ms SHING** — Or Docklands?

**Mr ZALAI** — Definitely. And again, just to give another example of the need for staging, I think rail provides a couple of opportunities as well. I think it is also going to help small logistics operators continue into the future. Otherwise you are going to have a reduction just down to a handful of very large transport operators in this state. For example, we also provide a secretariat role for AIMA — the Australian International Movers Association — so personal effects operators of the likes of OSS, Grace, Kent Removals and these companies. They all use their own container transport operations, but again they have got the situation where they have not got the size and the volume to manage their operations across 24 hours to get into stevedore operations. Again it would make just perfect sense for them if cargo can get unloaded, it can get railed out to intermodal sites and then they have got more flexibility then to collect freight. I can repeat those types of scenarios many times over with a lot of different niche sectors of the industry.

**Mr MULINO** — Given the logistical, economic and environmental complexities of where we place a second port, which everybody agrees will be needed at some point in the next few decades, do you support Infrastructure Victoria as an organisation with independent expertise looking at that issue in depth?

**Mr HODDER** — Yes, I think that would be a very, very good idea. Firstly, we need a second port, but then I will go off on a tangent and say the problem I see is that selling the port of Melbourne on a monopoly basis that there is not allowed to be another operator — and correct me if I am wrong in the way I see this — lessens competition, and therefore you are going to have a situation where there is no carrot and donkey attitude of being more efficient, looking at the way you run your business, and not looking at, ‘Oh, we want another price increase, another price increase’. That means the costs go up, and that means it flows right through down to the person in the street who is going to buy the article that has come in, or costs us more in exports going overseas, and we can ill afford either of those.

**Mr MULINO** — Just on that issue you have just raised about when a second port will be able to be built, in terms of the logistics costs that are imposed on our state, would you agree that it will make sense for the next couple of decades and possibly three decades for the port of Melbourne’s capacity to be increased, because it is going to be lower cost to increase that groundfield site rather than building a complete site from scratch?

**Mr HODDER** — I am not an economist, I am just a customs broker and a logistics provider, so you are asking me a question which is very difficult to answer. My gut feeling is that you have got a look at things long term. The problem with governments today, irrespective of what political persuasion they are, is that everyone gets through election night and then they automatically start planning for the next election. No-one thinks out 10 or 20 years. This is the situation. I think that comment is looking at more a bandaiding the port of Melbourne instead of saying, ‘Why don’t we look at that port area that has been suggested between Melbourne and Geelong?’. I believe it is deep water. You have got the Geelong Freeway and you have got Armstrong Creek down towards Jan Juc. You have got all these suburbs. At Armstrong Creek I think they are looking at 24 000 people moving down there. You are going to have a workforce there. You have got the road system. I know we have said rail, but you have also got the road system to Geelong, so it is ideal. I would not be looking at Hastings, but I would be looking — —

You have got Geelong, you have got this other port area and you have got Melbourne. If you do what you want to do and you bandaid the port of Melbourne, they are never, ever going to get around to taking the big crunch and developing a new port. It just will not happen.

**Mr MULINO** — If the approach was that any kind of regime in the lease was such that we provided incentives to increase the port of Melbourne to the point that its capacity increases were the cheapest for the state, but then allowed for a second port once that increase occurred — so that it tried to take a long-term view — if that was the case, would that be something you would find palatable in principle?

**Mr HODDER** — How do I put this? I think the comment made is ‘the emerald in the crown’ of Victoria is the port of Melbourne Authority. Why are you offering, like a Demtel ad, ‘We’ll give you this if you want to put in a bid for it, and we’ll give you this and we’ll give you this and we’ll give you this’. It should be stand-alone to sell it. If you are going to put any conditions on the sale, you get the buyer to spend a lot more of their money in developing the port and you also get the buyer maybe to chip in about the rail idea that we have got. Around the world there are quite a number of business people — companies — with billions to invest, and they are looking for somewhere to put the money.

