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HD **Port logistics warning from Qube**

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The Port of Melbourne is on the brink of pricing itself out of some markets and prospective buyers of the jewel in Victoria's logistics crown should not assume that container volumes will remain at current levels, let alone grow at the rates predicted.

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This warning was delivered on Wednesday by Qube Logistic's chief executive Maurice James, who was speaking to a Melbourne forum on logistics. James was preaching to the unconverted. His audience was over-populated by those either trying to sell the Port of Melbourne or with an interest in the state government's plans to build a deep-water option at Hastings.

Doubtless with the new deep-water port proponents front of mind, James introduced his assault on the existing port's cost base by challenging the Hastings investment case and that of the alternative expansion plan advocated by the state opposition: Bay West.

James questioned whether Hastings could be an efficient logistics hub, wondered who might pay the $10 **billion** or so needed for its construction and whether the prices implied by that level of investment could ever be supported by importers and exporters.

Qube's man wondered too whether Hastings would even be needed in the 15-year time frame currently motivating the deep water options. He reckons that improved efficiency and productivity could see the existing port cope for a whole lot longer than the expansionists want to believe.Qube indulgence already stretched

More immediately though, James asserts that the cost of the existing port has already stretched Qube indulgence to breaking point.

Qube is a big customer of Melbourne's port, which has long basked in its standing as Australia's biggest and best container port.

But from next week Qube will redirect a daily freight service from the Riverina to the Port of Sydney. The train routinely carries grain for local farmers and paper delivered under a big contract with Visy Group. In the past it has been routed to Melbourne. But Sydney's recovering efficiency and its much lower cost have forced Qube's hand.

Doubtless there will be accusations that James's maths is sustained by the twin towers of self-interest and sour grapes. Yes, Qube was a very serious under-bidder in the recently decided tender for the Port of Melbourne's third container terminal, and it was a loser too in a similar run-off for the automotive import terminal that it currently operates at the port.

Qube was over-bid for the third terminal and from 2017 it will lose its car automotive terminal to shipping **company** (and Qube shareholder) Wilhemsen.'Supply chains are about efficiency'

James admits disappointment at the twin losses in Melbourne, but he is having none of the sour grapes stuff. "The point I am trying to make here," he told me ahead of Wednesday's address, "is that supply chains are about efficiency and lowest unit costs of moving the freight. It is my forecast that I think the cost of using Melbourne is going to increase significantly and there is trade that has traditionally been exported though the Port of Melbourne that is now at risk on the basis of costs."

James offered up the numbers that explain the Riverina rescheduling. In 2010 it cost $36 per TEU (20-foot equivalent unit) to push cargo through Port of Melbourne.

Today it costs $112 after the addition of $36 per TEU to cover the cost of the $700 **million** channel deepening project and $40 per TEU in the form of a port licence fee that was imposed by the government in 2012.

In contrast, it now costs Qube customers $76 per TEU to export through the Port of Sydney and $120 a unit to bring stuff in to the country through the Harbour City.

And the way James tells it, the case for Melbourne is only going to get tougher as the port operator reprices its offering to cover for the cost of the $1.6 **billion** port capacity project that will include the addition of the new $500 **million** container terminal, whose construction and operation was recently awarded to ICTSI of the Philippines.Forecasts for future cargo charges

Cheekily, James offered up some internal Qube forecasts for future cargo charges at Port of Melbourne. He sees the potential for charges to rise to between $220 and $250 per TEU over the next two years as the port seeks to cover the cost of expansion and ICTSI attempts to make financial sense of the rent it will pay for access to Web Dock.

The reason James might feel so confident in publicly airing its forecasts is that Qube went so deep in the Port of Melbourne's two most recent tender processes.

Now we hear that Qube's third terminal offer was to pay three times the rent paid at the other two terminals. But Qube was told it lost by some distance. So James has based his numbers on a 3.5 to 4 times multiple.

So, the way James does his maths, the port expansion could add up to $60 per TEU while the "infrastructure charges" imposed in the wake of the introduction of the third terminal could add $60 to $80 per TEU.

And the net result of all this is that "Melbourne's contestable trade is at risk" and the hot spots of price tension will be the Riverina and Mildura export trade, all trade from South Australia and Tasmania and car and truck imports.

We expect to hear quite a bit more from Alberto Calderon over the coming couple of years.

The Colombian who ran BHP Billiton's charge at Rio Tinto and then the clean-up of the global Australian's aluminium and nickel **operations**, now has public aspirations for a resources rebirth.

Calderon has plans to **lead** a private **equity** fund in investments across a diversified portfolio of minerals and **energy** projects. Sound familiar?

Having already put a foot on some quality bauxite, Calderon is looking at **copper** investments in Chile and **oil** prospects in Colombia. And once he has **firm** options in mind, he will set about gathering investors enough to support a private **equity** fund to translate options into opportunity.

There is a bit of talk around that Calderon might have some interest in working in the **mining** services sector generally and a recently failed member of that class specifically.

Calderon was revealed on Monday as the **lead** investor in a thing called Gulf **Alumina**, which has plans to export maybe 3 **million** tonnes a year of bauxite directly north to **Chinese** customers. The Gulf **Alumina** project sits about 80 kilometres north of Australia's Rio Tinto-owned home of bauxite, Weipa. We hear Calderon and a small group of investors have personally stumped up $6 **million** to finance progress.

Team Calderon will earn a royalty based on revenues given **mining** ever actually happens, while Gulf **Alumina** gets to draw on the commercial acumen of a guy that could have run BHP.

Meanwhile, back at Calderon's old stamping ground there will be collective relief at news the Western Australian government will legislate to validate development approvals potentially unpicked by a court decision last year.

In August 2013 the WA Supreme Court overturned the EPA's approval of Woodside's James Price Point LNG plant. The court found the EPA had failed to comply with rules covering conflict of interest and those covering what is and is not quorum.

This didn't seem to matter a whole lot because Woodside had already scrapped plans to build there.

But a subsequent review of EPA decisions made between 2002 and 2012 identified some 25 project approvals that might be put at risk of legal challenge by the court findings.

BHP owns nine of those projects and while some of them are approvals unlikely to translate into investment (the Port Hedland's Outer Harbour project, for example), at least two of the at-risk permits are very important indeed. Jimblebar is the $US3.2 **billion** ($3.5 **billion**) new generation **iron ore** mine that sits central to the global Australian's **iron ore** expansion plans and the $US1.5 **billion** Macedon gas project currently supplies 20 per cent of the state's domestic gas market.

CO bkhlp : BHP Billiton Ltd | bltplc : BHP Billiton PLC

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