



LEGISLATIVE ASSEMBLY OF THE NORTHERN TERRITORY

12th Assembly

Port of Darwin Select Committee

Public Hearing Transcript

10.00 am, Wednesday, 1 April 2015

Litchfield Room, Parliament House

Members: Mr Nathan Barrett, MLA, Member for Blain
Mrs Lia Finocchiaro, MLA, Member for Drysdale
Mr Michael Gunner, MLA, Member for Fannie Bay
Mr Gerry Wood, MLA, Member for Nelson

Witnesses: Maritime Union of Australia
Mr Thomas Mayor, NT Branch Secretary
Ms Penny Howard, National Research Officer
Australian Agricultural Company Ltd (via teleconference)
Mr Stephen Crisp, Freight & Logistics Manager
Vopak
Mr Jared Chng, Chief Financial Officer
Bhaqwan Marine
Mr Duncan Anderson, Regional Manager QLD/NT
Mr Emil Tastula, Project Manager
QUBE (via teleconference)
Mr Anthony Perkins, Director Business Development
Mr Simon Barney, Project Development Manager
NT Livestock Exporters Association
Mr Tony Eggington, Interim Executive Officer
Australian Customs & Border Protection (via teleconference)
Ms Suzanne Duffy, Acting National Manager Air and Marine
Genesee & Wyoming Australia Pty Ltd (in camera - via teleconference)
Mr Greg Pauline, Managing Director
Mr Tav Martin, Director Corporate Development

NT Chamber of Commerce

Mr Stuart Kenny, Vice President

Mr Brian O’Gallagher, Executive Officer International Trade

Northern Territory Airports Pty Ltd

Mr Ian Kew, Chief Executive Officer

MARITIME UNION OF AUSTRALIA

Mr CHAIR: On behalf of the committee, I welcome everyone to this public hearing into the proposed lease model for the Port of Darwin. I welcome to the table to give evidence to the committee from the Maritime Union of Australia Thomas Mayor, NT Branch Secretary and Penny Howard, National Research Officer. Thank you for coming before the committee. We appreciate you taking the time to speak to the committee and look forward to hearing from you today.

This is a formal proceeding of the committee and the protection of parliamentary privilege and the obligation not to mislead the committee apply. This is a public hearing and is being webcast through the Assembly's website. A transcript will be made for use of the committee and may be put on the committee's website. If, at any time during the hearing, you are concerned that what you say should not be made public, you may ask the committee to go into a closed session and take your evidence in private.

I will ask each witness to state their name for the record and the capacity you in which they appear. I will then ask you to make a brief opening statement before proceeding to the committee's questions. Could you please each state your name and the capacity in which you are appearing.

Mr MAYOR: I am Thomas Mayor, Branch Secretary of the Maritime Union of Australia here representing our members who work on the wharves - seafarers, divers and port workers.

Ms HOWARD: I am Penny Howard. I am the National Research Officer for the Maritime Union based in Sydney.

Mr CHAIR: Thank you very much. Mr Mayor, would you like to make an opening statement?

Mr MAYOR: Yes, I will make an opening statement. First, I worked on the wharf for around 16 years. A couple of years before that I was a trainee with the port authority before it became the Darwin Port Corporation. For the last four years, I have been the organiser and Branch Secretary of the union.

The first thing we should ask ourselves is what the role of the ports and how they operate. Fundamentally, they collect fees from users and reinvest fees into delivering port services and upgrades. The government must decide, in the best interests of the Territory, how to

best reinvest those fees and what services need to be delivered to maintain the safety of the port for all users. Sometimes challenging decisions need to be made by the port authority and government balancing multiple needs.

The port is used by high-margin oil and gas industry and low-margin coastal community resupply. Those needs must be balanced. Fundamentally, we believe those needs are best balanced under the current model where the port is retained under public ownership with port concessions offered to private stevedoring logistics and supply-based operators. This allows for private investment in the best new equipment while retaining public control over both the day-to-day decisions that affect safety and environment protection of the port and region, and over the big long-term decisions about future investments and expansions of the port.

We note that with the current way the port is managed- g'day Gerry – there has been investment in new cranes by Patrick and Qube. There has not been a lack of investment where it is required and where there is a genuine need. The privatisation argument, or the lease argument, to attract investment, I do not think that is justifiable when there has been investment where required from stakeholders in the port. As workers in the port we see – as I said I worked in a port for 18 years before I became a branch secretary and organiser in the port for the last four to five years. These decisions are very important to both the workers and the stakeholders that employ us, and getting that balance right.

We cannot see how adding another external stakeholder into this process will be of any benefit to the Territory. Private investors are not charities. They make investments in order to get a return. This return will almost certainly flow out of the Territory to another state or country.

There are three ways to get a return for a port. We have provided evidence of how this happened in the privatised Port of Brisbane in our submission. Returns come from, 1) cutting port services and jobs; 2) increasing fees to ships using the port, which we have seen recently, and I think Penny will touch on that when she talks; and 3) increasing rental fees to stevedoring, logistics and supply-based companies using the port.

If a private investor is to make a new investment into the port they will pay for it by cutting costs or increasing revenue in one of these three ways I have talked about. There is no other way for them to recover those costs. First there is government investment where there is a (inaudible) public interest. We will also touch on some – there were some possibilities there and some things in process before. We do not know where that has gone. But that is how business works. Private enterprise that invests in the port further will do those three things to achieve a means without losing money and to further their profit.

Also we have to think about at what cost to the companies do we make this move as the Northern Territory to the companies that are currently operating in the port and using the port, because they will be directly affecting as it will flow on to the community with those three things that they can do to pay for investment that they make. Then, as I said, the consumers and the exporters in the Territory will surely suffer as well.

We understand that the Chief Minister and others are of the firm belief that a private owner will necessarily mean new investment. The evidence does not support this. In Brisbane, three years after privatisation the ASIC reports show that the value of the port's assets are almost exactly the same. This even includes an upwards re-evaluation of the port's dredging fleet after changing accounting methods. This is our submission at paragraph 5.8.

The best way of getting external investment into the port that does not place undue burden on the users of the Port of Darwin is getting Commonwealth funding. As I touched on a little before, there was a \$336m expansion of the port marked as one of the top five projects nationally which was listed in the Infrastructure Australia category of Competitive International Gateways. At least two of these projects have already been funded. The Pivot North report supported such an investment and Infrastructure Australia calculated that there would be a good rate of public return on such an investment. We ask what has happened to this proposal as an alternative to seeking private leasing of the port or selling the port.

Despite the emphasis on getting external investment in all the Chief Minister's statement, what is unclear to us is exactly what this investment will be used for. The original proposal to the Commonwealth was to expand iron ore export facilities, but this is currently being wound down. The main proposal the Chief Minister has emphasised is making Darwin become a hub for cargo going to southern ports. Given the efficiency with which ships carry cargo and the thousands of kilometres of infrastructure required, we cannot see how this will work. My colleague, Penny, will address this point in greater detail.

In my opening statement I also want to talk about biased advice. We are very concerned that the Chief Minister has been sold an unrealistic fairy tale story about how port privatisation works by his Melbourne consultants, Flagstaff Partners. This report must be released for public scrutiny, and I have formally requested that but am yet to see it.

Numerous accounting tricks have been documented by a recent Senate inquiry to make it look as if privatisation is in the public interest. Most of these accounting tricks have been invented by companies that stand to directly gain from privatisation. These are the banks and consulting companies. It was predicted in February that banks will make a \$1bn bonanza in fees related to privatisation. Consultancy companies make at least 5% to 6% of the value of any transaction.

Flagstaff Partners is made up of former executives such as Deutsche Bank, ANZ, KPMG and Ernst & Young. They have no knowledge of the Territory and the challenges we face. Offering unbiased advice is not in their interests; they want to make a case for a sale as they and their mates stand to gain directly. One of their executives was, until recently, the deputy chair of the Linking Melbourne Authority, which has now been disbanded by the new Victorian government. Not only did the authority oversee the development of an extremely unpopular infrastructure project in Melbourne, the East West Link, it was revealed that the authority took all sorts of favours and gifts from the construction companies, who could win enormous new contracts if the projects went ahead.

These are the people our Chief Minister is putting his trust in and we ask that, instead of listening to Melbourne bankers, the Chief Minister listens to Territorians working in the ports and relying on these ports, as are our members.

The impact on Territorians and coastal communities is an issue as well. We have examined the arguments put by the Chief Minister in his second reading speech on the port bills. We have examined the bills and the government's submission to this committee. There are assertions and assumptions he makes which we do not agree with, and there are many unanswered questions and impacts which do not appear to have been examined.

The most important unexamined question is the impact of the possible privatisation of the port on the coastal communities of the NT which rely on essential supplies being delivered to them from the Port of Darwin, whether directly or indirectly through trans-shipment through Toll, Sea Swift and the like.

The Chief Minister continually states the important role the port has as a gateway to Asia, yet the Chief Minister and his Melbourne consultants appear to have forgotten the role the port has as a gateway to the coastal Territory.

Port privatisations have involved big fee and rental increases, and you will see the evidence in our submission and Penny will speak about it as well.

At the very least the bill must be amended to protect Australian registered multi-sailing coastal vessels that deliver essential services around the coast. In order to support their role in using the port we suggest they be charged a maximum of 20% of the scheduled fee. In the Port of Melbourne such vessels, mainly sailing to Tasmania, are charged a maximum of 56% of the scheduled fee. A lower rate is appropriate for the Territory given the fragility and high costs which already exist in such communities, and would prevent such fees from becoming a barrier to coastal development.

There has been no mention of how increased fees may affect customers in the Territory, who already pay very high prices for goods. Lowering the cost of living was a CLP election promise and privatising the port will raise the cost of living. We genuinely believe that. Mark my words: privatising the port will raise the cost of living.

We want to remind voters of this and make it clear because if we rush in to an arrangement which leaves the community and the stakeholders that operate the port in a worse position, we will certainly remind everyone of that.

On pages 11 and 12 of the submission we comment on the public interest services that can be lost under the proposal ...

Ms HOWARD: That is of the government submission.

Mr MAYOR: Sorry, of the government submission. The point we are making is the particular day-to-day operations of a port are in the public interest and too important to transfer over, in our opinion. We have to think about what the consequence of the list of roles will be if we transfer those roles to a private entity that is purely focused on delivering profit to shareholders. Those are my opening remarks.

Mr CHAIR: The first recommendation of your submission says the port of Darwin is an essential piece of infrastructure that is relied upon by thousands of people in Darwin and communities along the northern coast of Australia and it must not be sold or leased to private interest. You have made that very clear in your opening statement also. Is your argument that any essential piece of infrastructure must not be sold or leased to private interest? If so, what is the reason for that position?

Ms HOWARD: Will I also get a chance to make a statement as well?

Mr CHAIR: If you like, we only have one hour.

Ms HOWARD: Okay, first of all I want to mention the fees. We are very suspicious of the fact the government received the report from Flagstaff and less than a month later announced a huge increase in the fees charged to ships using a report. In that announcement there was mention of a review; we think that review should be released and the question should be asked whether Flagstaff was part of advising the government to do that. A similar, or even greater, increase was introduced in Melbourne, which is also being advised by Flagstaff right now on its privatisation process.

We have copies to give to you of the before and after fees. I table those documents.

Increases have been highlighted and you can see on the one dated 1 July 2014 it says, 'Port charges are subject to annual CPI increases on 1 July each year.' The implication there is that there would not be another increase until 1 July of the subsequent year. But lo and behold, in the February of that year there were very large unexpected changes which affect containerised cargo, general cargo, livestock, and a \$2000 fee slapped onto every ship visit. There also appeared to be a change in refrigerated containers, although we could not find that on the old fee.

An important thing to note is that those fees are not separate; all of those fees could apply to the cargo of a single ship. It is not just an increase in one of those fees; it is an increase in all of those added together.

Mr WOOD: What is each column's date? You have two columns here.

Ms HOWARD: One is before GST and the other is after GST.

Mr WOOD: When you said the price of a fixed-charge berthing had gone up, what are we comparing that to? Is it on the other document?

Ms HOWARD: I am sorry we did not have a chance to do this; you need to compare the two documents. One document is dated 1 July 2014 and the other one is dated 1 February 2015. So the areas that are highlighted are the changes and the rest of the fees have remained the same.

We wanted to bring this to the committee's attention because it is well known in other ports for fees to be significantly increased in the lead up to privatisation, because then you can demonstrate a bigger revenue stream in the port and potentially get a better sale price.

Mr GUNNER: I should note that we, as a committee, have asked for the Flagstaff report as well. We have met with Flagstaff and asked for that report you mentioned.

Mr CHAIR: I have received that and as soon as we are done here I will race upstairs and grab it. We will table that.

Mr MAYOR: Is that report in full?

Mr CHAIR: No, they have deleted parts which are commercial-in-confidence.

Ms HOWARD: Okay that is great. In the issue of the overland transport, it says in the government submission:

With the right commercial sector partner, the Port of Darwin could become a major distribution hub into the rapidly expanding Asia market. Australian bulk iron ore and containerised goods could be transported into and shipped out of Darwin rather than being transported out of the already congested southern ports. Conversely, the ever-increasing levels of containerised freight from Asian countries could be shipped to Darwin and distributed throughout the nation.

We think there is no viable economic case for Darwin to be used as a port to ship containerised goods to or from Sydney and Melbourne. Unfortunately, we have not seen any real evidence from the government for this possibility.

The reason is it is 3760 km from Darwin to Melbourne, 3900 km to Sydney through largely remote territory on roads that can be significantly affected by weather events. All of that infrastructure would need to be properly upgraded in order to deal with those events and meet the regular schedules that are demanded of shippers. The fact is shipping transport is far more efficient than land transport.

Because it is so much more efficient is why, despite considerable more infrastructure existing between Brisbane and Sydney and Melbourne and Adelaide, there are ships that travel and carry cargo between all of those ports. If you look at the example of Europe where there are ports very close together, there are ships that carry cargo between France and Spain and Germany and Scandinavia as well.

For example, the recent expansions in Brisbane and Sydney have meant those ports can accommodate ships carrying 8000 TEU or 20 ft equivalent unit containers. That is 8000 20 ft containers with only one engine and about 20 crew. If you compare the number of trucks you would need to carry that volume of cargo, you are talking about thousands of trucks, each with their own driver, potentially needing a relieving driver, fuel and the equipment on the roads.

Also many of those containers have automated container handling equipment that cost about \$250m to \$300m per terminal and both of those ports each have three terminals. It is

a huge capital investment for very high-tech machinery they have. Because of those recent investments, those ports are not congested in the way they would have been previously. They are under capacity right now. The new operators are operating under a very minimal level because they have not been able to get the new contracts yet.

There are few other things I will mention. We have referred in our submission to the recommendations from the Australian Competition Commission and have reproduced that for you there. There is a lot of base to becoming increasingly concerned about what has been happening with the privatisation of ports because it is inherently a monopoly asset. There is no other port comparable with Darwin anywhere between Cairns right around to Western Australia. It is a unique facility that provides a services around thousands of miles of coastline.

There was a recent Senate inquiry into the asset recycling legislation that has encouraged some of these privatisations. I encourage members of this committee to take a look at that. Some of the concerns raised have been about the effect of rushing to meet a deadline and that potentially affecting the due diligence that has been taken for the projects that have been encouraged under that legislation. Also government getting rid of revenue-generating infrastructure like the port and then using that money to build roads which are not necessarily a revenue-generating form of infrastructure specifically raises the effect on state and territory budgets.

There was also a competition policy review released by the government yesterday which also specifically mentions and raises concerns about the issue of ports and competition within ports.

In the minister's second reading speech, he said:

The Port of Darwin Act creates an enabling environment. It does not create an environment where this process will definitely happen, but allows us to run a model of consultation about elements of the bill to test the market and see whether or not there are opportunities for investment in the port.

Our reading of the bill is that passing the bill basically gives the Chief Minister unlimited opportunity to do what he likes with the port. I think that needs to be borne in mind.

Finally, as Thomas said, we think there are opportunities for private investment in the port while retaining it in public hands, whether that is through the concession model that already exists in the port, whether that is through Commonwealth funding, or whether that is through some of the other options that we mentioned in our submission, such as getting investment

from the not-for-profit superannuation funds or issuing bonds to fund a specific project within the port. All of those things should be considered.

Mr CHAIR: Looking at important pieces of infrastructure, is your argument that any essential piece of infrastructure must not be sold.

Mr MAYOR: No. Given that we have put a submission in and we are talking about this particular port, and our submission has the evidence behind that – there is no other public port in the Northern Territory, so what else would you privatise as far as ports go? It is a bit hard to comment on.

Mr CHAIR: Do you consider that there may be instances when the public interest is better served through privatising certain essential infrastructure as long as appropriate measures are taken to control the risks of private ownership? If you want to look at what are the main risks and do you think it is possible that under a privatisation model there can be regulatory frameworks in place that provide the measures necessary to control that situation.

Ms HOWARD: I think one of the concerns we have is that the ACCC has really quite specifically said that model is not in place anywhere in Australia. So if we are looking at other examples in Australia, the ACCC has basically said that they are all problematic and that there is a market power that ports have because of their nature that the ACCC simply does not have the tools to deal with. They say they can deal with problems of competition with a company by ordering a de-merger of a company, but you cannot actually unmerge a port just because of its physical nature of what it is.

Mr CHAIR: But I think this more goes to the heart of not the ACCC's legislation but a regulatory framework in which a lease could be set up. Do you think that it is possible to set up a regulatory framework that takes control of the situation?

Ms HOWARD: No, because the examples we have seen is that effectively what you are doing is handing over the control and management to another organisation of investors and the people who are making the decisions are about what happens in the port and running the port on a daily basis are the representatives of those investment funds. That is just the fact of the way these things work. If you are concerned about ensuring there is public control of what happens within the port, on both a daily basis and a long-term basis, then the best way to ensure that is by retaining public ownership of the port. If you want to have private companies operating in the port, as we do in all of our ports around Australia, they can do that under the concession model with the port authority there to oversee their operations, maintain a level of public service and ensure the environment and public interests are protected.

Mr CHAIR: I will follow that line for a tick. So you would not see that a public body that monitors these fees and has the power to regulate them if considered necessary is an adequate response?

Ms HOWARD: No. We think the port authorities themselves are the body that monitors what goes on in a port, because ports now are composed of so many different private companies operating within them that it is the function of the port authority to be the glue that holds those things together and provides that kind of oversight. In that way they are fundamentally different from the companies that operating within that port and have a different role. That also creates inefficiencies. There was a really good example in that Senate committee that someone gave of an army of people within Telstra who are providing information to the ACCC and an army of people in the ACCC that are assessing that information in Telstra, and ultimately once you take those sorts of new regulatory oversights and burdens into each other have you actually created any efficiencies or not. A question was raised about that.

Mr GUNNER: Could you take us through the public port authority? Your recommendation mentions how it was kept in Port Kembla, Newcastle and Sydney but lost in other ports. Could you tell us if that is a good thing, and the consequence of it being lost in the other ports?

Ms HOWARD: The model in Brisbane and the South Australian ports in Flinders is effectively the model being put forward in the Port Management Bill, which is basically the whole that the whole port corporation be sold and becomes a private entity. I understand the government wants to transfer a few rules into other government departments. That is a good thing, but if you look at the list of services proposed to be delivered by the public port operator – the government submission lists that on page 10 – they are all fundamentally public services – maintaining the channels, carrying out surveys, keeping records of incidents and dealing with licences around dangerous goods.

All those services in New South Wales – basically what happened was the individual port authorities of Newcastle, Port Kembla and Sydney were amalgamated into a body called the Port Authority of New South Wales. That remains a public body and charges fees for the services it delivers to visiting ships. The fee schedules – we have referred to them in our submission – show exactly which services they offer in those particular ports.

We would encourage this committee to speak to Grant Gilfillan, CEO of the Port Authority of New South Wales. We understand it was under his advice and recommendation that the public function for the port authority was retained in New South Wales looking at the examples of what had happened in South Australia and Brisbane.

Mr WOOD: The ACCC produced a paper for the Biennial Ports Conference several years ago. It gave some support to privatisation of ports as long as the regulations were adequate. If the regulatory process could stand up to scrutiny and ensuring companies did not do the wrong thing, would you have a problem with that? Many companies say, 'We'd prefer no regulation', and Portland is an example of that, and users there are not too happy. Adelaide has light-handed regulations and knows if it does the wrong thing the government can step in. Is the regulation reasonable do you think that would offset people's concerns about privatisation?

Mr MAYOR: You would have to ask another question before you can answer that: what investment has been promised before you hand over? The port brings in revenue for the government, and it has been substantial in the past from my understanding, and I do not understand why you would hand that over to a private company if there is no definite return on investment for all stakeholders in the community. In the absence of that, why would you hand over because ...

Mr WOOD: It is more a philosophical question at the moment. Can you have privatisation and still protect the interest of the users of the port and the consumer, who is the final beneficiary of the port? Can there be enough regulation? You would presume the long-term lease would allow a company to spread its costs over a long period. If there was adequate regulation, would that still mean we could go down that path and people would be safe from excess of charges etcetera?

