

UNCORRECTED PROOF ISSUE

Thursday 7 December 2017 - Legislative Council - Government Businesses Scrutiny Committee A - Tasmanian Ports Corporation Pty Ltd

LEGISLATIVE COUNCIL

GOVERNMENT BUSINESSES SCRUTINY COMMITTEE A

Thursday 7 December 2017

MEMBERS

Mr Armstrong
Mr Farrell
Ms Forrest
Mr Gaffney
Mr Hall (Chair)
Ms Lovell

IN ATTENDANCE

Hon. Rene Hidding MP, Minister for Infrastructure

Ministerial Office

Mr Richard Wilson, Deputy Chief of Staff

Tasmanian Ports Corporation Pty Ltd

Mr Stephen Bradford, Chairman

Mr Paul Weedon, CEO

Mr Geoff Duggan, Chief Financial Officer

The Committee resumed at 3.06 p.m.

CHAIR (Mr Hall) - Welcome, minister, and for the purposes of the *Hansard* could you please introduce your team at the table?

Mr HIDDING - Thank you, Chair, it is nice to be here today for the scrutiny of TasPorts. On my left I have the Chairman of TasPorts, Stephen Bradford; on his left, Paul Weedon, the CEO; and on my right is Geoff Duggan, the Chief Financial Officer.

CHAIR - Minister, I invite you, if you like, to give us an opening statement.

Mr HIDDING - From the shareholder point of view, TasPorts performed very well during the 2016-17 financial year under the leadership of the chair, Stephen Bradford, and his CEO, Paul Weedon, backed by his own management team. The board remains firmly focused on facilitating trade for the benefit of Tasmania through the commercial provision of infrastructure and services.

TasPorts last year delivered a profit of \$4.8 million. This is substantially up on the 2015-16 profit of \$1.5 million and is the second year in the row that the company has delivered a profit. This company is absolutely focused on its commercial drivers. The consolidated after-tax profit was slightly lower at \$3.2 million, which takes into account the loss of the Bass Island Line of \$1.7 million.

TasPorts is committed to growing the business and this was very evident last year. TasPorts continues to plan ahead with its port master plan project, which will deliver detailed strategic plans for each of its ports. More details are expected to be announced in 2018 on that project.

Total freight volumes grew by 3.6 per cent, with a total throughput of 14.3 million tonnes in the year in question, compared with 13.7 million tonnes the year before. A total of 1.5 million tonnes of product went through the Burnie Chip Export Terminal, a 30 per cent increase from the previous financial year.

TasPorts' forestry business continued to grow. During the financial year it represented 23 per cent of the corporate gross revenue. Total forestry export volumes increased by 21 per cent, so there is a continual growth there. TasPorts helped the world's largest container shipping company, Maersk Line, bring a new weekly container service into Bell Bay.

The company continued to deliver the most significant refresh of its marine fleet in a generation through its fleet renewal program, with the \$2.5 million state-of-the-art pilot vessel *Hellyer* coming into service in Burnie, and the very powerful \$4.1 million tug *Yandeyarra* has now arrived in Hobart. We can see that buzzing around the port, bringing in many of the cruise ships.

TasPorts established Southern Export Terminals, a joint venture log export terminal, with Qube Ports to provide certainty for the southern forest industry. To date, three, 11 500-tonne shipments have occurred in April, August and November, and volumes continue to grow.

TasPorts also successfully set up the Bass Island Line shipping service during this year in question for the King Island community. BIL, a wholly owned subsidiary of TasPorts, began operating in April and has provided a safe and reliable service despite some challenges. A new faster and larger boat will be coming aboard early next year.

The cruise ship sector continued to grow rapidly, and the booming industry shows no sign of slowing down. A total of 129 cruise ship visits are booked for 2017-18, an increase in calls of more than 120 per cent in just three years.

These are very exciting times for TasPorts and I have great confidence in the future of TasPorts as it continues to grow and deliver for its customers and stakeholders and the Tasmanian community as a whole.

CHAIR - I might start with a general question. As you have talked about, we have the Hobart port down here with the cruise ships and the Antarctic stuff. The three more commercial

ports, if I can put it like that, are in the north and the north-west. In terms of a longer term strategy, do you really see any more specialisation of those ports in the north and the north-west? For example, Burnie puts out more containers - is there a strategy you are working on or do you have a mixture of the whole lot?

Mr HIDDING - Yes. Ordinarily, you would look at, say, the three northern ports and you would say, 'Why would you have three? Collapse them into one.' Of course it is uniquely Tasmanian; we have a lot of everything and we are also very specialised. Therefore Bell Bay has its natural restrictions on growth with the size of the vessels - it has to get around the island near George Town. For that it has to be twin screw; it cannot be too large; it has tidal issues - those sorts of things, but there is certainly a genuine market there. It has tended to have grown into a forest products port, and of course it is still a very important port for Comalco with its own wharf, and TEMCO as well, and general freight. The Maersk Line comes into there weekly now, as we heard. There are very good possibilities in general freight there as well.

Devonport is constrained. It is a small port but fantastic for what it does, particularly with the TT-Line, being right in the centre of the coast. If you are going to land somewhere in Tasmania, that is probably the best place.

CHAIR - You get time-sensitive freight.

Mr HIDDING - And time-sensitive freight, as you say - that hosts *SeaRoad* as well.

Burnie, while furthest away from the main markets such as Hobart in terms of rail, is not necessarily that far away because overnight is overnight; it is our major port. It is going ahead in leaps and bounds. There is an overall ports project. I am aware that in the past the Productivity Commission and others made recommendations. In fact, you might recall the federal government had bait money on the table. If you were to -

Ms FORREST - Fake money, did you say?

Mr HIDDING - Bait.

Ms FORREST - I thought you said 'fake money'. A lot of that goes around.

Mr HIDDING - Is that the right word? Incentive money. If you were to sell or consolidate, that would be a good thing. In Tasmanian terms, really we have essentially one northern port with three campuses, you could say, doing their special thing. You couldn't possibly bring them all together; in fact, you couldn't even bring two of them together. There is a full structured planning process underway for all our ports; I will ask Mr Weedon to address that.

Mr WEEDON - Essentially the primary response to your question was a document we released in 2014 which referred to 'TasPorts 2043', and which was a strategic treatment of the primary roles of each port in the network. We tried to articulate that we saw the northern ports as a multi-port platform serving different commodity sectors of the market.

The work for the last 18 months follows from that high-level 30-year plan and is at the locational level. We are doing detailed port master plans for Burnie, Devonport, Bell Bay and Hobart to provide investment certainty about the type of infrastructure investment we are prepared to accommodate and support in each of those locations. That ties into that commodity discussion.

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We have said very clearly, and it was reiterated through the 2043 plan, that the future for Hobart is cruise and Antarctic; that is where we will prioritise our investment and it follows as we go around the state.

CHAIR - Is there a weaker chink in the whole system at the moment - any particular port causing TasPorts greater grief than any of the others?

Mr WEEDON - No.

CHAIR - So you are satisfied with the performance of the four ports, even though they have varied functions?

Mr WEEDON - Yes. Everything is going very well. The challenge, which the minister referenced earlier and is a consistent theme through our annual report, has been the level of reinvestment we have had to make in our set maintenance and remediation. We took on this task in 2010-11 to catch up with decades of underinvestment in maintaining the wharves and working assets of those harbours.

CHAIR - Which of the major ports requires the most capex spend at this stage?

Mr WEEDON - It is uniformly poor across all of them. Each of the ports needs a significant amount of work. We have a structured 10-year plan and into the first five-year cycle we are getting through the work very well.

Ms FORREST - Burnie has had most of it done - the Burnie optimisation project.

Mr WEEDON - The optimisation project was more about enhancing the rail-port interface and significantly increasing the size of the rail yard. The work I am referring to is maintaining and rebuilding wharf decks, retaining walls, paving, mooring infrastructure, aids to navigation - all the nuts and bolts infrastructure you need to safely move cargo vessels in and out of ports.

Mr HIDDING - All of which is very heavy duty and expensive. I am astonished at costs to underpin a section of wharf to make sure it can take the heavy machinery. It is all very expensive work.

CHAIR - Minister, regarding the Port of Melbourne, which is a key strategic Australian port, there was talk about significant increases in the port charges. Where are we with that at this stage? What impact does that have on us?

Mr HIDDING - Prior to consummation of the deal by the Victorian Government with the purchaser of the Victorian port, there was significant negotiation with the Government particularly on Tasmania's behalf. We engaged with the Premier and Treasurer and received certain undertakings. We were essentially negotiating for our two commercial companies as well to get genuinely long tenures at their port so they could invest. The issue with ports is that if you only have a short tenure, they do not invest much, but with a decent tenure the money goes in and you can invest. We succeeded to a degree. They wanted another 10 years more than they received, but we got much more than was being offered. There were caps on certain rates and arrangements favourable to Tasmania, so we did as well as we could and we were protected by the Victorian Government from any capricious outcomes.

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CHAIR - With regard to international freight lines, has there been a tendency to ignore our ports and use Melbourne, causing more transshipping issues?

Mr HIDDING - I am going to ask Mr Bradford to speak about this generally because they have been advancing consideration of a international terminal in Burnie with Dubai Ports.

