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

PORT OF MELBOURNE SELECT COMMITTEE

Inquiry into the proposed lease of the port of Melbourne

Shepparton — 29 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

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Secretary: Mr Keir Delaney
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Witnesses

Mr Johann Rajaratnam, Acting Chief Executive Officer, Greater Shepparton City Council;
Cr Bernard Gaffney, Mayor, Indigo Shire Council; and
Cr David Wortmann, Mayor, Towong Shire Council.

The CHAIR — I declare open this Legislative Council Port of Melbourne Select Committee public hearing. This hearing is in relation to the inquiry into the proposed lease of the port of Melbourne. I request that all mobile telephones now be switched off. I acknowledge local members of Parliament who are with us this morning: the Honourable Wendy Lovell, a member for Northern Victoria Region, and Ms Suzanna Sheed, the member for Shepparton.

I also welcome our witnesses this morning: from the City of Greater Shepparton, Mr Johann Rajaratnam, Acting Chief Executive Officer; from the Shire of Indigo, Cr Bernard Gaffney, Mayor; and from the Shire of Towong, Cr David Wortmann. The committee does not require witnesses to be sworn, but questions must be answered fully, accurately and truthfully. Witnesses found to be giving false or misleading evidence may be in contempt of Parliament and subject to penalty. All evidence taken at this hearing is protected by parliamentary privilege as provided by the Constitution Act 1975 and further subject to the provisions of the Legislative Council standing orders. Therefore the information you give today in the hearing is protected by law; however, any comments made outside the precincts of the hearing are not so protected. All evidence is being recorded, and you will be provided with a proof version of the transcript in the next couple of days for any corrections. The committee has allocated 1 hour for this session, so I would invite you to make an opening statement if you wish, and the committee will then proceed to questions. Thank you for your written submissions as well.

Mr RAJARATNAM — I am happy to start. I represent the City of Greater Shepparton. Council has some concerns about leasing and sale of the port, and that is mainly because exports are very important to this region, being an agricultural area. As such any increase in transport costs will have a direct impact on some of our farmers.

Exports are growing within Greater Shepparton, specifically in the food and fibre area, Greater Shepparton being the food bowl of Victoria. As a result producers' demand for access to the port is increasing; we have increasing use of the ports. Along with that international opportunities are also increasing for our operators within Shepparton, mainly into Asia — China being the obvious example. Producers require access to the port at a price that allows them to continue to be competitive. The entire world is attempting to tap into Asia, as you probably well know. As a result of that, Victoria needs to be able to capitalise on its positioning and its produce.

In council's view privatisation runs the risk of allowing for monopolisation, which can place pressure on users of the port. Should privatisation occur, measures must be put in place to regulate pricing to ensure that producers are not charged excessive rates to access the port. Certainly the Treasurer came through last week some time and allayed some of the fears associated with that. As I said, council understands that some controls have been put in place to do this, based on advice from the Treasurer when he came here last week. However, the overall concern remains as industry groups are pushing for cost competitiveness based on international access rates.

The concern other than the rising costs associated with the leasing or sale of the port is the allocation that has been set aside for regional Victoria. As council understands it, this amounts to only 4 per cent of the expected revenue of $5 billion to $6 billion. In light of the port's criticality for export markets and the contribution the regional economy makes to Victoria's overall economy, council believes this figure needs to be reconsidered. Council believes a greater contribution needs to be put to projects that will increase access to the port or efficiency of port operations from regional areas. Consideration must also be given to the expected growth opportunities that exist within the region. Should this be reconsidered, council considers that the following projects fit into this criteria. They include the inland rail proposal. Currently the line that has been adopted by the federal government proposes a food bowl route through Albury which has a likely freight volume of 225 tonnes, whereas council's analysis demonstrates that an inland route running straight through Shepparton could contain approximately 1.757 billion tonnes. So the cost competitiveness of using existing infrastructure versus a proposed inland route is quite significant. Inland rail will create greater efficiencies for those who are able to access the routes. Obviously going through what is some of Australia's most productive land will have benefits, given its proximity to the rail line.

Other projects that we have highlighted include the Shepparton alternate route, and I understand that some of the transport operators in the region will be talking in greater detail about how that might assist their operations. The final point we make is in relation to AQIS, the Australian Quarantine and Inspection Service. Council considers there is a real case to locate an AQIS facility within this region. Obviously Shepparton would be the preferred location. Infrastructure improvements to allow for high-productivity vehicles from here to the port could be put in place to, once again, increase efficiency from some of our most productive areas to the port of Melbourne. That is my opening statement.

The CHAIR — Thank you. Cr Wortmann and Cr Gaffney, would you like to speak?

Cr GAFFNEY — I am quite happy to go. I am the mayor of Indigo Shire Council. The lead exporter from the port of Melbourne is Murray Goulburn. They have a major industry in the Indigo shire to the east, employing well over 100 people. We have major dairy farms, some in excess of 450 cows. To our west we have major cropping of grain and of course our wine industry. One vineyard alone exported 50 containers from the port in 2014, and that is expected to double in 2015. The cost to maintain and repair the damage to our roads, bridges and culverts is borne by the ratepayers of Indigo shire. We have major investment from China, and that will increase our exports of wine through the port of Melbourne. If this port lease is sold for $6.5 billion, no funds are expected to flow to Indigo shire, and we find that very unfair.

