HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON COMMUNICATIONS, TRANSPORT AND MICROECONOMIC REFORM

Reference: Role of rail in the national transport network

BRISBANE

Thursday, 19 February 1998

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	Mr McArthur
Mrs Crosio	Mr McDougall
Mr Hardgrave	Mr Randall
Mr Hollis	Mr Tanner
Mr Lindsay	Mr Wakelin
Mr Marek	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.

WITNESSES

HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON COMMUNICATIONS, TRANSPORT AND MICROECONOMIC REFORM

Role of rail in the national transport network

BRISBANE

Thursday, 19 February 1998

Present

Mr Neville (Chair)

Mr Hardgrave	Mr McDougall
Mr Hollis	Mr Peter Morris
Mr Lindsay	Mr Wakelin
Mr McArthur	Mr Willis

Committee met at 9.07 a.m.

Mr Neville took the chair.

CHAIR—I declare open this public hearing of the House of Representatives Standing Committee on Communications, Transport and Microeconomic Reform in its inquiry into the role of rail in the national transport network. The public hearings today and tomorrow are being held in Brisbane.

In opening these proceedings I would like to emphasise that, in addressing the terms of reference, the committee's role is not to lobby the Commonwealth government or any other government for that matter in the support of particular rail proposals. The committee's role under the terms of reference is to investigate how rail could operate better now and in the future, and to report its findings and recommendations to the Parliament. The public hearing this morning will enable the committee to take evidence from the Queensland Department of Transport and from Queensland Rail. This will provide the committee with another state's perspective on issues being considered by the inquiry.

The committee welcomes the opportunity to hear evidence from a number of private sector operators: Shell Coal Ltd, the Queensland Mining Council and the Queensland Manufacturing Industry Forum. The committee will also take evidence from Dr Oghanna, who heads the Centre for Railway Engineering at Central Queensland University in Rockhampton. That centre has been funded for research and training and attracts a number of overseas students and experts on rail projects. On behalf of the committee, I welcome those appearing before the committee today and, indeed, those in the public gallery.

Before proceeding, I wish to advise all witnesses that, although the committee does not the require evidence under oath, the committee's hearings are legal proceedings of the parliament and warrant the same respect as those of the House. Any false or misleading evidence is a serious matter and would be regarded as a contempt of parliament. Having given that caution, I welcome the representatives of Queensland Rail.

CANTWELL, Mr Stephen Patrick, Executive Manager Strategic Issues, Queensland Rail, 305 Edward Street, Brisbane, Queensland

HEARSCH, Mr John Alexander, Group General Manager Freight, Queensland Rail, 305 Edward Street, Brisbane, Queensland

O'ROURKE, Mr Vincent John, Chief Executive, Queensland Rail, 305 Edward Street, Brisbane, Queensland 4000

CHAIR—Mr O'Rourke, would you give us a three-minute introductory statement or overview of your submission.

Mr O'Rourke—Chairman and members of the committee, on behalf of my colleagues here today I would like to thank you for the opportunity to provide an opening statement to this inquiry on behalf of Queensland Rail. I believe that this inquiry is critical to the Australian rail industry, because it addresses those big-ticket items that are fundamental to our future. The most pressing issues, in our view, are competitive neutrality and infrastructure investment to areas where we believe rail is severely disadvantaged. What we need to do is to redress those fundamental inequities and give rail the ability to compete on an equal footing with heavy vehicle road transport.

Since 1975, the federal government has spent some $33 billion on roads, as compared with $1.8 billion on rail. Rail is trying to compete in the 21st century global transport market with 19th century infrastructure. In 1995-96, the road freight industry contributed a mere 10 per cent to national spending on roads. A range of studies shows that the underrecovery of heavy articulated vehicles is about 50 per cent of their true cost. The road industry uses the argument that investment in roads benefits the whole of the motoring community, but let us not forget the intrinsic value of rail to the community as well as its economic benefits.

The issues of the environment, safety and lifestyle are also very important considerations. This was one of the key recommendations of the far-reaching Weber report of some four years ago. I certainly hope that this committee can pick up some of these issues and put them into the context of rail investment, where the report indicated that at least $3 billion was needed for the interstate rail network alone. This is without considering the intrastate lines, such as Brisbane to Cairns, which parallel the federally funded Bruce Highway.

Eighty per cent of Australia's transport greenhouse gas emissions are generated by the road industry while only some two per cent are from rail, and rail freight transport is at least three times more fuel efficient than road. In addition, rail accident costs represent less than one per cent of Australia's total annual transport accident costs. How often do you hear the plea to reduce heavy vehicles on roads, yet we believe that the policy funding decisions are encouraging the opposite.

We believe that this inquiry can turn the tide for both rail and road industries to get a fair go in a fair market. If we make the right decisions now we can look forward to an exciting period of growth and development for rail where the industry re-establishes its competitive position.

Queensland Rail, as one of the nation’s biggest transport businesses, has an enormous stake in the future of this industry. With 9,600 kilometres of track, we are the largest network in Australia. We have revenue of some $2 billion, assets of $6.5 billion and a work force of almost 15,000 people. It is now a matter of record that Queensland Rail stands alone as the only integrated publicly owned corporatised rail network in Australia providing a whole range of rail services. We are committed to an integrated railway and believe that it provides the most efficient and effective model for delivering services. We believe equitable and fair access to third-party operators can be accommodated by this framework with competitive pricing and access arrangements.

Vertical separation has been heralded by some as the real solution to giving effective access regimes, but I would say that the jury is still out on this issue. Fragmentation of railway brings a raft of problems and legal hurdles to overcome. In our view, the arguments about structure and access should not deflect from the main game for the railways, which is about providing high-quality services at competitive prices to their customers.

Take, for example, Queensland Rail’s haulage of export coal, which reflects some major changes in recent years. On an indexed scale, in 1996-97 the average coal freight rate paid to Queensland Rail was one-third less than it was in 1989-90. The average freight rate in the years 2001 and 2002 is expected to be at least about 25 per cent less than it was in 1996-97. Further declines are forecast over the next decade as we continue to establish long-term commercial relationships with our customers. The reality is that our heavy haul network is rapidly moving towards world’s best practice and benchmarking its operations against international operators. Queensland Rail is responding to market forces and passing on productivity improvements to its customers. We understand that reducing the rates and improving productivity are critical to our customers in increasingly competitive global markets.

In the same way, Queensland Rail has a genuine commitment to increasing involvement with the private sector across the whole range of its businesses. One good example is our joint venture with the Venice-Simplon-Orient Express to operate Australia’s first truly luxurious tourist train, the Great South Pacific Express. While it will become a major drawcard for Australia, it also serves as a potent symbol of what can be achieved by Australian railways if given the opportunity.

Gentlemen, my plea to this inquiry is to have a long and hard look at the rail industry of Australia in the 1990s and how it is shaping up for the 21st century. The fundamental inequities between road and rail, which I believe will become clear to the committee, should provide a trigger for much-needed change. There has already been a good start as a result of last year's rail summit and some funding initiatives, but there is still a long way to go. There is a great deal of talk and optimism about the renaissance of rail in Australia, but without some decisive action on competitive neutrality and investment on outdated infrastructure, I suggest these could remain hollow words. I have great confidence in this industry if we keep focused on the main issues and the main game. If a level playing field is established, I believe, the Australian rail industry will emerge into the 21st century as a modern and highly competitive transport provider for the nation. Thank you, Mr Chairman.

CHAIR—Thank you, Mr O'Rourke. Yours indeed is a very comprehensive submission. Most of my colleagues have commented upon that. So we look forward to your evidence. I would like to start with a few things that bobbed up yesterday in New South Wales so that we have a basis of comparison early. Just a few overview things: what is the cost of your metropolitan passenger service? What is your loss factor on that?

Mr O'Rourke—We get community service obligation funding from government for our metropolitan service. Steve can give me that number. That is a fully funded community service obligation funded by government in 1996-97 at $263 million. I think a significant issue there is that Queensland Rail gets a CSO funding from government, which also provides a return on assets for the investments in our metropolitan infrastructure. The metropolitan infrastructure is on our balance sheet as written down replacement assets, and we get a return on asset component in that. So it is a fully funded community service obligation.

CHAIR—There are no externalities discounted in that? That would be the genuine loss on that operation if you were operating commercially?

Mr O'Rourke—Yes, it is the financial loss but, Chairman, might I add that—

CHAIR—The question is not asked with any sense of criticism. How many passengers would you carry during peak hour and how many would you carry per day on your suburban service?

Mr O'Rourke—In the suburban system, 150,000 passengers per day.

CHAIR—Is that trips or actual?

Mr O'Rourke—No, that is actual passengers.

CHAIR—Passenger trips?

Mr O'Rourke—Passenger journeys.

CHAIR—A total of 300,000?

Mr O'Rourke—It is 150,000 passenger journeys per day.

Mr Cantwell—By Australian standards, we are a small urban network.

Mr McARTHUR—Just to be clear about that, that is 150,000 people moving two ways or one way?

Mr O'Rourke—That would be 150,000 passengers moving one way.

Mr Cantwell—That is right, passenger journeys—150,000 passenger journeys a day.

CHAIR—We just wanted to compare that with Sydney because of the evidence we heard yesterday. That gives us a basis for comparison later on. Does that incorporate the Gold Coast to Nambour?

Mr O'Rourke—Yes, that includes the Gold Coast.

CHAIR—You have made a very strong case in your submission for vertical integration.

Mr O'Rourke—Yes.

CHAIR—You have four divisions: coal and minerals, the Traveltrain and the suburban service, and freight. Firstly, I would like to hear a little bit more from you on your rationale for that.

You say in another part of your submission that there should be open track access with a single point of contact for interstate rail, and rail access codes agreed by the infrastructure owners. If you do not have the separation of powers, for want of a better expression, within your various levels, how does someone wanting to come into the Queensland system—not necessarily someone who wants to go across the border but someone who wants to operate internally—be assured of transparency? What mechanism do you have?

Do you have a probity department or something like that to ensure that someone who is coming in has a fair access to the system and that, as yours is an integrated system, Queensland Rail is not just keeping them screwed down, for want of a better expression, to a level of operation? Could you give us overviews on those two points.

Mr O'Rourke—Chairman, the issue of vertical separation and integration is a worldwide issue, as I am sure you would be aware. Just recently, Queensland Rail was the subject of a major review of corporatisation by the Queensland Government. The outcome of that review, after consideration by the task force, which visited all the railways in this country and examined evidence from railways around the world, was that the jury was still out on the whole issue of separation. We believe that Queensland Rail should remain as a vertically integrated railway.

Some of the basic arguments for that are that, firstly, the interdependence above and below rail operation is fundamental to the economics of a railway and, also, you get the optimal balance of investment between your operations and your below-rail track. I suggest that Ed Burkhardt has given evidence to you as a strong supporter of a vertically integrated railway, and the Americans, who are the best freight operators in the world, believe that separation is a nonsense.

We have had a look at what is happening in the other states. We have seen things that have developed in New South Wales, especially with their suburban network. We took a considered decision that Queensland Rail should remain as a vertically integrated railway to provide the most effective services to our customers.

My belief is that, as I said, the jury is out. We are seeing all sorts of things starting to happen with privatisation in the UK. I have little doubt that Queensland Rail will be proved to be right. Let us look where it goes over the next few years. A vertically integrated railway is the model in the United States and I suggest that in many other parts of the world you will see a shift back to the vertically integrated model to give the full effects of the economic benefits of the integrated model. Also, the massive amount of fragmentation and the legal issues that go with separation have created a nightmare and I think that you are seeing that in the southern states now with all the difficulties with access arrangements that I am sure you would be well aware of.

CHAIR—Under an integrated system, how do you ensure probity when another operator wants to come onto the route?

Mr O'Rourke—As part of the review of Queensland Rail, we have just announced a major reorganisation. As a part of that we have established a network access group which is quite independent of our operating groups within the organisation. We have also taken out from the various business groups our infrastructure areas and there will be an infrastructure group which is also a stand-alone group within the organisation. The network access group will deal with both the internal railway operators and the external operators on an equal basis, and there will be contracts written between our internal rail group on the same basis as we will deal with access to the external groups.

In terms of providing, I guess, fairness between internal and external operators, recently in Queensland there was the introduction of the Queensland Competition Authority. At the end of the day they will be the umpires that, I believe, will ensure that there is fairness and equity in how Queensland Rail deals with its internal and external operators. At the end of the day, we believe that we can give effective access to private operators under our system and, at the same time, the railway and its owners and shareholders will get the benefits of the integrated model and the benefits that will flow from that.

CHAIR—What about the case of coal where Queensland Rail has a legislative monopoly, at least in respect of your own track? I understand the Queensland government is going to allow new tracks which will have different arrangements, but what will the situation be? Is the government planning to keep the legislative monopoly in respect of coal and minerals, or is it going to be opened up as well?

Mr O'Rourke—The legislative monopoly, as you say, is a restriction on Part IIIA of the Trade Practices Act. It was part of the government discussions back in 1993. That moratorium on Queensland's export coal lasts until the year 2000. Basically it is almost there now, and, yes, the government will lift that on the new developments. I suggest that we are almost at the year 2000 now and any company that is planning to take advantage of open access will be doing their planning now. Quite honestly, from QR's point of view we really do not have any issue with that at all or with how we see ourselves dealing with the whole issue of third-party access, which is a fact.

Quite honestly, competition policy gives us some advantages also. We have mentioned opportunities for us in other states. We believe that Queensland Rail as an organisation is progressing rapidly towards best practice. I think that, at the end of the day, the real issue is providing competitive services and quality services to our customers at the right price. I think if anyone can do it better than Queensland Rail, that is good. We will deal with them equitably and on the same basis as we deal with our internal operators.

Mr PETER MORRIS—Mr O'Rourke, comparisons with competitive neutrality and infrastructure are a hoary old one that I have heard for so many years. I am much more impressed by the quality of your submission, the arguments in favour of rail and the advantages it will bring to the movement of goods. When you are looking, as you said, to your ability to compete with road transport, you refer to the Bruce Highway, Queensland Rail is saying that the Bruce Highway should not have been upgraded. If you are going to run that kind of argument, I suggest you want to be pretty up-front publicly and say to the public of Queensland that these highways should not be upgraded as it is not a wise use of resources. Are you saying that?

Mr O'Rourke—No, we are not saying that at all, Mr Morris—quite the opposite. We do not have any argument at all with the upgrading of roads, obviously.

Mr PETER MORRIS—It is just that you want more out of the tin—

Mr O'Rourke—We are saying: treat us on a fair basis.

Mr PETER MORRIS—What about all the losses of rail that have been funded for decades by governments from federal revenue? About 30 per cent of state expenditure comes from the federal pot, which is untied moneys. Does that not come into the equation, all those losses that were funded over the years?

Mr O'Rourke—I think we should get that into context, too. There is no doubt that the railway industry suffered large deficits in the years past, but the industry has been through a massive amount of reorganisation and restructuring. I think it is a story that has not been well told. Of all industries under micro-economic reform in this country, the railway industry has been at the forefront. We have seen employment in this industry fall from something like 100,000 to just on 50,000, with major investment in all of the systems, and, in fact, the deficit funded by governments for the railways now is not a freight deficit. The freight businesses of the railways of Australia essentially break even or make profits. There is about $700 million of deficit funding now, but they are for urban networks.

I would suggest on the broader issues—the environmental issues and the growth of our city—that is probably expenditure that is well justified. In my view, on that basis there should be more funding for urban upgrade. Our cities are being choked and the real answer is urban transport. I think we proved that with our Gold Coast railway. We thought we would carry one million people in the first year on the new Gold Coast railway and we carried 1.3 million and it is expanding.

Mr PETER MORRIS—I think they are much better presentations than the hoary old one about who spent what or who got what share of the cake in decades past. Your submission is an excellent submission.

Mr O'Rourke—Thank you.

Mr PETER MORRIS—To me, it is a very good document to look to for comparisons of the performance of the systems. When you look to the ability to compete with road transport, what kind of cargoes should we bear in mind that you expect to be transferred and won back to rail?

Mr Hearsch—We see that rail has the potential to be competitive across a broad range, largely because of the technological and operational changes that rail has made not on its own but in conjunction with a range of industries and its customers. Essentially, today we see ourselves operating, apart from bulk freight, general freight services through intermodal type operations in which we operate very closely with the road transport industry and provide not only a line haul service to our customers but a range of value added services which allow, among other things, the door-to-door operations which to the end customer provide very much the same potential quality of service as—

Mr PETER MORRIS—What are they going to be? You carry daily pure copper—virtually copper cathodes—out of Townsville south to Port Kembla.

Mr Hearsch—We do.

Mr PETER MORRIS—No-one else is going to get that because you do it best.

Mr Hearsch—That is true.

Mr PETER MORRIS—What other commodities? What is running up and down on trucks?

Mr Hearsch—For example, if we look at the railway between Brisbane and Cairns, which as you know is the principal intrastate artery within Queensland for general freight, we see that rail has roughly a 50 per cent market share with road, particularly to destinations in the far north. If you examine the sorts of commodities that are moving by rail, you will find that they are very similar to the commodities that are moving by road. For example, the majority of groceries and food items that are moving to supermarkets—for example, to Coles, Woolworths, Franklins and all of those people—in places such as Townsville and Cairns moves by rail. I might say that is probably unique to Queensland, because of the level of service that we are able to provide on that corridor. There is a lot of similarity between what we carry on road and on rail.

Mr PETER MORRIS—What is it that you are not carrying now, that causes you to say that you are disadvantaged in the marketplace? Do you want competitive neutrality? What should we bear in mind?

Mr Hearsch—If you look at the underlying factors that determine the road verses rail competitive equation, you are obviously dealing with service quality and cost. They are the two major items. We believe that historically rail does not provide service of a comparable quality to that of road.

Mr PETER MORRIS—But you are not telling me what you going to get. Are you going to carry my hay, my shirts or my paper products?

Mr Hearsch—For example, as you would be aware, a very large amount of produce that is produced in North Queensland moves to the southern states, particularly to Sydney and Melbourne markets. A whole range of fruit and vegetables—close to one million tonnes a year—is produced in North Queensland. About 80 per cent of that produce moves to Sydney and Melbourne markets.

Mr PETER MORRIS—I buy crabs in Newcastle. They tell me that they come down from Tin Can Bay, just in ice, by road.

Mr Hearsch—That would be right, and I am not sure that we will be competing for the crabs. Currently about five per cent of that market that I referred to in North Queensland moving to Sydney and Melbourne markets is on rail and about 95 per cent of that is on road. We believe that we are capable of providing a seamless service, which we are just starting to operate now, that will eventually enable us to get at least 50 per cent of that market just through improved service quality.

Mr PETER MORRIS—Listening to your earlier remarks, I understand that Queensland Rail is looking at total transport service.

Mr Hearsch—Absolutely.

Mr PETER MORRIS—That is the trend, is it not?

Mr Hearsch—Yes, that is right. We see ourselves very much in the future as being a total logistics provider and not merely a provider of line haul transport between points A and B.

Mr PETER MORRIS—Why do you think the Queensland mining industry would be saying that present rail reform policy in Queensland is not delivering and will not deliver lowest freight rates for coal and mineral users? How should we treat that?

Mr O'Rourke—I can well understand why the mining industry would say that and I think they have been saying that for years. For the past 15 years, I have been running this argument with the coal industry about the inequities of railways freight rates. The fact is that Queensland Rail is benchmarking itself against the world's best operators and we are reflecting that in prices to our customers. We are entering into long-term commercial arrangements with our customers. The days have gone when tax was part of our freight rates; that is shifting. We well understand that we need to compete with competitive prices in competitive markets.