**Mr MULINO** — But you want incentives on the new lessee to invest in the port?

**Mr ONDARCHIE** — The government might offer some steak knives at the end of it as well.

**Mr HODDER** — Steak knives, yes. I am not saying we are buying steak knives here, but — —

**Mr MULINO** — But you want the new lessee to invest in the port?

**Mr HODDER** — Yes, but to use their money, because it is their asset. If you buy a house and you do not do anything to the maintenance, the asset depreciates in value. You buy the port of Melbourne and you spend some money on it, over time it becomes a more valuable asset, both for the person that has got it and long term for the government. Ultimately we would assume, when we are all dead and buried, the government takes it back.

**Mr ZALAI** — Just to pick up on the question too, Deputy Chair, I think it does make sense to do whatever measures are in place to maximise the longevity of existing infrastructure and to get the most out of it. Ultimately if we do need to move to a second port, that is going to bring some other opportunities with the intra-port competition. But to maximise the best value out of the existing asset, it is going to probably require a combination of all the strategies that this committee has heard over the last period of time. Rail is not the magic solution alone, even if it is introduced with intermodals. With the projected growth in volumes and just say you get, I do not know, 10, 20, 30 per cent of your volume through rail, your road task is still going to increase with the projected volumes. Even if rail is a raging success your road task is going to be bigger than what it is today, and it has to improve on what it is today. Hence it comes back to the earlier comments about looking at some two-way disciplines at the port interface.

It is a pretty challenging time ahead for Victoria and for whoever the new leaseholder is, but I think it is going to need a concentrated focus on the landside issue to make the port work. When we talk about the landside as well, you need to go even more holistic than the intermodal ports. Then the next issue is you have got to look at even facilities like empty container parks as well. If empty container parks fill up, this port has got a major problem because our imports far exceed our exports, and empty containers get stored and then moved out. In the mix someone needs to be keeping an eye on these issues. What has been introduced again in New South Wales under the PBLIS, and I have referred to it in here, is a cargo movement coordinator-type position under Transport for NSW. It is still early days, but again the concept there is to manage the whole port operations. It is great to leave everything to commerce, and it normally sorts itself out, but jeez, you might want to keep a watching brief on it as well.

**Mr BARBER** — You mentioned interfaces a couple of times there. I presume you caught a little bit of the previous submitters, the Maribyrnong Truck Action Group.

**Mr ZALAI** — Yes.

**Mr BARBER** — In terms of problems at interfaces, how does that compare to other ports around Australia that you have referred to making some progress?

**Mr ZALAI** — Again probably the easiest for me is to compare it to New South Wales, to Port Botany. It is not perfect, but the improvement there I would say over the last six or seven years has been quite amazing. Successive governments there — initially the Labor government — introduced PBLIS and then New South Wales continued it. That went a long way to addressing the road problems. You talk about community issues — they were screaming. What I will do, Chair, is send you a copy of a video of what a truck queue really looks like at its worst. There were major problems. The interface there through regulation again is not something we normally want or desire, but it actually achieved an outcome.

We still have a long way to go on rail. The rail interface — we are sort of putting New South Wales as the benchmark — still has a long way to go as well. We had major problems, particularly around the last Christmas period, with volumes and a whole range of complexities there, but slowly those issues are getting sorted out. Again there is a lot of focus on the intermodal ports. From NSW Ports, the private port-holder there, it appears to us that they are generating the bulk of their revenue from the fee per container coming in and out of the port rather than bumping up leases and rent. They are looking at trying to generate volume to get their revenue. The way they are doing that is working closely with industry to develop rail solutions, and that is the only way, otherwise their terminals are going to get clogged up. They need the volume getting in and out extremely quickly.

Just yesterday when I was driving from Botany through Mascot, past the rail link there, while I was stuck at traffic lights I was watching container after container on the rail heading to the port and thinking, 'Doesn't this make sense?'. From our perspective, we have no agenda on this. We do not care if cargo moves by road or by rail, we are just looking at the most efficient solution. A small number of our members would have their own road transport operation, but the majority of them use third-party providers. They will use rail if it is more efficient, and they will use road if it is more efficient. Again our push here for rail just seems obvious on so many fronts, whether it is the community issues and the environmental issues through to just the necessity from a logistics perspective.

