



HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON COMMUNICATIONS, TRANSPORT AND MICROECONOMIC REFORM

Reference: Role of rail in the national transport network

CANBERRA

Friday, 12 December 1997

OFFICIAL HANSARD REPORT

CANBERRA

HOUSE OF REPRESENTATIVES
STANDING COMMITTEE ON COMMUNICATIONS, TRANSPORT AND
MICROECONOMIC REFORM

Members:

Mr Neville (Chair)
Mr Peter Morris (Deputy Chair)

Mr Ross Cameron
Mrs Crosio
Mr Hardgrave
Mr Hollis
Mr Lindsay
Mr Marek

Mr McArthur
Mr McDougall
Mr Randall
Mr Tanner
Mr Wakelin
Mr Willis

Matters referred for inquiry into and report on:

- (1) How current administrative, institutional, operation and pricing arrangements can be improved to promote effective and efficient use of the national rail network, and to investigate the role of the Commonwealth and states/territories in achieving consistency in these areas.
- (2) The opportunities to increase the participation of the private sector in the rail industry.
- (3) The opportunities to maximise access to, and utilisation of, the rail network.
- (4) Effective investment and ownership arrangements for the rail network.
- (5) Characteristics of international best practice in rail operations.

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ARBLASTER, Ms Margaret, Senior Assistant Commissioner, Transport Branch, Australian Competition and Consumer Commission, Level 35, The Tower, 360 Elizabeth Street, Melbourne, Victoria	150
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WELSBY, Mr Leon John, General Manager, Australian National Track Access, PO Box 10343, Gouger Street, Adelaide, South Australia 5000	195
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Role of rail in the national transport network

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Friday, 12 December 1997

Present

Mr Neville (Chair)

Mr McArthur

Mr Wakelin

Mr Marek

Mr Willis

Mr Tanner

The committee met at 8.48 a.m.

Mr Neville took the chair.

CHAIR—I declare open this second day of public hearings of the House of Representatives Standing Committee on Communications, Transport and Microeconomic Reform. As you are aware, it is an inquiry into the role of rail in the national transport network. We are holding hearings in Canberra at present. We plan to go to Melbourne, Sydney and Brisbane and perhaps to the western states later.

In opening these proceedings I would emphasise that, in addressing the terms of reference, the committee's role is not to lobby the Commonwealth government or, for that matter, any other government in support of individual rail proposals. The committee's role, under the terms of reference, is to investigate how rail can operate better now and in the future and to report its findings and recommendations to the parliament.

Public hearings this morning will enable the committee to take evidence from officers of the National Competition Council and the Australian Competition and Consumer Commission, which have been deliberating on rail access issues. Evidence will also be given by Tranz Rail Ltd, a private company which runs the rail network in New Zealand. The committee will then take evidence from Transrapid and Speedrail—two companies which are tendering with four other tenderers for high speed train projects linking Sydney and Canberra. This afternoon we will be hearing evidence from the Public Transport Union, the Department of Primary Industries and Energy and the Institution of Engineers Australia. On behalf of the committee, I welcome witnesses and any others in the gallery here this morning.

[8.49 a.m.]

COPE, Ms Deborah, Deputy Executive Director, National Competition Council, Level 12, 2 Lonsdale Street, Melbourne, Victoria 3000

WILLETT, Mr Ed, Executive Director and Head of the National Competition Council Secretariat, Level 12, 2 Lonsdale Street, Melbourne, Victoria 3000

CHAIR—Do you have any alterations to make to your written submissions?

Mr Willett—No.

CHAIR—I advise witnesses that although the committee does not require you to take an oath, the committee proceedings have the dignity of the parliament and should be treated in the same way as proceedings of the House. The giving of false or misleading evidence is a serious matter and can be regarded as a contempt of the parliament. Would you like to give us a three-minute overview of your submission and then we will move into the rest of the proceedings by way of questions.

Mr Willett—Perhaps rather than an overview of the submission I might say a few words on the council's role which I think will help discussion. Your terms of reference for this review are very broad. The council has some experience in these areas as reflected in the submission we made to you. It is also true to say that the council's role is a great deal narrower than the scope of your terms of reference. It is worth noting exactly what the council's role here is. Since there is no national competition policy reform agreement in rail, as there is with electricity or gas, the council does not have a broad role in assessing progress on implementation as it does in electricity and gas. Its role is limited to the specific roles it has under part IIIA of the Trade Practices Act and the national access regime.

Broadly, what the council does under part IIIA is set the parameters of the application of the access regime in part IIIA and approve the design of state and territory access regimes. What it does not do is get into the detailed issues of regulating things like prices and access conditions. In recommending declaration, or considering recommending declaration, what the council is doing is identifying those facilities and those services that should be subject to the access regime in part IIIA. In looking at state and territory access regimes for certification under part IIIA, what it is doing is vetting the broad design parameters of those access regimes, not approving very specific details like prices and access conditions.

The regulatory roles belong to the ACCC and state and territory regulators. For declared services, the ACCC arbitrates on disputes. Under state and territory access regimes, the ACCC or state and territory regulators have specific regulatory roles. Currently, no rail services are declared in terms of part IIIA of the Trade Practices Act although there are some matters that are currently on appeal to the tribunal. At this time, although we have an application for certification of the New South Wales rail access regime, no state or territory access regimes have been certified under the Trade Practices Act.

Summing up, while the council can contribute to this review in terms of part IIIA matters it has had to

consider, it is important to note that it does not have a broad role in vetting reform progress as it does in gas and electricity. It does not have the ability to influence all the areas of rail reform that might be seen as desirable.

CHAIR—Thank you. Starting off on that point, I understand you have four different groups before you at present seeking access. Could you give us an idea of some of the difficulties and costs incurred by applicants when they are negotiating access across various jurisdictions? This is the first time we have encountered this in Australia. What are some of those primary problems people are encountering? How can the system be freed up better?

Ms Cope—There are probably two areas when somebody is trying to run a train across state borders. One is the technical standards that they need to deal with and the other one is the conditions and terms of access. In both of those there is a base problem if there are different systems set up in each jurisdiction. They have to learn a number of sets of rules, go to a number of different points and carry out the negotiation a number of different times.

If you get into the area of technical standards, if there are differences in the actual technical standards that are required to run in different jurisdictions, then that can have an additional cost in that trains need to meet a range of standards. There is some anecdotal evidence we have had about two or three different styles of jackets needing to be kept in a train because the safety jacket standards have stripes running one way in one state and stripes running the other way in another state and you need to change jackets when you go across the border. That is a small example of the sorts of things, odd things, that can start happening if you have different standards happening in different states and you are running across borders.

CHAIR—What about the costs to a client?

Ms Cope—There are a lot of costs in the administration costs of them getting to understand different regimes and what is required in each state. If there was a consistent standard and one point of contact, then you would only need to spend the time of the company learning one set of rules and applying one set of rules. If there are a number of standards and a number of points of contact they need to not only spend the time to negotiate on a number of separate occasions but also get into the details of a number of sets of rules. There are then other costs that you need to pay. If you are being accredited in a state, there are charges for that. I am not sure of the details of how those are charged or whether there would be substantial differences in them under a coordinated scheme compared to what is currently operating.

CHAIR—You say in your submission that no state currently has an effective rail regime in place. What do you mean by that?

Ms Cope—No state currently has a regime which has been submitted to us for certification and that we have recommended meets all the criteria for an effective regime in the competition principles agreement.

CHAIR—Are any states getting close to that?

Ms Cope—We are talking with New South Wales at the moment.

CHAIR—What are the states doing? Are they holding back to protect their own, because obviously all the state rail authorities are maintaining their passenger and freight services themselves? Do you think it is just an administrative backlog or is it that the states are perhaps dragging their heels a bit to protect their existing market? What is the feeling you get on that?

Ms Cope—I suspect it is just a really tough job. It is going to take a fair amount of state effort to pull together a regime which is effective, so it is taking time. A number of the states are working on regimes, but it is not a simple, quick or straightforward process.

CHAIR—So you would say that they are being more cautious than stonewalling?

Mr Willett—There are two aspects. The first is that it is difficult to design an access regime. We have not had a great deal of experience of that in Australia. There is only so much you can draw on from overseas experience for two reasons. Firstly, our rail infrastructure is quite different to what you find in other countries. It is true to say that rail access regimes overseas probably could not be described as state of the art in any case. Secondly, I think there is a need for, and we are in the process of, shifting culture in the way rail services are traded. It is something that is very new to everyone who has been involved in rail services in the past. It takes some adaptation on how you go about selling access to track, services provided by track and running trains competitively.

Mr McARTHUR—I would have said the same thing about the power situation in Victoria—that nobody had the experience of access, providing a competitive marketplace, dividing it in half and all those sorts of things. It seems that Victoria has solved that problem in quite a unique way.

Mr Willett—Ten years ago, I think you would have said that Australia-wide. It is a reflection of how dramatically the environment is changing in infrastructure services across the board. I think rail is lagging gas and electricity somewhat. While it may feel at times that things are proceeding slowly and that there are all these impediments, if you looked at the electricity markets 10 years ago and how they are operating today, I think you would notice some dramatic changes not just in the structure of the industry or the way it is regulated but also in the culture of doing business.

Mr McARTHUR—What would you see as being different between the rail industry and the power industry given that scenario—which I agree with you on?

Mr Willett—Simply, being at a different stage of development in that reform process would be the main feature. Obviously, the industries are very different, but broadly the notable characteristic in rail is that the reform process is less mature.

CHAIR—We had a witness yesterday who implied that private industry need not necessarily be in the rail system. It might be begging the question a little bit, but what do you see is the importance of private operators in the rail system?

Mr Willett—First and foremost—and taking up that point I just made—they help in infusing this new culture in the way business is done.

CHAIR—Culture is not enough.

Mr Willett—No, it is not.

CHAIR—What are they delivering to the rail industry, for want of a better expression? Are you convinced from what you have seen thus far that this is going to be an important part of future rail activity?

Mr Willett—Certainly. I think our submission refers to developments in freight rates with the introduction of services by TNT, SCT on the transnational rail line. That introduction led to reductions in prices for freight services of up to 50 per cent. That is a very dramatic change. It is particularly dramatic given that most people would agree it has happened in an environment that has been less than perfect in terms of facilitating competition in rail services. I think that is a strong indicator of the sorts of benefits from reform in rail services that are available.

Ms Cope—Rail services are not homogeneous; there are lots of different types of rail services that people are demanding. If you have got only one company providing all those rail services, it is very difficult for it to be able to provide the scope of services which is going to meet the scope of the needs out there. If it is trying to meet all the demands, it ends up with its fingers in too many pies and it is very difficult for it to manage the organisation. A benefit of having a number of organisations providing services is that they will tend to target slightly different markets and you will end up with a much broader scope of services which more comprehensively meet the needs of all the customers.

Mr Willett—It is possible for the large public train operators to compete between each other. It is just not happening at the moment. There have been specific impediments—and we referred to some in our submission—such as the New South Wales government as part owner of National Rail not permitting that operator to provide services in the Hunter Valley in coal freight. Were that to change—and it would change with privatisation of National Rail—I think you would see a very different environment in coal freight services in the Hunter.

Mr WILLIS—In relation to what Ms Cope had to say, I think Tranz Rail from New Zealand, who were here before us and you will see later this morning, have an entirely different view of what you have just stated about the desirability of other services from rail. They say that competition best comes from other kinds of services, such as road and sea, and that it is a problem to start divvying up the rail revenue.

I would like to ask you about the applications you have received for declaration for various rail services. I feel some confusion about the way this whole system is going. As I understand it, there have been four applications before you and your role is to give some advice to governments about what they should do in relation to those applications. One of those was rejected by the Queensland government and one was allowed to lapse and, therefore, was not acted on, so I suppose rejected by New South Wales. In either case did you advise those governments about those applications?

Mr Willett—We did. In the case of the Carpentaria application in Queensland, we recommended against declaration. The application there related to not just access to the services of the rail track but also access to services provided by Queensland Rail rolling stock and Queensland Rail owned terminals. The

council concluded in relation to that matter that the application not only involved access to services which met the criteria, in particular the criterion that it is not economic to build another facility, but also included some contestable services—in other words, the operation of the rolling stock and the terminal facilities.

There have been two matters in relation to New South Wales services that have been allowed to lapse by the Premier. The first was in relation to SCT's application for access to services between Sydney and Broken Hill, and the second was a Minerals Council application for services in the Hunter Valley to operate coal freight trains. In both of those matters, the council recommended in favour of declaration, but the Premier allowed the decision to lapse and as a consequence the services were not declared. Both matters have been appealed to the tribunal. In the case of the SCT matter, SCT has negotiated access on satisfactory terms to it, and as a consequence it has withdrawn its appeal. The Minerals Council appeal is still being considered by the tribunal.

You touched on intermodal competition and I think it is worth noting that, in all the rail matters that the council has had before it, intermodal competition has been an important factor, particularly competition between road freight and rail freight. The council recognised that there is significant competition between those modes for particular types of services—an example is less than full container load freight—but it also found that, for some other services, rail had a distinct advantage over road freight, and therefore competition between the modes for those types of services was not very pronounced. As a consequence, the council considered that the recommendation of declaration was appropriate.

Mr WILLIS—In relation to the SCT application—not the one in New South Wales but the one in Western Australia—don't they already run a service across there? How come they need to make this application?

Ms Cope—They run a service, yes. They are arguing that the terms and conditions under which they are negotiating access are not satisfactory.

Mr WILLIS—But they have already got the access. There must be some—

Ms Cope—They are running a train, but they are in the process of renegotiating the terms and conditions for that access, and they are concerned about the terms and conditions. In Western Australia at the moment, they do not have a recourse to arbitration if they are not happy with the terms and conditions they are getting from Westrail, so they are arguing that declaration will allow them to have recourse to arbitration.

Mr WILLIS—So the initial access was achieved without declaration, just by negotiation?

Ms Cope—Yes.

Mr WILLIS—Thank you.

Mr MAREK—Keeping in mind that you were talking before about regimes, operations and those sorts of things, you would be aware that in aviation we have the Bureau of Air Safety Investigation. Do you think we would see a quicker response and a more efficient and more effective setting up of these access

regimes and those sorts of things if we had a Commonwealth statutory body in place like BASI that had control over the lot?

Mr Willett—Certainly, some reform in the area of how standards are set and tested is important. A national body to perform that role would be one way of addressing that problem. We certainly see there is a significant problem there, as Ms Cope referred to. But perhaps that is not the only way. There is an agreement on mutual recognition of certification arrangements for safety standards, but in our view the spirit of that agreement is not being met.

Mr MAREK—With that in mind, from the evidence we have taken over the last day or so, it strikes me as strange that we could say that we have a safe passenger rail system when you have people having to change clothes, different signals—green means go and red means go in other places—and all that sort of stuff. I find that astounding and in some ways quiet frightening, especially when we are about to move into an era of fast trains and those sorts of things. It is staggering. I honestly cannot believe that we are in 1997 and we have this system.

CHAIR—How do you link that back to competition? What is your point?

Mr MAREK—The reason I am asking is that the witnesses were talking before about all the problems they have between the different states.

CHAIR—The jurisdictional stuff?

Mr MAREK—Yes, I was asking their point of view. Just one other question: how would you see the needs of rural and remote areas being served if we had a complete deregulation of the rail industry?

Ms Cope—It is probably not deregulation. We are really talking about reregulation. While you have access regimes, you have significant levels of regulation. That does not preclude the governments from deciding that there are certain services or certain tracks that they want to keep open or keep running, despite the fact that they are not going to cover their costs. New South Wales has moved to a system of funding rail tracks directly to the Rail Access Corporation, and that money goes into making sure that rail lines which are not going to be able to generate enough freight to cover the costs of the lines are kept open. That is one way of making sure that you have got lines where it is considered socially desirable to have lines, and then you get the maximum use of those lines you can by encouraging people to run trains on them.

CHAIR—It is like an internal form of cross-subsidy.

Ms Cope—No, it is explicit budget funding.

CHAIR—I see.

Mr WAKELIN—Given comments about the culture—it is a tough job, it is all new and all of that—do you think the principles for consideration of effective access regimes are suitable for rail?

Mr Willett—They can be in dealing with access matters. I think the negotiate/arbitrate model that is in part IIIA of the Trade Practices Act is a suitable one broadly for rail services. There is a question about how much information needs to be available for people wanting to get access. Some measures need to be incorporated to address that issue, but broadly the negotiate/arbitrate model that is represented in part IIIA and the declaration process and in fact in the New South Wales access regime is appropriate.

The problem is that access cannot address all the issues here. We have just been discussing safety issues, and access struggles to deal with the question of dealing with safety issues as an impediment to trade. But there are some other issues that can only be addressed by a broader reform approach. Those questions go to structural reform in the rail industry, to appropriate investment in rail infrastructure, to addressing all regulatory impediments to trade in rail services. You need to address those specifically.

Mr WAKELIN—Just on part IIIA of the Trade Practices Act, rail has been a particularly significant user of that. Is there anything particular about rail that does use part IIIA?

Ms Cope—We think it is because there is no separate agreement which covers reform in rail services that people have been moving into part IIIA to try to use it as a trigger for reform.

Mr WAKELIN—Mr Willis asked a question on SCT earlier, but can I just ask about it in a broader, more generic way. This business of a competitor being excluded by a non-response: is that the most appropriate way? With the SCT, just by letting it go 60 days, you are back to the appeal mechanism: is that the most appropriate way? It is the only way, but—

Mr Willett—It is the only way at the moment. No, I would not say it is the most appropriate. I do not think that driving rail reform by part IIIA of the Trade Practices Act, broadly, is desirable. If we did not have the national access agreements on electricity and gas, we would see a plethora of part IIIA applications in those industries; we would not have had the pace of reform that we have achieved in those industries if you were just relying on part IIIA. It cannot address all the issues you need to. Similarly in rail, the council has advocated that a national reform agreement is desirable to deal with those issues.

Mr WAKELIN—Could a public operator continue to block a potential private competitor in this matter? We have seen with SCT that they were not successful, but that was a negotiated process. Could a public operator just continue to block?

Mr Willett—It is not the public operator in that case—

Mr WAKELIN—Not in that case, but could a public operator in a general sense just continue to block?

Mr Willett—In a general sense it is much more likely to happen where you have a fully integrated rail operator, such as Queensland Rail. Then I think you have much more pronounced problems in ensuring that there are rules for fair and reasonable access.

Mr WAKELIN—The Trade Practices Act part IIIA does not really allow for CSOs. Therefore, how should CSOs be defined, costed and funded, and what accountability requirements should apply?

Mr Willett—I think Ms Cope has touched on that area. The New South Wales government has adopted an approach of, where necessary, budget funding the provision of CSOs.

Mr WAKELIN—In other words, as the chairman said, the cross-subsidy bit is ruled out and you just go to a specific funding line.

Mr Willett—That's right.

Mr WAKELIN—But have we dealt with—and I apologise if we have been over it—how we define the CSO?

Mr Willett—That is a difficult question. Certainly, we cannot address it in the context of part IIIA. It is probably worth noting that, in talking about the cross-subsidies here, we are taking an economic approach to cross-subsidies rather than an accounting approach. It does not mean that even without specific CSO funding you are not going to get very different prices for rail access. Within a rail access regime you will, and you would expect that, where access to rail infrastructure is little used, prices in those regional areas would be very low. They would just reflect probably incremental costs.

Mr WAKELIN—Further on the CSO, could you give us a clue as to how a CSO may be defined? It has a historical basis in the cross-subsidy, which we have ruled out, and the specific budget line. There are a whole lot of issues around CSOs which might come down. We had one yesterday of a net benefit to the nation. What are some of the guidelines that we might look at?

Ms Cope—There are probably two types of CSOs in rail. One is lines which you want to keep open despite the fact that they will not cover the cost to keep them open. Then there are services on what are probably, on average, profitable lines, but on which you want to continue a particular type of service, such as a small freight service to a rural area.

Mr WAKELIN—What about urban transport, for example? We hear about billion dollar figures for some of the major capital cities.

Ms Cope—I wonder whether that would fall into that split, to what extent it would be a service that you were trying to keep open and to what extent there would be problems with rail.

Mr McARTHUR—They would be urban systems with a cost to the CSO of mammoth proportions.

Ms Cope—As long as you can split out who is responsible for those different components, you have a mechanism for working out whom you fund and how you fund those services. With the urban service, usually the provider of the urban transport service is a separate authority that you can identify and provide funding to to cover that service. You can fund specific providers to provide those freight services that you want to keep operating, and you can fund the group that is responsible for managing the track to ensure that it has sufficient revenue to keep those tracks open.

Mr WAKELIN—In your experience in the work of your council, have you come across much dealing with the urban transport CSO issue?

Ms Cope—No. Most of our applications have been in freight transport. We have had nobody who has expressed much interest in getting access to urban systems.

Mr Willett—Access to urban systems is much more problematic.

Ms Cope—We would need to be convinced that they met the criteria that said access could be provided without compromising health and safety.

Mr WAKELIN—In a different context to freight?

Ms Cope—I think the health and safety issues with an urban system, because of the number of trains running along the system and the quite small gaps between the trains, are significant issues that you would need to address.

CHAIR—Look at the other end of that spectrum, the urban non-profitable area. How do you protect a well run state rail system? For example, in Queensland it is well known that the central Queensland division of the railways is highly profitable—coal, port facilities, grains and all those sorts of things. I am not specifically referring to the Carpentaria transport company, but a company like that could say, ‘This is profitable; we’ll come in here and ask for their rolling stock and locomotives. We have a highly profitable system; we will just skim a bit of this off. We can be a little bit more competitive.’ Obviously Queensland Rail would have a little bit of fat in the budget if, for the last 20 years or more, they have been subsidising the rest of the state with their operations out of central Queensland. Is it fair to ask a state to open itself to an access regime to allow access to other people? Is that really competition when somebody comes in and skims?

Mr Willett—Starting with the Carpentaria application, it is important to recognise that you need the right incentives to ensure investment by the incumbent infrastructure owner.

CHAIR—Yes. Do you demand of people who come to see you seeking access that they demonstrate some depth of commercial experience and some ability in the field, rather than just coming in and saying, ‘We’ll take the rolling stock and locomotives and we’ll have the access to the track. We know where there is going to be a coal mine soon and we’ll benefit’?

Ms Cope—To gain access they need to demonstrate that the service meets the criteria. In the case of Carpentaria we have said that things like the rolling stock do not meet the criteria. It is really just the rail line itself. In practice that means that anybody coming in through an access regime is going to have to have a substantial commitment to the industry to invest in all of the other things that you need to run a rail service. They are going to have to organise terminal space, rolling stock, locomotives, crewing, crew accreditation and safety clearances for themselves. There is a significant investment that would be necessary to get access. We do not, however, require the specific applicant to demonstrate that they have already done that. The reason for that is that access is not really about the specific applicant; access declaration says that a service is open to anybody who wants access.

CHAIR—The two things are linked, aren't they? How do you separate them out like that? Is the fact that you try to separate that out anything to do with the number of your cases that are on appeal? Can't you say, 'That's access and that's the issue'? How do you divorce that from the commercial integrity or the depth of the company who wants to apply for the access.

Ms Cope—By applying for access you do not have, as an individual company, an automatic right to access. Once the service has been declared, you then have to prove that you have all of the accreditation, the standards and the equipment necessary to run a rail service. But that is not specifically part of the declaration process; that is the stage the company needs to go through either before declaration, if it wants to make sure that it can move quickly if a service is declared, or after declaration. It still needs to go through that process. It is just not a process which is hooked into the declaration link. It has not been an issue in the appeals.

CHAIR—What have been the basis of the appeals against your recommendations?

Ms Cope—The rail appeals have been on the part of the applicant. The service has not been declared so the applicants have appealed. It has not been an infrastructure owner that has appealed on the grounds that they do not think that access is viable.

Mr McARTHUR—I would like to raise again the issue of the cost of access. We have had witnesses debating this problem of the price of access from the point of view of both the operator and the owner of the track network. I wonder if you could make a comment. How do you get a competitive arrangement in that scenario? A witness from National Rail yesterday made the point that there was a major bottleneck at Flemington in Sydney, where the freight train could only move from 1 a.m. to 4 a.m. because the urban passenger transit system had always had priority. Where is the competitive arrangement in that scenario?

Mr Willett—There are a couple of points. In determining the appropriate prices for access, discovering the attributed costs for that service is an important regulatory process. Under both the national access regime and the New South Wales access regime the approach that would be taken is that the access seeker and the infrastructure owner would seek to negotiate an appropriate price. As I said earlier, it is important that the access infrastructure owner make available some information on cost so that those negotiations can be conducted on a reasonable basis. Failing satisfactory outcome of those negotiations, arbitration is available by the regulator.

Mr McARTHUR—All this is not very market oriented, is it?

Mr Willett—It is as market oriented as you can get with a natural monopoly infrastructure.

Mr McARTHUR—Is that a major problem? Is it on the valuation of assets or the price the market will bear—that people will pay?

Mr Willett—Both will be factors. If you looked at the National Rail arbitration by IPART on access to New South Wales track you would probably find that both were factors in that. Not only considered were the costs of the service but also the prices that could be sustained in the broader market.

Mr McARTHUR—Where is the competition going to emerge in this whole regime?

Mr Willett—There is already some intermodal competition, as we outlined earlier. The really sharp competition in some of these services will occur when we have train operators competing against each other for delivering similar services, as we have had on the Sydney to Perth freight line.

CHAIR—I am sorry that I have to stop there, even though we are terribly absorbed. It is very interesting to get that feel for where you are at. I thank you for coming this morning. It has been very stimulating and helps the committee clarify those issues. If we have any other questions of you, we will put them to you in writing. I trust that you will reciprocate in writing quickly.