I think there will always be pressure from the coal industry for the railways to get their freight rates further down. We well understand that issue. It is in QR's interest to make sure that the Queensland coal industry is a very healthy one, and I believe that the relationship between ourselves and the coal industry over the past few years has been an excellent one. We have been jointly involved in benchmarking exercises around the world between ourselves, the coal industry and government. Operating practice has changed dramatically in the past few years and we are reflecting that back to our customers in terms of reduced freight rates. I quoted some of those reductions earlier in my opening statement and it is fair to say that we have got further to go.

Mr PETER MORRIS—Just very quickly: they are saying also that QR's present vertically integrated structure is anti-competitive and should be reviewed. You have given us some response; I just wanted to alert you to that. The other submission, which surprised me, comes from Dr Oghanna, who is saying about the industry that you are investing heavily in very advanced overseas technology. The major reason for understanding it is that the various railway authorities in Australia operate largely in a knowledge vacuum. There is little information flow between each other. Is that a fair comment? How much substance should we attach to that?

Mr Cantwell—I do not think we can agree with that comment. In Australia we have the Australasian Railways Association, which brings together all of the mainline railway operators as well as many of the private sector companies that contribute to the overall rail industry in Australia. There is significant knowledge transfer between those groups. Granted we do not have for the rail industry in Australia a comparable body to the NRTC, for example, or Austroads—a dedicated research organisation—and perhaps the industry would benefit from the establishment of an organisation such as that. However, we would certainly argue that there is significant transfer of knowledge between the various players within the rail industry in Australia. Moreover, there is a significant transfer of that knowledge into our Asian neighbours' railway systems.

Mr O'Rourke—Could I just refer to something in answer to your earlier question about the coal industry? I would just like to make the point that, as I say, we have a very good relationship with the coal industry here in Queensland.

Mr PETER MORRIS—I am just reading from its submission.

Mr O'Rourke—I just make the point that as an organisation Queensland Rail has had significant productivity improvements in recent years and we are reflecting that in our freight rates to our customers. Our freight rates are coming down quite dramatically and they will reduce further in the future. But I would suggest that the coal industry itself has some problems of its own. In its cost structure, it has not addressed its wages issue the same way as the railways have done. The railway industry has halved its work force over the past 10 or 15 years. In Queensland our work force has fallen from 21,000 to fewer than 15,000 since 1991. Our productivity increases that we forecast over a 10-year period are something like 300 per cent. I suggest that if you were to look at a graph of what has been happening to freight rates in the railway industry, which are declining, you would find that the wages costs of the coal industry have been going the other way. I think it is time that the coal industry maybe had a look at itself, as the railway industry is doing.

Mr PETER MORRIS—I will just draw a final conclusion. You mentioned the lack of competitive neutrality between road and rail. On reading the submissions and looking at the history of what happens in Queensland, it seems that there is little correlation between road transport policy and rail transport policy. Historically Queensland always leads the charge for higher axle load limits for road transport vehicles, which gives road transport that additional advantage that you are referring to in your submission. There has been a lack of coordination between road and rail, has there not?

Mr Cantwell—Mr Morris, clearly the review of corporatisation that Mr O'Rourke referred to earlier suggested that in Queensland there was a need to look at getting—

Mr PETER MORRIS—The committee has looked at a land transport policy.

Mr Cantwell—That is right—a coherent system-wide transport policy, yes.

Mr LINDSAY—I wish to follow up, if I may, on a question that the chairman asked you, Mr O'Rourke. I refer to your response that you have established a network access group that is independent. Many of your customers have expressed to me, as a member, their concern that what you had in place, or may still have in place, was in fact Queensland Rail dealing with itself. For my purposes, can you elaborate on how independent 'independent' is?

Mr O'Rourke—Mr Lindsay, as I mentioned, the new reorganisation of Queensland Rail, which will fully come into effect from 1 July, establishes an independent network access group which is still part of the organisation. We make no apologies for that, because it is part of the discussion of an integrated model to give effect to the economies of that type of arrangement. There is a separation within the organisation now, or there will be, between our network access unit and our business groups. We have an undertaking that is under the competition policy guidelines. That has already been sent by us to the Queensland Competition Authority. At the end of the day, we believe that a competition authority will ensure that there is equitable and fair play between our internal customers and our external customers.

I do not believe that it is in Queensland Rail's interests to discriminate against external operators if they want to come onto the railway. Quite the opposite: we have taken the view that it is a real challenge to our internal operators to get to world's best practice and get their businesses into shape so that they can compete effectively with an external operator when it arrives. The board of Queensland Rail ensures through its management that there is a separation between our access group, dealing with external customers, and how we deal with our internal operators. As I said, at the end of the day we are subject to scrutiny from the Competition Authority. I might also say that, these days, Queensland Rail's accounts are quite transparent to its shareholders. The days have long gone where we are cross-subsidising from one business to another.

Mr LINDSAY—In your submission you have accorded some significance to the problems that you see with road transport, that it is not, effectively, being asked to meet the real costs that it imposes upon the community. Do you have a suggestion for a mechanism whereby the road transport industry may be asked to meet those real costs?

Mr Cantwell—Firstly, I can respond to that by saying that ours is not an ‘us and them’ perspective. But we do think, given the findings of several reviews, there is a fair degree of evidence that suggests there is an imbalance. Perhaps a model that is in place in New Zealand could be a starting point, where a mass distance charging regime has been put in place for heavy vehicle user charges. That sort of regime is very similar to the type of regime that is in place for rail access charging.

CHAIR—That is over and above excise, is it?

Mr Cantwell—It looks at the two issues of road pricing and taxing separately. Effectively, we have a system in Australia at the moment where a hypothecation of taxes and charges is collected from the road transport industry which goes back to address the impact it has on the nation’s roads. We would promote a system whereby there was a direct charging regime in place similar to that which is in place in New Zealand, where the charges are based on the weight of the goods moved over the distance.

Mr LINDSAY—I am now going to give you a specific example, but you should answer in general terms. This is an issue in my patch. This is the kind of comment I get in relation to the Townsville-Mount Isa operations. You have made a point, Mr O’Rourke, about moving to benchmarking and that it is doing very well. However, the users of Townsville-Mount Isa would say to you that they use railway systems in other parts of the world where the costs are probably 200 per cent less than apply in respect of Townsville-Mount Isa. That same group would say to you, ‘Look, we have paid for that line over and over again. We’re still being asked to continue to pay for the line.’ What is your response to the claim that the railway system is nowhere near world’s best practice in Australia? That is what they are really saying.

Mr O’Rourke—Mr Lindsay, I think in the Mount Isa case we should look at that line and get it into context. As you know, it is about 1,000 kilometres of track which goes across a lot of blacksoil plains. The climatic conditions in that area are very difficult. The railway line has not had much money spent on it for many, many years. Queensland Rail took a decision some three years ago to upgrade the line, and we are in the process of spending some $200 million to bring that up to a reasonable standard. I would suggest that much more than $200 million could be spent on that to bring it up to world’s best practice.

At the end of the day, you need to get into context the size of this state and nation. Generally speaking, as I said earlier, the Weber report said that over $3 billion should be spent on the interstate network to bring it up to some sort of comparable competitive arrangement with the modern roads that we have in this country today. The same thing applies in Queensland. I will not talk about particular customers but will speak in general terms. With respect to our access prices, obviously we need to get a return on the investment. Most of the old investment has been written out, and we are only seeking recovery on the new investment that we have put in place. Our access prices, which we are now quoting as a separate issue to an overall transport price, are competitive prices.

We have to compare apples with apples. I suggest that the operations on the Mount Isa line are moving towards world's best practice. There are new locomotives, big trains, all of that. That also applies from the customers' point of view. The transport system is a transport chain. It is one thing for the railways to spend big dollars on the railway system and get it up to best practice. However, the terminals that we operate into at either end need to be able to accommodate those sorts of efficiencies. In many cases, that is not the case. I suggest that that is one issue with respect to the Mount Isa line.

We will quote competitive prices. We are obviously trying to encourage our customers' business to grow. That is a fundamental issue for us. I think to compare us with, in some cases, what is happening in Argentina or somewhere like that, where wage levels are at minimum levels, is probably an unfair comparison. That also applies if a comparison is made with, say, what is happening on the Nullarbor, which is concrete and heavy rail. The funds spent by the Commonwealth some years ago have been sunk and basically written out. So you need to compare apples with apples. But we are very conscious of being able to provide the best practice price that we can to our customers to ensure that their business can grow and expand.

Mr LINDSAY—Finally, you mentioned in that response the move to longer trains. That was what I was going to ask you about. What national implications do you see in Australia's rail system trying to move to longer trains?

Mr O'Rourke—It is an issue of significant investment for the industry. If you look at the interstate network, the alignments are as they were 100 years ago. There has been some money spent on the One Nation program on extending crossing loops, but it is only a drop in the bucket. Take, for example, the mainline upgrading here in Queensland, which we started in 1993 and have just finished. We spent $590 million on a major program to upgrade our main line between Brisbane and Cairns. That included some new locomotives and wagons, but essentially about $450 million was spent on track. As part of that, there were 118 deviations, 670 new bridges and the upgrade of 150 others. We know that we could spend another $450 million to $500 million to get it to world's best practice. I think that is the issue that the committee needs to come to grips with.

If you want to have a modern and progressive rail industry, you are not going to get it with $250 million. We spent that before we got to Rockhampton. If you want a progressive and modern railway, you are talking of billions of dollars of investment. I might suggest that it is going to be governments that will make that investment. We are seeing private operators move into other railways. We have a very close arrangement with the private sector. QR applauds the things that are happening nationally. But at the end of the day, unless there is a return on assets, you are not going to get some private operator to punch $4 billion or $5 billion into the rail network. Until the commonwealth government and the state governments come to grips with that, you are going to have a second-rate industry in which it takes 16 hours for a freight train to run from Brisbane to Sydney.

I am well aware that there is a bit of coal in that region—about half as much as we carry—but it is a very productive area. In relation to the railway between Sydney and Melbourne, of which Mr Hearsch and I have a good knowledge, only a few years ago, in 1983, superfreighters were introduced to cut down the transit times from some 20 hours for freight trains to 12½ hours. But they are competing with trucks on a modern highway that go door to door in eight to nine hours. The dollars that have been spent really do not do much about reducing the transit times of those trains less than about 12 hours.

You are not going to get the rail industry into a competitive position until there are significant dollars—some billions of dollars—to upgrade those railway lines. The fact is—and it has been proven in many parts of the world, and we believe we are starting to see the results in Queensland—if you invest in these industries they can become highly competitive and very effective competitors.

CHAIR—You are saying that we need a catch-up?

Mr O'Rourke—Yes, you need a big catch-up, and I think you need it in a hurry. A lot of your interstate network is starting to show signs of age. People think railway lines last forever, but they do not. They wear out the same as many other facilities.

Mr Hearsch—In regard to the specific issue about lengths of trains, there are obviously economies of scale on a railway in running larger trains. Of course, the infrastructure needs to be set up in a way that can accommodate those trains.

Essentially, what is happening in many parts of Australia is that we are really trying to run trains that are oversized for the infrastructure, particularly in the way that the terminals have been built, because the terminals obviously have to accommodate them as well as the crossing loops and so forth en route. It also needs to be driven by the marketplace, because there is a place for very long trains, such as bulk coal hauls with bulk iron ore, for example. As to general freight, generally, we would argue that it is probably more effective in the marketplace to run a higher frequency service with maybe some shorter trains, but a shorter train can still be 1,000 metres long.

Mr McDOUGALL—I refer Mr O'Rourke to an article in the *Australian Financial Review* of 16 February. You were discussing pricing earlier. It said that, as a result of efficiency gains flowing from QR's capital investment program, QR may offer lower freight rates to coal customers. The Mining Council was pretty sceptical about that. Obviously I am going to ask them why they are sceptical. You have already said that you have had price decreases. Can you actually define that and show the Mining Council that what this article is saying is correct?

Mr O'Rourke—As I said earlier, average freight rates on a 1996-97 basis reduced by about a third between 1989-90 and 1996-97. Between 1996-97 and 2000 or 2001, we would see rates, on average, falling by about 25 per cent. The Mining Council well knows that, these days, Queensland Rail is in confidential commercial discussions with each of its customers. New arrangements are or will be put in place to give effect to the reduction in coal rates commensurate with us getting a return on our business and being able to ensure that we are quoting competitive prices so that our customers can grow their business in international markets. We well understand the pressures that the coal industry is under these days. I can assure you that the coal industry is our major customer, and it is in Queensland Rail's interests to make sure that they grow and compete effectively in the markets that they are in.

Mr McDOUGALL—Could it be said that coal prices are tumbling because of some of the Asian problems and that the industry is looking for the railway carters around this nation to drop prices purely and simply to help them be competitive, rather than taking a lower price themselves on the coal?

Mr O'Rourke—I would like to think that the coal industry would be much more professional than that, in the sense that, yes, they are under extreme pressure with what is happening in Asia, but this is a long-term business and I think we are looking for a long-term, sustainable arrangement between ourselves and the coal industry. At the end of the day, we are hearing those signals and we are hearing them loudly.

Mr McDOUGALL—I hear what you said in relation to commercial in confidence, but do you have any price transparencies? For argument's sake, yesterday we had Access Corp in New South Wales say that their prices are transparent in like for like. In other words, what they were saying was that, if an industry is able to pay a higher price, they will hit that industry. If another industry might not be able to pay the price, they will make it cheaper, but they will within an industry have like for like transparency in prices. What is QR's position?

Mr Cantwell—We would agree with that position.

Mr McDOUGALL—What is the return on investment that the government set for QR?

Mr O'Rourke—I think that could be a commercial in confidence issue. We would be prepared to give that to you in confidence, but I do not think they are the sorts of things we would like to make a public statement about.

Mr McDOUGALL—That is in relation to your return on investment to the government?

Mr O'Rourke—The target rates of return that the government requires. I think that is an issue between us and our shareholders.

Mr McDOUGALL—New South Wales Access Corp say that it is 14 per cent. They have made that public statement. So we would be very interested to see if you are prepared to let us have that information.

CHAIR—You would obviously have a different rate, would you not, for each of your four sectors?

Mr O'Rourke—We certainly do. In terms of access pricing policy, we tend to agree with the New South Wales position in the sense that, rather than just average access prices across the whole business, they should be market based. We believe that this reflects the economies of railways. Some industries have the ability to pay higher access prices than the business that is only just a marginal business. But within the industry itself, yes, there would be fair play there. We certainly would not be discriminating one customer against the other. We are very conscious of that in our dealings with the coal industry.

Mr PETER MORRIS—The submission from the Queensland Mining Council states that the coals and minerals group might be entirely responsible for the entire 10 per cent return on the $6.5 million of QR, as recorded by the railway in 1996-97. It is public information.

CHAIR—I do not want to pressure Mr O'Rourke if he is not comfortable giving the information and is prepared to give it to us privately.

Mr McDOUGALL—I note that you will pass that information on to us. To change the subject: in recent weeks you have made some rather large purchases of rolling stock, or announcements of your awarding of tenders. Were those prices that you were prepared to pay to the Australian manufacturer competitive with the prices at which you could buy from international sources, or was QR, through government policy, giving a little bit of support to the Australian industry, particularly in Queensland, built into the prices?

Mr O'Rourke—Those contracts were the subject of an open tendering arrangement. We went out into the marketplace and sought best prices. I can assure you that each of them was dealt with on a straight commercial basis, without any involvement from government. That is very much part of QR's commercial business. We let those tenders very much on the basis of being the best commercial arrangement for Queensland Rail.

Mr McDOUGALL—Could it be said that the road freight industry pays sales tax and QR gets exemption from sales tax? Are there any great benefits that QR may get through taxation exemption that may give benefit and put in question competitive neutrality in relation to freight?

Mr O'Rourke—Queensland Rail as a corporation today pays tax to its shareholders on a tax-equivalent basis the same as a private sector organisation. We are not subject at this stage to Commonwealth taxation, but we do comply strictly with Commonwealth taxation under the assessment act. We pay tax to our shareholders on that same basis. I think that, in terms of the specific issues in relation to sales tax, we do get some sales tax exemptions; on the other hand, in terms of fuel, we pay just the same as a normal operator. I might suggest that the rail industry would argue that, in terms of diesel fuel, we are being disadvantaged. Of the funds that we pay in terms of excise, 18c is hypothecated straight into the road industry, so in some ways we are subsidising our competitors.

Mr Hearsch—The sales tax component is a very small one. The sales tax component is something that is embodied in the Commonwealth sales tax act that gives exemption to public rail operators. We would concede that, in the total balance, there is a small element there that probably gives some advantage to the rail industry, but when you put the total equation together we believe it is quite insignificant.

Mr HOLLIS—Mr O'Rourke, you come before the committee with a lot of experience in rail. Looking to the future, where do you see rail in, say, five, 10, 15 years from now? I guess I should break that into two questions: where would it be if current investment by governments remains as it is, and if, as many people argue, there is a more equitable distribution and rail gets more of what they contribute.

Mr O'Rourke—My belief is that the rail industry is going through probably the most exciting period of change that has happened in its long history. Around the world you are seeing the rail industry being reborn, in terms both of passenger services and of freight services. In the highly competitive areas of general freight, and especially on the interstate network, I certainly believe that unless there is significant investment in infrastructure the rail industry just will not be able to compete. As I said earlier, I do not think you are going to get that from the private sector. You will need to get that from governments.

In Queensland we are halfway through a $6 billion program of investment—some of that funded by governments for our community service obligation businesses, but more than half of it funded by the corporation. I have no doubt that, if we had not undertaken that investment, our competitive position today would have been significantly more difficult than it is. In the last five years we have spent some $1.4 billion upgrading our coal network to provide world-class practices to our customers. Last year we carried some 95 million tonnes of coal. By the year 2001-02, we are looking at tonnages up around the

115 and 120 million mark.

With investment, the rail industry is a very modern and productive business that can compete more than effectively with road transport. I suggest that not only in heavy haul freight but also in the cities, with the urban growth of Australian cities, it is essential for governments to focus more on both light and heavy rail if they are to deal with the issues of growth and the environment.

Mr HOLLIS—Why do you think governments of all political persuasions have so neglected rail? Is it because the trucking system is so powerful, or has government been just a little blinded? The message that you are giving us is a message that has come across loud and clear. It is fairly obvious that governments of all political persuasions have neglected investing in rail.

Mr O'Rourke—One of those issues has prompted the railways to form the Australasian Railways Association, which is now quite a strong group with both the publicly owned railways and the private sector. Most of its 80 members are from the private sector. For the first time in our history we have the ability to lobby governments and put our case in front of them. Traditionally, the railways of Australia have been government owned organisations where, I would suggest, until recent years, the chief executives or commissioners could make many submissions but they were not in a position to lobby publicly. That is now happening. I think that there is a better understanding in the community generally of the place that railways will play in the future. You are seeing that happening all around the world.

Mr HOLLIS—Nationally, what price do we pay for having the different systems in the various states?

Mr O'Rourke—That is an issue that is now being addressed, I think, pretty effectively by governments. Obviously, over the years it has been a most significant impediment in our dealing effectively with our customers. There are processes in place now to deal with that.

There is no doubt that over the years we have had different operating standards in each of the railways. It is a parochial issue. I guess that it applies to more than just the railways. There is a real, hopeful sign here now that the railways can get their act together for the future and be a very effective transport medium for Australia. I would like to think that in Queensland we are starting to show that, with growth in all of our businesses. We are becoming much more competitive.

It has taken a lot of investment. There are tremendous winds of change running right throughout the railway industry. Cultural change within this whole industry is quite immense. I can assure you that it is happening very quickly in railways around Australia.

Mr HOLLIS—So little empires will go, and the breath of change will come in?