Ms HOWARD: One of the issues is that a port authority is a kind of public agency. It already performs a kind of regulatory function on all of the ships using the port, on all of the companies operating in the port, whether they are stevedoring, logistics, lines, tugboats – all of those different companies. It is almost like privatising your local council in that it does have a regulatory effect on all of the people using a particular area. In that way it really does not make sense as a body to privatise. We are not opposed to private companies having concessions in ports, that is the norm all across Australia and we do not oppose that.

The problem is when you privatise the agency that is regulating and coordinating the port itself, you create other problems down the road.

Mr MAYOR: If you look at the port as it is now, basically the Port Corporation does all of those roles and functions and it is a public asset. But there are sections of the wharf that are basically Qube's section or Patrick's section – for container storage and all the rest. It is a shared berth. They have their cranes, a place to park them and put their gear, so you are basically handing over the agency that brings in revenue. If there is no investment commitment that is absolute, saying that we will build this thing that will get a return for us as a private investor, then why would you do it?

Mr WOOD: I think the argument we heard yesterday was that the government could not get funds from Infrastructure Australia, it asked for them a number of times and were rejected. They also mentioned getting a loan, and the government's power to get a loan is not infinite, so their argument is that the only way you will get an investment is to get private investment into the port. That is probably what we have to weigh up, how to get more investment into the port to make it a better port.

Mr GUNNER: I am not sure I will get a chance to look at it but any submission goes to a couple of different options you can follow to get investment into the port, apart from selling a lease.

Mr MAYOR: Ultimately if it is leased, as we said in our earlier statements, any investment that the purchaser makes will pass that cost on. So we still end up paying for it but they get the profits.

Mr GUNNER: Mr Chair, while it is still fresh, the MUA mentioned Grant Gilthilum and his advice. Maybe we could make a note for the committee's secretariat to ask for a copy of his advice with the decision he made or advice he gave around maintaining a public port authority. I am interested to see what his words were.

Mr CHAIR: Absolutely.

Mrs FINOCCHIARO: My question is following on from the investment. In your submission you suggest that the government could invest private investment in the port in the form of a specific purpose Darwin Port infrastructure bond. Can you provide any examples where this has been successfully employed elsewhere?

Ms HOWARD: We cannot, and we wish we could, but unfortunately what has happened with the port privatisations that have happened to date is the option of the wholesale sale has been the one that is considered and the one that is carried out. We think there are a lot more possibilities for the way that money could be raised, that have not been necessarily considered in the rush to do a one size fits all solution.

Mr GUNNER: What do you think of the landlord model taken in WA, where I do not think they have gone down the bond path but the state retained ownership of the port, but when they need a new asset within port boundaries they go to the private market through an EOI or tender process? Have you looked at that, and what are your thoughts?

Ms HOWARD: I have not had a chance to look at that, but that sounds like a reasonable model and not that different from the way in which investment has happened in other ports as well. For example, when the new container terminals opened up in Brisbane and Sydney, there was a level of public investment in building the wharf, but all the equipment and infrastructure was brought in by the container terminal company that was opening the new terminal.

Mr GUNNER: So you are not necessarily opposed to private ownership of assets within the port under that landlord model. Brisbane described itself very much as a landlord model. Obviously, it is a privately-owned landlord model but similar in operation to the WA ports we visited that are state-owned landlord models.

Ms HOWARD: Yes, Virtually all ports in Australia, I understand, operate as that landlord with private companies having concessions. We have no problem with that as a model.

Mr GUNNER: I have questions away from this area ...

Mr WOOD: Are you saying that if the government stayed as the owner of landlord of the port, you have no problem with other people investing on that piece of land as private investors?

Mr MAYOR: It has already happened, I suppose ...

Mr WOOD: Yes, it does.

Mr MAYOR: At the Marine Supply Base, Qube and Patrick invest in the equipment they use – new cranes ...

Mr WOOD: One of the arguments is the cost of filling in some of those ponds. They would need money to do all that and it is pretty expensive - \$10m for one of those ponds. That money would not necessarily come from private investment unless someone owned the whole port and saw that as a long-term investment. Otherwise the government would have to pay for that.

I am wondering how your model works when you get parts of the port that, at the present time, do not pay anything. You are not going to get money back immediately for that \$10m spent on filling in some of those areas of the port which will take some time before they can be used.

Ms HOWARD: One thing to remember is ports generate very significant amounts of revenue every year. I have the annual report here although I do not remember the numbers off the top of my head ...

Mr WOOD: It is \$14m to \$17m.

Ms HOWARD: Yes. So the port makes more than enough profit in one year from charging for the services it currently provides to fill in those ponds you referred to. That is basically a decision about how best you reinvest on what you have collected in fees in order to continue improving the port as well.

Mr WOOD: If you read the report from the steering committee, the government also wants money for infrastructure elsewhere, which you would not get without the private investment. Obviously, they want to get a good selling price and invest that money elsewhere.

Mr MAYOR: Talking about the pond filling in specifically, is there someone who wants to use that land? We will have to think about it under the current structure. Is there a way to ensure a private investor is able to use that as part of the deal, then ensure there is a berth space for them to do what they need to as far as any export or import is concerned? You would have to consider that before you sell the farm, so they say.

Mrs FINOCCHIARO: For example if we needed 100 m more quay line and as a government we said, 'Who wants to build this?', and someone came on board and built and effectively owned it, you guys would be happy with that under the landlord model?

Mr MAYOR: In this particular case, talking about the Port of Darwin, the place has never reached capacity, even with INPEX and it will slow down ...

Mr CHAIR: Hypothetically.

Mrs FINOCCHIARO: Yes.

Mr MAYOR: Yes, hypothetically if that is the example we are talking about. The ship loader never reached capacity. As a Branch Secretary of the MUA negotiating with the port to try to move people to 24/7 shift work, the argument was always – even when the iron ore was flowing – there are not enough ships under the ship loader. There is not enough time as it has not reached anywhere near capacity. Because we have not reached that mark we are not going to employ people at this level. So ...

Mr CHAIR: Where the question going is not about capacity or what the situation is right now, it is about what we see in other places as well as what we could see here in future. Where it is an infrastructure spend that is not particularly related to a specific piece of plant or equipment and it is going to be generally common, and the timeframe of investment is way past your visibility in terms of what commodity or what it is you are doing, you do need something in there that you guys would suggest is government in there actually doing that – expanding the 100m of quay line on Timbuktu port, filling in ponds A, B, C D, E and F on Timbuktu port. With these kinds of things the problem we have and what we need to address and look at as a committee is what is the best way of appropriating funds to actually physically do that should that need arise at Timbuktu port.

The problem is not about a lack of investment on buying a Gottwald crane, the problem with the lack of investment is nobody wants to go and build 100m of quay line unless they own it. The question that was asked went more to, if somebody came in and there was a necessity and they said, 'We will build 100m of quay line', because the government of the day could not afford to do it or could not access the capital effectively to do as the weighted average cost of capital was too high, would you have a problem with a private person owning 100m of quay line.

Ms HOWARD: I do not know. It is a bit of a hypothetical question. The thing we are most concerned about is the delivery of the port services that ensure safety and environmental protection with the port. That is the key role the Port Corporation plays. So if you are talking about a private piece of quay line within a port that is publically owned, regulated and accountable, then I am sure that has happened in many of our ports as well.

Mr MAYOR: Yes and we have not opposed that when the Marine Supply Base was constructed, and it is in operation now. All those essential services that are important to the environment and regulatory regime – I guess in answer to your question we have not opposed it in the past where it still remained that the functions of the port authority, the oversight of the port authority, has still remained.

Mr GUNNER: As I am understanding it, Chair, that who owns what asset within the port boundaries is not so much the issue as the umbrella over it. So the services the port authority manages – the safety on the wharf and the regulations around operating within the wharf and – essentially, who has control of that and those decisions – I hope I am saying this correctly. It is not so much who owns that bit of quay line or that bit of X, it is the people in charge over the top of that making sure safety and regulations are occurring evenly, equally and safely.

Mr MAYOR: The delivery of services, the fees, yes.

Ms HOWARD: Yes.

Mr WOOD: How will that make any difference to whether shippers get charged a lot of money to export goods?

Ms HOWARD: Because those fees are delivered on the basis of the ability to charge for those fees. So the whole justification for charging fees to ships coming into port is for the provision of those services. If you own the whole thing then you have the ability to both, on one hand, jack those fees up and, on the other hand, the potential for cutting corners on the delivery of those services.

Mr MAYOR: Or the example of any reinvestment based on the income only going to where you as a private owner will gain, and not the rest of the port.

Ms HOWARD: The strange things that can happen are potentially illustrated – I understand you heard from Patrick and Asciano yesterday and will hear from Qube today. Both of those companies, on the one hand, have made strong statements in the press about the negative effects of their business on the privatisation of other ports in Australia in increased fees and less opportunity to participate and have a say in the management and decisions in those ports. My understanding is they are both also bidding to become an owner of this port, so they are kind of hedging their bets each way. It is good for them if they win the bid because their competitors – it would probably be quite bad for them if the opposite company won the bid because they could then potentially exercise power over the other company as a competitor within the port as well. We have seen that happen in Flinders where much less maintenance happens on the Patrick and Qube wharves than on the Flinders logistics wharves.

Part of this does go to a broader point we wanted to make. We were disappointed that the terms of reference for this committee are only the Port of Darwin Bill and not the Port Management Act of how a future privatised entity would be managed. We have made several suggestions in our submission about amendments that could and should be made to that bill. We believe it is important that either this committee examine that or it be examined by a future committee because the bill is only the transaction not what happens for the remaining 99 years after it takes place.

Mr CHAIR: It might give you some comfort that those questions were asked. To move on from your previous point of a private entity moving in, cutting corners, renegeing on service delivery and increasing prices, that is why we asked if you think a regulatory framework could exist to manage that, to which your answer is no. The reason a privatisation models goes ahead is more likely to be a lack of access to capital than lack of service delivery and the things the port corporation does.

We have a pro and a con here. There is strength and weakness in either model. Right now the existing model has poor access to capital but at least has a solid framework in how it deals with safety environment issues, how it includes people in decision-making on the port, and I am well aware of that. To get access to capital how do we put a structure in place which deals with this? You say that is impossible?

Ms HOWARD: I find it difficult to believe given ports around the country are so profitable, that the Port of Darwin is profitable, and interest rates are extremely low at the moment that it is impossible to get capital under the current structure. We have already seen concessions and private investment in the port happen over the past few years which have expanded the port over that time ...

Mr CHAIR: The question is not is it impossible, it is the weighted average cost of capital for us to do it as opposed to the weighted cost of capital for some else are very different. Is it an inefficient use of funds for us to do it?

Ms HOWARD: It depends on how you evaluate efficiency and inefficiency.

Mr CHAIR: Economic efficiency with money. I am not talking about efficiency with lifts or the operation on the wharf; I am talking about the variance in the weighted average cost of capital of two methods of dealing with something. One of the easiest is clearly a bad idea, one is a much better idea, but we need to look at the other issues created within that. Those issues, I expect, the MUA to feel strongly about, and rightly so because you represent the people who work on the wharf. I would like to hear your suggestions on what frameworks need to be put in place and what needs to be looked at – as strongly as you like because a lot of the information we have heard is much more directed towards the other end of this argument.

The beauty of you being here today is you are focused on your core business, which is right at the other end. I would like to hear your thoughts on how we can structure something which deals with this rather than, 'It's impossible. Look at your weighted average cost of capital.'

Mr GUNNER: Chair, with five minutes to go we can make that a question on notice and ask them to come back with an answer. I understand MUA have come here with a threshold question of, 'Do you sell or not sell', and the Chair is asking, 'If sold, what regulations should come in place'.

Mr CHAIR: I understand you need to make some threshold statements, but I see your value in your ability to assess operationally what needs to be checked off, what needs to be

right in the way this is put together, and you are one of a few to speak strongly on that and with experience of being so closely related to people on the wharf. I would really like to expand your paths from straight up 'no', and maybe look at if not a no, then what?

Mr WOOD: I would like to see whether there are other alternatives, and you raised them, but it is not always clear in my mind how they would work in practise. On one hand you have total government ownership and on the other hand you have total private ownership. Is there anything in between that would satisfy the public? They are important and a lot of people do not want the public assets sold, but if a proper process can be put together that shows going down a certain path will be beneficial for everybody, perhaps there is a hybrid there that we could look at that might be a good option.

Mr MAYOR: If there is a commitment that this is not going to be rushed through, we will not go away and – I appreciate what I think you are offering, which is for us to specifically talk about how it could work based on our concerns in a way that is not objection based to any change. If there is a commitment we can get to make sure that if we put that together, it will not be a waste of time ...

Mr GUNNER: It will not be taken as an assumption that you have decided selling the port is ok, if that makes sense. If you give a series of things you think need to be in place in regulation to if the lease of a port is sold. We will not assume that you support the sale of the port and that is an important thing to establish. I have a few questions before we run out of time.

An important part of your submission is loss of port jobs, and the workers on the port. From you experience elsewhere, what sorts of conditions or guarantees do workers want or need if we go down the path of privatisation? Super has been raised with me as a concern; we asked that question yesterday and got told quite bluntly super stops and you have to get independent financial advice. As I understand it, government has to provide that independent financial advice. What sorts of jobs or areas are vulnerable at the port? I understand there are several different categories of workers at the port who might be more vulnerable than others. Based on your experience in other ports, what are the potential outcomes from, for example, a job being lost in a certain part of the port?

Mr MAYOR: We have in our submission - and Penny looked into this and might be able to correct me – that there were about 31% of jobs lost in Brisbane, immediately following a three-year moratorium on job losses. Any guarantee we would seek would probably only have a certain lifetime. From our experience the axe comes down on the workers.

Mr GUNNER: So 31% of jobs were lost, was there any adverse consequence at the port as a result of that?

Mr MAYOR: Unless Penny found that out – from what I understand, when you guys visited Brisbane port, you only spoke to the port. You did not speak to anybody who might have been able to give you that information, because I do not think we have the breakdown of that.

Mr GUNNER: Maybe this could be a question on notice. I understand there are news ways on the Brisbane port. Were there any impacts from the job losses on the port after it occurred?

Ms HOWARD: That is information we do not have. I spoke to our Queensland branch and they went through what some of the areas were. One that was of concern was about maintenance in the port facility, I think there was a lot of contracting out of jobs as well, but I do not have the specific information from them about what you are asking.

Mr MAYOR: The other one was the community services part of what the port did that was chopped. I would guess that jobs were lost because those community services were chopped, but I cannot confirm that.

Mr GUNNER: We would be interested in some hard data, statistics or evidence around whether job losses end up with this being delayed or not, if that is the case. But as you can appreciate, the port of Brisbane spoke to efficiencies and other outcomes, so I would be interested to hear if there is an alternative side to that story.

Mr MAYOR: There were a couple of things coming out of this, including us specifically submitting something in regards to a hybrid possibility.

Mr GUNNER: We will get those questions back to you. The secretariat will do that.

Mr MAYOR: The other one I want to make sure was noted is about the Port Management Bill. From our understanding, that not having been part of the terms of reference in this hearing or ...

Mr CHAIR: We need to clarify these questions now because our time frame is going to be pretty short between now and when we need to be writing recommendations.

Mr GUNNER: Okay. I thought the questions were on the transcript ...

Mr WOOD: We only have 11 weeks to do this.

Mr CHAIR: Can you put your question because ...

Mr GUNNER: As I understand it, the questions include: if a private model happens at the port, what regulations should be in place to maintain safety and environment services? The second question was separate to that anyway, which was about getting advice from Grant Gilfillan on the public port authority. There was the question of what has been the experience in other ports – Port Brisbane specifically – of job losses? Have there been any consequences of job losses on the ports? And that ...

Mr MAYOR: Yes, to stakeholders in the community basically.

Mr GUNNER: And stake holders in the community. I think those are the three questions on notice.

Mr CHAIR: Thank you very much to both of you for your time. It was great to have you here. Thank you for contributing to our committee.

Mr GUNNER: Maybe there is an acknowledgement that 2.12 anyway made the point that we may not have the time as a committee to do the work of the committee. We have had that debate in the House as a committee.

Mr WOOD: We know.

The committee suspended.

AUSTRALIAN AGRICULTURAL COMPANY LTD

Mr CHAIR: On behalf of this committee, I welcome everyone to this public hearing into the proposed lease model for the port of Darwin. I welcome to the table to give evidence to the committee, from the Australian Agricultural Company Ltd, Stephen Crisp, Freight and Logistics Manager. Thank you for coming before the committee, we appreciate you taking time to speak to the committee and look forward to hearing from you today. This is a formal proceeding of the committee and the protection of parliamentary privilege and the obligation not to mislead the committee applies. This is a public hearing and is being webcast through

the Assembly's website. A transcript will be made for use of the committee and may be put on the committee's website.

If at any time during the hearing you are concerned that what you will say should not be made public, you may ask the committee to go into a closed session and take your evidence in private. I will ask each witness to state their name for the record and the capacity in which they appear. I will then ask you to make a brief opening statement before proceeding to the committee's questions.

Could you please each state your name and the capacity in which you are appearing?

Mr CRISP: My name is Stephen Crisp, with the Australian Agricultural Company.

Mr CHAIR: Thank you, Mr Crisp, would you like to make an opening statement?

Mr CRISP: No, that is okay, I have no opening statement for you.

Mr CHAIR: We will move straight to questions. The objects of the proposed leasing of the port of Darwin include accessing private sector capital for the growth and development of the port. What port development is required in your opinion to facilitate growth of the agricultural industry?

Mr CRISP: I am having trouble hearing, was that what is required to facilitate growth?

Mr CHAIR: Yes. On our port, we are looking at this lease option due to private sector capital. Would you like to let us know from your opinion - from your industry's opinion - what port development is required at this point to facilitate growth for AACo?

Mr CRISP: I suppose, from our point of view, all that is required would be separate berths for container vessels. It does not really have to be separate berths, but at least the ability to prioritise container vessels to come into the berth. At the moment you have waiting periods; it is first come, first served. There can be project ships or any other type of ship on the berth. If you have perishable products there is no guarantee that they will not be waiting for quite a length of time before the vessel even berths, so you are not sure what sort of delays you will get.

If we go to doing more chilled production out of Darwin, which we will be doing, obviously that is a concern as to how long you have to leave the product on the berth and what your

transit times are if vessels are waiting. Four and five days, or even longer, to get into a berth may change when some of the bigger projects wind down there, when the INPEX project winds down. I am not sure what the situation will be with berthing at Darwin port, but if they have a separate container berth it would be advantageous.

The other major area at the moment is we are mostly refrigerated; we do a lot of dry cargo as well, with bone meal and hides. The other major restriction there is the number of reefer plugs - power points for our refrigerated containers. At the moment there is a bank of 50 available, but apparently they are not all to international standards, so they have to use adaptors. Obviously the first upgrade is to have the proper plugs from international containers available for the 50 plugs that are in the main bank. Apparently there are another 25 plugs spread throughout the port, and I can envisage that if we have to wait a long period between vessels we could easily go over the 50. We would have to start searching around and using the other 20-odd plugs that are based there.

Mr CHAIR: There is a fair bit of handling involved, moving things all over the place trying to find a reefer point.

Mr CRISP: Yes. I am not really sure where all the other ones are located and if they have to be moved around the port how far away they are from where the vessel is loaded. It probably does not make a huge amount of difference how often the container is handled. It does not really worry us as long as they are on power while they are on the wharf. That is the major concern.

We are in discussions with the stevedores and outside sources that if the port cannot handle the volume then we may have to use some outside storage. We are in discussion with people like Qube and Patricks and other players such as people associated with the shipping lines about other options if we are stuck with what is available at the port.

You are only able to put containers in there for four or five days before the vessel arrives, which is your receiving period. You have extra charges if you put them in early anyway, so we have to look at what we do because there are not that many vessels that call Darwin their port. At least they are not that frequent. Unless they are spread out evenly, which you would like to have but will not always happen, we will have to rack and stack a few containers anyway.

Mr CHAIR: Are there other inland infrastructure needs that would be required to support your industry?

Mr CRISP: At the moment there are no cold storage facilities that I know of in Darwin. Obviously, that would be quite handy. The other thing is there is no air freight capacity out of Darwin either. There are more inland facilities involved in cold storage and bonded areas that would be require to air freight out of Darwin. That would be handy but it does not exist at the moment.

Other than that, we are on the highway straight to the port and there are no issues there. We are putting a few plug points and a few other storage facilities of our own work, so we are doing what we need to on our side. Other than that it is a very simple operation.

Mr CHAIR: Talking to you is important in relation to this committee looking at the regulatory frameworks available to us and, within that, what type of lease terms would be conducive to good business across the port. What are the main risks you see in privatising the port? First of all, do you see the way it is run either by government or a private operator as an advantage or disadvantage? What are the things you see that need to be looked at closely should we proceed along the privatisation path

Mr CRISP: Obviously, the charges are open-ended. The port is pretty much a monopoly operation as far as we are concerned anyway. The big concern is we have nowhere else to go as 90% of our products have to go out the port. The cost of trucking one 20 tonne load to anywhere on the east coast is about \$6000, so we have to go through that port.