Mr Willett—Yes.

CHAIR—I mentioned Hansard before. If you have any proper names, could you check with Hansard before you go. Finally, we will have a draft of the transcript that we will let you have in the near future. You are familiar with the procedure?

Mr Willett—Certainly.

CHAIR—Thank you, Ms Cope and Mr Willett.

[9.33 a.m.]

ARBLASTER, Ms Margaret, Senior Assistant Commissioner, Transport Branch, Australian Competition and Consumer Commission, Level 35, The Tower, 360 Elizabeth Street, Melbourne, Victoria

SPIER, Mr Hank, General Manager, Australian Competition and Consumer Commission, PO Box 1199, Dickson, Australian Capital Territory

CHAIR—I welcome the ACCC here this morning. As you know, this is an inquiry into the rail network. This morning, our theme has been competition and access. Is there anything in your submission that you wish to alter in any way?

Mr Spier—No. Certainly not.

CHAIR—I reiterate—I am sure that I do not really have to for you—that these proceedings carry the same weight as activities of the House of Representatives. Although you are not asked to take an oath in these proceedings, evidence given before the committee is a serious matter, and false or misleading evidence could be taken as a contempt of the parliament. Could you give us a three-minute overview of your submission. We might then do the rest of the activities by questioning.

Mr Spier—I will be fairly brief. You have already heard from the NCC, and they have outlined some of the issues relevant to both agencies. The ACCC is an independent statutory authority that administers the Trade Practices Act and other legislation, including other access legislation, in areas such as airports and gas. The ACCC does not get involved in the policy role—it does not specify whether there should be access systems or not—but it does administer law in certain ways. Three main issues in terms of Trade Practices Act provisions are of direct relevance. There are the anti-competitive conduct provisions, which prohibit a certain type of anti-competitive conduct across the economy, not just in rail. The most relevant section would be section 46, which is the misuse of market power provision. We have had some complaints in relation to rail. There have been allegations of a misuse of market power. There are issues such as price fixing, exclusive dealing or other issues which may affect rail, although we do not have any current investigations.

The ACCC also looks at mergers. The rail industry is an area where there is privatisation, which is a form of merger. There may be other mergers in the rail industry in the coming months or years. Hence, any privatisation or merger would fall for scrutiny under the Trade Practices Act.

The most relevant issue is part IIIA, over which there were extensive discussions with the NCC. The ACCC has a particular role under part IIIA that is very different from that of the NCC, although it is complementary. The main two roles that the commission has under part IIIA are, firstly, to arbitrate disputes over access once a service has been declared. It is the declaration process where the NCC has been very active in current times, although nothing has actually been declared yet. The second is the assessment of access undertakings for the provision of services by owners and operators of facilities. This is a fast-track access approach, where the facility is not declared but parties can come to the commission with an access undertaking, which then sets the framework for future access. There are certain criteria as to whether the

commission approves such an access undertaking. A point was made earlier that in rail there is not a national overarching access agreement as there is in, for example, gas and electricity. As a result, we get involved a fair bit in possible proposals for access undertakings or various other related issues.

CHAIR—You say in your submission that the Australian rail industry has been generally characterised by poor financial and operating performance. Would you like to expand on that a little?

Ms Arblaster—That was really just a contextual sort of statement. I understand that in recent times some of the freight areas have not performed quite so poorly. Certainly, some areas of rail, such as urban passenger transport, have been unprofitable.

CHAIR—Are you talking more historically rather than in the modern context?

Ms Arblaster—Yes.

CHAIR—You heard the previous witness when we were talking about access and the National Rail Track Authority or, for that matter, just a track authority in a particular state, where some states have chosen to have an integrated system. What is your comment on that? Do you think that a track authority, either at a national level or at a state level, is essential for competition to occur or do you think that can occur within an integrated system?

Ms Arblaster—It is not our role to suggest that systems should be vertically separated or allowed to be vertically integrated. With vertically integrated systems, there is the worry, in competing with a potential entrant downstream, that the operator can discriminate against that entrant and so discourage competition. In a vertically integrated system we would normally expect there to be some safeguards in place so that competition has a greater chance of being successful—things like ring fencing, the monopoly parts from the potentially competitive parts of the organisation and accounting separation arrangements.

Mr Spier—There are two streams in the Trade Practices Act. There is the part IIIA and there is the anti-competitive conduct, which is a very broad code of ethics of corporate behaviour. One of the NCC witnesses talked about re-regulation. Part IIIA is a form of re-regulation. The other way that access can at times be obtained—although it is not all that successful; it is not very interventionist, but it is difficult—is to use the misuse of market power provisions against a vertically integrated operator who says, ‘I’m not going to give you access.’ If that can be shown to be misuse of market power, then they may have to give access. That was not accepted by the government when they were looking at the Hilmer committee as being the preferred approach but it is still there and it is still a policy mechanism which can be used and is being used.

Mr WAKELIN—In your submission—and I am sure it is in historical context too—you refer to the Bureau of Industry Economics and that Australia’s rail freight averaged three times higher than those overseas in 1995. I presume that is a standard unit; it is not something because of our distance. Is it just a factor that you believe, from the evidence of the Bureau of Industry Economics, that our freight rates are three times higher?

Ms Arblaster—I think that was accurate in 1995.

Mr WAKELIN—That is right.

Ms Arblaster—I am not quite sure what the comparative levels are at the moment.

Mr Spier—You are saying that is a proper benchmark, are you?

Mr WAKELIN—Yes. We can check that, but I note that three times is a lot. If we can rely on that, it just highlights the issue that it is fairly significant. I come in our terms of reference to ‘effective and efficient use’. Since part IIIA does not provide specific guidelines for CSOs, do you have a view about the best way to define, cost and fund CSOs?

Ms Arblaster—Looking at an access arrangement, one of the things that we would be looking at is what sort of government directions there are for provision of particular services that would not otherwise be commercial. If there are government directions for service to be provided which would not otherwise be provided under commercial situations, we would be looking at whether or not that service is funded in an efficient and transparent manner.

Mr WAKELIN—No doubt you heard the previous discussion in terms of cross-subsidisation or specific budget line. Do you have a view?

Ms Arblaster—Cross-subsidisation?

Mr WAKELIN—In terms of various models.

Ms Arblaster—It is generally regarded by economists that the best way of tackling CSOs is through direct government funding, although there are sometimes circumstances where other arrangements are put in place because of other costs that arise in a particular situation.

Mr Spier—Where there is an access regime or where there is a declared service—which there is not yet—we will often be setting the access price. Clearly, there we will take into account any government directions on CSOs or any other CSOs that are factored into the system.

Mr WAKELIN—We also discussed the issue of freight versus urban passenger services earlier. Have you had any experience of those issues, particularly the urban transport issue?

Ms Arblaster—No, we have not had any approaches by parties involved in urban passenger—

Mr WAKELIN—You would be acutely aware of the significant budget lines there and whether it is cross-subsidisation or direct budget contribution.

Ms Arblaster—Yes.

Mr WAKELIN—I come to access and utilisation of the rail network. Here I will be guided by you in terms of the difference between the Competition Council and the Competition and Consumer Commission.

Do you believe that private operators obtain reasonable access to rail infrastructure without relying on part IIIA? If so, do private operators really need access to part IIIA?

Ms Arblaster—Private operators are at liberty to negotiate their own access arrangements without going through the formal legal mechanism and I understand that that has occurred.

Mr Spier—I think the answer is, if they can come to commercial arrangements, clearly that is preferable to invoking the legislative regime. That regime is there to some degree to force people to negotiate to come to commercial arrangements rather than go through what is otherwise a fairly cumbersome process.

Also there are two stages. On the one hand, they can come up with an undertaking to us. Again, that is to try to encourage them to do something without going down the declaration route, which is a very cumbersome route.

Mr WAKELIN—I totally agree. In other words, if the market is operating you do not need to. The question was: can they get access without reliance on part IIIA?

Mr Spier—Yes.

Mr WAKELIN—You feel that is functional.

Mr Spier—They can. It clearly will not work every time. Part IIIA is a backstop. Hopefully, they can get access in other ways.

Mr WAKELIN—The question is: are they? In your experience do you have much on the record?

Mr Spier—Some do.

Mr WAKELIN—You feel it is working.

Mr Spier—There is also the point that was made in response to Mr Willis's question. Some of them have access and they argue about terms of access.

CHAIR—Let us take a theoretical case. Take the urban transport system. It is maybe unlikely. Let us say there is a particular route in a particular capital city that is highly profitable and someone wants to come in and seek access to that route. That can create an element of competition on that particular route but in so doing puts the rest of the network into a larger debt. What would your attitude be in that instance?

Ms Arblaster—We would have to assess to what extent there are costs associated with the network operating as a whole and to what extent it is reasonable to attribute some of those to particular lines.

CHAIR—What pricing methodologies would you support for setting the access prices? Do you have a model? Or is it a case by case thing?

Ms Arblaster—It is a case by case approach.

CHAIR—Is there a broad methodology?

Ms Arblaster—There is no one broad methodology but there are principles and objectives that we would like to see put in place.

CHAIR—Briefly, what are some of those?

Ms Arblaster—In terms of the broad objectives, we like to see approaches that promote competition and give incentives for efficiency, including incentives to carry out investment which will lead to a reasonable return for the operator but not allow investment that would be imprudent or not commercially sustainable.

CHAIR—Mr Marek asked a question to the other witness. Perhaps it might have been a bit misunderstood. We had a lot of witnesses yesterday talking about BASI and CASA. As you know, there are 22 different regimes of controls and operations in crossing state borders, capital cities and that sort of thing. A number of witnesses yesterday talked about the need for some safety regulator and by so doing setting standards. Mr Marek might like to elaborate on that.

Mr Spier—We understand the question.

CHAIR—Paul, do you want to make a comment on that?

Mr MAREK—Yes. Being involved in the aviation industry myself, if there is a problem in Perth, Cairns, Brisbane or anywhere, anybody off the street has the ability to write to BASI and say, 'We have a significant problem here. You should look into it.' BASI has a look at it, identifies the problem and orders them to fix it or nothing else happens. It could be a runway arm that has a significant problem or whatever. Shouldn't we be able to have the same things? Wouldn't it also help the industry from state to state if there were a statutory body saying, 'This ought to happen. Because this track has not been maintained for the last 50 years you can only go 15 kilometres on it until it is fixed.' Wouldn't something like that fix it?

Mr Spier—We have not looked at that issue. If something like that facilitates access and facilitates a national market we would clearly see a lot of merit in that. In a corresponding or similar area, this week we have announced a major authorisation in the electricity market where there is now a national grid and there is an over arching agreement amongst all the players on the national grid. There are a lot of competition issues and a lot of pricing issues. Built into that are also safety issues which are agreed by all the parties across the national grid. We now have in this country, for the first time ever, a national electricity grid and it is working well.

Mr MAREK—I look at aviation and planes would not fly in this country—they would be grounded—if what we heard yesterday in relation to the rail industry happened in the aviation industry. The Bureau of Industry Economics estimated that rail freights on average are three times higher than overseas. Yet the government seems to have been running it at an incredible loss for years and years. Can you elaborate on

that?

Ms Arblaster—I think that is a question that should be addressed to the authors of those remarks.

Mr Spier—We can come back to you on that.

Mr WILLIS—I want to ask you about pricing. You say on page 9 that a common problem with all forms of access pricing models is that they do not allow facility owners to break even where they are based on marginal cost. I find that curious that we have systems of access pricing that do not allow facility owners to break even. Therefore, another model has to be developed for rail. My first question is: why do we have access pricing models anywhere that do not allow facility providers to break even? Secondly, why is rail a special case?

Ms Arblaster—I think the point relates to a characteristic of decreasing cost industries in the sense that in industries which are not so concentrated, as infrastructure industries often tend to be, you could price at what is called marginal cost and recover the total cost of operation. Whereas in industries such as rail where there is very high capital costs a marginal cost pricing approach, which is generally regarded as economically efficient, would lead to under recovery of total costs. That is why additional principles are required to recover the total cost of operation. In assessing any access arrangement, we would certainly be looking at the owners' interests, because that is one of the criteria we have to take into account and have to balance between the public interest and consumer interest. So recovery of the total costs of operation is an important consideration and it is not something that would be overlooked.

Mr WILLIS—I had in mind comparisons with telecommunications, where already there is quite a history of access pricing, and this is largely a capital cost. It seems to me it is not dissimilar to rail. In fact, there is probably more capital cost in total in telecommunications than there is in rail. So why is rail a special case?

Ms Arblaster—I do not think rail is a special case in that sense. Perhaps the wording is not as clear as it should be. We are trying to suggest that access pricing approaches in rail, as in other industries where there is decreasing costs, have to take into account the recovery of total cost, particularly where the forward looking demand for those services is buoyant, and we would suggest that there should be an ongoing service provided in the longer term.

Mr WILLIS—A buoyant forward looking demand for rail?

Ms Arblaster—In some areas I think it would be. In areas where there has been overinvestment, issues such as utilisation of the facility become important. Historical costs which have been sunk over time may not be as important in pricing considerations.

Mr Spier—Mr Willis, you made a good point. The commission and, prior to that, Austel, whose role we inherited, has had a lot of experience in access in telecommunications, and now it is electricity and gas. So a lot of the lessons from all those areas will be applied to rail once we actually have a rail access issue before us. We have had a lot of skirmishing and a lot of people coming to talk to us, but no-one has come up

with an access proposal to give us. So we are still learning. There has been some experience of this in New South Wales at the state level, but there has not been much.

CHAIR—By the way, we are not being critical of you; we are trying to flesh out which direction you are heading in.

Mr WAKELIN—I come back to the private operators and access. I presume you are watching with interest the Australian circumstances. Do you know how many private operators have access? Is it three or four, or 10 or a dozen? I know it is not in your direct jurisdiction.

Ms Arblaster—We do not know the precise number, but we certainly are aware that there are a few of them.

Mr Spier—There would be about three or four, but included in those three or four are people who are complaining about their access arrangements. They have access, but it is like the Carpentaria issue, for instance.

Mr WAKELIN—How many would be with you? Do you have one case or two cases with you?

Mr Spier—We have no formal application at the moment at all.

Ms Arblaster—We have had a number of discussions.

Mr WAKELIN—Should the ACCC determinations be subject to the Australian Competition Tribunal?

Mr Spier—They are.

Mr WAKELIN—So people with your decision can go back to the tribunal?

Ms Arblaster—This is on arbitrations.

Mr Spier—It is not on access undertakings but on arbitrations, but there is no prospect of arbitration yet because there is nothing declared.

CHAIR—I would like to hear your general views on what role the ACCC plays in issues arising from access demands for private infrastructure. You might say that there is not a lot of that around, but I understand that there is one starting to shape up in Western Australia for access to one of the mineral lines.

Under the sugar working party's recent deliberations in Queensland, sugar cane growers will not be obliged to stay with the particular mill in their area. So what happens when, in the case of a tram line, for example, which in some areas might be common to two mills, the grower or group of growers want access to that line? So there are those two areas: shifting minerals in Western Australia, for instance, and access to sugar tram lines in the Queensland context. What is your general view? Have you had a look at it yet?

Mr Spier—Yes, we have in a way. Where part IIIA applies—perhaps we will not get into that. The misuse of market power provisions would apply, and the classic cases in the US on misuse of market power have been in relation to private railway lines.

CHAIR—So that will be an area that you will be focusing on in the future?

Mr Spier—We respond to the marketplace. If the marketplace can do its own commercial arrangements, fine. They may come to us in terms of misuse of market power if they cannot come to some commercial arrangement. In our submission we have indicated that Carpentaria have raised issues with us in terms of misuse of market power against QR. If QR were a private railway line, this would be the same issue: we would be looking at it, and at some new private railway lines if there were some, assuming they had the market power—in some cases they have little market power.

CHAIR—I would like to thank you both for coming today. It has been most interesting. I am sure the committee has a greater depth of understanding. You said you would get back to us with some information.

Ms Arblaster—Yes, we will get back to you.

Mr Spier—If there is anything else you would like, we would be happy to provide it.

CHAIR—If we do, we will contact you in writing and trust you will respond in like manner. You are familiar with the system: you will get a copy of the proof in the near future. Once again, thank you very much.

[10.00 a.m.]

BURKHARDT, Mr Edward Arnold, Chairman and Director, Tranz Rail Ltd, Wellington, New Zealand

CRISPIN, Mr David John, Executive Manager, Strategic Issues Group, Tranz Rail Ltd, Wellington, New Zealand

CHAIR—I welcome the representatives of Tranz Rail Ltd to the inquiry. Thank you for your attendance. Thank you, in particular, for making yourselves available because I am sure you have some interesting experiences to share with us. I understand your interest in the Australian industry as well. I have a few things I need to say to you. Do you have any alterations to your submission?

Mr Burkhardt—No.

CHAIR—I advise you that, although you are not under oath, these proceedings carry the same weight as those of the parliament. Giving false or misleading evidence is taken to be a contempt of the parliament. Would you like to explain in what capacity you appear before the committee?

Mr Burkhardt—I am Chairman of Tranz Rail Ltd in New Zealand. I also am an executive of other railways in our investment group worldwide, with Wisconsin Central in the United States being one, and English, Welsh and Scottish railway, which is the largest freight operator in the UK, being another. We also operate in Canada. Most recently we now operate the Tasmanian network through purchasing that property in the first privatisation of Australian National.

Mr Crispin—I am an Executive Manager with Tranz Rail Ltd. I am involved in the privatisation process in Australia with our investment consortium.

CHAIR—Mr Burkhardt, would you like to give us a three-minute overview of your submission? Then we will ask questions.

Mr Burkhardt—Yes, I will. I may ask for leave to go slightly beyond that. I want to compliment your committee for zeroing in on exactly the core of some very interesting subjects that are being debated worldwide as we liberalise and privatise rail networks. I will try to make my comments brief, but there are so many subjects that are appropriate to this investigation that you are making.

I might start off by saying that, of the operations we have worldwide, all of them are vertically integrated, with the exception of the English, Welsh and Scottish railway, which is 90 per cent of the rail freight operation in the UK. It operates with a separation of infrastructure concept and open access, which is common in Europe and in Australia but nowhere else in the world. Those concepts were considered in the Americas, both North and South America, and New Zealand and Japan and other areas, and were rejected. So we have very much a dichotomy of opinion worldwide on this particular subject.

I would like to say that, as a railway man, our competition is primarily with the highway. The highway, in all of the locations that we operate, dominates the freight markets. In Australia, that is

particularly so with what I view as the most subsidised highway transport industry in the world. As an example, charges relating to use of the highways in New Zealand are four times that of Australia. The New Zealanders believe that they are inadequate to reflect the true cost of the use of the highways network by heavy goods vehicles and are further studying that. It does not even touch the issue about a return on capital of the investment in the roading network or the externalities of environmental degradation and safety, as an example, in which the road shows up much worse than rail operations.

We accept open access and the separation of the infrastructure in Australia as a fact—it is enshrined in Australian law—but we do not look at that as a desirable outcome. It is an obstacle to rail operations—another obstacle to be overcome. I would say that the separation of the infrastructure and the concept of open access do not have to go together. There are many locations—for example, in the United States—where the infrastructure will be owned by a specific railway but has been opened to the operation of another railway to meet a particular competitive situation, as ordered by competition authorities. That has the benefit of at least keeping the control of the infrastructure within the hands of users. Of course, it has to be available to the second carrier under conditions of equality and fair treatment.

The problem that I have with an orientation that would perhaps result in an artificial stimulus of competition on the rails is that it flies in the face of railway economics and the economies of scale, which are very important in our industry. The operator that will have a low unit cost is a large-scale operator. You can Balkanise the freight operation and have a number of small operators, all of whom would be competitive between themselves but would have relatively high unit costs because none of them would be achieving the volumes that result in low unit costs. So they would have difficulty in competing with the highway.

When I hear concepts of even throwing in the private ownership of wagons and locomotives in response to what is seen as some type of monopolistic action on the part of a rail operator, where those locomotives or wagons could be made available to another operator, my blood runs cold because that flies right in the face of everything that free enterprise business principles speak toward. I guess some days I would like to be able to use Tolls trucks, but I figure they are their trucks, not our trucks, and we accept them as such. Again, that comes under the heading of my reservations about what I would see as some kind of unnatural promotion of competition on the rails beyond what the competitive marketplaces would produce on their own.

You will maximise utilisation of the rail network—which is part of the terms of reference of this committee—by minimising artificial access promotion to the network because you will wind up with a more competitive rail network that can compete effectively against the highway. I will give you an example of that. In the UK, separation of the infrastructure and open access occurred before the privatisation of rail in a similar model to what is happening here. However, there was a relatively short period between the two occurrences. During that time, National Power, which was the largest customer in the UK—it is a large power company moving 20 or 30 million tonnes of coal per year—could not get along with the state owned railway that had a regime of excessive freight rates and poor services. They set up their own open access operation as the only answer they could derive from the situation that they faced.

After the freight operations were privatised, our affiliate, EWS, approached National Power and said, 'Let's talk about how we can provide an overall service to you and get the best economics out of this

system.’ That has now resulted in an agreement—which has not been implemented, but will be within the next few months—for EWS to purchase National Power’s open access operation and provide a regime of lower pricing and more flexibility, which a large network operator can do as opposed to an operator that is focused only on certain particular flows. This is the market talking. If there were obstacles to doing those kinds of deals there would obviously be a price to be paid by the freight user, the customer and the railway involved.

In looking at international best practice, I agree with comments that have been made here that freight charges are too high in this country. Free enterprises in competition with the highway will bring those charges down—they have to bring them down. For example, we are assessing the Tasmanian market right now. We have an internal objective to double the movement of freight in Tasmania within a five-year period. We believe we can do that. As a matter of fact, I think we can exceed that. It is going to be done largely by pricing: by reducing prices and increasing services and doing all those kinds of things any free enterprise company has to do to effectively service customers. It is as simple as that. As I say, it is not rocket science. Some Australian railways, particularly the mining railways in Western Australia, are international best practice at what they do. They set the standard worldwide as mining operations. I think we can bring the same kind of thing to the balance of Australia. That has to be our objective.

I am concerned that some of the impressions that are held in the Australian markets are not reflective of today’s situation and, in fact, reflect a situation that prevailed before privatisation started and before the network was opened up. I do not believe that competition on rail should be a major issue. In talking to customers, freight customers, I find that they are interested not in competition on rail but in a fair package of pricing and service. They immediately understand when I bring up the subject of the economies of scale and the fact that operators cannot go out and cherry pick this business and serve the entire market without weakening the ability of the carrier that is trying to serve the entire market to do so.

I close my comments by saying that the competition is with the road. I ask you, as political people who are setting the rules here, to not put up artificial obstacles to rail’s success. We solved our competition problem in the US, where there was excessive competition between rail carriers, the hard way by a series of bankruptcies. Today there are very few rail customers in the US except in some very specific, extremely high volume situations that have the services of more than one carrier, yet all of them are very subject to competition from trucks competing across the board with about everything that they do. These are the most successful railways in the world today in serving the general freight market. Certainly this country deserves nothing less than that. I think it can be repeated here, but I am concerned with some of the direction that I see may result in uneconomic outcomes.

CHAIR—Thank you for those comments. They were very frank and to the point and we appreciate that.

Mr Burkhardt—Thank you.

CHAIR—There are two things that we are very interested in and you have touched on one—Tasmania. We would like to know what your experience has been in New Zealand: how you have been able

to compete with the road carriers, whether there is any inter-modal cooperation there and what efficiencies you have been able to bring to the New Zealand system. We are also interested to know what other plans you might have for Tasmania. Are you interested in operating on the mainland, as well? Perhaps you might touch on those issues.

Mr Burkhardt—New Zealand, in the four years since privatisation took place, has seen an increase in freight tonne miles of about 50 per cent, and we are offering more competitive services across the board than the state owned company was previously. In addition to that, we have made large investments, which we find is a problem in state owned enterprise everywhere where the investment in a particular business gets involved in overall governmental budgetary considerations, all of which are tight, worldwide, today. We saw the network in New Zealand as being starved of investment funds and the private market will correct that. We work closely with a number of truckers in New Zealand. We handle their business. Sometimes we are handling their business and competing with them at the same time. This is simply addressing markets and our customers understand that.

We are going to take the same type of approach in Tasmania. This is not an easy rail market. It is light density. It is not a heavily industrialised state, but we think there is plenty of business there that we can lay our hands on the hard way—by being better than our competition and getting it.

CHAIR—Is the track still in reasonable condition in Tasmania?

Mr Burkhardt—Yes, it is. Yet we have plans to invest heavily in that track to increase train speeds which will make a more competitive product for the customer.

CHAIR—You might open the Launceston to Hobart passenger service?

Mr Burkhardt—People in Tasmania keep talking about that, but I think that is something that—

CHAIR—Further down the track?

Mr Burkhardt—Further down the line, yes. We are interested in further privatisations as they occur on the mainland. I am not sure what direction that will ultimately take, but Victoria will probably come first, and now we are looking at that.

Mr Crispin—I would like to add one point there. In New Zealand and the United States and Britain, this is very simple business. All it is about is serving a customer, focusing on a customer. At the end of the day, you do that through a reliable service and getting the pricing right. If you look across all our properties, prices have come down. In Tasmania the prices have already come down and they have further to go.

How are you able to get your prices down? You have to have an efficient cost base. That is where I think this committee in particular should be focusing its attention, if I can be so bold. How do you ensure there is an efficient cost base, because, if rail is efficient, then that is contributing to the economy? That comes back to getting a level playing field in terms of pricing relative to other modes—roads, shipping, rail—and it comes back to a regulatory environment where you can allow a rail company to be an efficient

operator, which comes back to size and scale and removing impediments.