Mr O'Rourke—I guess that, at the end of the day, one of the things that we may need to watch is that, with all the open-access issues, the size of Australia cannot stand a whole heap of railways. We need to be careful that we do not finish up with a situation in which, rather than having constructive competition, we have destructive competition.

Mr HOLLIS—It has been put to us in several submissions that what we lack in Australia and what we really need here, before we can make the progress that everyone seems to want, is a national transport framework. Instead of looking at road as one industry and rail as another, we need a national transport strategy in which rail is a part, along with roads and air. What are your views on that?

Mr O'Rourke—We support that very strongly. That was one of the issues that came in from that national transport planning task force. There needs to be an overall framework for an integrated land transport policy in this country, with rail being very much an integral part of that. I agree with you. Part of the difficulties the rail industry has had is that both road and railways have been dealt with separately over the years and the railways have been allowed to stagnate.

Mr McARTHUR—I have five issues, which I would like us to deal with fairly precisely. On the vertical integration argument, I am interested to hear you say, unlike some of the other witnesses, that you are very strongly favour of a vertically integrated operation of Queensland Rail. What evidence have you got? In New South Wales the general attitude that we are picking up with Access is that vertical integration is not happening in Australia. So are you saying that on international practice or on your own judgment?

Mr O'Rourke—As part of the review of corporatisation for Queensland Rail, international consultants were engaged to research this issue to give us advice as to which was the best way to go. I think, as I said earlier, it is the practice that is supported very strongly by the railways in the USA and New Zealand. These are railways that are held up to be best practice railways around the world. We believe that there are some fundamental issues that support the vertical integration model. One of them, as I said, is the relationship between above and below rail—the interface between, I guess, steel wheels and steel rails—which is a fundamental issue with the economics of railways. That is why railways probably have the ability to provide competitive and quality services better than other forms of transport.

We believe also that there is a real issue of the balance of investment between below and above rail. Closer communication with your customers, you are seeing that in the models in the US and in the United Kingdom and I think that we are now starting to see some evidence appear of the difficulties of operating trains both in terms of, I suggest, safety issues and also in terms of performance issues because of this difficult contractual relationship between operators on the one hand and infrastructure providers on the other.

We do not believe that you should go down the path of fragmentation. To operate your railway, basically, in terms of legal contracts between infrastructure providers and operators, in my view just creates a nightmare. We have already seen evidence of that in other parts of this country that have proved extremely difficult.

Mr Hearsch—If I might just add to that: if you look at the US model you see numerous examples of competition between operators on a common infrastructure. But it has not been achieved through vertical separation; it has been achieved through sensible commercial arrangements between operators—one operator, through a commercial arrangement, operates over the infrastructure of another railway. That, in our view, is quite a satisfactory arrangement and is a good alternative to vertical separation.

Mr McARTHUR—I just draw it to your attention that this is a very critical issue facing this committee in our final deliberations as to the best model on the evidence presented. We have the situation in New South Wales with the Rail Access Corporation, which is obviously going the other way, we have your view and we have Burkhardt's view. So I think that some of us will have a dilemma as to what the final outcome should be.

Mr O'Rourke—We would be very pleased to provide to you some research we have done on this issue, which might help the committee to consider some of the issues between the separation and integration models. We have done a lot of work on it, and we believe in it very strongly.

CHAIR—Could you give us a short paper on that?

Mr McARTHUR—That would help.

Mr O'Rourke—We will also give you the research that has been given to us from international consultants. I think that it is fair to say that to some degree the jury is out on this issue. You have the Swedish model—

Mr McARTHUR—We would be interested in your view. Thank you for that. I have a couple more questions. There has been a lot of discussion about your moving away from a monopoly rent position, which you have accepted was the case historically. There is no real competition for your long haul freight; you are just talking international benchmarking. So, if the privatisation does not take place in Queensland, how can we be sure that there is genuine price pressure, apart from what you are telling us?

Mr O'Rourke—If we just leave the coal industry aside at this stage, I agree very strongly with Ed Burkhardt. The real issue is the competition between road and rail. The competition for the railway industry is enormous. The progress that the road industry has made in recent years and which has been supported, obviously, with major investment in the roads and in modern B-doubles has torn the railways apart. It has eroded our market share for lots of reasons. To suggest that there is no competition is, I believe, a nonsense.

In terms of our major traffic in the coal industry, open access is a fact of life. Yes, there has been a shield in Queensland for the year 2000, but that is basically up. We really do not have any issue with that, because we think that we have the railway in pretty good shape. Also, I would suggest that there is enormous pressure on railways from the coal industry and from export markets. I have never been a great believer that the railways is in a real monopoly position, even in terms of coal transport. The pressure from governments and from our customers in the coal industry is quite enormous. We are not sitting here with our ears closed; we are responding effectively, well understanding our customers' issues.

Mr McARTHUR—On the privatisation issue: you say that you would like to have the private sector involved. If you have no access regime, how would you actually privatise sections of QR, if that was a decision of government?

Mr O'Rourke—Obviously, that would be a decision of our shareholders. What I have been saying is that we have a very close relationship with the private sector. Joint ventures, I think, is the way of the future. The Venice-Simplon-Orient Express is one good example. The discussions that are under way regarding the Surat Basin are another good example where Queensland Rail is involved with the private sector. Also, the airport rail link is a good example of where a government owned corporation is dealing very effectively with the private sector to give access to its operations.

Mr McARTHUR—You talk in your paper about the externalities, and I think that you argue the case quite well. How do you think that you could have more political impact on the argument about the environment, emissions and fuel usage in the general public domain, especially here in Queensland where you have long haul freight? Finally, could you just give me a comment on the technical impact of narrow gauge on railway operations in Queensland.

Mr Hearsch—One area where I think there will be increasing public support relates to the increasing size and dimensions and weight of large trucks. I think that there is concern generally in the public arena about the safety aspects of large vehicles, not so much in themselves but in their interaction with smaller vehicles. We can look at what has happened in America. A substantial campaign over in the United States, which has been run by the American railroads, has effectively gained a lot of public support, in government supporting measures that would encourage a lot of that long haul freight on very large vehicles—bearing in mind that America has a more advanced road network than we have—to shift across to rail. I think that is going to be an increasing issue here, particularly with the emergence of B-doubles and now the trialling of B-triples. They are simply, in our view, incompatible with the sorts of roads that we have in most parts of the country.

CHAIR—You can say that again!

Mr McARTHUR—Can you give us a comment on the technical ability of a narrow gauge to handle big tonnages?

Mr Hearsch—We have undertaken some international studies on that. As a general statement, the narrow gauge is not a fundamental disadvantage but it does have some disadvantages in comparison with the wider gauge or the standard gauge railways. There are no genuine high-speed railways in the world which are narrow gauge, and technical considerations would probably preclude that. If you are looking at running, for example, passenger trains at speeds of in excess of 180 or 200 kilometres an hour, technically it is probably not feasible to do that on a narrow gauge railway.

There are also some other technical constraints, for example the double stacking of containers. Because of the narrow gauge and the high centre of gravity, it is generally felt that it will not be feasible to run double-stack container trains on narrow gauge, whereas obviously that is quite a feasible and highly advantageous operation on standard gauge. Apart from that, in terms of the length and general weight of trains, Queensland and other places, like South Africa, have demonstrated that there are no practical limits in that regard by comparison with standard gauge railway.

Mr WAKELIN—Mr O'Rourke, the federal role in the rail industry would seem to come to this matter of dollars all the time and, maybe, competitive neutrality. If you were to name three things, perhaps separating out the dollars and coming to the secondary matters, what would they be? I will touch on one. In your presentation, at page 5, you talk about the 22 different state working systems and 18 different radio frequencies in use in the interstate network. I name that as one. What is your answer to the procedural business of operating railways? How would that help the railway systems of Australia? That is one matter and there may be two or three others, and then maybe we can come to the dollars.

Mr O'Rourke—There is no doubt that over the years different operating systems have grown up in the different railways and different communication systems. It is absolutely essential, now that we are in global and national markets, that we address those issues. I think it is fair to say that there is some good work happening there now. The agreement that was signed by ministers late last year has the effect that we will get harmonisation of systems, which is absolutely essential from our point of view.

CHAIR—Is that just in principle, or is there someone working to bring that about in a certain time span?

Mr O'Rourke—There is actual work happening on that now. It has been driven through the SCOT central committee of government, involving, as you would know, the

Commonwealth and state directors-general of transport and input from the rail industry. The Australasian Railways Association and the various railway systems are also involved in that process.

Mr Hearsch—I think it is fair to say that it will be a long process.

Mr WAKELIN—How long?

Mr Hearsch—The first job is to really get agreement on what the new standards should be, and that work is in hand now.

Mr WAKELIN—Do you have time lines within the network to do that?

Mr Hearsch—No, because the work is still proceeding to dimension just what has to be done. If you look, for example, at signalling systems, which are among the more expensive parts of railway infrastructure, and you compare, say, Melbourne and Sydney as two examples, you see that the systems are totally different. You obviously have very large historic investments there, which would need to be changed gradually over time. The way we would look at it is that you set the standards, you ensure that any new work that is done complies with the—

Mr WAKELIN—When do you think you might be able to set the standards?

Mr Hearsch—I believe that all that work will be done within the next few months.

Mr WAKELIN—Excellent, thank you. Suppose you had the operation of rail in Australia—you have commented on that point. Are there a couple more matters that come to mind in the practical operation of rail and that the federal parliament might help to facilitate?

Mr O'Rourke—The point that I made is that the infrastructure and the alignments of our infrastructure are from a bygone time.

Mr WAKELIN—We are back to dollars, then, are we?

Mr O'Rourke—At the end of the day that is the fundamental issue. It was the issue that faced us here in Queensland in upgrading our Brisbane to Cairns main line. No matter which way we looked at it, no matter how smart our operators were and how we thought the issues through, we had a fundamental infrastructure problem. That is the same nationally.

Mr WAKELIN—I have three more points. On the CSO issue, from figures available to us on Queensland Rail, would you agree that the figure was about $595 million in 1995-96?

Mr O'Rourke—Certainly.

Mr WAKELIN—Throughout Australia maybe that adds up to some billions of dollars. Therefore I come to the issue of tax excise and sales tax. What would you estimate your excise bill to be? What is the excise impact on your diesel bill—$20 million or $30 million? You can take the question on notice.

Mr O'Rourke—It is $160 million all up in terms of fuel excise nationally, and ours is in the order of $30 million.

Mr WAKELIN—That is the figure that I had in my mind. The point I am making about the tax issue, accepting the competitive neutrality discussion and debate that is eternal and that we will obviously have to consider, is that in the scale of the CSO and in the scale of the competitiveness of rail and all of those issues it is not a big number.

Mr O'Rourke—No, but, in fairness, about $80 million to $90 million of that $160 million nationally is the 18c per litre that is factored into supporting those. There is a significant amount in dollars still to be spent on the rail systems.

Mr WAKELIN—But there might be those who argue that the Commonwealth does put that back into rail. We will continue to look at that.

Mr Cantwell—I would like to add something in the context of CSOs. The corporatisation review that we have referred to a number of times today suggested a new perspective on CSOs. This perspective is certainly consistent with the Queensland Government's managing for outcomes framework, where the paradigm, if you like, is not one of deficit funding; rather it is one of government procuring transport outcomes from a service provider on behalf of the community. We would support that paradigm and suggest that the move and the focus ought to be on the services that the community gets as procured by government from transport operators.

We are certainly entering into negotiations at this moment with the Queensland Department of Transport to set in place long-term commercial contracts specifying clearly the outputs that government is buying on behalf of the people of Queensland. I would be interested to hear what the Transport people say this afternoon, but we are probably leading the nation in terms of setting that sort of framework in place.

Mr WAKELIN—Community service obligations have been around for a long time. As a supplementary question on that part of it, let me ask whether you see that decreasing. There is a slight decrease on the metropolitan passenger services CSO in 12 months. Do you see a program where it is decreasing over a decade?

Mr Cantwell—We would suggest that government will achieve significantly more value for money in the services that it procures. The absolute amount might not change because, for example—and the Transport people might talk more about this this afternoon—in south-east Queensland there are certainly significant growth projections for the urban rail services.

Mr WAKELIN—I do not wish to dwell too long on this, but I make the point that over the years the greatest criticism that I have faced in South Australia has been that significant money is spent in cities on what is a subsidisation process and yet those services are not necessarily available in regional areas. No doubt Queensland is very familiar with the same debate.

Mr O'Rourke—If I might say so, the $595 million that you referred to is not all subsidies for the metropolitan region. Country freight services are involved in that. I guess Queensland is quite distinct from the other railways. We have branch lines that are still open and that provide services to country Queensland. We have also our small freight business, our QLink business, which is developing as a very successful transport and logistics business. We still have a subsidy which is declining at a rapid rate from government as part of the transition process. The issue in Queensland has probably been different to the other states. We took the view that we should invest in our businesses and try to grow them; at the same time we worked very hard with some smart management and some new systems to get the whole business in shape. The government well recognises that it would have to provide community service payments to numbers of our businesses, but it is expecting us to operate at efficient, world best practice levels.

Mr WAKELIN—My last question relates to the issue of research. Could you just give us your view of Austrail, its progress and what you might see coming from the research into the rail industry.

Mr O'Rourke—We believe that there is a good case for a national body similar to the NRTC road body to deal with research, development and advice for the railway industry nationally. Over the years we have tended to go our own way, to try to argue our case on a state basis. We need something national to give effect to the changes that we are proposing.

CHAIR—Could that be done through something like the unit that the Central Queensland University is setting up, or should it be more broadly based?

Mr O'Rourke—There are probably a couple of issues here. We are talking about a global issue to have—

CHAIR—We are taking evidence from them later, but I would be interested to hear your view.

Mr O'Rourke—I think there is a real case for support for universities such as Central Queensland University, which we use. It has been involved in some real breakthrough arrangements for us in terms of train dynamics, leading us to significant savings. Research and development is something that the railways have not done really well over the years and I think much more effort needs to be put into that in the future. That is an issue that could be looked at on a national level with some sort of national body, as I said, that might mirror the road NRTC to give effect to changes that need to happen in our industry. That is certainly a case that the Australasian Railways Association has been pursuing.

Mr Cantwell—Perhaps I could add that the Austrail body does not need to be a monolithic research organisation; rather, it can be a clearing house for the various elements of research that need to be done. We need to have a broad scope of rail research. We need to look at economic and regulatory matters as well as technical. Perhaps this small Austrail body, with, hopefully, some support from the federal government, could farm out the various elements of research to the university based research bodies that exist. A number of those university based research bodies exist.

Mr HARDGRAVE—My question goes to the heart of your $5.5 billion investment over 10 years, which you are halfway through. We all know that Queensland Rail has probably given an example to all other rail authorities in Australia in relation to the quality of the outcome of that investment thus far. The one question that begs to be asked is: why is it being invested in the Queensland narrow gauge and not, say, in something that might have then fitted into a national pattern?

Mr O'Rourke—I guess it is difficult for us to say why other railways have not invested and why the Commonwealth government has not seen fit to provide funds for the upgrade of infrastructure. When we had a major restructuring of Queensland Rail in 1990-91, which was supported very strongly by both the previous and the current government, it was obvious that this system needed a major injection of capital to bring it into the 21st century. These railways—not only Queensland but the others—are from a bygone era.

Mr HARDGRAVE—Given that you are actually upgrading the bygone era by keeping it at a narrow gauge and not at the national standard, one would suppose that a major arterial between Brisbane and Cairns of a standard gauge would have been a far greater contribution to the national good.

Mr Cantwell—That would be an ideal outcome. I might add that our new infrastructure investments in terms of the formation, bridge standards and the like are actually built to a standard that could accommodate standard gauge. But if you are talking about standard gauge, you are talking about a massive investment in relaying track and in re-equipping the rolling stock. I would hazard a guess that it is $15 billion to $20 billion worth of investment. That is just a guess.

CHAIR—Out of the ballpark.

Mr Cantwell—It is out of the ballpark.

Mr HARDGRAVE—It arguably is out of the ballpark. Is it not a case, though, that throwing $5.5 billion at an upgrade of the system is, put simply, upgrading and perpetuating the problem?

Mr Cantwell—A significant amount of that upgrade has been in curve and grade easings. You only have to fly across the north coastline to see the cuttings and the new curving grade. So a lot of that investment is in infrastructure that has a standard which could accommodate a standard gauge if, in 50 years time, for example, we are able to establish a standard across the nation.

CHAIR—I think you told me at one stage that all your new bridges are built to four feet 8½ standard?

Mr O'Rourke—Yes, they are. Everything we do these days is built to accommodate a standardisation if that was to occur. However, I do not think there is enough money in the bank to switch Queensland Rail to a national system. I might just add as a good example that the tilt train that you are going to ride on this afternoon, which is Australia's first high-speed train, give or take the XPTs in New South Wales, will run at speeds of up to 160 kilometres an hour on track that is shared with freight. People often ask, 'Why haven't you got a TGV that runs between Brisbane and Rockhampton at 350 kilometres per hour?' My answer to that is that our tilt train, which is a fact of life, is going to cost us $106 million and we have not got another $4 billion to spend on the track between here and Rockhampton. We would love to have TGVs running all over Queensland, and if someone can give us another $15 billion to $20 billion we will do it.

Mr HARDGRAVE—May I just take the committee's time for another moment? In relation to freight versus passenger as far as rail is concerned, obviously there is a great deal of future in the movement of freight rather than passenger services. But, to look at the urban services around the Brisbane, the network really is a bit wonky. It needs a big expansion, does it not, if it is going to cope with the growth that you have already suggested this morning? It is very obvious. What plans are there in place to try to upgrade that?

Mr O'Rourke—Over the past five years we have spent very close to $1 billion upgrading the metropolitan network, which includes $375 million for the Gold Coast railway. But you are quite right that, as the years go on, there will need to be significant investment in upgrading te metropolitan network, because the alignments are pretty much as they were 100 years ago. I would suggest that it is the same issue in all of the metropolitan cities of Australia.

Mr WILLIS—Sorry that I was late coming this morning, but I had to come from

Melbourne. I missed your opening remarks and I hope I do not ask you anything that you have already covered. I will just make one comment first. You and others who appear before us keep referring to the supposed fact that rail is paying $80 million to the road system through the 18c a litre excise. There is, in fact, no hypothecation of fuel excise to roads. There was a post-hoc hypothecation which now does not even happen. The government determines an amount that it is going to spend on roads; there is no hypothecation from the fuel excise. That does not invalidate other points that you are making about a level playing field, et cetera; I just wanted to make that point for clarification. We recently produced a report on roads that made that point about hypothecation. I think it is important that the rail industry does not seem to understand that.

I will ask you a number of quick questions. Firstly, I would just like to have this on record. The electrification of line in Queensland seems to me to be quite extraordinary compared with anywhere else in Australia. Has this been a major operational success? Has it significantly reduced operational costs, and is it going to pay for itself?

Mr O'Rourke—The electrification of the Queensland coal lines—high density lines—was certainly a very far-sighted decision that was taken back in the 1960s and 1970s. At the time it was taken, I believe, the electrification of the line to Rockhampton was also a good, sound decision. Since then we have seen a tremendous change in the quality and efficiency of diesel electric locomotives and the case has probably changed quite significantly in recent years, with new methods of locomotive traction—AC traction for diesel locos with extremely high levels of reliability and efficiency in terms of maintenance. I would say that we have gone about as far as we can go with electrification. To go beyond Rockhampton to the north, the issue is more a matter of upgrading track. We come back to that issue all the time. It is an infrastructure issue: upgrading tracks, straightening out curves and strengthening bridges. That is the real issue for us and for the other railways.

Mr WILLIS—I would like to pursue that, but time does not allow. You did mention that you have a tax equivalent regime in Queensland which is now instituted by all state governments for their state trading enterprises. This presumes that if you pay tax you are making a profit. Does Queensland Rail make a profit? If so, does that profit include the CSO payment from the state?