The Darwin port has just put up its charges quite a lot, which a few of the shipping lines had a bit of a gripe about. Obviously we are passed on those costs. If it is privatised, the downside is what they will do with their charges to the shipping lines, which flow onto us. The upside is maybe they are a bit more proactive in getting the infrastructure in place and making business flow a bit more smoothly at the port. If it is privatised they may be more proactive in getting things done to make things happen at the port.

A few things we would like are the prioritisation with the trucking, so the perishables not having to go through the same gate as everyone else, simply because the cargo has to get onto power quicker. We are still sorting out these things with the Port of Darwin. That may well be sorted out. We have not had a real issue to date, but there are a lot of things to be gone through. Other than that it is pretty much what the costs structures are going forward. With our whole chain through the port, probably port costs represent about 10% of our entire transport cost to getting something overseas. So it is not massive, but obviously it will have an impact if it, say, doubled.

Mr CHAIR: Does AACo ship similar products out of any other port in Australia?

Mr CRISP: We ship about 35 containers of beef out of Brisbane every week. Essentially as far as the port is concerned it is the same product. It is frozen or chilled beef. What we have not shipped in the past ourselves, we have always sold it – due to our arrangements with the abattoirs down this end of the world, we are shipping hides and meat and bone meal through the port, which we do not normally ship under our own name down here. So that is a new site for us. But it is in dry boxes so it is not such a hassle.

Mr CHAIR: The experience you have had in Brisbane we would interested to hear about, considering they have just gone through a privatisation process down there. Can you shed any light on any differences that you have experienced operating through that port and the changes that you may have experienced?

Mr CRISP: Yes, from a port user – the whole experience down here is a lot more – I have been dealing with Sydney, Melbourne and Brisbane for years. The whole experience with dealing with the port itself is much more at arm's length as far as an actual exporter is concerned. In Brisbane the shipping line pretty much has all the dealings with the port and the stevedores have all the dealings with the port. The shipping themselves hardly has any contact at all. Only a couple of representatives will come out just to get some forecasts on what the industry is doing and what volumes they can expect through the place.

From a user point of view there has been really no difference at all as far as we can see. It is really the stevedores and the shipping lines that would notice it the most if there is any huge difference. I probably just see a couple more people each year only to get forecasts about what we are seeing in industry and what volume is expected through the port.

Darwin has been a bit different. They have been coming to use talking about needing notification of when stuff is coming into the port and getting stuff on power points and everything else. We have never really had to deal with the port before on that basis. Normally you just get your receival periods and just punch them in there. I suppose because it is new for Darwin they have actually had a lot of interaction with them in terms of – they want all sorts of information about what is coming when and what is arriving at the port, which would normally all be dealt with by the shipping line and the stevedores. We are working that out and they are getting used to becoming an operator with refrigerated goods. They are just the normal teething problems of a new industry I think.

Other than that, as far as changes there has been no noticeable difference here at all as far as using the port itself.

Mr CHAIR: How about on the price front? Have you noticed that, through the privatisation processes, there has been a change in price using the ports that have been privatised?

Mr CRISP: The price increases have been pretty nominal. I would not call them large or excessive or anything like that. When you get charges of 10% over a few years it is not exactly outrageous and nothing more than you would expect. So, no, I would not say the charges have upset us as far as Brisbane is concerned.

Mr CHAIR: Excellent. Looking at your particular industry and the threats that could be posed to price increases and whatnot if this is done badly, what regulatory things do you think we need to really take note of in terms of making sure that the regulatory framework is set up to protect our exporters?

Mr CRISP: I am not sure what is appropriate, constitutional, legal or possible - as long as the cost structures do not outstrip CPI by a certain amount. I am not sure is possible in regard to putting a restriction on what new operators can charge. I am not sure if it is being sold or leased, but as far as the regulations are concerned there would have to be some consultation with the industry as to where it stands, what impact price increases have and whether there is a framework on CPI versus cost increases at the port. I do not know if there is much more you could do.

Mr CHAIR: You would support price monitoring to make sure it is not out of control?

Mr CRISP: I think so. We operate a business and believe in free trade, but when you are in charge of a monopoly there becomes a concern that they can do whatever they want. We would definitely be in favour of monitoring and some relationship to CPI if nothing more appropriate can be found.

Mr CHAIR: I have no more questions for you. Do you have anything to add in relation to this?

Mr CRISP: No, I think you have covered it. That is pretty much what I thought you would be discussing.

Mr CHAIR: Thank you for your time today, Mr Crisp, and your insight which will help us formulate some recommendations.

The committee suspended.

VOPAK

Mr CHAIR: On behalf of the committee, I welcome you to this public hearing into the proposed lease model of the Port of Darwin. I welcome to the table to give evidence to the committee from Vopak, Jared Chng, Chief Financial Officer. Thank you for appearing before the committee. We appreciate you taking the time to speak to the committee and look forward to hearing from you today.

This is a formal proceeding of the committee and the protection of parliamentary privilege and obligation not to mislead the committee apply. This is a public hearing and is being webcast through the Assembly's website. A transcript will be made for use by the committee and may be put on the committee's website.

If at any time during the hearing you are concerned what you will say should not be made public, you may ask that the committee go into a closed session and take your evidence in private.

I will ask each witness to state their name for the record and the capacity in which they appear. I will then ask you to make a brief opening statement before proceeding to the committee's questions. Could you please state your name and the capacity in which you appear.

Mr CHNG: Jared Chng, Chief Financial Officer, Vopak Australia.

Mr CHAIR: Mr Chng, would you like to make an opening statement.

Mr CHNG: A lot of our concerns would be the cost factor, along with the other participants I have heard so far. We are the only oil terminal in the Port of Darwin because we work in close cooperation with our customers. Some of the lease charges we have seen in terms of the land lease increase, even without the privatisation, because of the demand and supply of the Darwin land we have seen it increases our land lease rates over the last five years.

Some of it we can charge to our customers, who are the oil retailers, and in return to protect the margins they would have to increase the petroleum prices. Some of it we have to bear, so that eats into our margins. Primarily that is where our main concern is. We see a similar trend in Sydney, because we have two terminals in Australia, one in Darwin and the other in Sydney. Sydney port has been privatised. We also see a risk that land lease rates

have increased significantly over the last five years, by this I mean easily a 30% or 40% increase in land lease rates.

Mr CHAIR: Is that land on the wharf or off the wharf?

Mr CHNG: What do you mean?

Mr CHAIR: Is the land you are leasing on the port or off the port?

Mr CHNG: It is on the port premises. We have primarily seen a steep increase. Back to the concern we have for Darwin, we understand that land is based on demand and supply. We just had a rental review of our land lease rates and we had a 40% to 50% increase in our original land lease rates. So this is quite a big increase, it is a big component that we have to bear in terms of our margins.

The concern we have with privatisation, you discuss the modelling and all of that, but if we look at a long-term lease type of model then from a financial background there is always pressure to increase. There is not the pressure to reduce, because investors will also be looking at views. That is our concern when we talk about a privatisation model.

Mr CHAIR: How has your experience been with Darwin port to date?

Mr CHNG: It is pretty good. We recognise that the reason why we accepted a 40% to 50% land lease rates increase this year was because we recognise the demand and supply of land that has taken place in Darwin. At the same time, our concern is what if a downturn happens. Will it be a case where we, after every three or five years, have a market review and will it hit downwards or will there just be a CPI increase that will only cause our rates to go up and not down?

Mr CHAIR: I thought you were talking about that 50% rent increase happening in Sydney; did that increase happen here?

Mr CHNG: Yes it did.

Mr GUNNER: it was 30% to 40% in Sydney, and 40% to 50% in Darwin.

Mr CHNG: Yes.

Mr WOOD: Who are you leasing that land from?

Mr CHNG: The land development authority.

Mr WOOD: So, you are outside the port?

Mr CHNG: Our landlords are the land development authority for Darwin, but for Sydney it is under New South Wales Ports, which is the privatised entity.

Mr CHAIR: On the Darwin port, do you lease any land now? I know there is the bulk loading berth, and that is more of a common user. Do you not lease that from the port, or do they just charge you a price per cubic metre?

Mr CHNG: Yes, per cubic metre.

Mr CHAIR: So that is transferred across that. With what is there now and your needs, do you see that continual increase in Darwin and what you were saying about your volumes increasing coming into Darwin, is there any development that needs to happen on the port where you would foresee that if we went down a lease model, certain developments would need to be happening?

Mr CHNG: So far, in terms of capacity issues with regards to Darwin port, we have not had many limitations with that. Customers will want increased berthing rates because it helps with the shipping costs. A lot of it is between the customer and the ports. For us, we see that the Darwin throughput terminal has increased a fair bit over the years. However, that said, it is also pretty much a limited market because primarily if you look at our business in terms of the oil users it will grow pretty much in correlation with the population. We see quite a limited growth in the market.

Mr CHAIR: You would not see any capacity issues at this point?

Mr CHNG: Yes, that is right.

Mr CHAIR: Would you think any other inland infrastructure is necessary in helping your industry? I suppose once it has left the gate at Vopak at the other end there is not any necessity for you further down the train, is there?

Mr CHNG: No, that is right.

Mr CHAIR: Do you see any other issues other than price we need to be looking at in relation to the port privatisation? You mentioned price. Would we need to looking at the price the bulk loading berth is assigned to people for ...

Mr CHNG: Yes, definitely

Mr CHAIR: ... rates you have talked about. Do these impact the overall costs?

Mr CHNG: Yes. They would be charged out to our customers. I believe our customers would primarily look at the rates as well as the berthing capacity for the berth.

Mr CHAIR: You come from Singapore where there a great deal of port activity happens as it is a very large port. Another issue raised is dispute resolution when ports are privatised and an issue comes up between third-party users and the port. Is the port in Singapore a private port with private sections in it?

Mr CHNG: It is privately owned. The way Singapore uses its privatisation model is we farm it out to a sovereign wealth fund. Tomasic, which is linked to the government but operated as a private entity, owns the port. PSA, Changi Airport and others are owned by sovereign wealth fund ...

Mr GUNNER: It would be similar to a government-owned corporation?

Mr CHNG: Yes, GIC is similar to the government.

Mr CHAIR: No, it is more like a super fund owning it.

Mr CHNG: Correct. Most of the Singapore assets ...

Mr CHAIR: Does the minister have the final say over what happens at those, or is it the board of directors of the sovereign wealth fund?

Mr CHNG: Yes, it is the board of directors of the sovereign wealth fund. Say for example, the government investment corporation minister is on the board of directors.

Mr CHAIR: They are on the board?

Mr CHNG: Yes, on the board. Inevitably there is some linkage. The principle behind it is it is supposed to run as a private entity.

Mr CHAIR: Right.

Mr WOOD: Do you get ministerial influence? One of the arguments we have heard against government owning ports is people can run off to the minister and say, 'Minister, they are not dealing with me fairly'. The minister might come into the equation and argue the case for that person. Whether that is fair or not, I do not know. Do you have ministerial interference in the running of the port – or possible interference?

Mr CHNG: The principle was that there should not be any because there are two gates, so to speak. One would be the ownership gate which is owned by the sovereign wealth fund which is empowered to make its own decisions. So government should not be influencing the way it makes an investment decision. Second as a shareholder of the government sovereign wealth fund there would be holding the board of directors of the port company to make the decisions as to how to efficiently run or invest in the ports.

Mr CHAIR: What risks do you see other than costs we need to look at for a regulatory or leased framework?

Mr CHNG: In the risks, that would be primarily the costs. Of course, it would be the efficiency of running the port itself. Maybe before I answer the question, in the Land Development Corporation versus the port, is there exclusive ...

Mr CHAIR: Completely different.

Mr CHNG: Oh, completely different. Okay. Yes, it is more in how the assets are being run efficiently and ensuring that costs are kept at a minimal basis.

Mr WOOD: Are there any delays unloading a vessel at Darwin port?

Mr CHNG: Yes, every now and then we do face a couple of delays here and there. Of course, in terms of berthing capacity if the jetty utilisation rate is lower or there is an expansion it will certainly help in terms of the business for our customers.

Mr WOOD: Nathan might be able to help me – that bulk fuel loading facility ...

Mr CHAIR: BLB, yes.

Mr WOOD: ... is not exclusively just for fuel loading?

Mr CHAIR: It is if there is fuel boat there.

Mr WOOD: But other ships can use that?

Mr CHAIR: Only if there is not a fuel boat coming.

Mr WOOD: I am just interested to know why they get held up then.

Mr CHAIR: If there are hold ups do you know what those hold ups relate to? I have been there once where the pressure coming off the boat was different to the pressure of the pumps within the actual line, and that can create a super-high pressure within some sections and blow the lines up. I have seen them have to really monitor the pressure right along the pipeline to make sure the pumps on the ship pumping off are matching the pumps pumping forward off the ship.

Mr CRISP: Yes. Also sometimes it can be a clash of scheduling. For example, certain customers dock their ships at the same time so because of capacity constraints the other ship cannot dock and unload, which would be the other point that results in (inaudible) issues.

Mr CHAIR: Does it happen often?

Mr CRISP: No, it does not happen that often.

Mr CHAIR: Do you have anything else that you would like to add in terms of helping us? I know your time constraints; you have to leave very shortly and go to the airport. Is there anything else that you see that we very clearly need to be looking at in this process to make good-quality recommendations?

Mr CRISP: No. I think primarily it is how the leasing model is to be done with the private investor and to take into consideration demand and supply rather than just a simple escalation of rates.

Mr GUNNER: This might be outside the work you do with Vopak, but you said you were in Sydney and we heard earlier today about the public port authority model in place in Sydney. I am wondering if you find that a good system to work under where the port might be private but the port authority is still a public entity.

Mr CRISP: Yes. Sorry, I had this misconception, because if I was to go by Sydney ports as a basis, Sydney ports are landowners as well the owners of the jetty. In this case the way I would read it is that the land development authority owns the land but the ports run a separate asset altogether. Hence I had the misconception on that point. With regard to the Sydney ports, regulation-wise I think it is always better to have a separate regulator rather than having a privatised entity. To me a privatised entity exists for only one reasons and that is to make profits. A public entity has to look at the national good and develop the national good. Therefore, I think it should be two separate offices rather than a single privatised entity that runs it.

Mr CHAIR: Thank you.

The committee suspended.

BHAGWAN MARINE

Mr CHAIR: On behalf of the committee I welcome you to this public hearing for the proposed lease model for the port of Darwin. I welcome to the table to give evidence to the committee from Bhagwan Marine, Duncan Anderson, Regional Manager QLD/NT, and Emil Tastula, Project Manager. Thank you for coming to the committee, we appreciate you taking time to speak to the committee and we look forward to hearing from you today. This is a formal proceeding of the committee and the protection of parliamentary privilege and the obligation not to mislead the committee applies. This is a public hearing and is being webcast through the Assembly's website. A transcript will be made for use of the committee and may be put on the committee's website.

If at any time during the hearing you are concerned that what you will say should not be made public, you may ask the committee to go into a closed session and take your evidence

in private. I will ask each witness to state their name from the record and the capacity in which they appear. I will then ask you to make a brief opening statement before proceeding to the committee's questions.

Could you please each state your name and the capacity in which you are appearing?

Mr ANDERSON: My name is Duncan Anderson, I am the Regional Manager for Bhagwan Marine, covering the Northern Territory and Queensland.

Mr TASTULA: Emil Tastula, Project Manager for Bhagwan Marine. Basically Northern Territory and parts of northern Queensland.

Mr CHAIR: Thank you. Mr Anderson, would you like to make an opening statement?

Mr ANDERSON: A brief one. We are a private user of port facilities. We contribute significantly to the economy of the harbour in Darwin and some of the outer lying areas of the Northern Territory. We are very interested in this process, it certainly has the potential to impact our business significantly, either positively or negatively, it depends on the outcome of this transaction.

We have some concerns, and I expect to outline those in our answers to your questions. Our key concern is that right now you are dealing with a fairly non-competitive environment in harbour services. We see the transition from potentially a public entity managing the port to a private one as being an opportunity or a threat. The opportunity for businesses like ours is that we see increased competition and the ability to expand what we do in the harbour, and the ability to reduce the costs of what we do in the harbour.

We see a potential threat if it is done the wrong way, and that is to move the non-competitive environment from being a place where it is managed in public hands to a place where it is managed in private hands. We think if that scenario eventuates we have not resolved anything from the user standpoint.

Mr WOOD: What do you see as competition if there is only one port?

Mr ANDERSON: There is a range of different services being provided by the port to users like ours. You are talking about things like pilotage, anchorage, moorings and berthage. There is a range of different locations where those activities occur. Right now, most of them are consolidated through a single entity. If we are talking about privatising the port, companies like ours would like to take advantage of assets we own that we cannot take

advantage of today – for example, moorings. We will expand on others as we go through the questions.

Mr CHAIR: Go for it! Expand on them. You guys own some moorings in the harbour ...

Mr ANDERSON: Yes.

Mr CHAIR: ... that you would be looking to lease out to people mooring a vessel while it was waiting to come into port? You would be hoping to go into direct competition with ...

Mr ANDERSON: Right now it is not a level playing field. If you analyse the cost structure of what it takes to install and maintain a mooring, for instance – and we have our own – if we were going to rent those out on a commercial basis we would be significantly more expensive than the current port charges that apply. So if you analyse that, we understand there is a taxpayer-funded subsidy on the charging rental rate for a mooring.

If this went into private hands, we know damn well mooring rates to the public will go up because, as a private operator with a profit motive, you have to recover your costs. Charges like mooring rates will have to go up in order for that to occur. If that occurred, we would like to be able to compete in the marketplace.

Mr TASTULA: That is primarily around day mooring and storm moorings. Cyclone moorings are a little different, but obviously that area could be done ...

Mr CHAIR: Where are your moorings?

Mr TASTULA: They are scattered through the harbour – Blessers Creek, Cossack Creek and the Elizabeth River mouth. We have some working moorings in the small boat anchorage, for example. We are limited to using them for our own operations. A client may have a direct requirement as a part of the overall project we are doing for them and they will pick up a mooring. But for people coming in and out of the harbour ad hoc where the port charges for a working mooring or a day mooring are extremely low. Commercially, you cannot compete with that so it is exactly as Duncan said.

Cyclone moorings are another matter. They are very expensive to install. We put them in and generally only have enough to look after our own requirements because again, you cannot offer that up with a commercial benefit at the moment.

Mr CHAIR: I am interested to know whether these would compete with what size vessels?

Mr ANDERSON: You mean what size vessels would ...

Mr CHAIR: Yes, with the moorings you have, what size vessels would you be competing with the port on?

Mr ANDERSON: The moorings would be used by a range of different types of vessels. You are dealing with small work boats right the way through to fairly large barges. In between you will have tug boats ...

Mr CHAIR: Yes, but not a big cattle boat or a ...

Mr ANDERSON: No. Typically, we are not involved in that area. However, the equipment you need to install and maintain a mooring is exactly the type of equipment we have in this harbour today. We see privatisation of the port services as a potential opportunity to get into that marketplace. We also see it as a potential threat if not done right. We cannot compete in that space.

Mr CHAIR: How would you like that done right to ensure they do not have exclusivity over moorings in the harbour?

Mr TASTULA: For a start we currently pay a mooring fee to the Darwin Port Corporation per mooring ...

Mr CHAIR: Even though you own it?

Mr TASTULA: If you own it. We might install the mooring at a substantial cost and we then have to pay a lease fee for that ground. If that was handed to private enterprise would we then have to pay a lease fee for that right? If that was handed to private enterprise do we then pay that private entity that lease fee, and do they increase it, how much do they increase it? There are a lot of questions there from our perspective.

Mr CHAIR: So you pay to lease a section of water?

Mr TASTULA: Basically, yes.

Mr WOOD: Could I ask a general question. What's the full range of products you provide as a company?

Mr TASTULA: Basically anything from mooring, navaid maintenance, crew transfer, logistics, to LTC barging, a tug and a barge combination, construction support, specific construction barges and workboats that do construction activities, vessel maintenance, contract marine engineering, vessel compliance, importation of foreign flag vessels and getting them ready to go onto a construction job somewhere in Australia. It is very varied.

Mr WOOD: You are an international company, is that correct?

Mr ANDERSON: We are. We are predominately Australian, headquarter in Geraldton, Western Australia. We have around 800 people in Australia. We have about 150 vessels around Australia. We also have operations internationally, headquartered out of the UK. They are servicing mostly the harbour towage market worldwide. We deal in projects in Chile, Africa and places like that largely through the UK operation.

Mr WOOD: I was not 100% sure how big you were in the sense of how much responsibility you took for port operations.

Mr CHAIR: In terms of the scope of work you do – you are particularly busy at the moment – are there any further things you think a new port leaseholder would need to do from a development point of view to improve the harbour? What sort of infrastructure do you think could be in place that would actually help business in the harbour or help facilitate more trade or more business, or a better working environment?

Mr ANDERSON: There is quite a few. I will kick off and I am sure Emil will come in with more. One of the big issues we confront today is that some of our vessels will need to receive cargo, small amounts typically, to take it to a worksite. The worksite could be offshore with oil and gas. The worksite could be in harbour somewhere. The points of loading for that cargo are really limited to East Arm today, and at some of our facilities at Hudson Creek.