The whole focus on access, competition on rail and all those things seems to me to be a little bit cart before the horse. The first question you have to ask yourself is how you have an efficient transport system. Then you work your way back. I have heard parallels drawn between the gas industry, the electricity industry and rail. They are very different industries. In the power industry you have an infrastructure where you transport power—that is a common user, if you like—but you have a commodity that comes out the other end. With the rail industry, you operate a train that actually deteriorates that infrastructure as you go. How you operate it affects the infrastructure, and there is a far closer relationship between operations and infrastructure than you see in the power, electricity and telecommunications industry. I am not sure if the economists, when they talk about the parallels, really understand the business.

Mr Burkhardt—I think they are generally doing us a disservice in making those comparisons, because they are quite different. But they are network businesses, so those are the types of comparisons they will use. But you can get electronic transmissions over a network past each other where you cannot get two trains on the same track past each other without a siding, and things of that nature. So there is a mechanical difference here.

Mr WAKELIN—I would like to take up the issue of road and rail. You made the point that your greatest competitors are out there on the road. I take your very valuable point about the subtle differences which people who are railway men understand better than we can—those very clear differences between those other things like power, gas et cetera. Therefore, I would like to start on that rate—I think you touched on it in New Zealand—of charging compared to Australia. Did you say six times? Can you help me?

Mr Crispin—I think it is four.

Mr Burkhardt—It is four times, but the latest theory is that they are about 50 per cent too low, so I think that is where I got my figures from.

Mr WAKELIN—That is fine. I wanted to try to start at that point.

Mr Burkhardt—They have a GTK charge for use of the highway. It applies on heavy goods vehicles in New Zealand.

Mr WAKELIN—Yes.

Mr Crispin—But, if you compare the actual rates paid in Australia as against the actual rates in New Zealand now, it is four times, and it is acknowledged by the government that the rates in New Zealand are not high enough.

Mr WAKELIN—Moving on from that, can we talk quickly about the differences between New Zealand and Australia, the different scale and terrain. What is different about New Zealand and Australia—why these rates? What is the main difference?

Mr Burkhardt—In terms of transport I do not think that they are different. Obviously, we have

longer distances in Australia, but the highway network here and in both countries is good, and there is no impediment to the use of trucks in either place. We do not make an argument against trucking that is designed to limit their effectiveness or economics. What we are simply saying is that they should pay their way. This country should have whatever size or weight of trucks it wants to maximise the efficiency of that mode of transport, but it should not then undercharge trucks for use of highways that cost a lot of money to own and maintain.

Mr WAKELIN—I am particularly interested because—and I take your point—people in Australia would say, ‘We have a highly efficient road industry, et cetera—

Mr Burkhardt—It is. It is one of the most efficient in the world.

Mr WAKELIN—But it does not alter the fact of the relativity between road and rail, based on New Zealand’s figure—or maybe you could offer other international figures about the real recovery costs—and, therefore, the impact on rail and the ability of rail to maximise its opportunity in the national task. That is what I am sure we are here about, and that is why I am particularly interested.

Mr Burkhardt—You are asking that rail pay its way, which is a very valid requirement.

Mr WAKELIN—Therefore, you are asking that road pay its way too.

Mr Burkhardt—That is right, exactly.

Mr WAKELIN—There are a whole lot of reasons why people would be pretty reluctant to quadruple the costs to the trucking industry on cost recovery. Do you have a thought on that?

Mr Burkhardt—I do not think it is a thing you would do in a day.

Mr Crispin—The fact of the matter is that in New Zealand we were lucky, in that the government went through a reform process where they put those planks in place before the company was privatised. If you do that, you then have a private operator operating on a comparatively level field, and that whole issue of CSOs I heard you talking about disappears. All those things disappear. The problem we have in Australia is that the privatisation is happening before the rebalancing, and I think the rebalancing has got to happen over time, from an economic efficiency point of view.

Mr WAKELIN—In the early days in Tasmania I suppose there were some CSO requirements?

Mr Burkhardt—No. The way they are being handled in New Zealand and the United States is basically through making contracts for the provision of specific services. I think governments should always have the right to subsidise something that they want to, that they find socially necessary. In New Zealand we run commuter services in Wellington and Auckland both of which are contracted for at fixed annual prices by the regional councils, with some money from the central government going in as part of that funding. In the

United States, for example, Wisconsin Central has the commuter authority in Chicago operating on its line under a contract under which they pay to use that facility. It might not be all that different from the way you structure your CSOs, but it is very focused.

Mr WAKELIN—This is my last point: I presume that you would therefore hope in that process that you have got the best delivery of a rail service, with your bottom line squeezed down to the best impact of a private enterprise rail service, whereas when we get into some of the processes we have had over time here in Australia, the last decade or two, we tend to get into all these hidden things, and we are still going to in this process. No-one really understands in many cases what a lot of these prices are, particularly with our state authorities. I guess you would agree with that.

Mr Burkhardt—I agree with what you just said.

CHAIR—As you are fairly new in appearing before us, I should introduce the members of the committee. Mr Tanner is the member for Melbourne and the shadow minister.

Mr Burkhardt—I have already met Mr Tanner.

CHAIR—Mr Willis is also from Victoria and is a former Treasurer of Australia. Mr McArthur is a former deputy chairman of this committee and hold a number of responsible positions in this parliament. He comes from a semi-rural area of southern Victoria. Mr Wakelin has one of the biggest rural seats in Australia and comes from South Australia. Mr Marek comes from another large central Queensland seat, Capricornia, based on Rockhampton, and I come from Bundaberg, where they make the rum. That gives you a bit of a feel for the people you are dealing with.

Mr Burkhardt—You have a good regional diversity here.

Mr WILLIS—I have a few questions. Firstly, are you owned 100 per cent by Wisconsin Central?

Mr Burkhardt—No, Wisconsin Central has generally come in with consortium partners, who are primarily financial institutions. In our Australian operation, Tranz Rail itself is a partner of Wisconsin Central, and then we have two financial institutions as well.

Mr WILLIS—Are the financial institutions involved with Wisconsin Central in Tranz Rail American or Australian?

Mr Burkhardt—One is American and one is from New Zealand.

Mr WILLIS—In your submission you have got some figures on the restructuring of rail since 1983. They are fairly spectacular changes: 79 per cent decline in the number of employees, for instance, and a 515 per cent increase in the productivity of employees. But the privatisation took place 10 years after 1983. How much of this improvement occurred post-privatisation?

Mr Burkhardt—I think we started with around 6,000 employees and now have about 4,500 or 4,600.

The interesting thing is that, now that has turned around, in the future I think we will have—and this is Wisconsin Central's own experience—more employees every year, because our business has steadily gone up. We are now beyond the continual cost cutting and restructuring mode and are concentrating on growth, which is providing employment opportunities rather than a continual decline of real jobs.

Mr WILLIS—There must have been a fairly substantial restructuring prior to privatisation if the number of employees was down to 6,000. There must have been a lot of labour shedding going on for the previous decade.

Mr Burkhardt—We had something which was nothing less than a scandal. There were stories of employees on the payroll who never showed up at work and hiring a number of employees in critical parliamentary districts right before the election, and things of that nature.

CHAIR—It would not happen in Australia, would it?

Mr Burkhardt—I certainly would hope not. Maybe in the United States.

Mr TANNER—Only councils do it here.

Mr WILLIS—Is there an open access rail regime in New Zealand? Can somebody else get on your track?

Mr Burkhardt—Only under a rather stretched out interpretation of competition law. For example, if we were to be absolutely adamant in some kind of monopolistic practice and not serving the market, I think under New Zealand competition law that could be ordered.

Mr WILLIS—It is just the general competition law that is prevailing; there is no government attempt to—

Mr Crispin—Under the equivalent of the Trade Practices Act, we have got the Commerce Act, and under the Commerce Act there are the same provisions around monopoly position and the abuse of a monopoly position so that someone could not gain access. But, interestingly, when that issue is looked at it is looked at from a transport perspective, not a rail perspective.

Mr WILLIS—But there is no particular attempt by the government to institute an open access regime on the rail?

Mr Crispin—No.

Mr Burkhardt—We would not be serving the market if we gave rise to political authorities actually thinking that way. It would be an indictment of us as managers in marketing our services because people that are satisfied and are being served well will not instigate such action.

Mr WILLIS—How significant was the road pricing reform and user charging reform? You say it is

four times the Australian level of charging now. What was it prior to the road pricing reform in New Zealand?

Mr Crispin—It was significant change, and it was more than just change in pricing. At the time all those changes went through, there was a 150-kilometre limit on trucks, for example, so rail had a monopoly beyond 150 kilometres. The whole system was completely screwed up, and there was a raft of packages. So it was not just road pricing that was changed; there were a whole pile of competition issues that changed at the same time. I suppose the New Zealand government was lucky in that they suddenly opened up competition road against rail, but at the same time they put in a level playing field, or pretty close to a level playing field.

Mr WILLIS—What do you think has been more important in driving the improved outcomes for rail in New Zealand—privatisation or the road user charging reform?

Mr Crispin—I think it is a combination of both. You cannot do one without the other. What I would stress is that prices in New Zealand to the shipper, which at the end of the day is the key thing, have come down significantly in an environment where you have only one operator without an access regime—and the whole concept that economists keep pushing in this industry you have to be careful about. If you have someone focused on serving a customer and the prices are coming down, at the end of the day that is a good outcome. That is what you call economic efficiency.

Mr Burkhardt—Overall, rail pricing in New Zealand has come down around 30 per cent in the last four years. I think most of the gains have come since privatisation. I do not run down the efforts of management of the state owned enterprises in the years prior to privatisation. They did a good job, but they never made it quite as sharp and as strong a competitor and never had the access to capital that they do as a private company today.

Mr WILLIS—Finally, just on this point about whether one has competition on rail or not, Mr Burkhardt, you were talking about the bulkinisation of rail and referred, in a somewhat derogatory sense, to competition in the rail system. In Australia, despite the road competition, once there was competition open against National Rail for the Melbourne-Perth run, the price fell by some 40 per cent we were told yesterday. So whilst I accept your point that intermodal competition is very important in determining what happens in transport costs it is also a case that one can get some considerable improvement, it would appear, in pricing if you open competition in the rail system itself. Do you dispute that? You seem to be disputing that from what you said to us earlier?

Mr Burkhardt—I think that was possible only in that the competition was with a state owned enterprise. Whilst it has improved from what it once was, or what its predecessors once were, we are still not competitive and we are not properly serving the market. We have talked to a number of customers of National Rail Corp., who are running their own trains. They do not want to run their own trains, at the end of the day. All they want is good competitive service out of a competent operator that they can rely on. I think we can provide that if we get into that particular business.

Mr McARTHUR—You raised the very interesting debate of the road user charge during peak hour

traffic. You also drew comparisons with Singapore and that, with new technology, there is an extra cost of congestion, especially on urban roads during peak hour. Would you just expand on that? Could you also add to your comments about the US railway system—that it was the bigger railways that had economies of scale that were able to provide the service, and you mentioned bankruptcy? Could you just expand on the lessons learned in the US rail system over the last 30 years as the smaller ones went bad, went bankrupt and went out of business? There must have been a dramatic change in the way in which the whole system operated. Could you just tell the committee some of your experiences on that?

Mr Burkhardt—On the issue about demand pricing on the road structure, whilst I believe most of the maintenance costs of the highway network are related to trucks rather than passenger cars, which are very light and do not do much to the road, the breadth of the roadway—the size of it, the number of lanes—particularly in urban areas, is directly related to passenger car volume primarily and that is why there is interest in time of day pricing. There is the technology now that will accommodate that through transponders that can be attached to cars and can actually run a charge account to somebody where they get a bill once a month for driving their car into a central city area or something of that nature. So those possibilities are just being talked about world wide. I think Singapore may have implemented something there, but I am not sure.

CHAIR—They have, yes.

Mr Burkhardt—I am not sure of any other place that has done it, but there is a lot of talk about it.

Mr McARTHUR—How does that affect your railway? You were saying that that pricing would give a more realistic assessment of the road network compared to rail. Is that your point?

Mr Crispin—Auckland is a good example. At the moment, the Auckland regional government is looking to try to expand the rail system because the roads are clogged—the major externalities for people trying to get through the city. What they are saying is that if we could get the correct costs onto cars using that network—that is, we are going to have to build new roads—then in the marketplace the driver is going to be faced with, instead of a free commodity, having to pay something to get in their car. We will then be able to price a rail service at a price where we can operate commercially rather than having a great big CSO, because the true costs of the motorist would be reflected.

That is the way it works—rather than subsidise something we put the true costs back on to the private motorists and we can then charge a price to operate a commercial rail system and the need for government funding, in the form of a CSO, disappears. That is what we are working towards in Auckland with the local government trying to work that through central government.

Mr McARTHUR—The US system?

Mr Burkhardt—Once the US rail network had hundreds of medium sized railways, or strong competition. I spent much of my career with one of the mid-western railways that had three competitors. We were largely a range of networks serving the agricultural mid-west and we had three competitors. If there is not the level of business—and I am talking about periods now in the 1970s and 1980s—that there once was, because of growth of the highway network and external competition, those three railways beggared each other

and eventually there were two bankruptcies and one was left. This is the way a market adjusts to the fact there was a level of competition there that exceeded the economies of scale that competition between them permits. These are situations that economists rarely address.

When we went into the UK, we found a totally unrealistic view of competition on rail and that the governmental authorities of the day envisioned three so-called train load freight companies that were all going to be able to operate nationally on the rail track network, and would all be in competition with each other. They kept talking about markets and competition—we understand that; they were saying the right things. But, at the end of the day, when they came to sell those companies, nobody showed up. We came in and said, ‘We will make you an offer to buy all three of them at once, but we are not interested otherwise,’ because we looked at it as poor business—something that would not be supportable and would result in having to go through that US experience. Yes, if they sold three, eventually there would be one. But it would get there the bloody way, the difficult way, and do a lot of damage in the meantime, particularly to employees and people that get hurt through those types of processes.

The government, ultimately, needing a buyer for the train load freight operations, agreed that we could bid for them as a unit, which we did. We had a couple of management groups which were our competition and they were allowed to bid on that basis as well. But as a trade buyer we were successful, and today we have a company with a six per cent market share in the UK but with 90 per cent of rail freight. People will call us a monopoly there. I do not think, in any way, with our marketing people out battling against the highway everyday to move a wagonload of freight, we are any kind of monopoly. We hope to triple our business there over a 10-year period, which would get us up to an 18 per cent market share, which is about the level we do in the US and in New Zealand—another relevant market. We think that the market should always be looked at as freight in total, rather than simply looking at a modal percentage.

CHAIR—Instead of rail and rail; road and rail.

Mr Burkhardt—That is right.

CHAIR—And sea.

Mr Burkhardt—And sea. It is where the real competition takes place.

Mr McARTHUR—So you would just be cautioning the attitudes that have been developed in Australia, that access by a whole lot of smaller operators might, in the long run, not work out?

Mr Burkhardt—Yes, especially if it is artificially produced through some type of incentives or something for operators to come in where they would not be paying the full costs for running the risks of investing in wagons, locomotives and facilities.

Mr McARTHUR—Thank you.

Mr TANNER—I have several questions. The first, just on that point: surely you have to look at competition both within and between modes because the modes are not universally overlapping in terms of

their potential for particular freight tasks? So, clearly, you are not going to carry small parcels by ship from Brisbane to Melbourne and, equally, you are not going to have light commercial vehicles carting iron ore from the Pilbara to Newcastle or wherever. So that is the first question: isn't it really the case that you have to actually look at the degree of competition and efficiency, both within an individual mode and across modes?

Mr Burkhardt—Yes, but you find that there is a relatively small percentage of business that you would feel was so modally oriented—you referred to parcels as an example, which is quite specific to the trucking industry. But it is a pretty small percentage of the large percentage as across-the-board competition between modes. I would frankly allow a mode that was strong in one particular market to have the benefit of that, which makes them stronger in being able to serve the overall markets. Certainly, one truck operator that is based in a particular region will be stronger there because of their local orientation than somebody that comes in from outside, but I think they should be permitted those differences.

Mr TANNER—My second question is: how many employees does Tasrail now have and what have been, in net total terms, the changes in their terms and conditions of employment as a result of the introduction of Australian workplace agreements?

Mr Burkhardt—Okay, there are approximately 170 employees, which is only microscopically different from the number of people that were there before.

CHAIR—Twelve.

Mr Burkhardt—A difference of twelve. We intend to phase in certain productivity improvements over a period of time that will reduce that number, but we feel at the same time that business will be going up, which will, in effect, push employment in the other direction. So my personal view is that we will not drop significantly below 170, but we will be repositioning them into productive services over time.

Mr Crispin—There are also an additional 20 full-time equivalents, over and above those numbers, for the significant capital program that we are proposing. There are different ways we can handle that.

Mr Burkhardt—The employees are working to better terms than they have historically. In terms of pay rates and other issues, they are part of the changed terms and conditions that they 'gave up'—but I do not think that really expresses it right. As they are working more productively, any obstacles to productivity were eliminated and in response to that they are making more money and they have generally better conditions, which I think they recognise.

Mr TANNER—You mentioned the track in Tasmania: your view was that it was okay but needed to be a bit better. Having heard some horror stories about it, I am interested to hear your view. I hope yours is the more accurate view.

Mr Burkhardt—We are practical railway people. It is a solid track structure that can operate today. We would like to run at higher speeds, which means we would like to upgrade, and we are actually looking at a very substantial capital program—

Mr TANNER—That is essentially what I am asking.

Mr Burkhardt—to raise speeds there.

Mr TANNER—I think part of the arrangement for the sale was a notional \$5 million contribution by the government, so I presume you are effectively signed up to that. Do you have an assessment above and beyond that? For example, how much would you be intending to invest in upgrading the track?

Mr Crispin—Just on that \$5 million: there are a whole pile of competing projects for that. By no stretch of the imagination would we get anything like \$5 million. That is the first fallacy that has been bandied around.

Mr TANNER—When you say ‘competing projects’—

Mr Crispin—For example, there are different tourism projects that the Tasmanian government is promoting that have nothing to do with our network.

CHAIR—What, rail?

Mr Crispin—Yes.

CHAIR—What about the other line? What is the other one, the private line?

Mr Crispin—Emu Bay.

CHAIR—Are they getting a share of that as well?

Mr Crispin—They can put up proposals for that as well, and I imagine they will. So the \$5 million is not coming to us. We would hope to get a fair share of that because we think there are some benefits there.

Mr Burkhardt—With the overall capital program, right now we are in the middle of preparing long-term capital and operating budgets; and within the last few days I have seen the figure of \$30 million for the track work there which would be over quite a period of time.

Mr Crispin—Forty million dollars over the next four years will be the minimum, and that compares with a total capital spend of something like \$500,000 over the last two years.

Mr Burkhardt—We have a lot of money to spend there on wagons and locos, which we will. One thing I can assure you of is that we will have no growth in business, unless we do something about wagons and locos. They are our stock in trade. Track comes next. We have to run faster schedules there than we have.

CHAIR—Your evidence has been very stimulating. Thank you for coming. These are only the first two days of hearing. It is conceivable that we might want to come back to you, either to have you visit the

committee again or at least respond to some written questions. If we do write to you, we trust that you will reciprocate in writing.

Mr Burkhardt—Yes, we would be responsive to that.

CHAIR—I do not know whether we are going to Tasmania. But if we do, obviously, as part of that visit, we would like to see your operations. Finally, if you are not familiar with procedure, these proceedings are being taken down by our parliamentary reporters from Hansard. You will get a draft transcript of your evidence, which we would like you to check and return to us.

Mr Burkhardt—Thank you. I have one further comment about Tasmania. The employee group there has been absolutely terrific. I think we have found what our greatest asset is—some excellent professional railway people who are sharing the vision of a stronger, more competitive railway. That is nice to find. Thank you.

[10.54 a.m.]

BUDD, Mr Alfred Hamilton Dale, Director, Public Affairs, Speedrail Group, Level 8, 12 Help Street, Chatswood, New South Wales 2067

MORRIS, Mr Robert Francis, Investment Manager, Speedrail Group, Level 8, 12 Help Street, Chatswood, New South Wales 2067

CHAIR—Welcome. There are just a few housekeeping points I would mention. If you use any proper names or quotations, you might defer to Hansard before you leave so that we get the record accurate. I would like to stress that these committee meetings, although you are not under oath, do warrant the same respect as proceedings of the House. Any false or misleading evidence is a serious matter and will be regarded as a contempt of the parliament. Having said that, are there any alterations or additions you want to make to your submission before we start?

Mr Budd—No, Mr Chairman, other than to say that, as a result of the current stage of the process, which I will refer to in my opening statement, we are intensively reviewing all aspects of our proposal, and there may be some minor adjustments.

CHAIR—We could accept that in the form of a supplementary submission. Mr Budd, if you are leading, would you like to make a three-minute overview statement before we commence with questions?

Mr Budd—Yes. Thank you for the opportunity of addressing the committee. Since we lodged our submission early in October there has been a significant development in relation to the Sydney-Canberra very high speed train project. The Prime Minister, the New South Wales Premier and the ACT Chief Minister jointly announced on 10 October that the second stage of the competitive process would proceed and the documentation for this stage was made available on 20 October. Proponents are required to present detailed submissions by 15 March 1998 and the Commonwealth, New South Wales and ACT governments have indicated their intention to decide on a preferred proponent or proponents by the middle of June 1998.

I would like to draw the attention of the committee to the size of the Sydney-Canberra high speed rail project. It is the largest rail investment project under consideration in Australia today and large in absolute terms. With a total project cost in excess of \$2 billion, it is more than twice as large as the Alice Springs to Darwin railway. It is about a third larger than the Melbourne City Link project. It is equivalent to four eastern distributors in Sydney. It is six times as large as the Olympic stadium at Homebush Bay.

This is a very large investment project which will have commensurate economic benefits. The benefits include very substantial job creation. We estimate that the project will generate about 15,000 jobs directly during its three-year construction period, spread throughout the regions along the corridor, and many more jobs indirectly.

The Speedrail project will bring world's best practice in passenger rail service to Australia. High speed rail is a success story for the rail mode internationally. As indicated in our submission, TGV trains are currently running at 300 kilometres per hour in routine service in France, Belgium and Spain and on conventional track at lower speeds into a number of other countries, including through the channel tunnel to Britain.

High speed rail lines with similar technologies, involving wheel on rail trains running on dedicated rights of way, are also operating in Germany, Italy and Japan. Extensions and new lines are under construction in all of these countries and in Korea. Further high speed lines using TGV technology are planned for Florida and Taiwan and are being studied for Canada.

Next Sunday, 14 December, a substantial section of high speed line will be opened in Belgium from near the French border to Brussels. From Sunday, TGV trains will run between London and Brussels in less than 2¾ hours—more than half an hour faster than at present. This will enhance their competitiveness with air services on this route. Already TGV trains running between London and Paris via the channel tunnel carry more passengers between those two cities than travel by air.

This project represents the opportunity for this mode of transport to be introduced to Australia. We look forward to your questions. I am sure members of the committee will appreciate that the current competition places restraints on us in providing commercially sensitive information in relation to our bid.

CHAIR—We have asked this question of all the witnesses. It is an overview question. It may not apply to you in the same way as it has to some of the other witnesses, but we would be interested to hear your view. What do you see as the role of the Commonwealth in the national rail network?

Mr Budd—I think that question has less relevance to us than it might have to other rail operators or witnesses. We are proposing clearly investment in a privately owned piece of rail infrastructure. Obviously, we want to run a service on that piece of infrastructure. There is an important role for the Commonwealth and for the other governments in facilitating this project, but I think—

CHAIR—What do you mean there? The corridor?

Mr Budd—Yes. The Commonwealth has indicated that it will use its powers, if required, of compulsory acquisition to acquire the strip of land for this railway line, which is necessary from the edge of Sydney to Canberra. That is very welcome, but that is different from the Commonwealth's role in relation to the existing rail network. I do not know that we would seek to venture an opinion on what should be the Commonwealth's role in relation to the broader rail network around Australia.

Mr Morris—There are two other major aspects where the Commonwealth inevitably gets involved. One is the investment climate like things such as the infrastructure development fund type of arrangements that apply to this sort of project, as well as many others. So there is that macro-climate. Then of course there is the current topic of access regimes and competition on new lines, be they government owned or privately owned or whichever way it goes. They are clearly very sharp point questions.

CHAIR—Are you seeking as part of your charter a dedicated period in which you would be the sole operator?

Mr Morris—We would really like to step back from that question at the moment. There are many options on which we could run that. Clearly we would be making a major investment and we have to get people to put investment in and feel secure about that. On the other hand, there is a stated objective of open

access which we would be looking to accommodate. So we would really like to reserve on that. We are hard at work on that very question, like you.

CHAIR—You have made a comment on the environment in your submission that Speedrail will contribute to lower carbon dioxide emissions. Would you like to elaborate on that? Are you just saying that it is not a steam train or diesel train or what?

Mr Budd—It is. High speed rail, such as the TGV, is an efficient user of energy, more efficient than carrying people by cars or by aircraft. I think the figure we used in our submission is less than half as much energy per passenger as cars or aircraft, and less than half is conservative. We are an electrically powered system so we rely on power generation of power stations. If we use less energy, then, in effect, we will be contributing to lower carbon dioxide emissions. I do not have a detailed figure, but I think that the energy efficiency of high speed rail has been well documented.

CHAIR—Indeed the number of vehicles you take off the road between here and Sydney as well.

Mr Budd—Yes, there is a benefit there too.

CHAIR—Another thing you mentioned in your submission was that you found the government approval process slow and lengthy. Could you elaborate on that? Do you really find that an impediment to private sector investment?