Cr WORTMANN — I am the mayor of Towong shire. Towong shire is situated in the far north-east of Victoria. The economy of our municipality revolves around a rich agricultural sector primarily focused on dairy, beef, sheep and some cropping as well as timber production and processing. Approximately two-thirds of our businesses located in the shire are agricultural and forestry-based industries.

If the port lease does proceed to sale, we are concerned that costs to our businesses and processes must be contained. It is council's view that the majority of the sale proceeds should not be directed to metropolitan projects. It is the regional areas that bear an unequal cost burden for roads, bridges and bridge maintenance related to port usage, and this should be addressed more equitably with proceeds from the sale.

It is council's view that the allocation of funds to rural and regional areas should be closely based on the proportion of produce that is exported and imported through the port from rural and regional Victoria. With the free trade agreements we can only see the volumes and opportunities increasing for new industries in our shire and in regional and rural Victoria. In light of the significant amount of road and bridge infrastructure that council is required to maintain as well as the reductions in untied infrastructure funding, it is our council's view that the sale of the port leasehold provides the government with an opportunity to redress these funding cuts and inject funding into rural and regional areas where the ability of councils to maintain key transport infrastructure has been diminished. We just feel that rural and regional Australia should be considered in the sale of the port.

The CHAIR — Gentlemen, thank you very much for your submissions across the three municipalities. There are clearly some common issues with respect to your concerns around pricing controls, or the need to keep port costs controlled, and also with respect to the allocation of the proceeds from the sale of the port lease.

Firstly, with respect to the issue of pricing, how cost sensitive are the exporters in your respective municipalities — if you want to give a collective view on that — in terms of increases to pricing. For example, the most recent stevedore lease renegotiated by the port of Melbourne was with DP World. There was a proposal to increase the rent that DP World pays at the port of Melbourne in the order of 700 per cent. We have heard evidence that that was equivalent to around $50 per container in additional costs passed on to exporters. What impact would a cost increase like that have on exporters in your region?

Ms SHING — Which did not materialise

The CHAIR — Order! Ms Shing, you will get your turn.

Cr GAFFNEY — On talking to a major exporter, Murray Goulburn, they told me that they have had to allocate several million dollars to the cost of their exports, which would have a bearing, you would think, on increasing the price of the product they would have to sell or reduce the amount they would have to pay to the dairy farmer.

The CHAIR — That $2 million was — —

Cr GAFFNEY — They said several million.

The CHAIR — Several million dollars.

Cr GAFFNEY — That they have allocated to their budget, if this port lease is sold, which they expect it to be.

The CHAIR — So they are already anticipating cost increases.

Cr GAFFNEY — Yes, they are geared up.

The CHAIR — Are their views from other municipalities on that question?

Mr RAJARATNAM — I would not want to speculate other than pointing out that any increase in costs and overheads to some of our growers will mean difficulties in terms of gaining a bit of a margin on their produce, so their main objective is to try to reduce those overheads as much as possible. Certainly in the face of increasing port costs, all they are seeing is a shrinking margin. That is what I have been told in discussions with the growers in this region. I could not tell you with any informed knowledge how much that is likely to be.

Cr WORTMANN — As we know, we are losing farming people because the profits are not there and any rise in costs of course reduces the margins. It would definitely affect our producers; that is right.

The CHAIR — The government has indicated as part of the discussion on the proposed lease that around 86 per cent of port revenues will be regulated, subject to oversight by the Essential Services Commission. Is it your view that all port costs should be subject to regulation? I use the example again of rents paid by stevedores, which is not one of the revenue areas which will be subject to regulation. Are your exporters concerned that with only partial regulation, even if it is 86 per cent, that allows other unregulated costs to be escalated, having a substantial impact? Would you like to see all port costs regulated?

Mr RAJARATNAM — Could I answer that? That specific concern has not been expressed to me. What has been expressed to me is the broader issue of increased costs and how that might be cut up, if you like. What specific concerns constitute that concern has not really been explained to me. I am here representing some of the residents in this area and their main concern is overall costs. They requested that the council turn up here and make that point to you as the final decision-makers. So, in answer to your question, no specific concern has been expressed regarding the element of the lease that is not regulated. It has been a broader concern about increasing costs.

The CHAIR — Some of the evidence we have heard to date is that if you regulate this part of the cost, that just allows the other unregulated element to increase. Hence the question about whether you have a view as to whether the full gamut of costs should be subject to some oversight.

Mr RAJARATNAM — Certainly if I was asked for an opinion — and it is only an opinion — if that would result in not a reduction in costs but a maintenance of costs, I think the greater certainty there is, the better. However, with regulation comes some pegging in of prices. It could be that the competitiveness would result in a reduction of costs; I do not know what the analysis is. As I said, our overall concern is an increase overall in overheads.