Mr O'Rourke—Yes. Last year, 1996-97, we made a profit of $403 million before tax. After providing for an equivalent taxation allowance, we made a profit of $277 million. Yes, that did include $599 million in CSO moneys flowing to the organisation. But again we make the point, as Stephen made it about CSOs, that we believe they are valid funds coming to the organisation for services that we are providing to government. We are now in the process of getting structured arrangements between ourselves and government which will only strengthen those arrangements.

Mr WILLIS—Do you pay a dividend back to the government as well as tax?

Mr O'Rourke—Yes. Also, we provided and paid a dividend to government of $240 million in 1996-97.

Mr WILLIS—So virtually nothing was left for strengthening shareholder funds?

Mr O'Rourke—Essentially, we return as a dividend any profits from our community service obligations and, I think, about 80 per cent of our commercial business. But there are retained earnings in there. I think there were retained earnings of some $50 million.

Mr Cantwell—We have an effective pay-out ratio of 85 per cent, so it is the difference between $277 million—

Mr WILLIS—That does not leave much for reinvestment in the industry.

Mr O'Rourke—No.

Mr WILLIS—Who determines the dividend policy? Is that a state government decision?

Mr Cantwell—That is right. It is a shareholder issue, unlike the commercial model, where the directors of an organisation make a recommendation on the dividend arrangements.

Mr WILLIS—Briefly, I wish to take you back to the point that Mr McArthur raised with you about the integrated structure versus disaggregation. It seems to me that one point that is missing from the submission and from what I heard you say on this—I think you said something before I came in, so you may have touched on it—is that, although you talk on the one hand about encouragement of the private sector, on the other hand it is fairly obvious that an integrated structure is less encouraging of other operators getting access to your system, if they have to negotiate with someone who is going to be their competitor.

If you have a disaggregated system, there is a rail access authority or whatever you want to call it, which is neutral as between who the operators are. However, in your case they have to make an application to you to get access to operate against you, so they are having to deal with their competitor. That is clearly not the case in a disaggregated model. It seems to me that there is a major reason for the disaggregated model. Do you see that there is any conflict? If so, how do you think the integrated system can somehow overcome that?

Mr O'Rourke—I do not believe there is a conflict. I think our shareholders are clearly telling us to give effect to open access. We have set up a regime within the organisation—which, obviously, also has obligations to report to the external Queensland Competition Authority and our shareholders—to give effect to competition policy. At the end of the day, we do not believe it is in our interests to disadvantage a private operator if it can provide a valid case whereby it would be more competitive than our internal operators. That is a policy of Queensland Rail and it is a policy of government.

My argument is to question why, to give effect to third-party access, you have to throw the baby out with the bathwater. You will get fragmentation and disaggregation of your railways and you will see a breakdown of what is a fundamentally efficient transport system. The US has had private operators and shared railway lines for many years over there, yet it does so in the context of a vertically integrated railway. From our point of view, if an access provider comes along and we can negotiate a good access price, it could be in our interests to have a private operator rather than ourselves. We have an open mind on that.

Mr WILLIS—It may be that in the US there would be even more operators if there were a disaggregated model. However, we do not have time to continue that debate. One other point that I wish to raise with you relates to a point made in your submission. This has been raised as a very serious problem in relation to Sydney. I refer to the conflict between freight and metropolitan services in the Brisbane metropolitan area. You mentioned that as a problem. How big a problem is it? What is the solution? Is the solution grade separation, which is obviously very expensive? If so, what would it cost? Is there some alternative solution to disrupting the freight services?

Mr Hearsch—This is a problem which is not unique to Sydney or Brisbane.

Mr WILLIS—It is really not a problem so much in Melbourne.

Mr Hearsch—Melbourne has a fairly separate network so it is not a problem in Melbourne. But it is a massive problem in Sydney. It is an increasing problem in Brisbane. If there were to be no further expansion of the infrastructure over the next few years, it would become a very serious problem indeed, to the point where the freight services would essentially be frozen out of the metropolitan area except maybe in the middle of the night, which from a competitive point of the view is simply unacceptable.

There really is no practical alternative, we believe, other than to further develop the infrastructure—and you are right, it is expensive—in order to provide, as far as practicable and at least at the critical points of conflict in the network, a physical separation between the movement of freight trains and passenger trains. In some cases that can be done by providing extra track work or by providing various means by which trains can get from one route to another. In other cases it will be necessary ultimately to create completely new and separate corridors for freight traffic. That is obviously very expensive and there are all sorts of other issues. We believe there are some options for that in Brisbane, because the development, obviously, has not proceeded anywhere near as far as it has in Sydney in terms of the growth of the urban environment.

We believe it is necessary for government to take early measures to identify our future corridors and to protect them, so that these dedicated freight corridors can be provided when they are needed in years to come. But in the meantime it is an incremental issue. It can be done by selective investments at the critical points. We are well aware of the sorts of issues that are in Sydney at the moment with the impending Olympic Games and the need to provide some separation, particularly in the Flemington-Homebush area. We agree that that is a very high priority.

Mr WILLIS—Do you have any idea of what the cost would be just to address the critical areas in Brisbane?

Mr Hearsch—I understand that to provide the separation that is required to solve the immediate problems in Sydney would cost about $80 million.

Mr WILLIS—Do you have any idea of what it would cost in Brisbane?

Mr Hearsch—If you were to create separate freight corridors in Brisbane, you would be looking at about $1 billion. That is not a short-term exercise. But what we are doing in the shorter term is progressively implementing the amount of physical capacity on the critical parts of the network by selectively building a third track or a fourth track. You are looking at individual investments of maybe $50 million to $100 million which might be done over a period of two or three years.

Mr HARDGRAVE—So you guys are still pushing pretty hard for a freight line along the Gateway Arterial?

Mr Hearsch—Again, we are not pushing. It is a matter for government. It is just our view that, ultimately, there will need to be separate corridors, because the freight traffic and passenger traffic simply will not be able to be physically accommodated within the existing corridor.

Mr HARDGRAVE—With that answer, perhaps you should be on this side of the table.

CHAIR—Finally, notwithstanding the fact that there is a need emerging for an injection of funds from governments, state and federal, is there scope to increase utilisation of the existing capacity? Can you answer that question broadly in terms of segmentation?

Mr O'Rourke—I think that there is always scope to improve operating efficiencies. We are turning over every rock in Queensland Rail all the time. I think one of the issues for the future is in terms of, if I might say so, us and our coal customers. We have very good and close working arrangements with them, but more and more we need to focus on the whole transport chain. Rather than the railways being one segment and the producers and the ports being another, I think there are great economies to be made by all thinking globally and looking at a better return on our assets on the whole system. There is a lot of good work happening in that respect. Obviously, there is the ability to squeeze more out through the system becoming more efficient. We are working at that all the time. As part of our reorganisation that we announced the other day, that is the fundamental issue. We focus very much on our commercial business here and our business that has support by government in another area.

Mr PETER MORRIS—Mr Chairman, given the time, I would like to ask the witnesses: could we have a few notes on the efficiency of those linkages and the interfaces, the percentage of your revenue and the percentage of your freight task that is interstate?

Mr O'Rourke—Yes.

Mr PETER MORRIS—And who paid for the coal lines?

Mr O'Rourke—We can provide that information to you.

CHAIR—We asked you for a couple of other things. You mentioned that you would prepare a paper.

Mr O'Rourke—On the vertical separation issue, yes.

CHAIR—In the early part of the submission, you mentioned that the ability to carry freight is dropping away rapidly in Australia. Would you be able to provide us with a graph for the last 20 or 30 years, showing that?

Mr O'Rourke—Yes, I am sure we could do that.

CHAIR—Are there national figures on that?

Mr O'Rourke—We could provide information through the Australasian Railways Association on the global issues there, and certainly for Queensland we would be happy to provide that.

CHAIR—We will be seeing them in Melbourne. Could we have the Queensland graph for about the last 30 years. It depends on your data, I suppose.

Mr O'Rourke—I might just add that, from a global point of view, 30 years ago Queensland Rail carried about 8½ million tonnes of freight. We carry that in a month now—every month.

CHAIR—So that we are comparing apples with apples, perhaps there should be two graphs: one with coal and minerals and another one with general freight.

Mr O'Rourke—I am very happy to do that.

CHAIR—I would like to thank you for your evidence today. You can tell from the number of questions that have been asked that the committee has been very interested in your submission. If we require any further information over and above the issues that we have just spoken about, no doubt you would be prepared to supply that to us. The secretariat will send you a proof copy of today's transcript for your perusal. We look forward to seeing you this afternoon.

Mr O'Rourke—Thank you. We look forward to showing the committee two of the best passenger operations in Australia and, indeed, the world.

[10.52 a.m.]

SCOTT, Mr Russell James, Commercial Manager, Shell Coal Pty Ltd, 133 Mary Street, Brisbane, Queensland 4000

CHAIR—In welcoming you, Mr Scott, we apologise if we have gone over time. However, I think you would understand that that submission is pivotal to a lot of the other submissions. We will try to accommodate all questions. Do you have any comment to make on the capacity in which you appear?

Mr Scott—In my capacity as Commercial Manager of Shell Coal Pty Ltd, I have spent much of my time over the past six or seven years involved with coal industry infrastructure issues, in particular rail infrastructure issues. I have been closely involved with the Queensland Mining Council infrastructure committee. This year I chaired the Hunter Rail Access Task Force, which is under the auspices of the New South Wales Minerals Council.

CHAIR—You would understand that I have to caution you, as with other witnesses, that, although you are not under oath, these proceedings carry the same weight as those of the parliament and demand the same respect as those of the House. Any false or misleading evidence is considered a contempt of the parliament. Are there any alterations or additions that you wish to make to your submission, or will you cover those in your overview?

Mr Scott—There are no changes.

CHAIR—Would you like to give us a three-minute overview of your general submission? Then we will open it up to questions and debate.

Mr Scott—Our objective as a coal producer has been to move our cost of rail transportation towards world's best practice. Most of the coal that my company produces is destined for overseas markets. We are very conscious that all inputs must be as cost efficient as possible. A key cost input and a key service is rail. I believe that third-party competition with government owned monopoly rail coal haulage is an important step towards achieving world's best practice in coal rail transportation costs. I believe that the access charges to any third-party rail operators must be cost reflective, they must be fully transparent, they must be carefully regulated, and they must be based on an efficient cost base. Operating protocols should be competitively neutral, of course.

We propose that ownership together with control of track by a railway company is not dissimilar to an electricity company owning both the power stations and the poles and wires which service its market. Various state governments have recognised the monopoly powers and monopoly potential inherent in such vertical integration and have separated the ownership of electricity generating capacity from electricity distribution. The New South

Wales government adopted that principle in forming the Rail Access Corporation, which was formed to own and manage the railway track in that state. The New South Wales government also established an access regime within which the Rail Access Corporation must operate.

In practice, the New South Wales access regime has had some flaws, which the New South Wales coal industry is addressing through the processes available to us under Part IIIA of the Trade Practices Act. Alternatively, the cost of coal transportation by rail in the Hunter Valley we expect to be something around 50 per cent less—about half the cost—by 2000 than it was in 1995. The point is that there are difficulties in setting up an access regime and a separate unit or operating bodies such as the Rail Access Corporation, but the potential rewards are great. The Queensland government recognised and adopted the same principle in its electricity business, but it has not recognised that principle with the railway business.

The key point is that the separation of track ownership from the other parts of a rail entity, all of which can be subject to genuine market competition, we believe is critical. Achieving the ability to isolate, to control and to regulate the monopoly position of a body such as the Rail Access Corporation in New South Wales is not easy, but we believe that it is going to be more difficult if the access unit or entity itself is firmly embedded within an organisation such as Queensland Rail.

Mr HARDGRAVE—I am particularly interested in the cost to your industry, as a comparison for the committee to consider, as far as the failures of the infrastructure that we have currently are concerned. We have bottlenecks, we have questions over access and we have competing uses, with passenger and rail freight competing for access times. What is the cost? Do you have an estimate or even a guesstimate on what the cost could be?

Mr Scott—I do not have an overall estimate. You have to look at the system within New South Wales and you have to look at the system within Queensland. It is not like comparing apples with apples. The New South Wales Hunter Valley rail system is an extremely complicated process. It is a short haul system by world standards. The average haul is about 120 kilometres. It is a just-in-time railway transportation task to the port, and it shares its railway infrastructure with other forms of rail traffic, such as grain and passenger trains. If you look at Queensland, of the main three coal corridors, at least two of them are completely dedicated to coal. They are electrified. There are good stockyarding facilities for coal at the port, unlike in New South Wales. You have an average haul distance of 250 kilometres, which provides economies of scale in the rail business. To identify particular parts of either of those systems would be difficult.

Mr HARDGRAVE—Is part of the answer having dedicated corridors? Some of those new proposals that are around are for marvellous links to link productive areas—farming and mining areas—throughout Queensland, New South Wales and Victoria. Are those new major links the way to go? Are they also perhaps destined to fail if the existing links that connect them to other modes of transport, such as ports, are still going to be choked?

Mr Scott—I suspect the answer is yes. I would also propose that the success or failure of any new infrastructure and, to some extent, existing infrastructure, will depend on the economics that support that infrastructure. If, in fact, the users of that service—in my case, the coal industry—find that too expensive an input, it will impact on their business and the scale of exports out of Australia ultimately, and get some sort of balance.

Mr HARDGRAVE—When you say yes, do you mean that new infrastructure is the way to go, and are you saying yes also to the question of existing infrastructure still providing a choke?

Mr Scott—No, there are certainly ways in which we can improve the use of existing infrastructure. Mr O'Rourke mentioned the concept of taking a more total system view and making the various parts of a railway system, such as the coalmines, the ports and the railways, work more closely together. That is also the case in New South Wales. If there is a demand for it, then new infrastructure has a place, most certainly. The Surat-Dawson area in Queensland is one such area that has been under consideration over the most recent period.

CHAIR—We heard evidence yesterday from the New South Wales Rail Access Corporation—and we have had such evidence also from other witnesses—that would lead us to believe that everything is not all sweetness and light in terms of transparency there. There was a perception that there were favoured players. Why would that system be any better than an integrated system with a probity model built into it?

Mr Scott—In the case of the Rail Access Corporation, it operates under a rail access regime. There are, in fact, difficulties that the industry has with the rail access regime. The committee may be aware that the New South Wales Minerals Council made application to the National Competition Council for the Hunter rail service to be declared, on the basis that there were some problems with the way that the rail access regime had been gazetted. Transparency was one of the issues that featured in that application.

The National Competition Council determined that the arguments that the Minerals Council put forward were correct, and recommended to the Premier of New South Wales that he make a declaration of the service. He did not accept the recommendation. At the moment, the Minerals Council is appealing to the Australian Competition Tribunal. Yes, the simple answer is that there are problems with either system, but there are processes available, federally and at the state level to address them. I believe they would be more difficult to address where you have an access unit embedded within a larger organisation, such as Queensland Rail, rather than in a stand-alone capacity.

Mr McDOUGALL—I would like to take that a bit further. One of the other coal producers in New South Wales implied quite strongly that, if you wanted to go to IPART, it would be a waste of time. Have you had to go to the Queensland competition tribunal, or whatever it is called here, to actually challenge the system that Queensland is running under? It is hard to bag a system if nobody has tried to work it out. It would appear in New South Wales quite strongly that they do not like the system. People like yourself say that it is a good system, but it does not seem to work.

Mr Scott—One of the points that were made in the New South Wales Minerals Council application to the National Competition Council was that there was some conflict held by IPART in the sense that it was both regulator and arbitrator for the rail access regime in New South Wales. This is one of the points that the National Competition Council accepted in recommending that a declaration be made.

In Queensland, certainly, I have not seen anything but the barest bones of what would be an access regime under which third-party rail operators may seek to compete with Queensland Rail. Until I have seen that, I really cannot comment. The Queensland competition legislation was passed late last year. As far as I am aware, the government here has not gone to the National Competition Council seeking accreditation for any access regime for the railway system at this stage. I do not believe there is a system there at this point.

Mr McDOUGALL—Is there a role for the Commonwealth government other than what we have heard so far—that is, that they want us to give a bucket load of money? Is there a role for the Commonwealth government in this question of access regimes and arbitrator, which could be seen to be an independent body?

Mr Scott—In the case of the coal industry, I believe there is a role for the Commonwealth government under the Competition Principles Agreement and Part IIIA of the Trade Practices Act. The Commonwealth has a key role to play. In fact, until a state establishes an access regime that is accepted by the National Competition Council, in fact it is the Commonwealth access regime that determines access to facilities or that particular facility in a state.

Mr McDOUGALL—Finally, do you believe that QR's capital investment program has given efficiencies? You would have heard me ask that question of QR. Have they given you a corresponding freight reduction? Do you believe that it would be more in the interest of Shell to go into its own trains, undertake the capital investment to create its own trains and go through an access agreement? Are you getting benefits? If you are, what is your future? Do you see a better way to go?

Mr Scott—First of all, I would support the comments made by Mr O'Rourke before. Despite our differences, the relationship between the coal industry and between Shell and Queensland Rail are very good. There is a lot of communication and a lot of common recognition of the issues that are out there. Secondly, the investment that

Queensland Rail has made into the Bowen Basin-central Queensland area, from a coal industry point of view, we would see as well spent. I believe that there is something like $1.4 billion being spent on the coal corridors in central Queensland to upgrade the infrastructure itself and to provide new rolling stock and additional rolling stock to handle growth. So the answer is that Queensland Rail have been keeping up with a very rapidly growing demand in the coal industry in Queensland.

I was fortunate enough to be part of the study tour that Mr O'Rourke mentioned before, which visited north America and South Africa to look at other coal carrying companies in an attempt to make some effort to benchmark Queensland Rail against those companies. My conclusion was that, operationally, Queensland Rail compared very well. I believe the one area in which they compare badly with private railway companies overseas is asset valuation, which is not their decision—it is a government directive, a Treasury directive.

I think that it was mentioned before that the Rail Access Corporation in New South Wales is directed, in fact, to achieve a 14 per cent return after tax on its assets. We as a company would be very happy to achieve that. We believe that Queensland Rail, so far as the coal business is concerned, probably seeks something around the same level, which we would argue is on the high side. Insofar as whether or not my company would be interested in operating coal haulage operations, at this stage the answer would be no. We are in the coal business. Our core skills are in the coal business and there is a whole different set of skills and abilities required in operating, crewing and maintaining rolling stock.

Mr WILLIS—Mr Scott, you heard what the Queensland Rail representatives said in answer to the questions that I asked them before about integration versus disaggregation. You would have heard them say—I am paraphrasing this—that they would not oppose or seek to frustrate an alternative efficient provider. In those circumstances, why do you believe that it is important to have disaggregation with a track authority setting in charge of access rather than an integrated operator?

Mr Scott—I think a large part of the answer to that is transparency—being able to identify clearly the assets that that entity, in fact, manages and controls and that, in the case of New South Wales, the Rail Access Corporation owns. It has a parcel of assets, it has a return on investment objective given to it by the government, and the money it spends on maintaining, upgrading and enhancing those assets are there and they can be clearly identified. They are not muddied by taking a share of perhaps corporate overheads or other costs from a broader span.

Mr WILLIS—So is your concern that, in an integrated operation, even with the best will in the world the operator is likely to set a rate that is too high because they have not clearly defined the basic access costs?

Mr Scott—That is certainly one potential, but making it stand alone as a separate corporatised entity certainly makes it easier to identify in fact what the cost base is and to in fact benchmark things like infrastructure, maintenance, rail track maintenance and operating costs against world's best practice.