Mr Budd—Hopefully that period is now behind us.

CHAIR—But you did experience it.

Mr Budd—It is a matter of fact that this proposal was first publicly launched in August 1993. Here we are, more than four years later, at the beginning of a competitive process. It has taken a very long while to get to that point. As a result, the opportunity to have this system running in time for the Olympic Games, which would have been possible if things had moved more quickly, has been well and truly lost. As I say, I hope that these delays are now behind us and we have a more clear process in front. I would hope that lessons are learnt that, when such a proposal comes forward again—obviously the complexities relate to the fact that we are crossing state and territory borders and a number of governments are involved—governments can perhaps reflect on the delays that have happened so, if and when such a proposal comes forward again, it can be dealt with much more quickly.

There may well be proposals. I do not know whether they have made a submission to you, but there is talk of a Melbourne to Darwin inland freight rail proposal. If that is to advance, it will require the attention of a number of governments. They would be liable, I fear, to the same extent of delay as we experienced. I just hope that governments look at what has happened and define some procedures which would avoid those delays in the future.

Mr Morris—As far as this project is concerned, we are clearly now on a designated path where there has been a registration of interest and now there is a call for detailed proposals to a timetable closing on 19 March. It is essentially locked into a process of tried and true evaluation of proposals. You need to address the complexity of ‘three-government involvement’, which is something new, but at least we are into a straightforward path at this point. It is quite different to the developmental phase.

Mr WILLIS—To what extent does the economics of this project depend on some forecast about airfares? It seems to me that when the very fast train was around last time it was blown out of the water mainly by the deregulation of the aviation industry and the drop of about 20 per cent to 25 per cent in airfares almost instantaneously. Presumably your proposal depends on some projections about the future of aviation prices. I do not want to ask you to spell out the detail of all of that stuff that is competitively difficult, but it must make some expectation about the future of aviation and aviation prices.

Mr Morris—We have to make some estimation about the whole transport regime and its costs. Primarily, a proposal like this hinges on your performance relative to others. That is where our patronage forecast will come from. Whether we have the confidence to deliver a travel time that is perceived as superior to an air trip and very much superior to that of a car so that people then have the decision process as to whether they take one or the other, we cannot expect to have the market for cars or for buses or for planes to be set. We really have to make judgment that those things will go as they traditionally have, given deregulation or whatever. There is a price at which you would expect airfares to be at.

So primarily our drive is one for patronage—and that patronage is level of service and then an appropriate pricing regime that we would have across what would be a whole range of pricing in that area. That is the pivot. It is that time equation that is the pivot.

Mr WILLIS—My point is that you seem to be expecting tremendous holes in the aviation traffic. You talk about replacing possibly up to 60 movements per day between Canberra and Sydney. I would have thought there were not even that many movements. Obviously, you are expecting enormous reductions in people’s use of plane travel to Sydney. I would have thought that the aviation operators are going to act competitively and try to maintain their traffic by reducing fares.

Mr Morris—There are two things on that. We are working towards 16 March and we are currently doing what is fit and proper in terms of patronage investigations. At the end of the day, remember we have to get a credit committee of a financial institution to say that that is okay. They are very rigorous masters.

Mr WILLIS—It is not really a question just for you; it is for everybody in the whole program.

Mr Morris—I understand. We have Qantas as one of our partners. So clearly there is a view amongst the transport professionals that, given this travel time pivot that I talk about, you can make inroads into the total transport field, which is air and car—not much walking at that rate. They are the main two. We will get our patronage if we can deliver time and the right price.

Mr WILLIS—What about the establishment of a new track. Just getting that acquired is going to be an enormously expensive and difficult process even if the federal government is saying it will compulsorily

acquire. This must make the project much more expensive than if one used the existing track. I understand that a high speed train could not use the existing track, but it must make it much more expensive to have to develop an entirely new track.

Mr Morris—It could be viewed that way. On the other hand, if you were to think about the road system between Sydney and Canberra, the existing roadway has been abandoned, straightened and realigned many times. The Sydney-Canberra freeway is a totally new road. It would be a nonsense to have in the 1990s and beyond the roadway that was built in the 1880s. Really that is what we are talking about: we are talking about a track that really is old, poorly aligned and from the past. We are talking about putting such a track up. You will do that if the project stands up economically and it is our job to demonstrate that something is economic and worth while doing.

Mr WILLIS—Will the proposed track use any of the area that the existing track is on or is it entirely somewhere else?

Mr Morris—The proposal that we have been developing is new track essentially from Canberra to Campbelltown.

Mr WILLIS—So what happens to the old one? Does it get sold off?

Mr Morris—There is plenty of demand for the other track.

Mr Budd—The existing route from Sydney to Canberra involves part of the main Sydney-Melbourne line between Sydney and Goulbourn and then there is a branch down to Canberra. Each of those would remain in use for freight traffic. It could have some capacity freed up for freight and for some other local passenger operations. We would expect them to remain in use.

CHAIR—On the point Mr Willis was making—and I am not trying to imply any wet blanket treatment of your project—you are obviously in this for the long haul from what you have said, but there are only 300,000 people down this end of the line. Is that enough to sustain a TGV-type operation in the long term or is this step one of going on to Melbourne? As Mr Willis said, it is premised on taking a certain share of the existing aviation traffic. To do that, time lines will be critical, won't they?

Mr Budd—Yes. To comment on what Mr Willis said earlier, there is a very intensive air service between Sydney and Canberra. The aircraft are not very large and there are a lot of flights, but the dominant mode of travel between Sydney and Canberra is by car. We have to offer a level of service in terms of frequency, speed—above all things, journey time and price which is sufficient to attract the right number of passengers out of their cars and off aeroplanes. As Mr Morris has said, it is our job to satisfy ourselves and investors that that is there.

In terms of the market, a general comment I would make is that Canberra is not a very large city, but as a national capital it attracts a large number of visitors. Business people come here to deal with government, government departments and agencies. Non-business travellers come here to visit parliament pre-eminently but also the major national institutions. There is a very high level of tourism into Canberra. It is

because Canberra is the national capital that there is this traffic in the corridor, not because of the size of the city.

Finally, we are focused on Sydney-Canberra, but we do see that as the first stage of ultimately a larger network extending to Melbourne, from Sydney up to the Gold Coast and Brisbane, and potentially from Melbourne to Adelaide. This would take many decades to eventuate, but we do see it as the first step in a bigger network.

Mr Morris—There is no presumption in the current proposal of those extensions at all. Who knows what process or participants might be in such a vision, but clearly, if Sydney-Canberra becomes the vision that we have, then those opportunities open up.

CHAIR—What is your current estimated transit time?

Mr Budd—One hour and 20 minutes from Sydney Central to Canberra with a station here located at the airport. It is about 45 minutes from Canberra up to Campbelltown, then you have to slow down to run at similar speeds to existing trains on the network through Sydney.

Mr WILLIS—Located at the airport? Will the airport owners be happy about letting you build a station at the airport and taking their customers away?

Mr Morris—There has been a lot of work to get to there. The ACT government have talked about that. If you were going to talk about transport, you really have to talk about hubbing and about making it the most convenient for all people. They are interlining questions. It is really quite a sensible location at the end. The answer to the question ‘Will the airline people be happy?’ is yes.

Mr McARTHUR—Mr Chair, you really took my main question. I still am concerned about 320,000 people in Canberra to four million in Sydney and the feasibility of those two locations. My understanding was that the very fast train concept really worked well with two bigger locations, but you are saying to us that your feasibility on that stands up. Is that what you are saying?

Mr Morris—Leighton and GEC ALSTHOM, Australia’s biggest contractor and probably one of the world’s biggest train manufacturers, et cetera, are willing to put considerable resources into the project on the basis of patronage studies to date, and we are doing a lot more right now. As I said, come 16 March, we have to have the financial community who would be raising the capital convinced about that.

Mr McARTHUR—So that has not been decided yet? It is still feasibility?

Mr Morris—We have done pre-feasibility, but this is detailed bid time and we are out there hard into those numbers.

Mr McARTHUR—You are really bidding, though, for the financial support. Your project must stand up for the hard pencilmen of the financial institutions. Is that right?

Mr Morris—They have to be with us on 16 March.

Mr McARTHUR—Could you very simply explain to the committee the technology of TGV trains?

Mr Budd—It is a wheel on rail train, by which I mean there is nothing fancy about it. It is not rubber tyred; it is not magnetically levitated. It is electrically powered. It is a train which you could put on the track in Sydney, for example, and it would run on that network. In fact, that is very important to us because we want to use that track. It is a very highly optimised train in all of its systems. It has an electric locomotive at each end with eight passenger cars in between.

If you want to get into the technicalities, the train is articulated. At the junction between two carriages, there is one set of wheels, whereas most trains have a set under the end of each car. That reduces the number of wheels in the total train which has a number of advantages. It reduces noise and maintenance cost and, in the event of a mishap, it makes the train more resistant to breaking up or turning over, so it is a safety enhancement as well.

It is very highly powered, so it can run at 300 kilometres an hour. That is the current routine operating speed. We will engineer our track, which means slightly wider radius curves, for the next generation which will run at 350 kilometres per hour. These trains have reached a top speed of 515 kilometres per hour in test programs, which is the fastest speed of any train in the world. So there is room for growth, if you like.

Mr WILLIS—How big would the train be?

Mr Budd—The train that we are using as a reference has 377 seats. Whether we have exactly the same seating layout, I am not sure, but it would be of that order.

Mr WILLIS—Is that comparable to the size of the TGVs in France?

Mr Budd—Yes, the same. They sometimes run two coupled and some of them now are double-deck, but we are talking about an eight-car single deck train.

CHAIR—How many times a day?

Mr Budd—About 18 services per day, roughly hourly from early morning—6 a.m. or 7 a.m.—through to late at night.

Mr McARTHUR—What is your rule of thumb on your competition with the motor car? What would you be offering in terms of price, since there is a predisposition for people to drive a motor car?

Mr Morris—I think your question is too penetrating, except we feel as though we have got to get there in half the time to have a chance.

Mr Budd—Journey time is crucial—so is price and frequency, considering the convenience of the car.

Mr McARTHUR—So half the time and half the strain. Is that what you are saying?

Mr Morris—I think that is the logo we will adopt.

CHAIR—Is there any opportunity for freight, say, at night?

Mr Budd—That is something we want to give some attention to in the time leading up to our bid. This track is engineered for very high speed trains. It is precisely engineered for the TGV, if you like. It is not suitable for long, heavy freight trains because we can have steeper gradients than a conventional railway. Light freight may well be a proposition and we want to look at that.

CHAIR—Thank you very much. This has been, again, a very stimulating concept. I thank you both for attending. If we require any further information of you, we will be writing to you and trust you will reciprocate with a prompt reply. Also, you will receive a transcript of these proceedings which we would ask you to review and return to us if there are any amendments.

Mr WILLIS—Can I ask one question I forgot to ask. Will your bid be posited on use of the government's infrastructure rebate?

Mr Morris—In the core documents, that provision has been allowed for, and I think we and every consortia will make some proposal on that. It has certainly been part of the proposal and that is why I mentioned earlier it is part of the role of the national government to set that investment regime.

CHAIR—Thank you, Mr Budd and Mr Morris.

[11.22 a.m.]

BRENNAN, Mr Gerard Anthony, Representative, Thyssen Transrapid Australia Pty Limited, 32-34 Essington Street, Mitchell, Australian Capital Territory

MASON, Mr Andrew, Representative, Thyssen Transrapid Australia Pty Limited, 32-34 Essington Street, Mitchell, Australian Capital Territory

CHAIR—Welcome. There are just a few housekeeping matters I would like to bring to your attention. If you have any proper names or quotations, could you see Hansard about them before you leave. As you are probably aware, these proceedings carry the same respect as those of the House of Representatives. Any false or misleading evidence may be regarded as a contempt of the parliament. Do you wish to make any alterations to your submission at this stage?

Mr Brennan—No, thank you, Mr Chairman.

CHAIR—Mr Brennan, would you like to give us a three-minute overview of your submission and then we might take the rest of the evidence by way of interaction and questions.

Mr Brennan—Firstly, thank you for the opportunity of appearing before you and your committee today. I will ask my colleague, Mr Andrew Mason, to make our opening statement and then we will deal with the questions.

Mr Mason—We have an opening statement which is supplementary to that of the submission that we originally established. Development of effective long-distance passenger trains has been constrained by speed insufficient to compete effectively with other modes, particularly air. Where speed approaches that of a competitive level, the resultant noise and other environmental impacts tend to outweigh the advantages and marginalise any proposition.

Travel times are usually measured by point to point travel, for instance, home to transport mode—access time—wait time, transit time and transport mode to destination time. An example of the journey from Canberra to Sydney by air shows home to airport being around 20 minutes; wait time 30 minutes, including check-in; transit time 70 to 80 minutes, including picking up bags; and transport to final destination 45 minutes—a total time of just under three hours. As a result, for short journeys it is less than or equal to around 1,000 kilometres. The aeroplane offers no significant advantages as airports are located some distance from city centres, the usual origination or destination point. But to effectively compete, as a minimum, very high speeds are required by the train system.

In 1974, the German government commenced a jointly funded project with Thyssen to overcome the speed and environmental conundrum. Over \$US2 billion of investment has seen the development of the Transrapid Superspeed Maglev system, which is currently in the process of installation in the key Hamburg to Berlin corridor. The Transrapid Superspeed Maglev has completed all certification required by both German and United States governments for its commercial operation. All enacting legislation is passed in Germany and it is included within both the German transport master plan and the European Union master transport

plan.

The Transrapid Superspeed Maglev system is seen to uniquely offer the ability to provide an economical, high-speed, mass transit, backbone passenger system for countries with large distances separating significant populations. The characteristics of the Transrapid Superspeed Maglev are: high speeds—currently to 550 kilometres per hour; no or low noise—almost imperceptible at low speeds and less than half the noise of wheel and rail trains at high speed; fast acceleration and deceleration rates; very quick travel times; minimum disruption to landscape, land use, species migration and residents; utilisation of freeway easements as well as those of rail; and, if there is a need to cross private land, Transrapid can do so by means of an easement rather than having to purchase that land.

As a result, a backbone passenger system based on the Transrapid Maglev can offer Australia the ability to generate strategies to maximise passenger numbers on an economical public transport system between major cities, to generate a viable private investment approach to both intercity and city airport connections and to enhance regional growth. It also has the ability to uniquely generate its own demand and it can offer a significant boost to tourism as a result. A Maglev based transport infrastructure will provide both employment and export earnings from its application in Australia and the ensuing development of Australia as a centre of expertise for the Asian markets.

CHAIR—Just starting with that point of how you would use existing corridors and so on, presumably, you were referring to road corridors?

Mr Mason—Absolutely.

CHAIR—You would still have the same problem, would you not, when coming into the cities—Canberra and Sydney, in particular—of having to have a dedicated corridor? In fact, you would not have the advantage of the other rail system because you are a different style of operation. How have you accommodated that circumstance?

Mr Brennan—As you would be aware, in the call for proposals document there is a requirement, for example, that the ACT terminal be at the ACT airport, so all of the bidders will need to consider exactly that question. We have had a briefing by the ACT government which indicates some of their ideas on how that route would be dealt with. We have a technology which is very flexible and we will be able to work in closely with the ACT government planners on the route into the airport in Canberra.

At the other end, we have various options for access into Sydney. This train, because of its flexibility, can also utilise the railway easements, not simply the freeway easements. There may be parts where we will need to cross over but, again, they are matters that are under fairly detailed consideration at the moment in conjunction with New South Wales government planners.

Mr Mason—If I might just add to that, one of the things we would say is that the very small footprint that is required for the Transrapid compared to traditional wheel and rail trains means that we can actually share easements even with rail easements where the situation is quite tight. It also avoids us having to utilise current rail track, which is sometimes very tightly controlled and, at the moment, in the Sydney area

is very restricted in terms of availability because of the current CityRail passenger systems and, where CityRail are not using it, due to the need for freight transit. Having a track alongside that of a current rail system means that we can offer some guarantee of service where otherwise the system could be getting increasingly clogged.

Mr WILLIS—Is this really a viable option? The Maglev seems to have been around forever. I remember people talking about it when I was transport minister, and that was at the end of the 1980s. Here we are getting towards the end of the 1990s and there is still no operational system, although you say it is being built between Berlin and Hamburg. Is this a system that is completely operational and that we know is going to work?

Mr Mason—We have to move along from the detail which your memory may provide you, Mr Willis. At the end of the 1980s we would have been in total agreement with you. It was probably a little too early for the Transrapid to be seriously considered within Australia. As I said in my opening statement, since 1991 we have had a fully certified system. We do have a fully operational system in north Germany in Emsland. That has been operating with commercial fare paying passengers.

Mr WILLIS—Where is that to and from?

Mr Mason—That is in Lathen in Emsland. It is a showcase track which has been used for all the certification and proving trials since 1984.

Mr WILLIS—Is it actually a passenger train?

Mr Mason—It is absolutely a passenger train. At the moment we have about 15,000 paying passengers a month travelling on that train. We have a waiting list of around 150,000 passengers for the train. It has become a major tourist destination in itself.

CHAIR—Is it a suburban or a regional track?

Mr Mason—It is designed to showcase shorter hauls—24 to 50 kilometres—through to about 1,000 kilometre length services. It has been operational some considerable time. There has been a certification process. Now the German government has faith in it—building it into the German master transport plan and the European Union master transport plan, putting it into Hamburg-Berlin and currently considering it for extensions through both east and west.

Mr Brennan—We have had several people over there riding on the train, including the former chairman of your committee and a former transport minister.

CHAIR—Mark got all the good trips.

Mr Brennan—That is for another discussion. We have also had the Premier of New South Wales. To reinforce what my colleague has said, it seems to me that there is still a perception that the Transrapid Maglev is somehow too new—in some people's minds it is too good. The fact is, it is there, it is running, it

is carrying passengers and there is a list of 150,000 people waiting to ride on this train. To that extent Transrapid is making some money out of it.

Mr WILLIS—What are its operational costs like compared with those of, say, the TGV?

Mr Brennan—The operational costs are some 30 per cent lower than traditional wheel on steel trains. That is another one of the major benefits that the Maglev system brings.

Mr WILLIS—What is the cost? Is it electricity?

Mr Brennan—It is basically electricity. You have the other running and maintenance costs and so on, but the Transrapid is a frictionless system—I guess you are aware of the way the technology operates. It is a magnetically levitated train running on a guideway. It has no wheels, axles or catenary system overhead and therefore is a totally frictionless system. Simply by virtue of that fact there is already an obvious dramatic saving in power—and also in maintenance because there is nothing to wear out.

Mr WILLIS—The real test, though, is the Hamburg to Berlin train. How far away is that from being operational?

Mr Brennan—That is scheduled to come into operation in the early 2000s, probably 2002-03, although a shorter track connecting something between, I imagine, Hamburg and the next stop may be operational a little earlier. We have been working on the premise that this is a marvellous opportunity for Australia and we may well have the first Transrapid Maglev running in Australia.

Mr WILLIS—Why does it take so long to build? It is not very far from Hamburg to Berlin.

Mr Mason—The previous witnesses here alluded to the problem with three governments—two state governments and the federal government. In Germany it goes through six states plus the federal government. I will not say any more than that.

Mr Brennan—There are a couple of things that could be added. The distance is virtually identical to the Canberra to Sydney distance, which is quite extraordinary. It is a very interesting parallel because the Germans, in effect, are also linking their capital with their major seaport by making the Hamburg to Berlin link.

Mr Mason—One of the concerns I have is that Australia must take great care at this point, especially with the changes that are taking place in technology at the moment, not to choose an obsolete product that may be coming from a previous wave of technology. Australia should, rather, look to a new wave of technology which will sustain the country for the whole of the 21st century rather than for just a few short years.

CHAIR—What is your transit time to Sydney?

Mr Mason—The direct transit time from the Canberra airport to the centre of Sydney, non-stop, would be 55 minutes. It is 63 minutes including stops, and that includes Wollongong, which is part of the proposal which we are putting forward.

Mr WILLIS—So the train would go to Wollongong and then to Canberra.

Mr Mason—It would go from Sydney to Wollongong via the airport and then through the Southern Highlands, Goulburn and on to Canberra airport. We have also put a proposition forward that the link should also go through to the centre of Canberra, but the call for a proposal requires that we stop in at Canberra Airport.

Mr McARTHUR—I raise the issue of how your bid will be evaluated compared with other bids. What criteria will people use? Obviously there will be a financial sharp pencil operation on how your bid stands up. How would the policy makers allow your group to run your type of train compared with the previous witnesses, who are suggesting a very fast train?

Mr Mason—We are talking about a very, very fast train on this basis. Certainly we are in the hands of the government process at the moment. Part of the issue with this, as you are pointing out, is the problem of comparing apples and oranges. However, when it really comes down to it, a number of key characteristics will be required for whatever form of technology is used. Those characteristics can be decided upon regardless of the technology. We would certainly encourage government to look at those characteristics rather than the specific technology itself and make an appropriate decision on that.

Mr McARTHUR—As Mr Willis is saying, not many of these operations are operating commercially. So what criteria could they use to suggest that your new technology will work compared with the very fast train, which has an established track record?

Mr Mason—This is really a case of, again, taking something which is at the end of its life cycle, with the risks associated with its being at the end of its life cycle, or taking something at the start of a new wave, with its associated risks, admittedly. How do we mitigate against those risks? Certainly one issue would be the full certification process. I would suggest a detailed look at that certification process. If the United States government and the German government have felt it appropriate to certify, it would be a relatively easy task to look at that process and decide whether it was suitable for Australian needs. In the history of running the system for something like 13 or 14 years now, which is exactly what has been going on, we have not brought it to commercial fruition overnight. It will be an overnight success which has taken 20, 30 or 40 years, as Mr Willis was saying earlier. So there are processes which can be audited and verified. The characteristics can be looked at carefully so that a reasonable risk analysis is able to take place.

Mr Brennan—I will add to that. This whole issue of technological risk is one that our financial institutions have looked at very carefully. Technological risk, as Mr Mason has just indicated, can come in two ways: one because of a technology that is about to reach its use by date; and the other because a technology is right at the beginning of its performance over perhaps the next 100 plus years. In many ways, one might think about something like the change from propeller driven aircraft to jet driven aircraft. What was the technological risk there and how was it assessed? In other words, there are precedents for looking at

the assessment of technological risk.

Sitting in the background is the German government and Thyssen Industry AG, which is one of the world's largest companies. Added to that will be the technological risk assessment undertaken by some of our Australian consortium members, including those financiers with their sharp pencils. By the time our submission goes to government in the middle of March, I expect that we would have some very good answers to that question.

CHAIR—You made two interesting comments in your submission that we would like you to expand on. First, you said that the BOOT scheme was a useful mechanism to enable the objectives of the private and public sectors to be compatible. What are you inferring by that? The other involves a technical question. You said that the Transrapid system could stimulate regional areas because it has the ability to make stops without significantly altering the overall journey times.

Mr Mason—I will answer the second question whilst Gerard reaches for his book. In terms of regional stops, there are two issues relating to transit times point to point. One is the top speed that can be reached. As I intimated earlier, we will cruise between 400 and 450 kilometres per hour and have a top speed of 500 kilometres per hour. Although we are not in the *Guinness Book of Records*, because we have not taken time out to see to that, we have currently the fastest train in the world. The acceleration and deceleration times are also very key. If regional stops are to be included in a point-to-point journey, such as between Canberra and Sydney, one must look at the time it takes to slow down, take on passengers and then speed up to operating speed again. This is where the differences tend to lie with the new technology compared with the older technology.

CHAIR—It is almost instantaneous.

Mr Mason—For nought to 300 kilometres per hour, it takes a minute to slow down and to speed up. That is considerably faster than you can do it with a wheel-on-rail system. For every stop on a journey that we enter on the system, it takes one minute to slow down, two minutes for passengers to ingress and egress, which is the standard time at a station, and then one minute to speed back up. It is a four-minute additional cost in time compared with up to 15 minutes additional cost in time for wheel-on-rail trains. That makes the Transrapid Magler very viable. If we were doing a journey between Canberra and Sydney in 63 minutes with three stops, we are effectively saying that there is a factor of about 12 minutes put in for those stops. You would take a proportion of those out to get the point-to-point time.

Mr WILLIS—You can slow down from 400 kilometres per hour to stop in one minute?

Mr Mason—It is from 300 kilometres per hour to zero. Effectively, I can assure you that a Commodore accelerates about twice as quickly as the Transrapid. It sounds very fast—it is very fast for a train—but in terms of the physical forces on the human body, you certainly impose more of that on yourself in your car when you accelerate away from a set of traffic lights.

Mr Brennan—Part of the technology is that the train is driven by a linear electric motor located in the guideway, not in the train. With linear acceleration and deceleration, the effect is much less than with the

other forms of acceleration, which really require an engine to push whatever it is forward or to stop it from going forward. So it is a much smoother acceleration and deceleration effect. The passengers do not even need seat belts, to add to the overall effect of what really is a very advanced technology.

Mr WILLIS—You wouldn't want to be standing up.

Mr Mason—At any point, the Transrapid takes the physical forces on the human being as its major consideration in terms of cornering, braking and accelerating. You can walk around and feel no movement. It sounds as though a journey on the train would be useful for you to be able to appreciate that.

Mr McARTHUR—You have been on the one in Germany?

Mr Mason—The one in Germany has a lot of passengers.

Mr McARTHUR—You personally?

Mr Mason—No, I have not personally been on it. But we have reports back, I can assure you, from people within your parliament.

Mr McARTHUR—We had better look at it. The Chairman wants to go himself.