**Mr BARBER** — Do you think we would be better off doing what is proposed here, which is to sell someone a right to double or triple the size of the current port or receive compensation, or should we look to moving to a new port site as the way of solving that basket of issues?

**Mr ZALAI** — To move to a whole new port site?

**Mr BARBER** — To start the process of developing the new port sites rather than doubling or tripling this current port site.

**Mr ZALAI** — Peter, do you want to comment?

**Mr HODDER** — That was a Polly Farmer handpass, mate.

**Mr ZALAI** — I am happy to take it.

**Mr HODDER** — If you look at Port Melbourne where they have changed the law as far as redeveloping down there, and if you look at some of the problems that are associated with going up Williamstown Road currently, and if you can imagine you would double or triple that port and you have got no rail link to get the containers out or back to a dehire depot, you are going to face massive problems in trucking, not to mention upset residents — and I do not want to bring this up, but I will — who actually vote. They are not going to be happy Vegemites, I can tell you now. Again, and I answered the gentleman's question over there, I think you have just got to look long term and say, 'Look, you can develop the port of Melbourne so far, but we really have to look at 20 or 30 years and get something else', because you really do not know what is going to also be produced in this great state. We are going to have better exports.

**Mr BARBER** — That increment of growth now appears to be locked in, with governments given approval to develop that as a new container port. This bill and this proposal to sell it in this way is forcing us to look long term, which might be a good thing. What I am asking you is: do you think it is better that we look to more modest growth at the port of Melbourne with a plan to move it somewhere else or sign off on this deal now, which will give them the right to double or triple or receive compensation? What would you do?

**Mr HODDER** — You have said you are looking at modest growth. Is the growth not going to be decided by the private sector as to what is imported and exported? If we had a massive importation, or hopefully more exports, all of a sudden can we handle that as it is at the present moment?

**Mr BARBER** — That was not quite the question I was asking.

**Mr HODDER** — I know that, but I am trying to answer your question by asking a question, and you have got to — —

**Mr BARBER** — It will take a certain amount of time for the existing capacity, including that new addition, to fill up. What I am saying to you is, beyond that should we be looking at allowing a right to expand — to double or triple — or should we be looking to move more quickly to get that extra capacity off to a new port?

**Mr HODDER** — I would personally reckon you would put the extra capacity to a new port. That is my take.

**Mr ZALAI** — But I think just sort of adding to that again, it does make sense to maximise what you can out of your existing assets and infrastructure. I am sure that there has been some economic analysis and some science behind it to come to the answers that you are looking for, but just at a very practical level, I think whatever steps we can take to maximise the existing assets make sense before we launch into the next.

**Mr PURCELL** — Thank you, gentlemen, for the submission. Considering your membership base, which you say in the submission is 211 importers which cover 70 per cent, and I presume that is import and export, throughout Australia's east coast ports. I know we have been concentrating on — this is what the inquiry is — the port of Melbourne. Is it worthwhile having a look at a bigger picture of the Australian port structure and include into that some form of inland rail that connects the ports from Melbourne, Botany, Brisbane and using that as a bigger picture for the sake of Australia rather than the individual Victorian position?

**Mr ZALAI** — Yes. Even without talking about linking up the country through rail, just the issue that you asked now about looking at the logistics issue holistically, we suffered with that, to a degree, with the issuing of the third stevedore. Hutchison won the third stevedore up in Brisbane and won the bid to be the third stevedore in Sydney. Rightly or wrongly, they had it. There was an expectation, I think, that it was going to be a lay-down misère for them to win the third stevedore here in Melbourne. Again, they were unsuccessful. I am not sure what the actual reasons were; I think it probably came down to dollars and cents largely at the end of the day.

