



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

**HOUSE OF
REPRESENTATIVES**

STANDING COMMITTEE ON TRANSPORT AND REGIONAL
SERVICES

Reference: Transport networks inquiry

WEDNESDAY, 14 FEBRUARY 2007

CANBERRA

BY AUTHORITY OF THE HOUSE OF REPRESENTATIVES

INTERNET

The Proof and Official Hansard transcripts of Senate committee hearings, some House of Representatives committee hearings and some joint committee hearings are available on the Internet. Some House of Representatives committees and some joint committees make available only Official Hansard transcripts.

The Internet address is: **<http://www.aph.gov.au/hansard>**

To search the parliamentary database, go to:
<http://parlinfoweb.aph.gov.au>

HOUSE OF REPRESENTATIVES
STANDING COMMITTEE ON TRANSPORT AND REGIONAL SERVICES
Wednesday, 14 February 2007

Members: Mr Neville (*Chair*), Mr Gibbons (*Deputy Chair*), Ms Bird, Mr Haase, Ms Hall, Dr Jensen, Mr McArthur, Mr Richardson, Mr Ripoll and Mr Schultz

Members in attendance: Ms Bird, Mr Haase, Ms Hall, Dr Jensen, Mr McArthur and Mr Neville

Terms of reference for the inquiry:

To inquire into and report on:

- the role of Australia's regional arterial road and rail network in the national freight transport task;
- the relationship and co-ordination between Australia's road and rail networks and their connectivity to ports;
- policies and measures required to assist in achieving greater efficiency in the Australian transport network, with particular reference to:
 - land transport access to ports;
 - capacity and operation of major ports;
 - movement of bulk export commodities, such as grain and coal;
 - the role of intermodal freight hubs in regional areas;
 - opportunities to achieve greater efficiency in the use of existing infrastructure; and
 - possible advantages from the use of intelligent tracking technology;
- the role of the three levels of Government and the private sector in providing and maintaining the regional transport network.

WITNESSES

**HONAN, Mr Andrew, Chair, Government Relations Sub-Committee, Railway Technical Society
of Australasia, Engineers Australia..... 1**

ZSOMBOR, Mr Ed, Private capacity 1

Committee met at 9.40 am**HONAN, Mr Andrew, Chair, Government Relations Sub-Committee, Railway Technical Society of Australasia, Engineers Australia****ZSOMBOR, Mr Ed, Private capacity**

CHAIR (Mr Neville)—I declare open this public hearing of the House of Representatives Standing Committee on Transport and Regional Services in its inquiry into the integration of regional rail and road networks and their interface with the ports. The committee is examining the capacity of regional transport networks to meet the challenge of Australia's freight task. This is the 30th public hearing of an extensive program conducted since March 2005. The committee has sought and received information from a wide section of organisations, individuals et cetera about Australia's current rail, road and port operations, supporting infrastructure and options for improving efficiency of the transport network. I might add that we have also had about 130-something submissions to the inquiry.

It would be fair to say that one of the weaknesses in the evidence we have received is information about the branch line network that feeds these arterial road and rail systems, and for that reason the committee has invited Mr Ed Zsombor of the Saskatchewan Department of Highways and Transportation. He has agreed to share with the committee his extensive experience in rural rail development.

I welcome you both to the table. We are not going to ask you to give evidence under oath. You have come here in a voluntary capacity. We just ask you to remember that these are proceedings of the parliament. Do you have any comments on the capacity in which you appear?

Mr Honan—The Railway Technical Society of Australasia is a society of Engineers Australia.

Mr Zsombor—I am the director of rail services in the province of Saskatchewan for the Department of Highways and Transportation, and I am very pleased to be here today.

CHAIR—Mr Zsombor, we really want to thank you for coming. You have interfered with the holiday component of your visit to Australia, and we are very grateful that you did that. I think that, rather than go through our normal formal way of doing this, we will throw the floor open to you to give your presentation, and then we will break into questions. Are you happy with that, Mr Honan?

Mr Honan—Yes. I would just like to make a quick, two-minute introduction, if I may.

CHAIR—Yes, sure.

Mr Honan—In November 2005, at the AusRAIL PLUS conference, you impassioned delegates to seriously consider the challenges facing regional railways and to bring forward concepts and solutions to a parliamentary inquiry that better integrated road, rail and port logistics, with a particular focus on regional areas. In a direct response to this challenge, the RTSA, the rail society of Engineers Australia, undertook a four-day study tour of the Riverina region in March 2006. This was conducted so that our members could gain an appreciation of

agricultural industry and transport within this region. A deeper understanding developed of the rail challenges facing these communities. This study tour also had as its purpose to provide input into RTSA's submission to this committee, including aspects of local control, human capital, integration between road and rail and overseas experience with short line rail.

Subsequent to this tour and following internal RTSA research, we announced to the committee at our public hearing in Sydney on 1 August 2006 that the RTSA would be organising an eminent speaker from Canada, Mr Ed Zsombor, to attend a joint Charles Sturt University-RTSA symposium at Wagga Wagga on 1 February 2007. This symposium was specifically designed to give voice to a bottom-up collaboration from regional communities as to future frameworks for regional rail. A number of speakers presented aspects from Victoria, New South Wales and Western Australia, both from a logistics as well as from a rural social science perspective. The symposium thanks the chair for presenting the methodology of the inquiry and for listening to the speakers presenting at the symposium. The RTSA was proud to have jointly sponsored this initiative as part of a community outreach and learning program. This was a non-profit venture.