Mr BRADFORD - The broader objective of the board is to introduce an international container terminal into northern Tasmania. It would be a modest terminal. We are not trying to compete with Shanghai or the great ports of the world; we are trying to provide an alternative for cargo exporters and importers who want direct access to overseas markets. Mr Weedon is in a commercial-in-confidence negotiation with DP World with a view to how we could establish that. It would be at Burnie and the aim would be to assist the growth of particularly Tasmanian exports.

Yes, the Port of Melbourne is growing under a regulated base. Our charges are modest compared to those current levels. We think an international terminal of appropriate scale would work well for the island.

Mr HIDDING - I think some of your question was about calls from international shipping lines. I referred to Maersk's weekly call, but there are others - Swire still calls to Hobart, and Mediterranean Shipping, and these are visits we did not have before and are picking up work.

Mr VALENTINE - To Hobart, did you say Mediterranean Shipping?

Mr WEEDON - Sorry, no, into Bell Bay.

Mr HIDDING - Maersk and Mediterranean is Bell Bay; Swire down here. Other ships come in here, mainly for Ta Ann's products.

Mr WEEDON - Nyrstar is a big operator that brings direct international ships.

Mr VALENTINE - Antarctic ships come too.

Mr HIDDING - We have seen good growth in regular calls from international ships. We have the new federal government TFES repositioning scheme for \$700 a container, international freight to go to Melbourne and access the optionality. There is a fair bit on the table for Tasmanian manufacturers to be able to access and engage with international markets.

Ms FORREST - Flowing from the port upgrade and infrastructure around the ports, you talked about the four main ports, but there has also been work done on Strahan and Stanley. I was interested in the work done there, its cost and the return on investment? Are there any plans to upgrade the port on King Island in terms of particularly the hardstand that cannot take a lot of weight? Just on those other smaller ports, if you like?

Mr WEEDON - Some years ago we were successful in negotiating a co-funding arrangement with the Government with respect to how we might tackle this tranche of assets we generally refer to as community assets. These are assets mainly there for community use. They do not yield much return to TasPorts in a commercial context, but are an important part of the role we play in working with our communities to make sure they have access to the key wharf areas.

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The Government committed a \$17.5 million contribution towards a \$29.5 million project over five years. That tranche of money has funded the redevelopment of Strahan, which is well underway. We have spent in the order of \$5 million rebuilding the main wharf in Strahan. That has led to follow-on investment in conjunction with the tourism operators there to upgrade and reconfigure the terminal, which we also own.

Ms FORREST - I was down there recently and there is a lot going on.

Mr WEEDON - It is progressing very positively. The entire spend in the project will be in the order of \$6 million.

Ms FORREST - On the Strahan Wharf?

Mr WEEDON - At Strahan Wharf, yes.

Mr HIDDING - Former mayor Gerrity would have been rapt.

Ms FORREST - He would have been. He would have been out there with his angle grinder, looking very excited.

Mr WEEDON - We have a similar scope of works around Inspection Head or Beauty Point. The wharf deck and all the electrics that run under the wharf have been ignored for decades. We have a significant upgrade project going on at the moment in the \$4 million to \$6 million category. We are well advanced and completed phase 1 of Sullivans Cove. This is part of the problem with some of the work we do. We spend millions of dollars rebuilding wharf support structures, putting new concrete decks down and it does not look any different to what it did before. The thing we know is that it will not collapse into the sea, which is a good thing.

We have spent something in the order of \$8 million on the phase 1 works. This is the rebuild of the section of wharf between Brooke Street Pier through to Elizabeth Street Pier. The next tranche of works is to extend that wharf rebuild all the way through from Constitution Dock Bridge to Victoria Dock Bridge. That will rollout over the next couple of years.

We have invested significantly in those non-commercial assets or community assets. Internally we tend to use the phrase 'non-commercial' because we get very little cash flow from a TasPorts perspective from those assets.

Ms FORREST - We still have to get to Stanley and King Island.

Mr HIDDING - Sorry, on the non-commercial. The reason you would spend money on these places is that they are things other than ports. On the waterfront down here, you would have to close it to motor vehicles as well and that is an important part of how this port lives. Strahan as well.

The funding model set up for TasPorts by the previous government was a very good thing to do. TasPorts has to act commercially and it has a separate business, funded separately, where it does not act commercially.

Ms FORREST - It is nice of you not to play politics and commend the former government on what they did. Thank you for doing that because it has not been happening the rest of the day.

CHAIR - Okay, we are through that.

Mr WEEDON - Turning to King Island. In its current form, King Island is fit for purpose for the vessels that call and the cargos that operate there. In the way I referenced port master plans unfolding, we are doing that same suite of work for Grassy Harbour. That will come to the board for consideration in the first quarter of next year.

Mr HIDDING - What sort of money would that be, Paul?

Mr WEEDON - We do not know yet.

Mr HIDDING - There is the hardstand issue you are talking about.

Ms FORREST - It is not adequate to take a crane. They are not using a crane at the moment because it roll-on, roll-off, but for future use.

Mr WEEDON - It is a fairly academic discussion at the moment.

Ms FORREST - In many respects, yes.

Mr WEEDON - It is fit for purpose for the operations that work there today. If there were evidential demand that we needed to invest in upgrades to create that style of infrastructure, we would take it on a commercial basis at that time.

At Stanley we invested money some years ago in upgrading the ramp structure, specifically to facilitate livestock in trailers through that port. One operator uses that port. Our own Bass Island line has used it in the interim phase when we have had *Investigator* on the run. It is not our intention to maintain that arrangement.

We have real reservations, and we have said it repeatedly, about trying to turn Stanley into something it cannot be. It is a very small port. The available land for terminal operations is very challenging. It is hard up against The Knob -

Ms FORREST - The Nut.

Mr WEEDON - The Nut, I am sorry. There is not a lot of reclaim opportunities -

Laughter.

Mr HIDDING - The local member is not happy.

Mr WEEDON - My apologies. It is a very challenging location to try to turn it into something it is not, nor do we believe there is the community interest in seeing more commercial transport and shipping call into that port.

Ms FORREST - There was a plan for a cruise ship to anchor off and ferry the passengers in. That did not happen but I understand there is a plan to bring a number of cruise ships into Stanley over the next year or so.

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Mr WEEDON - Not into the port, though.

Ms FORREST - No, they will ferry them in smaller boats off the main ship. Is that going to create any additional challenges for TasPorts?

Mr WEEDON - Not in the short term. When they start to ask for specific cruise infrastructure there will be a problem. If they want to park up in the bay, drop the anchor and run Zodiacs ashore, as long as we can do that safely, we are happy to facilitate that happening.

Ms FORREST - Do you believe you can do it safely with the current infrastructure?

Mr WEEDON - Yes, with Zodiacs.

Mr BRADFORD - It is quite a normal cruise shipping operation. The cruise lines, themselves, will also take a heavy investigation into the safety of landing passengers and craft at that point.

Mr ARMSTRONG - Minister, can you give me an update on where the southern woodchip situation is at? Has anything happened? I know the private one at Raminea is on the books, but what about TasPorts? We have the log facility out here.

Mr HIDDING - I am not the minister for forests so I don't know anything about the commercial one that is being proposed right down south. That is, as I understand, TasPorts and no-one has reached out to talk about that. That is a commercial operation. From what I am aware of, the log operation here at the Hobart port, which was a joint venture with Qube, is planned to be a five- or six-year operation to catch up with the backlog of log exports.

I will ask Mr Weedon to address what is going on.

Mr ARMSTRONG - I am interested in the residue, the woodchips, a facility in the south of the state for woodchip export.

Mr HIDDING - Certainly not at a government level. I am not the minister for forests, but I understand there is ongoing interest from the private sector for woodchip residues from private forests. That is not a matter I am involved as a minister, or TasPorts is involved in.

Other than that, there is still a substantial shift of logs to the north of the state via rail, which goes to Bell Bay. The rail goes right to Bell Bay, so that is a useful part of our business.

Mr ARMSTRONG - SET has not had any discussions with you about a wood fibre facility in the south of the state?

Mr HIDDING - No.

Mr WEEDON - No, not in recent times. Years ago there were joint studies done with then Forestry Tasmania and TasPorts. Every option that we could possibly identify wouldn't stand any commercial scrutiny.

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Ms FORREST - I would like to follow up on that point, Chair. With regard to Southern Export Terminals, there is not a lot of detail in your annual report about it. I know it is a small part of the rough ocean. On page 83 of your annual report, if you want to go there -

TasPorts received \$208 000 income from SET.

On page 90 it talks about -

Total expenses for SET were \$517 000.

Does this include the \$208 000 paid to TasPorts? Who do the other expenses go to?

Mr WEEDON - Geoff, you probably have some detail on the numbers but if I can introduce it by explaining the commercial model that exists.

Ms FORREST - That would be helpful.

Mr WEEDON - Southern Export Terminals was set up as a contracting entity to engage with the southern forestry sector with respect to the export of logs either loose or in containers. It works on a pass-through basis for charges, so if there is a log-packing operation going on, one of the partners provides that service and invoices the customer through SET, but the costs remain in the service provider.

The only thing TasPorts charges Southern Export Terminals for is the land it rents to conduct its operations. Does that make sense?

Ms FORREST - Yes. You said it was only a five-year arrangement.