Mr Brennan—On that point, we are hoping to go there in the middle of January. We seem to have made the arrangements for a number of other people to go. Our German colleagues have decided that it is perhaps time they took us as well.

CHAIR—Coming to the BOOT scheme and the—

Mr Brennan—Yes. I think the rationale behind that sentence about the BOOT scheme being a useful mechanism to enable compatibility of the objectives of private sector and public sector investment in rail was simply this: it sets up a cooperative sort of arrangement, in the sense that, at the end of the concession period, which is described in the call for proposals, the guide way—in our case, the system—would revert to government. That, in our opinion, enables a very cooperative approach during this period when we are establishing what will be a new system that will enable cooperation between us and the New South Wales state government particularly, across whose land any of these systems will spend most of their time.

It will be necessary to talk about how the existing rail structure will be used, for example. Our suggestion is that, because we will be a dedicated high speed rail system, two things will flow. Firstly, we will add extra capacity to the inner city suburban area of Sydney. Secondly, we will enable the existing rail track to be used simply for heavy freight.

CHAIR—Do you have any plans for moving freight at night or anything like that?

Mr Brennan—Yes, we do. In the configuration which is proposed for passenger traffic, the Transrapid can carry light freight—aircraft-type freight. It simply means you have carriages which do not

have seats, and, in fact, these—

CHAIR—Are they dedicated trains?

Mr Brennan—They would be dedicated trains that could take aircraft containers straight off the aircraft. Again, because of the flexibility of the system, one could, depending on the planners at Canberra airport, envisage a situation where transfer of the containers from an aircraft to a Maglev could be very simple.

Mr Mason—There is a second alternative that we are also looking very carefully at providing at the moment. That is a freight container service which is a full 20-, 40- or 48-foot freight container service. Regrettably, it would be a medium speed freight service which would run fully automated through the night. By medium speed, we are talking of speeds around 250 to 280 kilometres an hour, so what is high speed for other trains is medium speed for us. We would travel at those speeds because we can travel very quietly at those speeds through the night and not disturb residents. There would be no imposition on residents or migrating species or whatever at that time.

Mr McARTHUR—Our previous witnesses were prepared to put a ballpark figure on the total investment. Are you prepared to do that or is that in-confidence?

Mr Mason—We would like to keep that as commercial-in-confidence at this point. However, our studies of comparable systems in Europe show that there is no significant difference between the construction costs in Europe of the French high speed trains or the German high speed trains and the Transrapid Superspeed Maglev. In fact, where the terrain gets more difficult, the estimate is that our construction costs—because we do not need to carve through the landscape doing a great deal of cut and fill from hills and valleys—will become successively cheaper than wheel on rail.

Mr Brennan—The view of our financial advisers, who have looked at this, is basically that you also have to look very carefully at revenues when you talk about investment costs and that the figures are showing that the revenues are more than adequate.

Mr WILLIS—I want to ask you more about noise. I should have asked Speedrail about this before. You have made a point about your system being less noisy than Speedrail's system. How big an issue is noise with high speed trains in general? You say yours is about half as noisy as the TGV. How noisy would your train be, when travelling at top speeds of 400 kilometres per hour, compared, say, with a conventional train?

Mr Mason—Please excuse me giving some comparisons between ourselves and other types of technology as I answer that. To start with, I will give you an anecdote which might assist. It is about an Australian who was visiting the showcase system in Emsland recently. They were standing about eight or nine metres from the track when the train went past at 280 kilometres an hour. At the same time, fortuitously, a Mercedes Benz—as it would be in Germany—was travelling along the road towards that person. The statement was that the noise from the Mercedes Benz at 80 kilometres an hour was greater than the Transrapid going past at 280 kilometres an hour. Admittedly it was a diesel Mercedes Benz, but I think the

reputation for quietness and fine engineering that goes with Mercedes Benz will give you some comparison.

At speeds of up to 200 kilometres an hour there is no aerodynamic noise—or little. Therefore, there is very little noise at all. At speeds of up to 200 it is, in fact, regarded as silent or almost silent. Where aerodynamic noise kicks in, the aerodynamic noise is less than half the noise of an overall high speed rail system. At whatever comparative speed, you are always missing out on the noise from the axles, the bogies, the wheels pounding on the rails, the catenary system and such like.

Mr WILLIS—There is no motor noise as such?

Mr Mason—There is no motor noise. There is a small hum. There are two reasons for the hum. One of them is to scare the birds off the track just before we get there.

To give a comparison in terms of the question of whether noise an issue with high speed rail trains around the world, all you have to do is look around the world at some of the issues that are being raised by people close to the tracks. Yes, it is a big issue. In particular, I point to the Eurostar rail service between Paris and London. It will travel at high speed as far as the channel tunnel, slow down for the channel tunnel and then is restricted on the basis of noise and track capability in Kent because of the residents' objection to the very loud noise that is created by that. If I wanted to make a statement about whether I am prepared to have this in my backyard, I would say categorically, along with the vast majority of Australians, I would not want a high speed wheel-on-rail system going through my backyard. If it were a Maglev, I would offer the land tomorrow.

Mr MAREK—It is an electro magnetic process, isn't it?

Mr Mason—Yes, that is right.

Mr MAREK—Are there any concerns or statements on health?

Mr Mason—There are no concerns, but we have some statements about that which may be able to put your mind at rest. There is electro magnetic leakage in any situation where electro magnets or electrical circuits are concerned. The electro magnetic leakage from the Transrapid one metre from the source in fact is less than one-quarter of the equivalent of that of a hair drier and a 10th of that of a TV set. I am told it is better to stand under a Maglev than it is under the national power grid here or under a catenary system in a traditional wheel-on-rail system. Again, that is another reason why I am prepared to have it in my backyard.

Mr MAREK—Same thing for the passengers travelling as well—shielded.

Mr Mason—It is not shielded. It is greater than one metre from that source. There is a formula. If I were an electrical engineer I could give you the detail. We could provide that if you wish.

CHAIR—Thank you very much for that. We may need to come back to you at some later date perhaps in writing, perhaps asking you to appear again. I trust that if we do write to you you will reciprocate as quickly as possible. We want to press on with this inquiry. You will also receive a draft transcript of

today's hearing. If you have any amendments or alterations, please let us have it back promptly. We thank you for the time you have taken to address the committee today and the frankness of your responses.

Mr Mason—There is some background information which might be of use to members here. At some point it may be appropriate, because this is different technology, for the committee to view a video which we do have available that could provide some further information.

CHAIR—We would appreciate the video but we will not be able to look at it until March. How long is the video?

Mr Mason—Eight minutes.

WELSBY, Mr Leon John, General Manager, Australian National Track Access, PO Box 10343, Gouger Street, Adelaide, South Australia 5000

CHAIR—I welcome National Track Access. It is kind of you to come today to brief the committee. I welcome you on behalf of my colleagues. You are not under oath but these proceedings carry the same status as those of the House of Representatives. Any false or misleading evidence would be taken as contempt of the parliament. Having said that, do you have any alterations to your submission?

Mr Welsby—No.

CHAIR—Would you like to give us a three-minute overview of your submission and then we will interact and ask questions?

Mr Welsby—Can I be a bit broader than the submission and talk about the history of the access regime that has been put in place?

CHAIR—Yes, that would be helpful.

Mr Welsby—The Australian National Track Access was formed in July 1995. It has been in operation for 2½ years. It controls or manages the network between the South Australia and Victorian border and Kalgoorlie and the network that comes into South Australia via Broken Hill and to Alice Springs.

In response to competition policy, in 1995 the government determined that the Commonwealth railways at the time should put in place an access regime to encourage competition on the interstate network. I was seconded to set up a regime and that regime came into being on 1 July 1995. It has been relatively successful to the extent that private operators such as TNT; SCT, Specialised Container Transport; and Patrick Rail Operations, an extended arm of Patrick Stevedoring, now operate services in the east-west corridor head to head with National Rail.

Since the sale of AN, Genesee and Wyoming, or ASR, has been an operator on the interstate network, as has GSR—Great Southern Railway. They operate the passenger services known as the *Ghan*, the *Indian Pacific* and the *Overland*. The regime that is in place has been recognised by industry as being fair and equitable and the pricing fully transparent. I believe it has been successful to the extent that the government now intends to extend that model across the national network. I am here speaking from what I consider to be the sharp end, having been there and done that—at times against adversity. Nevertheless, the Australian interstate rail network now has competition in the east-west corridor.

CHAIR—Now that AN has been privatised, what are your primary responsibilities?

Mr Welsby—There are 78 people left in AN as such to manage the interstate network. They consist of a small managerial group, some train controllers and train contract managers because all agreements with operators are forged along the lines of an official agreement. So the group that is left essentially manages the below rail function, as it is now known. It is also responsible for management of the infrastructure in the sense that the group I represent is now going through a process to competitively tender that infrastructure

maintenance to the private sector.

Mr McARTHUR—A previous witness from Tasrail Ltd from America really challenged the whole concept of rail access, suggesting that the American experience suggested that economies of scale were the key to profitability and servicing the freight industry. Would you care to respond to that fairly strong view backed up by experience in the USA and in New Zealand?

Mr Welsby—There are two points. One is that I have had someone from the electronics firm GE Harris in the United States out here for the last three days. The reason is that there is an intention to change the safe working systems in Australia and come up with a technologically based solution that provides some form of fail safe mechanism that does not exist so far.

This person and I have had long discussions about the state of rail in the USA. He has lauded praise on us for instilling a discipline in the operation here that does not exist in the United States. For example, in the United States plus or minus two hours is considered to be on time. In Australia, plus or minus 15 minutes in a 60-hour journey is considered to be on time. So one wonders whether or not the US have actually got it right.

Let us look at it from another point of view. In this jurisdiction, Tranz Rail suggest something that could well be along the right lines because the task in Australia is nowhere near the size of the task in the USA. It is my firm opinion that, whilst there are a number of private operators in the east-west corridor at the moment, the task is not sufficient to sustain a number of operators in that corridor into the longer term. I suspect that in due course what we might see is two competitive camps going head to head rather than four or five going head to head for the same freight task, which is quite small at the moment.

Competition in the east-west corridor—I do not think this is well known—has had the effect of reducing freight rates by something like 25 per cent over 18 months. I do not know who the beneficiary of that is—it is not me; I do not know whether it is the consumer. That is due to that head to head competition over the last 18 months.

Mr McARTHUR—What are the investment strategies and what is the capacity over the longer term to sustain the operation?

Mr Welsby—As you would be aware, ministers agreed some few weeks ago to create an Australian rail track corporation to manage access across the network from Brisbane to Perth. The government had agreed to put in \$250 million for major works, and the intent was that other investment may come from the private sector. I have just written to the states asking them for input to what they consider to be the essential major works and any other investment possibilities that they think might be appropriate. Over the course of January, I will sit down and evaluate those and try to put them into some sort of priority order.

Mr WILLIS—What do you think of the arrangements for the new interstate track access body which, as I understand it, will see it with full ownership of the track in relation to AN's area of operation and where in Victoria it is being ceded to it on the designated track but not in New South Wales or in Western Australia? Do you think that is going to prove to be a somewhat difficult management task with those diverse

ownership arrangements of the track?

Mr Welsby—I am sure that is correct. If one were to look at it from an idealistic point of view, one probably would not have opted to set up an arrangement along those lines. It will be quite difficult. As you quite rightly point out, the Commonwealth track has been ceded to the Australian rail track corporation. In Victoria it is intended that the track be leased to the Australian rail track corporation at a peppercorn rental. In Western Australia the track is not in, but Westrail has agreed that the management rights should be picked up by the Australian rail track corporation. In New South Wales, it is even a little more difficult because of the capacity issue and a curfew issue in the metropolitan area, and the track has not been ceded, as you quite rightly point out. So it is a rather hotchpotch to manage.

Mr WILLIS—Could you explain a bit more what difficulties you think could arise through the non-ceding of the track in New South Wales and Western Australia?

Mr Welsby—I think I am something of a control freak. One of the issues facing rail in Australia is the non-standard procedures, safe working systems, the non-standard railway, bedding, sleepers and whatever else. One of the objectives of the new track corporation would be to bring some harmonisation to all of those standards. Unless one has control of the jurisdictions, it might be rather difficult to impose one's will along the lines of trying to bring that sort of harmonisation to bear.

CHAIR—Mr Marek had a view on that.

Mr MAREK—I was talking to people being interviewed about the Bureau of Air Safety Investigation system. Would you surmise that your organisation would take that sort of a role or would do that sort of a role?

Mr Welsby—This organisation will be responsible for the safety protocols. Investigations are another issue. There is a process in train now whereby, for an accident of any size or of any magnitude, it is necessary to engage an independent chairperson, a chairperson who has been sanctioned by the rail safety body. He or she conducts that inquiry, and will continue to do so, unimpeded.

Mr MAREK—Wouldn't you be better off with a body that investigates before the accidents start?

Mr Welsby—Absolutely.

Mr MAREK—That is what I am getting at. How would you feel if we had a system like the Civil Aviation Safety Authority have, like BASI, where they listened to the people's complaints and went around and checked the track?

Mr Welsby—In the last two years, since I have been involved in this access regime, there have been some significant accidents. If I went back five years, the extent of damage caused to the track was quite minimal by comparison with the extent of damage caused to the track now, and there must be a reason for it. I am about to kick off a consultancy to try to suss out that reason.

Let us go back five years. If a wagon came off a track or something happened to a wagon—say there was a collapsed bogie or there was something wrong with the draw gear—then the wagon invariably came off. Now what happens is that the wagon gets dragged for anything up to 20 kilometres, and that can do 20 kilometres worth of track damage. Eventually, it will come off as well. I want to know the reason why. We need to compare the current circumstances with the circumstances five or six years ago. I suspect that there is a whole raft of things. For example, a train does not have a brake van any more.

So, if a wagon comes off and gets dragged along now, the guard does not get thrown out of bed and complain about it before the thing eventually comes off. Concrete sleepers do not smash like wooden sleepers. So in the past, when a wagon came off, the tendency was for it to go straight into the dirt because the wooden sleeper would smash underneath it. But the concrete sleepers do not smash underneath it; they just shatter as the wagon goes along.

Nowadays, the horse power per tonne ratio is so great, the differential, that the train just drags a wagon without the engine driver knowing about it. I am about to pursue a consultancy to try to get to the bottom of why things are the way they are now by comparison with the way things were five years ago. Out of that will come some of the answers to the issues you talk about—managing safety in advance.

Mr MAREK—This would be a private independent thing. It is not government funded or anything, is it?

Mr Welsby—When you say ‘not government funded’, it would come out of—

Mr MAREK—It is not a statutory body, is it?

Mr Welsby—No.

CHAIR—What, the consultancy?

Mr MAREK—Yes.

CHAIR—That is only to identify it.

Mr MAREK—Yes.

Mr Welsby—It will talk to the regulators in the various states. For example, it will have dialogue with the regulator in Victoria, in New South Wales and in Western Australia.

Mr MAREK—So will it have teeth?

Mr Welsby—At the end of the day, I expect to get a response that I can take further.

CHAIR—Don’t the states need to cede you more power if you are going to take a BASI type role?

Mr MAREK—Yes, that is what I was trying to get at.

Mr Welsby—Yes, they do.

CHAIR—Would that be helpful?

Mr Welsby—It would be helpful because, again, one of the issues—

CHAIR—Could I just ask a second question? Should that then extend to safety and signage and operational protocols?

Mr Welsby—Absolutely. One of the myths around was that, when the standard gauge network was completed between Melbourne and Adelaide, rail was in its glory day. The reality now is, with competition, if someone wants to run a train from Brisbane through to Perth, they have to deal with the rail authority in Queensland, the rail authority in New South Wales, the rail authority in Victoria, in South Australia and in WA. Then you come back and start again. You deal with the safety authority in Queensland, the safety authority in New South Wales and so on. You could deal with anything up to 20 bodies before you actually get the blessing to run a train. So having safety and accreditation and the like all vested in one body would be very helpful.

Mr TANNER—I wanted to know your views about the private projects that we were talking about prior to your submission and the access issues that they may give rise to if they were to eventuate.

Mr Welsby—I am not sure as to the private projects you were talking about beforehand.

Mr TANNER—That is Transrapid and Speedrail.

Mr Welsby—I thought you might have been alluding to Alice Springs-Darwin or something.

Mr TANNER—The same issue emerges there. As was pointed out earlier by somebody, the origins of the whole concept of access in rail goes back to privately owned rail infrastructure in the US in the early part of the century. I am just interested to know what your view is. If I go ahead and build my speed rail from Canberra to Sydney, could you then come along and say, ‘I have this nice TGV train I would like to run on your speed rail’?

Mr Welsby—I do not really have the answer. I have debated, for example, with some representatives of the Northern Territory government, the issue of open access to a line that may be built between Alice Springs and Darwin. Because the Alice Springs to Darwin sector is privately owned, then perhaps they can lock other people out from operating on that line. I do not really know, but I suspect that perhaps they could. The issue with Alice Springs to Darwin that intrigues me is the adjoining sectors. When people talk about Tarcoola to Darwin and think that they are just going to run trains at their behest, I think they are being totally unrealistic because the adjoining sectors, which might be saturated at various points in time—such as a Wednesday or a Saturday when agreements are already locked in—are really going to lock movements on the Tarcoola to Darwin sector out. So I think that there are some far-reaching issues to be resolved along the

lines that you speak of.

Mr WAKELIN—I am interested in page 2 of your submission where you make the point about the ‘fickleness’ of the freight forwarders in shifting from one mode to the other. You mention TNT, SCT and Patrick Rail Operations and say that in this operation private operators could be easily influenced into changing their transport strategies at minimal cost. Could you enlarge a little bit on that?

Mr Welsby—Yes, sure. TNT, SCT and Patrick currently use resources owned by the various rail authorities. They have not invested in locomotives, wagons, crew or anything else; they merely hire those resources to carry out a task. So I could conclude from that that the commitment is only skin-deep. If operating on rail became untenable, then it would not be too difficult for the likes of SCT or TNT, with their big trucking fleets, to go back to the road. That is the point I was trying to make.

Mr WAKELIN—Yes, I thought it might have been.

Mr Welsby—The difficulty is that there has been no obvious permanency in any of this. The pricing regimes have only been locked in for 12 months or two years at a time. The term has always been one or two years. To benefit from the investment opportunities, the likes of these operators are going to want long-term arrangements for five or ten years with some sort of price stability. That is the point I was trying to make.

Mr WAKELIN—You go on to talk about the \$2 billion dollars and the 60 per cent increase in costing required and that type of thing to facilitate the investment that would most likely be required.

Mr Welsby—One of the things that people need to understand is that the current pricing regime, which is really dictated to by the market, covers the operational cost and the medium term cost of capital. There is no way in the world it could produce surplus funds sufficient to replace the infrastructure. It would have the effect of adding 60 per cent to the access price, which would virtually wipe out the market.

Mr WAKELIN—I want to go through some of the issues in appendix 1. I do not want to be too long, Chairman, but I think they are very worthwhile points. Some of them have been covered. You say that the grandfather rights to train paths are effectively locking out new competition. I suppose it also touches on that Alice to Darwin thing too?

Mr Welsby—No, a better example might be—again, I will use the east-west corridor as an example—that the market dictates produce is available for first delivery on a Monday, so trains try to get into Perth between 1 o’clock and 5 o’clock in the morning for delivery by 8 o’clock. At the other end, the emanation end, trains want to leave the Melbourne market between 6 and 9 o’clock at night so they can pick up as much as they can to service the market at the other end. As you can appreciate, there are not many slots between those hours. National Rail, being the first interstate operator some years ago, had first call on those train paths. They have locked in those train paths with Westrail for 20 years. You can renegotiate up to Kalgoorlie, but after that you are dictated to by a long-term arrangement that National Rail has with Westrail. I am talking about grandfather rights.

Mr WAKELIN—Yes, thank you. There is that very practical fact that, once you are locked in, who

else can get access? Also, I suppose, it refers to the reason that Saturdays are pretty busy in terms of the Tarcoola bit?

Mr Welsby—That is right. If the market out of Darwin was relying on Wednesday and Saturday traffic, then it would be pretty difficult to service.

Mr WAKELIN—Point 4, the one-stop shop: I think we have pretty well covered that. You talked about the parochialism, but perhaps you would like to enlarge on that? Maybe I am presuming, but we talked about the need to bring things together in terms of—

Mr Welsby—There is still a bit of an issue here because the intention of having an Australian rail track corporation was to effect a one-stop shop arrangement. The sale of AN has made that rather difficult because Australian Southern Railroad or Genessee and Wyoming have actually bought some of the end facilities: they bought Whyalla yard, they bought Port Pirie and they bought Port Augusta. So now if someone wants to use Whyalla or Port Pirie or Port Augusta, they have to negotiate with the national track authority up to the point ASR or Genessee and Wyoming own, and they then have to negotiate with ASR or Genessee and Wyoming for access to that end facility. I would propose that those arrangements be carried out by the Australian rail track corporation in so far as they negotiate with Genessee and Wyoming, or whoever else owns an end facility, and then pass that back transparently to the operator. That is what I am talking about.

Mr WAKELIN—That is a very practical suggestion in terms of what we are trying to do in facilitating it.

Mr Welsby—Yes.

CHAIR—On that same style of questioning, how does your regime differ from the New South Wales regime for access?

Mr Welsby—It is transparent and the prices are published. What I tried to do originally was a fairly lengthy exercise that compared road and rail rates in Western Australia. If I were to price absolutely according to cost, the price would not be affordable, so there was a little cross-subsidisation between various lines on the network to try to come up with a market affordable rate at the end. In New South Wales it is more akin to covering costs.

CHAIR—Picking up another point that Mr Wakelin made, have the rail freight providers been paying the full cost of operations at the terminals?

Mr Welsby—I do not know. I do not control terminals.

CHAIR—But you said these new companies that have entered the field have bought them: were you talking about terminals or just workshops?

Mr Welsby—ASR?

CHAIR—Yes.

Mr Welsby—They have bought terminals, yes. But, before that, the terminals were owned by Australian National or whoever else. But the terminal does not fit within the access model. It never did. It was only ever control of the main inter-state network: the line and not necessarily the terminals.

CHAIR—But in a way they are a bit indivisible, are they not?

Mr Welsby—It is a bit hard to have one without the other. But the model that was laid down by the Commonwealth was that the access regime should apply to the interstate network, and terminals were not considered to be part of that interstate network. Terminals were considered to be owned by private operators—National Rail, SCT and TNT for example. Australian National did have terminals before, but they have now been purchased by ASR.

Mr McARTHUR—Could you just explain what legislative support as the access operator you would need from the Commonwealth to deal with the states and how you would make this whole regime work—by legislation, by regulation or by some other method?

Mr Welsby—As I said earlier on, back in November in New Zealand there was an agreement, signed by state and federal ministers, that set out the principles by which the Australian rail track corporation would operate. It is only early days, but there does not seem to be any impediment from the states to the lines that have been pursued currently. I think the thing will come together.

Mr McARTHUR—Are you depending upon a ministerial agreement to implement your thinking?

Mr Welsby—That is right.

Mr McARTHUR—And, if that breaks down, what is the court of appeal, do you think?

Mr Welsby—I do not know. The bully rules, I suppose, No, I do not know.

Mr McARTHUR—It would be fairly critical.

Mr Welsby—Yes, I appreciate that.

Mr McARTHUR—We get the impression on this committee that New South Wales is not as cooperative in some of these things as it might be.

Mr Welsby—Yes.

Mr McARTHUR—So you would just have to put up with it?

Mr Welsby—You might have to. It is a difficult infrastructure in New South Wales. In Adelaide, Melbourne and Perth the interstate network is separated from the metropolitan network. In New South Wales

it is not. Curfews exist in New South Wales in the morning and in the afternoon. Those curfews are imposed by government. So you are absolutely right, there are a lot of issues that need to be resolved in New South Wales.

Mr McARTHUR—You could bypass Sydney in the whole scheme of things, would you not think?

Mr Welsby—We have even looked at that: going up the back way via Goulburn, Parkes, Dubbo and Maitland. But the infrastructure would need to be heavily invested in. The transit time is six to eight hours longer, which makes it a bit difficult to service the end market.

CHAIR—What if you depoted at Parkes? That was to be the plan some years back, was it not?

Mr Welsby—As a matter of fact, SCT is on the verge of running trains from New South Wales to Perth. They are going to depot at Parkes.

CHAIR—An inland port type of thing. I have another point there. You assert in your submission that the rail industry cannot afford the cost of asset replacement.

Mr Welsby—Not from the generation of access fees.

CHAIR—So who pays?

Mr Welsby—That is the \$64 million question.

CHAIR—The government still has a role to play?

Mr Welsby—I cannot see any other way. As I said in this submission, and I hold to it, the price of access, dictated to by the end market, covers the day-to-day operational costs and the cost of medium-term capital replacements. I am talking about \$10 million to \$15 million a year.

CHAIR—But not major upgrades?

Mr Welsby—It cannot provide for major upgrades.

CHAIR—So we are living in a bit of a fool's paradise?

Mr McARTHUR—Would you make the observation that the road network works on the same basis?

Mr Welsby—Yes. I would make that observation.

Mr McARTHUR—And what comparison would you draw, as a railway man?

Mr Welsby—That the roads are heavily subsidised by comparison.

Mr WAKELIN—You would be aware of the New Zealand road charges and that regime. My question is about international practice in all of this. Our role, it seems to me, is to talk about rail, but that needs to be done in the context of the relationship with road and of the transport task in total. That is what the parliament is interested in. Could you make a few comments about this thing between road and rail. What I wanted to end up with was the international practice. You made the point that Europe and North America may not be appropriate, but is there a model you are familiar with somewhere around the world that might give us a few clues?