We have, in the past, been using the Fisherman's Wharf area to load cargo. Obviously there is significant pressure on us to move away from there and head down towards East Arm where possible. There are enormous challenges there. One is that there is a lack of facilities around town for us to pull in and do a quick hotshot load in a cost-effective manner. If we have to go through East Arm, the charges there are phenomenal. If we need to go to Hudson Creek, where we in fact have a load out, we are tidally constrained. However, what

is perverse is we happen to have a higher lifting capacity at our Hudson Creek facility than the East Arm Wharf does. If it is a pretty heavy piece of kit you need to load on a barge, we will do that at our facility. If you are bringing a vessel in and you need to lift a container or a little piece of cargo, our options are fairly constrained without having to go through the significant expense of East Arm.

One of the big benefits we would hope to see out of an investment in port infrastructure is alternate loading points that allow us to load our own equipment without having to go through the very expensive option of the traditional East Arm operation.

Mr CHAIR: Why is it expensive?

Mr ANDERSON: I think that would be a question for the East Arm port more than us. We do not really understand their cost structures, but typically if we have a vessel that has a crane on it and we can do a lift with that crane we do not have to bring in other assets. At East Arm we might be forced to use the assets there, and something like a crane is very expensive.

Mr WOOD: What were the problems with Fisherman's Wharf?

Mr ANDERSON: It is a recreational zone, and I know the DPC have been encouraging industry players like ourselves to really stay away from there as much as possible. We certainly have been fulfilling their wishes as best we can, but there is interaction between recreational recreational users and commercial users they are trying to avoid.

Mr TASTULA: On the Fisherman's Wharf side too, do we know what will happen there in the future? We are hearing, in industry, that it has been handed to Lands and Planning and is not DPC infrastructure any longer. What does that mean for us.

Mr GUNNER: My understanding is Fisherman's Wharf has been handed to the waterfront authority.

Mr WOOD: No, we are talking about Fisherman's Wharf fish and chip shop.

Mr CHAIR: Stokes Hill has been handed over to the waterfront.

Mr WOOD: That was built for small ships.

Mr TASTULA: The Raptis section of it, yes, that was our understanding.

Mr WOOD: That is a good facility.

Mr TASTULA: It has suited the tasks up to date, but the car parking behind there becomes quite congested. It is not an OH&S easy place to work and there is a tendency for people to park unmanned boats alongside there. As Duncan said, in the case of a hot shot at 4.30 pm or 5 pm, when you are coming in to quickly load a vessel and two vessels are rafted up and have been there for days on end, it can create a problem if you rely on it. It is unreliable in its availability and there is a need to manage that better. We do not know who will manage that going forward.

Mr CHAIR: Who will manage it and what are the rules around scheduling and who has access.

Mr ANDERSON: You asked about infrastructure in Darwin Harbour. One of the key things the industry would be looking for is choice. We would also be looking for the ability to house equipment, vessels in particular, in an area that is not necessarily lock-constrained. The duck pond is somewhere we house vessels and we are always running into scheduling challenges there.

If there was significant investment in the harbour we would be looking for marina-type facilities more kitted out for commercial use. We would be looking to – probably in the same area would be ideal – be able to offload cargo. What that will do for companies like ours, and for Darwin, is position us to do much more offshore oil and gas support.

You are talking about some of the bigger vessels, the ISVs or platform supply vessels. Right now the opportunities for us in that market are limited, predominately because of the lack of infrastructure options in Darwin.

Mr CHAIR: The Marine Supply Base has not made that an easier?

Mr ANDERSON: No.

Mr CHAIR: Are we talking about loading a rig tender or loading a crate of some tool that needs to be there as soon as possible? It is just a matter of get the crane of there and get out? I dropped off a 60 tonne sling to you guys at Fort Hill Wharf in a former life because someone needed it yesterday.

Mr TASTULA: We are still moving to all those traditional grounds. You might move to Fort Hill Wharf for one load then you might move to Raptis for another, then you might have to go to East Arm to do something bigger. You never know where you might end up. Sometimes you book a berth and it is pulled on you at the eleventh hour because a high priority vessel comes in. We still incur the costs of planning, doing the logistics at the back end and having everybody ready to go. You are on the water and the barge or work boat is ready to come in and you are bumped.

There are challenges. It does not happen often, but enough that it costs us a fair amount of money over a year. As Duncan said, it is not a consistent place where commercial operators can do their business.

Mr CHAIR: Particularly when you are not saying, 'Here's a manifest', - a lot of stuff going out to a rig tender ...

Mr ANDERSON: You want a one-stop shop and what you have at the Marine Supply Base is a cargo facility. You have lay down and cargo transfer. There are issues with access into that facility. That aside, what you do not have is the ability to house your vessel. You cannot park it and leave it for a few days while you provision the vessel; you have to get in and get out. That particular type of activity, you will find with users like ours, will have to go through multiple environments today.

Mr CHAIR: Are you guys not of the capacity or scale within yourselves to expand a jetty off your other loading facility in Hudson Creek so that you have deeper water and can leave stuff there?

Mr ANDERSON: There is always that option. You would probably find a combination of players could pull together and implement something like that. We would want to make sure that in this port privatisation process that type of opportunity was not excluded. If we saw an opportunity to do exactly as you described, we would want to make sure that the environment of this private port operator does not strain us.

Mr CHAIR: That they do not turn and say you cannot, basically capturing you into a market where you have to use our stuff.

Mr ANDERSON: Exactly. Competition is the key, and that is the key message we would like to deliver.

Mr CHAIR: I understand that pretty clearly. Are there any further questions on that?

Mr WOOD: With the Hudson Creek facility, will the port proposal take in that area?

Mr CHAIR: No, not that I recall. It was just East Arm, Fort Hill and the channel – all moorings, markers and navigational aids.

Mr GUNNER: I would not mind another briefing on that, because my original briefing from the Chief Minister's office had marine supply base out ...

Mr CHAIR: It is already leased.

Mr WOOD: I was concerned when they said they wanted competition, but if it is not within the area proposed to be privatised then I do not know how they can stop you from being competition. Maybe you are concerned it might be written into ...

Mr CHAIR: They do not run the ConocoPhillips load out facility or INPEX's MOF, they are their own entity. If you guys got approval from, say, Lands, Planning and the Environment or whoever to do what you want to do in a different location in the harbour – I see they do not actually own the harbour, they just own certain assets within it.

Mr TASTULA: It comes back to that cost which becomes a part of using the port. At the moment you get charged just for bringing your vessel into the harbour. I think Duncan said our spend last financial year was \$500 000 with the DPC. We get a bill for port dues, which is just to bring a boat in and ply the waters. You do not get anything, you do not throw a rope onto a mooring bollard or anything like that; it is just a cost. Those types of costs experienced by commercial operators – does the entity that picks up the port privatisation get to charge those? If they do, what will they charge? A company like us, in theory, will probably end up having to compete with these people.

Mr WOOD: Are we clear on navigation aids?

Mr CHAIR: I think what we need to be clear on is the delineation about where one thing starts and finishes. If we think about what this port does it is easy to comprehend, when we talk about pilotage on an iron ore boat or on a cattle boat. When we talk about smaller vessels, the kinds that you guys operate, such as barges in and around the port – you guys park your boats at the little T jetty on the other side of Fort Hill Wharf. That is their own facility, will they get charged by the new port lease people potentially to park things at their own area.

Mr ANDERSON: I think you might be referring to one of our competitors. They allegedly pay a licence fee for that to the DPC.

Mr WOOD: One of the questions asked yesterday was, 'What do you pay in port dues?' I said to them jokingly, 'Just charge them for the water'. They said it is also there to help pay for the maintenance of navigational aids etcetera. That is reasonable. The question really is, if those navigational aids are taken over by a private port, will that mean the cost of all of that will increase?

Mr ANDERSON: Let us pass that subject out if we can because it is a root cause of one of our fears. If I was a private company and I came in and took over the port, I would be looking at ways to monetise my investment. One of those ways is by increasing the services we offer in and around the harbour.

Take nav aids or moorings as an example. Right now the DPC might engage companies like ours and our competitors to provide vessels and crew to do nav aid maintenance. We will pull the nav aid, clean it up and put it back in. So there is install and repair work for which we are currently generating revenue off the DPC.

One of the big threats you have with a potential monopoly scenario in private hands is they now have not only the incentive, but the wherewithal to price companies like ours out of the market for that type of service and take on that service themselves.

One of our big risks in this exercise, if it is not done right, is one of the core revenue streams we have inside the harbour disappears.

Mr GUNNER: My understanding on this area is we heard earlier today one of the models elsewhere is where the public port authority will still maintain that aspect of the port with the nav aids. If the port was sold, the private owner of the port would not necessarily have that part of the business. It might remain in one of these models in the public port authority – if that makes sense.

You have raised a good concern about a model where that aspect of the port authority goes across to a private owner of the port. As I understand it, that is currently how the bills are set up. But other models in Sydney, Port Botany and a couple of other ports is having a public port authority that takes care of those safety, environmental or regulatory concerns separate to the port operations on port land.

Mr TASTULA: Pilotage is another very good one for exactly what we are talking about. Basically, we have a scenario now where the Darwin Port Corporation will pilot all vessels over a certain length and vessels in combination – say a tug and barge scenario. Once they exceed a certain length there must be a pilot on board. That pilot is supplied by the DPC. Believe it or not, we get the pilots for a fairly good rate compared to going into Port Hedland or Dampier and others. It is a bit more expensive than some places, but it is generally not a bad cost model at the moment.

However, with multiple ins and outs, we can get a pilot exemption for our masters so that, once they have the experience, they understand the zones they are working in, they get a pilot exemption, they mention the pilot exemption number and the tower allows the move to proceed.

If that was put into private hands and they picked that up, would they allow pilot exemption? It would not be in their interest to keep that going. Then, do they decrease the minimum length? Basically, then even smaller boats have to get a pilot.

If you take the Dampier model, for example, you transit two zones in the Dampier harbour and you have to pick up two different pilots at a very high cost. So your one movement of a vessel across two facilities results in two pilots from two different organisations and a very big cost. The models for how it can go badly are already out there to be seen.

Mr CHAIR: That is why it is good talking to guys like you. It is one thing talking high-level weighted average cost of capital values ...

Mr GUNNER interjecting.

Mr CHAIR: ... on who can access what capital to develop what, but it has been very much the focus of – I do love weighted average cost of capital, yes. He is picking on me. He does not know what it means yet, the WAC.

Mr TASTULA: Write that down.

Mr CHAIR: Some of the most interesting comments we had – he will agree with this – is when we talked to third parties which used ports and said, 'It was all right until this happened'. It is interesting to get hold of some of these issues because they are not issues people who do not work in the scenario would think of. I think it is really important that you guys are here. More of these things you are saying need to be heard and addressed, like who does maintenance on nav aids could put people into or out of business. The pilot thing – I

knew there were pilot exemptions. I thought that was just a general thing everywhere in the world. So there are some ports that just do not give you an exemption no matter how many times you have been in and out of the port? I know there are plenty of people who drive their own boats in and out of the port because they have done it heaps of time. Rig-tendered pilots and stuff like that get exemptions. I did not know that was particularly strange here or whether that is something we do here that would not been done anywhere else, or changing the lengths and things like that – are there other things like that which you guys see coming?

Mrs FINOCCHIARO: If you could go through the advantages and disadvantages – you obviously operate in private ports in other jurisdictions so if you can highlight for us things that work really well or things that do not that is useful information.

Mr GUNNER: You can take that on notice if you like

Mr ANDERSON: We would like to submit that formally to you in writing.

Mrs FINOCCHIARO: Okay, great.

Mr GUNNER: I think those two examples you gave were ...

Mr CHAIR: Keep talking, but if something comes to mind later, please write it down and get it back to us as quickly as you can.

Mr ANDERSON: The member for Fannie Bay touched on a potentially very interesting concept, which is having a port authority that essentially owns the land and the navaid, etcetera. That might be the line of thought you need to explore in more detail, because things like moorings and if we can compete in that market space would potentially be resolved under a model like that. Things like pilotage would potentially be resolved under a model like that. Some of these too hard to manage – could introduce negative competition consequences – you could potentially manage through some sort of instrument like that. I really commend that line of logic. I think it needs to be explored in more detail.

Stevedoring – I see Thomas in the back watching. He is probably going to be very interested in this comment. Competition in stevedoring ...

Mr CHAIR: If you want to say something that you do not want him to hear you can say it in private if you want.

Mr ANDERSON: No, I would tell this to Thomas in private. Stevedoring certainly is an area of competition, an area where we see potential opportunity in a privatised environment. More competition there is certainly going to drive costs down, see some innovation that could benefit Darwin Harbour. I think I am talking beyond our company and our industry at this point. Certainly there is a flow-on effect for us. I think that certainly is something that the committee should explore in more detail.

Mr CHAIR: That was a pretty mother-in-law kind of comment. Have you got a specific you would like us to look it? Is it general stevedoring you are looking at getting into or is it more related to stevedoring your own products, like you were saying at the MSB they are getting your guys in possibly rather than getting ...

Mr ANDERSON: It would be a combination of the two. Certainly right now you only have – although there are multiple players in the market place, if you look at the cost structures they are very similar. The underlying costs that they face, there is not much competition in that respect. So Darwin Harbour as a whole is confronted with a scenario where you essentially have a monopoly of options in stevedoring.

If we had the ability to utilise our Hudson Creek facility, even though it is tidal constrained, to do a lot more work, I think that would open up competition.

Mr CHAIR: Why can't you?

Mr ANDERSON: Right now we have a very good relationship with, say, Thomas, and there is no way we would want to jeopardise that through expanding what we do on a very ad hoc basis at the moment. There are reasons why we would want to use Patrick or Qube, and we certainly would not want to jeopardise those relationships either. But that is primarily because we do not have an alternative to the bulk of what we use that service for today.

Mr TASTULA: I think it also goes back to that question of what is going to happen with stevedoring on those deep water port access points that we all have to book and deal with at the moment. If the port is privatised, what is the plan with stevedoring over those facilities? Will a private owner want to use their own stevedores and cranes? Will there still be competition on the Darwin waterfront under a privatised wharf facility?

Mr CHAIR: It is my understanding they are lease arrangements. Patrick and Qube lease blocks of land from DPC currently so that would shift to the new person. They are licensed as stevedores to operate on those ports.

There is probably nothing stopping you from licensing yourselves as a group of stevedores now. There would be some stuff to do to get a licence and I do not know what that would be. Terry O'Connor would probably be able to tell you. I do not see that a new operator would preclude that; it is just a matter of you getting a licence like everyone else.

Mr TASTULA: My question is more about Fort Hill Wharf and East Arm Wharf and privatising those wharf faces. What is the forward plan with those operators? Will they allow for multiple stevedoring companies, or will they set some standards that mean one, two or their own stevedores only meet the requirements? What could happen there? Could we end up with somebody controlling the waterfront and controlling who gets a stevedoring licence on the waterfront?

Mr CHAIR: Particularly if they hold one. Do you have examples of places we could look at where this has been an issue or something you can point to and say, 'Look at that because it is a problem', rather than purely hypothetical? Do you have an example of where that may be occurring now?

Mr TASTULA: Dampier, Mermaid Marine's facility.

Mr GUNNER: Do you use Flinders port at all?

Mr ANDERSON: No, we do not.

Mr CHAIR: What happened at Mermaid Marine?

Mr TASTULA: For quite a long time they owned one of the few access points for loading at the waterfront.

Mr CHAIR: Loading rig tender-type size vessels?

Mr TASTULA: Basically anything and everything. You were bottlenecked to that one facility and it was very expensive. You had to fly down and beg for a berth. This is when the northwest shelf was very busy and options were limited. Can that model play out here where a big private entity comes in and only wants its own stevedoring organisation run the load out over East Arm or Fort Hill? We are then bottlenecked to one service provider.

Mr GUNNER: One thing the committee needs to consider is if the port is sold what terms and conditions should be placed on the sale. That would fall into one of those categories.

As it sits at the moment, it would be up for whoever bought the port, if it was sold, to make those decisions. It is open-ended at the moment. Part of the job of the committee is to ascertain if sold what terms and conditions should be on the sale. That would go to some of the things you are talking about.

Mr CHAIR: We went to Adelaide and saw Flinders was moving into the stevedoring space as well as operating the port. That presents conflict of interest issues that would need to be ...

Mr ANDERSON: That goes to the heart of what we are talking about. It is a concern that needs to be allayed.

Mr WOOD: We are nearly at the eleventh hour – if the government will make a decision. Has any other section of government – steering committees, Flagstaff or anyone else – asked your opinion on this possible change? Have you been involved in anything, from a government point of view, except this committee? Has anyone asked your opinion, as a user group of the port?

Mr TASTULA: There are port user group meetings where things can be raised.

Mr WOOD: The government is talking about leasing the port to a private company. Yesterday they said they started this process a year ago. We are nearly at the end of our term of 11 weeks to provide some recommendations. It is late in the process and I did not know if people had been consulting with you earlier in the process.

Mr ANDERSON: The direct answer is this is the first communication we have had from the government on this particular topic, from anyone within the parliament of the Northern Territory.

Mrs FINOCCHIARO: Have you not been briefed on it at one of the user group meetings?

Mr ANDERSON: It has been discussed, but no one has come to our leadership and asked for the type of feedback you are asking for today.

Mr CHAIR: Were any of these things discussed with DPC?

Mr ANDERSON: Not with us. It may have been mentioned as a discussion point, but no one has asked for our feedback.

Mr CHAIR: I know you guys are well out of time now, but if you think later that you should have raised this or that, please feel free to contact us.

Mr GUNNER: Has that question been taken on notice? The question we had earlier.

Mrs FINOCCHIARO: It was about advantages and disadvantages, and benefits you have experienced in other private and public ports. We are trying to form recommendations on if a model went ahead, what would be the best one. If you have good or bad things to say that helps to inform us.

Mr ANDERSON: Where do we send that to?

Mr CHAIR: Russell Keith in committees, by the end of next week if there is anything else.

Mr ANDERSON: Our tenders are due tomorrow. So the end of next week is a luxury.

Mr CHAIR: We appreciate you coming in; it is some insight we have not heard from other people. It is good to talk to people who work in the industry at the place and time to see these things coming.

Mr ANDERSON: We appreciate your time, thank you for the invite.

The committee suspended.

Qube

Mr CHAIR: On behalf of the committee I welcome everyone to this public hearing into the proposed lease model for the Port of Darwin. I welcome to the table, via teleconference, Antony Perkins and Simon Barney to give evidence to the committee on behalf of Qube. Thank you for coming before the committee. We appreciate you taking the time to speak to the committee and look forward to hearing from you today.

his is a formal proceeding of the committee and the protection of parliamentary privilege and the obligation not to mislead the committee apply. This is a public hearing and is being webcast through the Assembly's website. A transcript will be made for use of the committee and may be put on the committee's website.

If at any time during the hearing you are concerned that what you will say should not be made public, you make ask that the committee go into a closed session and take your evidence in private. I will ask each witness to state their name for the record and the capacity in which they appear. I will then ask you to make a brief opening statement before proceeding to the committee's questions. Could you please each state your name and the capacity in which you are appearing.

Mr PERKINS: Antony Perkins. I am the Director of Business Development within Qube Ports and Bulk.

Mr BARNEY: Simon Barney. A project manager within Qube Ports and Bulk.

Mr CHAIR: Mr Perkins, would you like to make an opening statement?

Mr PERKINS: First of all I think it would be useful to understand a little about Simon and myself, and our backgrounds to give some perspective, and secondly a little about Qube, how we operate and what we do. I am not sure how aware you are of Qube.

I was born in Darwin. I have been involved in the shipping industry in Darwin for many years through my affiliation with Perkins Shipping. I have subsequently been involved in stevedoring and logistics activities throughout my career, and am currently Project Director of Qube.

Mr BARNEY: Simon Barney. My role is to work through the development and feasibility phase of projects then through the development and delivery side. As an example, we have a \$20m-plus investment happening in Darwin at the moment which I project manage and work with local teams to deliver.

Mr PERKINS: With regard to Qube, we have been around seven years. At the time there was upheaval between the existing major stevedores in the port. One was Patrick, which was going through an unfriendly, hostile takeover battle by Toll. At the same time there was a friendly takeover of what was P & O Ports by DP World.

P & O Ports had no desire to continue in the regional port activity in the bulk and general stevedoring side of the business. A group of shareholders and senior management from both P & O Ports and Patricks got together and acquired two small businesses from P & O. It was called POAGS and POTA at the time as there were different shareholdings. That was in 2007. Over subsequent years the shareholders came together and the business was rebranded as Qube and the company has grown significantly in that port space. Originally the assets acquired were around \$200m, and we have become a \$3bn company in seven years.

A lot of the management team have been working together in the port industry for many years – 15-plus years as a team, possibly longer for some others. Our primary focus is the import and export supply chains. We do not do point to point general logistics. We are not Toll so we do not cart from one Woolworths warehouse to another. That is not our primary focus. We invest in port infrastructure and we concentrate on moving cargo to, from and through the port. We are not a general haulage contractor.