Mr BRADFORD - A five-year joint venture arrangement for the export of logs. TasPorts participates as an equal partner in that joint venture. The thinking of board and management is, in a number of things we do, that we could benefit from the expertise of others and for the actual log handling, we thought Qube-ISO offered a far better solution than anything we could provide so it is a joint venture.

Ms FORREST - But TasPorts are still losing money on it.

Mr BRADFORD - It is embryonic. Yes, we lost money in the year to date, but of course we gained the revenue from vessels calling at that berth using pilots and tugs.

Ms FORREST - You consider that revenue; are you still making a loss on it, though?

Mr WEEDON - No. At the enterprise level it is plus-minus break-even.

Ms FORREST - The SET council is not audited by our Auditor-General?

Mr HIDDING - No.

Ms FORREST - Are we able to see the accounts for that entity? It would be nice to put it on the table now.

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Mr HIDDING - It would be a matter for Qube. We could ask for that, Qube being a commercial partner.

Ms FORREST - You might take it on notice if that is all right.

Mr BRADFORD - We were not surprised by the fact that in the first year it was loss-making because it was embryonic, a new business - you have to start it up, get it running and grow the market. It was a known risk.

Ms FORREST - Is there growth in the market though, do you think?

Mr BRADFORD - The growth of the market, yes, it is growing the logs and bringing all the log exporters from the southern region to SET.

Ms FORREST - Rather than freighting it by train up to Bell Bay, you are taking it all out through the southern port?

Mr BRADFORD - Correct; for the five-year period we have contracted to.

Ms FORREST - Minister, is that a realistic option from your point of view - to not transport the logs by rail up to Bell Bay but to ship them out through this port and give it a fighting chance?

Mr HIDDING - The reason so many logs are going out through here is that it is commercial. If they had to go up north, they likely wouldn't because it is marginal business, double handling. The other major thing with logs is that they are seriously dangerous, being round and heavy. They kill people. Qube has expertise in that in New Zealand and elsewhere. I am astonished at how good that operation is - completely safe and very quiet. The logs come in in non-peak periods; it is a very successful small terminal set up for a very special purpose.

Mr WEEDON - You also have to understand the nature of the logs being handled through there. Typically, if they are pulp logs, they are more likely to be chipped and exported in that form, they are more likely to go north. But given this is all plantation timber, a large part of the volume of logs that are going across the wharf in Hobart are sawlog-quality logs.

Mr HIDDING - And peelers.

Mr WEEDON - And peelers. There is a variety of markets and the supply chains for the different sectors kind of have different economics and operate in somewhat different ways.

Mr BRADFORD - The market has responded very well to the time-based curfews on road access to that terminal. We are quite pleased.

Mr FARRELL - Referring to your annual report, page 35, TasPorts' capital expenditure target was \$26.8 million, but the spend was only \$13.2 million. Can you explain to me please why there is such a difference there?

Mr DUGGAN - It was primarily around the timing of a fleet replacement. A fleet was budgeted to be acquired in the 2017 financial year that subsequently has been acquired this financial year. That was the main driver.

Mr HIDDING - As vessels become available.

Mr FARRELL - What were the projects deferred until 2018 or after, and why were they deferred?

Mr DUGGAN - It was primarily around availability. It was around marine fleet and pilots, and the acquisition of the second tug was deferred. Some major infrastructure projects were also forecast to commence during the 2017 financial year that have now commenced in the 2018 financial year. It was still a fairly significant spend in that financial year. The actual number was around \$16 million to 17 million. That was a mixture of some fleet that we did replace during that year but also infrastructure projects. There was the dolphin at Burnie to accommodate the larger cruise ships as well. There was quite a good spread of projects around the state.

Mr BRADFORD - I think the Selfs Point fire upgrade went into the new year as we looked at new technology. The fleet replacement program: the board and management have a desire to upgrade floating plant. In the case of pilot boats, we want state-of-the-art vessels purpose-built for the island and the nature of Bass Strait and the Derwent. We have two of those vessels and the third is on its way. In towage, we wish to upgrade the towage fleet, but you have to be a bit opportunistic as to when quality tugs come on the market as second hand which would suit the Tasmanian market. It has been a good year. BHP in Port Hedland wished to sell a fleet of tugs; we bought one and then they offered us the second one, which we think is a fantastic deal.

Mr FARRELL - Where are the pilot boats built?

Mr BRADFORD - They are built in Mornington in Victoria, which is a world-class facility. State-of-the-art pilot boats are self-righting, with infrared lighting and the greatest protection to the pilots and the crew that sail in them.

Mr FARRELL - And that is something that can't be built locally?

Mr HIDDING - I asked the question about that because we have boat-building capacity here but I had never understood that these pilot vessels are so specialised - with special flotation and the like. Asking around in the industry here there was no particular interest at all in building one of those because it is a special class of vessel.

Mr WEEDON - This is a well-proven design developed in France about 15 to 18 years ago. A single provider in Australia is licensed to build their design and that is the company we deal with. We are very happy with them.

Mr BRADFORD - The Burnie pilot boat was a little fortuitous in that a vacancy came up through a cancellation at the Mornington shipyard so we took it. We try to be opportunistic and watch the capital spend, but you have to balance it.

Mr FARRELL - And that is the reason with the tugs, sometimes something might come on the market.

Mr WEEDON - We will budget to buy two and you might be able to buy four or buy none. We do get some variation on a time scale because of that. We make assumptions about the availability of either a new or second-hand fleet and you have to be nimble around that.

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Ms FORREST - Most of your capex relates to vessels rather than port infrastructure?

Mr WEEDON - A lot of that work is not capital in nature; it's about maintenance and renewal.

Mr BRADFORD - I think a few projects might have run into the new year - Selfs Point and maybe Strahan.

Mr DUGGAN - Yes, Strahan was delayed post-30 June, so it will be picked up in this year's capex.

Mr FARRELL - On page 43 of your annual report are the maintenance budgets over the last 10 years. It seems in 2017 it dropped down to \$16 million, where it had been \$23 million and \$26 million the previous years. Prior to that it had been around \$10 million. Is there a reason for that?

Mr WEEDON - That is the catch-up I was referring to earlier. Historically, either as TasPorts or the individual companies, none of them had spent enough so we ramped it up over those periods and were spending in excess of \$20 million. The challenge we are working on at the moment is what the base level of spend is we need to get through in a normal year. We are working hard to land those numbers at the moment.

Mr FARRELL - What does that look like being? Is it between \$10 million and \$20 million a year?

Mr WEEDON - Probably \$10 million to \$15 million. We hope it is not \$20 million because it is tough to find the money year on year to meet that level of commitment to asset maintenance and remediation.

Mr VALENTINE - How do you manage your assets for replacement and maintenance? Do you use a particular method model to do that or is it 'just in time' stuff? Can you explain a bit about that?

Mr WEEDON - It is a pretty simple process in that, on a routine and annualised basis, we have a comprehensive asset condition assessment process. That is informed by work we believe needs to be done, plus being responsive to particular issues we discover. The combination of those two pieces of work is then fed into a system which leads to a prioritisation process, which in turn then informs the budget.

Mr VALENTINE - So you don't recalculate life - you might have concrete pylons as an asset type - I don't know whether you do or not.

Mr WEEDON - Yes, we do.

Mr VALENTINE - The general lifespan of that might be 25, 30 years or 40 years.

Mr WEEDON - It is 100 years.

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Mr VALENTINE - One hundred years. You know over time you find concrete cancer or something in some, and is causing premature failure, you then feed that into your system and then re-age all assets as a result of that failure? Do you do that?

Mr WEEDON - Yes. We have a dynamic process around exactly that. In terms of the dynamic parts, we looked in our work program at a holistic review of the ladders around the various ports and everything from age to navigation, lighthouses and the like. We found ourselves seeing more failures in that infrastructure than we thought we should have. That led to the acceleration of a statewide ladder review and rebuild program, which has now informed a three-year budget program as to how it bring forward and get into that works.

Mr VALENTINE - Yes, exactly.

Mr WEEDON - The same thing happens in all asset classes.

Mr VALENTINE - What is the general status of your assets? Are you on par, doing okay or are you behind the eight ball?

Mr WEEDON - Given the level of investment we have made in recent years, we have caught up a long way. We still have a long way to go.

Mr VALENTINE - Years ago when the sale of Elizabeth Pier was being contemplated, people were saying, 'It is all very well to buy the pier, but the pylons under it are in terrible condition.' What is the situation with the pylons under the major piers like Princess 1, Princess 2, Elizabeth Pier -

Mr WEEDON - It is hard to answer that question in a generalised way.

Mr VALENTINE - Is there a lot of work to be done?

Mr WEEDON - There is a lot of work to be done. Just to mark the spot, Elizabeth Street pier is not ours.

Mr VALENTINE - No, it is not.

Mr WEEDON - It is a state Government asset.

Mr VALENTINE - That is a purchased item. The other question was with regard to tugs. There used to be a private company that provided those services. Is that not the case now, with TasPorts owning the majority of tugs needed for the business in the ports?

Mr WEEDON - Yes, TasPorts acquired North Western Shipping and Towage Company in 2008 and has run it as a business unit within TasPorts since that time. There are other tugs in the market. We have recently seen interest from a Western Australian company that has secured a contract for the provision of towage services in north-west Tasmania. It is a competitive market.