This now brings us to here, today, in Canberra. I would therefore like to introduce the committee to Mr Ed Zsombor, Director of Rail Services, Saskatchewan. Ed has just completed a national tour revealing Canada's experience of regional rail lines to our members, guests and state government officials. The RTSA is a voluntary organisation and the financial resources to organise such a tour are significant. However, the RTSA is both proud and honoured that Mr Zsombor has taken up the invitation to come to Australia as part of the RTSA's response to the inquiry. The RTSA trusts that our initiatives to bring increased knowledge and understanding of possible regional solutions will be of benefit to the committee. They have been a direct result of the challenges laid down at AusRAIL PLUS in November 2005. The RTSA thanks the inquiry for the opportunity to present its submissions and hearings and we look forward to the inquiry's report and more effective regional rail and road transport.

CHAIR—Thank you, Mr Honan. I did not mean to cut you off like that. I was going to include you in the debate later. But that does give a very good perspective of where your group is coming from and its connection with Mr Zsombor.

Before we go into it, I neglected to introduce my committee. On my right is Sharon Bird, who is the member for Cunningham on the South Coast of New South Wales, in the area where a connector line, if not a branch line, is under review, or has been suggested. Barry Haase is the member for Kalgoorlie in Western Australia. Mr Zsombor, he has the largest electorate not only in Australia but in the world. He has about 80 per cent of the state of Western Australia.

Mr HAASE—It is 2.3 million square kilometres.

Mr Zsombor—Sounds like our representative who has the Arctic in Canada.

Mr HAASE—I have two more people!

CHAIR—The next is Dr Dennis Jensen from Western Australia from the electorate of Tangney, in the Perth area. My name is Paul Neville, as you know; I am the member for Hinkler in Central Queensland, where a lot of Australia's coal comes from, in terms of rail connections. Stewart McArthur is the member for Corangamite. He has been a member of this committee for

many years. He comes from that southern Victorian area where we have been down to look at a lot of branch lines. I think you might have made a point in your presentation, on rail lines on the borders of provinces and on the border with the United States, that those sorts of rail lines tend to be neglected. We have a similar thing on the borders between New South Wales, Victoria and South Australia. On that note, would you like to give us your presentation?

Mr Zsombor—I am not going to put you through the agony of listening to all that. I understand you all have a copy of the presentation that I have been giving. If you want to interrupt me at any time, just go ahead and ask some questions or whatever your preferences are. It is a real surprise, and an honour and a privilege, to be here today—to be asked to be here—so I thank you very much, Mr Chairman and Tas.

Rather than going through that summary or that presentation, I would like just to highlight some of the differences I noticed between Canada and Australia, from the federal government side and also, more particularly, Saskatchewan. We have the most branch lines in the whole country—or had; we are losing some, we are saving some. We struggled quite a bit on how we were going to do some of this, going back about nine or 10 years to when I came on board.

We have one standard gauge in Canada. It is a little different. You have challenges and I understand, talking to a few people, that you have made headway in standardising at least the national system and maybe parts of the other. I am no expert in the Australian rail system but this is what I picked up.

There are certainly a lot of advantages to a standard system, especially when you are moving a long distance between different rail gauges. That makes it tough to interchange and exchange cars. If you are strictly in a pocket where those cars can stay and you do not have to exchange or move them then it is fine, but I noticed that there are a lot of connections where you have different gauges. As a matter of fact, at one place I saw there was a narrow gauge and a standard gauge and you could run both. I am not sure where—it was somewhere here in the south. That is one difference.

We have a dedicated grain hopper fleet in Canada. In the late seventies and eighties the federal government purchased 12,000 100-ton hopper cars, 263,000 pounds gross. Saskatchewan bought 1,000 cars.

CHAIR—These were grain hoppers, were they?

Mr Zsombor—Grain hoppers dedicated for export grain out of western Canada. Saskatchewan bought 1,000 cars and Alberta bought 1,000. The Wheat Board bought 2,000. Our 1,000 cars in those days cost us \$55 million. So in the transportation of grain there is no car or ownership cost built into the freight rate because they were provided by government. That is one difference. It is a fleet dedicated to grain. In Saskatchewan's case, we were the first of the 14,000 to upgrade those cars to 286,000 pounds. So we would be able to haul 110 tons per car—short tons. That is one thing.

There are some exceptions, but primarily all railways in Canada are privately owned. CN used to be a crown corporation of the federal government and that was privatised quite a few years

back. Most of the railways, even in Saskatchewan, other than having the participation of local government ownership, are pretty well private.

I did not have time to write up something so these are just a few notes I put together in the last day.

Mr McARTHUR—Who owns the track?

Mr Zsombor—The track and land are privately owned. I will go into a couple of examples in our province where there is an exception, and there may be one or two across Canada, but primarily the main line carriers, CP and CN, own the track that they operate—they own the asset—and most of the others are also privately owned.

CHAIR—CN is the old Canadian National, is it?

Mr Zsombor—The old Canadian National, and CP is Canadian Pacific.

Mr HAASE—Are they private or government?

Mr Zsombor—They are all private.

CHAIR—CN was the government one originally, was it?

Mr Zsombor—Originally. In 1923 there were a bunch of railways going bankrupt in Canada, so the federal government stepped in, bought them out, sorted out stuff with those shareholders and created CN out of quite a few. There were a number of rail lines and they created Canadian National. That ran till about the 1970s or eighties when they privatised it. That is a little background on that.