The CHAIR — The other aspect that was common to the submissions from your respective councils was in respect to the proportion of proceeds returning to regional Victoria. Cr Wortmann spoke about proceeds returning to the regions based on a proportion of the region's contribution to the throughput of the port. I do not know if you would like to expand on whether you see that as a volume or a value basis, but I am also interested in whether the other councils share that view as the basis for allocation of proceeds to the regions.

Mr RAJARATNAM — Council's perspective is that certainly there should be a reconsideration of the current allocation. There are some obvious locations that have already been highlighted to you by some of the councillors present where there are areas where the money could be spent to increase the efficiency of the freight network.

I have done some minor things around quarantine and so on. These are some of the infrastructure packages, if you like, which this region has been crying out for for quite some time. Councils do not necessarily have the money to invest; sometimes it is not within their remit to invest in the infrastructure we are referring to because they are along the main highways. The issue though is that as a result of the increased — and I use the term very loosely — corporatisation of farming operations we are getting bigger and bigger vehicles going down our infrastructure. What that means is that we have more wear and tear on some of council's assets.

In the face of things like rate capping it makes it very difficult for council to maintain its own infrastructure in a manner that supports these bigger industries or bigger farms. That is the context, if you like. The concern that has once again been expressed to me is that 4 per cent of a $5.6 billion pot is not adequate when councils in some of these regional areas are at the forefront of producing some of Victoria's exports. What is the most appropriate quantum? I do not think we have had the discussion yet, but there are clearly some infrastructure projects that would assist not only the state but also the regions. We talk about our Shepparton alternate route. I am sure it each one of the shires here could give you at least one which would contribute overall to the efficiency of the freight network. The point I am making is that a 4 per cent allocation is good. We are not going to say, 'No, forget about it, we want nothing,' but we think we need a little bit more given the contribution we make.

Cr GAFFNEY — The size of the milk tankers going to the farm gate is getting bigger and bigger and of course they damage the bridges. The people who complain the most about their roads are dairy farmers from the east of our shire. It is either bridges or roads or the trucks are bigger so it causes damage to the infrastructure that has got to be paid for by the ratepayer. We have made the goose that has laid the golden egg for the lease of this port and we get nothing back and the ratepayers suffer.

The CHAIR — Does Indigo shire have a view on the proposal put forward by Cr Wortmann as to the proportion that goes to regional Victoria being based on the proportion of throughput from the port?

Cr GAFFNEY — We have not discussed it, but it certainly has some merit. Council voted on 30 June to write to the Premier, the Leader of the Greens and the Leader of the Opposition. We got a letter back from the Leader of the Greens and the Leader of the Opposition. We got an acknowledgement from the Premier but he never responded to our letter, which sent a bit of a clear message to us.

The CHAIR — Cr Wortmann, would you like to expand on your view on that proportionality issue; whether you see it as a value basis or a volume basis through the port?

Cr WORTMANN — Thanks, Mr Chair. I will just go back a step. I really agree with my colleague here about the rail and major road infrastructure upgrades. We have no rail infrastructure in our shire, but we are all for getting freight onto an efficient network; there is no doubt about that. The other thing is that for us to get our produce to these major arterial roads and rail, it has to go on our road network. We are large in area. We have 1000 kilometres of our roads, not VicRoads roads. As Cr Gaffney said, we have milk tankers and timber trucks; they are bigger — larger — and they are taking their toll on our infrastructure such as our roads and our bridges.

I am sure all rural councils have an infrastructure renewal gap. I have to be honest; we are really struggling with that renewal gap. The previous government had a country roads and bridges program and we really appreciated that. Again, it was untied funding, which gives us a little bit of flexibility of where and when we spend that money. We know where it has to be spent. That is why we are here — to state our case on the sale of this port and our share of that sale.

Mr MULINO — Thanks very much for your written submissions and also for your evidence today. It is great to hear about all the successes that exporters in the region are achieving. Obviously we want to make sure that that continues. I just wanted to firstly step back and just confirm whether it is fair to say that, subject to getting the right controls in place over costs and talking through the issues around the allocation, you are not opposed to the lease of the port per se — subject to all those other issues being worked through?

Cr GAFFNEY — Yes.

Cr WORTMANN — Actually in our submission we were against the sale.

Mr MULINO — I just wanted to clarify that high level.

Cr WORTMANN — I think there was an article in yesterday's *Age* by Kenneth Davidson. He wrote about the sale of the port. Two of the biggest ports in the world, Rotterdam and Singapore, are still government-owned and are quite profitable. But in saying that I realise both sides of politics are in favour of the sale so I think I will have a hard case to sell.

Cr GAFFNEY — We are certainly not against the sale of the lease of the port. There has been some talk about the length of time of the lease and about a second port. We certainly have not got involved in that and do not intend to.

Mr RAJARATNAM — I would echo the views of my colleague, not so much the comments made to my left here. The council has some concerns and believes it probably needs to be looked at in greater detail, but we are not against the sale of the port subject to the controls and the issues that we have been discussing here so far. One of the concerns that has been expressed to me very recently is that transition point between the leasing of the existing port and the transition to a new port and what that might mean for costings and so on. In answer to your question, it is not, 'No, don't sell the port'; it is that we have some concerns that probably need to be looked at.