Mr VALENTINE - The tugs down south used to be Smarts; they are no longer in business. That is all provided by TasPorts?

Mr WEEDON - Certainly the Fader interests have tugs in Hobart, small capacity tugs.

Mr BRADFORD - Pilots and towage are seen as core business. The fleet should reflect that. Its level of maintenance should reflect its high need for reliability and, above all, the protection of the marine assets visiting Tasmania. They exist to protect the ships, the wharves and the community, so they should be of a high standard. That is why we are replacing the tugs.

Mr VALENTINE - Do you control Selfs Point wharfage facilities as well as the main Port of Hobart? What about some of the other smaller ports? Would they be MAST; maybe St Helens, Bicheno, Dunalley - those would be presumably under MAST?

Mr WEEDON - They are, yes. Certainly within Hobart our assets and our business includes primarily Selfs Point and the Macquarie Point wharfs. Nyrstar own their own berth, but we provide marine services for the safe navigation of vessels to and from their berth. We provide the tugs and pilot edge. What happens at their berth and wharf is their business.

Mr VALENTINE - Margate would be a MAST?

Mr WEEDON - That is MAST.

Mr HIDDING - The only other asset in the south was the Triabunna Wharf, which was sold to private interests. Other than that, TasPorts has nothing else.

Mr WEEDON - You have to understand the description of ports is often shaped around the description of port waters. We have a zone described by the water which we are responsible for, for managing ships coming in and out of our waters. Often we will own land and sometimes it is large amount and sometimes it is small amounts of land within the boundaries of those port waters. You get hybrid solutions like Hobart where we own some assets and some land along river bank, as we have described. Nyrstar owns some and the rest is owned by others and has nothing to do with us or our activities.

Mr VALENTINE - The slipways on the Domain, are they yours?

Mr WEEDON - They are ours.

Mr VALENTINE - You were talking about earlier time-based port access to Hobart, what is the time arrangement and the period of years it is likely to operate under that model?

Mr WEEDON - Let me preface my comments by saying that these are good problems to have, that we have to start to get to a window or a timeslot arrangement in terms of how our customers use the berths. You usually only go to that arrangement when there is high demand for the wharf. The likely arrangement in Hobart will be we will introduce time windows for the cruise sector. The rest of the commodities, whether logs, veneer, the Antarctic vessel is less likely to be an issue in the short term.

We are looking at the same thing in Burnie because our investments in the woodchip export facility we acquired from the Gunns' receivers, has opened up the export opportunities for woodchips and residues for the north-west of the state. That has led to a significant increase in volume through the Port of Burnie; there is more demand for ships to use the wharf. We have now started to work with our customers about entering into an arrangement where they will book on a time slot basis. They will know they can have that berth from 0700 for three days and will

need to book, lock it in and pay for that use and then have to manage their ships to make sure they are in the window, loaded and gone within the range.

Mr VALENTINE - What is the time window for access for log trucks at the moment?

Ms FORREST - In Burnie?

Mr VALENTINE - No, in Hobart.

Mr WEEDON - We have agreed with the industry they will not call at our southern export terminals during the morning and afternoon peaks. This is for trucks.

Mr VALENTINE - I realise that, and is why I am asking the question.

Mr WEEDON - It has gone impeccably well. We were very concerned. We worked really hard with the industry to make sure they were on board with this initiative and they have done so. The level of community complaints or concern about the log trucks on the road has been negligible.

Mr VALENTINE - With the Antarctic vessels and research vessels, CSIRO and *L'Astrolabe* and whatever the new vessel is for Antarctic research, are they remaining on Princes Wharf or going to be moved elsewhere?

Mr WEEDON - The Australian Antarctic Division, the *Aurora Australis*, is at Macquarie Point. We are looking at the potential as to how we best utilise Macquarie Wharves for the new icebreaker the federal government has commissioned. Whether we keep that at Macquarie 2, as it currently is today or whether we move it elsewhere in the port, is subject to a current project we are working jointly on with the Antarctic Division.

Mr HIDDING - How much bigger is that icebreaker?

Mr WEEDON - Nearly double the size.

Mr VALENTINE - It is to do with the depth of water?

Mr WEEDON - It is more length. We have plenty of depth alongside at Macquarie Wharf.

Mr VALENTINE - One positive came out of the previous location was that tourists saw this and it is not plastic, it is real and not a super yacht - it is doing some work.

Mr WEEDON - Our future planning and the master planning work we are doing around Hobart provides for the possibility that we might be able to encourage CSIRO to move its ship and logistic operations over to Macquarie.

Mr VALENTINE - So you get it all in one spot.

Mr WEEDON - We get some scale, we get multi-users. If another foreign nation were to use Hobart as its Antarctic logistics base, we then have a scale of operation we can bring them in, we can provide the services they are looking for.

Mr HIDDING - You can fuel them.

Mr WEEDON - You can do all those things.

Mr HIDDING - Very good fit with Macquarie Point.

Mr FARRELL - Are the vessel transport supervisors being moved from Bell Bay to Launceston. If so is there a reason behind that?

Mr WEEDON - Yes. Our plan has been to establish Launceston as the major operational base for the state. In terms of staff, staff movements, proximity to where our commercial customers are, Launceston is the place to be. As part of that work we landed on the concept of creating a single 24/7 operation centre. Whether it's a port or a railway, it tends to be the way you like to operate. We have an ambition to bring both the port security team, which is currently in Hobart, to Launceston and bring the vessel traffic management operators from Bell Bay down to Launceston, to put everybody in that same operational centre.

Mr FARRELL - You feel that will make some operational savings? Is it going to consolidate your workforce a little?

Mr WEEDON - It's twofold. Both the port security system and the vessel traffic management system are nearing end of life. We have significant technology upgrades to implement and we've had board support for those projects. It makes sense to co-host those in a single facility if we can. At the same time we'll work with staff and the unions to optimise labour productivity when having everybody in the same place.

Mr GAFFNEY - I am going to ask some questions regarding the number of offices you have across the state. I am not parochial about the fact Devonport was named the headquarters in 2006. Obviously the game has changed. I was wondering what it costs to maintain each of those offices and how many part-time and full-time staff you have in those offices. Until 2012-13 the correspondence from the Auditor-General went to a post office box in Devonport and in 2013-14 there was no post office box. Administratively, is there a change of where TasPorts is operated from? I know the registered office is in Devonport, but it used to be referred to as the headquarters. If TasPorts is maintaining a space with a couple of people and a janitor in it and calling it the headquarters, maybe it is time to say, 'We don't need that size office because it's not the headquarters any more, it is an office'. I would be interested in a question about full-time and part-time staff in each of the offices and what is the intention of the Devonport registered office?

Mr WEEDON - I think I will have to take the head count allocation on a per office basis on notice and get back to you on that. As you go around the state, our office footprint in Burnie, for example, has been downsized significantly in the last four or five years. We just have maintenance and port operative staff working in workshops in that area. We have virtually no administrative staff in Burnie. That was part of building a north-west regional office based around the Devonport Formby Road facility. We have administration, engineering and infrastructure people in that facility. We also have workshops along the water's edge, mainly on the west side of the Mersey where our maintenance, carpenters and electricians are doing their work.

It is similar at Bell Bay. We have downsized our activities at Bell Bay to mainly operational and maintenance teams. Launceston is growing in importance as the statewide operational centre

for the business. Without pre-empting a process that we will need to run by the board and with the shareholders, we will need to confront the issue of where both the registered head office and the headquarters of the business will be. Without pre-empting the decisions that might happen in those forums, it is certainly my view that Launceston will continue to emerge as the logical headquarters location for the business.

Mr GAFFNEY - Would it be too much trouble then, Paul, to have the numbers of staff in those offices in 2006-07, when it first came into being, the cost to the state and the numbers that are there now so that people can see there has been a change.

Mr WEEDON - Yes. What the transition has been.

Mr GAFFNEY - Because of the nature of the way we do business now, where it is all swings and roundabouts, I think it is important to have that discussion about it.

Mr WEEDON - Yes. The major capability we need is on the ground. It is our port operations people who are working with our customers to make sure ships come in and out of ports safely and the cargo goes on and off the ships effectively. Pilots, the guys that drive the pilot cutter boats, the tug crews, the wharf operational people, the maintenance guys who are doing repairs need to be in the ports. We have focused on making sure that that is maintained but rationalising administration staff, rationalising management, consolidating those into fewer centres has been a theme over the last couple of years.

Mr GAFFNEY - Thank you for that. An issue on notice, if Hobart had five in their office in 2006 and they now have 20, there may be further questions.

Mr WEEDON - Sure.

Ms FORREST - I want to ask some things about the King Island service. It would be no surprise to anybody but I want to follow up on the lease of the property.

Page 82 of the annual report sets out the lease commitments as a lessor. These are the amounts received from leases, about \$8 million in the next year. On page 62 it ends up in trade revenues of rent and operating leases. On page 18, the commentary refers to income from property of 280 tenancies. Is this trade revenue? If it were included separately, we would see income from core activities like port fees and so on, and income from property. They appear to be all lumped together. Why is that? It makes it a bit hard to see what is coming in from port fees as opposed to leases on buildings.