Mr Welsby—Not necessarily. If you look at the UK model, for example, you are talking predominantly about passenger traffic. And the infrastructure reflects that it is passenger traffic. It is more highly maintained than it would need to be in Australia to facilitate freight operations. The freight operations in the UK represent about six per cent of the task, and if you go more than 200 kilometres you fall off the end. In the USA I have already made the observation that plus or minus two hours is considered to be okay. Here it is plus or minus 15 minutes. I do not see a comparable model. I have observed that this is the only model in the world where operators go head-to-head on the same piece of network trying to move the same task. It is interesting to note that—

Mr McARTHUR—That might not be sustained, though; that is a short-term position.

Mr Welsby—I think what will happen, and it is starting to happen already, is that you will find that TNT, which has been bought by Tolls, will get into one camp, maybe with Boxcar. You will probably find that SCT, which runs a specific traffic, have moved to align themselves with K&S Freighters, and there is National Rail left. I suspect that at the end of the day, if you had two operators going head to head in the east-west corridor with SCT running its niche traffic, that is about as well as you are going to do.

Mr WILLIS—Can I get you to reaffirm that this does not apply anywhere else in the world?

Mr Welsby—Not head to head—TNT-SCT versus Patrick versus NR in the same corridor.

Mr WILLIS—Not anywhere else in the world?

Mr Welsby—No.

Mr WAKELIN—Just on SCT, correct me if I am wrong, but the reason that SCT started was because they felt that that specialised transport with National Rail—

Mr Welsby—National Rail did not want to operate a van service and SCT were forced to go somewhere else. They opted for running their own service, and they are a bit of a success story in their own right. The very first train they ran back in July 1995 to Western Australia was 1,350 tonnes gross. They currently run three trains of about 5,000 tonnes gross per week. That has been an enormous improvement in their performance.

Mr WAKELIN—Can I come to where I started, this road-rail task. You pretty well answered it anyway, but we have had evidence about the New Zealand model and other models and you made a very

clear point about the subsidisation of the road compared to rail. But is there something there in that road-rail task which stands out to you beyond those clear economic issues? Is there something that stands out, from your experience of the industry?

Mr Welsby—I think there will always be a place for road because of the express freight that road normally carries. Rail is essentially a bulk carrier and time is not as important on rail, the way that the freight has fallen, as it is on road. If rail really wants to compete with road and take that express freight away, there needs to be a rail infrastructure that is able to compete with road for that same freight. In the east-west corridor rail already commands in excess of 75 per cent of the freight.

CHAIR—On that point we might wind it up. Thank you very much for your attendance. I can see that you are probably closer to some of the issues we have been trying to probe than most of the witnesses we have seen thus far, so it is conceivable we might need to have you back some time. Where are you based?

Mr Welsby—Adelaide.

CHAIR—We may come to Adelaide; that has not been finalised yet, but perhaps in April—

Mr WAKELIN—I am sure we will.

CHAIR—We have a bit of pressure here from my left. But in the meantime we may also write to you. I trust you will be able to respond in writing. You will receive a draft of the transcript and if there are any alterations you can let us know. Thanks once again.

We will now suspend for 55 minutes. We have got a very tight schedule for this afternoon, with people booked on planes and having to leave right on the stroke of four, so we will want to be right on the ball.

Luncheon Adjournment

[1.41 p.m.]

HEARN, Dr Simon, First Assistant Secretary, Corporate Policy Division, Department of Primary Industries and Energy, Edmund Barton Building, Barton, Australian Capital Territory 2600

LEKAWSKI, Mr Ed, Acting Assistant Secretary, Microeconomic Reform Branch, Corporate Policy Division, Department of Primary Industries and Energy, Edmund Barton Building, Barton, Australian Capital Territory 2600

QUANG, Ms Paulette, Assistant Secretary, Projects Branch, Parliamentary, Planning and Projects Division, Department of Primary Industries and Energy, Edmund Barton Building, Barton, Australian Capital Territory 2600

CHAIR—Welcome. I am sure you are familiar with committees. Do you realise that these have the same status as meetings of the House and that privilege applies?

Dr Hearn—Yes.

CHAIR—Are there any alterations to your submission?

Dr Hearn—No, there are not, Chairman.

CHAIR—Would you like to make an opening statement of about three minutes?

Dr Hearn—Yes, certainly. I will keep it short for two reasons. Having seen the list of people that your committee has already spoken to, I suspect that much in here that reflects our departmental viewpoint may repeat some of the material that you already have had in front of you. I will not seek to repeat what you have already heard.

However, I would like to stress two points. One is that we, in the Department of Primary Industries and Energy, are probably a secondary department in what you might call transport policy. We are a particularly interested department in transport policy for two reasons: firstly, the portfolio responsibilities in industry policy are strongly influenced by what happens in our transport network, including railways; secondly, together with the industry perspectives, rural and regional Australian matters of a social or community nature are also of particular importance in the policy settings that the department and the minister have responsibility for. Therefore, we approach this submission with a view to industry policy and community welfare.

Having said that, I will try in the next three minutes to bring to the forefront what I think are the highlights rather than just run through the submission. Firstly, the industries with which we work account for some two-thirds of the annual export of Australia. They are mining and agriculture. The competitiveness of those industries is absolutely crucial. I do not have to elaborate that the infrastructure developments, including railways, are fundamental to the ongoing competitiveness of export industries in this area.

Rural and mining products are heavy users of the railway network. On page 2 of our submission, you will see the numbers, which I will not go through, which illustrate the use. In fact, in a global environmental context, any improvements in efficiencies in the railways will help these industries to improve their own efficiencies, both internationally and domestically.

I would not want to underestimate the domestic usage of railways by mining and rural industries—most particularly the mining industries but also, in selected cases, the rural industries. Primarily, they are bulk commodity users of the railways. Indeed, as heavy users of railways, it is also quite clear that, in many cases, they are the chief clients. When I look at coal, iron ore and grains—most particularly wheat—the percentage of the bulk transport that those industries account for for the railways is very significant. Therefore, the provider-user relationship is very important both to railway reforms and to the efficiency of those industries.

The key points that we want to make are, firstly, that we do support the contention that you would have heard elsewhere, that railways and railway policy must be part of an integrated transport system. We strongly support the view that railways compete for bulk commodity usage in many cases, but, at the same time, there can be complementarity with roads and other transport transport modes. We can elaborate that as

your committee may wish.

As a rule, we believe that subsidies, which would distort, in the main, the relative competitiveness between roads and rails, need to be thoroughly examined in this integrated approach which we are party to. In the main we believe that subsidies as such need to be very critically examined where they exist with a view to justifying their continuance, as opposed to simply assuming that they will continue. We actually believe in the main that they distort and therefore need thorough examination—by that I mean looking at the integration between roads, rails, coastal shipping and other aspects of transport. I do not just pick on the railways in that regard.

When we come to the community service obligations and the social community issues, it would be our contention—and I believe it has been the contention of others who have appeared in front of you—that it would be suitable for these CSOs to be separately identified. Where they are identified and where governments, state or Commonwealth, come to the conclusion that there is a social policy imperative for keeping certain subsidies for that reason, we certainly would not submit here that that is necessarily wrong, but they should be transparently identified. Where those payments are made, they should be made with a full understanding of their implications. Secondly, they should be from the budgets of the respective governments, rather than concealed in a user charge, which involves concealed and, sometimes, ineffective cross-subsidies.

That said, it sounds very economics oriented, but we do understand that there are times when, in fact, getting the right efficiencies in these infrastructure developments do contribute to the community development. If rural and regional Australia get the right infrastructure efficiencies then in fact the employment creation and investment creation potential of those actually do have community benefits. Quite clearly, with the overall employment structures and challenges that we as a country have, we can see a synergy between economic reform and community welfare, quite clearly.

We would also wish to draw the committee's attention to the need to seriously address competition policy principles as best we can, and the competitive neutrality aspects of allowing contestability into the railways will be important. It is complicated, but it must be addressed.

We support the intentions overall of the national agreement on interstate rail reform as of September 1997 and would certainly, as a department, be proposing to input to that as and where necessary.

We would like to draw your attention to the importance of the pricing of rail services, improved transparency, which is related to the aspects of competition policy and contestability and also the taxation aspects, particularly with royalties. In that regard, I will be specific and draw your attention to Queensland, which I am sure you are well aware of, and how the industries that use the railways in Queensland do find that the charges include royalties. We think there would be a better way of addressing that system—that would come into tax reform perhaps. It is a cause of some high costs in Australia vis-a-vis some of our competitors overseas, such as the United States, where sometimes you can have up to a 50 per cent differential when we are competing in areas like coal.

We are basically supportive of the infrastructure borrowings rebate, if it is properly applied in terms of proper cost-benefit analysis and commercial use. That is an initiative that has recently been changed, but we

believe that it is an area where government does have a role and where government can kick-start suitable infrastructure developments on a basis that will be ongoing.

Finally, we would summarise that the role of government in this area is primarily to set the right sort of competition and economic settings for these infrastructure developments, occasionally to be involved in perhaps incentives such as the rebate scheme and, ultimately, to design the most effective regulatory base within which we can assure safety in other matters that are ongoing roles of government.

CHAIR—It is a very comprehensive summary. Not only in your own paper but also in the last day and a half, four or five highlights have emerged. If I could open on those points related to the role of government in this exercise, we have heard three or four very interesting concepts, one being the requirement of the states to surrender some of the regulatory authority in respect of operations. We have 22 different regimes in Australia for signalling and safety clothing—all those sorts of things—and operations and general interstate activity. We also had a witness saying that, although we now have a four foot 8½ inch line from Brisbane to Perth, we have still got five different regimes in getting to Perth. So, although technically we are on the one line, the regulations and safety procedures change at each border. I would like you to comment and expand a little on that.

Another witness we had this morning made the point that, without some injection of Commonwealth funding into the rail network, the access regimes will be able to provide for the current maintenance of the track and perhaps some modest innovation or renewal but nothing of a major nature. How would your department see that being progressed, especially as the areas that would be most at risk in that not occurring would be the very areas for which your department is responsible, namely, the bush? Could we address those three issues?

Dr Hearn—In our submission, and let me repeat it here, we subscribe very strongly to the need for national consistency as much as we can get it.

CHAIR—Do you mean operational—

Dr Hearn—Operational consistency as well as infrastructure consistency. I know we have inherited, for reasons that are now historical, varied processes and various infrastructure characteristics, but as we move to renovate and maintain we should be pushing in an engineering context towards the most consistent approach that we can have in our rail network.

On that side of it I would also add that we should try to get operational consistency. I see no reason why we should have different safety standards, for example, between states. It does not necessarily lend any logic to it and, with the national approach which is being engendered under the new reform agreement, I think that should be right up at the front of the agenda. We should also have operational consistency as much as possible. We cannot be totally consistent across a continent of this size, but there should be as much operational consistency as possible, because I would like to remind you and your committee of the obvious point that many of these bulk commodities and indeed passengers, for that matter, travel interstate. They are not confined to one state. Export operations often involve going between states to get to the best port.

It is confusing to the industries at times and costly to have to have different regimes, and I think there is a significant micro-economic reform in that area. I recognise that there are practicalities in here and sometimes this will take time, but I think we have to keep pushing in that direction and I think a start has been made, which is a credit to those who have started the roll. We are quite clear on that aspect of it.

In terms of funding, I would make two points. The funding and the pricing are closely interrelated. If we get open, transparent pricing as close as possible to the market for access and we get contestability in the first instance, particularly in the area of the rolling stock and the variable components of the railway, I believe we will make a good start towards the correct pricing and, therefore, the correct contribution towards the overhead capital costs. That said, it is apparent that the actual tracks—the fundamental infrastructure—lend themselves to the fact that there must be a state monopoly at this juncture. It could be privatised at some stage and it is worth examining that privatisation scope, but I believe at this juncture that, in the running of the tracks themselves—as opposed to the rolling stock where you can have state and private sector competition on the basis of competitive neutrality—and the maintenance of the tracks, that is something that would involve, I believe in the foreseeable future, a considerable state input.

Having come to that and the cost of that, again, if governments move towards a consistent and well-designed user-pays process for the use of the rail network, provided that it is designed properly and effectively—and that is a big proviso—and provided the costing of that is done on a proper professional basis, then I do not see why you should not be largely self-sufficient, over the longer term, in terms of the railways running themselves with state management but with private sector input.

I come back to the CSO aspects of it. There may well be some times when there needs to be capital injection from state or Commonwealth budgets in order to meet some social requirements in rural and regional Australia, and we are well aware of those requirements from time to time. In that sense where there is that input, again, I repeat my point that I do not believe that it should be picked up in the freight charge to cross-subsidise the passenger charge. If it is going to be done for social policy areas, it should be identified separately and, I believe, paid for separately in terms of the budget.

CHAIR—Yet governments, state and federal, have not been in a hurry to do that sort of thing. We had evidence yesterday from the ALGA. They cited an area around North Star in northern New South Wales in the grain belt where, because of the closure of some train lines, the task of moving the grain went on to the roads, and now they have got a bigger problem with their roads than they originally had with the rail.

Ms Quang—There is something important there. As long as the access regime is being charged for the access to the track usage, and to the extent that the usage of the road is not subject to any fundamental charge, in the sense the road user is free to use the road that is constructed, there is a degree of distortion in the investment decisions they are going to take between alternative modes of transport.

CHAIR—I suppose the transport industry would put the hypothecation argument: that there is 36c of excise there and, if it is not being applied to road, why shouldn't it be? This committee, as you are probably aware, has just finished a report on roads, where we have suggested to government that hypothecation should be dropped. Nevertheless, you could understand in the transport industry that, for the time being anyhow, that would be a very strong argument, would it not?

Dr Hearn—It certainly is and it is an extremely difficult one. I would make two points to that: firstly, the hypothecation argument does not detract from the fact that we should try and keep a totally integrated approach to the reforms that we are looking at, with roads taken into account and the points that you have taken in. When there is heavier road use, you do get certain maintenance and safety issues et cetera. There is no question, that is true. In the integrated approach that we are advocating, I do not say that it is an easy solution, but I think we would go further to getting a more rational and a better judged approach between the different networks and competition would improve that as well.

With regard to the taxation side, the forthcoming tax debate must surely pick some of this up as part of that debate. I am not trying to duck it, but I do not have a ready made answer to that one, other than to say that I would suggest that any tax that we have has some degree of possible distortion in it. I have a former treasurer here—I do not know whether you would agree with me. But I do not think we can find a tax that does not have some degree of distortion. We have to minimise those distortions out of the tax system. The general revenue purposes of the tax cannot be forgotten in terms of our overall fiscal balance. Sure, there will be distortions, and we have to look at those in any tax debate that the government and opposition would have.

Mr WILLIS—I was not going to follow the tax issue through so much as just to pick up that point about what happens when we have a closure of rail. You seem to suggest in page 6 of your submission that there is an imposition on local government because they get increased use of their local roads after a rail system closes down and that puts an added cost onto them. We had a submission about that yesterday from the Australian Local Government Association talking about the rail line into Moree which closed down and which put a lot of extra wheat trucks onto the road and caused a lot of road deterioration. Are you suggesting there that, if state governments close a railway, they have some kind of community service obligation to then put some money into the road to help local government with its additional road expenditures?

Dr Hearn—I think it is a practical issue. If a railway is closed summarily without any sort of consideration, just with a stroke of the pen, then I think inevitably state or Commonwealth governments are going to find they are going to have higher costs on some of those roads because the deterioration will reach a point beyond which the local community can no longer, through its rates or whatever, contribute. It will become a self-fulfilling issue.

I believe it comes to the practicality of how you set about the reform. If particular railways do have to be closed, they should be closed with some foresight to those issues and they should be done on a suitable timing basis. I think it comes back in a policy context to the right timing rather than the issue. If they have to be closed because they are non-profitable, then I think, inevitably, they are going to close at some stage anyway. It is a question of when governments take the jump.

Mr WILLIS—Maybe if state governments had an obligation to make some payment for the upkeep of those roads, that might be a factor which would go into the decision of whether they close the railway or not.

Dr Hearn—Yes. That is something to be taken up, and I do not want to prejudge. Again, we are not here to argue taxation as such but, in the broader tax debate that seems to be looming, the relations of finance

between state and Commonwealth would presumably be part of that and, indeed, this issue would be part of that.

Mr WILLIS—Just to follow that through a bit further, you say that the department supports the removal of subsidies from road and rail. Do you have any particular set of subsidies in mind that you are supporting the removal of?

Dr Hearn—I guess we could get a list of subsidies that we believe—

Mr WILLIS—Off the top of your head.

Ms Quang—We do not have the specific example of the actual subsidy paid. When we talk about a subsidy like the construction of the road itself and the form of budget outlay for the construction of the road, the user charge on access to the rail's infrastructure and the extent of the cost recovered or not recovered fully. How the charges are made and the disparity can be regarded as a degree of subsidy, rather than the actual payment to the operator of the rail, the road and the individual charges.

Mr WILLIS—Yes. That point has been made by various parties appearing before the committee: that road is not paying its full costs so therefore it is a subsidised operation. On the other hand, rail is argued to be paying more than its full cost because it is paying a road user charge in the fuel excise. Do you have any comment on that?

Ms Quang—While we are not going to the extent of saying that in those sorts of terms, we are basically saying that we need to look at that to make sure that, as far as possible, the distortion, as in your example, is looked at in order to ensure that the most efficient mode of transport will be available for the community.

Mr WILLIS—But would you accept the argument that is put up by some people that the system is not a level playing field at the moment and that the whole field is tilted against rail by an under-recovery off road and an over-recovery off rail?

Ms Quang—Prima facie, but in our study we do make the points conclusively.

Dr Hearn—I would like to add that I think, prima facie, that is correct; the numbers speak for themselves. What is primarily driving excise at this juncture are general revenue purposes. So the general revenue seems to be the predominant issue in the excise.

Perhaps in the forthcoming debates we have to recognise the offsets between general revenue debate and the micro impact of those excise there. I think it is an extremely difficult area, but it is one that we should not run away from, as indeed we should not from the aspect of royalties as a part of the user charge, which adds substantially to the costs of some of our export industries. In fact, those royalties should be borne more widely, in our view, because of the wider application of railways.

CHAIR—As a primary industries department, I think we accept the reality that, under this new

partially deregulated regime where competition is the driving force, we are going to see that the interstate lines and the main trunk routes, such as the ones to Cairns and so on, will be competitive and well used. The sorts of lines we talked about, such as the grain lines, will become somewhat of a liability—whether or not they can be covered by CSOs or some other method.

One thing that was bounced around yesterday afternoon was the possibility that some arrangement in those grain growing areas could be reached with the peak grower organisation to take those train lines under the similar regime to the tramlines at the sugar mills, whereby the industry could own them—if they are only being used for three or four months a year and it was on a care and maintenance basis—perhaps with some government subsidy; or perhaps without, I do not know. I would be interested to hear your comment on that.

Dr Hearn—We think that that is an area where industry can respond in two ways. One is through the example of the sugar industry. You also have the example of the iron ore industry in Western Australia where there are some similar arrangements in some parts of the west, and they work well. I do not know whether that pattern can be applied generally, but certainly we should be looking—as industry departments and transport departments and others, as well as the industries themselves in partnership—at how much of that can be done. I think there probably is more that can be done in that area in opening it up and allowing that sort of competitiveness.

The other side where I think there may be scope is the scope for industry to restructure to meet some of the railway requirements through aspects of investment in warehousing. You see some of that with the cotton industry, where they have established warehouses strategically in places to meet the railway aspects and not necessarily at the ports.

There is economics in this and it will vary between industries, but you can in fact strategically locate some areas of your investment as an industry as long as you know which way the railway policy is going in the future. There has to be some certainty, or a degree of certainty, that that railway is going to continue to exist if you are going to make those investments. But once that has been done, between government and industry, they can actually make moves to meet the best economics of it.

As I say, in the cotton industry, I think there are examples where inland warehousing, as opposed to port warehousing, has in fact proved very economic in terms of the cost of the warehousing and the land, et cetera. In fact, at the critical times for export, you can go straight from the warehouse to the port.

CHAIR—Has your department done any studies on this, say, with respect to New Zealand, Canada or the United States—which are often thrown up to us—as to how their primary products and minerals are moved? Have you done any studies on that?

Dr Hearn—We have not done any studies that I think are noteworthy other than just information exchanges. I am not aware of any study that could be drawn to your attention which says, ‘Here’s a discrete study on this.’

Mr McARTHUR—I am following up on your recent question, Mr Chairman, on the grain handling authorities and their relationship to the rail authorities. I speak particularly of Victoria, where the key element

of the profitability of the freight checks in the Victorian railways was related to grain handling and the interrelationship between that authority and the railways. Would you care to comment on that?

Could you comment on the relativity of rail and road? We talked about that a minute ago, but who pays the cost, particularly in this grain handling argument? If the grain goes off the rail and goes on to road, who pays? The connection with the ports by railways—you might make a comment on that. Would you comment on whether you think freight should have priority over passengers because of the importance of primary industry exports?

Dr Hearn—I will take the last question first and work backwards. No, we do not subscribe to the view that freight should have priority over passengers. What we do subscribe to is that passengers should not have priority over freight. In other words, we are arguing for the fact that, in a consistent way, the pricing should be such that there is not a cross-subsidy between those two components of the railway market.

Let me repeat: if, for the passenger component, there is a need for a social injection—and there are some arguments for that—then that is done out of the budget and done transparently rather than through the price, which impacts on the efficiency. But, equally, we do not think that passengers should cross-subsidise exports. We do not see an argument for that.

Ms Quang—More importantly, we need to ensure that, nationally, we have an infrastructure system that will cater for the economic need and national competitiveness of our country, both from the freight point of view and in terms of the movement of people point of view.

Mr McARTHUR—We have heard some evidence here that in Sydney the passenger rail system creates a major bottleneck for the freight operation of grain through Sydney. If you do not have a view on it, it will just continue to get worse.

Ms Quang—If there is inadequate infrastructure to cater for passengers and freight needs, then the question will have to be looked at in terms of the congestion point. Is it an issue of additional investment being needed to ensure that it caters for the economic needs of our nation rather than looking at it from the perspective of ‘Shall we take fewer passengers or shall we take more freight’? That is the point that I am really trying to make. If there is congestion, it might signal the need for additional investment rather than the choice between alternatives.

Mr Lekawski—Basically, the key to that question is just adding infrastructure. I do not think that we should bias in favour of one, either grain freight movers or passenger trains.

Mr McARTHUR—But the evidence clearly given to us was that the freight movers were allowed to move from 1 o’clock to 4 o’clock in the morning and they were restricted at other times. It was quite clear evidence put to this committee.

Mr Lekawski—On what basis—regulations or on a commercial basis?

CHAIR—Insufficient slots.

Mr McARTHUR—Insufficient line availability and the pressure of the urban transit passengers.

Mr Lekawski—Then we are coming up to infrastructure bottlenecks, where, if that sort of arrangement is not satisfactory to the grain producers, we should look at greater investment.

Mr McARTHUR—You would be advocating on behalf of the grain producers? You would put a good case for them?

Mr Lekawski—I would not advocate anything without knowing the details further, but—

Mr McARTHUR—You are advocating on behalf of the primary industry. It was put very strongly to us, in evidence in the last couple of days, that this bottleneck existed in Sydney, so much so that the freight people were almost being excluded. They had a very small window of opportunity to move their freight through the yards in Sydney.

CHAIR—It is going to be exacerbated by the Olympic Games.

Ms Quang—That is an issue of infrastructure. Again, we need to do a cost-benefit analysis to determine whether new investment needs to be forthcoming, what sort of policy—

Mr McARTHUR—You have to support primary industry; that is your position.

Ms Quang—We support the economic activity of the nation, including that of our primary producers.

Dr Hearn—In answer to that question, Mr McArthur, we certainly support the primary industries having the most efficient infrastructure and system and service available. I think our submission, while it is not novel in many areas, supports the arguments of areas where that can be done, and we are quite clear in that support.

Our support does not go to the extent of cross-subsidisation the other way. We are simply saying to get the most efficient system; in fact, we are stressing right the way through there that we have got great gains for efficiency, and we cross-quote the Industry Commission and other parties.

Mr McARTHUR—What about interchange with the roads and the ports? Would you give us a comment on that?

Dr Hearn—I would just start by saying—I might ask my colleagues if they want to add to it—that it comes back to the pricing mechanism. If we get that pricing transparency right and we open up the competitiveness, then I believe, while there still will be some role for government in getting the right mix, the market will proceed. I am not a believer in the total capacity of the market to fix every problem here, by the way, but the market will add a considerable degree of—

Mr McARTHUR—What do you mean by that? That is sort of theoretical. We have heard evidence here that the road pricing is out of kilter with the rail price.

Dr Hearn—Yes.

Mr McARTHUR—You are just giving us an observation. What do you really think about it? Are you going to increase the cost of providing road in some of the access to silos in western New South Wales, for instance? Are you just going to say that there is the price mechanism?

Dr Hearn—No. I think that the price mechanism on the railways is the one that is probably, at this stage, the one that needs the greatest attention. I think that some attention is being given to the price mechanism.

Mr McARTHUR—To bring it down?

Dr Hearn—It can come down, yes, most certainly. I think it can come down because you can get away from the monopoly rents that seem to be available there. Secondly—and the point I go back to—is the charge of royalties and some of the cross-subsidies that are being used there. I think that a start has been made. I am not suggesting that we are still back in the days of the ark on this, but I do think that there is scope to go further in those areas. I do not suggest that it will totally resolve the problems of congestion and so on, but it will go some way towards resolving some of those problems. I do not think that we can let the pricing mechanism go to the point where you will have 10 different prices on different parts of the same trunk road, or whatever. I think that is probably pie in the sky.