Mr MULINO — As the Chair indicated, we have been working through a lot of issues around the regulatory regime for the prices post-lease and this is something that a number of people have made written submissions about. I understand you probably discussed this lease to some degree with the Treasurer when he came up recently. I just want to touch on a couple of aspects. Pre-lease the regime around prices was price monitoring, and indeed in some other jurisdictions that have gone down the path of leasing that is the post-lease arrangement. But what is being proposed in this transaction is that we move to what might be called a stronger, more transparent regime around the building block method. Would you support moving to what might be called a more prescriptive or stronger regime than exists currently?

Cr GAFFNEY — By 'stronger' do you mean 'regulatory'?

Mr MULINO — Yes, so regulating the prices that can be charged at the ports for the prescribed services. The proposed regime post-lease would involve more controls by the Essential Services Commission over what the port can charge as opposed to just monitoring.

Mr ONDARCHIE — Like rents and things like that?

Mr MULINO — No, the prescribed services — 86 per cent.

Mr ONDARCHIE — Not the rents?

Mr MULINO — Just dealing with this question.

Cr GAFFNEY — We would have an open mind on that.

Mr RAJARATNAM — I would echo the same. I would really need to see it. Coming from a planning area, prescriptive prices are sometimes helpful. However, when they are not benchmarked, if you like, they create a bit of an issue for us. But that is at the other end as opposed to the people that might be using the service, so we would have an open mind. Council certainly has not put its mind to whether it prefers one option over the other. We would have to see what is actually proposed and speak to some of the exporters in the region to see what the impacts might be.

Mr MULINO — One of the changes that is being proposed is that the scope of the prescribed services — so the services that the Essential Services Commission can regulate — has been broadened, with an aim to putting downward pressure on cost increases. Is that something that you support — the ESC having a broader remit rather than a narrower one?

Mr ONDARCHIE — Let us talk about the other 14 per cent.

The CHAIR — Order! Mr Ondarchie!

Ms SHING — Rents are not regulated anywhere else in Australia in any event.

Mr ONDARCHIE — What happened in Brisbane?

Mr RAJARATNAM — I would not want to speak for the rest of my colleagues or the growers in fact in this area, but I think the more transparency there is in terms of the costing, the better it would be. I think some of the issues, as I said in my opening statement, have been the concern around increasing costs. Now if this proposal will assist in demonstrating either (a) why that cost is required or, (b) what makes up the cost, that would certainly be helpful to the growers. But my overarching comment about increase is still the concern. What method the government might use to regulate it I do not really think the industry has given much thought to or have not expressed it to me. So the overall concern is the increase in costs. The greater transparency the better as far as we are concerned.

Mr MULINO — So transparency is key?

Mr RAJARATNAM — Yes.

Cr GAFFNEY — The industry has said that they are concerned that once the lease is sold the costs will obviously go up, which I mentioned before, and that was expressed to us by Murray Goulburn — that they have budgeted for an increase. Having said that, I have not spoken to all of the board, but I have certainly spoken to a director and a manager at Murray Goulburn.

Mr MULINO — Are you aware that for the prescribed services which will be regulated by the ESC there is going to be a CPI cap for the first 15 years of the lease?

Cr GAFFNEY — I am not aware of that.

Mr MULINO — That is being put in place so as to provide more certainty for users of the port. Is that something that you would — looking into it in more detail — —

Cr GAFFNEY — The main concern of the Indigo Shire Council is that $6.5 billion is expected from the sale and the money is to be spent on a commitment made before the last election, of which Indigo shire was not to get 1 cent. There is no money committed to our shire. So for all of this money that we helped provide we are getting nothing back; it is all going to Melbourne.

Mr MULINO — Ms Shing will deal with some of the issues around the allocation. I just wanted to focus on those cross-regulation issues. But what I am hearing is that what you are after is as much certainty as possible and as much transparency as possible.

Cr GAFFNEY — I was not aware that there was a CPI cap for 15 years. That is a good outcome.

Mr MULINO — What we might do is there is now a fair amount of detail up on the web around the proposed pricing order, so we might be able to provide you with some of that detail and also a summary of it — some of the regulatory side of things gets indigestible at times. But that might provide you with some comfort and also some of the people that you are in communication with.

Mr RAJARATNAM — Could I just add that it is transparency and certainty, but it is also about the allocation — fairness in terms of the allocation. In response to some of the Chair's comments about whether it is volume — or gross sales I think you referred to — I think I am speaking on behalf of my colleagues here when I say it is whichever gets us the best part of the pie.

The CHAIR — Yes.

Mr BARBER — I think it is all council's submission that the $200 million would not go very far when shared with other councils who have the same needs as you for an effective freight infrastructure fund. If you look at the bill, and I think it is in clause 15, it is a bit of a myth that all this money is to be spent on urban level crossings. That is what they are saying publicly, but in fact the bill says it could be spent on all or part of a level crossing program or other transport infrastructure or pretty much anything else under the subject of infrastructure. What I wanted to know is, since the Treasurer has just been up here recently and wanted to convince you all that this is a good deal, above and beyond the 200 million they have previously announced has he started to up the bidding in such a way that you might have reconsidered your submission before you arrived here today?