Mr DUGGAN - If you look on page 62 under Revenues, it has a breakdown of the revenue streams between various streams - port activities, the airport, for example, property transactions. We do have a large property portfolio around the state and that generates non-cyclical revenue streams for us. It has been important in prior years when we had a downturn in freight activities. It is a part of the business we are attempting to grow and making sure that we are getting proper tenants.

Ms FORREST - I did see that and I note there is \$7.37 million in rent and operating leases. Is that all property?

Mr DUGGAN - Property and buildings, parking.

Mr BRADFORD - You would expect a port corporation would be a significant landlord, renting buildings, warehouses and vacant land, parking spaces.

Ms FORREST - On page 18 reference is made to Macquarie 1 on TasPorts land. Does TasPorts get a return on that?

Mr BRADFORD - Yes.

Ms FORREST - It says the former goods shed is now a stunning hotel, which I think most of us know. What does TasPorts still own here? Does it own the land, the building or a share or did it sell the building and retain the land?

Mr BRADFORD - It owns the land and rents the land to the owner of the hotel.

Ms FORREST - Okay, are there other arrangements around the state like that or is it unique?

Mr BRADFORD - As a hotel? The concept of renting out land and other people building on it is not unusual. I will let Geoff give a specific answer.

Mr DUGGAN - Our rental streams vary. It can be vacant land within the port precinct, it could be vacant land outside the port precinct that is used for storage for logs and so forth.

Ms FORREST - So the income from that is all picked up in that one line of leases?

Mr DUGGAN - It's all encompassed within that \$7.3 million. Within the port zone and outside the port zone we have buildings as well which attract rentals. We still have cold store assets in the north-west of the state that derive rental returns. We have property at Devonport Airport which we have tenants in as well, so it is both within the port precinct and outside the port precinct, either land or a combination of land and buildings.

Mr HIDDING - And not necessarily on land. There are facilities on wharves, such as inspection, tourism facilities and restaurants on wharves here in Hobart.

Ms FORREST - So it is quite a lucrative aspect?

Mr HIDDING - Yes.

Mr DUGGAN - The other stream is car parking on the Hobart waterfront.

Mr VALENTINE - What percentage is that?

Mr DUGGAN - Of the \$7 million, roughly 10 per cent.

Mr HIDDING - Not as much as the Hobart City Council makes out of parking.

Mr BRADFORD - You could expect the rental and that line to grow as the years go on. The role of ports is like an airport, as a landlord.

Ms FORREST - Devonport is one of your airports.

Mr BRADFORD - Yes, a very successful airport and we are very proud of it.

Ms FORREST - You don't report that separately in the segment reporting, though?

Mr BRADFORD - No, it doesn't fit the classification of a segment for what we need to report as a segment. We don't treat different activities as different segments for reporting purposes.

Ms FORREST - Don't the accounting standards require that you do?

Mr BRADFORD - There are materiality concepts around what is a segment and so forth, so we don't satisfy those.

Ms FORREST - I want to go to the King Island shipping arrangements. I note when we considered and noted the report, it was announced Greenham's was buying one of Les Dick's vessels - it probably needs a bit of work to become operational and back in survey, I reckon. I believe the intent was to ship cattle from King Island to Victoria because they have a fairly significant abattoir there, as well as to Stanley and then on to Smithton to the Greenham's facility in Smithton. Does this pose risks to TasPorts in loss of revenues through Bass Island Line? I know this service already does the majority of Greenham's cattle shipping, but if we suddenly see a lot of cattle going off to Victoria to slaughter, which I would see as a considerable risk, what does that mean for TasPorts and Bass Island Line more particularly?

Mr WEEDON - I think it is too early to reach a conclusion on that. We know what their plan is with respect to the deployment of that vessel, but what it results in for Greenham's level of share in what they are buying at the farm gate and how that impacts on the volume of livestock coming to Tasmania for processing, we don't understand that yet.

Ms FORREST - It is possibly a question for the employment in Tasmania, which is not a matter for TasPorts but it is certainly a risk.

Mr HIDDING - I have expressed concern about that in the past. Both of our abattoirs in Tasmania are underinvested in by their owners and it is a completely unsustainable thought that we would be without abattoirs. There is huge employment in the processing of high quality beef. However, Greenham's is essentially a Victorian company and it has bought another abattoir in Moe now, a large one, and now with the purchase of this ship, it is declaring its intentions. It would not be sharing that with TasPorts, other than if they were asking - TasPorts has two hats - we have asked them to put on a shipper's hat for a year or two with this subsidiary, but primarily TasPorts is a ports company and may well have to deal with Eastern Shipping Line with its port hat on.

Mr WEEDON - We are making inquiries of Eastern Shipping Line as to its intentions, where they want to work the vessel within Tasmanian ports' assets. We will have to do a lot of work in terms of the safe operation of that vessel within our ports, and we will have to do an infrastructure review to make sure we have infrastructure or can develop the infrastructure it needs to support its operation.

Ms FORREST - Do you know much about the particular vessel coming into King Island at the Grassy Port?

Mr WEEDON - Not yet, no. We understand the vessel reasonably well but what we might understand of the vessel is based on what it is, and that is a completely different understanding of how an operator might chose to use it. At the moment we are working with Eastern Line to try to secure an understanding of its intentions.

Ms FORREST - To clarify, the new vessel coming online next year is for an expected two-year period, minister, and how much did it cost?

Mr HIDDING - Sorry, expected two-year?

Ms FORREST - Two years of operation. That is what the committee was initially told, that it would be an interim solution for another two years.

Mr HIDDING - I think we indicated we would expect the Bass Island Line to be seeking to dispose of its assets to the commercial sector. We would by far prefer a commercial operator on Bass Strait and the vessel is an asset of the Bass Island Line.

We will be engaging with the King Island people in this conversation that we have committed to about what the ideal ship looks like. There is a report done by Thompson Clarke Shipping that I am looking at now.

Ms FORREST - A new report or the previous one are you talking about?

Mr HIDDING - This is the one they have been working on for 12 months or so. We will provide that to the King Island community, to have that separate discussion about what is the ideal thing. They know what the *SeaRoad* vessel was like, they certainly know what the *Investigator* was like and what the limitations are of this new vessel. They will be able to see that in operation and then have this broader discussion about what the ideal vessel looks like.

As the Government, we are not opposed at all to having that conversation with them for what a long-term - 10-year or 15-year - solution looks like for King Island. I am happy to have that conversation.

We should see this new vessel in January. You might want to inform the committee that I read somewhere that when it arrives, it is going up the ship lift in Launceston to do its final changes for the local market, then it will go into service.

Mr WEEDON - Exactly.

Ms FORREST - I am interested in the cost of it. Are you going to be able to sell the *Investigator*?

Mr HIDDING - The *Investigator* is not ours; that is leased.

Ms FORREST - That is leased. How much will the new vessel cost?

Mr HIDDING - That simply goes back to its owner and we understand that it is sold - or it was - but, either way, that goes back to its owner in the first quarter of the year when there is an

overlap to allow the new ship in. We would like the new ship on the market in time for the fertiliser period; it is of a size where it will handle that task.

Ms FORREST - How much did it cost?

Mr HIDDING - The vessel?

Ms FORREST - Yes.

Mr HIDDING - Sorry, I thought it was out there already. I thought we had indicated it was \$10 million.

Ms FORREST - And you would expect to sell that at the end of the Bass Island Line, either to a commercial operator who takes it over or somewhere else?

Mr HIDDING - Yes, being an almost brand-new commercial vessel of that size, it is a highly desirable kind of vessel for the entire Asian market. There would be some loss, just like with a new vehicle, you always take a bit of a hit, but Mr Weedon has had a very close look at that and he can speak on that.

Mr WEEDON - I am very pleased with the purchase price that we were able to secure this vessel for. There is a real slowdown in the Asian market, particularly in the oil and gas sector, and these vessels have typically served offshore oil rigs, operating as supply and support vessels to that sector.

Our analysis through the broker indicates that if we had been in the market three years ago, we would have paid at least 50 per cent more for this vessel than we have had to because we have been able to exploit the current market.

Ms FORREST - It was on special.

Mr WEEDON - Shipyards, and particularly shipyards in Asia, will build these things on speculative grounds.

They know they can always sell a certain number of them, usually into the oil and gas sector in the local south-east Asian market. In this case, this one was about 70 per cent built. The market collapsed, so they went to other markets looking for a home for the vessel. It worked to our advantage that we were able to pick it up.

Ms FORREST - That was not possible a year ago, then?

Mr WEEDON - We could have maybe bought one, but we would have paid a hell of a lot more. The advantage of the vessel being roughly 70 per cent complete was that we were able to work with the yard to build in additional specifications for the use of the vessel as an Australian cargo vessel. We have a team working now on how to balance what works we get done in the yard in Malaysia without delaying the delivery of the ship to Australia.

Mr HIDDING - We cannot give them one excuse to delay one day. There will be some work done here.

Mr WEEDON - They have done a fabulous job at making sure they can deliver the vessel according to our timetable. What that means is there are supplementary modification works we will have done in Australia. Our preference is to make sure we have it here so we can do whatever we need to do locally. We have reserved positions with the service providers to make sure that when the vessel arrives, we are good to go, and the work we will commission locally can be done.