Regarding movement of grain, the federal government has legislation that sets a revenue cap for export grain that CP and CN can charge. CN and CP cannot exceed those revenues for grain transportation and it is split between CN and CP based on a 1994 allocation. I think 53 per cent was CP and 47 per cent was CN. The grain fleet is also split on that basis. CN got so many cars out of the 14,000 and CP got so many on their percentage. The revenue cap is the same thing.

Just as an example, and do not quote me on the numbers, CN could have a revenue cap of \$400 million. So they set the freight rates from the different points, they move the grain and they cannot go over this revenue cap. If they go over it—and last year was the first time they went over it; CN-CP went over it by about \$4.4 million—they have to give it back. That money goes into an agricultural research fund.

Ms BIRD—Is that cap only on export grain?

Mr Zsombor—Yes. If they are under, that is too bad—they should have charged more; it is just a loss to them.

Mr McARTHUR—If their harvest is down, what happens then?

Mr Zsombor—The formula recognises the tonnages, average hauls and that kind of stuff, so the railways' responsibility—with their best guess as to where the harvest is, how much it is and what might move east to west—is to set the freight rates, and hopefully they can match that revenue cap. They are very good at it. In past years they were within one per cent of the revenue cap or less. So they have some pretty sharp pencils. They have been at it for a long time so they are pretty good at gauging what their revenue should be.

Ms BIRD—How is the revenue cap adjusted? Is it an annual cap?

Mr Zsombor—Every year the transportation agency looks at it and adjusts it for inflation and things like that.

Ms BIRD—So it is a purely departmental thing? Is there not a committee or board that sets it each year?

Mr Zsombor—It is an agency, called the Canadian Transportation Agency. They review and adjust the cap each year. They have a cost factor for inflation that they build in, and they adjust the cap on that basis for the cost side. There is a formula in my presentation, which I will not get into because I could spend a whole day trying to explain that.

The federal government established a legal process to abandon or dismantle rail lines. The process says to CN-CP, 'Where you want to get rid of your branch lines, you have to follow this process: you have to advertise it for a commercial deal if you can; if not you have to offer it to the province and to the local governments at net salvage value.' The salvage value is what CN-CP would pocket if they abandoned it—sold the steel and paid for the cost of labour to get rid of it or pick it up, or whatever. So people in the groups trying to make a commercial deal realise that if they cannot do the commercial deal then the local governments can pick it up for salvage value and they can buy it from the local governments. So really the salvage value is kind of the base for the purchase price for branch lines.

Ms BIRD—Have there not been cases of a private provider who may be interested not expressing interest until it is bought at salvage value by the council and then the council onselling it at a profit? Are they not allowed to do that?

Mr Zsombor—Sure.

Ms BIRD—Does it happen though?

Mr Zsombor—Once or twice. I was involved in one deal, just as an example, where they thought the railways wanted too much money for this track and assets, the land, so they went to the local government—and, by the way, the federal legislation says that any one local government area through which the track goes can buy it without the consent of any adjacent government; they can buy the whole thing—and said, 'We can't make a deal. They want too much money. So will you pick it up for salvage value and we will agree to buy it from you at that price.' So there was a side deal there. That has happened. So it keeps the CN-CP pretty honest in terms of not trying to gouge for the asset when they sell it. It is always around that net salvage value. That is maybe one difference. That is a federal legal process.

One thing that happened in Saskatchewan which I did not cover in my presentation was that in the late seventies and eighties we had uneconomic lines: branch lines which were subsidised because of the crow rate—you have probably heard about the crow rate in Canada; if not, it does not matter; it was a subsidy—and there was a horrendous public process to get rid of a line. There was a public interest commission. If the commission decided that, in the public interest, you had to keep the line then CN-CP got subsidies to make sure that they did not lose any money. In 1996 the legislation changed and there were no more subsidies.

Ms BIRD—They still could be required to keep the line by the public interest.

Mr Zsombor—There were no more public interest tests whatsoever—they got rid of them. Prior to that, from '79 to '90, the federal government spent about a billion dollars upgrading more than half of the branch lines in western Canada. Saskatchewan got about \$600 million.

CHAIR—On restoring branch lines—full restoration?

Mr Zsombor—Over 10 years, yes, about \$60 million a year. The goal was to upgrade them so they are good for 30 miles an hour minimum, year round, and the third qualification was to upgrade them to have the ability to handle 100-ton cars. Those were the three criteria, and the federal government agreed to do that. Some of the branch lines that are in Saskatchewan that have been transferred to others, then to CN-CP, have been upgraded. With others, they ran out of money before they finished. So some of them are in pretty poor shape; some are in better shape. We have got some lines that are in pretty good shape, that you could run 30-mile an hour 100-ton cars on.

CHAIR—I meant to ask you in Wagga: you differentiate between what you call a short line and a branch line; what is the difference?

Mr Zsombor—Same thing. Under the legal terminology, when you looked at the federal system they had main lines and branch lines. In the last 10 or 20 years short line seems to be the common term for anything that is non main line and probably outside the ownership of the class 1 carrier. So short line and branch line are kind of interchangeable. The distinction was that branch line probably still belongs to CN-CP and short line is somebody else, but not main line.