Cr GAFFNEY — He certainly has not been to Indigo shire, and I doubt very much that he would have been to Towong shire.

Mr RAJARATNAM — In his defence, he has been to Shepparton, and he did indicate that there was going to be an increase. I think there was talk of a 400 million allocation. I could not tell you off the top of my head what that was towards and we have not really done any analysis in terms of how that might assist us. But he also indicated there are a couple of projects that we have outlined to him, such as the inland rail issue, which he was interested in when he originally started off by saying he was not. So, yes, there have been some movements towards increasing the numbers, and we would encourage him to continue down that path.

Mr BARBER — It would have to be a pretty hefty package of compensation in the form of better infrastructure to assuage your concerns about what might happen to the market share of your growers if they find themselves in an uncompetitive situation. I mean, no amount of gold falling from the sky is going to compensate you if in fact people just cannot compete any more due to a port. Would you say that is a fair statement?

Mr RAJARATNAM — I think so, yes.

Cr WORTMANN — I am pleased that there is a bit of flexibility in that legislation. I did not realise that, but in saying that the undergrounding of rail crossings was an election promise so I am not sure about other election promises in the rural and regional areas.

Mr BARBER — No, that is right, and in terms of the pricing and regulation of those prices, we are still trying ourselves to find out from Treasury exactly what the plan is. I just got some more information on that late last week, so in fact we are at the same disadvantage that you are at in terms of guessing what exactly it might mean for prices so do not be worried about that.

Mr MULINO — Pricing is always pretty detailed.

Cr GAFFNEY — We also wrote to the Premier just after 30 June, and we still have not had a response. We asked what we might get back because of the sale of the port and damage to our infrastructure, and we did not get a response.

Mr BARBER — They are really hoping this bill passes in the last sitting week of December with our reporting date as a committee being November.

Ms SHING — That is interesting speculation.

Mr BARBER — Who knows, maybe in the next little while they will sharpen up their pencils and come and see you again.

Cr GAFFNEY — That would be good.

Mr ONDARCHIE — To be fair, he is focusing on his grand final parade public holiday.

Ms SHING — Any excuse to get on the soapbox, Mr Ondarchie.

Mr PURCELL — I understand that you have basically accepted that both the government and the opposition have put up the proposal to lease the port, and I think that is reasonable to accept. Looking into the future, coming out of the north the majority of the product that goes through the port would be agricultural. Do you see that increasing in the future? Is that where you see your growth, still out of the agricultural sector of the three areas?

Cr GAFFNEY — That is certainly our growth. The Chinese during the last 12 months have invested probably $12 million in Rutherglen, strictly in wine. They have got planning applications to spend about another $8 million. They have bought the largest vineyard in Indigo shire, which has got about 183 hectares under vine. I expect them to increase their exports substantially, so there is certainly growth, but it will be agriculture coming out of Indigo shire and no other industries.

Cr WORTMANN — In Towong, Mr Purcell, we have had a Chinese company buy a large dairy farm in our shire. There is quite a bit of confidence in the agricultural sector at the moment. Superannuation funds are investing heavily. We can only see growth. With free-trade agreements hopefully being signed soon with China and India, we can only see a positive future for our agricultural sector.

Mr PURCELL — Excellent, I hope you are right. The other issue is the inland rail. I know you raised that in regard to proceeds from the sale. Would that be just for the infrastructure from the proceeds from the sale or would you see any benefit from that as an alternative port for produce and product and containers to go to if the Melbourne port was full?

Mr RAJARATNAM — Sorry, are you referring to the inland port which Greater Shepparton has land set aside for or are you referring to the inland rail facility itself?

Mr PURCELL — The inland rail facility.

Mr RAJARATNAM — There are two options currently under consideration. There is the so-called Albury route, if you like, which has the infrastructure already in place but is not able to take on board some of the freight movements that will be required into the future. The inland route basically goes through Shepparton directly to Brisbane with a spur line potentially, and the capacity of that is greater because it is overall over flatter land and the capacity of that, as per some of the studies that have been done that we can provide you with, is what I quoted from earlier — that is, 225 000 tonnes versus 1.757 billion tonnes. The issue is how much do you need to invest in in terms of infrastructure to get that happening. That is the debate we are having with the state government and also the federal government.

What that does for an area like Shepparton and everywhere along the route is, rather than rely on some of the local infrastructure to get larger and larger trucks on to bigger and bigger highways, you could have a smaller truck go into an inland port, get it on the rail, then ship it down to Melbourne, Brisbane or wherever it might be in a far more cost-effective way, subject to the capital investment that is required upfront. That is the benefit we see from it. At the moment we are having discussions with the state government about increasing capacity for passenger rail and freight through the existing line, but it is a separate debate to the inland rail discussion that is being had.

Mr PURCELL — Yes, thank you very much.

Mr ONDARCHIE — The Treasurer was here last week, was he?

Mr RAJARATNAM — Yes.

Mr ONDARCHIE — We should have got you to bring you with you, because we cannot get to see him. You have done better than we have.

Mr MULINO — Just ask.

Ms SHING — You just do not ask.