Some work might be work we do before the vessel goes in to service initially. Some of it is work we can do over time. For example, the standard specification on operational lighting, external lighting on the vessel - if you want to work the ship at night, the vessel comes with a standard specification of that.

Given the climatic conditions in Tasmania and on King Island, night working and those things, it is our intention to upgrade the lighting arrangements over time. Do we need that in February? No. Do we need it before the ship leaves the yard? No. Will we do it in April or May or June? Absolutely.

Ms FORREST - Before winter when the days are shorter.

Mr WEEDON - Exactly.

Mr BRADFORD - The broadest strategy is selecting the vessel. Many people have commented on the nature of the vessel, but it must be capable of visiting Melbourne from King Island. It must be capable of most weather conditions in the Bass Strait, and, importantly, the ramp must have the weight capacity to handle a forklift and a fully loaded container. We do not wish to use a crane to unload the vessel.

Ms FORREST - A fully loaded cattle truck?

Mr BRADFORD - That is right, and the heavier containers. With that comes a far different financial proposition than the *Investigator*, as we would have expected.

Ms FORREST - We know Bass Line is operating at a significant loss. That was of no surprise to anybody. What do you expect to be the ongoing loss?

Mr BRADFORD - It is expected when the new vessel is up and running and has a full year of operation, we would expect the result to broadly be either plus or minus \$250 000 a year. We think at that level of financial performance, we hope it is on the plus, not the negative. We think the private sector will then show some interest and then add further expertise, particularly in land-based logistics.

Ms FORREST - That is using current freight costs and charges?

Mr BRADFORD - Yes.

Ms FORREST - We know King Island freight costs are higher than just about anywhere else. The Government has said it is not going to review that, according to the Leader's speech in our House. The committee could not get to the bottom of why there is such a significant difference in freight costs to King Island as opposed to Flinders Island for fertiliser or other regional communities.

The freight costs are high compared to other places. It is still a disadvantage for King Islanders even though currently Bass Line is losing quite a bit of money; they will continue to lose money and then perhaps get to a break, even maybe a small positive position. The King Islanders are still paying more than anybody else in freight. Is there any room here to see that change?

Mr HIDDING - Are you asking for a reduction in freight costs?

Ms FORREST - It would be good to understand why they are so much higher on King Island than anywhere else to start with, because then you can look at where the freight costs actually are higher. There are many components of the whole overall cost. It was impossible to figure out where those real challenges are. Is it a TasPorts area that we could see a reduction in cost? Or is it on-and logistics or what is it?

Mr HIDDING - In terms of reduction in costs that translates directly to an increase loss.

Ms FORREST - I understand that.

Mr HIDDING - We have asked TasPorts to maintain the current market conditions as when they arrived. To a greater or lesser degree they have done that. I am interested in this proposition of the perception Flinders Island is cheaper. That would be a separate study to be done and I am interested in that. From what I know of Flinders Island, I had a close encounter with long after I became minister when the operator threatened to walk away. They are not very far from the Bridport Port and they operate a vessel into Bridport River on the tide, so they load late in the middle of the night and offload in the middle of the night at the other end. I am not sure why it ought to be much cheaper.

Ms FORREST - But it is.

Mr HIDDING - As I understand it is. It could be that operator has a lower cost base. Essentially he built a private wharf there. It may well be a lower cost base.

Ms FORREST - Even the freight of cattle is significantly different. If you go back to our report and look at the actual tables they clearly lay that out for you.

Mr HIDDING - There is a discrepancy and I am not sure why. I am interested.

Ms FORREST - I am pleased to hear that, because that is not what the Leader said.

Mr HIDDING - In terms of providing an answer to a market situation we have no sense or control over, we were not able to do that in a short period of time. In a policy sense I am interested. I am happy to explore further.

Mr VALENTINE - A quick question on bunkering fuels in Hobart. I do not know how much you have to do with that. There has been concerns over ships that come in and use heavy bunker fuel and the level of pollution caused as a result. Do you have any control over visiting ships and if so, what is the status at the moment?

UNCORRECTED PROOF ISSUE

Mr WEEDON - To my knowledge, and I might have to double check this, none of the fuel suppliers are providing heavy bunker fuels in the Tasmanian market.

Mr VALENTINE - No, it is the ships that burn bunker fuel in port, whether they need your permission to do that. I am talking about heavy bunker fuel.

Mr WEEDON - Not fuel supply.

Mr VALENTINE - No.

Mr WEEDON - Essentially the international regulations with respect to ship emissions have been on foot for over a decade. The International Maritime Organisation is working closely with a number of nations with respect to the introduction of new emission targets for shipping that will apply on a global basis. Our understanding is new legislation will come into effect in 2020. Again, my understanding is the Australian Government intends the Australian arrangements will dovetail with the international regulations.

Mr VALENTINE - It was one or two; it might have been a Russian ship that used heavy bunkering fuel. They cannot buy it here because there is no facility to store it anyway, and there were question marks over them being allowed to use that fuel while they are in port. Sydney and a couple of other ports do not allow it. That was the reason I ask the question.

Mr HIDDING - The question is does TasPorts have a separate -

Mr VALENTINE - Controlling -

Mr HIDDING - The EPA does and TasPorts would stay at arm's length. Aaron Chester, the federal Minister for Infrastructure, has advised 2020 is the date by which it is expected the Australia-based fleet and international visitors should be looking to comply. That has certainly set the industry alight and a lot of ships need to install very expensive scrubbers. We have TT-Line tomorrow but we can speak about what that means for TT-Line as well. There is a time frame everybody has to comply with. The quickest way to comply with it is to buy cleaner fuel. That way you do not have to do anything to your ship. It is something like three times the price and the operating model for your ship changes enormously. Very little of it is yet available in Australia to buy. But because of this 2020 time frame, the main fuel companies, which are Singapore-based, will need to have that fuel on hand in Australia somewhere for the shipping market.

Mr VALENTINE - Some Antarctic vessels might still use that type of fuel from different countries.

Mr HIDDING - The old SeaRoad ship that was sold to Chile which went to Mexico could not switch its engines off because the fuel in it would turn to boot polish. It is that kind of fuel.

Mr VALENTINE - The last question I have is on container cranes. We used to have one here and I think it went to Burnie. Is there a plan to get one back here or do the ships that visit have their own lifting facilities?

Mr BRADFORD - No, not for Hobart. If we go ahead with the international container terminal at Burnie, that would require container cranes.

UNCORRECTED PROOF ISSUE

Mr VALENTINE - When I was in New Zealand for an Antarctic gateway summit, the Americans there said that if they were to come to Hobart, they would need a crane facility. That was one of the things against them coming here and using Hobart as a port.

Mr BRADFORD - If it is that critical, you would have a mobile harbour crane to service the client.

Mr HIDDING - If it was just from time to time, a crane can come in. The other thing is, the Swire ships all have on-board cranes.

Mr WEEDON - The adjunct to that is that I am not sure there are many container cranes in the Antarctic either. It might be one thing to get it on a ship with a crane; I do not know how they plan to get it off.

Mr VALENTINE - That was the question. They looked at the map and picture and thought, 'No container crane, what is going on? Maybe they do have a container crane down there.'

Mr FARRELL - To go back to the King Island ship. That is an outright purchase; it is not a charter and the modifications being made are cosmetic and nothing structural?

Mr WEEDON - No, there are some fairly significant modification works to the vessel. One of the characteristics of Australian freight, particularly in containers, compared to many of the other parts of the world is that we load heavy cargoes here. We put 28 tonnes of fertiliser in a container. The average container weights of containers in Asian trades is probably 12 tonnes, if that. We need to upgrade the structural capacity of the vessel to make sure we can accommodate the specific cargoes we deal with in the Australian market. That means two pieces of work. One is structural underpinning under the decks to make sure the deck is strong enough to cope with a load of these heavy containers. The second is make sure the vessel bow door or the ramp onto the ship, to make sure is strong enough to cope with traffic bringing those containers on and off the ship.

Mr HIDDING - For Mr Farrell's interest, there is no work being redone, the deck was already on when we purchased it. The strengthening is extra strengthening and not work they could have done for us.

Mr FARRELL - This ship is virtually a new build.

Mr HIDDING - It is brand new. It only went in the water a couple of weeks ago.

Mr FARRELL - Will that have a covered deck area anywhere?

Mr HIDDING - No. The capacity is there to have a covered section like a taut line of a truck. That would be a development of the ship over the next 12 months or so.

Ms FORREST - One of the real concerns of King Island is transporting vehicles and farm equipment over. They leave as a black vehicle and arrive as a white one, thanks to the salt spray, then they rust very quickly.

UNCORRECTED PROOF ISSUE

Mr WEEDON - We spoke about that at the hearing. There are low-cost, sensible solutions that we can put in place without spending a lot of money on ship infrastructure.

Mr FARRELL - At the time you decide to build a purpose-designed ship for the island, this will go back on the market, and you hope there'll be a good market at the time.

Mr WEEDON - Our belief is that this vessel, with the modifications we are doing to it to make sure it can work effectively in the trade, will deliver an awful lot of what the King Island service needs. Is it Nirvana? Some will have the view that it is; some will have the view that it is not - but the important thing is to get the ship delivered, get it into service on a new service pattern linking Victoria to King Island to Tasmania and back to Victoria in a way the market's been asking for some time.