But the impact has been bad for the industry nationally. Without Hutchison being able to offer a complete east coast stevedoring service to shipping lines, shipping lines are not going near them. We have got some great infrastructure at Botany and Brisbane which is hardly being utilised. In Victoria you are probably thinking, ‘Who cares?’, but again looking from a national perspective, that is a prime example of where a holistic situation was not really considered. Once the Webb Dock is up and running and you have the party there doing business, I assume they will come to some type of commercial arrangement with Hutchison and they will be able to provide a service, but I just liken it to playing a game of *Monopoly* — unless you get all three properties, you cannot put hotels on there. That is basically what we face there through not having a national focus on some decisions. Going back to rail, yes, I think any opportunity that is going to link the vast country is going to be fantastic.

**Mr HODDER** — Also for defence purposes as well, and I would assume that if you are talking all of Australia, you are obviously looking at federal funding.

**Mr PURCELL** — Agreed. Just to pick up on one of the points you have put in the submission, not quite halfway down you say that one of the reasons you support the privatisation is the revolving door of ports ministers, each with different interests and strategies. This is a new one to me, and it is one that I certainly have not heard as being a concern previously. With the port of Melbourne authority, do the ports ministers really get involved with their different interests and strategies?

**Mr ZALAI** — I think they get dragged into it through — we heard the previous attendees here talking about the lack of action, I suppose, from the Port of Melbourne Corporation. Traditionally the different port corporations around the country — whether they have had the autonomy or not to make decisions I am not sure, but quite often it gets reflected back to a government level. Again, I suppose some of our concerns and frustrations was our experience again in New South Wales where the previous Labor government had a run of a few ports ministers and then we had a change of government. It definitely in that environment affected the momentum of reforms.

**Mr ONDARCHIE** — I want to explore a bit more the issue around the unregulated charges as a consequence of this lease of the port for a 70-year monopoly.

**Ms SHING** — It is a 50-year lease, Mr Ondarchie.

**Mr ONDARCHIE** — Chair, I am just quoting from the witnesses’ submission where they say it is a 70-year monopoly. Exporters, retailers, freight forwarders — their margins are getting skinnier. They are telling us that. We are adding the fuel on the waiting times, the repairs and maintenance — just skinnier and skinnier. So if somebody buys or gets this lease on a 70-year monopoly and the rents to the stevedores are unregulated, there is some possibility they will try to increase their shareholder value by increasing the rents to the stevedores. How is that going to flow to your customers, and what impact is there going to be on competitiveness and jobs?

**Mr ZALAI** — Okay. I will make a start on this. Peter, you can chip in; you like talking about the jobs impacts. We had the experience in Brisbane, with the privatisation there, where rents were increased — stevedores and empty container park operations who were using the facilities there. We were very disappointed with the response to it. We saw that they had two choices: either absorbing those charges or passing them on to their commercial client, being the shipping line. They did not take that option; they took quite an easy option and hit the transport operators. So every time a container has to get taken to the wharf or picked up from the wharf, you have to book a timeslot and there is a fee associated with that timeslot. The stevedores introduced an infrastructure charge to cover their rent increase and put it on the transport operators.

Again, our view is that it should have followed a commercial channel. Stevedores either absorb it or pass it onto the shipping line. If the shipping line felt as though they could not absorb it, then they have a commercial negotiation with companies like Peter’s to negotiate the freight rates and so on. There are opportunities to at



least negotiate rates. By imposing fees directly on the transport operators — they have no choice, they have to go to that location to pick up the container. They pay the fee. Their fee ends up getting cascaded through the supply chain. It gets passed on to the freight forwarder, who then passes it on to the customs broker — sorry, Peter — who then passes it on to the importer or exporter at an inflated fee.