In the last 10 years since that new act came in, the Saskatchewan government has never exercised the option to buy the asset—the land and the track. I personally believe that, when it comes to branch lines, the decision whether that line should stay or go should be at the lowest level possible and should be made by the local governments and producers and shippers. And the whole idea, like any railway, if you are any place else, is that you use it or you lose it. The best place to make that decision is at the local level, because they are the ones that are going to decide whether they are going to support using it. I hate to say this. I could sit in my white ivory tower in Regina and I say, 'This one stays, that one goes, this one stays.' What incentive is there at the local level to make sure it keeps going? So we believe those decisions are best made at the lowest level possible, which is generally in the region or locally. It is not made by the province; it is not made by the federal government. So that approach is maybe a little different.

Ms BIRD—But there are tests—the local areas cannot just say, ‘Yes, we want to keep it,’ even though only two pensioners and one load travels on it a week. You say to use it or lose it. You have a series of tests that they still have to—

Mr Zsombor—Saskatchewan provides a grant up to \$25,000 for any group that is interested in looking at buying and operating a line to do a business plan or a feasibility study. There is a second program we have provincially in Saskatchewan if they meet the three tests: you have to have a viable business plan which excludes consideration of recapitalisation in the future, so long as you can operate for the next 10 years after buying; you have to have local investment of a minimum of eight per cent—it is always more than that, but we set a low criteria—and you have to demonstrate strong local support. So if you have those three things we will make a 15-year loan, interest free, for the purchaser and, knowing it is a new business, we let them have three years of no payments if they wish and 12 equal higher payments rather than 15 lower payments, and that is just to get them started.

Ms BIRD—I do not think we do anything with interest free loan type of stuff, do we?

CHAIR—That is why I wanted you all to hear this. This is novel. If a community wants to keep its railway then it is a case of saying: ‘Show us your business plan; we’ll give you 25 grand to put it together. Show us the community interest in it.’ What was the third thing?

Mr Zsombor—Some local investment.

Ms BIRD—You are saying, ‘Put some money where your mouth is.’

CHAIR—Yes, put some money where your mouth is.

Mr Zsombor—We call it ‘putting some skin in a wringer’. There is some incentive for them to keep it alive.

Mr Honan—One of the advantages is that it is at net salvage value, which basically means that there is no risk; it is the steel on the rails, and if the venture does not succeed they can still get the value from the scrap metal. It is really no risk to the local entrepreneurs.

Ms BIRD—Also, if it fails they cannot whinge that the government is taking it from them; they have failed and they have lost it.

Mr Honan—It is in their own control. There is a lot of energy in the regional areas and there is a lot of competence in terms of the technical side of things—it is just the entrepreneurial matters needed to get that to connect.

Mr Zsombor—With this arrangement it is very low risk, because anybody who decides to pick it up—whether it be local government, a combination of local government and private business, or all local private business—could roll up that asset tomorrow and get their money back. The way the Chinese are buying up steel you would probably make money if you held onto the scrap steel for a few years. It is very low risk. When we give them loans we do a security asset, just to protect the taxpayers’ money. We secure the asset, and we are No. 2 after

the bankers, because we are only giving them 32 per cent of the value. So in case they have to go to a bank there is some room for them to borrow from the bank.

CHAIR—How much do you let them borrow?

Mr Zsombor—We let them borrow 32 per cent. We had one railway that was \$4 million or \$5 million. We lent one large group, for a 300-mile purchase, \$1.7 million. That was our loan.

Mr McARTHUR—For \$1.7 million you bought the track and the rolling stock?

Mr Zsombor—No rolling stock.

Mr McARTHUR—You just bought the track?

Mr Zsombor—The loan is only for the land and the track. They have to arrange to buy their own locomotive power.

Mr McARTHUR—Just go through that example. You paid \$1.7 million. What did you have to do then? Did you have to put some sleepers there and some ballast?

Mr Zsombor—Actually that track was okay to run the way it was—100-ton carts at 25 miles an hour. There was no loan available to buy locomotive cars to run on their line so they had to come up with another, I think, half a million dollars to buy two locomotives. The cost of the asset was around \$5 million and we lent them \$1.7 million in an interest free loan.

Mr McARTHUR—I wonder if you could give us an overview of the state of the rail system in Canada relative to the road system. I would just like to get a feel for that. Are the good rails going well or is it fair compared to the road network?

Mr Zsombor—I am not a rubber tyre guy so I do not wander into the truck-rubber tyre-asphalt area too much. I am interested in steel wheels and rails. I would say that our primary highway system in Saskatchewan is, I think, 137,000 pounds gross.

Mr McARTHUR—The state of rail track and the rolling stock—is that good, fair, needs upgrading and a whole lot of money or is it making money? Just give us a feel for how the Canadian rail system is working.

Mr Zsombor—The main line railways have operating ratios in the high sixties. CN has about 60-some per cent, CP is in the low seventies. That means for every dollar of revenue they get they are only spending 70c. They are getting huge returns; their share prices are just doing wonderfully. It is the first time in all my career—and I am getting pretty old—that the main line carriers, CP and CN, are actually making enough money to recapitalize their network.

I am on a short line committee. I just got on it as chairperson. I found out early that all of the short lines in Canada have operating ratios of 95 per cent. So for every dollar they get, they spend 95c. So we know that they are going to need help when the asset wears down and we are probably going to have to provide some more capital to rehabilitate and keep the asset up.

In that example where I said they bought \$5 million worth of railway—with half a million dollars for two locomotives—we lent them \$1.7 million. They have been operating for two years now. Last year—we have access to the auditor's statements, and I do not think I am breaching confidentiality—they made \$485,000. They did very well. The year before that was not so good. They do not have to spend much on the track. They do not worry about cars because all the cars are interchanged and supplied, directly or indirectly, by their main line carriers, CP and CN, at the exchange point.