Let's get that up and running, settled in, get the costs of operating the new ship with the new service pattern right, get a stable environment where customers are more comfortable with the reliability of the service and we have a cost model we think is sustainable, then we can reach out to the private sector.

Mr BRADFORD - If the Government prefers a different type of vessel over time, we would dispose of this vessel. The strength of our balance sheet means we don't have to do it in five minutes.

Ms FORREST - That's the TasPorts balance sheet as opposed to Bass Island Line?

Mr BRADFORD - It is the TasPorts greater corporate balance. TasPorts obviously guarantees the debt of BIL.

Mr FARRELL - Where will it go in Victoria? Has that been decided? There were several options there.

Mr WEEDON - That is work underway at the moment. It is a matter of finding the right solution. The important signal is the market. The King Island market has responded extremely positively to the announcements made some weeks ago that we are definitely doing a Victoria-to-King Island service.

Ms FORREST - And a King Island-to-Victoria service?

Mr WEEDON - Via the Tasmanian mainland, yes.

Ms FORREST - That doesn't fix the problems.

Mr HIDDING - We have said that when the market is there, there is a load necessary to be done, such as sheep, and if the Eastern Line wasn't travelling TasPorts would look at meeting that market. However, with Eastern Line coming in, appearing to be a King Island mainland service, you would not think it would be necessary. Either way, TasPorts is keen to meet the market.

Mr WEEDON - Yes, and in that work the selection of the Victorian port and the Tasmanian port is still a work in progress.

Mr FARRELL - Are any upgrades required at King Island for the newer ship?

Mr WEEDON - That work that is also under way. You can either upgrade and change the port infrastructure, you can upgrade and change the ship, or you can do a bit of both. That is exactly the work that is happening at the moment. As for capacity, it is smaller than the one that was in there - the SeaRoad concern.

Ms FORREST - Just looking at how TasPorts values its assets, it says -

TasPorts revalued its infrastructure assets at fair value using the depreciated replacement cost method.

And the Auditor-General spoke about that in his report. Page 67 of your annual report shows that infrastructure assets at fair value, which is land, infrastructure, harbour improvements, wharves, et cetera are valued this way. Land and building is valued at fair value using your market method, which is on page 72, except perhaps some specialist buildings at depreciated replacement value. Floating plant, capital dredging and plant all at cost, less depreciation. Can you help me understand the financial goals of TasPorts? If you value assets on what they cost to replace there is not much point in your key results on page 35 having a return on assets and return on equity, is there, when their value is that way? What are the real financial goals of TasPorts?

Mr DUGGAN - In terms of the valuation process, we value every three years for infrastructure assets. That is wharves, land, buildings and port infrastructure. Our preferred methodology for value-adding that infrastructure is on a depreciated replacement cost method. In a simplistic way that says what does it cost to replace that asset and then it discounts back for its age.

Ms FORREST - As opposed to what it can earn?

Mr DUGGAN - As opposed to what it will earn. What we always do in deciding whether we adopt that is look at the earning capacity of the asset to see whether it supports that valuation. If it supports that valuation in terms of its direct earnings, then we are happy to adopt that valuation. There are some instances where we are unable to adopt that replacement cost because it doesn't have an income generation that supports it. The community assets that Paul referenced earlier are a good example of that. That is our valuation methodology.

We do have, overall, from a company point of view, a low return on assets. We have recognised that for some time, but that takes into account all of the income and all of the costs of TasPorts benchmarked against its total assets. On an asset-by-asset basis, some assets generate commercial returns and there are some that don't. There are a range of factors that are taken into account as to why they do or why they don't.

We are an infrastructure company. It is long-term infrastructure. There is a lot of maintenance required of that infrastructure in the short term which impacts on those returns that we currently report. I guess the good news is that we are now profitable. We are profitable enough relative to the assets that we employ in the business. That is something that we are continually judging and working on, but we are certainly seeing a return to profitability over the last two years and that should continue into the future.

Mr BRADFORD - We have rising profitability and we expect that to continue. It is very hard to retrofit decisions made on long-term assets made decades ago, but on new investments we

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consider seriously the return on investment - except for community assets, which have a different purpose. It is watched very closely by the board.

Ms FORREST - Who sets the financial goals? Is there any ministerial direction or is it all a board decision?

Mr HIDDING - There is a corporate plan signed off every year that addresses most of these issues broadly. If there is a certain direction or matter that we have in mind, we can raise that with the board and discuss it. There is a direction that takes place every year, signed by both.

Mr BRADFORD - A shareholders' statement of expectations.

Mr HIDDING - There is also a statement of corporate intent. That is between the Treasurer, shareholder and the company - it is a reasonably short rope.

Ms FORREST - I assume that the decision by the Government to instruct TasPorts to establish Bass Island Line was a ministerial direction, effectively?

Mr HIDDING - No, it was a request accepted by TasPorts. There was a letter from me to the members of the board, which had a series of meetings over a month or two and accepted the request to do that. Naturally a government can always direct, but given that this is a shipping company and it is on the record that I have been talking to TasPorts for at least two years to say as we are looking to replace the King Island ship, I need a backstop in case we have a commercial failure.

Ms FORREST - It's not actually a shipping company, it's a port company, isn't it?

Mr HIDDING - Well, yes, it is. Sorry, a marine company. It's a shipping company because it has a lot of ships.

Ms FORREST - I suppose it has pilots and tugs and stuff.

Mr HIDDING - How many vessels in your fleet?

Mr WEEDON - Thirty-something.

Ms FORREST - You're not a freight company, though, shipping freight.

Mr BRADFORD - An infrastructure company. We do have floating plant and the expertise in the present board and management does include running shipping lines.

Ms FORREST - I accept the expertise is there.

Mr BRADFORD - For good or bad.

Ms FORREST - Quite a bit bad at the moment.

Mr BRADFORD - I'm optimistic.

Ms FORREST - In terms of profitability I'm talking about at the moment.

Mr BRADFORD - I'm optimistic.

Mr DUGGAN - It's also worth noting that TasPorts still operates under a number of long-term agreements that were negotiated before the merger of the ports into TasPorts. We have had to honour those agreements that have continued up until the present day.

Ms FORREST - What are they? What are some of those?

Mr DUGGAN - Without going into specifics, they are commercial agreements that were entered into by the previous port companies to secure freight activity through their ports, which in that time was probably sound commercial decisions.

Ms FORREST - What is the length of some of those agreements? Have they got much longer to go on them?

Mr BRADFORD - Sadly, yes.

Mr HIDDING - Ordinarily, as we were saying earlier about the Melbourne situation, the companies that operate out of Tasmania want long leases.

Ms FORREST - It does limit you a little, doesn't it?

Mr HIDDING - It does. With the previous structure of individual ports where they were fighting amongst themselves or were commercially opposed to each other, it could be argued that they under-contracted in order to attract some business their way and then did so for, say, 25 or 30 years.

Ms FORREST - They are almost onerous contracts then. They are not listed as that in your financials.

Mr HIDDING - It would not be described as thus by the holders of the contracts because they are happy with them. It is an ongoing conversation that I have as shareholder minister with this board and others that its own long-term paper it holds with its tenants should be as good as it can possibly be. In fact, I encourage both sides to get it as long as possible. That way it just drives investment because you have strong tenure.

Ms FORREST - Was the decision around SET a ministerial request also? How did that come about?

Mr HIDDING - No, it was a business opportunity for the Hobart port and TasPorts was aware of the antipathy in the south of the port as to a notion of a pile of woodchips on the Hobart port. It was never going to happen, but then we had this backlog of -

Mr DUGGAN - No pun intended.

Mr HIDDING - Yes, front log and back log - of harvesting a lot of these investments that people had made over the years in standing trees. It was identified that there was at least five years' worth of business there to be taken care of. The investments by both -

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Ms FORREST - Are you saying it was a board decision basically?

Mr HIDDING - Yes, they briefed us on it. Qube came to see us and we encouraged them to speak to TasPorts.

Ms FORREST - I am just interested in the process of how it came to be.

Mr WEEDON - It was completely driven by the customer and the development of the business case that our board provided the oversight.

Mr HIDDING - It is indicative of the sort of talent we have, not just within TasPorts but on the board itself. Mr Bradford, you explained your interest in New Zealand and the strong knowledge of the transport of logs. You might just explain what it is.

Mr BRADFORD - I sit on a board of a port in New Zealand, Napier Hawke's Bay. It is a small container port but its prime exports are logs and agricultural products in containers - logs in bulk, lots of logs. The wall of wood coming from New Zealand and plantation in Tasmania has a market.

Ms FORREST - So you are part of the problem then. You shouldn't have dobbed him in it like that, Minister. I can't believe you did.

Mr HIDDING - The fact is, that the kind of expertise that we have on our boards. He didn't get involved personally at that level but he certainly knew what was possible. Also the safety - any notion that TasPorts would do that itself when you had all that expertise by Qube - it is a very good arrangement, a very good partnership that has worked well for Hobart.

Ms FORREST - Can I just go back to one question we asked earlier about where Macquarie Wharf 1 is. You said you would keep the land, lease the land, but you must have sold the building on the wharf at some stage. When did you sell it?

Mr BRADFORD - For the hotel? No, we have leased the land for a long-term period.

Ms FORREST - The building itself.