I am not sure where regulation could come into this. We raised it with the ACCC at the time, and the ACCC said unless there is any evidence of collusion, there was not much they could do in that space. The stevedores, as they do, have slightly different fee structures in place; empty container parks, slightly different fee structures in place. But it is all the same model, and it is all cost recovering and profiteering to some degree through what we believe are inappropriate channels. Hence our reference to the factors. If there is some mechanism and some way that the leaseholder can then in turn have some control over their tenants and the way they are charging, that would be a great outcome for the industry and would reduce the ultimate cost down the end of the chain.

**Mr ONDARCHIE** — Peter, do you want to talk about the impact on jobs?

**Mr HODDER** — The problem, as Paul has alluded to, is you are running a business — and we are a small business — and the thing that you need is the margins, and they are being squeezed all the time absolutely in today's modern economy, so you are looking at any cost. The prime example is one of our clients came to us and said, 'Why are we having all these extra fees?'. It was the customs fees that had gone up. Normally they would not have even looked at it, but then all of a sudden we had to say, 'Well, this is what the government has hit us with, and I think they're going to do it again next year' or whenever it is.

You cannot hold these extra fees indefinitely; you have got to bite the bullet. The problem you have is if you are constantly increasing your fees, then your client base disappears and they go elsewhere. Then what happens is they then will go to the top end of town, the large international freight forwarders, and they will do the work of literally nothing because they will pick it up on the freight, and all the small — I will use the word 'family-owned' — enterprise freight forwarders come customs brokers will ultimately disappear. If small business is 80 per cent, supposedly, of all employment, you are just getting rid of all these people, and at a time we need to keep people employed. So it is vitally important that there is some sort of hold on how they go about increasing their fees.

**Mr ONDARCHIE** — Thanks, Peter.

**Mr HODDER** — I have said to Paul, just to finish, that you should maybe consider looking at the likes of PricewaterhouseCoopers or someone like this — that they have got to justify their increases. This is something that I think should be put into the system.

**Mr ONDARCHIE** — That is good, Peter. I think you are right: we need to feed this into the system somehow. With the legislation before us right now, I am just looking for some advice from you. There are a number of unanswered questions, and you have identified some of them today as well. It is a bit like ordering a pizza: every time you ask for something, 'Oh, we could add this or we could add that'. Who knows how this is going? Given there are so many unanswered questions around this legislation, is your advice that we: A, take the risk — just go with it and see how the government plays out, although they have a bit of a track record around things like desalination plants and the like —

**Ms SHING** — Wow! Get your editorial in there.

**Mr ONDARCHIE** — or would you rather us get this right before we make it legislation?

**Ms SHING** — Not that that is a loaded question at all.

**Mr ZALAI** — I think I will follow the loaded question. To me it seems inevitable that the asset is going to be leased. Both sides of Parliament have gone down that path. I will not even go into the issue of where the funds will go to, but obviously there is a need for the funds. I think it is inevitable that the lease will go ahead, but again to follow your loaded question — and I am following it — I think yes, we need to get the detail right.

**Mr ONDARCHIE** — Thank you.

**Mr HODDER** — Getting the detail right is obviously the perfect world, but where you have governments of all persuasions looking for money to fulfil the election promises, we know where it is all going to end up, and

then it will be our kids and our children's children who will be trying to fix up the problem that was created by us as we sit here today.

**Mr ONDARCHIE** — Yes, thank you.

**Ms SHING** — Thanks, gentlemen, for your submission and also for the oral evidence that you have given in response to questions from the committee today. Mr Ondarchie's questions in fact lead quite neatly to what I would like to ask you about, and that is the price oversight and the CPI cap. Have you seen the draft pricing order that has been published online?

**Mr ZALAI** — We have not gone through that with a fine toothcomb, but we are aware of that.

**Mr ONDARCHIE** — It does not include the rents, though.

**Mr MULINO** — You have had your chance.

**Mr ONDARCHIE** — But it does not include the rents.

**Ms SHING** — I would just invite you to provide any response to that once you have actually had a look at that, to the committee.