Mr WILLIS—I was interested in your comment that you expected to see in the Hunter Valley reductions in prices—I was not sure whether that meant nominal or real—in the course of the next several years as a result of the new rates that have been set there with the Rail Access Corporation. We were told yesterday that the Rail Access Corporation, in its rates in the Hunter Valley, sets the rate on the basis of its assessed costs but also with an eye to a 14 per cent rate of return on capital. So it actually can set a rate which will enable reinvestment in the industry in additional infrastructure as well as maintenance?

Mr Scott—Yes.

Mr WILLIS—In those circumstances, you are saying to us that, nevertheless, the prices are coming down. Is that right?

Mr Scott—Most certainly. Certainly, in our experience—and, of course, the rates paid by individual coal producers in New South Wales are confidential between Rail Access and the coal producer and the rail operator so I am not at liberty to comment there—

Mr WILLIS—Sure.

Mr Scott—in the two mines that we operate in the upper Hunter Valley, at Drayton and Dartbrook, we have seen significant reductions in the total rate picture. In terms of the total rail tariffs, which is one of the benefits, to come back to your earlier question, of separating out Rail Access completely from the larger rail company—we are now aware, as are most other coal companies in New South Wales, in our rail freight, of what is the haulage component—that is, train operating cost—what is the access charge and what now is termed the monopoly rent, which is being phased out between now and 2000.

In the case of the access charge, the Rail Access Corporation determined late last year that volumes of coal carried over the Hunter Valley rail system would exceed their expectations and, recognising that some 70 per cent of their costs are fixed costs, they reduced very significantly, on a unit rate basis, the access charge for most of the coal companies. In fact, it reduces further once rail tonnages exceed 37 million tonnes this financial year.

Mr WILLIS—Can you give us, just in broad terms, some idea of how the new freight rates in the Hunter Valley compare with those that are charged in Queensland?

Mr Scott—In broad terms, the average rate in Queensland would probably be of the order of $2 per tonne greater than in New South Wales. To really make a comparison one has to look at the rates on a cents per net tonne kilometre basis, because there is an economy of scale. You are looking, as I said, at fundamentally different systems. New South Wales is a short haul system working on a just-in-time stock load-out basis. In Queensland, the average haul is probably twice that, and you have stockpiles—very adequate stockpiles—at both port and mine.

Mr WILLIS—On that distance related formulation of price, how does it compare?

Mr Scott—I would say that, on a cents per net tonne kilometre basis, the commercial rates that Mr O'Rourke spoke of earlier would probably range in the 3c to 3½c per net tonne kilometre, varying according to how far the customer was from the port. We have a range of coal companies in Queensland from 180 to 200 kilometres out to over 300 kilometres. So it is significant.

Mr WILLIS—Compared with what in the Hunter Valley?

Mr Scott—In the Hunter Valley, my guess—and it is a guess—is that it would be around 5c to 5½c per net tonne kilometre.

Mr WILLIS—So the rates on a net tonne per kilometre in the Hunter Valley are higher?

Mr Scott—I suspect that at least part of it is due to the nature of the system itself.

Mr PETER MORRIS—In the transport of coal from the coal stack into the ship's hold, the other component is the coal loader. Who owns the coal loaders?

Mr Scott—In Queensland or New South Wales? In Queensland there is a coal loader at Hay Point, which is owned by CQCA Associates, the BHP operated mines.

Mr PETER MORRIS—Does Shell have a share in coal loaders?

Mr Scott—No. We ship our coal through Dalrymple Bay coal terminal, which is owned by the Ports Corporation.

Mr PETER MORRIS—Is there transparency in the operation of the coal loader and its costings and charges?

Mr Scott—Yes, there is.

Mr PETER MORRIS—Is it published?

Mr Scott—Yes, it is.

Mr PETER MORRIS—What is the rate per tonne?

Mr Scott—The rate per tonne through the Dalrymple Bay coal terminal at the moment varies according to whether it is one of the original users or a new user. The rate charged by the government to the Ports Corporation for using the facility is a bit less than $2.50 per tonne.

Mr PETER MORRIS—I have been in industry forums where the industry has said that it is $4.20 per tonne up here.

Mr Scott—At Dalrymple Bay coal terminal the government charges $2.50 as, if you like, rent. There is a loading charge of around 80c or so on top of that, which is $3.30. If it was a new user coming in who chose not to make a capital contribution up-front to the port facilities, there would be something like 80c to 85c additional.

Mr PETER MORRIS—Which brings it up to $4.20.

Mr Scott—That is right.

Mr PETER MORRIS—There is quite a big difference in the whole set of principles, Mr Chairman. The submissions are about rail or rail freight rate and how that can be screwed down, and transparency is one of the arguments that we do not often see in the private sector. However, in respect of the coal loader there is a capital contribution being sought from new players, although it is not being suggested that they make that capital contribution in respect of the railways. As we listened to our railway colleagues earlier, we heard that one of their major problems is the lack of capital or new investment in improving the system. I am trying to get like with like.

CHAIR—While we are on that point, is Gladstone the same as—

Mr Scott—As the Ports Corporation? Yes, it is.

CHAIR—What is the charge in Gladstone per tonne?

Mr Scott—I am not quite sure. It would be indicative. It would be about $3 to $3.50. We do not ship through that port. Could I just mention that in making those kinds of comparisons, Mr Morris, you have to bear in mind the way in which the coal infrastructure developed. In Queensland the coal companies in fact funded the railways, the ports, the powerlines, the towns and much of the roads. In New South Wales the government put the money up front to develop the infrastructure.

Mr PETER MORRIS—In Newcastle the port coal loader is owned by the coal companies, and Shell would have a share of that.

Mr Scott—We do indeed. At Port Waratah Coal Services, we have a share in the two coal loaders.

Mr PETER MORRIS—What I am drawing again is the comparison between capital cost, capital input and charging rates by the industry itself. This is not government; this is the industry charging itself for the use of its own facilities. The loading rate at Newcastle is $2.90 per tonne. The comments I made earlier are simply repeating what the industry players themselves have said.

They then say that the reason there are delays in loading or insufficient loading at Newcastle is that the coal companies do not want to make a capital contribution. They are paying $2.90, so they have insufficient loading capacity for part of the total transport journey. In Queensland it is $4.20 per tonne. I am trying to relate that policy approach from the industry itself as users, in relation to the comments about what railways should be doing, to their own practices. I have a great deal of difficulty. Maybe you can give us something on paper later. We are well over time and I am conscious of the complexity.

Mr Scott—I will make a quick point on the coal charges at Dalrymple Bay. The $2.50 capital charge on the terminal is historic. It is a 15-year agreement which is coming to its end at the end of this year. We would expect it to be at world best practice rates post-December 1999.

Mr PETER MORRIS—But there is an issue of principle here. The 90c per tonne capital contribution by new mines coming in is something that I am quite sure is unique to Queensland loading facilities.

Mr Scott—If it is still around—

Mr PETER MORRIS—Is it reasonable to expect a similar thing in respect of improved railway facilities as well, that you want transparency in rates and operating costs and that the companies again make a capital contribution to new services?

Mr Scott—For new services I can only speak for ourselves. We are looking at developing at some stage, as soon as possible, our coal prospect at Theodore. That will require a 45-kilometre upgrade. In fact, it is effectively new track.

CHAIR—From Theodore to Moura?

Mr Scott—That is right.

CHAIR—What about from Moura to Gladstone? That is not all that flash, is it?

Mr Scott—I understand that some $90 million has been spent on upgrading that line recently, so it is much better than it was. We would expect to pay for that capital investment in our rail freight.

Mr PETER MORRIS—Shell is paying demurrage costs in Newcastle. Is it paying demurrage costs up here?

Mr Scott—It is much smaller. In fact, it is insignificant through Dalrymple Bay.

Mr PETER MORRIS—But substantial in Newcastle?

Mr Scott—As I understand it, yes.

Mr PETER MORRIS—I am looking at paragraph 5 of your submission on the Shell coal paper and your projections on the market. I assume that your projections on market movements are now qualified by what has happened in Asia? When was this written?

Mr Scott—This was written before—

Mr PETER MORRIS—So this has to be qualified further by what is happening in Asia?

Mr Scott—I am not sure. Marketing is not my particular area.

Mr PETER MORRIS—When you look at the total market, and given the evidence we had from Rio Tinto in Newcastle and the other submissions that we have received from the coalmining councils and so on, are you able to give an assurance that any further reductions in rail freight rates will simply be passed on immediately in pricing reductions again? There is a constant view outside the industry that, while these public charges are reduced, they are simply handed out in terms of price cuts by the coal sellers competing with themselves.

Mr Scott—One of the papers I submitted to the committee looked at the difference between the delivered cost of coal from Australia and the delivered cost of coal from places like Indonesia and South Africa. Unless we keep constant pressure on all the major inputs—not just rail and ports, but other factors of production—then the coal industry, which has been one of the great success stories of Australia, will slow its rate of growth and perhaps even start to wither.

Mr PETER MORRIS—I will broaden that, then. One looks through your submission, 'The Historic Overview of Shell in Coal', and one looks at the companies in which you own the loaders. You have shares in the Richards Bay coal loader in South Africa and you have shares in coal loaders here. You have mines operating here and in

Indonesia. I am looking at what you have shares in; I can go back and be corrected from the submission. The picture is very clear of companies here competing with themselves and playing mine offshore against mine onshore. There is no transparency at all over what happens to pricing, transfer pricing, taxing policy or profits. In the national interest, and looking at railways particularly, the kind of transparency that you are wanting from the Queensland rail system ought to be available on Shell's own operations. Would you agree with that?

Mr Scott—Without detracting from your point I would say that we now have only one non-operating interest, which is a small interest in a mine in Venezuela, outside of Australia. Our coal interests to date are almost entirely confined to Australia. But I appreciate the point that you are making.

Mr PETER MORRIS—I am talking about Shell. That is not correct. I will not belabour the point, but I am reading from your submission the details of the Shell umbrella overall, where Shell has coal interests. It does not matter what we do in Australia; it is going to be Shell Netherlands that makes the policy decisions. Thank you.

CHAIR—Thank you, Mr Scott, for your evidence. It has been most enlightening. If we have any other questions, would you be prepared to provide answers to us in writing?

Mr Scott—I would, Mr Chairman.

CHAIR—As is normally the case, we will provide you with a draft of today's proceedings for your perusal.

[11.30 a.m.]

OGHANNA, Associate Professor Wardina, Director, Centre for Railway Engineering, Central Queensland University, Rockhampton, Queensland

CHAIR—I welcome you this morning. You are appearing as a director of the Centre for Railway Engineering. Is that a subsidiary of the University of Central Queensland?

Prof. Oghanna—No, it is part of the university, it is a university research centre.

CHAIR—Before I proceed: I have to advise all witnesses that evidence is not given under oath but carries the same weight as that of the parliament and needs to be treated with the same respect accorded to the House. False or misleading evidence is taken to be a contempt of the parliament. I just ask you to bear that in mind. It is not directed to you personally but to all witnesses. Do you have any additions or alterations to make to your submission or will you cover those in your opening statement?

Prof. Oghanna—No.

CHAIR—Could you give us a three-minute opening statement on an overview of your position.

Prof. Oghanna—I will start my overview picture, then I will go to the specific application or solution of mine. Firstly, I would like to speak about the Australian federal government's responsibility in this area and the rail industry in general. I believe it lacks an integrated land transport policy. Transport, including transport logistics and intermodal transport, helps to make things move a little bit more quickly. It is more like a transport policy. That in itself to a certain extent is excluded. Railways, in the past, has not been a federal issue; it was treated more like a state issue, which is unfortunate. On that basis, I believe that there should be a national rail highway similar to the road highways over here. I will say more about that a little bit later on.

When I first arrived in Australia a few things struck me. One of them was the disharmony of having different governments rather than a single one. From my experience or my knowledge of urban transport in Europe and America—I travelled a lot before I came here—and after I came to Australia, one thing that we have to always keep in mind is that we are a large country but the population is small. So the issues that apply in other countries might not suit us here in Australia.

The other issue is the burden on the environment. I believe that a few issues such as demand for land use should be taken into consideration. I have some figures here. The demand on land use for rail is one-third of highways. The energy consumption comparison between trains and trucks and cars is 1:8 or 1:10. The accident rate is very much lower than road transport. Of course pollution is again 1:8 to 1:10.

To start with, I think the role of technology is slightly misunderstood over here. We buy gadgets—in this case, rolling stock, which is very sophisticated, costing $1 million a piece—but a lot of the time we understand very little about them and about how they operate. Of course we buy equipment of that nature and we try to use it on the track system we have here. However, we have problems with poor structures, curvatures and routes, not to mention the technical and operational problems involved with that. There is a lot of interest in regulations, safety, accreditation, access, et cetera. If I have time later on I might add a little bit to that.

Recently I was writing a paper about open access and it struck me that the European Union, by virtue of wanting to have a loco train that travels from London all the way to Moscow, are finding out that they have different track systems—they have different signalling, automatic train systems and so forth. In a way it is really a pity that it is the same case in Australia. We are one country but we really have six or seven different systems.

CHAIR—With great respect, I think you might be anticipating some of our questions. I am sure that these are the sorts of things that some of the members of the committee would like to ask you about. There are a lot of companies around the world now tendering for the high-speed train projects. What is your view of the technology involved? How does it adapt to the Australian circumstance? Could you tell the committee what sort of input you have had into things such as the tilt rail, just to bring in a local perspective.

Prof. Oghanna—I will answer the last question first. We did not have much input. We were never asked. I think that was the time before.

CHAIR—I asked the question because this morning Queensland Rail said that it had had a number of very fruitful research negotiations with you. I just want to get a bit of a feel for what your particular work adds to the local circumstance in Australian rail.

Prof. Oghanna—That is true. I started from naught, from zero. At that time we did not know much. Not only did we not know much, but I think the whole industry did not know a great deal. We started actually putting a proposal to them for continuing education and training for what is coming in the future state of the art. That is a very important issue. When I raised it, I was not so sure that a lot of people understood its benefits.

CHAIR—Was that technical training engineering training, or was it more particularly the sort of thing you talked about in the London to Moscow line? It is similar to the Brisbane to Perth line, in that we have 23 regimes of safety, signalling and radio between Brisbane and Perth. Which model—

Prof. Oghanna—I was really more interested in new technology coming and what the rail industry in Australia will acquire. I just wanted to bring them up to date on what is going on outside and just to be aware of it. The trouble is that the technology is changing so fast and the people are really putting out the fire and not looking towards the future.

CHAIR—Can you give us an example of that?

Prof. Oghanna—For example, while I was talking to Queensland Rail they were trying to buy an AC traction, not a DC, locomotive. With AC traction technology there are a few problems but there are also a lot of benefits. More specifically, they should be aware of the pros and cons of different systems and different control strategies and how they arise. When you use new technology there is always a problem. How do you address that and how do you educate the work force? I have found not just with this one but 15 years ago that drive systems are similar things. There is a technology selection process which is not very well known because people are not up to date or are not familiar with the state of the art of that technology. Then, of course, you buy it and the work force needs to know how to use it effectively without trouble. That is very much missing. In my contact with Queensland Rail I tried to address those issues and make them aware of them.

Mr LINDSAY—For the committee's benefit I point out that AC traction technology has been built only in one place in Australia, and that is in Townsville.

CHAIR—In the electorate of Herbert. Professor, this morning there was a bit of conflict with your assertion that the various railway authorities operate largely in a vacuum with little information flow. There seemed to be two levels to that—a technical level and an operational level. Queensland Rail did not altogether agree with that statement. What is your view about that? In what respect is the information flow not occurring?

Prof. Oghanna—I will say something in that regard, because to me that is a very critical issue. To me, unfortunately, nowadays information is a big company's power. I feel there is a lot of information, but sharing or accessing that information is very difficult. I will give you an example of that even from my own study. When I studied railway engineering, I could not go to ordinary libraries of our own or even other universities to locate literature or conference details or to find out where I could obtain information about the rail industry in general. I contacted lots of companies and even the foreign consulate to find out how I could get to those people and ask them whether I could get some detailed technical information from them.

It is the same thing. Every organisation has a lot of this information, but it is with me, you or somebody else. To that extent, it is hardly even shared within the same organisation, not to mention between different states. I do not want to say that I have proof, but I have first-hand knowledge of that aspect. That is one issue that I would like to address through my proposal to the federal government.

CHAIR—What would be your criticism of the existing rail system in Australia? The obvious one is the change of gauge. Over and above that, what do you find is the worst feature? Is it having vertical integration of ownership?

Prof. Oghanna—I think the lack of infrastructure is the major thing that is not making it competitive.

CHAIR—Where should the emphasis be on this infrastructure?

Prof. Oghanna—Apart from starting with a comparable level of investment in infrastructure, the next thing you should be looking at is generic research. Especially nowadays that becomes more important.

CHAIR—Before we turn to research, would you like to give the committee your view of where the weak links are in the existing infrastructure? Are they in track technology, engineering or systems operation? Where are the weaknesses? You have seen railways all over the world. What are your immediate criticisms of the Australian system?

Prof. Oghanna—Certainly, the infrastructure would be the main thing—that is, the track system. Again, it would be the automatic control system—that is, moving between boundaries. The third one would be the intermodal type thing—that is, the contact from A to B and how quickly and effectively you can do that moving, loading and unloading of people. I would say that technology is a fair bit behind. But I do not think there is much capital to invest in that area, either. That is another critical decision. Those are the four areas. The biggest issue is that I believe we are six countries and we have six governments in one country, which is a pity. That is all I could say. Certainly, that was a major obstacle in the past.

CHAIR—The reality is that in the current climate no government will be able to find $15 billion or $20 billion to start reversing that. What is the best target for government spending to bring Australia into line? At least we now have a standard gauge line from Brisbane to Perth. How do we make that more user friendly? How do we make the internal operations of the various states more efficient? What is your view on those two things?

Prof. Oghanna—To that effect, you could improve the track structure and introduce new technology. You could buy a very powerful locomotive capable of much higher speeds. You have to be able to drive it at a much higher speed on the track. You have to try to regulate the different automatic train controls. You should be able to share information within the individual authorities and also outside. You should be able to do a lot of things with information. Unfortunately, I think in general the railways have a lot of information, but it is scattered. There is no focus for it. I think you should establish a focus for such activity. The Australasian Railway Association is a lobby group. You do not have something to focus on when you have a problem. You should be able to go to the federal government and say, 'We have this problem. How can we address it?' If you concentrated on having a national centre with people from different backgrounds, you would probably be in a better position to get a much more detailed answer.

Mr HOLLIS—I am still a bit unclear about a couple of things. Are you working with Queensland Rail only or with railways throughout Australia?

Prof. Oghanna—Ours being a university research centre, so far all of the funding comes from working on specific projects for Queensland Rail. The exception was one project which was done through the Australasian Railway Association.

Mr HOLLIS—I am also a bit unclear about something else. When you are doing research, is that on the physical attributes of a railway, such as lines, speeds and so on, or are you taking a more socioeconomic focus? Constantly, when we are talking about rail and road transport, it is argued that taking more freight off the road and putting it onto rail leads to overall economic and environmental benefits. Are you doing research into that area, or are you just doing research into, for example, the tilt train or various aspects like that?

Prof. Oghanna—I am doing technical research only. In other words, if we are working, for example, on infrastructure, we look at a new generation of track. The shape of the rail has been the same for a number of years, and I think we got a good result. We are going to continue with that. Why could Queensland Rail, BHP or someone not provide some support? We are working on a different type of AC or DC traction. We are working on problem solving aspects for Queensland Rail. That train dynamics research leads to more knowledge about train accidents. We are dealing with that area.