Mr McARTHUR—So with the monopoly rents, you are talking more of the iron ore or coal railroads, are you?

Dr Hearn—Particularly those, yes.

Mr WAKELIN—You would be well aware of the royal commission report on grain handling in the late 1980s—least cost path was the jargon of the day. You mentioned in your presentation practicalities between state borders. Can you just define a couple of those practicalities, perhaps, a little beyond the regulatory mechanism?

Dr Hearn—Some of the remaining ones have been adjusted, but even down to—I am not sure at this juncture whether all states have the same gauge, for example—the gauge and the technology that has been used between states varies. That causes handling problems in a technical sense.

Secondly, there are, in the regulatory sense, some different requirements between different states in terms of safety and handling, and even down to employment and workplace conditions. Thirdly, there are differences between states in terms of how they finance railways, particularly on the issue of royalties which I keep coming back to and which is so important to the coal industry. They are just four examples of differences between states, and the people who are picking up those differences are the users of the railways in many cases.

Mr WAKELIN—In terms of the urban rail corridors and the costs there, have you done any work on, if you like, transfer costs, or on the impact on state budgets and general efficiency?

Dr Hearn—We have not. As I said in the beginning, we are a secondary policy department in the area of transport. We are a very interested one and we certainly think that there is scope for work like that if it has not been done. I do not think actually that we would be the primary portfolio to carry that, but we would participate in it if we were required to. I think that we could bring resources to it.

Mr WILLIS—Can I take you back to your comment a few minutes ago about the major priority being to address price distortions in rail rather than in the road side. We have had evidence to us from a number of people about the inadequacy of the road user charging. We had Tranz Rail from New Zealand here this morning. It runs a profitable railway these days and it is fairly clear that a major basis upon which it runs that profitable railway is that road user charges in New Zealand are four times what they are here. So that would seem to indicate that if rail were to be made more of a goer in this country, a major task would be to get some proper road pricing. Would you like to reconsider your comment in light of that?

Dr Hearn—Proper charging on the road side of the equation will be closely tied up with the excise debate as well. If we are prepared to link the taxation issues of road with the pricing of roads, then we could get a system eventuating where you might have lower taxes but higher charges for users on the road, in which case we would have a greater use of turnpikes, or whatever the modern term is for roads, in terms of charges on trunk roads. These would be not only for industry users, by the way, but also for private family users of roads.

That would have to be tied up with the examination of the excise disparity you raised earlier. You would have to take the two together to do that. On the argument about competition, one of the previous parties appearing here argued that the primary issue was to get the right competition between the roads and the railways as opposed to getting competition just on the railways. I say: get the right competition for both. You cannot go for one or the other.

Mr WILLIS—I will not disagree with that.

CHAIR—Thank you for coming today. If we have any further questions for you we will write to you and I trust you will respond in kind. If we need you back I presume you would be willing to return.

Dr Hearn—We certainly would.

CHAIR—You will receive a draft copy of your evidence. Thank you.

[2.21 p.m.]

JOWETT, Mr Roger Gavin, National Secretary, Australian Rail, Tram and Bus Industry Union, 83-89 Renwick Street, Redfern, New South Wales

CHAIR—Welcome. Do you wish to say anything about the capacity in which you appear?

Mr Jowett—I also appear for the ACTU group of rail unions, which comprises our own union, the Australian Services Union, the Australian Manufacturing Workers Union, AMWU, and the electricians, CEPU.

CHAIR—These proceedings warrant the same respect as do those of the House of Representatives. Any false or misleading evidence is a serious matter and is regarded as a contempt of the parliament.

Mr Jowett—Yes, I am aware of that framework.

CHAIR—Do you have any alterations to the submission you have made to us?

Mr Jowett—I have some additional material. The overarching theme in our submission is that the railways have never faced an era of more profound, comprehensive and rapid change than they do today. In testimony to that is the range of events that has occurred since the last time we were before this committee on 24 July. With the leave of the committee I would like to present some documentation about a number of events that have occurred since then. I have copies which can be distributed to committee members.

CHAIR—Do you want to talk to it?

Mr Jowett—Yes, I want to refer to the major features.

CHAIR—Before we get onto that, did you want to make an opening statement covering the key points of your original submission?

Mr Jowett—Thank you. On 24 July we made some overarching remarks and we would like to add to those today. We would like to take a step back to the treatment by the parliament of Australia of the role of railways. From my involvement in the industry over some period of time, we believe that this particular inquiry has the unique possibility to address what we see as a number of disadvantages facing the rail industry.

If we traverse the last generation, there have been—and I might stand to be corrected—two inquiries. One in 1983 under the auspices of the deputy chair of this particular committee, Mr Morris, inquired into Australian National, and in 1988-89 there was an inquiry, oversighted by Mr Saunderson, which produced a report, *Rail; five systems, one solution*. At that time there had been two major inquiries.

We have seen over the last 18 months what we term a significant micro-economic reform. We have some views about that micro-economic reform, but the point we wish to make is that we believe this inquiry

provides the opportunity to address the need for vital macro-economic reform. When we look at reform we see two sides of the coin, one side being the macro and that essentially has evolved around market forces and deregulation and under the auspices, in the Australian context, of the national competition policy. The other side of the coin, from our understanding of transport issues in this country and, indeed, the whirlwind of reform in the railway industry which is occurring throughout the world, is the opportunity presented by this inquiry to look at macro reform.

Firstly, when we look at macro reform there are a variety of issues which we would like to address. They include our view that there is a need for a nationally integrated transport strategy that, to date, has been fragmented, and the consequences of that fragmentation show in a number of areas. That is the first point we wish to make going to a national transport framework. Within that there is a particular role for rail. Also, we have a view about what is encompassed in that rail component of a national transport framework. At the moment there are discussions about the formation of a National Rail Track Corporation to come into effect on 1 July 1998. We think the network that is being looked at is deficient. We think that there is a need to have secondary lines added to that network. We believe the east coast network between Cairns and Brisbane and the main line network in Tasmania should be included.

Secondly, our submission goes to the competitive model and national competition and how it is played out in Australia. In particular, in the railway industry, in terms of our understanding of what has occurred internationally, we have adopted one of the more extreme forms of railway restructuring in a competitive framework. We have adopted the vertical separation with full competition model. The only countries to have adopted that model are the eastern European countries, and from our point of view that does not bode well as a comparison.

Thirdly, our submission draws attention to funding and road-rail funding which has a number of components. It has a component for looking at the gross investment by the federal government in rail in the post-World War II sense. Our figures will suggest, in broad terms, that there is a 10 to one investment ratio in favour of roads over that period of time. Of course, you would be familiar with the national road network which has been established since 1974, and that has been extended in quite a dramatic way over the years to include a range of further additions to the network. Also, we draw attention to the fact that the investment model for road is a lot more lenient and liberal in terms of going beyond just the financial issues to socioeconomic issues. On occasions we have seen road funding allocated for employment generating reasons and increased for developmental reasons, and the list goes on. We would argue that there is a need for a complementarity when it comes to criteria for investment between the two modes of investment.

Also, in drawing comparisons between road and rail, we make the point about fair competition. That goes to access pricing, to gross investment and also to labour and safety related matters. From our perspective, for a worker in an industry working 80-plus hours a week, not only is that dangerous, not only does it offend notions of fairness, but in a competitive sense it places one mode at a terrible disadvantage to another.

The fourth point we wish to make goes to the National Rail Track Corporation which is intended, as I understand, to come into effect on 1 July 1998. We point to experiences overseas in terms of vertically separated or integrated railways. We point to our misgivings about the potential success of the foreshadowed

corporation in Australia. We point to the only study that has been undertaken, as far as we know, on what framework and environment this corporation might operate in. From our point of view, that was not a good outcome for the particular direction being pursued at the moment. Also, we look at access charges and the ability for access charges to represent not only the internal cost of transport but also the external costs. In addition, our investigation of access charge pricing shows that there are a number of models operating in Europe and that there is not one fundamental model which should be followed. We believe that there is a creative role beyond financial and commercial issues which access pricing can convey and should play.

Finally, in our submissions we point to international best practice, conduct a review of the literature and make a number of comments which we believe are pertinent in any analysis of what that particular feature might have in its role to the railway industry. In terms of the additional documentation that has been provided, we include as document 1 extracts from our union's latest journal which gives quite a considerable degree of attention to the impact of the privatisation of Australian National. There are in fact seven pages devoted to a range of issues. I do not know whether it is the final structure that has been arrived at—and I do not think it is—but it is the one that is in place today. It goes to various labour issues: to investment, to pricing and to sale prices—and there are a number of comments on that.

I think that it is important for the parliament to acquaint itself with what the practical results of the privatisation have been. There was an adjustment program—albeit a modest one—which accompanied the privatisation. I think that it would be important for the parliament to look at and investigate and report on the outcomes there. That is our first document.

The second one goes to safety, and that is a key concern of the railway work force. There have been a number of major incidents in the railway industry in Australia over the last two years resulting in tens of millions of dollars damage and, more importantly, the loss of lives of our members. There is very little attention, in our view, given to rail safety in the whole debate about the future role of rail. Our extracts from a British magazine article from *Modern Railways* go to safety in that country. Of course, in a number of ways, the British system is the precursor of what a privatised railway might look like. They have had the experience of its operation for two to three years now and there are some very pertinent observations which we could profit from.

Also, from the United States, there is a very interesting article based on an interview with the US Federal Railroad Administrator, and that is the benchmark model for railways in Australia. They are vertically integrated, privately owned and profitable. But, having said that, there are large safety problems.

In document 3 there is an extract from documentation provided to a recent International Transport Workers Federation conference held in Berlin. This would probably be the most up-to-date synopsis of a number of vital issues affecting railways not only in Australia but also throughout the world. We have included that because it is the most contemporaneous.

And then we have document 4. We do not want to focus on the attributes of Mr Hill and Soccer Australia but, rather, the comments he made in departing as the CEO of the State Rail Authority. From our point of view, he had some very pertinent comments in relation to the railway vertical integration versus separation issues as a practical railway operator making comment about those issues.

Finally, we refer to a report—in our view, a contemporary report—about the proposed privatisation of urban public transport in Victoria and how out of step it is with the rest of the world. But having said that, when we look at the terms of reference of the committee—there are five particular terms of reference—public transport in the urban form is excluded. Our view would be that that subject, of itself, warrants involvement by this parliament at a later stage. We would not like to see our not making detailed submissions about urban public transport being taken as an indication that maybe we think it should be handled by the states. From our experience, Australia has a vital role to play in urban public transport. What distinguishes us from most of the overseas countries is that that federal government role is not there. They are just some overview comments.

CHAIR—We have noted your basic issues and then there are these additional ones. In one of your comments you inferred that we were moving towards total deregulation. That might be the case in South Australia and in Tasmania, but I do not know if that is necessarily going to be the trend in the other states. As I understand it, most of the other states want to retain their state rail authorities as competitive players even though there will probably be access authorities of various sorts. We have had evidence here today suggesting that the new corporation, which will be established in July, should have some teeth so that it can deliver access in a meaningful way. Would you like to comment on that?

Mr Jowett—There are a number of aspects to your question regarding total deregulation. When I referred to the type of model being chosen in Australia and indicated our view, on a world scale it was one of the more extreme models of vertical separation and full competitive access. The aspect of that which we would like to challenge is what benefit it will have for the rail industry. That has now been essentially in operation for three years. There have been some very minor entrants into the industry on an interstate basis, but the questions we ask ourselves are: where are the increased tonnages; where are the increases in NTK; and where are the increased percentages on the main interstate trunk routes which are coming to rail? They are not there. The only study that has been—

CHAIR—Let me correct you a little bit. We had evidence just before lunch—and I am just going from memory—that there had been a drop of 25 per cent in the cost of freight to the west as a result of the various competitors coming onto that track and 18 per cent greater utilisation. I would not be quite sure of that second figure.

Mr Jowett—In what context was the 18 per cent greater utilisation?

CHAIR—More freight—18 per cent.

Mr Jowett—If the figures are there, they have certainly eluded us. Unfortunately, one of the downsides of privatisation is that access to up-to-date information becomes considerably worse.

CHAIR—Obviously they could not have dropped the price by 25 per cent if they had not been getting more freight, could they?

Mr Jowett—I disagree. Our members provide the labour to the trains—whether it is in the terminals, on the tracks or in the form of the train crews—and from our point of view those percentages are definitely

not there. When we see the total freight carried by rail, or look at it in a total land transport sense, we look at a static tonnage. So when we have discussions with National Rail management—as we do per our industrial agreement—and they make a presentation to the union about their business plans for the next year, their business plans for the next five years, what their revenue is and what their tonnages are, those figures are static.

We have seen a rearrangement of the tonnage within rail, so there might be a price decrease in some areas on the east-west route. I have several questions to ask: is that price decrease going to be permanent? Are the new entrants into the market—the SCTs, the TNT-Tolls—going to be there in five years? I put my money on the fact that they will not be.

My observations in the unions about economies of scale, distances in Australia and the basic thinness of the haulage task suggest, as does the only study on the type of market and the implications of a national rail track infrastructure authority—whatever it might be called—that this type of development is the wrong direction. The jury is still out, but from the figures we have seen from an embryonic operation of this model the tonnages have not gone up. The questions we ask are: is it going to be permanent and what is the shape of the system likely to be?

Part of your questions went to deregulation, the full deregulation model, and South Australia and Tasmania going the further step. The next sequence is: what else is in store in 1998? The year will be a continuation of privatisation. In Victoria we will see the privatisation of public transport, whether it is the rail or tram operating companies which the government wants to set up, the ceding of the interstate main line to the national track corporation, the setting up of a new track corporation or the hiving off of V-Line passenger and V-Line freight. Victoria is really on the 'for sale' block in 1998.

Then we go over to South Australia where, as we have observed, there is very little left at this stage in the public domain when it comes to railways. We have seen a massive loss in jobs over the last three months. Then we go over to Western Australia. We saw in the national newspapers two weeks ago an advertisement for the scoping of the privatisation of Westrail. On top of that, there is the outstanding responsibility of the federal government in the rail area—where, in our view, the hard yards have already been made—which will be put on the 'for sale' block most likely in the third quarter of 1998.

There is extensive privatisation under way. In New South Wales, we have seen the Labor government break up its former rail system into four entities. The unions certainly have not supported that. There is privatisation. There is contracting out of the per-way going on. There is contracting out of maintenance facilities of the railway workshops. There is a struggle in terms of the business about market share between a number of the operators and the private sector.

There are various aspects to privatisation, whether it is the direct takeover of those assets as in the ATN sale of Tasmanian railways for \$22 million or de facto by contracting out. That leaves Queensland, and Queensland has a diverse railway system. Out of its own resources, it has spent \$600 million on the upgrade of the east coast. That compares with an Australia-wide investment under Labor's One Nation of \$450 million, just to give you a comparison between the two investments. Queensland is what we would see as a dynamic rail system. Queensland says, 'Yes, vertical integration as the Americans, New Zealanders and Latin

Americans say is the way forward. We can make a profit from our railways. We can deliver community social obligations to regional Queenslanders and we can have an up-and-going urban public transport system.'

I think that is the state of play in terms of where privatisation and outsourcing, et cetera, are up to. In terms of deregulation and its totality, there are a number of other components of regulation. There is labour market regulation. One form of deregulation is Australian workplace contracts which we have had some quite bitter experiences of recently. Of course, they are very strongly opposed on a whole range of grounds by the union movement. Labor standards are still in place overwhelmingly through awards and agreements negotiated between the parties. There are safety regulations, which are extremely important, and standards going to training and physical characteristics.

So in the totality of what makes a railway system tick there is at the micro level of the firm a substantial amount of deregulation. There are also these other factors which go into the melting pot to determine the outcome for railways, and these, necessarily, should be regulated. In our view a number of those areas in this era of new entrants should be tightened. In particular, we refer to operational standards, training and, above all, safety.

Mr TANNER—Ed Burkhardt painted a slightly different picture of what has happened with respect to the employees and the infrastructure of Tasrail. I wanted you to elaborate on that. His line on the AWAs was that there had been all these productivity improvements but that the workers were in general getting more money—and they were very happy. I did not press him on the point but, given the written material, I am interested to get your response to that.

On the Tasrail front, what is your view on the state of the track infrastructure, in particular, the likely level of investment we are going to see? I would be interested in equivalent information on what has happened with GSR and the other parts of the old AN with respect to the number of jobs lost. There has been only a small number lost in Tasmania, by the look of it—it is significant but it is from a small base. A much larger number are lost in South Australia. I would be interested to get your views on that, and on changes in wages and conditions.

Mr Jowett—It is going to be difficult to do it justice in a brief synopsis. Ed Burkhardt has a bit of a reputation in broad terms as an evangelical capitalist.

Mr WAKELIN—What is an evangelical capitalist?

Mr Jowett—One who sings the alleged praises of the free market with a very loud trumpet. Of course, the reality is quite different. Mr Burkhardt is the head of an emerging phenomena in our industry—the railway multinational. Mr Burkhardt now has interests in five continents. Only in one of those continents is the labour movement not representing working people in the bargaining for wages and conditions. Not only is that against International Labor Organisation conventions, it is also against the wishes of the employees.

Mr Burkhardt's employees in the UK have negotiated agreements with the ASLEF and the RMT. In the United States, after a 10-year battle—Mr Burkhardt is well known for his anti-union views—between Mr Burkhardt's company and the US labour unions, they now have collective bargaining rights. I think that that

is testimony to the perseverance of railway labour. We are persevering people and we will obtain collective agreements with those companies in the near future. The same happens in New Zealand where Tranz Rail, of which Mr Burkhardt is the major shareholder, has a collective agreement with the RMT. In Canada it is the same.

Mr Burkhardt's Australian operations are quite different from what the company has pursued in the labour area throughout the world. In terms of AWAs and productivity, we need to take a step back about what has occurred in Tasmania. In 1978 in Tasmania, when the system came into operation, despite a move by the then federal government through its then transport minister, Mr Nixon, to investigate the agreement with a view to pulling out of it, the work force was some 1,600. By the time it was solved, the number of employees was down to 183 and the operating deficit was less than \$1 million. So in our estimate, taking into account other factors such as the inappropriate interest charges allocated to Tasrail and inadequate investment over a sustained period of time, Tasrail was in fact making an operating profit. So, in terms of where the hard yards had been made and of where the productivity improvements had been made, whether it was the very modern railway maintenance or loco maintenance centre in Launceston, which is up there with the best of them, or whether it was the severe decrease in the work force, extensive productivity gains will be made.

In terms of getting productivity increases from workers, there are a range of options. At one end is what we call 'the baton behind the ear' approach, which we think is represented in AWAs. There are, of course, other ways of negotiating through certified agreement awards, which is what the overwhelming bulk of enterprise and unions do in this country. If you have a look at the predecessor, Australian National, a cornerstone of their productivity and program was best practice, of which the unions were a leading component, often in the face of management intransigence. In our view, equating AWAs and productivity increases as being a closed circle is absolute nonsense.

The desires of Tasmanian railway workers were expressed at duly convened meetings with the unions. Those resolutions, from our membership, overwhelmingly said, 'We want collective agreements, we want collective negotiations.' In terms of the happiness or otherwise of the work force, I would probably categorise it in the words of Hunter S. Thompson as 'fear and loathing'. I was down in Tasmania myself last week and, these days, you have to talk to the employees off the premises because there is a three-month probation period. Of course, when you have a work force of some 175, 30 of whom are on fixed term contracts and 140 of whom have a three-month probation, there is going to be almost a military bearing of those workers in terms of them looking over their shoulders and not wanting to be seen to be offending anyone. That is the reality of how railway workers feel in that state. I have had a number of approaches from our members inquiring as to the availability of positions in other states. In the long term, railways in Tasmania can be profitable. The union has consistently, over a period of time, pressed for investment and productivity and for the desire for the railway systems to succeed.

In terms of track infrastructure in Tasmania, it is somewhat ironic that one of the unions made submissions to the privatisation debate recently held in the federal parliament, accompanying the carve-up of Australian National, which included a declared main line in Tasmania. We had a look at what the NTK of rail in Tasmania was overall. Overall it hauled some 18 per cent. We looked at fuel levies and excise levies, and worked out some calculations on a rough basis of what was warranted for investment in Tasmania. In our view, that was around \$20 million.

In terms of the current condition of the tracks, we could probably say they are of fair average quality—FAQ—and that there has been some limited investment over the years. In 1978, in the report by Minister Nixon, it was indicated that rail should not be charged interest on loans made; that they should be placed in a similar category to roads and that they should be interest free bearing loans. That was not the case and rail, as you know, had to put up with the interest charges, to its competitive disadvantage.

In terms of what has occurred with jobs, wages and conditions, we will probably need to take that on notice and give you some details in terms of comparisons. What you really need to understand is how many hours are worked and over which days of the week those hours are worked to get a valid comparison.

I would just make the point that the AWAs of Mr Burkhardt's company provide for a 40-hour week where the norm and the previous practice, both in Australian National and in the industrial community in Australia generally, is 38 hours. The hours between 38 and 40 are paid at single rate. There will be no wage increase for three years. So the effective comparison between rail workers in Tasmania and those in other railway systems in three years time is that they will be at least 10 per cent worse off.

There are a number of other features, going to driver only operation, the length of the shift and the potential implications, which are not addressed. I could go on about sick leave, superannuation, a whole range of other types of leave, travelling and incidental expenses and make comparisons, but I do not think we have time. I think I am painting a picture that the unions would not agree with of the rose-tinted view of the world that Mr Burkhardt offers.

CHAIR—I would like to maximise your time. I am reluctant to ask you to shorten your answers but we are on a pretty tight time frame.

Mr MAREK—You would be well aware of the different safety regulations in the states?

Mr Jowett—Not well aware.

Mr MAREK—No, they have different safety regulations—

Mr Jowett—Is this rail?

Mr MAREK—Yes.

Mr Jowett—What particular areas are we looking at: hours of work or—

Mr MAREK—You have to wear a different jacket to go from one state to the other and they have got different signalling. With those sorts of things in mind, why has the union not stepped in to try to fix up some of the problems or the anomalies that go from state to state in relation to operations?

Mr Jowett—We would vigorously contest that the union had not stepped in. If you have a look at the inquiries by the Senate, the House of Representatives, state parliaments, forums run by the Australian Railway Association and coroners' inquiries—the whole gamut—the union is always there.

Mr MAREK—Why has something not been done?

Mr Jowett—I would love to think that the union was successful on all occasions but unfortunately we are not. There have been incremental changes. When we look at the course of railways in the post-World War II era, I think the union I represent and the ACTU have a proud role in breaking the ‘break and gauge’ mentality. I would argue vociferously that the \$450 million One Nation upgrading, which did address a number of safety issues in terms of breaking down the gauges—

Mr MAREK—We found out that all of those sleepers—a heap of them—are still sitting on the side of the road and have not even been fitted.

Mr Jowett—We would offer to carry them free if it was going to help in terms of upgrading the tracks. But we just do not agree with you that the union has done little in relation to safety.

CHAIR—No, I do not think that was his point.

Mr MAREK—That is not my point. I have not got to my point yet. What I am saying is: are you aware of all the different problems they have in relation to the safety regulations from state to state? Then I asked: why is it that the union has not stepped in and tried to, collectively across the country, get the same set of rules and regulations adopted? I relate that back to the fellow you were having a shot at, Mr Burkhardt, because it is now his and it is private sector—it belongs to that company. Do you not think that they might have a better opportunity of trying to get one set of rules and regulations for what they have over there in New South Wales and Tasmania? If you guys cannot fix the problems why not let somebody else have a go at it?

Mr Jowett—I think you are confusing the issues, quite frankly.

Mr MAREK—Okay, you explain to me where I am confusing them.

Mr Jowett—Firstly, in Tasmania there is one rail operator and there is one set of rules and regulations, so it is not a problem. Let us go from the southern island to the northern island in terms of railway safety issues. We agree there are a number of problems. For instance, there were two major incidents relating to rail accidents which cost the lives of our members and which cost tens of millions in terms of property damage to locomotives, track and rolling stock.

The union has made a number of interventions and lots of representations in respect of safety, but we are not the only force in the railway environment in Australia. Governments have responsibilities. Governments have set up advanced safety regulatory mechanisms in the seagoing and maritime industry, in the aircraft industry and also through the National Road Transport Commission. Like many aspects, whether they are investment issues or whether they are operational issues or whether they are training issues, rail lags behind. Maybe we lag behind equally as much as the other players in the industry, but one aspect of the union’s response could be to have industrial disputes.

Mr MAREK—Would it not also be the problem that there is this mentality not to want to change?

Mr Jowett—In our view that is nonsense.

Mr MAREK—I have to ask. I am here for an education.

Mr Jowett—Sure, and we would like to give it to you.

Mr MAREK—Going on from there, you see what they have in the aviation industry, as you touched on there. There is BASI. How would you feel about having that sort of body overlooking rail to try to solve a lot of those problems?

Mr Jowett—In submissions we have made for over 20 years, we have pointed to BASI, to the maritime industry and recently to the NRTC. Of course, today we brought evidence of the latest type from the US and the UK. We are continually aware of safety problems. In answer to your question, ‘Would we like to see a change?’ yes, we would. In answer to your question, ‘Would you like to see change along the lines of BASI?’ yes, we would. We think that would be a positive step forward. We think it would add rigour, and add rigour in an environment where safety will, in our view, be downgraded.

Mr MAREK—So the statement I made about you not minding seeing changes isn’t nonsense?

Mr Jowett—No, you made the statement that we appeared to be against change.

Mr MAREK—No.