**Mr ONDARCHIE** — You cannot ask half a question.

**Ms SHING** — Also I would ask whether you have also seen the Department of Treasury and Finance submission, which is a document about 22 pages long. It goes through a comparison with quite a useful table, comparing the current status quo as it relates to the port of Melbourne and other jurisdictions, including Port Kembla and Botany, and to the proposed new arrangements around the regulation of 86 per cent of the prescribed services.

**Mr ONDARCHIE** — But not the rents.

**Ms SHING** — So have you seen that document at all?

**Mr ONDARCHIE** — The witnesses could ask — —

**Mr MULINO** — I think you have had your chance with questions, Mr Ondarchie.

**Mr ONDARCHIE** — Does it include the rents — yes or no?

**Mr ZALAI** — It is all right. No, we have not, but again, just picking up what we are aware of in relation to clause 91, and again as per our submission and as per Craig's comments here, as we put there, it is our understanding that the price regulation framework, including the 15-year CPI price cap, is not implemented under the bill; rather the bill provides that the government may make a pricing order in whatever manner it sees fit to regulate port prices.

**Ms SHING** — That is where, again, you might like to have a look at the pricing order itself that has been published online and to provide further comment to the committee on the detail of that. In relation to the rents — and to take up the rather enthusiastic interjection from Mr Ondarchie — the table in the DTF submission does confirm that rents are not regulated in fact in any jurisdiction at all. Is it therefore the case that you would welcome any sort of further oversight on the rents issue that might provide better transparency and certainty?

**Mr ZALAI** — I would say yes. What shape or form it looks like, I am not sure — —

**Mr ONDARCHIE** — Neither are we.

**Mr ZALAI** — I think otherwise the writing of a blank cheque, basically, is what we are concerned about. Even when we got the reassurances from the New South Wales government, we did not really know what that meant in real terms.

**Ms SHING** — That is what I was going to ask you about in terms of the difference that that makes in terms of comfort. You have talked about if there is some mechanism for the leaseholder to have control over prices, that that would provide you with a significant degree of comfort. In that sense, would a greater regulation and oversight as far as the economic regulatory framework that is provided in the bill, with perhaps additional involvement from the ACCC, give you that comfort?

**Mr ZALAI** — I think it would. What has really concerned us is we are not just paranoid about this issue of fee increase. The fee increase that we saw from the Port of Melbourne Corporation and the government was alarming, let alone what a third-party leaseholder might do.

**Ms SHING** — For clarity, which fee increase are you talking about?

**Mr ZALAI** — For DP World, for their rents.

**Ms SHING** — That was what was asked, not what was ultimately negotiated.

**Mr ZALAI** — No, but it took quite a fair bit of advocacy from just about every industry group and every lobby group that I could imagine before — —

It was not voluntarily reduced.

**Ms SHING** — But the parties reached agreement?

**Mr ZALAI** — Yes, eventually.

**Mr HODDER** — That was confidential, so no-one knows what it was.

**Ms SHING** — There is a negotiated outcome that has meant that in fact we are not looking at the 800 per cent rent increases.

**Mr ZALAI** — With all due respect, I would hate to go through that process every time we had an issue. There must be a better way. It took our organisation considerable time. It took a lot of organisations considerable time. Yes, there was a negotiated outcome at the end of the day, but I would say that is probably not the best way going forward.

**Ms SHING** — DP World has entered into another 50-year lease, which has also meant that it will provide on-dock rail to West Swanson Dock and take about 20 000 trucks off the road. As far as other witnesses' evidence has indicated, that shows the desire to be increasingly competitive through streamlining efficiencies. What is your view on that as far as ongoing investment into the port of Melbourne site is concerned?

**Mr ZALAI** — We tried to cover off on that. We are totally support of that initiative.

**Ms SHING** — Fantastic.

**Mr ZALAI** — With rail in general, whatever initiatives can be put in place — not just at DP World; at Patrick as well if it is possible. I know that is more difficult, if at all possible, out of Webb Dock, I do not know, but I think definitely out of Patrick and DP World it has got to be an initiative that is coordinated as a part of this whole process.