Our assets are quite diversified in the sense that we operate rail, generally for bulk grain we take into ports, and for bulk mineral concentrates and various other products, and containerised services to and from container ports. We do not operate in the container terminal space in the major capital ports of Brisbane, Sydney, Melbourne, Adelaide or Fremantle, but we operate in 28 regional ports around Australia. We operate in Sydney, Melbourne and Brisbane doing bulk and general, which ranges from steel, timber and containers in small volumes, certainly in regional ports like Darwin, and cars and various bulk products.

We have also recently commenced operating at seven ports in New Zealand through the recent acquisition of a company based there.

That is a summary. Needless to say, any activity in regard to port privatisation has an impact on us, both as a port operator and having an interest in port assets and owning and operating port assets.

Mr CHAIR: The objects of the proposed lease of the Port of Darwin include accessing private sector capital for growth and development of the port. What port development do you see necessary from Qube to grow trade at East Arm Wharf or Fort Hill?

Mr PERKINS: It has been an interesting six to eight months in the two major areas that the port of Darwin is exposed to, and a lot of the ports we operate from. We have seen quite a significant downturn, you could say, in the iron ore trade. The iron ore price continues to plummet and it has driven out a lot of those customers, including out of Darwin where we operated for Territory iron and also out of Bing Bong for Western Desert. So that has been

an unfortunate occurrence. Some of our other ports where we operate iron ore exports are in operating in Port Hedland, and also some iron ore operations in South Australia.

We have seen a fairly significant downturn across all of those ports. The other area we are seeing a downturn in is in the oil and gas market. Again, the price of oil and gas has significantly dropped over the last eight months. A lot of the operations we are seeing in the amount of exploration are starting to tail off. At this point in time, Qube is happy to invest and does invest considerably in infrastructure. We also have shareholdings in Australian Amalgamated Terminals in Port Kembla, Melbourne, Brisbane and Adelaide, where we have invested north of \$120m in developing port operations. In that regard, we are keen to invest in infrastructure where it makes sense to invest, where there is a written business case or potential for the volumes to grow, or if the existing infrastructure is at capacity and needing to be expanded.

In terms of what is needed in the port, in Darwin there is an underlying consumable type of operation for the port, which is the imported containers for the local community, the project cargo, the oil and gas and minerals. Given the current state of flux for the minerals and the oil and gas, it is hard to see that there would be a significant uplift in the short term. But the day-to-day consumable products will continue on. We are working on a number of projects which I am sure the port authority is aware of to bring new products and opportunities to the port. A case in point is salt and copper, that type of product.

They are further down the pipeline and we actively participate in those to develop them, irrespective of the port privatisation process. We offer pit to port services to try to get trade generated. An example of that in the port space is Utah Point; I was principally leading that project. We are following a meeting with a number of junior miners at that point, where I was actively involved in forming a Port Hedland users groups which consisted of a number of junior miners. We were handling about 1m tonnes through the port at Port Hedland. We engaged with the Port Hedland Port Authority at the time and we were able to, over the course of a year-and-a-half, pull together a package which saw the investment into Utah Point. That facility is currently pushing out about 22 million tonnes a year. That was primarily driven by us because we find that miners are not very good at sharing infrastructure – certainly in Port Hedland with three rail lines going into Port Hedland. There are many other examples I could talk about.

But we find common user infrastructure is the key for the small miners. That is where a company like Qube can actively support, invest and operate as an independent operator in those facilities.

Mr CHAIR: What we are going to the heart of here is what you believe could be happening at the port here that could promote investment and development? Also we have

some questions about the regulatory framework. If we can keep to those things more tightly that would be good.

Where I was going with that is are there any glaringly obvious things you can see in Darwin now where investment needs to be made? I mean things opposed to what a port operator might do. Not so much that we need another crane but specifically in Darwin is there any glaringly obvious port infrastructure needed?

Mr PERKINS: If you had asked me that eight months ago it would have been a different story. To attract bulk minerals clients you have to bring down the cost – certainly in this environment. I am aware the port was looking at doing conveyor systems to reduce the double handling costs of iron ore through the port. That would be the same for the manganese or any export to try to minimise those areas of cost. The conveyor system is one area that could attract that.

The oil and gas is continually through the MSB and is now well catered for. The loss of the container crane is one area. Harper mobile cranes are good. We have one and are investing in another.

At the moment, I could not answer that without doing a definitive study on what opportunities there are. As I mentioned, we have been nominated as Tellus salt's preferred logistics partner. We have been working quite hard with them to try to get that project up. That is a significant bulk volume going through the port. The importance of getting efficient bulk handling in the port is an area I see we could add value to.

Mr CHAIR: In the regulatory frameworks, Qube Managing Director, Maurice James, has raised concerns regarding port privatisation and, in particular, the regulatory controls imposed on port operators as part of the sale process, and the likelihood of resulting price increases for port users.

As a pretty important port user in Darwin, what would you consider to be an appropriate pricing and access regulatory regime for the Port of Darwin? Could you send us an answer to that? What are the things you think are key for this committee to look at regarding a regulatory regime?

Mr PERKINS: There are two aspects to a regulatory regime as we see it. One is the model adopted. The first two ports to be privatised were South Australian ports then Geelong. We would not advocate the port be privatised in that manner. For your benefit, those two ports are fairly anti-competitive. The reason we say that is the port operator and port owner are pretty much the same thing. I appreciate that puts us in a difficult position

and we will get to that, but what we are seeing is some anti – well I will not say ‘anti’ but bundling of services whereby if you control the entire supply chain then you are able to bundle services which preclude other people, or you can manipulate pricing to preclude other investors or operators from operating in those ports.

Mr CHAIR: So really vertical integration on that whole process of what happens at a port is what you are getting to the heart of?

Mr BARNEY: If you consider that the port has two main forms of revenue stream – and Darwin would be similar to other multi-trade regional ports – you have a level of rental-type income stream, and that is one that Morris James had particular reference to in the past, certainly in the east coast sale of port, that there really is then no subsequent regulation on how lease costs escalate. That can work for a while but ultimately it becomes anti-trade in those ports. The other revenue stream is cargo or vessel-based charging. That is where Antony was linking in that the cargo and vessel-based pricing are paid by all cargo, but if you as the port are also providing other services in that cargo chain, you can aggregate those prices up and push other players out of the market where they cannot provide the non-statutory elements because once you add the port pricing on top of it you cannot be competitive with the port.

Mr PERKINS: Or, alternatively, if you are controlling the leases of land for development to third parties you can manipulate the cost of the land accordingly. In that element we are not in favour – we would require some very strict guidelines as to – certainly if Qube is a potential acquirer of the lease of the port we would be wanting to see imposed on us or any other operator fairly strict guidelines in how you can set tariffs and that those tariffs be readily available for public scrutiny so there are no games paid along the way.

The other thing we touched on was the cost of long-term leases. I think it is fairly well published that what we are seeing – certainly the recent Webb Dock activity and the other ports that have privatised – is there is a general by port authorities to increase prior to the privatisation process.

We have experienced this in ports such as Newcastle where the port was very keen to push leases to existing users to enter into long-term leases at a higher rate which resulted in an attractive long-term lease for a potential buyer. Once those leases were pushed on various users in the port with rate increases they were then sold through the port privatisation process. The highest bidder basically wins, and of course there is a market review mechanism which then comes back in, ‘Well, we’ve got to make a commercial return. We’ve paid a lot of money for it; therefore the rent has got to go up.’

Typically on most port leases there is a market review period. That gives the avenue for the port to force the rent up.

Mr CHAIR: The ACCC recently raised the possibility of ports being regulated under the national access regime, nothing that this would make it more difficult for port owners to discriminate against competitors and would give users of port infrastructure the right of appeal to regulators if they have pricing disputes. Would you agree with this assessment?

Mr PERKINS: I think it is needed, yes.

Mr CHAIR: The view of Paul Scurrah from DP World and the suggestion he made that the ACCC should have a deeper role, what kind of role do you think the ACCC should have in regulating containers and ports?

Mr PERKINS: We are not involved in the container space. When we are talking container terminals that DP World are talking about, that is the major capital cities. We do not operate in those major capital cities.

Mr CHAIR: Given you operate across many ports, some under private ownership and some public, how do you see the dispute resolution processes between the two?

Mr PERKINS: Under public ownership we get a good hearing. We are sometimes frustrated by the respective ports and that can relate to multiple reasons, including political or financial. There is also the risk of you coming up with a good project and a good opportunity for the port and the customers, and you are at risk of losing your IP through the public tender process generally required when you want to do anything in the port – openness from the port authority. We can see some frustration in that, but on the whole we get a reasonable hearing from ports in the public sector.

In the private sector we find they are quicker to act when you want to do something and it makes commercial sense from the port authority's perspective. They are relatively quick to act and are supportive of the process. The down side is the cost escalation we spoke about.

Dispute resolution within the public sector is limited in ways you can take it forward. It is more difficult. Dispute resolution with the private sector is much more a commercial decision as opposed to – often political influences and other factors affect the public sector.

Mr CHAIR: In regard to how Qube operates in the Port of Darwin, are there any concerns that your staff have raised about this privatisation process that you would like to raise? They might be things we need to look at that are particular to Darwin?

Mr BARNEY: At an operator level specific issues have not been raised, but continuing from Antony's comments is the Northern Territory considering the sale or lease of the assets? There needs to be careful consideration of this. It is not a major capital city port with big chunks of sub-lease land. One of the key roles of a port traditionally in a place like Darwin, or other multi-trade regional locations, is to be responsive to the environment and the needs of importers and exporters. That responsiveness needs to be quick, but it also needs to be flexible so it can deal with short-term opportunities.

You will not have scenarios where people are looking for 20-year leases for a container terminal. You are looking for the port authority to be able to support, and in some areas take some risk in asset development, but have a mechanism where those assets can be used dynamically. That is where there is room for improvement – how to be responsive to those import/export needs in a way that allows economic growth rather than people being frustrated that things will take a long time to happen.

Mr PERKINS: The other concern we have is we participated in the Marine Supply Base, as did Toll and a number of others. With my knowledge of Perkins Shipping, which Toll recently acquired, and my knowledge of the industry in general and the freight profiles going through Darwin, my view was Toll was the logical owner of the Marine Supply Base. Qube calculated that we could contribute a certain amount of money to under ride the investment based on volume through the facility. At the time the government was looking for someone to fully under ride it. My belief, knowing Perkins' volumes in detail, was that they could under ride a larger payment to that investment, therefore in my view they were the logical winners simply because they could afford to pay more to invest in the facility.

What transpired was that we still do not have an answer as to how it ended up where it did, although we participated and spent a lot of time, money and energy in that. From our perspective we would like to see a much more transparent process in the way it is managed, if possible.

Mr CHAIR: One final question; in terms of consultation, has the Port Corporation or anyone from other organisations approached you to discuss this with you?

Mr PERKINS: We have been approached by, as we put in our submission, a number of parties which act as manager and co-investor of the port. I think for Qube that is a better outcome – not a better outcome, but an outcome that has attraction for us because the value of the sale will be hotly contested. The returns that super funds are looking for are probably a lot lower than what we are expected to generate, so it makes sense for us to join with a party that will aggressively bid for the port. What we bring to that table is a lot of expertise in

port operations and what is required in terms of developing the infrastructure to meet those needs going forward.

Mr CHAIR: Thank you for that, I appreciate your time and your comments assisting us to make some quality recommendations.

Mr PERKINS: Thank you kindly.

The committee suspended.

NT LIVESTOCK EXPORTERS ASSOCIATION

Mr CHAIR: On behalf of the committee I welcome everyone to this public hearing into the proposed lease model for the port of Darwin. I welcome to the table to give evidence to the committee from the NT Livestock Exporters Association Tony Eggington, the Interim Executive Officer. Thank you for coming to the committee, we appreciate you taking time to speak to the committee and we look forward to hearing from you today. This is a formal proceeding of the committee and the protection of parliamentary privilege and the obligation not to mislead the committee applies. This is a public hearing and is being webcast through the Assembly's website. A transcript will be made for use of the committee and may be put on the committee's website. If, at any time during the hearing, you are concerned that what you will say should not be made public, you may ask that the committee go into a closed session and take your evidence in private.

I will ask each witness to state their name for the record and the capacity in which they appear. I will then ask you to make a brief opening statement before proceeding to the committee's questions. Could you please state your name and the capacity in which you are appearing.

Mr EGGINGTON: Mr Chair, I am Mr Tony Eggington. I am the Interim Executive Officer for the Northern Territory Livestock Exporters Association.

I am here representing the Northern Territory Livestock Exporters Association and their views and thoughts about the Port of Darwin, and how they see it going forward.

Mr CHAIR: Excellent. Would you like to make an opening statement?

Mr EGGINGTON: Yes, if I may, Mr Chair. I have a couple of pages to quickly go through. It will not take me more than 10 minutes.

Mr CHAIR: Yes.

Mr EGGINGTON: I will read this statement, if that is all right?

The Northern Territory Livestock Exporters Association, NTLEA, is an industry body formed in 1980, hence it has been around awhile. Its role is to support, advocate and promote the export of livestock from the Northern Territory and northern Australia on behalf of its members. It is as strong and professional group dedicated to enhancing the livestock trade. The association is achieving this through private development and investment of the livestock industry in northern Australia supported by continually heavily investing in export markets in Southeast Asia and north Asia.

In respect to this parliamentary select committee, the Northern Territory Livestock Exporters Association would like to advise that it is a major exporter from the Northern Territory across the Port of Darwin. It will be doing this forever. This is not a boom or bust thing, live exports is a trade that has been going on for 70 to 80-odd years and will be going for another 100.

It has a very high utilisation of the port – anywhere between 10 and 15 vessels per month. It has a great relationship with the Darwin Port Corporation and the stevedores. However, there is room to improve on those. It is looking at investigating training programs with the stevedores and other personnel there in the handling of stock.

Currently, the livestock program is about 500 000 head and was just under that last year. We do not see this as being the peak in our productivity. This level equates to an industry worth nearly \$500m-odd per annum. There is major investment by the livestock industries in northern Australia on cattle properties, transportation, fodder supplies, livestock yards, as well as in-country facilities such as feedlots, abattoirs, fodder production, nutrition and skill development.

The licensed export operators invest in premises in Darwin and overseas and they are highly skilled in the export business, connecting links in a complex supply chain delivering dividends back to the Northern Territory pastoral industry.

One of the things we want to say is that through the Port of Darwin, the NT Livestock Exporters Association and its members generate a very high and strong economic environment.

However, one of the things you would be aware of is livestock export is very highly regulated and requires seamless transactions and processes. This goes from the producers, the export yard facilities to loading of ships. A lot of this is to do with timeliness and animal welfare. It cannot delay and have hiccups in that system. It needs to be well coordinated and well managed so participants in that supply chain are aware of what they are doing and what their roles are.

The Northern Territory Livestock Exporters Association has a vision for growth. It achieved very well and hats off to the pastoral industry and many members in the industry, as I have mentioned. By the time we get to 2025, if we are still sending 500 000 head, we are not going anywhere. There is reason to believe we can increase that by 50 000 per annum to get to a million head by 2025. We see this as targeted growth. In my previous submission I gave a graphic display of the growth to date, and we see that being sustained and growing over the next 10 years to one million head.

Some of the things that the NTLEA are keen to work with and understand in the port authority are how vessels are loaded and the way and manner that they are loaded, the restriction on loading, improving flexibility, improving efficiency in terms of sometimes only single items can be loaded at a time. It is either livestock or (inaudible) and so on. So there are inefficient systems.

As the livestock industry is and will continue to be a major exporter and a partner of the port, we would like to see the port implement long-term investments that will facilitate the trade and deliver incentives to the industry through efficient loading and effective use of the port berthage. We do not believe the port has invested much in the support of the live export trade to date, in comparison, for example, to the minerals industry and so on.

What we would also like to know from the port is what is the NT government's vision for the port for the future? We have not had this communicated to us at all. We have no idea where the port is going and what its objectives are and it wants to achieve by 2025 and beyond.

The NTLEA will be growing its business but must have the support of the port to achieve this in our mission of driving north Australian livestock exports. We are intent on driving north Australian livestock exports. Darwin is a bit of a funnel to northern Australia, as you know, and it has always been beamed out as the gateway to Asia; some say the backdoor, but gateway certainly. We certainly are strong participants of that gateway to Asia and we

are keen to support all the other industries that are involved – support the port to expand to allow that growth.

In going forward the port's model in leasing must provide fair pricing structures over extended periods of time so that the exporters clearly understand what the business framework is and how they are operating their business models to ensure profitability to all links in the chain. The livestock export chain is a very complex chain which the livestock exporters work from the producers right through to the slaughter at the other end. Understanding the cost structures of each link in that whole chain of events is very important to them. So transparency of what is going on now and what is happening in the future to help them in their planning and building their business models so that they can grow their business is very important.

This will give exporters confidence as a unit in a link that does the main transactions. If they develop strong confidence in the industry they can provide that confidence to the producers, the growers, who will benefit the whole of the NT if they can get the right market signals and invest in their business. One of the things we would like to see the Northern Territory livestock industry do is increase productivity turnover by 60%.

The other part of the equation that the exporters deal intently with is the importers, the buyers and the operators in Indonesia, increasingly Vietnam, and in future it will Cambodia and Thailand, and a bit further down the track, we are hoping, China. All of these parties take a lot of interest in what is happening in Darwin and the port here. They would like to participate and be involved in what is going on. The ability for the livestock exporters to engage with what the port is doing and to be advised as to where the port is going will improve that.

Clear communication from the port to the industry is vital. It is such a complex supply chain that things can go wrong very quickly. We have examples where ships are delayed and we might have 15 trucks on the wharf waiting to unload. That can cause the industry a lot of grief and trickles down in a flood back to the yard operator and the producer if those animals have to be turned around.

We want to be very much a part of the planning to take this forward. Any delay in berthage loading brings problematic issues. We are trying to develop it as a year-round industry rather than a seasonal-based industry and working with arms of government to see investment in roads and bridges.

We would like to see 365-day a year access to properties that have turnover in the peak parts of the Wet Season –quite often late January, February and March – periods when

producers can get better prices. If the supply chain is open all year round that will improve the effectiveness and efficiency to deliver.

One of our major trading partners, as you are aware, is Indonesia. Indonesia has been causing some grief in working through the import permits process. These often come in towards the end of each quarter as they are issued quarter by quarter. Often in December, March and September you will have a quick rush on supply. This issue is of major concern to the supply chain and exporters, and one we have been trying to work out with the importers.

Our exporters were in Jakarta last week, and will be there next week, to meet with the Minister for Trade and his delegates at FINDO, a similar organisation to the live export association. They will meet with them to work out how this import permit process can be done on a more annualised basis we have longer term numbers and an understanding of their demands so we can match it with supply.

If we are able to understand the demand and match it with supply we could prevent some of the problems that have happened in the past at the port with congestion. Up to eight ships were sitting in the harbour in the last week of March waiting to be loaded to meet the 31 March deadline into Indonesia.

I wanted to make you aware the export association is working hard on issues that have caused the port some grief in the past in regard to congestion. We want to be flexible with the port and look at ways to improve the efficiency of loading across the wharf.

The loading facilities might be an area to be invested in and looked at. Similar processes have been used for 15 or 20 years, and perhaps there are different ways of doing that business. We would be keen to work with the port to address those and see if there are other opportunities.

The aim is to look at the efficiencies and effectiveness of what we are doing and building flexibility so we can grow our business. We want to reach one million head in 2025.

In going forward the emphasis on investment at the port is about its capability and capacity to deliver services. The NTLEA is concerned about how these changes may impact on costings and cost structures. We want to see real gains in service and flexibility of service and delivery of services.

We want to ensure the corporate structures in place are open and transparent enabling all stakeholders, such as the NTLEA and its export members, to contribute in a meaningful way going way so we develop the Asian gateway together.

Those are the key parts of my submission. I am happy to take questions on board and see how we go.

Mr CHAIR: Part of what we are looking at is what kind of facilities need to be provided at the port. I am aware of what facilities exist for loading cattle. Do you know of other models that are set up better for loading cattle and what that infrastructure might look like? Do other ports have designated cattle berths or do they have better loading equipment?

Mr EGGINGTON: No, I am not aware of what other ports are doing. Darwin port is one of the ports in the world with the largest number of livestock cattle and buffalo going across it. It is very timely to look at how that is done and what other ports are doing on that basis. Some ports have dedicated livestock loading arms within them to allow the trucks on site. Darwin port, being a common user port, causes a lot of conflict and issues with allowing the livestock ships to berth, so it needs to look at how it can be more flexible. It needs to look at the loading facilities; I am aware that some ports are allowed to load two levels at a time and we can only load one single level. We are only allowed to load one trailer at a time rather than going through the trailers.

These things have been tried in the past. I have not seen where these are being measured in their effectiveness or efficiency. One big concern the live exporters and the industry have is the impact on the welfare of the animals. We must always be cognisant of that and whatever changes we implement, and how it affects the welfare of the animals in terms of loading and so forth.

Mr CHAIR: As a port customer and heavy user of the Darwin port, are your main concerns around price or are they also – you have mentioned service and flexibility of service. Can you give us a bit more colour as to ways in which operating a government port might be inflexible in ways in which operating a private port might improve that?