Mr HOLLIS—In your paper you make reference to an advanced diploma, a bachelor in technology and advanced undergraduate training. Would this research centre focus specifically on what you just mentioned—that is, different aspects of rail—or would you advocate this research centre having a much broader role to look at various socioeconomic aspects of rail in general, rather than specific attributes of the railway?

Prof. Oghanna—I think it is a much wider one. I can tell you now that for the graduate diploma I envisage eight modules just to start with. Only about four of them are in engineering. The others deal with management, operations, safety, accreditation and maintenance. So it is a wider issue. But, of course, I do not have the resources. We believe we should have the resources to embrace all aspects of railways in a single focus. That would be serving the industry in general.

Mr HOLLIS—You mentioned other centres overseas and that you have contact with research centres overseas.

Prof. Oghanna—Yes.

Mr HOLLIS—What would be the leading research centre dealing with rail internationally?

Prof. Oghanna—This would be the American Association of Railroads, AAR.

Mr HOLLIS—Is that based at a university or an institution, or is it an association of members?

Prof. Oghanna—It was an association of members initially. They put up money for specific research supported by the federal government.

Mr HOLLIS—Is there anywhere in the world where there is one centre, say, at a university or somewhere else, which is doing this research into those aspects of rail?

Prof. Oghanna—There are in China, Russia and eastern Europe. All of them have university or higher degrees that are specifically rail related. But in the Western world they do not have that. You will get groups or small centres like our centres. Eastern Europe, yes, but western Europe, no. We feel that there is a need to do something like that.

Mr HOLLIS—It would be a bit hard for some of our would-be graduates going there. They would have to learn the language first, especially if they went to China.

Mr LINDSAY—In regard to the need for a national rail research development training centre, you have already outlined how the American model is funded. How would you suggest that this should be funded in Australia?

Prof. Oghanna—You are probably aware that, in the early days of railways in Australia, the whole industry was governed by five or six state rail authorities collectively, and they used to put some money towards research. But with the demise of that, and creating the Australasian Railway Association and the privatisation or corporatisation of the rail industry, really you become an operator/provider. I do not think you could get that funding from different people. I think it is possible, when you have a little bit of focus somewhere, that you might go later to two or three operators or providers. They might get together to do a specific project. So initially it has to be supported by the federal government. But once it builds up, at that time you would be able to get support from putting some money towards doing a specific project. I do not think they will do that for all projects.

CHAIR—In Australia, where the federal government has the principal responsibility for aviation, we have a standard for pilots, for example, and navigators and all aircrew. We have a standard that is universal, whether you live in Perth or in Cairns. Provided you are competent to fly a particular aircraft, the standard for all aircraft right through to a 747 is the same across Australia. Do we need to move to something like that for rail so that a driver could get on a train in Perth and drive the same train in Queensland?

Prof. Oghanna—Absolutely. There is a need for standardised training. From my experience with training—and maybe you have heard about this from other people—in every organisation they do their own training. In other organisations they do that by all the manufacturers that deliver a product. Really, they give them what is good or what is applied to that product or what they are using. What you need is initially a more generic training, as you said yourself, for somebody who is using this train, that train and that train. Also, there is a specific requirement that you do specific training afterwards. There is so much duplication, it is unbelievable. That is the thing that is killing the industry. Getting together is the point. I believe that it should come from the federal government. That is my perception. I could be wrong, but that is my clear perception.

CHAIR—Thank you very much for your evidence today. We appreciate it immensely. Your presentation is one of the most unusual, not in its content but because you come from a different perspective on this whole rail matter. Your recommendation that you have just given us is largely supported by Queensland Rail—that is, to have an overview body that can delegate specific tasks to organisations like your own. We appreciate the amount of trouble you have gone to in this. We trust that, if we have any other questions, we can contact you and you will respond in writing.

Prof. Oghanna—Definitely.

CHAIR—We will send you a proof copy of your evidence today in the near future.

Prof. Oghanna—Thank you.

[11.56 a.m.]

HORWOOD, Mr Brian Frederick, Director and Member Company Representative, Queensland Mining Council, Level 7, Santos House, 60 Edward Street, Brisbane, Queensland 4000

KLAASSEN, Mr Charles Benedict, Economist, Queensland Mining Council, Level 7, Santos House, 60 Edward Street, Brisbane, Queensland 4000

WILLIMS, Mr Ross Herbert, Member Company Representative, Queensland Mining Council, Level 7, Santos House, 60 Edward Street, Brisbane, Queensland 4000

CHAIR—I welcome the Queensland Mining Council to this forum. Do you have any comment to make on the capacity in which you appear before this committee?

Mr Horwood—I am the managing director of Pacific Coal Pty Ltd, a member company on the Queensland Mining Council. I appear here today as the chairman of the infrastructure committee of the Queensland Mining Council.

Mr Willims—I am general manager, external affairs, of BHP Coal Pty Ltd, a member company on the Queensland Mining Council.

Mr Klaassen—I am on the staff of the Queensland Mining Council.

CHAIR—Before I proceed: I have to advise all witnesses that, although you are not under oath, these proceedings carry the same weight as those of the parliament and need to be treated with the same respect as proceedings of the House. Any false or misleading evidence is considered a contempt of the parliament. Thank you for your submission. Are there any alterations to it?

Mr Horwood—No.

CHAIR—Would you like to give us a three-minute overview? Then we will take up the rest of the proceedings by questioning.

Mr Horwood—I will ask Ben to pass around a couple of graphs that I would like to refer to in my presentation.

CHAIR—Yes, certainly.

Mr Horwood—Growth in Australia's mining industry is being threatened by falling minerals prices. We have tabled graphs which show that the real prices of coking and thermal coal today are half the level of those in 1982. They are still falling, and this threatens Australia's largest export earning industry. Mining companies are responding by reducing costs under their control and insisting that supplies of goods and services deliver more for less cost. They are generally succeeding. The major exception is rail transport costs, which represent about one-third of a typical mine's production costs.

Rail charges have increased steadily. They are excessive and are basically non-negotiable. Queensland Rail is not responsive to industry's needs. There is no apparent effort to improve the efficiency of transport operations and pass the benefit to mining companies, nor is there work to ensure that freight rates are competitive with other railway lines.

Rail charges on Queensland's rail consist of two components. The first is a de facto royalty, which averages about $3 per tonne per typical mine, but these are being phased out by the year 2000. The second, and for us the more important element, is an escalating transport charge, which averages about $9 per tonne. Queensland Rail says that that is a commercial charge. It represents its operating cost and a fair rate of return on the capital employed in the rail infrastructure system. The independent estimates that we have undertaken show that the transport charge should be around $5 per tonne, not $9 per tonne. That difference represents the monopoly rent that is earned by Queensland Rail.

The monopoly rent, we believe, is the above-normal profit that Queensland Rail extracts from the coal industry because there is no competition for the business. The mining industry is looking for third-party access to eliminate that monopoly rent and to bring freight rates down to genuinely commercial levels. That can be achieved by, firstly, introducing a real threat of competition for the haulage part of the rail service, and, secondly, introducing cost transparency and independent regulation of the monopoly infrastructure element of the service. The infrastructure is the actual railway line itself.

Our submission describes the basic attributes of an effective rail access regime. Those will facilitate entry by new train operators and eliminate the present monopoly practices of overcharging, price discrimination, secrecy and cross-subsidisation. The Mining Council asks that the standing committee be an agent for change. We ask the committee to, firstly, recognise the Queensland mining industry's rail cost dilemma; secondly, acknowledge the industry's need for competitively based haulage charges and independently regulated rail infrastructure charges; and, thirdly, support the industry in seeking a clear plan for the development of an effective rail access regime in this state. That is my opening statement.

CHAIR—Mr Willis had a technical question on the graph.

Mr WILLIS—What index did you use?

Mr Horwood—The CPI.

CHAIR—As you are probably aware, Queensland Rail or the state government have decided to keep a vertically integrated system. Yesterday we heard evidence in Sydney that the Rail Access Corporation is not all sweetness and light. We asked questions about what rates were being charged for various people and we were told that that was commercial in confidence. There was not a great deal of transparency coming from that model yesterday. That prompts me to ask this question: why should a vertically integrated system with a probity mechanism in it be any worse than a rail access regime that is not all that open anyhow?

Mr Horwood—I will get Mr Klaassen, who is an expert on the two models, to answer that question.

Mr Klaassen—You are right. A segregated railway can still have inadequate transparency from the point of view of the coal industry. For example, a disaggregated Queensland Rail that did not separately identify the access costs of coal and minerals versus passenger versus other freight would still be very much a second best option from the transparency point of view. It would not be much better than we have now. It would be a major problem.

Our main point in respect of structure is that we do not pretend to know as an organisation what the ideal structure is. We do believe, however, that the process that Queensland has gone through, prior to Christmas, which led to the announced new structure was inadequate. It, in itself, was insufficiently transparent. It provided very limited opportunity for us, and presumably other stakeholders, to have input into the outcome. In the absence of a more rigorous analysis, we remain sceptical about a fully integrated QR, regardless of probity checks that might be built in, because, at its essence, a single organisation will presumably be dedicated to maximising its total wealth. We see that as contrary, in concept at least, to treating potential competitors fairly.

The process that the government went through in respect of QR is in stark contrast to the very good process it recently went through in respect of the electricity industry, where it obviously recognised a need to take a rigorous look at the structure of the industry in national competition policy terms, appointed an independent expert panel to do that, provided adequate opportunity for public submissions, produced a draft report and produced a restructuring plan, which, in the last 18 months, has seen the Queensland electricity sector very successfully transformed from a vertically integrated entity into one with proper pro-competitive separation between the different elements. We think that sort of process should have happened in respect of Queensland Rail.

CHAIR—If the Queensland railways have not been as efficient as they should be, or if their charges have been as heavily weighted as you claim, it seems to me strange that the great bulk of coal activity in Australia has continued to take place in Queensland, even to the extent of the opening of the Surat Basin. I am not saying that your evidence is misleading; that is not my emphasis at all. However, they must be doing something right if they have been the only railway in Australia that is making a profit and people continue to come to them for business.

Mr Horwood—At this stage, no coal is being exported from the Surat Basin.

CHAIR—Not yet. There are five major submissions in, are there not?

Mr Horwood—I think you will find that they are submissions from people prepared to build infrastructure if somebody is prepared to pay for it. There is no coalmining company that I am aware of that is making decisions to develop a mine to export coal. I think that the jury is out on that one. I cannot personally see how a mine could be competitive in the Surat Basin.

CHAIR—What about the general point of view that Queensland has continued to attract coalminers, despite the sort of criticism you have levelled at Queensland Rail this morning?

Mr Horwood—There are new mines being built, and there has been a lot of work on work practices and operating practices to be much more competitive than is the case for mines built 10, 15, 20 years ago. Some of those mines are making commercial decisions. Some are making profits, others are not.

CHAIR—You are saying that while the industry has smartened itself up, Queensland Rail has not done the commensurate amount of work?

Mr Horwood—That is our belief.

CHAIR—That puts a slightly different light on it.

Mr Klaassen—If you look at the history of rail freights in Queensland, I believe you will see that it does point to the fact that rail freights have a substantial effect on development. Rail freights are high now, but they were particularly high in the late 1970s and early 1980s, when there was a perception that we were on the brink of an enduring coal boom, with jam for everybody. The Queensland Treasury established very high freight charges.

It became very quickly evident from the early 1980s that those freight charges could not be sustained, particularly in the way that they were due to escalate, and there were various tranches of concessions which were necessary to keep those eight or nine new generation mines on hand. There was not a decision to start a new mine or a major new expansion, to my knowledge, for quite some years—towards the latter part of the decade. That did not happen until there was a major policy shift on the part of the Queensland government to no longer use, in their words, rail freight rates to levy taxes or de facto royalties. So we did not get any more decisions to build new mines or expansions until freight rates were reduced by $3 and $4 a tonne for new projects.

Mr HARDGRAVE—The history of it probably goes back 10 years earlier than that, when the late Sir Gordon Chalk came up with the idea of basically getting the federal government to subsidise Queensland's tax position by hitting you blokes pretty heavily for rail freight charges in mining operations. At the end of the day, as Mr Willis especially would know, that is the basis of Queensland's whole budgetary position. What you are suggesting would have some pretty big impacts on Queensland's whole way of doing governmental business, would it not? What you are really looking for and, I guess, waiting for, is some of these land bridging proposals—the Compton proposal, the Melbourne to Darwin rail link—to provide some competition, some alternative means of getting your products to port. You are really waiting for that sort of thing?

Mr Horwood—We are, but not so much other lines. Rather, we want to be able to introduce onto the existing lines a commercial competitor.

Mr HARDGRAVE—So you would like to be able to run your own trains on Queensland infrastructure?

Mr Horwood—You have two choices: either your own or a commercial transport company, for example, TNT.

Mr PETER MORRIS—Like the coal loader in Newcastle?

Mr Horwood—That is one example.

Mr PETER MORRIS—It is pretty good, is it not?

Mr Horwood—I could not tell you.

Mr PETER MORRIS—Well, if you do not know—

Mr HARDGRAVE—I guess what I am driving at is that a lot of this has come very late in the game, has it not? We have seen prices for coal declining because of international competition and whatever other pressures, but I know that for 20 or 30 years there have been constant complaints but there has generally been compliance. There has been no effort to perhaps invest in the infrastructure or in the alternatives over that long period of time. You are coming into this pretty late in the game, when the game is starting to go against you after big profits 20 and 30 years ago.

Mr Horwood—I think that most of the mines were not built 20 or 30 years ago. Perhaps some of the central Bowen Basin mines were, but most of them were built about 15 years ago. There has been a lot of pressure levied on the Queensland government over the past six or eight years by our group, anyway, at least.

Mr Klaassen—I, too, disagree. This has been a long-running issue. I listened to

Mr O'Rourke this morning, and he is dead right: it has been a long-running issue. Over the past decade and longer, we as an industry group have lobbied with whatever effective tools have been available at the time. In that respect, we have been in a prejudicial position. Nevertheless, some important changes in policy have been achieved, thankfully.

Mr HARDGRAVE—Anyway, for the national good, for the industry's good, for the overall good, you need competition on the rail line, a new infrastructure or the opportunity to run trucks?

Mr Klaassen—The new instrument is competition policy.

Mr McARTHUR—Mr Willims, you have put a fairly strongly worded submission to the committee. I will just make a couple of observations. We have had some witnesses here who are advocating the integrated model for long haul railway, private operation and public operation. So the general thesis of access is still under some debate by the committee. We note these monopoly rent arguments. Queensland Rail has indicated to us that that will be over by the year 2000. It would appear that all the witnesses are suggesting that there has been a lack of capital and that has been the problem with railways in Australia. Queensland Rail indicate to us that that has been a problem and it seems, as we hear the evidence, there has been an injection of capital to improve their capacity. Like the chairman, I have some questions about the rail access regime as it is practised in New South Wales.

I will pose a couple of questions to your mining company. What is the average pay rate to miners in your operations? Since you are a bit critical of the railways, what are the industrial relations arrangements in the mining industry in Queensland? Why would you not build your own rail lines, as has been done in the Pilbara? If you cannot do that, why do you not buy the rail line from the government and make all of these efficiencies that you are talking about?

Mr Willims—That question is in several parts. In terms of average pay rates, we can get those details to you.

Mr McARTHUR—But could you give us a ballpark figure as to what miners are being paid?

Mr Willims—On average, it is $80,000-odd in Queensland.

Mr Klaassen—I think the average, taking in all payments, is something like $75,000 or $76,000.

Mr Willims—In BHP's case, that is in the ballpark, or slightly higher.

Mr McARTHUR—It is an interesting figure as compared with the average weekly earnings of about $27,000. I just observe that.

Mr Willims—That is right.

Mr McARTHUR—So all your workers in the industry are well paid?

Mr Willims—That is right. There are a range of attempts or varying approaches, depending upon the company, in terms of industrial relations and work practices changes to improve productivity at their sites. Some changes are starting to take place. We can provide separate details to you as to what those changes are, where we are up to and what we are trying to achieve out of those. Needless to say, we are making every effort that we can to bring down costs at our mines and to improve productivity.

The great frustration for companies such as ourselves is in the area of rail costs, which is the subject of this inquiry. I note the commitments that have been made by Vince O'Rourke in terms of bringing down costs and bringing down prices to companies such as ours by the year 2000. I have to say that we see absolutely no evidence of that happening. We would like some guarantee that charges will come down by the amounts that he is talking about. We see no way of achieving that without the effective threat of competition on the system. Certainly, there is nothing built into our contracts that will facilitate those reductions and get QR to best practice by that date, absolutely nothing.

Mr McARTHUR—What about your own mine's best practice? They are being paid $80,000 a year. That is the biggest cost you have got. You are a highly mechanised operation. Your industrial relations record, as we read it, is very poor and yet you are shifting the blame, in your submission, very strongly towards Queensland Rail.

Mr Willims—We are certainly not seeking to shift the blame. I think that the exercise for us is to improve productivity, to look at how we can improve returns from that key input, that labour input. We are certainly working very hard at that, as all companies are, and we have an opportunity as an employer to do that. We have no such opportunity in rail because we are negotiating with a monopoly supplier. It is a negotiation of unequal parties at the moment.

Mr McARTHUR—What about the proposition that you might buy the rail track? Those options are now emerging in other parts of Australia. Why do you not do that?

Mr Willims—Rail is not core business for us. We would prefer QR or a third-party operator to operate that system. I have to say also that if it were necessary to look at operating our own system in Queensland, we would do that as we do in Western Australia, if it came to that.

Mr McARTHUR—Would you seriously look at buying a section of the rail if that became an option?

Mr Willims—It depends on the asking price, of course.

Mr McARTHUR—You are pretty strident in your arguments in your submission.

Mr Willims—Sure.

Mr McARTHUR—You have to back it up with some argument. You are very critical of Queensland Rail and you advocate a whole lot of things. Yet the fundamental question is: if it would be so much better in your hands with competition, why do you not have a go at buying it or get a merchant bank to put up the money and you can run it your way?

Mr Horwood—That is a possibility. As Mr Willims has said, our preference is to have an expert transport operator running the railway line, because it is a diversion away from our core business.

Mr McARTHUR—But you are making some pretty expert observations here.

Mr Horwood—We are doing comparisons of rail freights charged elsewhere in the world and what we are being charged here for comparable distances. You can say that we should go out and make our own explosives and get our own oil supplies and so on.

Mr McARTHUR—But you are telling us that it is one-third of your costs, but in north-western Australia that is actually happening. People have done it.

Mr Horwood—I think the case in Western Australia was that the mines were built in an undeveloped area and the ports were quite remote. In the case of the Bowen Basin, the mines are all in a very prominent area and it makes sense to share a railway line. That was the requirement of the state government of the day, anyway, so there was not a facility for it. Today it does not make sense to go out and build duplicate railway lines. That does not make economic sense.

CHAIR—How does QR compare with other Australian rail haulage operators?

Mr Horwood—I would add one point to the previous question, to put it on record. In terms of Queensland Rail's being short of capital, I might add that in the case of our Blair Athol mine we put in $250 million of capital, which meant 95 per cent of the cost of building the railway line to our mine. We paid for 23 locos and 500 wagons, which are actually in excess of our needs. We put in the capital itself to build the railway line and buy the wagons. It was not a case of asking Queensland Rail to supply the capital; we did that. I would like to note that, please.

Mr PETER MORRIS—Was that a pre-grant from the industry, or is that repayable by Queensland Rail?

Mr Horwood—There is supposed to be a capital credit given back in what we believe are already excessive charges, but it is very difficult to identify that and get the confirmation from Queensland Rail of what the figure is.

Mr Willims—It is very hard to establish the basis for that capital credit, against the original amounts that the company has paid. It is hard for us to establish whether or not that is a real credit because we simply are not provided with adequate detail by QR.