Mr ONDARCHIE — Bernard, I want to take you to your 1489 kilometres of roads and 147 bridges. We know that the government has cut the $40 million country roads and bridges program. There has been a bit of a view around the agricultural industry and transport logistics industry about the $6.5 billion to $7 billion sale of this asset that there is not enough flowback into the industry that created the value for the port of Melbourne, particularly around bridges, roads and infrastructure investment back into the agricultural industry. What is your view from Indigo shire about the measly 4 per cent that is coming out of the sale that is going back to the regions?

Cr GAFFNEY — We are not guaranteed that we will get some of that; in fact we are not guaranteed that we will get any money from the sale of the port. We wrote to the Premier to ask him whether we would. He did not respond. It certainly puts a burden on us with our bridges and roads, because, as I said before, the tankers are getting bigger and bigger, the dairy farms are getting bigger and bigger — 450 to 500 cows are being milked each day. It is a very large burden. There is a rail link proposed for Barnawartha North. If that came in, that would probably take some of our grain and some of our wine, but it is a matter of getting the product to that station as well. It is our roads that are really getting the damage from it, not so much the VicRoads roads.

Mr ONDARCHIE — What would you like to see as a feature of this legislation that gives you some certainty around those things?

Cr GAFFNEY — Just to say that there would be a certain amount of that pie going to infrastructure, that the roads and bridges and culverts that supply the route to the port or to the factory et cetera — just some certainty, but this stage we have none. Just like David said, all that I have read is that it is going to infrastructure in Melbourne. I am now told it does not actually say all of that, but that is all we have heard.

Mr ONDARCHIE — You would not want to have a bet on that, would you? David, Mr Mulino talked to you about the CPI increases associated with the 86 per cent of the costs that are regulated.

Mr MULINO — I feel I am about to get verballed here.

Mr ONDARCHIE — I want to talk a bit more about the 14 per cent that is not. Over the course of this 70-year project — —

Ms SHING — It would be a 50-year lease. Let us just be clear on that.

The CHAIR — Order! Ms Shing.

Mr ONDARCHIE — Just for the sake of our witnesses, 50 plus 20 equals 70. I know you guys worked it out, but the government has not.

Ms SHING — Twenty by the government, as opposed to by private lease.

Mr ONDARCHIE — Over the course of this 70-year lease the stevedore rents — DP World and Patrick or whoever the operators are — are not going to be regulated. What do you think the potential flow-on effect of an unregulated monopoly could mean to your growers and businesses?

Cr WORTMANN — Thank you for the question. Look, in our shire and Indigo Shire we have just been talking about the privatisation of a cattle-selling complex at Barnawartha. As the name suggests, we have primary producers, and we are at the bottom of the food chain-type of thing, and they have no ability to pass on their costs. Any pressure on costs really affects our producers and our businesses in our area. I would hate to see them escalate like you are talking about, because they have no opportunity to pass on their costs. That is right.

Mr ONDARCHIE — I am just trying to think of the logic if the potential purchaser has a monopoly business and wants to extract as much value as they can, and the rents are not regulated.

Cr WORTMANN — Naturally.

Mr ONDARCHIE — The logic would suggest that they are probably going to try to derive some of their benefit out of the rents. If they are not regulated, they then get passed down the line, as you quoted, to the bottom of the food chain. There is potential for your businesses to be then uncompetitive.

Cr WORTMANN — Yes, and, look, I just go back to what everyone said here. We produce the best produce, I believe, in the world here. That is the key foundation of why the port is so valuable, I believe. I just believe that regional and rural Victoria should be considered.

Mr ONDARCHIE — Yes, good point. Picking up what Bernard and David are saying, Johann, and with unemployment an issue, particularly in the east — 24.3 per cent unemployment in Shepparton alone — what would worry you about potentially unregulated rents and the impact on jobs in Greater Shepparton?

Mr RAJARATNAM — Well, in a monopoly situation as you have described, and as my colleagues here have said, in terms of farmers going to the wall, what it means is a potential increase in unemployment. There are other issues in Shepparton besides the agricultural sector that are leading to that unemployment, but the overall context here is that any further pressure will lead to more unemployment. We are battling very hard to diversify the economy and add more skills, but the overarching comment remains. Anything that pushes our farmers closer to the edge, the worse it becomes for the economy of the region, because there are so many other industries that rely on that primary produce. With the 14 per cent unregulated, as you quoted — if that becomes unregulated and goes up, it is going to create issues for us.

Ms SHING — Thank you, gentlemen, firstly, for having us here today; secondly, for putting on some gorgeous weather; and thirdly, for providing your evidence to the committee, both verbally and in oral response to the questions. I would like to begin by addressing some of the issues that came up in Mr Ondarchie's line of questioning and also the positions you have stated about broader concern around increases in overall costs and overheads, being, obviously, key to the positions you have brought here today.

Mr Ondarchie has indicated that rent increases through a lack of regulation, which, in drawing out your answers, would be a concern, and that may lead to a potential increase in unemployment, particularly in the Shepparton area. I would just like to put it to you that rents are not in fact regulated anywhere in Australia, so with that in mind, do you wish to provide any sort of comment or response to the notion that the lack of regulation of rents for the proposed lease under the current arrangements in the bill would not in fact change the status quo of Melbourne as compared with other ports around the nation?