Mr EGGINGTON: I cannot provide comparisons, but over the last 18 months or so with the expansion in business through the port of Darwin, through the collapse in 2011 – you will see in the graph the numbers have gone up. As I said, we want to increase those numbers. There is congestion in the way in which we get animals through the wharf and trucks on site alongside the ship and so forth. There is a need to look at all of these aspects given that we want to double it in 10 years. The demands on flexibility will be a lot higher. At the moment we can only berth at two areas in the port and we need to look at way in which we can

increase the berthing area, so we can possibly load more than two ships at a time if necessary.

The live exporters are looking at the demand side as much as they can to work in with the importers to even out supply, but at this stage we are likely to see congestion with six to eight ships coming in at a time. Given the current priority setting there - it is first in, best dressed so to speak – it probably does not always work well with the Livestock Exporters Association. Some more flexibility is required in that process.

Mr CHAIR: Have any of your members raised specific concerns about price?

Mr EGGINGTON: Not specific concerns about price. The whole supply chain is very tight and they need to manage it very carefully from the import end right through to the supply end with the producers. While margins are tight, flexibility in the dollar and these types of things have input and changes on each shipment.

The price, per se, has not been described as a major stumbling block other than issues such as demurrage costs, delay costs and those types of things. Whereas, if the ship is brought in alongside and suddenly cannot be loaded, it is held there for whatever hours, it is charged on a meterage and an hourly rate ...

Mr CHAIR: Is that generally for quarantine reasons?

Mr EGGINGTON: It might be because the port has changed priorities and they have to do something else, the workforce is not available at that time, or the documentation or something might not be in place. What hits the live exporters most is delays in the system where extra demurrage alongside wharf costs go up in those areas.

They are not the key issues. While they are very important and we are very keen to understand what the pricing model is going forward – as I said before they need to understand the whole pricing model structure over the supply chain and how they work with the port, flexibility priority setting of getting ships alongside the berth and loading, how it is loaded, can they load fodder and animals at the same time, and can they do double loading strategies and all those things. Like any shipping company, the less time you are up against the wharf, the better. So they are keen to do that.

Sometimes there are delays brought on by other parties within the supply chain. The maritime authority might want to check the ship out before anything happens. These hiccups

need to be understood prior to going forward. They are quite often not clearly communicated with the exporter, so they are told later on why the delays have occurred.

The thing the exporter has to be careful and wary of is as soon as they have animals loaded onto a truck, they are pretty well committed ...

Mr CHAIR: They only have a certain number of hours.

Mr EGGINGTON: ... to that supply chain. While they are coming from Berrimah export yards, it is not such a bad thing, but if they are coming from down the track, especially Katherine, it is difficult for them to unload the stock at any other yards other than the one of origin because then it breaks the quarantine chain and the supply chain they have put into the Department of Agriculture nominated as the traceability and controllability ESCO supply chain.

That is where difficulties arise. Costs go up through the roof if they need to offload animals or take trucks back off the wharf and try to find a place to unload them.

Mrs FINOCCHIARO: Are your members – optimistic may be too strong a word – seeing this potentially as an opportunity? I assume in its current form the port is not letting you double-deck or those things ...

Mr EGGINGTON: They very much see this as ...

Mrs FINOCCHIARO: It could be an opportunity. Is that the general consensus?

Mr EGGINGTON: They very much see this as an opportunity. The NTLEA would like to be a lot more involved in the decision-making and what is happening at the port and how it is done. The NTLEA believes going forward it will be a major user of the port in years to come.

We want to grow that business. As you know, the demand in Asia is increasing. We have had talks with other market opportunities and we see ourselves working with the meatworks trade, for example, with the new abattoir. We do not see problems there.

Yes, we see this investigation and study as an opportunity for the NTLEA to put its voice forward and we thank you for that opportunity. We see that as an opportunity to work with the government on this area going forward, encouraging a more efficient and effective process.

Mrs FINOCCHIARO: On that point, I will jump straight to the consultation. We are interested to see if there has been public consultation. Other than our committee, has NTLEA been approached by Darwin Port Corporation or had any other government approach to discuss the potential sale of the port?

Mr EGGINGTON: No, we have had no consultation, which is a concern to us.

Mrs FINOCCHIARO: Yes, okay. You have welcomed this process?

Mr EGGINGTON: Yes. I very much welcome it.

Mrs FINOCCHIARO: Great.

Mr GUNNER: That was my question.

Mrs FINOCCHIARO: That was your question? There you go.

Mr CHAIR: Do you have any other ...

Mrs FINOCCHIARO: We are spending too much time together.

Mr WOOD: One question was the cost of moving a moo cow over the port. Is that amount in relation to the cost of moving a cow from a pastoral property to Indonesia, for instance, a very great part of the cost, or is it a minor part of the cost?

Mr EGGINGTON: Mr Wood, I do not know the answer to that question. If you would like me to follow it up I could.

Mr WOOD: We have charges – the port has.

Mr CHAIR: Suffice to say that margins are not big.

Mr EGGINGTON: I am very much aware of the margins all the way through. Every link in the chain, as it were, whether it is the producers, the transporters and so on, are all looking for better pricing and tightening of that pricing. I am not aware of what the actual costs are in

each of those transactions in each of those links, Mr Wood, at all, so I cannot answer that question directly as to what component is that transfer cost from paddock to plate in Indonesia.

Mr WOOD: To clarify, your association is not the one that charges or pays the cost of taking cattle over the wharf? What is its role in the payment side of dealing with cattle going from the Northern Territory to Indonesia?

Mr EGGINGTON: The NTLEA members, the live exporters, do pay for all the costs along the way – the farm gate price, and they are paying the shipping costs and the port cost.

Mr WOOD: Who pays the shipping cost directly, yourselves or ...

Mr EGGINGTON: No, each individual exporter will pay the transactional cost..

Mr WOOD: That would be one of the pastoral stations?

Mr CHAIR: No, the exporters. So people buy them off the pastoral stations ...

Mr EGGINGTON: The live exporters themselves. It may be Austrex, Wellard or S.E.A.L.S.

Mr WOOD: So you are just an association of people who use ...

Mr EGGINGTON: NTLEA is an association of export members. There are about exporters who are active members. We represent those exporters. They conduct their business accordingly. They are the one that do the deals with the importers in-country to negotiate the final price and then reverse those costs all the way back.

Mr WOOD: Just to make it clear, a pastoral property sends its cow to an exporter then they send it to Indonesia.

Mr EGGINGTON: The pastoral property sends its animals to an approved export facility – yards. From those yards the live exporter pays on a cents per kilo basis.

Mr WOOD: So like Santavan, Noonamah ...

Mr EGGINGTON: Correct, Santavan, Noonamah, Berrimah Export Yards (inaudible). There are seven export-credited yards for Indonesia in the NT and about nine or so export yards.

When you look at it there is a lot of investment in the whole industry. One of the messages we wanted to get across is between the producers themselves – once you go ex-farm gate and look at all the investment in the export chain, the export yards themselves, road transport, shipping and at the import end there are yards, feedlots and abattoirs which our members get involved in and invest in. There is a large amount of funds in this. Hence why the NTLEA as an association is very keen on the deliberations of this committee and where the Port of Darwin goes.

Mr CHAIR: Thank you for your presentation today. If there is anything else in terms of what kinds of things you would like to see in a regulatory framework control, feel free to send that through as well. There is nothing else that you would like to add?

Mr EGGINGTON: I suppose it is a minor point but a big point, in any sector you have natural bottlenecks, and the port becomes one being the gateway. A lot of the NT pastoral industry and the live exporters do not really have anywhere else to go. It is not as if numerous ports in the Northern Territory have that facility. There is a tendency to sneak across borders, and we use Wyndham a bit, Broome probably more, and also Townsville. There is a fair bit of leakage in those directions.

The NTLEA is keen to support NT industries. If there is nowhere else to go we need to work with the port and need to be (inaudible). We only have one outlet so it is a powerful position to be in. We do not want to see it abused in any way, shape or form. Openness, transparency and understanding what is happening, what the pricing is – they will do their modelling on that pricing. Animals will be trucked to a port depending on the best cost benefit of doing so and the least shipping time.

Darwin, as we know, is very competitive in least shipping time into Indonesia compared to southern ports. We need to ensure that competitiveness remains, in a strategic sense, for the port going forward. Whatever outcomes and deliberations you come to, we have to ensure that long-term competitiveness stays so we always have that selling arm. ‘Why come to Darwin?’ Why do I, as executive officer, chase new members for the NTLEA to get more exporters on line? It is because we can offer very good facilities here.

To have more exporters with a chain of events they bring – it is a concern to me that there is leakage with cattle going to Vietnam out of Adelaide. Livestock Exporters will do what is best for the cattle and best for their business. They are very competitive, very commercial in

the way they do things and how they do it. I do not get to see the figures all the time so I am not aware of the exact cost, but I know it is competitive and commercial.

What we need to do, at a strategic level, is ensure the port has a long-term strategy and vision in place and is clearly positioning itself as the port for northern Australia. It is where we are sourcing our cattle and to have animals going out through southern ports is ...

Mr CHAIR: It is a bad indictment on ...

Mr EGGINGTON: Not so much a bad indictment. A lot of these things are done for commercial reasons and I understand that. Obviously we will not have too many sheep going through the Port of Darwin.

Mr CHAIR: Goats.

Mr EGGINGTON: Goats, yes. In the 1960s, 1970s into the 1980s there were major shipments of goats, even pigs. There has not been in recent years.

Mr WOOD: Is it Karatha on the ...

Mr EGGINGTON: It is certainly used by NTLEA members as an export port.

Where the port needs to be strategic is why is it used? It is easy to get animals there. If we have a good set of bitumen roads through our production sectors that lead to Darwin and they are 365 days a year with no problems – the Barkly Highway goes out at odd times. We need to invest in our main roads to ensure stock can flow through to the port.

Mr GUNNER: We heard from users, with the main conversation being in WA, around natural events such as the tsunami which took out their entire market, or the GFC and the ban on live cattle exports and the ability of a port to work with the user in an event of that nature, and whether a public port is better suited to working with a user in that instance than a private port. The example from WA was woodchip ...

Mr WOOD: They had woodchip in Albany but not in ...

Mr GUNNER: They lost their entire market during the tsunami. The ability to work with the port to say it was outside their control and (inaudible) whatever situation they had in

place at that time. Do you have any thoughts around a private operator at the port versus a public operator in that instance, what regulations or things you might want in place with a private operator, so you have some comfort that if there was an event outside your control – major events, like a tsunami or the ban – do you have any thoughts on that through regulations, or public or private investors?

Mr EGGINGTON: I do not have any thoughts on it in particular, but one thing about the live export trade is it is a very risky business. The level of risk in that trade is huge. Things can go wrong very quickly and there is a huge domino effect which impacts on the animals, the whole chain of events is huge.

Since the ban the live exporters, through a range of different programs, have invested huge amounts of money and training time and dollars to ensure those risks do not happen again. All of the members are in Vietnam at the moment working with the importers, processors and feed lotters there to ensure against those risks, that animal welfare is a priority and those types of things.

In relation to the port, we would like to see it as a two-way street. Whether it is public or private, there needs to be a lot more investment in the operators' time into its stakeholders. We see ourselves, the NT Livestock Exporters Association, as being a major customer of the port. To date we have not been a major participant in its deliberations and we would like to be much bigger in that process so if any of those events come up and hit us, we have a mechanism to react and deal with it so our partners in the supply chain – the ports – are informed and can inform us immediately. If they shut down their port in a cyclone, they now give us 48 hours warning so we have time to hold off ships and so on. We need to build in and look at the risks and mitigations, and we see all of those processes as being important whether they are under private or public structure.

Mr GUNNER: During the ban, did your members have to wear any port costs?

Mr EGGINGTON: I am sorry, I was not on the scene at that time. I have not heard of anything along those lines.

Mr CHAIR: If they are in that situation and we get a response from the Indonesian government saying things got cut in half, but there is already a take or pay agreement that livestock exporters would get killed.

Mr EGGINGTON: The biggest cost in that period in that time was that we could not export animals. There was this huge amount of infrastructure sitting still doing nothing. There was a supply of animals that could not go anywhere. There were people sitting around who lost jobs and there were tidal wave ripple effects of that ban through the whole

supply chain in the economy. In that sense there was a huge impact with live exporters reducing staff and investment, and so on.

The flow-on cost late 2011 and into 2012 and 2013, and continuing, is the huge cost we are putting into the supply chain and the import into that to ensure the systems work. The cost to their business is huge in that sense. They had at the federal Commonwealth level a study into the cost of implementation of ESCAS, the Exporter Supply Chain Assurance System, which was upwards of \$5 a beast. There was a large amount of money going in to rectify and improve that process as a result.

Mr CHAIR: Something the industry needs to look at in terms of diversifying its export locations so those *force majeure* type events do not ...

Mr GUNNER: We cannot look at the whole chain as part of the port committee, but the port element we can look at. There are some events that happen occasionally that ...

Mr CHAIR: I think, though, going forward.

Mr GUNNER: I am interested to know what the public port does in that instance. It might be ...

Mr CHAIR: They did not. No boats came in so ...

Mr GUNNER: So there was nothing ...

Mr CHAIR: Nothing.

Mr GUNNER: Right. Which is obviously different to the situation we had.

Mr CHAIR: A bit different from when someone is leasing and they have tried to ...

Mr GUNNER: Yes, take a pay ...

Mr CHAIR: ... do what the port said, 'We expect you to do this many tonnes across the wharf' and if you do not you have to pay for it.

Mr EGGINGTON: In response to that Mr Chair, if I may, while you are looking at what the port is doing, the port plays a pivotal part in that whole supply chain. The Australian livestock industry – and from that distance you will not see it – the port is right in the middle of a production thing to a process end, and there is a lot of stops and ifs and buts along that whole supply chain. It is a very complex supply chain.

The more the ports understands and realises the pressures of that supply chain and how any delays or decisions it makes can have a big impact on that whole process ...

Mr CHAIR: Scheduling priorities ...

Mr EGGINGTON: Scheduling priorities ...

Mr CHAIR: ... become important.

Mr EGGINGTON: ... flexibility, berthage, the amount of berthage space all become major influences on the exporter's ability to deliver on time. Then you have a consumable product, so there is a live animal on board.

Mr CHAIR: Very good.

Mrs FINOCCHIARO: Thank you.

Mr CHAIR: Thanks, Tony.

Mr EGGINGTON: Thank you very much to the committee, and through you, the Chair, for the opportunity. I look forward to hearing further.

The committee suspended.

AUSTRALIAN CUSTOMS AND BORDER PROTECTION SERVICE

Ms DUFFY: Yes, I am happy to. Rohan Wilson was to be with me today but unfortunately he is heading your way but is not on the ground yet. We can commence when you are ready.

Mr CHAIR: Rohan is not with you?

Ms DUFFY: No.

Mr CHAIR: On behalf of the committee I welcome you to this public hearing into the proposed lease model for the Port of Darwin. We welcome to the table to give evidence to the committee from the Australian Customs and Border Protection Service, Suzanne Duffy, Acting National Manager Air and Marine. Thank you for coming before the committee. We appreciate you taking the time to speak to the committee and look forward to hearing from you today.

This is a formal proceeding of the committee and the protection of parliamentary privilege and the obligation not to mislead the committee apply. This is a public hearing and is being webcast through the Assembly's website. A transcript will be made for us of the committee and may be put on the committee's website. If at any time during the hearing you are concerned that what you might say should not be made public, you may ask that the committee go into a closed session and take your evidence in private.

I ask you to state your name for the record and the capacity in which you appear. You may like to make a brief opening statement before proceeding to the committee's question.

Could you please state your name and the capacity in which you appear.

Ms DUFFY: My name is Suzanne Duffy, Acting National Manager Air and Marine of the Customs and Border Protection Service.

Mr CHAIR: Would you like to make an opening statement?

Ms DUFFY: We have been a long-term user of the Darwin port capability in a customs and enforcement function. We have been operating in the area for a number of years and have considerable investment put into our facilities surrounding the wharf and activities at the moment. We are seeking to expand our capability in that location.

Mr CHAIR: How often do you have larger boats tie up at either Fort Hill or East Arm Wharf?

Ms DUFFY: At the moment we are moving to a two vessel per week model as well as a third vessel two to three times a month. We also have some very large contracted assets we

are moving over to our customs operation that will go to Darwin on an ad hoc basis depending on where they are tasked to.

Mr CHAIR: The process you follow – I assume you are not on the same deal as the Navy vessels that come here and do not have to pay some of the costs associated with other shipping lines. Are you required to pay normal shipping expenses to come into the port?

Ms DUFFY: Yes, we are. We have been using a number of the port services surrounding our operations in Darwin to date. That includes security parking and other things – the surrounding facilities, the wharf, as well as berthing costs and other bunkering and fiddling aspects as well. We have a user-pay arrangement and have been operating in that model for quite some time. The only exemptions we have been operating under are in relation to pilots. Once we have our officers significantly aware of the port requirements they can get an exemption for the pilot operation of those vessels. That is the only area where we have an exemption for anything outside normal commercial arrangements.

Mr CHAIR: Given you operate in many ports around Australia, what is your experience in operating with privatised ports and non-privatised ports?

Ms DUFFY: That is a hard question to answer. It definitely comes down to a port by port perspective at the moment. One of our concerns is making sure we have availability and also we are trying to predict, as much as we can, when we require those services. From time to time, as much as we can predict, we can be ad hoc coming in for unforeseen maintenance or something that may cause us concern.

Where we have private versus public ports – we have a combination of both, depending on the circumstances surrounding the operation.

Mr CHAIR: Are there any specific concerns you have with the privatisation of this port?

Ms DUFFY: There are specific concerns we are interested in, that we seek to use port services more often in Darwin than other ports within Australia. I think that is the current focus of the operations of our capability at the moment. We are concerned about the number of berthing opportunities that currently exist in Darwin. If anything, we have been working quite well to date with a number of operators there. We know they are restricted in some locations. In some areas private investment may be needed to make a number of other options attractive, so our big concern is with availability.

Mr CHAIR: So your number one concern is making sure if you need to get alongside, you can.

Ms DUFFY: Yes, that is correct.

Mr CHAIR: Have you had scheduling issues in the past?

Ms DUFFY: We have constant issues with having to go (inaudible). We would like to be alongside and have a more supported mooring capability. We have looked at a number of commercial options more broadly surrounding East Arm, Darwin Navy Base, Stokes Hill and Fort Hill to get more permanent pursuance assuring we have a good place to berth, where if you need to do critical maintenance you are not forced into an anchorage approach. Equally, security and 24/7 access are critical to us, so we understand those services cost to implement.

I think also one of the luxuries we have is that we have been playing a fee-for-service perspective and that we have a port services agreement base on that. We are interested in lease options and arrangements. Unfortunately, from a Commonwealth agency perspective we do not have a large avenue to do long-term capital investment. We are more in the service buying area rather than building something ourselves, so that makes us slightly different from Navy.

Mr CHAIR: Where do you take on supplies?

Ms DUFFY: It could be Stokes Hill, East Arm or Fort Hill Wharf, depending on what vessel is in and what we need to do for it on that day. It is a constant juggling act.

Mr CHAIR: Do your onshore suppliers have issues in terms on being one day at one wharf, the next day you are at another wharf and the next day being somewhere else completely?

Ms DUFFY: We have tried to ensure we have a supply model in Darwin with our own warehouses and refrigeration elements as well. From a maintenance perspective we have contracted provision for maintenance during crew handovers. It becomes a bit of a juggling act when we are at different locations, so there are inefficiencies caused by that.

Mr WOOD: I noticed in the letter you sent that you have 11 vessels.

Ms DUFFY: That is correct.

Mr WOOD: I presume they are not all in the port at the same time, otherwise they would not be doing their job.

Ms DUFFY: Exactly; I would not be doing my job if that was the case.

Mr WOOD: Considering you have such a large number of vessels at the moment, it looks like a bit of a dog's breakfast where you park them. I am not sure whether making it a private port will make much difference to your problems in trying to find a place to berth. Did you say that the government is not interested in building its own facility, like the Navy has its own? Are there no thoughts around you setting up your own place?

Ms DUFFY: At the moment I do not think we would have the capital investment required to do that. Equally, strategic decisions for us fall in the four- to five-year category, so that we have flexibility to change our operations depending on where our patrols are required. That makes it more risky for our agency to invest heavily in one location. It is not to say we also have maintenance and service providers that have capability in other locations, be it Cairns or Henderson.

Our main patrol activity is definitely in Darwin at the moment. Yes, 11 vessels is a nice numbers. We are trying, with the Cape class vessel – which we will have eight of by the end of June this year – is line them up on a two-by-two perspective. Two would come into port every week, then the next week another two, then another two, then another two. I do not know if that helps you to see how we are trying to manage the number of vessels we have at sea at any one time.

Mr WOOD: Have you had any discussions with any part of government in relation to your future, or is this the first time you have had any discussions with some type of government agency or committee?

Ms DUFFY: This is the most formal discussion we have had to date. We have had a number of opportunities to discuss our concerns and what we would like to achieve with the port authority previously. Knowing the option that is available at the moment, we are trying to identify that we are a strategic user of the facilities we can access at the moment. Would we like our own ideal berth separately? It would be great, but we could not see ourselves being the prime investor in that capability. If something was coming up in that space we would see that as an opportunity to buy another service that would be available in that area.