Mr McDOUGALL—I hate to belabour the point, but this is the nub of the issue as far as the Queensland Mining Council is concerned. This morning I asked QR about the article in the *Australian Financial Review* of the 16th and the efficiency gains that would flow on from the capital investment program. Mr O'Rourke indicated that there had been rail freight price reductions. For the record, what were the prices 10 years ago, what were they five years ago and what are they today? Have there been price reductions?

Mr Klaassen—I would like to answer that from the broad industry point of view, before Mr Horwood and Mr Willims answer. It is very hard to say.

Mr McDOUGALL—Why would it be hard to say? You get $10 a tonne or $5 a tonne or something. You get an invoice, do you not?

Mr Horwood—Mr Chairman, may I answer the question? I am happy to provide data in confidence, but our rates have gone up every year. I am happy to give you information to support this.

Mr McARTHUR—Mr O'Rourke said that they had gone down. He put evidence before the committee.

Mr Horwood—All I am saying is that, on our cost per tonne, the charge per year from Queensland Rail has gone up every year.

Mr PETER MORRIS—Between 1989-90 and 1996-97 coal freight rates have been reduced by one-third and by the year 2001 they will be reduced by a further 25 per cent.

Mr McARTHUR—That is exactly what he put on the public record.

Mr PETER MORRIS—Is it true or false?

Mr Horwood—I am happy to show you our charges.

Mr McARTHUR—No. He put his view on the public record. What is your view?

Mr Willims—Our figures, you mean?

Mr McARTHUR—You ought to put it on the record. Either you agree or disagree with that position.

Mr Horwood—I have offered to do that.

CHAIR—Mr Horwood, it is very difficult for us to keep these things confidential, so I should caution you about that. Once it goes into the record, it is there. The committee can consider your suggestion in a private meeting to see whether there is some way that we can protect it, but to be fair to you there is not a guarantee that that could be—

Mr Horwood—Thank you. I can give you indices, if you are happy with that.

CHAIR—That might be better, yes.

Mr Willims—We will do the same. I will give one figure from our submission to the Industry Commission inquiry which indicates how we think rail freight rates have moved. This is a representative mine and it compares that movement to the way in which our export prices have moved. I will read from page 19 of our Industry Commission submission:

The continuing erosion of the industry's competitiveness is well illustrated by the fact that at one of our mines, while coal prices have risen on average by approximately 24 per cent in nominal terms over the past 20 years, rail haulage costs have risen by approximately 200 per cent over the same period. A similar scenario can be assumed for other BHP operations.

Mr McARTHUR—In which year does that start?

Mr Willims—It is over the last 20 years.

Mr McARTHUR—Mr O'Rourke once conceded that there were monopoly rents up until six or seven years ago. He then made a statement that the rail freight charges have gone down and are going down.

Mr Willims—As I understand, he indicated that they have gone down on average by one-third. We have certainly seen no evidence of that in our operations.

Mr McARTHUR—But you are not giving us any figures to support your case.

Mr Willims—We will get figures for you.

Mr PETER MORRIS—Can you make a 20-year comparison? It is obviously a fundamental difference, but it seems that that difference is probably related to those early rates which were based upon the capital input from the companies themselves, so it was free capital as far as QR was concerned. However, in more recent years you are paying a higher freight rate because it has a capital component in it, does it not? The whole pricing system has changed. QR now provides the capital.

Mr Klaassen—It is very difficult—and this is one of our basic problems—because the only person who really knows the answer on an average industry-wide basis is Mr O'Rourke, and perhaps some people in the Queensland government to whom he is required to report confidentially.

Mr PETER MORRIS—The method of charging is different. You are not required now to put all the capital up front, are you? Who puts the capital in for new lines or upgrading?

Mr Horwood—Our lines are already built.

Mr PETER MORRIS—But they have to be maintained. That is in the charge.

Mr Horwood—Yes, that is in the operating costs and not with the railway wagons.

Mr McDOUGALL—I put this to you: obviously a coalmine has a life. If we are in a position at the moment where we are in the downside of the life of a mine and the government knows that and QR knows that, they are trying to maximise their price. You are going into a worldwide market of declining prices. You no longer have the fat that your graphs show. We have some indication from the Hunter that at the moment the prices per tonne for coal on the export market, particularly in the Asian market, are reducing. Is it fair to say that you were absorbing it because you could afford to absorb it because of the prices, but now it is getting so skin tight that you are really trying to put the screws in?

Mr Horwood—I think that is a very fair comment. It is a very fair summary.

Mr McDOUGALL—You are saying that on top of that QR is not prepared to understand that and say, 'We want to help you maintain those mines.' What is the average life left in the mines in the Bowen Basin? How many more years do they have to run?

Mr Horwood—There are a whole range of mines. I do not know the answer. I can speak about our Blair Athol mine, which started operation in 1983. It will go until about the year 2010, so that is 27 years. We have another deposit very close to that mine that we would seek to develop to replace the business of Blair Athol, which has another 25 years of life. If I am taking your question correctly, it is not a case of Queensland Rail saying, 'Okay, there is a finite life to the mining industry and, therefore, we must recover all our capital.' I am putting to you that we want to stay in business and keep on investing in new mines. To do that we need to be competitive in the way we operate the mines ourselves and we need to have very competitive charges for inputs of other people's services. I am taking a 30, 40 or 50-year view.

Mr McDOUGALL—So that rail line through the Bowen Basin has got a long, long time left in it?

Mr Horwood—That is right.

Mr McDOUGALL—So QR cannot argue that it is going to lose the operation in a given amount of time because the mine is going out of the area?

Mr Horwood—We are looking at other new mines as well. We are looking at other new mines to build as well.

Mr McDOUGALL—You are asking for a horizontal structure in the railway system to be able to get transparency and competition through an access regime. From the evidence we took in Newcastle and Sydney, it would appear that it does not work. When one of your mining companies down there was asked the question, 'You have got an independent body in IPART which is the arbitrator,' the response was that that is a waste of time. If the horizontal structure does not work and you have doubts about the vertical one, although it is not all in place at the moment, where are we going to go? What role has the Commonwealth government got in making any decisions in relation to it?

Mr Horwood—At the end of the day that is why we prefer the route that brings in competition. That is the only way we are going to see a true, effective competitive charge.

Mr McDOUGALL—We have seen in New South Wales that the Premier overruled a decision made by the NCC. What chances have you got at the end of the day, anyway, even if you have a horizontal system?

Mr Klaassen—Hopefully some. The National Competition Policy process can be a pretty tortuous one, but it is there. I am no expert, but the New South Wales situation has some steps to play out. Hopefully the conclusion will be a good one for the companies down there. In Queensland we are asking for an effective competition policy process in respect of rail to be established in this state. We have not got one yet. It is running well behind time already. They are reforming electricity, nationally reforming IR, but rail is dragging the chain, particularly in Queensland.

Mr McDOUGALL—What do you want the Commonwealth government to do?

Mr Klaassen—If I can speak first, we would like to see in your report a clear statement that, yes, you appreciate the problems we have in terms of rail freight costs and the need for competition and that you support the introduction, as soon as practicable, of an effective rail access regime. At the moment we are in the situation in which we need all the help and all the moral suasion from authoritative bodies that we can get.

Mr WAKELIN—Just two quick questions flowing on from the comments you made. You made the point that the coal and minerals group might be wholly responsible for the 10 per cent return on $6.5 billion of QR assets recorded by the railway in 1996-97. Just a simple question: you would therefore say, and I am putting words into your mouth, that the public reporting requirement of Queensland Rail is not the same as the companies that you generally represent; there is a totally different standard of public reporting between that which your company is required to have compared with Queensland Rail's.

Mr Horwood—Are you saying that our group splits our profits by division and by company, which is not done in the case of—

Mr WAKELIN—I am trying to point out that there is a different public accounting system for Queensland Rail from that practice required of you people by, I would presume, the Corporations Law or whatever.

CHAIR—Just following that question, in your submission you also question the CSO as if there was some hidden agenda within that. What lack of transparency do you refer to in the CSO? What additional data do you want in the CSO that is not already present?

Mr Klaassen—As part of the corporatisation process that we were involved in or on which we were consulting with them a few years ago, there were clear undertakings given—and they appear in paper in a charter—that CSOs will be reported by program, which was a lower level of disaggregation than presently is the case; that is, not just 'passenger, freight: so many hundred million dollars', but a more detailed description of the actual activities and the CSOs attached to each one.

CHAIR—They could not take much lower on their suburban service other than if you went on to actual routes.

Mr Klaassen—Yes.

CHAIR—With great respect, what does that have to do with the—

Mr Klaassen—We would not care about that if they did something else for the mining industry, which accounts for 70 per cent of their revenue; that is, if they published a separate internal coal asset and profit and loss statement. So if they published for the coal and minerals business the assets, how much value they place on them, the rate of return they are required to receive from them, their operating costs and the manner in which the coal and minerals business picks up shared overheads, we would be happy—we might not be happy, but at least we would be able to see what we are paying for.

Mr HARDGRAVE—Do you have any guesstimates as to what it might be? You are an economist; you would have to be able to—

Mr Klaassen—As Mr Horwood said in the opening statement, we have done our best; that is, we asked experts to take their best estimate looking from the outside and we came up with around $5 a tonne as being a genuine commercial cost-based charge, including a reasonable rate of return on capital.

Mr HARDGRAVE—So they are making about 80 per cent more than you reckon they should be?

Mr Klaassen—QR says it is $9 a tonne average. So there is $4 in there that we simply cannot explain.

Mr WAKELIN—You have indicated that you think the return is 10 per cent on the entire asset base.

Mr Klaassen—Actually, if I may, I might clarify that statement because it came up this morning. The point was that in QR's latest annual report it makes a global rate of return of 10 per cent. The point there was that, because of the lack of transparency in the books, we do not know the degree to which the coal industry contributed to that 10 per cent return. The point was that, as far as we know, the coal industry might have contributed the whole lot and the return from passengers and loss-making freight may have been nothing at all.

Mr WAKELIN—My question was a lot simpler than that. There is a figure around that says there was 10 per cent return. There was some reluctance this morning to come clean.

Mr Klaassen—That 10 per cent is not meant to be our estimate of the rate of return on coal.

Mr WAKELIN—I know that, but in terms of the total assets of Queensland Rail—$6.5 billion.

Mr Klaassen—Yes. Mr O'Rourke on the stand said he did not want to disclose in public the rate of return target for QR or for the separate divisions of QR; that is, the rate of return is an outcome. Whether that 10 per cent accords with the target, I do not know.

Mr WAKELIN—Thank you for that. Just a last question, you put a lot of effort into the asset evaluation and the method replacement cost or historical cost and I appreciate that. It may seem slightly obscure, but one example we have had is that, say, national rail wagons are brought in from overseas—and I know it is outside your area, but you would observe these things. Does the rolling stock tend to be made within the country or are some of them imported in at opportunity cost? Do you know?

Mr Horwood—To my knowledge, they have all been built in Australia, mainly

Queensland.

Mr WILLIS—Firstly, thank you for your submission, which I must say has quite a substantial air of frustration. In relation to the issue of your not seeing the price reductions that Queensland Rail was talking about, would that be because your submission says that there were suitable changes in pricing structures for new mines from 1993 and 1994? Maybe that is what Queensland Rail is talking about whereas, as I understand, no such changes for the existing operators were to take place until around the year 2000.

Mr Willims—It depends on what they work into the term ‘average rate’. The average rate has fallen. It might well be that that reduction they are talking about is heavily weighted by new mines that have come on to a new system since 1993-94. I can just talk about BHP’s own mines which, with one or two exceptions, are very longstanding mines. We still operate under the old regime, which includes very heavy de facto royalties built into our rates.

CHAIR—But they cease in the year 2000, do they not?

Mr Willims—Yes, in the year 2000. We have seen no such reductions in our costs—quite the contrary. We have seen nothing like the one-third reduction to which QR refers.

Mr WILLIS—One would assume from your submission that for the existing operators no such reductions are forthcoming until perhaps after the year 2000?

Mr Willims—That is right.

Mr WILLIS—At the end of your submission, you talk about the problems with the integrated structure. You are fairly critical of that. But you also say that there are two other possible structures. One is a horizontal division into various business groups and one involves vertical separation. You do not say which one you want. Which one do you want?

Mr Klaassen—That is a good question. The point I tried to make earlier is that we do not have a set model that we have nailed to our mast. We believe it needs to be better looked at—including by us and anybody else who is interested—than it has been. So we disagree with what we see as the very cursory way that a decision has been made on structure. We recognise there are lots of arguments and lots of alternatives. It should be looked at properly, and it has not been. That is our main point.

Mr WILLIS—But if you are saying that there is something wrong with an existing structure, that the integrated structure will not give you the kind of pro-competitive environment that you think is appropriate, it seems to me it is somewhat important for you to say what structure you really want. If that was the position you put to the Queensland government last year when it rejected the change from the integrated model, I am not surprised, because no-one is going to change from the existing structure unless they can see clearly what they are changing to. You are the main player in this, apart from Queensland Rail, and you have not given them an alternative structure?

Mr Klaassen—The basic position is in favour of horizontal separation. That is the mining council's policy position, which is maybe not exactly the same but along the lines of the New South Wales changes. The point we made, though, was that it was looked at, but not looked at well enough. Yes, we do have a preference to the current situation, and that is a horizontally separated organisation.

Mr WILLIS—You say horizontal. That means breaking it into business groups, not into the various functional lines, such as the Rail Access Corporation, the operators and so on. You do not mean that? You mean interbusiness groups, such as passenger rail and freight?

Mr Klaassen—Above and below track, but—and the point was made earlier—with transparent reporting on each major business group. So it would be a structure that still prevents above and below track being part of the one organisation; that is, making them genuinely independent by separation. Within each of those separate tiers there should be a sufficient level of reporting of coal, minerals, passenger and freight to allow a proper transparency and identification of costs on a major commodity basis.

Mr WILLIS—The other point is that in the competition policy, as your own submission spells out, it is generally the position that a negotiation process takes place with the owner of the infrastructure and the intending new operator about what the access charge will be. And then, if there is some kind of problem getting that nutted out, you can go to an independent arbitrator. Your argument is for posted transparent prices, which seems to preclude negotiation. Is that what you absolutely intend; that there would be no negotiation process but simply a clear set of standard prices for any new operator and in respect of which you would not have to go through a negotiation process to establish?

Mr Klaassen—Yes. We admit the possibility of negotiation on those matters that result in a genuine variation in the standard cost of the service, for example, if someone has a different length of coal train or runs seven instead of five days. We do support the idea, provided the charges are sensibly calculated, that a new operator has a schedule. The outcome, depending on negotiations on the bits and pieces around the edge, would be very close to what is on the piece of paper.

Mr WILLIS—If these changes were made, is it your serious expectation that there would be new players seeking to take over or get into the coal haulage operation?

Mr Horwood—I think so. Groups have expressed interest.

CHAIR—I thank the Mining Council for its evidence today. Is it the wish of the committee that documents provided by the Mining Council, namely, two graphs headed

'Australian Export Coking Coal Prices 1982-97' and 'Australian Export Thermal Coal Prices 1982-97' be incorporated into the *Hansard* record?

Leave granted.

The graphs read as follows—

Mr PETER MORRIS—As I do not have time to ask any more questions, can I ask three questions on notice?

CHAIR—Certainly.

Mr PETER MORRIS—Does your association have any evidence of preference for tenderers from within Queensland for purchases by Queensland Rail, which obviously adds to capital and infrastructure costs? Can you tell us something about policy and moves for a reduction in coal loader rates and moves to improve efficiency? I see that as the total transport journey. The loader rate is a very substantial component of the rail rate. Lastly, could you tell us something about the apparent absence of investment by members of your association in your customers' businesses? We see the reverse situation in that your customers are investing in coal, tugs and coal loaders. Obviously, there is a commercial advantage in that kind of investment. Is it a policy of the association not to have a corresponding mirror-type investment in your customers' businesses to get a closer weld together and a better chance of holding onto those markets? Is that occurring? If it is not occurring, why is it not occurring?

CHAIR—Could you provide that data and any other matters that the committee might require in writing?

Mr Klaassen—Yes.

CHAIR—In view of those questions from Mr Morris, when we reassemble to wind up evidence in May, would you be available if we need you again?

Mr Horwood—Yes.

Mr Willims—Can I provide one point of clarification in respect of a point raised by Mr Willis concerning older established mines still operating under the old regime. For some mines, the de facto payment has been separated out from the freight rate, but both are still paid as separate streams.

Mr WILLIS—The de facto being the royalty rate?

Mr Willims—There is still a de facto payment made, but it is made, in some cases, as a separate payment to a pure freight rate. The total bill has not been substantially reduced.

CHAIR—As is normally the case, you will receive a draft copy of the *Hansard* record for today. I thank you very much for your attendance.

Proceedings suspended from 12.50 p.m. to 1.34 p.m.

EWING, Mr Geoffrey William, Queensland Manufacturing Industry Forum, c/- Mr J.F. Babon, Incitec Ltd, PO Box 140, Morningside, Queensland

CHAIR—I welcome to our activities this afternoon the Queensland Manufacturing Industry Forum to give evidence. Before proceeding, I have to caution you, as I have done with all witnesses, that although you are not under oath, these proceedings have the same force as those of the parliament and warrant the same respect as would be accorded to the House of Representatives. Any false or misleading evidence is a serious matter and can be regarded as a contempt of parliament. Do you have any additions or amendments to make to your submission?

Mr Ewing—No formal additions or amendments.

CHAIR—Before we start asking you questions, would you like to give us a three-minute overview of your submission or the points you wish to emphasise in your submission?

Mr Ewing—Certainly. I should briefly outline that the Queensland Manufacturing Industry Forum is a relatively new organisation, but it does represent the majority of Queensland's major industrial manufacturers. It is interested in promoting competitiveness in transport. Of course, the focus for this afternoon is to highlight the areas in rail where we believe that competitiveness can be improved significantly. We think that there needs to be an added level of perhaps rationality delivered to the decision-making processes in government in Queensland to enable rail to be truly competitive. I should, of course, again highlight the fact that my organisation does have a Queensland focus, although many of the matters I may touch on could relate to rail elsewhere in the country.

Queensland Rail has significant inefficiencies, and there are very significant subsidies from the Queensland Government in the form of community service obligation payments which really compensate for some of these inefficiencies. It is believed that Queensland Rail should not be in the business of providing transport services by rail in the state where the service is more appropriately provided by road transport and that the government should not be subsidising the rail service just for perhaps traditional or what it perceives as good social reasons.

Another very important matter, of course, which I would wish to highlight is the essential nature of obtaining open access to the rail network by private operators. The moratorium, with which you will be familiar and which is peculiar to Queensland, expires in the year 2000, in so far as that moratorium applies to coal only. I am talking about coal freight for the moment. But if there is to be realistic access and realistic competition which may flow from that in the year 2000, it really means that the government must have, by the end of this year, a realistic and practical form of access available.

The Forum believes that transport charges exist at the moment which represent a significant deterrent to manufacturing. With the very high transport costs that exist in this state, we are going to see an increase, if you like, in manufacturing only if costs and rates are reduced to a realistic level. Queensland Rail noted, I think, in its latest annual report, the 1996-97 one, that prices to customers had been reduced by three per cent, but it is suggested that in many freight areas in Queensland the rates could come down by in excess of 50 per cent to be realistic.

It is believed by the Forum that the rail infrastructure must be separated from the rolling stock, and you are going to get real competition only when that happens. I would also commend to the committee—and others may have done this—the Queensland Commission of Audit's June 1996 report. In the section on rail, it pointed out that the existence of competition will provide the greatest incentive for Queensland Rail. There is much in the rail section of that report which I think this committee may find extremely useful.