CHAIR—Do they have to lease the cars?

Mr Zsombor—They own some and they lease some. Shippers own some and lease some.

CHAIR—Did the group that you are talking about have to buy some?

Mr Zsombor—No. Do not forget that we have that big dedicated grain fleet and our branch lines are primarily for grain.

CHAIR—Does Canadian National or Canadian Pacific own that or does the state or province own it? Who owns that pool of cars?

Mr Zsombor—The federal government owns 12,000 cars, the Canadian Wheat Board owns 2,000 cars, we own 1,000 and Alberta owns 1,000. The deal was that we would put them into a pool.

CHAIR—So they do not have to buy rolling stock?

Mr Zsombor—No.

Mr Honan—The wagons get allocated to the individual short liners. There are no anti-competitive forces because the main lines do not actually own the grain wagons and allocate them to themselves.

Mr McARTHUR—What I hear you saying is that the main line systems are profitable for the first time in some time, so if you can make these feeder lines active—

Mr Zsombor—Let them grow and get better.

Mr McARTHUR—and provide grain from the feeder lines, that will help the whole system. Is that right?

Mr Zsombor—Yes. All the grain is given to CN and CP because they are the longline carriers to export.

Mr McARTHUR—Why are the main lines more profitable than they have been historically? I understand that you have had a lot of upsets in the American rail system.

Mr Zsombor—It was primarily the deregulation of the freight rates system and establishing a revenue cap for grain movement that was adequate to make it pay for the main line carriers to

haul grain. But grain is a small piece of their package. It is intermodal and there are all kinds of things—coal and potash—and all the rest of their commodities are on a commercial basis. They have been very successful in becoming very efficient by knocking down their operating ratios. They are also successful in changing shipper behaviour to fit their system. I will give you a simple example. CN and CP will dump 50 cars and say, 'You've got two days to load it.' All of a sudden they will come along and say, 'To fit into our system you've got 24 hours to load it.' Then they will come along a bit later and say, 'Build an additional 50-car track at your facility because now it makes sense for us to do 100 cars at a shot.' I can see the day coming when they are going to come out with their locomotives and the crew will be sitting there and they will say, 'You've got three hours to load.' That it is making the railway very efficient, but one of the challenges we have in Canada is that, by changing shipper behaviour, they are imposing costs on somebody else up and down the logistics stream. So sometimes I am not too sure whether, when they do that, as a whole we are competitive or it is productive. Because of their marketing dominance and lobbying power they have become very financially successful in the last two years.

CHAIR—Who owns the Canadian National and Canadian Pacific track and corridors? Are they owned by the railways themselves?

Mr Zsombor—Yes, they are 100 per cent owned by the railways.

CHAIR—Is there an access regime if one company or a private operator wants to go on the track?

Mr Zsombor—As far as access is concerned, there is very little competition between CN and CP, other than where it is mutually beneficial for them to exchange. I worked for CP for 11 years—many years ago, in my other life, when I first got out of university. The only time we would agree to joint running rates with CN was when CN said, 'It makes sense for us to use your track over here,' and we would make darned sure we got some place where we could go on CN's tracks to balance the books. With a short line or regional railway, you have nothing to trade.

CHAIR—Yes, I get you. In this overall scenario you painted for Mr McArthur there was one ingredient missing, and that was that these tracks got a billion-dollar upgrade at the front end of this process. How would we assess that in Australia? How would we assess, perhaps using the Canadian experience as a benchmark, how much we might have to put into the Australian branch lines to get them up to that level where your scenario might work here?

Mr Zsombor—I think you really have to look at each track and decide which tracks should be upgraded, whatever process that may be. I saw one track—I forget where we stopped—where there was a tree this big right in the middle of the ties. Does it make sense to upgrade that track? So maybe part of the process would be to say, 'Where does it make sense to upgrade?' Or you could at least start on the ones that have the potential to stay in business and do those and then see what happens—unless you have got a critical one that is in bad shape and you think there is a big new business that is going to offer a thousand cars on it, and then you might upgrade even a very poor track. But you have to actually inspect the track and then decide what standard you are trying to achieve: 50 miles an hour or 30 miles an hour; 100-ton cars or 110-ton cars? Once you do that I know, as a railway engineer, that you probably could then get a good estimate of what it would cost to upgrade it to that level.

Dr JENSEN—You have given a very interesting presentation, particularly on the history. Obviously in the Australian context this is a fairly unique experience. If you were doing it all over again—if you were back in 1979—is there anything that you would actually change?

Mr Zsombor—I would have to think about that. I think what we did in Saskatchewan that is unique even in Canada, not just in Australia, is that we do not have one regulation to our railway act. All I produced was guidelines; very flexible. I think if you can you have to streamline. If I had a wish in doing it, whether it is federal or provincial, it would be to make the regulations very flexible, to the extent that they might only be guidelines, and then you have other things, as I explained. My attitude is: as long as you are safe—and I have to certify you as a safe railway—whatever fits your business as a railway, whether you have got two people working and you only run a 20-mile line or whether you have 300 miles and 50 employees and you are running big locomotives. As long as you provide me with a safety management plan that you prove to me is safe then I approve it with or without things. So I would try to sort out the regulatory process to make it a lot simpler.