Mr WOOD: Are you saying you had some informal discussions with the port authority, but was there anything formal from the government in relation to the privatisation of the port?

Ms DUFFY: I have had no discussion prior to today.

Mr WOOD: Okay. Thank you for that. I will pass back to our Chair.

Ms DUFFY: Equally, yes, the Navy has bases and I know they are looking at options to expand. The difficulty there for us is we will always take a lesser priority than the Navy. It comes from a business perspective and we do not need the same services the Navy does in a location. If anything, we are a bit lighter from a requirement perspective.

Mr WOOD: Thank you.

Mr CHAIR: It is funny, though. Sometimes, I think you guys have bigger boats.

Ms DUFFY: Yes, do not say that to Navy; it is a bit touchy at the moment.

Mr CHAIR: Well, they are ...

Ms DUFFY: A few more in the water too, I think.

Mr WOOD: Yes.

Mr CHAIR: Yes. The ones that are parked up, the ones we see here at the Larrakeyah Naval Base are those small patrol-type boats. Whereas that massive rig tender looking boat that sits in the harbour often is one of yours, isn't it? It looks like a big oil rig supply vessel, but it says Customs on it.

Ms DUFFY: Yes. That would be the *Ocean Protector* replacement *Ocean Shield*. That is a very large vessel that was handed over to us in July. Yes, that is coming under Customs control. At the moment it is operated by a contracted agency. That is one of the vessels we want to fully crew ourselves over the next few years.

Mr CHAIR: Where do you do the maintenance supply, bunkering and all of that for that vessel? Stokes Hill Wharf or Fort Hill?

Ms DUFFY: Sometimes it is East Arm and sometimes it is Stokes Hill depending on what is available. Our biggest concern is our Cape class vessels. You have probably seen those. They are blue, red and white.

Mr CHAIR: Yes.

Ms DUFFY: They look a little like an Armidale ...

Mr CHAIR: Yes, with the front end covered in.

Ms DUFFY: ... a bit prettier, a bit bigger. They are the biggest area of scope we see because we have eight. They are replacing the Bay class vessels with which we have definitely had a long association with Stokes Hill Wharf; the Bay class being there regularly enough at least for the last 10 years.

Those being replaced by a bigger boat is causing us some issues because there are ideas for Stokes Hill privatisation. Now we need to look at other areas where we can get our services and replenish our fuel and waste removal. That side may be – the public attention. I think that is where we have come to a pressure point to date.

Mr CHAIR: Are there any other concerns that you guys would like to raise, things that from a regulatory point of view apart from access?

Ms DUFFY: I do not think we have any specifically to date. We do want to make sure we are included in the discussions and if there is any further information or feedback that you would like to provide – that is probably one of the key reasons we wanted to speak with you today. From a national security perspective and I guess from a tourism perspective, we do invest a fair bit into the Northern Territory. We fly all our people in. They are not housed there though, but we are probably a big user of servicers outside of a transport perspective as well.

Mr CHAIR: Would customs have issues with foreign ownership?

Ms DUFFY: Not directly; it is more to do with who would be in control of the facility. Does that make sense?

Mr CHAIR: In what way? To what end?

Ms DUFFY: I think it is a reality that we do use services from port suppliers that have foreign ownership and also have foreign nationals in their employment. I guess it is more to say that if we had an issue of – if there was a security arrangement within the contract of services provided, what level of security are you providing. There would be a risk

assessment as to how much additional security I might invest as well when are vessels are moored alongside. We are probably a little flexible there but it starts to come to a risk assessment of that. If the service can only provide up to this level, then we might have to put in additional services ourselves to maintain the security we might need at different times.

Mr CHAIR: I have no further questions. Thank you very much for speaking to us today. It is very kind of you to make yourself available. Sorry that we were running late.

Ms DUFFY: That is okay. As I said, I appreciate your time and appreciate you inviting us. If you have any further questions or need information I would be happy to receive them in future.

The committee heard from Mr Greg Pauline and Mr Tav Martin of
Genesee & Wyoming in a closed session.

NT CHAMBER OF COMMERCE

Mr CHAIR: On behalf of this committee, I welcome everyone to this public hearing into the proposed lease model for the port of Darwin. I welcome to the table to give evidence to the committee, from the NT Chamber of Commerce, Stuart Kenny, Vice President, and Brian O’Gallagher, Executive Officer International Trade. Thank you for coming before the committee, we appreciate you taking time to speak to the committee and look forward to hearing from you today. This is a formal proceeding of the committee and the protection of parliamentary privilege and the obligation not to mislead the committee applies. This is a public hearing and is being webcast through the Assembly’s website. A transcript will be made for use of the committee and may be put on the committee’s website.

If at any time during the hearing you are concerned that what you will say should not be made public, you may ask the committee to go into a closed session and take your evidence in private. I will ask each witness to state their name for the record and the capacity in which they appear. I will then ask you to make a brief opening statement before proceeding to the committee’s questions.

Could you please each state your name and the capacity in which you are appearing?

Mr KENNY: Stuart Kenny, Vice President for the NT Chamber of Commerce.

Mr O'GALLAGHER: Brian O'Gallagher, Executive Officer International Trade, NT Chamber of Commerce.

Mr CHAIR: Mr Kenny, would you like to make an opening statement?

Mr KENNY: Sure. I thank the committee for the invitation to present our paper. We have some papers to hand out on summary so we will get those across. First, with a little opening statement I will give a brief understanding of what the Chamber is and who it represents.

The Chamber of Commerce for the Northern Territory is a voice of the Territory business. It was established in 1957 and is the largest and most influential employer association in the Territory with a membership of over 1300 businesses and growing.

We are a founding member of the Australian Chamber of Commerce and Industry and part of the national network of Chamber of Commerce and Industry. An independent, not-for-profit and non-government body, the Chamber provides a wide range of member services, including the excellent networking and other business development opportunities, a strong platform to identify and advocate and influence key issues affecting members and their ability to represent members' views at a federal, state and territory and local government level.

I will pass over to Brian to give a brief on a couple of things we would like to talk about now.

Mr O'GALLAGHER: Thank you very much. I would like to summarise what I have tabled to give you the whole itel of it.

There is no doubt the Chamber of Commerce recognises the critical role the Port of Darwin plays in the economic development of the Territory. It is vital that any reforms to the port seek to maximise the efficiency and operation of the port and also aims to secure the sustainable investment in the long-term future of the port for all Territorians, particularly for Northern Territory business.

In specific comments, the Chamber of Commerce and its members generally hold the philosophical view that the private sector is well placed to operate institutions such as ports and other infrastructure. They generally do that and deliver greater efficiencies. We recognise funds and budgetary cycle is in the frame where governments are always constrained in the amount of money they have. The money the government has needs to be

tailored and targeted to those priority areas where they have a strong function, probably in education, social services and health systems and so on.

If you look at what has happened in past decades there has been a trend for strategic infrastructure which may have initially been started by a government. On that note we have to applaud the NT governments, past and present, for the strategic investment in creating particularly East Arm Wharf and so on. That was a very strategic decision which led to the delivery of the Adelaide to Darwin railway. As a catalyst, government has played a fantastic role.

In the ongoing operation, maintenance and long-term development of such infrastructure, maybe the private sector offers significant opportunities which can be leveraged. We have already seen in the rail systems across Australia that most seem tend to be privatised now. Airports, including Darwin airport is a classic example of where the private sector has come in. They have recently invested about \$75m in the expansion there. That is a good example of where the private sector has come in, sustainably developing infrastructure for the benefit of Territorians.

I am particularly focusing on East Arm now as the major freight and trade port, notwithstanding that the city port has a crucial role particularly with cruise ships and Defence and so on. If you look at the gas industry now at Middle Arm there is private sector investment there. That whole East Arm industrial precinct is about servicing trade that connects to the rail and port. I mentioned the airport. We have the Francis Bay port with Toll Holdings, which is a private port operating within Darwin Harbour. So it is not that privatisation is the issue at all. How it is managed and delivered is the key.

The Chamber certainly has a strong view that whatever model we go to that we take a long-term view of what this is about. It is not just the short-term budgetary cycles and so on. This is about the long-term sustainable development of the port for the long-term future of the Northern Territory. We are very conscious that there is a whole range of models that can be considered, including long-term lease, freehold transfer and so on. We do not hold a strong view either way on which way to go or a particular model that should be used, as long as it is the right model, and that has to be weighed up. That will often link in to the type of proponents you are bringing in or whatever.

Long-term leasing certainly has applied in terms of the Darwin railway asset, and I think also in terms of the Darwin Marine Supply Base, which is another example of good strategic foresight in developing new infrastructure. We would be conscious that it is really important that whatever proponent you get actually has the capacity and desire to grow the port and develop it. Finally, the Chamber, why we are very pleased to be here is that often the devil is in the detail, so we would like to be consulted in the implementation phase as this goes on and not just say cursory, 'Well we've had a discussion with the Chamber and thank you very

much, we have ticked that box'. The Chamber, as Stuart said, represents over 1300 businesses here. Those businesses have a very heartfelt – particularly those who intersect with the port – about how the port is managed, and they want to see what the implications are in terms of, are their costs going to go up, if someone else is coming in are they actually going to take that strategic view to invest. So on that note I will hand back to Stuart.

Mr KENNY: I think what Brian was saying is a very good point. Businesses in the Northern Territory really have not had the ability to utilise the port as much as we thought – when the train was linking in with the port we all thought it was going to be a real game changer. Whichever way the government looks at going here, the infrastructure and the type of business should have a long-term view on what they want to deliver and really has to have an understanding of what business is in the Northern Territory. When we talk about exporting out of the Northern Territory, from the manufacture sector and the like, exporting to us is actually importing and taking jobs into us by importing goods and manufacturing and sending it back it into Asia, or, as we said, at the moment, into the gas plant, not only today during the build phase but particularly the maintenance and long-term maintenance of those two gas plants that are sitting there.

It is important that what we look at with this port is an organisation, be it leased or turned into freehold, that has the capacity and long-term view and a good understanding of what business is looking for here. I think that we can offer this committee, but also others, good insight on what that business is looking for.

Mr CHAIR: What is business looking for?

Mr KENNY: Business is looking for an efficient port. I think we all know that the port has got, and has had, some infrastructure issues over the last 10 years, and frankly I do not think we had the money to repair that as quickly as we would like. There have been a lot of berthing issues that we see. We see now that it is a lot cheaper for business to buy goods out of the southern part of Australia than perhaps even bringing them out of our close neighbours into Asia because it is just inefficient or the costing is a little bit too dear where it should not be.

Mr GUNNER: Are you not worried about costs going up under a private operation?

Mr KENNY: We will have to monitor that. There is no doubt about that. But the fact of the matter is that the port's utilisation, when you pull out iron ore, which has come out of the system of late, there is plenty of scope there. As you can imagine, with the utilisation increasing you will only see costs come down as utilisation goes back up into general freight instead of it being iron ore.

Mr WOOD: What general freight are you referring to? Most of it has been iron ore, manganese or cattle. There is potential for prawns from Legune Station and dragon fruit from east Arnhem. What dry goods? I understand practically nothing goes south from this port?

Mr KENNY: What I think will take place in the next 10 years, particularly with business moving behind gas, is many businesses in town and many of our members are positioning themselves not only to supply the local oil and gas hub, but we have real capacity to look at what we can export. What we have learnt, on the back of INPEX and Conoco over the last 10 years is the skill set and the capacity of business is moving dramatically in Darwin and our true capacity. You will find Darwin not only becoming a hub to maintain the northern part of Australia, but I think you will see us go further afield.

Mr O'GALLAGHER: Also, it is natural for people to focus on exports, but the port is a trading port and imports are just as much part of that equation. Some of the kitchens coming in for unit developments around Darwin are from China and so on. That is so local developers can be competitive in their bidding. The port services an important role for our importers. They bring supplies in to sell within Australia.

I had this discussion with Austrade this morning. They are focused on exports, but I suggested trade is a two-way thing and nations are looking at two-way trade and the port is critical to that two-way trade. We have a multipurpose port. Look at the imported cars. It is seen as a multipurpose port. There have been concepts for a bulk handling port. How far down the track that goes, particularly with commodity prices as they are people's appetite may have waned a bit, but Glyde Point and other places were considered.

When you look at investment in the port – that is why you need a long-term view, not just what will happen in the next two or three years. Where do we want to be in the next 30 years?

Mr WOOD: Initially you spoke about the benefits of privatisation. Obviously we have to look down the track. What are your views on a monopoly? If your views are positive, do you see any negatives in having a monopoly? If you do see negatives, how do you think that should be controlled so port customers are not ripped off?

Mr O'GALLAGHER: There are mechanisms, such as third-party access regimes, to make sure competition can be provided by the port owner but someone else can come in. The same thing happens on the Darwin to Adelaide railway. There a third-party access regime if a third-party railway operator wants to come in. However, there is recognition that the investment that has gone into that infrastructure needs to be recouped.

In regard to costs, I understand the Darwin Port Corporation is to operate on a commercial charter so is there commercial charter any different to how a business would operate?

Mr WOOD: They have a minister in charge to control them. If they went too far up the ladder of prices a few people might receive phone calls and it would go back to the minister. A company is not responsible to the government. What would stop them from charging unreasonably?

Mr O'GALLAGHER: As I said, you have Darwin airport, rail systems around the country, Flinders port in South Australia and Brisbane port all operating privately. The idea of private operators is nothing new in Australia.

Mr CHAIR: We need to look at regulatory frameworks. In wondering whether it is or is not a problem, I think the devil is in the detail of what you are doing, as you said. We are happy to receive any feedback on what this committee needs to consider in making recommendations around the lease model, and the regulatory framework in which it sits, to ensure there is fair and equitable access and that there is a dispute resolution process, as well as things in place to allow us to take advantage of the positives you spoke about in regard to private operators. There are things that cover off the negatives.

You spoke about access and third party stuff, are there any other things we need to look at specifically which members have raised with you, which we need to consider in making these recommendation to ensure balance?

Mr KENNY: There is a general consensus that we need to look outside the box at what other ports around Australia are doing and where we sit within the globe. We are a part of Southeast Asia; our trade will increasingly become more focused. If it is not where cattle or iron ore are going, whatever we do it is the food bowl of the north. If we appear 20 years ahead of ourselves we need to make sure - if we are dealing with a corporation in charge of the port – that they truly have an understanding of that market place. We think that is pretty important.

We also need to recognise that if we have a port that is moving with the times it needs investment. There is no risk or doubt about it that to put \$50m or \$100m investment into a port facility, government does not have the funds to do that; it has different priorities. If we are to have a port, it needs to be well funded. We need it to understand our true market place and position in northern Australia and Asia. As you said, and as we mentioned, the devil is in the detail. We need to understand who this person is; it may not be someone running a port corporation around Australia, it may be someone with a true focus on what we consider today and tomorrow around market places.

Mr GUNNER: Is this the first time you have been asked to give this kind of feedback around what you might want to see at the port and what your thoughts are around the port model that should be there?

Mr KENNY: From a Manufacturers Council level, yes, it has been on the table and we have spoken about it. There will certainly be an increased focus on it. A number of people have spoken about it, this and the previous government, regarding what will happen to the port.

Mr GUNNER: But not in terms of what is happening at the moment.

Mr O'GALLAGHER: No, this is the first opportunity to talk to a select committee.

Mr GUNNER: I appreciate that. Regarding the terms and conditions that Nathan spoke about, we saw a scenario where the railway was sold. In hindsight the businesses we met with in WA said they wished more terms and conditions were put in place upfront.

Parts of the railway were not maintained. They then pulled those parts of the railway out from being used and people were forced to go from rail to road to address the profitability of the railway and other legs. You can take this question on notice, but we are asking if you can think about specific things you need as terms and conditions. If it is sold and is run privately, what do you need upfront so that in 10 years' time we will not be faced with the fact that this particular asset is not profitable for the company, so they run it down and close it off? Suddenly, we are left in the position where business is out in the cold. We are looking for some of those specifics of terms and conditions.

In Western Australia they said, 'We wished there had been upfront guarantee of ongoing investment into parts of the railway'. The other thing that came out of WA was they have a landlord port model, essentially where the port remains publicly owned but – the point you raised - when they need to find money they need to get investment in the port. They said they have no problems with assets within the port being privately owned. It might be a public port authority and the port is managed publicly, but they are now aggressively making parts of the port private.

Are you open to that type of investment model where you still have to find the capital but the safety and other capacity of the port is public but you might have a private asset?

Mr KENNY: We mentioned in the paper we are still on the fence whether it is a freehold sale or a leasehold sale. It is important infrastructure. It is important there are caveats

wrapped around this long term to ensure that business has a safe mechanism moving forward. It is important to have that.

Also having that mechanism in place gets around the political cycle as well so business has some stability invest past a political term or two. Yes, it is very important. We will take on notice to come back and be happy to come back to this committee with some points on what we consider to be important in guarantees and constraints that would secure us going forward.

Mr O'GALLAGHER: On that, member for Fannie Bay, in the terms and conditions, absolutely we will give some thought to it. What would be highly valuable is, as the select committee gets its thinking around the possible guarantees and conditions, it then takes it back to the Chamber for them to consider. Then we know which options you are starting to look at and we can give very constructive comment as to whether we think that is in the right direction or not.

Mr GUNNER: That is very reasonable. We are a little time constrained. We have been given a very narrow window ...

Mr CHAIR: It is not that we are time constrained, it is just that we are not going to be writing those things. The recommendations we will be making will probably be a little more general than that. We have picked up so far that we need to ensure conflict resolution is right ...

Mr O'GALLAGHER: Yes (inaudible) on occasion.

Mr CHAIR: Every man and his dog has said pricing has to be right; access is important; inadvertent third-party monopolies being created is a drama; making sure all the networks that link to a port are right. If the railroad networks to the port are wrong you can create all kind of dramas for the port. How that interfaces is important for a regulatory framework.

I thought of another one then I forgot it. Land pricing on and off the port needs to be right. There are ones that are topical now in regulation that centre more around container ports than us. Those are still about price, so the different regulatory models that might exist about price is important.

We probably will not be able to come back to you and ask, 'Do you think this or this would be better?' However, in our recommendations we will need to say that whatever formulation and framework of lease model is suggested in the possibility of this happening, this

committee recommends that these are the things government will have to cover off and make sure they are taken into consideration.

Today we learned what is in and not in the lease such as the marker buoys. A big part of somebody's business income stream in the Northern Territory is to pick those marker buoys up, scrape the barnacles off them and put them down. If they are in or out of the lease has a big bearing on their income because whoever leases it is more likely to do it themselves than get someone else to do it.

So there are other things like which people have raised which makes it important that we make these recommendations. We need to consider very carefully what is and is not in this lease to ensure we are not actually hurting businesses in the process of doing this, where something that is really quite innocuous on our side of things does not become something that destroys a business. I would think they are more the level of the recommendations we are going to make.

Mr KENNY: I think we need to feed into this. I am very sorry, I think you are too high-level and you are leaving this out.

Mr O'GALLAGHER: I think there is undue haste.

Mr KENNY: This is moving too fast. You need to slow it down.

Mr GUNNER: We have been given, by the government, 11 weeks to do our current job. So we literally have a cut-off date. I think what is going to be critical as part of what we do as a committee or the recommendations – we are going to officially dissolve and not exist as of April, whatever the date is. But we are going to have to make it as part of our recommendations that government, which will take the baton from that point ...

Mr CHAIR: Is consultative.

Mr GUNNER: Is going to have to go back ...

Mr KENNY: They have got to come to the table and we have to work through this.

Mr GUNNER: It has been a concern of ours that users have said consistently today, essentially, that they are aware that the port might be sold. It has been raised. As you mentioned, you might have talking over for a length of time about how you get money into

the port, but no one so far today has really been given an opportunity to do into detail about some of the concerns they have, like the nav aids, pilotage and how stevedoring might work, which depends on who might buy it.

As you said in the end of your submission, there is a whole lot of detail that people have not been asked for their input on yet. We are trying to get as specific as we can – would that be fair to say, Nathan? – in our recommendations around if the port is sold then these are whole bunch of terms and conditions, or regulations or models that need to be considered or not considered. We want to be specific but we have a lifespan.

Mr KENNY: If you window shop, that is fine, as long as when you hand the baton over there is consultation there.

Mr CHAIR: Absolutely. No argument there.

Mr KENNY: It has to be there with business. It just cannot be handed over and then ...

Mr WOOD: There is also a political aspect, that is, you are selling a government asset. If people are not informed enough to make a decision on how they feel I think the government is going to have a problem from that aspect. I am not saying the government should not sell the port, but I think it needs to bring people along with it because you know what happened with TIO, and there have been other assets sold. It is complicated, and I must admit it is difficult in such a short period of time to deal with this.

Mr KENNY: As we stated, the Chamber is still quite up in the air whether it is a cleanskin freehold sale or it is a leasehold. Our membership is still debating that.

Mr WOOD: And it does make a profit. You mentioned \$100m before. Theoretically, in six or seven years at \$15m per year you have that money, so you can get a loan because you know you are going to make that much money. I am not saying that is where it should go, but I think we do need to at least identify that the port does make money at the moment. It did not used to; we saw the graphs yesterday from when it hardly made anything. In the last few years it has made \$12m, \$15, \$17m. It will go down this year because the commodities have disappeared, but there is a side of which says it does make money, and the government wants to invest in it, so you could get a loan against the amount of money it is making. On the other hand the government says, 'We want instant money to put into other assets'. That is another question, where should that money go to.