In terms of framework for moving towards competition, the forum believes that the Commonwealth Competition Policy Reform Act and the Competition Principles Agreement Act of 1995 each provide an appropriate framework, but its use will not be optimised unless the provisions of those acts are really enforced.

In emphasising the competition point once again, we saw in New Zealand when the state-enforced monopoly—which was in existence then and which was then perhaps similar to the one we have in Queensland now—was privatised over the period 1983-93, rates decreased by some 50 per cent. Certainly, the forum believes that something similar could happen in this state. The other principal point I would want to address in summary is that the valuation of assets of the railways in this state is unreal. We believe that the inflated values upon which a return is sought also include very significant contributions made by private companies for infrastructure for their operations. Apart from being a mechanism that produces an unreal result in an economic sense, it is certainly directly unfair to those customers themselves. I think that the experience of the Australian National Line in New South Wales, where the infrastructure has been treated as a sunk cost, should be applied in Queensland as well. The access charges, I think, in New South Wales are significantly less than those that Queensland Rail would be required to charge if the 10 per cent order of return that it seems to be seeking were applied in this case.

To summarise: separation of responsibilities for the provision of rail infrastructure and transport services; assets should be written down to their true economic worth; the investment in new infrastructure should be carried out only if it is economically viable; the community service payment policy should be reviewed very closely; and privatisation is viewed by the Forum as really the only way that we will see the sorts of efficiencies that the Forum believes are necessary to encourage investment and productivity in this state.

CHAIR—Thank you, Mr Ewing. A couple of things in your submission disturb me a little bit. Your emphasis is on inefficiencies. Of all the Australian railways, I would have thought that Queensland would have probably made the greatest steps forward in that field. I would be interested to know what are the inefficiencies. You mentioned in your written submission and in your verbal submission that Queensland Rail's infrastructure has been overvalued. I wonder if that is right, when you think that the current upgrade is costing $5.5 billion. If that is indicative of the sorts of costs that have to go into the system, can we really say it is overvalued? Do we not need to get a return on the whole infrastructure of the state?

Mr Ewing—It is not really a simple return that is coming back to the government when the government maintains subsidies to the railways. In 1995-96, I think the community service obligation payments were some $600 million. In that year, for instance, the general rate operations were subsidised to the extent of $268 million for 7.5 million tonnes, which works out as a subsidy of some $35 a tonne. I do not think that that is an efficient use of the state's resources. Certainly there must be infrastructure and there must be expenditure by a provider in this area. As to the other inefficiencies to which you refer, while it is acknowledged that there is a significant technical expertise in the railways in terms of the way they carry out their operations, it is generally seen as the case that there are far more employees than there need to be.

There is also, of course, a huge subsidy for country passenger trains. Of course the government must provide a service, but, for instance, that can very often be carried out much more efficiently by, say, road transport. Indeed, there are a lot of freight sectors in Queensland where there is not permission for road operators to work, where it is believed that the carriage could be conducted far more efficiently and at less cost than via the railways. That should not happen when you are talking about hundreds of thousands of tonnes of freight per year, but that is the experience of many of the major manufacturers. While this is outside my brief, I might just mention that Queensland Magnesia—I am not sure whether that is a body from which you have heard—is carrying something like 100,000 tonnes of freight on a route down to Gladstone when the rail infrastructure exists, but, simply, it is far cheaper to do it by road. We see in the providing of maintenance and the utilisation and production of rolling stock that there are very significant savings to be made.

CHAIR—Just taking up on that point of CSOs, I imagine that your constituent members would be the first ones to complain if, for example, the state government was to close down the urban transport system, saying that everyone can travel by bus. Alternatively, if your manufacturers in the country who receive some subsidy on raw materials going to their factories were to have those withdrawn, I imagine that your constituent bodies would be the first to complain.

Mr Ewing—The first one you mentioned is the suburban situation. It is acknowledged that there are particular factors that apply to suburban transport, passenger transport. There may need to be some subsidies in those areas. In terms of freight subsidies, while we might complain if the current cost regimes were maintained and any existing subsidies that may exist were simply removed and we had a directly proportional increase, that might be unfair in circumstances where there is not real access and is not real competition. Certainly the forum does not believe in subsidies as a matter of principle. That is certainly the case. We are saying that we believe that real competition is likely to introduce real savings.

CHAIR—I understand and see your point.

Mr LINDSAY—In your submission you make the point very strongly that governments should not subsidise rail transport. In Queensland Rail's submission to us this morning, it made the point that governments should not subsidise road transport. Are you aware of their position in relation to road transport?

Mr Ewing—I have not seen the written submission, but I am aware that that is a comment that is often made.

Mr LINDSAY—How do you respond to that?

Mr Ewing—Again, I think subsidies are not something which are necessary where you have efficient infrastructure and efficient services utilising that infrastructure. We do not oppose as a matter of principle the removal of any subsidy, but it must be looked at in a situation where there is real competition and realistic charges for the utilisation of a service. I think that can apply to both road and rail.

Mr LINDSAY—From your members' perspective, what kinds of product are being affected by the current policies of Queensland Rail in relation to charging?

Mr Ewing—I think one can run down perhaps just the list of members, and I indicated that we do represent the major manufacturers in Queensland. For instance, Queensland Cement is one of the companies that carries significant quantities of sand, cement and other products used in the process by rail. We have Queensland Nickel, Queensland Alumina, Boyne Smelters—all of whom are significant users. We have Mount Isa Mines, Comalco, Western Mining, WMC Fertilisers, Queensland Metals, Sun Metals and Incitec, the fertiliser group, which I do not think I mentioned. All of these use the railways to a very significant extent and see significant opportunities for saving if there was real competition and real costs in the provision of transport services.

Mr McDOUGALL—You made a comment that you believe that the assets of QR are overvalued?

Mr Ewing—Yes.

Mr McDOUGALL—Do you have any proof of that? How did you come to that decision?

Mr Ewing—Perhaps one needs to look at it in the context of the assets upon which QR believes that it has to have a return. Say they put a value on a railway bridge and say, 'We want a 10 per cent return on that.' These are assets which are not assets which have certainly a short life; they are often assets which are, if you like, 100-year assets. Sometimes—and a bridge is perhaps not a good example in this case—they may be assets that would never be replaced. They may be buildings of various sorts which, if you like, are unnecessary. They are assets which, in very many cases, are simply assets that are there maybe for 100 years or that sort of order, maybe unnecessary, and taking them into the equation when calculating the return one wants is simply unrealistic. As I think I mentioned earlier, I understand in New South Wales it has been the practice to treat the infrastructure assets like these as sunk costs and not, in fact, put them into the equation when calculating the return on the investment.

CHAIR—Do you think the Mount Newman railway in Western Australia would value its bridges as part of its overall cost?

Mr Ewing—I do not know the answer to that.

CHAIR—It is a private company. It builds railway bridges and culverts and it has to get a return on its investment for its iron ore extraction. Would it not have to at least take some amount, some value? I take your point. There are some things that you would not write off in five or 10 years, perhaps, but at the same time I do not think that you can exclude them totally from the equation, can you?

Mr Ewing—It is certainly true that they are assets which are performing a role in Queensland Rail providing the service which it provides. But, as I said before, in many cases they may well be assets which, if they were destroyed, would not even be replaced again. They are there so it almost gets to a philosophical—

CHAIR—You are talking about branch lines and things?

Mr Ewing—Yes.

CHAIR—Fair enough.

Mr McDOUGALL—I want to take it a little bit further. You have made the comment that the place is overvalued in relation to its assets. Therefore, its return against assets—and we do not seem to be able to find out what their desired return is——

Mr Ewing—Sure.

Mr McDOUGALL—We believe by some information that has been given that their return is around 10 per cent. Whether that is their targeted return or not is another question. You are drawing the analogy that, because they are overvalued, because they are setting a target which is too high for the return, that is affecting the freight rates.

Mr Ewing—Yes.

Mr McDOUGALL—That is a pretty big statement to make. If you are going to make the statement and if it is going to have some legs, you have really got to understand: has there been some independent work done on the assets? Do we know what is the projected percentage return they are looking for against that capital value? Then you might be able to make some constructive criticism about their freight rates. Without those other two, how do you do it?

Mr Ewing—You are right. Finding precisely what their targeted rate of return is and the precise calculations of that is no easy task. It is something that many people have tried to do and I wish the committee every success in that. I think that the issue is really the manner. Perhaps I used the term inappropriately in saying that the assets are overvalued; what I am really saying is that the value of certain assets should not be taken into account at all. That is really the important point. I do not suggest that our Forum has done work itself in this area. I know that the Queensland Mining Council has done work with Coopers and Lybrand as a consultant in that area and I think that, as far as I am aware, is about the best information that is around. You are right, we certainly do not have details of the individual assets. We are not saying that asset A should be valued at X rather than Y, but we are saying that the asset that is valued at X should not be taken into account at all because it is simply not an appropriate way to do the economics, if you like, when working out appropriate returns.

Mr McDOUGALL—You might have seen in the *Australian Financial Review* on 16 February some comments in regard to the fact that, due to QR's capital investment program, improvements and investments, their freight rates should be looked at in relation to the efficiencies that they have gained from that investment. What I am trying to find out is: have there been freight rate reductions in recent times by QR of significant amounts?

Mr Ewing—Not across-the-board, I guess is the short answer to that. Certainly, as I mentioned, in the 1996-97 report they say that in real terms freight rates have come down by about—

Mr McDOUGALL—That is what they are saying. What are your people saying? Are they getting reductions in freight rates in real terms?

Mr Ewing—No—well, certainly not of any significance. I mentioned before, and this was not simply a figure plucked out of the air, that in some instances we believe that some rates are more than 50 per cent more than that which they could be, or should be. One of the member companies of the Forum is Comalco. Comalco is also a participant in the Gladstone Power Station. Of course, it takes some three to four million tonnes of coal into the station every year by rail. Very recently, it has seen some very minor decreases in rail freight, very minor. It is in an interesting situation because for some of the coal that it receives, it receives lower rates than that which is commonly charged for the carriage of coal in Queensland, mainly due to the insistence of the Queensland government at the time—and I am talking about 1993-94—because the pricing of the carriage of coal was taken into account as part of the purchase price of the power station. Queensland Rail would hold that up and say, ‘Look, there are really reasonable rates there,’ but these are rates upon which it is believed that they are making a significant return on their costs. Yet the rates are quite a bit lower than for comparable haulages elsewhere. They have not introduced that as lower rates across the board in Queensland. They see that as a special deal because the government effectively forced them to offer those rates at the time of the acquisition of the power station.

Mr McDOUGALL—Finally, obviously, some of your members are manufacturers?

Mr Ewing—Yes.

Mr McDOUGALL—Some of them would be suppliers to QR?

Mr Ewing—Yes.

Mr McDOUGALL—When QR goes out to tender, do Queensland companies get preferential treatment in any financing way?

Mr Ewing—I am sorry. I do not know the answer to that.

Mr McDOUGALL—Could you find out?

Mr Ewing—I can certainly make that inquiry and try to do so.

Mr McDOUGALL—I would appreciate that.

Mr HARDGRAVE—We can probably have the RONI debate for the next 20 years. Trying to glean the efficiencies of whether or not the rail system and the freight charges reflect great efficiencies or not could certainly keep us going for longer. At the end of the day the bottom line is that the people you represent obviously want investment into an infrastructure that has not been invested in for a long time. That is the bottom line, is it not?

Mr Ewing—The Queensland Rail infrastructure at the moment is not a bad infrastructure. There are certainly some areas that could be developed, but it is not the case that further wholesale investment is something which our members would be seeking.

Mr HARDGRAVE—Given that there is ocean around only two sides of Queensland and that we are connected to the rest of Australia, we obviously have some real difficulties as far as overall freight transport in this country is concerned, let alone passenger transport. Therefore, do you see a need for a whole-of-nation approach, consideration of an overall transport plan and rail being an aspect of that?

Mr Ewing—Yes, I agree with that. As I mentioned in my address, the Commonwealth Competition Policy Act is an appropriate act in terms of providing a framework. However, I agree entirely that a national approach is certainly one that could advantage the community generally.

Mr HARDGRAVE—You would support, obviously, a Commonwealth role in trying to iron out the fiefdoms and get some consistency or coordination of the various states and their individual aspirations so that we can get a national plan?

Mr Ewing—Yes, again probably within the context of the reforms of which we are aware at the moment in terms of the Competition Policy Reform Act and the Competition Principles Agreement Act. I think that some form of standardisation is a very useful thing. I would not like my assent, if you like, to be interpreted as an agreement that the Commonwealth should take over in this area entirely.

Mr HARDGRAVE—I did say a coordinating role. I was certainly not trying to take it over, either. In other words, trying to have some sort of national operating standards. Having 22 different signalling standards, not to mention the three different gauges and umpteen other things, is a major impediment to Queensland manufacturing as well as the whole nation's manufacturing.

Mr Ewing—Yes.

Mr WAKELIN—On the valuation of Queensland Rail assets, going back through it again, 5.977 per cent would imply roughly—and I know you said earlier that you really do not know—that there is about one and a half billion dollars of capital put in there by others. Is that in the ballpark, if you go on those rough returns?

Mr Ewing—I am sorry. I cannot give you the figures.

Mr WAKELIN—But it is significant, which is those early days?

Mr Ewing—Yes, I suspect that that ballpark figure might well be correct. It is certainly not out of concept of what I believe would be the case.

Mr WAKELIN—I am going on the information from Queensland Rail of $403 million, which, as you know, they regard as their profit margin and then they do a tax equivalent and then go back to their shareholder and so on. It would not be unreasonable to say that it is 1 billion to 1.5 billion equivalent put in there by the private sector over a 20-year period?

Mr Ewing—I believe that could be the correct figure, but, as I say, I do not know.

Mr WAKELIN—But it is not unreasonable to presume something in that ballpark?

Mr Ewing—Yes.

Mr WAKELIN—You would be well aware of the Commonwealth's actions over the last couple of years in terms of Australian National and, prospectively, with National Rail. What is your organisation's view of those activities by the government and the subsequent selling of, particularly, Australian National and the prospective selling of National Rail? What would be your organisation's view of those two events?

Mr Ewing—I think there is a general support. There is bottom-line support for all forms of privatisation in my organisation. What has happened with Australian National Railways is certainly something that we think can only be positive. As I indicated before, while we have certainly some respect for what Queensland Rail does in a purely operational sense, we believe that really efficient operation will only come with real competition. We are not saying, of course, that Queensland Rail might not be able to match that sort of competition, but we think it is more likely that if it was privatised, rather than having the corporatised model which has been adopted, it would do a lot better. Again mentioning the valuation of assets in the context of Australian National Railways, of course our understanding—and this was referred to in the submission—is that customers were not prepared to allow operators to pass on access charges calculated on infrastructure valuations. That is the sort of thing that we would see happening in Queensland. If it did, we believe it would lead to very, very significant reductions in freight rates.

Mr WILLIS—You have answered the question that I was going to ask, which was: what do you see as the most important, privatisation or competition? You seem to imply competition, from what you just said.

Mr Ewing—Competition is certainly a very necessary step. We believe that privatisation is likely to produce the best result and we believe that that has been seen in New Zealand and, certainly, in parts of the United States. Competition is a step in the right direction, but real privatisation is the answer as we see it.

Mr WILLIS—But you would not want a privatised monopoly?

Mr Ewing—It is certainly an old saying that the only thing worse than a government monopoly is a private monopoly. No, we do not want a privatised monopoly; you are right. As we have said in our submission, access is a very important part of this and there really has to be competition as well.

Mr WAKELIN—The narrow gauge issue may provide some natural protection. Queensland Rail would not be as easy to sell as a narrow gauge system. Do you believe that the necessary capital that would be needed to bring it up to standardisation would be an inhibiting factor to privatisation?

Mr Ewing—I do not believe that it would, given that there are some very long distances over which freight is carried in Queensland and, as you would be aware, generally speaking, the larger the quantities you carry over the longer distances the better you do. Even though it is a bit of an impediment, I do not believe it would be a real inhibitor to competition.

CHAIR—Mr Morris was called out, but he wanted your view on the interface between rail and various other forms of transport such as road and sea-based transport. This morning and, indeed, yesterday we heard evidence that some of the coal loading terminals are not all that flash in their own efficiencies, and they are privately owned. I imagine that some of them are partially owned by some of your members. Have you done any work on that interface?

Mr Ewing—The short answer is: no.

CHAIR—You have partly answered this question for Mr Wakelin, but what is organisation's view on third-party access?

Mr Ewing—Certainly. With our, if you like, pragmatic hat on and not seeing perhaps a government in Queensland wanting to, unless perhaps it was persuaded that it was only in the interest of competition policy to move towards a privatisation, we see access as the only logical opening, practical opening or likely opening at this point for real competition in the near future. In the case of coal, which forms a very large part of the total freight carried by Queensland Rail, there is this moratorium until November 2000, and the logistics and the realities of getting actual competition onto the rails with the necessarily long lead times mean that, unless a real pragmatic access policy and a workable access policy is introduced this year, we are not going to see real competition until well after the end of the year 2000, and that is a concern to us.

While we acknowledge that Queensland Rail has set up an access unit within its organisation, I do not think it is too unkind to say that not a lot has been seen of it nor is there great confidence in industry that it is a unit which has come up with any solutions. So by the end of this year we would really like to see that Queensland Rail is able to say, 'Here is our access policy. These are the steps that you can follow.' If that is the case, then companies could get on their bikes and organise, if you like, their own competition for the end of the year 2000. If we do not see the actual practical policy until the end of the year 2000, it is going to be another two years before anything happens.

CHAIR—You made another point here that an independent authority is needed to monitor transport charges and infrastructure access charges to third parties. I understood that there was a state competition body.

Mr Ewing—Yes, I think—

CHAIR—Do you feel it has sufficient teeth?

Mr Ewing—This is a question of timing. I believe that, since this submission was put together, the Queensland Competition Authority has really been given jurisdiction to look into areas such as this. I am unaware as to the extent to which it has direct accountability to look at rail, but it is a body which does exist in Queensland. If it does not have the precise reference at this point, it could be given another lead.

CHAIR—Also in your submission you draw attention to TranzRail in New Zealand. You recognise, of course, that that is a vertically integrated system?

Mr Ewing—Yes.

CHAIR—You would be quite happy if a Queensland system went that way, provided there was some probity system put in place to go with it?

Mr Ewing—We do not see that the optimum in competition can be delivered through a vertically integrated system. We have, of course, referred to the New Zealand rail situation and that has obviously worked pretty well in New Zealand, but we feel that a system which certainly separates the above and below track, if you like, is more likely to lead to greater competition in a shorter time frame.

CHAIR—Finally, just one point of clarification, you talk about a review of the CSO policy. Could you just be a little bit more fulsome in how you see that occurring?

Mr Ewing—I think the government has accepted that there are things such as country rail services which are virtually inviolable and no doubt they see good political reasons for that. However, we see that, in fact, the huge cost which is run up with some of those very large loss making rail services can be really reduced by, for instance, using road transport—buses, trucks and things like that—and at a saving and at a greater convenience to all concerned. We have not formulated a form of inquiry. All we have said is that we think the government should review these. As I say, we have not pointed in a particular direction for a particular form of inquiry or review.

CHAIR—Thank you very much for your evidence today. We appreciate your coming before the committee. If we have any other questions of you, would you be quite willing to let us have a response to that in writing?

Mr Ewing—Certainly. I will endeavour to get a response to Mr McDougall's question.

CHAIR—I was about to mention that.

Mr Ewing—I should address that by letter to—

CHAIR—To the secretary. Finally, the secretary will provide you with a proof copy of today's proceedings for your perusal. Once again, I thank you for your attendance.

Resolved (on motion by **Mr Lindsay**):

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

Committee adjourned at 2.15 p.m.