Cr GAFFNEY — It depends whether there was competition, because with normal rents it is supply and demand, but if this is a monopoly, there would be no competition, would there? So they could just increase it to whatever they wanted.

Ms SHING — And that was the DP World situation. That picks up on the Chair's questions in the first instance around those negotiations. Is that something you would be concerned about?

Cr GAFFNEY — I have a bit of an open mind on it, to be honest.

Ms SHING — Okay. What about you, Johann?

Mr RAJARATNAM — The only comment I would make is that, I guess, what was described is the situation where there is a monopoly and the costs are increased. My response once again is that if that results in our farmers going closer to the edge, it is going to cause issues. The quantum I could not speculate on, but we do have high unemployment in Shepparton, and we are trying very hard to change that. I guess what I am advocating for is to consider the impacts that might create. There may be other methods to actually alleviate some of those concerns, such as skilling up some of our communities, but, I guess, the situation described was a monopoly situation where costs were going to increase. That will push some marginal farmers over the edge.

Ms SHING — Okay. Thanks. David, did you have any comment to add to that?

Cr WORTMANN — I am concerned about a duopoly that we have in our country, with Woolworths and Coles. A monopoly worries me even further. So I am very concerned about costs escalating.

Ms SHING — What about the notion that DP World has in fact, after that negotiation, signed on to 2065? That is a 50-year arrangement that will provide some certainty. Do you have any comment in relation to that?

Mr RAJARATNAM — Not from me, no.

Ms SHING — No? Thank you gentlemen.

The $416 million that was referred to by, I think, Johann, in relation to comments by the Treasurer — I suspect that that was in relation to the Murray Basin Rail Project. Do you have any general positions on the benefit that project will provide to the process of port and freight logistics and bringing goods to market?

Mr RAJARATNAM — It will certainly provide some positive outcomes for the Murray Basin. I guess what I am here to try to advocate for is the Hume region. It may demonstrate the possibilities of rail and the transfer and the likely benefits arising from that and therefore encourage government to invest further in rail, but whether that has any direct impact or not I could not comment on, really.

Ms SHING — Okay. Anything from you, Bernard? No, that is fine. David, no comment on that?

Cr WORTMANN — No.

Ms SHING — No? Okay, great. I represent Gippsland, so when I listen to you talk about how this area is the food bowl, I was like, 'It is a food bowl!' — and it is a fantastic food bowl, but the concerns you raise are actually shared by a number of regional areas, and they relate to the broader concerns around the allocation of funds to regional areas, both centres and regions in particular. The further rural you get, the more difficult it becomes to get a foot in the door around the budget. To that end, and around the concern you have raised about $6.5 billion being spent on the lease — I think to quote you, Bernard, you indicated that there would be 'No money committed to our shire', and that, 'We are getting nothing back. It's all going to Melbourne'. I just want to get some comment from you in relation to the infrastructure scheme and also bridge and road strengthening.

So there is $500 million in regional jobs and infrastructure funding, which also includes an additional $200 million agricultural fund, which was announced to be part of the proceeds from the sale as generated, which includes also the Regional Jobs Fund, which is $200 million of that $500 million, and $200 million for the Future Industries Fund, which, again, is designed to deliver jobs, sector growth and industry growth across a number of key areas, including food and fibre and agriculture. That, plus the $43 million in the bridges strengthening program, which is a partnership between the state and the feds, shows that there is clear investment; it is just about how that correlates to the sale. Do you have a view on how best to proceed with getting further prioritisation of regional projects for this area in future budgets?

Cr GAFFNEY — We have certainly applied for some funding from those that you have mentioned and the response we have had is that they are under review. We do not know when that review is going to be handed down. In fact Regional Development Victoria is under review. We have applied for funds from that.

Ms SHING — But you are throwing your hat in the ring?

Cr GAFFNEY — We have got no real response back except to say that everything is under review.

Ms SHING — So you do have applications in at the moment?

Cr GAFFNEY — Yes, but we would have liked some of that funding so that we could have applied more funding from the National Stronger Regions Fund, but we did not get a cross on it.

Ms SHING — That is the national framework. Johann, what about you in relation to the state budget and the regional spend?

Mr RAJARATNAM — I guess the comment I would make there is we are certainly applying for funds as they become available. The concern is that the 200 million is not allocated to this region alone. It is allocated throughout regional Victoria — to other areas.

Ms SHING — That is the case with all the funds, I think.

Mr RAJARATNAM — Yes, absolutely. It is what proportion we get here and what is the direct benefit to the region as a result. Like my colleague to the right — the review is underway, as I understand it. We do not know what the outcomes are from a local government perspective. It would be great to get some certainty and order of priority in terms of what will be funded when, because at the moment everybody makes their application and the best gets to the top, or whatever is the most suitable gets to the top. Some clarity around that process, I think, would be better.

Ms SHING — So transparency is key, to echo comments that were made earlier.

Mr RAJARATNAM — Absolutely, and I think it would be great for our budget planning as well, because we would then have an understanding of when we are likely to come to the top and then we can adjust our budgets accordingly.