**Ms SHING** — Finally, you continue to work with the federal government. You have indicated that you deal fundamentally with the customs issues — you have got them nussed out. As far as AQIS and customs fees and the way in which they operate and change, I assume that you continue your advocacy efforts to manage fee increases on that level, and on all levels, as it relates to the margins that affect your businesses?

**Mr ZALAI** — That remains challenging. To look at that from a few different perspectives, ultimately the importer on those is paying those fees. The intermediary service providers, like Peter's organisation in that situation, are not affected as badly as some of these other fees, because it gets printed out on an official document with the duty, the GST and the government's import processing charges. It is all on an official receipt and document, and it is quite easily and transparently passed on to the importer. No charges from federal government apply on exports.

**Ms SHING** — So it sounds like transparency and oversight are of paramount importance to you across the board?

**Mr ZALAI** — They are, but I think where fees have been introduced through the supply chain — again, I am not sure what the mechanics are of doing it — somehow we have to steer it between the parties that have got contractual arrangements.

**Ms SHING** — Great. Thank you, gentlemen.

**Mr DRUM** — I, along with Peter's evidence, am concerned about the future, and this concept that, irrespective of what happens with the port — whether it be sold or remains in government hands — effectively in a period somewhere between 9 and 30-odd years we are going to max out the capacity. Then, under this compensation clause that is in the legislation we are going to be limited as to how we can progress the future. Do you have an understanding in your own mind how a second port or a brand-new port can be built and start operating to take the increased trade for this state? Once we get to nearing capacity or at capacity, can you understand how it can work under this current clause with a monopoly and a compensation?

**Mr HODDER** — I cannot accept that you are giving the people that take over this monopoly compensation if you set up another port. That is illogical to me. I am talking purely business. Why would you want to do that?

**Mr DRUM** — But I do not.

**Mr HODDER** — I think the reason you would want to do it — I am asking the question and answering it.

**Mr DRUM** — Yes, I get you.

**Mr HODDER** — The reason I reckon that they are doing it is simply to make sure they get a buyer.

**Mr DRUM** — To fatten the pig.

**Mr HODDER** — Yes. It is a commodity that is up there to be sold, it does not need that extra carrot. Does that make sense?

**Mr DRUM** — Yes. Everybody who has been part of this inquiry, everyone who has given evidence, is telling us that the port will reach capacity in a period in the future. This government is saying that we are going to leave that issue about the development of a second port for the future, so we are going to spend the proceeds of the port today, we will spend that on the rail crossings and it will be gone. Into the future, when we max out, whoever is the winning lessee will effectively have a guarantee that they are going to receive capacity number of millions of TEUs, and then there is going to need to be maybe another port built somewhere to effectively take the overflow. That is how we have tried to have it explained.

Experts in the industry have told us that once you build a second port — any city, anywhere in the world which maxes out their current capacity and builds a second port 10 kilometres further out the river — that the ships will only ever stop at one. They are not going to drop off there and then go in to make sure that the port of Melbourne maintains its capacity. How do you see the second port being built, and how do you see it operating if this monopoly and this compensation is given to the winning bidder that they maintain this capacity level of TEUs into the future, into this 50 plus 20?

**Mr ZALAI** — You may need to refer back to those experts who talked about how to actually do that.

**Mr DRUM** — They cannot answer this.

**Mr ZALAI** — What we can answer is: the key players in all this are the shipping lines and their commercial interests as well, and that comes back to what I was saying with the situation with Hutchison Ports. So ultimately they are going to be looking at — and I do not know if Shipping Australia have already responded to this question — but generally the shipping lines are looking at a national service provider. So, again, if they are using DP World in Brisbane and Sydney and then it comes around to Melbourne, and DP World happens to be operating out of that new terminal, then there is a very good chance that the shipping lines will steer their business that way.