Mr KENNY: Absolutely, we could have a bigger committee than what we have here to work through that.

It is a very difficult situation. We all know that they made money over the past three or four years, but the last 12 months have been very difficult, as they have been for most businesses who have been servicing the resource sector. We have seen that downturn with the commodities. What we need is an understanding, if there is going to be an investment here, be it leasehold or a freehold sale, that the company is big enough and has deep enough pockets to ride through the ups and downs of the resource sector.

Mr CHAIR: Gentlemen, I am really sorry; it is well past our time to close off. I know we started late as well. I very much thank you for coming in. The points you have made will definitely be taken on board within our recommendations.

Mr GUNNER: Is that enough for you, Russell?

Mr CLERK: It is enough for me.

Mr GUNNER: You have the details you need to follow up properly?

Mr CLERK: We need any answer within a week.

Mr GUNNER: So those conditions we are asking for will be back in a week.

Mr KENNY: We will definitely deliver a document to you.

Mr CHAIR: As soon as possible due to the time frame. The committee has to write the report.

Mr O'GALLAGHER: In summary, the key point we want is whatever the recommendations are there is close consultation with the Chamber of Commerce in regard to the implementation phase. We philosophically do not have any issue with privatisation. However, we would be concerned if government acts with undue haste and does not do it in a considered way.

Mr CHAIR: Thank you very much.

The committee suspended.

NORTHERN TERRITORY AIRPORTS

Mr CHAIR: On behalf of the committee I welcome everyone to this public hearing into the proposed lease model for the Port of Darwin. I welcome to the table to give evidence to the committee, from Northern Territory Airports Pty Ltd, Ian Kew, CEO. Thank you for coming before the committee. We appreciate you taking time to speak to the committee and look forward to hearing from you today.

This is a formal proceeding of the committee and the protection of parliamentary privilege and the obligation not to mislead the committee apply. This is a public hearing and is being webcast through the Assembly's website. A transcript will be made for use of the committee and may be put on the committee's website. If at any time during the hearing you are concerned that what you say should not be made public you may ask that the committee go into a closed session and take your evidence in private.

I will ask each witness to state their name for the record and the capacity in which they appear. I will then ask you to make a brief opening statement before proceeding to the committee's questions.

Could you please state your full name and the capacity in which you appear.

Mr KEW: I am Ian Kew, CEO of the Airport Development Group, which is Darwin, Alice Springs and Tennant Creek. We have a company called Northern Territory Airports, and that is the one I refer to publicly because that is what people in the Territory know.

Mr CHAIR: Would you like to make an opening statement.

Mr KEW: Yes, and thank you for the opportunity. The reason I want to present to the committee is there has been a lot of public debate in Australia about privatisation, and understandably so. It has been a topic of state elections recently. The airport is a good model of successful privatisation of infrastructure assets in Australia and there is quite a bit of history. Federal airports have been progressively privatised. In 1997 three big airports – Melbourne, Brisbane and Perth – were privatised. In 1998 about 18 airports, including Darwin, Alice Springs and Tennant Creek, were privatised. Also Adelaide and Townsville have been. The only airports not privatised by the federal government at that point were

Sydney airport and the Basin airports in Sydney which they held off privatising until after the Olympic Games because they wanted control of Sydney airport until they were finished.

Airports have a pretty good infrastructure scorecard. Looking at infrastructure around Australia at the moment, the investment into airports has been considerable and very successful. Successive federal governments, Liberal or Labor, have publicly said the airport privatisation process has been a great success.

I am sure you can get privatisation wrong, like anything else, but in Australia they pick the best elements from what happens in the UK and elsewhere.

That is the background. I wanted to present the case that I am not talking about ports in particular, but on our side of the business ports and airports have many similarities and it has been a resounding success around Australia. I want the committee to be aware of the good things that have come out of privatisation. I am happy to talk specifically about those things in the Territory.

Mr GUNNER: I think that falls actively within our remit about how to do it right. I am very interested in hearing some of your lessons about what is obviously a highly regulated place, how it works, some of the conditions you have on how to operate and what lessons we can take from that. We have heard from WA about some bad examples of privatisation with the railway, so we are interested in hearing about how to get it right.

Mr KEW: If you are happy to ask those questions later, can I first paint a bit more of a picture? The context is important and I am happy to give my thoughts on what you might consider in regulation and those types of matters. You know who I am, from Northern Territory Airports, and we are owned 100% by two companies. IFM Investors are the major investor, they are the industry's super fund – and I have a copy of the last two annual reports so you can get a flavour for the size, metrics and scale of what our airports do. The other is Palisade Investment Partners, which is a smaller investor with 23%. Both have interest in airports, ports, toll roads and generators in Australia and overseas.

I think IFM recently bought a major toll road system in Georgia and Freeport LNG in the Gulf of Mexico. There is a lot of money in super funds, especially the Australian super model which has had world success. I think it is the fourth biggest fund in the world now. There is a lot of good investment money taking long-term views on investments which is attracted to infrastructure. We are owned by 100% Australian super funds. The FAC prepared all of the federal airports in Australia for sale; they corporatised them and put them in a position where they could be sold.

I started three years after privatisation; NT Airports was privatised in 1998 in phase 2. I started at the end of January 2001, just before September 11 and the collapse of Ansett happened, but the business was very different in those days. It was a public service business and did not focus on commercial aspects, nor did it focus on customer service, and it was a pretty small business that was not going anywhere. Its turnover at that point was \$18m a year, and it made about \$1m in cash available for distribution to shareholders. Fast forward the 14 years I have been there, we are now turning over \$100m a year and we hope to generate about \$70m in cash available for banks and shareholders.

Businesses are very different today, generating a lot of profit which we are reinvesting into our business. When I started we had a capital program of \$250 000 a year. So far until the end of last financial year we had invested \$292m. This year we will invest about \$80m, so we will have invested about \$370m in the time I have been in this position – 14 years. If you make money you can afford to invest in capacity, if the right business climate is there as well as the need for the market. Our shareholders – I cannot talk about who shareholders of the port might be – have the capacity to invest if they can see a long-term sustainable return out of the business. That is to grow future capacity, continue to build a bigger and better business than what we have today and, dare I say it, to return money incrementally long-term to superannuation holders in Australia. I am with AustralianSuper, they are a part of IFM, and many other Territorians are also.

That is how the funding model works; it is how our airport has grown, and that is who our shareholders are today. We have many stakeholders in the business and we need to make sure they are all supported in their business. My master plan talks about our vision and purpose. I will leave a copy with you. I suggest you compare it to your Committee's Terms of Reference 2(a) (b) and (c) because they are almost identical. We are responsible for contributing to the Northern Territory's economic growth in our community. I have bullet points there on everything we do: safe and secure operation and engaging positively with our community. They are all the things we, running a privatised business, seek actively to do. People might have a view of whether we do it successfully or not, but it is certainly not through lack of trying.

We have some key stakeholders. The federal government still owns us and regulates us in certain areas. We have lots of outside agencies that regulate us from a safety perspective such as CASA and the Office of Transport Security. The public is very interested in what happens at airports. There is no more public business than an airport business.

In Darwin's case we have two-and-a-half million people coming in and out of the Darwin airport every year. There is probably one-and-a-half people for every traveller, so probably four million people are moving in and out of that terminal as meeters and greeters who go there to pick someone up or drop someone off. Because we are so easy and accessible – we are not in Batchelor 90 km away – everyone lives 10 minutes to and out of the the airport. Everyone goes to the airport so we are a very public business with a high public profile right

in the heart of town and close to the CBD. But then most airports in Australia are very close to the CBD and there are not many which are far away from it.

The public is a very important consideration for me and my team. The customers are the most important ones at the end of the day. They are the ones who have to pay the prices and see value in the services you provide.

When I am dealing with Qantas, Virgin, Singapore Airlines, AirAsia, Airnorth and all those customers, they want to understand what we are investing in the business, what our operating costs are and whether the things we are proposing to build are what will meet their business needs. If they do not agree to that, then I do not get any support for a long-term pricing agreement. I do not build a new \$60m terminal unless I have a long-term agreement that the airlines sign up for and agree to and want us to build.

That is the same with repairing our runways, upgrading our lighting systems or anything else we do. Customers are absolutely key and that gets to how you manage prices and the relationship there. Customers now – airlines – are pretty used to negotiating commercially. They do not need the help of a minister. When they are buying \$9bn worth of fuel from Shell or BP they do not need a minister to hold their hand. They do not need minister to hold their hands when it comes to negotiating airport charges. Indeed, the federal government wanted proper commercial relationships to happen. That was one of the key requirements of privatisation. Before that, it was the minister for airlines in Canberra's Parliament House talking to the minister for airports, if you know what I mean.

Customers are key. We have environmental groups. Darwin is unique in that it is a joint user airfield, so we have the added complexity of dealing with Defence. It works very well and we have great relationships on the ground with them. Even though we are not owned by the Northern Territory government we have an airport master plan which comes to the regulatory framework. We have to do very detailed studies about the demand and capacity requirements over the next 20 years. That needs to be refreshed every five years. We need to engage comprehensively after we have undertaken very detailed studies on noise that is to be generated by aircraft operating in 20 years' time, flora and fauna studies and hydrology studies.

All those things have to be done and collated into a master plan. I have a copy here. As you would know they are on our website. They are public documents and the public gets to comment on them through a public consultation process.

We have many different stakeholders. If we are to operate successfully, we need to get the support from all of those stakeholders. The Territory government, as I said, looks very actively into what we put in our master plan. We are about to go through the process, both here and in Alice Springs now. Everyone gets the opportunity to have their say. It does not

mean to say that we need to agree with everyone's view, but we do need to demonstrate to the federal government during the master planning process that we have adequately considered the issues and responded appropriately to them.

We have many different stakeholders. For example, our employees are really important to us. We have fantastic engagement. I can honestly say that the attitude of our team is quite different today than when I took over, which was two or three years into privatisation. They were all previously ex-FAC employees or, even longer, Department of Civil Aviation. Great people, and a lot of them are still with me, which I am very pleased about. Now it is an organisation that really is committed to building a really strong airport business that is offering great facilities, great customer service and really focusing on developing the business.

I have not had one day of industrial action in the 14 years I have been there. I have negotiated four EBAs and ECAs during that time, and we benchmark our staff's health and engagement against 1600 companies through a company that is set up by Macquarie University in NSW. We know exactly how we are performing against other industries and companies across the board in terms of how well we are liked, regarded and engaged with our working staff.

There are many things I could keep talking about, but if you wanted to ask questions about the framework, pricing or how we do it in the case of Northern Territory airports, I would be happy to talk about that.

I should say I think it is a very positive story that we have. We have really worked hard to engage with the community and sponsor things. I have 92 employees and all of them work in this town, and they are all an important part of it.

Mr CHAIR: There are regulatory frameworks and regimes that exist that really manage many of the things that happen within an airport. Would you be able to give us a brief overview of the regulatory regime currently applicable in Australian airports, particularly access and price?

Mr KEW: When the airports were privatised in Australia they was a CPI-X regime that was put in a place for a period of – I think it was envisaged for five years. That was a safeguard that the airlines wanted. Remember the airlines had significant investments in airports in Australia. Qantas and Ansett had built terminals in all of the airports in Australia, with the exception of a few, including ours; they had a long-term lease at ours. The Qantas terminal at Sydney was built by Qantas, so they wanted to make sure they had proper access and they were not going to be done over on pricing.

But it was always envisaged that the CPI-X regime would disappear at the end of five years and during that period of time airlines and airports would work out how to conduct proper negotiations – commercial discussions, as indeed the airlines did for every other thing they bought.

The collapse of Ansett and September 11 brought that process forward. The federal government at the time had done a review; it had been done by the Productivity Commission. It had made a recommendation that the CPI-X regime did not need to continue and that commercial negotiations should take over. When Ansett collapsed and September 11 happened, the airports were put under immediate financial stress. In the case of Northern Territory airports, in Darwin I lost one customer who was worth 55% of my revenue overnight. We had bank debt in there. The banks were willing to continue with us – obviously they had step-in rights and everything else – on the basis that we could reset our price.

The federal government changed the rules so instead of waiting five years they allowed us to do that after the collapse of Ansett. We negotiated commercial terms with the airlines. It is a pretty rough and ready way of working out how to have commercial negotiations. It happened very quickly, but that has happened ever since.

In terms of the pricing model, there was a lot of work that had been done. Indeed, even though we have what you would call very light-handed regulation now, that has been a journey from that time in 2001. Our pricing at the moment – we set it. There is an ACCC-endorsed building block methodology so it is based on an open asset-based valuation which has to be on an optimised basis. If you have a gold-plated thing you will not just take that asset valuation; it has to be fit for purpose. You then put into the model a future capital program, in our case agreed with the airlines, for the long-term pricing agreement. You would put into the model future long-term operating costs, once again worked through and agreed with the airlines, and then you put into the model the weighted average cost of capital based on the percentage of debt and equity you believe will be in the business long term. That spits out a pricing path and is probably the basis for negotiation and then you talk with the airlines.

We have an eight-and-a-half year long-term pricing agreement with the airlines. In exchange we have to run our business efficiently. We had to guarantee we would invest \$97m into aviation investment over that period of time, and we will spend more than that.

I think at the time of the sale the federal government had a view that airports had to have a 10-year capital program which they needed to meet. It is not like you say you will buy a business and invest \$100m then invest nothing. That would not be acceptable to the feds. A capital spend needed to be committed to and reported on over the first 10 years. We have well and truly exceeded that capital program because we are keen on investing in the airport

for the things our customers want whether it is parking a car, buying a meal in Dôme or Qantas, who wants us to build capacity for its future business.

Mr GUNNER: Do you know how they reached that \$97m figure?

Mr KEW: I worked it out. We worked it up with the airlines.

Mr GUNNER: Your appraisal was \$97m?

Mr KEW: We sat down with the airlines and in the negotiation process said, 'What do we need to maintain the existing infrastructure and build extra capacity?' As we know, the airport has become very congested. We have had a fair amount of growth in the last decade or so. Some airlines – not in our case – might say they do not want to spend any money. If you do not build capacity you lock out future competitors. The money we have spent in recent times, as you can see in the terminal – we have doubled the capacity for passengers and planes. We can handle twice the number of passengers and plane today than two-and-a-half years ago at any given time. We have built and funded capacity. In our case the airlines were supportive of it, and we are committed to investing in that program with them. We give them scorecard. They can ask, 'Did you spend the \$97m?' If I do not spend that \$97m, the next time I want an agreement with them they will not be happy with me. I want to demonstrate we have delivered on all our promises.

Mr WOOD: You are still a monopoly so there is similarity with privatising the port. You have people who rent land where Bunnings – is that your area?

Mr KEW: It is.

Mr WOOD: You have the new Caltex service station?

Mr KEW: Yes.

Mr WOOD: Small aircraft have parking spots and taxis pay a fee. Is there a regulation which allows those people, if they feel they are charged too much, to say to your corporation they think it is unfair? Is there a process for that?

Mr KEW: I will go through some of those things for you. Firstly, we had to encourage Bunnings to come on to our side of the airport – commercial property. If we had not offered a commercial deal they would have built on the other side. They would have gone to Kulaluk

or somewhere else – Jape. We have to be totally commercial in dealing with our commercial property. As we know, some developers have large land banks in the Territory so there is a fair amount of competition in that market otherwise I would have built it out by now.

In regard to taxis, there are many different ways to get to the airport. If I put the fee up to \$10 to drive through the taxi rank people would just get their partner to drive them there, the shuttle bus would do a roaring trade or whatever.

Mr WOOD: Or wait for the public bus, but that is another issue.

Mr KEW: Yes, and I am happy to talk about that. That does not worry me; I do not think public transport will ever work to an airport of our size and scale because it would be hard to catch a bus from anywhere in Darwin to the airport to catch a 3 am plane to Indonesia. By the time you get to the bus station you may as well go straight there.

Mr CHAIR: What about in markets where it is not already competitive? For example, the operator running Hardy Aviation, is there a dispute resolution process for something like that?

Mr KEW: There is no formal dispute resolution process. We are unique because our general aviation business is at the same airport as our large jets. Indeed, our general aviators probably pay a lot at Darwin airport to be honest. Facilities that they might argue they do not need, or do not need elsewhere - they might land on a two-mile long runway. They can have a fire service which can turn up within 30 seconds of a crash. They have navigational aids that will help guide them down in bad weather. You do not get that in small airports. There is a cost to all of that; I would much rather land - if there was a problem - in Darwin than Batchelor, for example.

Our general aviation community to some extent has been subsidised by the large jets. I try to maintain very good relationships with the GA community, even though they do not generate anywhere near as much revenue as some other parts of the business. They are an important part of the airport and the business. If they are not happy with anything I do they can talk to my shareholders, the *NT News*, on the radio with Daryl Manzie or they can talk to you, and I am sure you would talk to me about it even though there is no formality.

We are a part of the community. Will I upset an important constituency at the airport general aviation? No. They do not have the regulatory safeguards that some might argue are necessary, but I am not aware of any difficult disputes with any of the GA operators in the time I have been there. It is within our interests to have good relationships with all of our

customers rather than belt one side of it. It is not worth the headache for me to upset GA, even though they are only a small part of my business.

Going back to the regulatory framework, I think light-handed regulation is important. There needs to be opportunity for our airport to reach commercial negotiations with the airlines, without others stepping in and the games that go with that. I think the only airports in Australia which are subject to price monitoring only now are Sydney, Melbourne, Brisbane and Perth. All other airports have progressively stepped out of it.

There are some things we do to provide transparency to what is going on, so our prices are all published and we charge the same price to all airlines. We participate in an airport service quality, very detailed monitoring program with 160 airports around the world through Airports Council International. We publish the results of our service quality on our website as well as our complaints. We have a community aviation consultation group which has about 20 representatives from different parts of the community, which we meet with regularly. We have a planning coordination forum where we meet with RAAF, air services, Territory government departments and Darwin city council where we talk through planning issues. We are not developing in isolation without the government knowing what is happening on the other side of McMillans Road or Bagot Road.

I think those consultation processes are really important. We have the 20-year airport master plan which is refreshed every five years and all relevant stakeholders get the chance to look at it and have their say. That is our planning document so it covers off land uses. Airports and ports need land to conduct their activity, but they also need lots of land for the future. We have a 99-year lease – 50 years and 49 years – and 99 years ago they were flying biplanes made out of canvas and wood. Now we have the A380, so who knows what aircraft will be flying in 50 years' time or what the size of ships will be. Airports need capacity to grow and land for other activity, so they need to diversify the business. It cannot be airport-only activity. That has been the view of all federal governments in the past. Under the FAC land was available to develop non-aviation activities on. Sydney airport, with 800 ha, does not have a lot of land for other non-aviation commercial activity, but what they have is worth a lot of money. We have 35 km² in Alice Springs with lots of land not needed for aviation and will probably not be developed from a commercial perspective.

Having a strong well-consider well-consulted land use plan, having a good view of how you will deliver capacity expansion over time in a cost-effective way is important and allowing airlines and airports gets together and negotiate freely. Qantas does not need help from anyone when it negotiates with Shell. Fuel charges at Darwin are probably much more than the airport charges.

I am sure what a ship will pay when it takes on fuel here is probably more than it will pay in port charges.

Let us not forget, we are a small airport and these companies are big. Qantas is big, Singapore Airlines is big, Darwin port is small, Japan Post is big – who bought Toll and who they will be negotiating with.

Customers have a lot of power. At the end of the day, if you are really silly about it, they will not fly to Darwin. It would not affect their business, in the overall scheme of things, if they did not fly to Darwin.

More often we work actively with – particularly in partnership with the Northern Territory government. Paul Henderson and I put together the first resource and aviation business development person to target airlines to add new services and capacity. We need to work hand-in-hand with our customers to get them to come here and keep them here. It is not a case of scaring them off with high prices. We rarely have a conversation about price after the deal is done. Airlines probably see it as a controllable cost during the negotiation, but once the deal is done they get to the other important things in their business.

Mr WOOD: Will Hungry Jack's be open at midnight when you want to catch the 1.30 am Jetstar to Adelaide?

Mr KEW: I think it is.

Mr WOOD: No.

Mr KEW: We have one concession (inaudible) there because of the size of our airport. They run all the concessions – Dôme, Green Bean, the new one to open, Hector's Bar, which is opening in a fortnight. They do not open all their outlets for all flights.

Mr WOOD: Jetstar people would probably be Hungry Jack's favourites. I have seen people lined up looking at it and I say, 'There's no one there'. I thought it was a strange business.

Mr KEW: There has to be something open for every flight but not necessarily all of them.

Mr CHAIR: Thank you for speaking to us today. It is a positive way to end the committee.

Mr KEW: It has been my pleasure because I think we run an important business for the Territory and we do it pretty well. I do not think privatisation is the ogre it has been painted to

be. You need to get the rules right and the right person buying it, but I am sure the government will do that if it decides to go down that path.

The committee concluded.