In Australia's case, if you still want regulations, I have seen tracks that you could be running heavier loads on—I would certainly approve them—but they are underloading the cars, which makes them very unproductive and inefficient. I think that is because the standards are set for main lines, where you have got dangerous goods and you have got passengers. They are very high standards, and you do not need that on a short line or a branch line. If you had two standards or a different approach for the branch lines I think that would be really worthwhile; that would make it a lot easier to start up and to operate.

Dr JENSEN—In relation to branch lines, you talked about the relative unprofitability compared with the main lines, and the fact that at some stage in the future you were going to have to kick in for an upgrade of the rail. What could be done to make those branch lines and short lines more productive?

Mr Zsombor—What has happened so far in Saskatchewan is we had a little line here, a little line there, a little line there and a little line here, with different owners and maybe different operators, and as we build the system there are a lot of cross-contracts where as you grow you do get efficiencies. I will give you an example from where that 300-mile line is. The local governments decided to buy 60 miles of the line—it is right through one of the yards of CP—and they talked to these guys. They got permission to go through the yard and now they pick up the 60-mile. To them, that makes a lot of sense because they got a lot of little traffic, they did not have to spend any more money on asset purchase, on locomotives, and they got another 1,200 carloads a year. So as the system grows I think they will themselves begin to recognise these efficiencies by getting together and creating larger groups of railways.

CHAIR—There is a division in progress. Mr Zsombor, we have two colours: green for the House of Representatives and red for the Senate, and when the bell goes we have four minutes to get into the chamber.

Mr Zsombor—And this is your bell?

CHAIR—Yes, it is a division. Can you give us some time?

Mr Zsombor—Do you wish me to stay?

CHAIR—Yes; we are coming back.

Proceedings suspended from 10.21 am to 10.38 am

CHAIR—The meeting is resumed.

Mr Zsombor—I have two quick points. Stewart asked me about trucks, roads and rail. When you have the choice of two modes, my personal opinion is that that creates real competition. If you eliminate one of those choices, be it rail or truck, for whatever reason, you become captive to the other mode. In the case of losing rail, you really become captive to the truck side because you will never rebuild the rail, unless you have another BHP or something like that—it just will not happen, especially in grain areas or in rural areas. I really try to encourage the keeping of choices where possible. In our local shires or rural municipalities you get heavy trucks on the roads. The local shires or rural municipalities are responsible for those roads, but they were not built for these heavy trucks. They are probably the weakest road structure there is. I would think that at the local level they might be interested in trying to divert and keep a lot of those trucks out of the very short hauls and onto rail rather than on their roads.

CHAIR—We have seen a very recent example of this in Queensland with the sugar industry, which has been deregulated. In the Queensland sugar industry a lot of the cane is taken off the field on two-foot-gauge tramlines. Tramlines run through all the paddocks. Deregulation has meant the farmer is not required to send his cane on that system to that mill; he could take it to another mill if he thought he could get a better price or whatever. The result of that has been that a lot of stuff has come off rail onto road to the point where the Commonwealth government and the state instrumentalities had to put \$2 million into the road system in my area just to make up for the very point you are making.

Mr Zsombor—I think there is interest in many different areas on a local or regional basis that would like to keep that choice. The last thing I want to mention, I think, is that we do have a system in Canada where the farmers can load their own railcars without going to a silo or, in our case, a grain company. That saves them about \$1,000-plus per carload in bypassing the grain handling and storage cost. Our fleet of dedicated hopper cars are available for that use.

CHAIR—Do they actually fill them at the site of the track?

Mr Zsombor—That is right—wherever they can find a place to park. The short lines are very service oriented because they need shippers as much as the shippers need the short line, especially on a regional basis. They bend over backwards to be able to find a track or load a main line. The farmers will haul by truck or they locate their small silos—4,000 bushel silos—beside the track. They fill the silos up and when a car comes they load it or they load it strictly off the farm—they haul there and load the car. That saves them money.

In respect of the five per cent return on these rail lines, the farmers think: ‘I can save myself \$1,000. I am not interested in a dividend from the railway. I’m interested in improving the returns on my farm business.’ It makes them more self-sufficient. Besides the \$1,000 saving from those lower transportation costs as a result of where they grow the stuff and where they

load the cars, we estimate the savings just in road savings and transportation costs to be probably worth about \$10 million for our 900 miles of short lines.

The other thing we noticed which I think I mentioned in my presentation is that business does not like uncertainty, regardless of who the owner of the track is. Why would they invest when they do not know if the track is going to be there? Once it is taken out of CN-CP's branch-line system, which is all at risk, it is stabilised. That is the perception. The reality is that it is more stable when somebody else owns it at a local or regional level. On those 900 miles, in eight or nine years we have seen about \$300 million of new rail-oriented business—processing plants, lumber, whatever—locate on those lines because of that. In that time period there was hardly any money spent on the CN-CP branch lines that remain because there is no certainty with them. So that is another economic development spin-off.

CHAIR—So these ones that are owned locally or privately, or by city or shire councils, are getting at least a drip-feed of maintenance and attention, whereas the main line operators are tending to neglect their remaining branch lines.

Mr Zsombor—They have not spent a cent on the branch lines because they do not make them any money.

CHAIR—Your premise then is that you get them out of the hands of the big players and into the hands of people who have an interest in them, that you upgrade them in the first instance and after a 10-year period you put in a maintenance dividend to get them back up to a reasonable level.

Mr Zsombor—With the 900 miles we have—and that will probably grow to 1,500 to 2,000 in our province before we are done—if we could get about \$100,000 spent per mile of track, I could get another 10 to 20 years life. If we could space it over 10 years, I could probably end up buying at least another 10 to 15 years of life.