Mr BRADFORD - The building was built by the tenant.

Ms FORREST - Wasn't there a building on that land?

Mr WEEDON - There was, but as part of the development project the developer demolished the old building to make way for the new. The building envelope, as they refer to it, so the size, the length -

Ms FORREST - You didn't sell the building?

Mr HIDDING - Sold the footprint.

Ms FORREST - How much did you sell the footprint for?

Mr WEEDON - Under a lease.

Ms FORREST - That is all leased then? Just to clarify that.

Mr HIDDING - Substantial.

Mr BRADFORD - The developer took the risk on developing the hotel and then having an operator.

Ms FORREST - And getting approval from the Hobart City Council.

Mr BRADFORD - I have had a look at it. I would have thought it is a stunning acquisition to the Hobart waterfront. It will serve tourism very well. It is a high-end product.

Ms FORREST - For those who can afford to stay there.

Mr BRADFORD - Those who can afford to stay there. No, I don't stay there.

Ms FORREST - We are pleased to hear that.

Mr VALENTINE - With regard to MAC2, what is the circumstance That is for cruise ship terminals, primarily. Is that building yours?

Mr BRADFORD - That is ours.

Mr HIDDING - It was developed by TasPorts, prior to my time.

Mr WEEDON - Again we had specific customer need in the Antarctic sector from the Antarctic Division and cruise lines are all saying, 'We would love to see upgrades in the infrastructure that you are making available to us', so we developed -

Mr HIDDING - Annual pay.

Mr WEEDON - Yes, it was a co-habitation strategy by being able to combine cruise and Antarctic in the one facility. We were able to then get the business case up to do the refurbishment of the building.

Mr VALENTINE - How is the ROI going on that return on business?

Mr WEEDON - Outstanding. We believed it would be at the low end of the range in the business case, but the returns have been well beyond anything we hoped so we are very happy.

Mr HIDDING - This is a number of cruise ship businesses.

Mr VALENTINE - What is the typical price a cruise ship would pay to dock there overnight or for as long they want to - eight hours, 12 hours?

Mr WEEDON - It would depend on the shipping.

Mr VALENTINE - You are not going to let us know? Ballpark.

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Mr HIDDING - It is highly commercial and competitive.

Mr VALENTINE - There is no other port going to get them down this way.

Mr HIDDING - They could go elsewhere.

Ms FORREST - They can anchor off.

Mr HIDDING - They could go to Port Arthur.

Mr BRADFORD - Port Arthur is doing very well.

Ms FORREST - And add Wineglass Bay and Stanley and places they can anchor off.

Mr BRADFORD - The cruise industry, as like most industry, is not overly keen on paying higher rates.

Ms FORREST - Aren't they?

Mr BRADFORD - No, they are not and so the management of the board have a pricing structure for Hobart and Burnie and cruise vessels and they should contribute to the infrastructure we provide.

Mr VALENTINE - How far forward do you set your pricing? Do you do that on a block of so many years?

Mr BRADFORD - It is done annually with reviews but you are on the right track. We may move in time for the cruise industry, given the way they price their published product, into a more longer to medium term pricing structure.

Mr HIDDING - Right now Hobart is a highly desirable cruise ship location and so we are in a better negotiating position. They want to be here and once one of them comes, they need to compete.

Mr BRADFORD - Great demand for Tasmania, Burnie, Hobart and Port Arthur. We are happy to provide the pilots and infrastructure.

Ms FORREST - Are the cruise ships increasing their maintenance task. In Burnie the dolphin has moved them from the main port but that is mainly because of the size of the ships to come in.

Mr WEEDON - The additional dolphin was to accommodate larger ships and is the phenomenon in that sector.

Mr HIDDING - The first one was in a couple of weeks ago.

Mr WEEDON - Ships get bigger and bigger.

CHAIR - Following on from what Ruth asked, you do not see any extra additional capex having to be spent or accommodated for cruise ships?

Ms FORREST - Or maintenance?

Mr WEEDON - Maintenance, no, in that it is a busy, but for a short period of the year. The rest of the year we do not see a cruise ship so impact on maintenance is limited. We will see step change demand for capital investment in cruise infrastructure. A couple of million dollars for some more mooring infrastructure. It is potentially a different terminal solution for cruise ship lines in Burnie.

Mr BRADFORD - Chair, land based in Hobart because, for instance, the number of coaches servicing those larger vessels is considerable and how we restructure the roadway to service that and the movement of people in the area is under reflection.

Ms FORREST - That is an issue in Burnie because they are coming onto a working port.

Mr HIDDING - Yes, it is awkward there.

Ms FORREST - Yes, and the security arrangements.

Mr WEEDON - We are working to resolve that through the Port Master planning work. We have some pretty interesting concepts on the table, which we will take to the board in March/April next year.

Mr HIDDING - The Burnie Council has raised it with us a number of times and the mayor has been passionate about working through the issues. I have asked TasPorts to look strongly at that. I love the fact you have cruise ships leaving Hobart and going up to Burnie.

I have seen people from the cruise ship in Burnie in Deloraine at the Deloraine Arts Centre. I spoke to someone who was clearly a tourist and they said, 'We're off the ship', I said, 'What ship? We're in Deloraine'. They said, 'From Burnie', so -

Ms FORREST - They are in all day, so they have time to do it. They go to Cradle Mountain and a range of places.

Mr HIDDING - There is a lovely spread of activity, and great we could invest in them more. In the scheme of things it was not that much money. It was \$3 million or \$4 million, the dolphin extra.

Mr WEEDON - The extra dolphin was a shade under \$2 million.

Mr HIDDING - That facilitated that large ship in the other day, and they can all come in now.

Mr BRADFORD - Burnie rates really highly on passenger satisfaction.

Mr HIDDING - They love it.

Ms FORREST - That is because the new mayor used to meet them at the bottom of the gang plank wearing his gown and robes. That is why they love it.

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Mr VALENTINE - That is why they come to Hobart. I used to do that.

Ms FORREST - Our one led the way.

Mr BRADFORD - It is globally referred to in Fort Lauderdale each year when the cruise lines meet, the popularity of Burnie.

Mr HIDDING - They love the big wood chip pile and the way the trucks tip up.

Ms FORREST - It is quite entertaining to watch, yes. We need to thank the late Stephen Hyatt for his work. He did an enormous amount of work in attracting cruise ships. He died unfortunately very young.

CHAIR - Members.

Mr FARRELL - With employees, you employ all the pilots and port staff?

Mr WEEDON - Yes.

Mr FARRELL - The Bass Island Line, you do not directly employ people. Is that done through a -

Mr WEEDON - At this early stage, no, we have one or two direct employees of the Bass Island Line. What is the right organisation model for that business is something that will develop over the next 12 months.

Mr FARRELL - That was more just a convenience thing to go to the company.

Mr HIDDING - There is an industry arrangement where you hire crews.

Mr WEEDON - That is the model we utilise at the moment. We use what they call a 'crewing company'. They employ the officers and crew to drive and operate the ship. Some like Toll, for example, or SeaRoad employ their own people. At this stage, we have started with the crew supply model. As we develop the business over time, we will review the suitability of that arrangement.

Mr FARRELL - That has to be through an interstate company because there is not a crew hire company in Tasmania for shipping?

Mr WEEDON - Correct. It is a quite specialised activity.

Mr HIDDING - It is expensive, but clearly for the short time frame they had to set it up, it was the right model to do for the *Investigator*.

Ms FORREST - Are you still expecting further growth in the Burnie port? I know the Rentails project at Renison would ship out of Burnie, and also they are looking fuming at other companies' product. There is plenty of capacity there for increased mineral exports?

Mr HIDDING - There is an ongoing discussion with the master plan and also the ship loader, which belongs to TasRail. This is an across-government consideration. I remain highly

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interested in that whole methodology. Both companies know that I am interested in that. There is great opportunities to go to a different loading methodology. That is being explored. Certainly, we are aware Rentails is a current and live one, but as commodity prices come back there will be other operations. With the Melbourne line, we have a lot of money invested with the rail below and above rail to handle that. The port needs to be able to handle it. It is fair to say over the last few years, the export of minerals has not been huge, and therefore there is less capacity.

Ms FORREST - I would hate to see them held up from a lack of capacity at the port.

Mr WEEDON - The berth utilisation on the bulk minerals berth is 19 per cent.

Ms FORREST - There is plenty of capacity there?

Mr WEEDON - There is plenty of ship-side capacity.

Mr HIDDING - Ideally, of course, for a megaproduction, you would actually have to mine the port itself because it is almost solid rock.

Ms FORREST - You might be able to find the tailings there.

Mr HIDDING - If you could, it would be very interesting. If you could achieve a couple more metres, you would go to a Cape class ship, which is what they are all hanging out for because it is far cheaper to transport.

Mr WEEDON - That is hundreds of millions of dollars.

Ms FORREST - Is there capacity to work with Grange at Port Latta and bringing ships in there? That is privately owned?

Mr WEEDON - That is a privately owned facility. We own and operate the port, and the port waters, but the terminal itself is owned by Grange, yes.

CHAIR - Minister, on behalf of the committee, I thank you for an educative session and one with some very frank answers from your team. We thank you very much.

Mr HIDDING - Thank you. We will see you tomorrow.

The Committee adjourned at 4.55 p.m.