I suppose in the mix of the consideration here is that it is not just another port operator, it is going to be the actual stevedoring operations within those ports. Are they going to have an interest to move away from where they are now or set up a second stevedore operation at the same port? There will be challenges. There is going to be challenges for the new provider here at Webb Dock, unless they can do some arrangements with Hutchison. If you start opening up another port and you bring in another stevedore again, they are going to face challenges to get business off shipping lines.

**Mr HODDER** — I think the answer to your question in some ways would be that if it starts to max out and the shipping companies cannot off-load containers here because they are getting upset from their clients — namely, the importers, exporters and freight forwarders — then the shipping lines are going to look at ‘What are we going to do?’. When they look around and they go, ‘There’s not much down at Adelaide. We’ll drop them all in Adelaide destined for Melbourne on a through bill of lading’ — discharge Adelaide, on forward Melbourne — and they will just drop them there and either rail them or road them back to Melbourne and that is the way it would work. You might suddenly find where Melbourne was starting to max out, all of a sudden business is dropping a bit.

The other scenario is that you have to keep Melbourne — or any other ports you open up — viable and enticing for the shipping lines to come in and do business with you, because they have options. The prime example I could give you — and which I have spoken to Paul a number of times about — is on the west coast of America, where there has been an ongoing longshoremen’s strike for months and months and months. The importers and exporters in the States — especially Walmart, which is the biggest in America — then transferred all their imports and exports into the east coast — —

**Mr DRUM** — What? They came across America?

**Mr HODDER** — No, they were getting imports loaded in China and discharged in — —

**Mr DRUM** — East coast?

**Mr HODDER** — On the east coast. Not the west coast because — —

**Mr DRUM** — So they had to bring their produce across — —

**Mr HODDER** — No, the ships would come around through the canal and discharge in New York. They would not discharge the containers in the west coast.

**Mr DRUM** — But how did the produce get back to LA?

**Mr HODDER** — How would it? By rail.

**Mr DRUM** — So they would rail it across America rather than use — —

**Mr HODDER** — It is quicker to do that than wait around for weeks and weeks and weeks to get containers. It was that bad; it was a total and utter disaster. It is only in the past couple of weeks that they have cleared out all the backlog that they had and in the states on the west coast now they are back to some sort of normality.

**Ms TIERNEY** — I was seeking confirmation of some of the things that have been said by both of you in relation to election cycles and decisions about infrastructure. The Infrastructure Victoria legislation has now gone through Parliament. I assume that you would be very supportive of that because it takes the guesswork out of a lot of things and it answers a lot of the hypothetical questions that Mr Drum in particular asks. In relation to the second port there is nothing that stops Infrastructure Victoria starting now to look at what a second port might look like and the timing of it. I am looking for your comments in terms of trying to take the politics out of infrastructure projects — as much as you can — and breaking the electoral cycle that drives infrastructure decisions at the moment.

**Mr ZALAI** — I think it is a good thing. We even see it at a federal level. Although we have federal governments coming and going and prime ministers coming and going, we have continuity with the agencies and they are able to keep steering in the right direction. So I think what you are talking about there is a positive initiative. Ultimately, whether our plans are flawed or spot-on or whatever, we need plans. If we can have a body that is established like that, I think it is a positive initiative.

**Mr HODDER** — It gives a lot of certainty to the private sector that they are not looking at who is going to be in power next. It is an ongoing situation, and that is what you need both here in the state of Victoria and obviously also federally because I do not think anything gets done otherwise. You just have to look long term, and this is the problem that we all seem to have. There is no long term

**Ms TIERNEY** — Regardless of who is in government, whether it be in Victoria or federally, hopefully it is a more sensible dialogue that Victoria and the federal government can have in terms of joint funding of mutually agreed projects.

**Mr HODDER** — Yes.

**The CHAIR** — Gentlemen, thank you very much for your evidence this morning on behalf of the Freight & Trade Alliance. We appreciate your submission and we will have a draft transcript to you in the next couple of days for any corrections.

**Witnesses withdrew.**