CHAIR—I should introduce Jill. Jill Hall is the member for Shortland in the Hunter Valley, north of Sydney, and it includes the city of Newcastle, which is the second city of New South Wales. She has a very big coal industry and also some grain in her area as well.

Ms HALL—Yes.

CHAIR—You also have a depot for the distribution of grain.

Ms HALL—But coal is very big.

CHAIR—It is the biggest coal port in Australia.

Ms HALL—Forgive me if this has been asked before, but have you got examples where it has been transferred to the people that have an interest in utilising those and it has worked?

Mr Zsombor—Yes.

Ms HALL—Could you share it with us?

CHAIR—We got it in the evidence.

Ms HALL—Forgive me. I was at another committee, so please do not go over it. I will read the evidence.

Mr Zsombor—We have been successful in the nine years of transferring this ownership to local and/or private partnerships or purely private. We have done about 900 miles in nine years. We can expect to double that. It is all based on the premise of local—

CHAIR—Just give Ms Hall the three criteria for being able to take over a branch line.

Mr Zsombor—We have a loan program. The first criterion to access the loan program—the feasibility grant is separate—is that you have to have a viable business plan that does not take into account the recapitalisation of the asset. Secondly, you have to have a minimum of eight per cent local investment. Normally it is a lot higher than that, but we set it pretty low. The third thing is that we will give you a 15-year interest-free loan towards the purchase of the land and the track.

Ms HALL—That is pretty good.

Mr Honan—Thirty-two per cent of the—

Mr Zsombor—We will give you 32 per cent of the purchase price as an interest-free loan to start up. That loan will be secured by the assets, and we will take a No. 2 position to banks or whatever.

Ms HALL—If this is in the evidence, say so and I will read it, but with these lines that are owned or financed in this fashion, is there any restriction of access to them by other people or other users?

Mr Zsombor—In our provincial railway act, we have jurisdiction over any railway that does not cross a provincial boundary or the US border. There is provision for another operator to access that track for a price to use it. I will tell you that these short lines that we have created are so small that there is nobody else interested. They can handle everything. It is there legally, but it has never been exercised.

Ms HALL—That has been an issue in some areas of Australia.

Mr Honan—It is a different framework, I might suggest. It is a very localised framework, and this notion about access control washes away in one sense because there are other competitive forces at work. If I might take up Mr Chair's point, the RTSA believes that two factors are critical. The first is the revenue cap on grain haulage. That sets the behaviour for the main lines. What happens is that the short lines actually negotiate arrangements with the main line to transport grain. The overall price cap is set. As you would know, the grain farmers are price takers, so there is not this gouging that can take place, and it is not gouging of a short line as opposed to main line. The short lines participate in this revenue cap with the main lines. I think that framework is a very important thing. It sets the behaviour for the main line and everyone in

the rail industry there. The other thing, of course, is the allocation of cars, where that has not been done by the main line itself.

Those factors mean that you have this choice where the farmers can bypass the grain handlers, and you have this efficiency at the end of this local chain and all these returns that come back. Because a grain farmer is a price taker, all the margins that eat away at those returns are being reduced as this efficiency is built up within that local short line operation. We see it as a good model to bring competition in at that level. It is a win-win for the farmer in the sense that he or she sees better returns come back to the farm gate. You have better outcomes in terms of the modes of transport in the local area and you get increased development around those areas as well. We think it is a good outcome. We think it is a model that should be looked at for Australia. There are a lot of differences in Australia compared with Canada. We have the Great Dividing Range. Our distances to port are a lot less. In Canada I think it is about 900 miles to port; our distance is about 200-odd miles to port. So the nature of the task is slightly different, but there are also many similarities with the Canadian model.

CHAIR—Besides grain and timber, what else is carried on branch lines?

Mr Zsombor—So far, that is about it. The northern trunk lines carry timber, some grain and timber products—pulp, paper, that kind of stuff. We have processing plants. We have an alfalfa dehy plant. We have peas and lentils. We are just opening up a kaolin plant on one of our short lines—an outfit came down and they are opening up a big plant. It is an additive to concrete. They have about 100 years supply there in southern Saskatchewan and they are going to service western US and Canada. So that is hugely beneficial for the short line.

CHAIR—You have obviously been going around with the group to look at various parts of Australia. What is your take on our branch lines? You gave the illustration of the tree growing in the middle of the track—obviously there is not going to be a serious effort to save that line.

Mr Zsombor—To be honest, I could not see, on the line where the big tree was, why anybody who owned that line would not rip it up, salvage that steel and use the money to fix up something else. The longer you leave it, the expectation is maybe some government will come along and fix it up. My attitude is: if it ain't going to be ever used, get rid of it—and get rid of even the perception that it is going to be used.

CHAIR—Which line was it—can you remember, Mr Honan?

Mr Honan—Uranquinty to Kywong.

CHAIR—Where is that?

Mr Honan—In the Riverina area, in the south-west of New South Wales.

Mr Zsombor—There are other lines that would need very little investment and that I would run even the heavier cars on, as we would do in Canada. I do not know if I have already quoted these figures: \$100,000 a mile to gain another 10 to 15 years, would be my average on the short lines.

CHAIR—As you went around together, what was your assessment on a state-by-state basis of how the lines were?

Mr Zsombor—My problem was that I did not see any lines in a lot of states. I did not have time. I would fly in one day, give a presentation, meet your transport people and be flying out that night, so I had very little time.