Ms SHING — Great, thanks. David?

Cr WORTMANN — I have met with the roads minister and the local government minister and put our case about — when country roads and bridges come to an end, we still have not got an announcement from the government about local road funding. I have been told that there is more money allocated to VicRoads, and I agree — VicRoads are the experts on road networks, but they are not the experts on our road network. We have got 1000 kilometres of road and 167 bridges and culverts. We know them well. As I have said previously, all rural and regional councils have an infrastructure renewal gap and we do not want it to grow because it is just putting a burden on our ratepayers in the future, and we need funding for that road network and bridge network.

Ms SHING — Just one last question. Are you aware that there was in fact no money earmarked by the coalition from its proposed lease to regional Victoria prior to the last election?

Mr ONDARCHIE — You are the government! Gosh!

Cr GAFFNEY — I have not seen that.

Cr WORTMANN — Yes, I did not know that.

Mr ONDARCHIE — Maybe you can announce the shire's funding today. Maybe you can announce their funding today.

Mr MULINO — Don't get testy.

Mr DRUM — Thank you, Chair, and I apologise for being late. I was detained in another part of the state.

Ms SHING — The Brownlow.

Mr DRUM — Effectively, yes. I also agree with Ms Shing that transparency is key, and she has just listed a whole range of potential funding arrangements that may be there for the Labor Party. To counter that, I think it is just worth putting on record that the funding to the regions' $130 million has been cut; the local government infrastructure fund of $100 million has been cut; the Putting Locals First Fund $100 million, which councils all accessed, has also been cut and the country roads and bridges program, which was $160 million has been cut. Just those programs alone take $490 million out of the regions, and much of that money went straight to councils for them to use — that is, without having your rates capped. Let us just put that on the record.

My question is: when most people think about the ports being privatised in Australia they think, 'How is this going to impact our exports?'. Do you think the average person in north-eastern or central Victoria understands how much we use the ports on the way in for every commodity that we use in our daily life and that if there is an increase in wharfing costs or costs to the port, it is going to actually affect the cost of everything we use, from the biros in our hands to the cars we drive to the cereals we eat or the glass we use to drink our water out of? This is the other hidden issue that seems to be bypassed because we are all so focused on what this might do to some of our exports. Are we thinking about the cost of imports at all?

Cr GAFFNEY — From my view, they would not understand that at all, and they certainly do not speak about that. They would be completely unaware of what effects it might have.

Mr RAJARATNAM — Perhaps that is something that we could discuss a little bit further because my perception is that they are not aware of the likely impact that might have on their day-to-day living. The answer to your question is no, I do not think they are aware of it.

Cr WORTMANN — Yes, I agree with everything that has been said. We had not considered that, I do not think, or most people had not, no.

Mr DRUM — As many containers come in as go out, and if there is an increase anywhere, it is going to be felt by every Victorian with every commodity that they use from these things to whatever we want to purchase. Anyway that is my question. Again, I apologise for being late.

Mr MULINO — I just wanted to put on the record that in relation to the letter to the Premier that you wrote, and this I think might have come out in part from the consultation that the Treasurer undertook, my understanding is that the Treasurer wrote back on behalf of the Premier in response to the issues raised in that letter. If that is not something — —

Cr GAFFNEY — Are you talking to me now?

Mr MULINO — Yes.

Cr GAFFNEY — We have had no response from the Treasurer at all.

Mr MULINO — I will make sure that that gets provided to you.

Cr GAFFNEY — But what is that going to say? That $200 million has been promised in response to a question from the VFF? I understand that is what that came out of.

Ms SHING — It was a letter to the Special Minister of State.

Mr MULINO — On that broader issue, both parties had gone to the last election supporting the lease, and that was in part because the lease was seen to improve the operation of the port and also because it would raise funds, and with this broader notion of asset recycling that it would then be reinvested in the state. I know there has been a lot of discussion today about which parts of those direct proceeds are allocated to which project. Would you agree with the broader concept as well though that in addition to those direct allocations of proceeds there is also a broader loosening up of the overall budget and that to the extent that the port proceeds can free up money to fund commitments in the level crossings area, for example, that would free up money elsewhere in the budget for investment in the regions, for example, and that there might be indirect benefits?

Mr ONDARCHIE — That is a speculative question. What if? How about? Maybe? Can we have some certainty?

The CHAIR — Order!

Mr MULINO — I am just asking for that broader concept that there will be indirect benefits overall in the budget as well.

Mr ONDARCHIE — Like what for Bendigo? Like what for Greater Shepparton?

Cr GAFFNEY — I have received no letter from the Treasurer.

Mr DRUM — We need more people smoking so we can get more taxes paid through our tobacco taxes and that way — —

The CHAIR — Order, Mr Drum! Gentlemen, thank you for your evidence this morning. Cr Gaffney, Mr Rajaratnam, Cr Wortmann, we appreciate your evidence and your submissions on behalf of your respective municipalities. We will have a draft version of the transcript to you in the next couple of days for any corrections.

Cr GAFFNEY — Thank you.

Mr RAJARATNAM — Thank you very much.

Cr WORTMANN — Thank you very much.

Witnesses withdrew.