CHAIR—At the end of the day it is not going to be the union or the management that decide that, it is going to be the government ceding some of its authority to a CASA-like organisation, isn’t it?

Mr Jowett—It do not quite see it as ceding authority. To me, that conjures up people saying, ‘Let’s keep this particular area unto ourselves.’ That really is, in railways, a nineteenth century point of view. That is the era when we had different gauges under state government control. Now we have had a sea change, as it were, in terms of ownership and in terms of regulation. Aren’t we catching up with the times?

CHAIR—Whether we like it or not, the regulatory bodies today are the states themselves. Although we have a four foot 8½ inch line from Brisbane to Perth, we have got five different regimes with five different lots of signals and with five different lots of safety protocols, even down to the safety jackets they wear, for God’s sake. What we were trying to get is evidence here of whether there was a case for a CASA-type organisation. For that to work effectively, for it to have training standards and safety standards across state borders, it will require some sort of ceding of power or authority on the part of the states, not in any other field but that specific field.

Mr Jowett—We could not agree with you more, Mr Chairman. The time has come for that ceding of power. What we have seen is a number of instances where the rail systems exit from public sector control and go to private control. In fact, we have seen state governments wanting to keep control but through different mechanisms. In our view that is what is happening. In our view the direction of your questioning about time to cede and time for national uniform regulations, as has been recommended in a number of areas

on earlier occasions, is a matter which is overdue.

Mr WAKELIN—The Australian Rail, Tram and Bus Industry Union would be aware of crewing changes with National Rail. What has been the effect of these changes and how were they negotiated?

Mr Jowett—There have been substantial changes in terms of crewing. We have a look at a few issues. Prior to 1993, the total work force involved in interstate rail operations, in broad terms, was about 4,500 employees. In 1997, the number of employees of National Rail is 1,250. One of the aspects of the work force is train crews. Prior to 1993 there were a number of border crew changes because of different systems and because of history, whether it was break of gauge or break of gauge mentality. They have been abolished.

In terms of distance they have travelled, there were limitations through work practices which had been agreed to by employers in previous eras. They have been substantially removed and altered.

Train crewing, the most important issue facing our members at the moment—and it is a controversial one—is a one-person operation of trains. Also increased hours of work—a number of the train crew work 11- or 12-hour shifts—give the train crew and the union concern. We are talking internally of arguing for the federal government to impose legislative maxima for train crews, which should be at the absolute maximum 12 hours.

In terms of crewing changes, we have seen, in a number of areas, the introduction of driver only operation of trains. When we look at the systems with which we have benchmarked, particularly through the various benchmarking exercises of the Bureau of Industry Economics which focus on the class one US railroads, they do not have two-person crewing in many areas. It is three; in some areas it is two. I think there is one example of a very small system where there is a one-person operation. So on those criteria, Australia are head and shoulders above the operating practices of the US railroads, to which we are often compared quite inappropriately in our view.

In terms of your comments about how these changes were negotiated, they were negotiated across the table. The employer and the union sat down. We are not going to say that it is always painless change, or that they are not tough and rough negotiations, but that is what the parties can do when there is some goodwill, when we believe that the industry has a future and that we need to negotiate change. We did that, and in our view, we did it successfully.

Mr WILLIS—I think we are just about out of time. You have raised a lot of points, Mr Jowett. I will mention just two points. Firstly, you said that Queensland looked like state of the art with its substantial capital upgrade and its vertically integrated set-up structure. Why then would you want to have the Brisbane to Cairns line included in the Australian National Track Corporation?

Mr Jowett—No; I did not say that I wanted it involved in the corporation.

Mr WILLIS—In the clear national track.

Mr Jowett—I thought that there was a responsibility for the—

Mr WILLIS—Which is going to be the track controlled by the track access—

Mr Jowett—Yes; I might have given a wrong impression, and for that I apologise. What I was arguing for was a model for National Rail Track which included the east coast Queensland corridor and that warranted investment in terms of land transport road rail investment issues. From our point of view, it is a different proposition to say that it should be included in the National Rail Track Corporation. From our point of view, you can keep the track within Queensland and not part of the National Rail Track Corporation, but nonetheless, you can still fund some investment in those lines in Queensland.

Mr WILLIS—Okay, I understand what you are saying. The other point was on the half billion dollars or \$450 million that was in One Nation. You seem to be a bit critical of the Keating government's role. At least there was that \$450 million into the rail system, of which \$167 million was to standardise the gauge. As someone mentioned previously, and we have heard from other witnesses, for some reason, concrete sleepers, which were built as part of that project, were not actually put under that standardised line. So they are sitting beside the track between Geelong and Ararat. Do you know what circumstances surround that? I mean, who was responsible for the decision that they not be put under the track?

Mr Jowett—My understanding is—and I have been on the front of a locomotive and gone past and certainly had a lot of correspondence from our members and members of the public about it—that the dough ran out from the One Nation, and then it became a political footy of whose responsibility it was. They said, 'It is yours, National Rail'. They said, 'No; we are not an infrastructure owner. We went into the 1993 NRC shareholder's agreement as an infrastructure owner but, over subsequent years, the decision was made that that should not continue.' So National Rail said, 'It is not our problem; we are just a rail operator.' The Victorian government said, 'Well, they are lying beside our track. Maybe they could do some good in our track, but we have not got the money to pay for them.' Then the federal government said, 'Well, it is all up in the air as far as rail reform goes et cetera.' So we have got the classical daisy chain.

Mr TANNER—What is the union's attitude to the various very fast train types of proposals that we have been hearing about this morning—the Maglev, the speed rails and all of those things?

Mr Jowett—I do not think Australia is doing it very well. We are substantially behind other countries in terms of high speed rail. There are a number of proposals on the drawing boards in Australia. In our view, they are being approached in a fragmented way. There are a number of very costly proposals and we do not think they will see the light of day. We saw the VFT proposal which gathered a lot of headline space in the late 1980s and early 1990s, and that went down the plug hole with barely a trace. We have seen the proposal for Sydney to Canberra. Of course, one of the elements of the Sydney Olympics bid was for high speed rail between Sydney and Melbourne, Sydney and Canberra, and Sydney and Brisbane. We have a couple of years to go, so we always remain optimistic.

Looking at the proposals and the history of high speed rail, we are talking about billions of dollars, about research and about economies of scale. The practice of the past, what has occurred, and the approach of governments has been that not a brass razoo of public money will go in. Then you have a look at the reality

of investment and large infrastructure works, and the best example for railways is the Sydney to Kingsford Smith airport rail link for which one minister said, 'Not a zack,' and then there was a vital by-election and suddenly 'not a zack' turned into \$600 million.

CHAIR—Queensland has done that, of course. You mentioned the \$600 million—over half of that has gone into the tilt rail from Brisbane to Rockhampton.

Mr Jowett—That is proven technology. Unfortunately, if you talk to Queensland management they will say, 'We have a progressive rail system, we have strong community support and we have strong government support. We would like an integrated structure in Australia.' But if we peer over the cane toad border, what do we see in New South Wales? What do we see in Victoria? What do we see in South Australia and Western Australia? And the management say to me, 'Thank God that we have a narrow gauge in Queensland which is not connected to the rest of the network.'

CHAIR—On that note, I would like to thank you for your evidence. It has been very interesting and you have been very focused in your evidence. I thank you, too, for the document entitled 'Inquiry into the role of rail in the national transport network, supplementary documentation by the Australian Rail, Tram and Bus Industry Union'. The document becomes exhibit No. 18 and the committee accepts it as evidence to the inquiry.

Mr Jowett—Thank you very much.

CHAIR—You were going to provide us with some additional material?

Mr Jowett—Yes; in relation to comparisons, following a question from Mr Tanner.

CHAIR—If you could provide that to the secretariat we would be most grateful.

Mr Jowett—Would it be okay in the new year?

CHAIR—Yes, thank you.

Mr Jowett—Thank you.

[3.14 p.m.]

ERDOS, Mr George, Chair, National Committee on Railway Engineering, Institution of Engineers Australia, 11 National Circuit, Barton, Australian Capital Territory

VENN-BROWN, Mr Chris, Member, National Committee on Railway Engineering, Institution of Engineers Australia, 11 National Circuit, Barton, Australian Capital Territory

YATES, Mr Athol Thomas, Policy Analyst—Engineering, Institution of Engineers Australia, 11 National Circuit, Barton, Australian Capital Territory

CHAIR—Welcome. You understand that these proceedings warrant the same respect as those of the House of Representatives and that any false or misleading evidence is a serious matter and can be construed as a breach of privilege.

Mr Erdos—That is certainly understood.

CHAIR—Do you have any changes to your original submission?

Mr Erdos—No, we do not.

Mr Venn-Brown—Mr Chairman, could I just make it clear that I am also co-author of another submission to this committee, which is quite separate, but I am here—

CHAIR—You wish to declare your interest in that?

Mr Venn-Brown—Yes, but I am here representing the institution today.

CHAIR—What was the submission?

Mr Venn-Brown—Toljet Pty Ltd.

CHAIR—Before we go to the process of questions and answers, would you like to give us a three-minute introductory statement on your submission?

Mr Erdos—Certainly. One of the main reasons we are here today is that we have a dedicated interest in rail through the National Committee on Railway Engineering. To give you a bit of background, the Institution of Engineers Australia was founded in 1919 and currently has some 66,000 members. It is a professional body and its objectives are the advancement of the science and practice of engineering. The institution represents many engineering disciplines and, for these, it also has a number of expert committees. The National Committee on Railway Engineering, which Chris and myself are members of, is one such group.

We provide expert advice to the institution in a number of areas, such as railway engineering matters, conferences on railway engineering. We also have various awards, such as the railway engineering award

which recognises excellence. We also play a fairly active role in looking at the requirements for engineers in training, and at competency requirements, and that information is passed on to the industry. We have also provided, on a number of occasions, expert advice to government and other bodies in the rail industry.

The submission we are making today is on the role of the national transport network. I think all of us who are sitting here today would clearly recognise that the Australian transport sector is vital to the interests of the nation. Although we can boast a highly efficient iron ore railway system, it is not necessarily the same for our interstate mainline network. Much of the difference that we have identified relates to issues such as the poor state of the infrastructure and a number of associated issues.

I think everyone here would also recognise that the amount of freight carried by the interstate system is vital to the interests of Australia. The IEAust—the Institution of Engineers Australia—believes that by having small improvements in efficiency we can have significant benefits to the Australian community.

There are many issues that need to be considered in the role of rail in the national transport network. However, the submission from the Institution of Engineers rotates around basically seven main issues. The first of those is that the federal government needs to develop an integrated freight transport policy based on a level playing field between transport modes. The second issue is that the federal government should form a national infrastructure advisory council. The third issue is that the federal and state governments need to give priority to defining and improving track access, and that includes conditions such as setting charges. The fourth issue is that the federal and state governments need to encourage rail authorities to accelerate programs in technical and operational standardisation.

The fifth issue is that the federal government needs to urgently review the level of diesel fuel excise that is paid by rail freight providers. The sixth is that the federal government should encourage organisations to undertake railway research and development via mechanisms such as investment allowances, tax concessions and government funding of railway research and development organisations, and should assist with tertiary institutions in additional funding in those areas as well.

The last issue that we raised in our submission was that the federal government should commission a skills training and education study for the rail industry. The study needs to identify skills training and education strategies designed to overcome what we see as severe human resource shortages in the near future. Overall, the institution considers that, with the creation of a level playing field and a range of actions to improve the efficiency of both rail and intermodal transport options, railways in Australia can deliver considerable transport cost savings to the Australian community.

I would like to point out that, although our submission is basically targeted at the national transport network, we believe equally that it applies to areas such as urban transportation. In summary, that is where we see things. As I have said earlier on, we all have a fairly vested interest in railways and broad experience in the rail industry. Chris is an engineering consultant in the rail industry. I work as a government employee with the state transport authority and certainly have been heavily involved with the IGA, rail safety and setting of rail safety standards. I am also rail safety auditor for the state of South Australia.

CHAIR—I would like to come to three issues. Firstly, in your submission you speak about the need

for standardisation of access conditions. How do you see that happening? We have already got New South Wales standing out to the side of the new national body that comes into play next year. We have Queensland, at least north of Brisbane, maintaining a separate regime. What is your view on that? How do you see it coming about?

Mr Erdos—My view is that the current situation is basically untenable. I consider the basic situation is that the colonialism of the states still clearly exists and that has basically been amplified—

CHAIR—Although we have a four foot 8½ inch line.

Mr Erdos—Although we have a four foot 8½ inch line, in our own regulators we have set up colonialism within our states. Each of those states wishes to hold and maintain its own. I believe unless there is a regime set up—an overriding body that sits over the whole lot such as CASA—we will not effectively see a national rail highway, and it will take a long time to get there.

CHAIR—You use CASA as an example. We have had evidence suggesting that that might be a good model for a safety and regulatory regime. Do you think it should be extended to the access regime itself?

Mr Erdos—I believe that is correct.

CHAIR—Couldn't that also be achieved by the states ceding a certain amount of authority to the new access authority?

Mr Erdos—That is feasible. Once again, it depends how much control that authority has at the end of the day. Basically, if it doesn't have some level of control, there would be independence of thought within those states.

CHAIR—The other thing you mention here is that we should involve private investors to fund research and development of the rail industry. Are you talking in more bland terms or are you talking about things like the Maglev and the TGV?

Mr Erdos—That is more in bland terms.

CHAIR—What are some examples that you would like to see researched?

Mr Erdos—There are things such as the wheel-rail interface. I do not know if you are familiar with that current situation. Currently, road is quite different to rail. On the road surface, although we have trucks running and they have a flat wheel, they do not create a lot of loading and problems with rail and wheel wear. With rail, you can actually have a situation where, if you do not get the right profile of the wheel and the rail, you can cause excessive wear. When you get some degree of vertical separation between the railways, as is currently happening, the incentive or the desire by any one particular party to manage that process and avoid that wear may not be there. You really need to have some independence to ensure that the best is coming out of the system. Does that make any sense?

CHAIR—Yes, it does. While we are on the Maglev and the TGV, would you like to give us a comment on where you think those two technologies are? We had a bit of conflicting evidence this morning. I am not asking you to pick sides; I am asking about the pure science of the two.

Mr Erdos—On the pure science of the two, I think Maglev still has a degree further to go at this stage.

CHAIR—Have you been to Germany to see it in operation?

Mr Erdos—No, I have not. If you look at the speeds that are achievable with steel on steel, they are significant speeds anyway. There was testing done. The TGV has been running at 550 kilometres an hour anyway. Maglev is really not doing much faster than that, but the technology involved in Maglev is much more difficult. Maglev is really targeted at passenger transportation. You have the opportunity with steel on steel to use it for consolidated freight and passenger.

Mr WILLIS—It is much noisier.

Mr Erdos—Not if you do the right infrastructure development. If you have a look at what was done—

Mr WILLIS—Do you put it in a tunnel?

Mr Erdos—No.

Mr Venn-Brown—They are soundproofed walls.

Mr Erdos—Yes, and lifting up battering on the walls.

Mr Venn-Brown—It is also a good area for research and development.

Mr Erdos—It is a lot cheaper than Maglev.

Mr WILLIS—When you say the Maglev is not quite proven yet, they say there is an operational line in Germany. It is a fairly small one. They are building the Hamburg to Berlin Maglev line. The government is committed to that. Do you argue that this is not a proven technology at this stage, despite those developments?

Mr Erdos—It is a technology that is working, but in terms of the distances that we are talking about and guaranteed technology, it is not at the same level of guarantee as steel on steel at this stage. The steel on steel technology is a simpler technology. The maintenance of the infrastructure over time will be a simpler technology. Maglev is a very complex technology. As I said, the other big disadvantage with it at this stage is that it is not designed to carry freight.

Mr McARTHUR—You mention in your submission old wooden sleepers and lightweight rail gauge.

Could you comment on the state of technology on the rail track with particular reference to the standard gauge? We have had some argument about concrete sleepers and old wooden sleepers, and the ability of the rail track to compete with a well constructed road, those sorts of comparisons in terms of depth of foundation, good rail track, fair rail track and bad rail track, all those sorts of arguments.

Mr Erdos—It is interesting to note some of the questions you put earlier today in terms of why have not certain works been done with the One Nation program. One of the reasons the work has not been done is that the money ran out. Money was also very tight and there are examples where new concrete sleepers have been put in but put on basically poor foundation. That is not in the interest of the system at the end of the day.

CHAIR—They have not redone the permanent—

Mr Erdos—They have done some ballast ploughing. I am talking about one of the particular areas we had dealings with, in the Adelaide Hills. They had a ballast plough, which is a device that comes through, removes layers of the ballast, then picks up the sleepers and relays the sleepers. What you need to then do is put in new ballast, the rocks and the structure in. That has got very limited ballast and ultimately that will lead to the degradation of the sleepers. The rail structure, like a road structure, has to be constructed effectively.

We are doing cost benefit analysis in Adelaide in terms of replacing our sleepers in the metropolitan area, timber with concrete. Certainly, the economic benefits of doing that are significant. We are looking at life in concrete probably of the order of 60-plus years with heavy loaded vehicles, 25 tonne plus. We are using much lighter loads than that. We would get longer life than that.

The overall cost to provide the basic infrastructure on rail is significantly less than it is with road for carrying equivalent axle loads. Not only that, the potential damage that is caused is also taken away from the road.

CHAIR—Could you just go through that scenario again?

Mr Erdos—That is one of the inequalities that comes out of this whole process. Our road structure that has been developed in Australia is designed to pick up fairly heavy axle load vehicles, trucks and whatever. If the money was spent to just carry light loaded vehicles, passenger cars and the same, there would be a substantially lesser amount of money spent on that road infrastructure than we currently spend. It is clearly evident in the rail infrastructure. A prime example of that is the iron ore railways: if it were more cost effective to run trucks, they would certainly run trucks and not rail. They only consider one option in those sorts of things, for heavy haul.

Mr McARTHUR—It gets back to the basic steel on steel argument. To go back to your argument about the road costing, Are you saying that, because the road has to accommodate heavy axle loadings, the cost of that is comparable to—

Mr Erdos—No; the cost of road is dearer than the cost of rail, even with equivalent axle load.

Mr McARTHUR—How are you equating the two of them?

Mr Erdos—For a road for, say, a 25-tonne axle load, you will find that there are very few vehicles that run that sort of weight anyway. But the depth of foundation on a road is significant by comparison to the amount of cost structure that goes into rail.

Mr McARTHUR—What about a greenfields site railway? What if you started off to put the alignments in and level it out: the whole box and dice?

Mr Erdos—Once again, you will find that the overall cost of the infrastructure for rail is less than for road. The right of way is smaller. The amount of preparation on the ballast bed is different; it is not as comprehensive. The main thing you had the ballast for was to allow for drainage of the infrastructure. Looking at just a road bed, there is a lot of effort that goes into its construction.

Mr McARTHUR—What is the life of a well-constructed rail line compared to a well-constructed road? We did a fair bit of work on this in our previous inquiry.

Mr Erdos—Once again, it depends on your loading. You still have to go through a cyclic maintenance period with the rail. As I have mentioned, we are looking at a life of something of the order of 60-plus years in the metropolitan area of Adelaide, if we go to concrete sleepering; and that will require minimum maintenance in the future.

Mr WILLIS—And with a wooden sleeper?

Mr Erdos—A wooden sleeper normally has a life of 20 to 25 years at best, but it depends a little on the quality of the timber.

Mr McARTHUR—What about the ballast and the under-rock?

Mr Erdos—We have got ballast that has been in service now for 100 years. What happens eventually with the track is that the ballast gets contaminated. That allows water to be retained within the structure, and that ultimately causes the damage. Obviously, good maintenance of proper ballast is critical in the overall process.

CHAIR—With that Adelaide Hills exercise, or from the Victorian border through to Adelaide, \$167 million was spent. How much more would need to have been spent to bring it up to top standard? Obviously they are going to have to go back and do it.

Mr Erdos—I am not really sure on that. We would have to find out further from the industry what the cost—

CHAIR—I thought there might have been a figure bandied about.

Mr Erdos—No, not off-hand.

Mr WAKELIN—On the colonial approach matter, there is some irony that there is one state that defied the approach and surrendered to the Commonwealth, and now it has gone back to the colony again.

Mr Erdos—Strange about that!

Mr WAKELIN—What do you think is the main incentive for the colonies—to use the phrase—or the states, to hold this power? What drives that?

Mr Erdos—I think it is the individuals within the particular organisations that are influential in the whole process.

CHAIR—You would have to say that, for example, Queensland has done it pretty well, considering.

Mr Erdos—Queensland has done it well because they have got royalties, and they bring in a lot of money.

CHAIR—Isn't that the appropriate use? Instead of putting it back into consolidated revenue, put it back on the tracks.

Mr Erdos—My understanding is that that was part of the original agreement that was set up by Joh Bjelke-Petersen at the time. If all the other railways were as rich as Queensland's, they would all be able to do a lot more than they are doing.

Mr WAKELIN—Put the money back?

Mr Erdos—Yes.

Mr WAKELIN—I have three points. With regard to planning, and the need for a national rail planning commission for an interstate rail freight system—you brought it out in your recommendation 2, I suppose, for a road and national infrastructure advisory council—what do you see as the pluses and the minuses of such an approach?

Mr Erdos—With the national infrastructure advisory council?

Mr WAKELIN—Yes; or the national rail planning commission or whatever.

Mr Erdos—Basically, the most significant advantage we see is the setting up of a group that can look at infrastructure investment on a level playing field basis. One of the problems with the current arrangement is that we do not believe it is a level playing field, and that is to the disadvantage of—

Mr WAKELIN—Between the modes.

Mr Erdos—Between the modes.

Mr WAKELIN—And between the Commonwealth and the states, and a whole lot of—

Mr Erdos—All of those issues. It would, hopefully, help to balance that out and give an overall perspective on where the money would best be spent.

Mr WAKELIN—Of course, it raises issues of safety. You have heard of the 22, or whatever it is. You are well aware of all of that.

Mr Erdos—That is a disaster.

Mr WAKELIN—What are the advantages and disadvantages of private enterprise in the rail system? Can you give us a quick snapshot of how you see that? Obviously, we have seen some privatisation.

Mr Erdos—Trans-Adelaide has been involved in Adelaide in going through a privatisation process, with competitive tendering and the like. The only qualification I would have on any of that is that it be a level playing field.

Mr WAKELIN—So the privatisation issue is not a particular worry, as long as the structure under which it happens has a level playing field of competitive neutrality, or whatever you might like to call it.

Mr Erdos—Yes. But it is not always level—

Mr WAKELIN—No.

Mr Erdos—From the government perspective, with what we have seen; and, in some cases, the private sector would argue the same.

Mr WAKELIN—My last point is one which we have not talked about until this stage, I do not think, from any other evidence or submissions, and that is skills training. You make the point that you anticipate future shortages. Can you give us a quick snapshot of that?

Mr Erdos—Certainly, the observation over the past few years with railways and the right sizing, if we want to call it that—or the deregulation, or whatever—is that the body of available expert people has been steadily decreased.

CHAIR—In engineering, in drivers, or in everything?

Mr Erdos—In everything, generally. We are principally talking about the trade areas. The trade areas have been quite notable. For instance, in my organisation, we have not recruited a new engineer for probably the past 15 years. Queensland is the only state where in fact they have an active recruitment program going. It is a concern, and we have been looking at various strategies to try to help that along. But, fundamentally, it needs to be looked at carefully.

Mr WAKELIN—We keep coming back to Queensland and the success which has basically been generated by the strength generated by the revenue or the economic circumstances of the past 20 years, or whatever it might have been.

Mr Erdos—That is correct.

Mr WAKELIN—We come back to this issue of financial strength and therefore—whether it is private, public, or whatever—the underlying ability to generate the finances to be able to get the confidence and the infrastructure and therefore to keep the skills, et cetera.

Mr Erdos—That is where it comes very much back to having a level playing field, because we would certainly consider that the playing field at this stage is not level. Such things as diesel fuel excise and—

CHAIR—Would you like to elaborate? That is a question we were going to ask, and we are running out of time. I would like you to give us a few words on the diesel fuel excise.

Mr Venn-Brown—Figures have been quoted around the industry quite a lot, and I am mainly going from published figures. These are in an article which is actually in the ARA-sponsored *Network* magazine, but I have seen the same figures elsewhere. The article says that rail has some advantages but also pays \$150 million per year in diesel fuel excise, of which some \$90 million is spent on roads. That is based on research carried out by the Australian Railways Association, and it seems to be an accepted figure.

Mr WAKELIN—Can I raise the issue of hypothecation? The debate is running that that excise is really just a general revenue tax and that therefore it is not really related back to the original issue of the early 1970s or 1980s when 6c or 7c per litre was going back into roads. We have got this issue of whether it is general revenue or whether it is hypothecated.

Mr Erdos—On that, we have argued that not only is the tax taken for off-road purposes with the trains but also that tax, or at least part of it, comes back into road construction. In what other industry do you have the company paying for the competition? There is none.

Mr WILLIS—The thing I would put against that is the fact that the rail industry does not pay sales tax but that the road industry does. It is some offset. It does not negative your point, but it is some offset.

CHAIR—As there are no further questions, we thank you very much, Mr Erdos and colleagues, for coming today. These things are all too short. Thank you for your submission. If we need to contact you for any additional advice, we will get in touch with you in writing. I trust you will reciprocate in writing.

Mr Erdos—I will.

CHAIR—If you are familiar with these hearings, you will know that you will get a transcript of today's evidence which you can check and return to us. Finally, on behalf of the committee, I would like to thank the witnesses who have given evidence at this public hearing today, in particular the Institution of Engineers.

Resolved (on motion by **Mr Tanner**):

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

Committee adjourned at 3.41 p.m.