Mr Honan—I would like to make one observation about the lines that we did see. It was not a question of infrastructure upgrading; it was a question of the framework and the institutional arrangements around a line to make it viable. Ed is right that we did not see a lot of the lines in the north-west of New South Wales. But this notion that we need to spend a lot of money to get infrastructure up first before the short line model can work I do not think is right. I think we need to set the institutional framework around it first, knowing that, yes, we do have to upgrade some lines but we need to get that facilitation happening. We need the facilitation at the state level and the legislative framework at the federal level and we need to get the education and the entrepreneurship working at the local level.

CHAIR—Is that your recommendation to us? Are you suggesting that if the committee were to suggest a model like that we should get the institutional framework right first?

Mr Honan—I think it needs to be happening on a number of fronts at the one time. We certainly need the institutional framework set at the federal level. We need a facilitation role, whether that is through the Commonwealth Department of Transport and Regional Services or through the states. And we need the championing of this at the local level and the behavioural change at the local level to get these entrepreneurs to form these groups. At the same time, as I say, there are a couple of other factors, such as the grain rate and the revenue rate, and also how the allocation of cars has been handled.

CHAIR—What is the tonnage capacity for the wagons on narrow gage and standard gage in Australia?

Mr Honan—I would not know.

Mr Zsombor—The one we saw on the wagons was 75 tonnes. I would have no problem loading the track that I looked at to 100 tonnes, but they were underloading them to 40 tons or 50 tons. I could not believe that.

Mr McARTHUR—I want to raise the issue of the motorised locomotives. In your presentation you mentioned the short lines. Would you give us a bit of a view about whether that makes it profitable?

Mr Zsombor—The tractor unit?

Mr McARTHUR—Yes.

Mr Zsombor—It only works where you have shorter lines—probably 20 miles to 25 miles. If you could batch a few of those so that you could hop on and off and make them highway legal

for short operations or industrial operations on some short piece of railway, that is where that makes sense. It can only haul eight to 12 loaded cars and maybe 20 empty cars.

Mr McARTHUR—It is not in big use. It was tried here in one of the states for some of the short line hauls.

Mr Zsombor—Store it someplace. We in the province paid for the development cost of the first one and there are some patent rights that we kept. They sold enough units for us to get our half-a-million dollar investment back and spawned a whole industry. They are marketing all over now, and they bought the patent rights off us for half-a-million bucks. It was a good investment in research and new technology, and of taxpayers' money.

Mr Honan—I would like to make a point about short lines. We have this cargo sprinter, which is a short cab that you may know about. It was run originally by CRT. These sorts of technologies are using roll-on/roll-off or different types of loading facilities and different types of locomotives. They will flourish under a short line model. The problem that we have is that they have been squeezed out because of the main line and major locomotives and the nature of the task between capital cities. If you have short lines that operate in different markets with different tasks, so to speak, you will see a lot of these technologies take off—like that prime mover or like the CRT cargo sprinter, which use roll-on/roll-off. You will see that entrepreneurial and dynamic productivity take off, I believe. I commend segmenting these lines into short lines as another positive thing.

CHAIR—After Jill's question, we will have to get a closing comment from each of you.

Ms HALL—The model that you are recommending would have us look very closely at what is happening in Canada and then put in place a public/private partnership, with the public sector having a facilitation and management role. It would be driven by an entrepreneur or a group in an area.

Mr Honan—Correct. We need them to take a role. The state officials ask us: 'What are the barriers to this happening at the moment? Why doesn't this happen at the moment?' The reason is that we need the states or the federal government to take on a facilitation role to make it happen. We need the legislative framework to make sure that the safety regulations are in place, we need to segment this particular market away from the main line market and we need to help facilitate the entrepreneurial level and local control and local ownership of these short lines.

Ms HALL—Do you see a role for the ACCC?

Mr Honan—Not really, no. I see a role for DOTARS, I see a role for the state government and I see a role for local government. There are local access arrangements—

Ms HALL—So you would not see any issues around competition?

Mr Honan—I think it's more a rural social science problem than an access problem. You've certainly got to engage the main line operators; the main line operators might not be too happy. One of the things that Canada has experienced is that 25 per cent of the transport task starts or finishes on the short line, and 15 per cent of their profit comes from short line. So they see

themselves as partners now. They were sort of anti short lines originally, but now they see themselves as partners. The ACCC is a bureaucratic institution that looks at competitive forces, and I think that you need to really take it down to a local level and make it local.

CHAIR—I understand that the battering rams are at the doors for the next committee. So I would like to thank you both for coming, and we may have to come back to you, Mr Honan, before we wind up the inquiry. I am just running through my mind whether we might test a couple of the grain organisations on this before we write this chapter—but I will talk to the secretariat about that. I trust we could rely on you if that was necessary?

Mr Honan—Yes, indeed.

CHAIR—And thank you very much, Mr Zsombor. To have your expertise and for you to disrupt your itinerary to come to see us was greatly appreciated. We trust we can come back to you if we need any individual comments—if in the course of writing the report we need a bit more information?

Mr Zsombor—Yes.

CHAIR—Thank you once again. Would somebody move that *Transforming Canada's Rural Railway* be taken as an exhibit and authorised for publication.

Mr McARTHUR—So moved.

Resolved (on motion by **Ms Hall**):

That this committee authorises publication of the transcript of the evidence given before it at public hearing this day.

Committee adjourned at 11.01 am