



HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON COMMUNICATIONS, TRANSPORT AND MICROECONOMIC REFORM

Reference: Role of rail in the national transport network

BRISBANE

Friday, 20 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

ANTHONY, the Right Honourable John Douglas, Chairman of Directors, Northern Rivers Railroad, 9 Armada Crescent, Currumbin Waters, Queensland	582
BLAKE, Mr Paul, Executive Director, Land Transport and Safety, Queens- land Transport, GPO Box 1549, Brisbane, Queensland 4001	635
CAMERON, Mr John Mellanby, Executive Officer, Australian Sugar Milling Council Pty Ltd, GPO Box 945, Brisbane, Queensland	593
CLARKE, Mr Xavier Fitzgerald, Corporate Adviser, Australian Transport & Energy Corridor Pty Ltd, 53 Willara Street, Carseldine, Queensland	559
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FORD, Mr Greg, Manager, Rail Safety Accreditation, Queensland Transport, GPO Box 1549, Brisbane, Queensland 4001	635
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JUDD, Mr Warren William, General Manager, Northern Rivers Railroad, 9 Armada Crescent, Currumbin Waters, Queensland	582
LOWE, Professor Ian, c/o School of Science, Griffith University, Brisbane, Queensland	624
McCALLUM, Mr Bruce William, Director, Structural Policy Division, Queens- land Treasury, 100 George Street, Brisbane, Queensland 4001	635
PEARCE, Mr Norman, Governing Director, Thew and McCann Pty Ltd, 43 Enterprise Street, Cleveland, Brisbane, Queensland	602
RICHARDS, Mr Idwall Charles, Director, Northern Rivers Railroad, 9 Armada Crescent, Currumbin Waters, Queensland	582
RUYGROK, Mr Michael John, Engineering Director, Foxboro Australia Pty Ltd, 42 McKechnie Drive, Eight Mile Plains, Queensland	612
STEBBENS, Ms Helen Maree, Director, Rail and Port Authority Policy, Queensland Transport, GPO Box 1549, Brisbane, Queensland 4001	635

**WILLIAMSON, Mr Charles Ernest, Chief Executive, Thew and McCann Pty
Ltd, 43 Enterprise Street, Cleveland, Brisbane, Queensland 602**

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Present

Mr Neville (Chair)

Mr Hardgrave	Mr McDougall
Mr Hollis	Mr Marek
Mr Lindsay	Mr Wakelin
Mr McArthur	Mr Willis

Committee met at 8.50 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. This is the second day of public hearings 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 in support of individual rail projects. The committee's role under the terms of reference is to investigate how rail could better operate now and in the future and to report its findings and recommendations to the parliament.

The public hearings this morning will enable the committee to take evidence from two rail operators who wish to invest heavily in the rail industry: the Australian Transport and Energy Corridor group, which has plans to build the Melbourne to Darwin railway, which will link the eastern states to the Northern Territory; and the Northern Rivers Railroad, a small company dedicated to providing north-eastern New South Wales and south-eastern Queensland with viable passenger and freight services. Also appearing today is the Australian Sugar Milling Council, Foxboro Australia and Thew and McCann. Later on the committee will hear from Professor Lowe on a range of issues, in particular, safety and environmental rail concerns.

On behalf of the committee, I welcome everyone here today. I welcome witnesses who are already in the gallery and I welcome members of the public to the hearing. I might say that in the foyer immediately adjoining this conference room there is tea, coffee, fruit juice and biscuits. Please feel free at any time to slip out quietly and grab a cup of tea. If we keep to time, we may have a short suspension at about half past 10. If not, feel free at any time, and that includes members of the public, to slip out and have a cup of tea. You are most welcome.

Before proceeding today, I caution all witnesses that you should be aware that although evidence here is not given under oath, committee hearings are legal proceedings of the parliament and warrant the same respect as the House itself. The giving of false or misleading evidence is a serious matter and is regarded as a contempt of the parliament.

HARDWICK, Mr Anthony, Chairman, Wide Bay, Burnett and Burdekin Railway Company, P.O. Box 1, Gunalda, Queensland

CHAIR—On that note, I would like to welcome today the Wide Bay, Burnett and Burdekin Railway Company. You have heard that caution. I would ask, too, that if you are using any proper names or quotations that, as you leave, you just defer to the *Hansard* people and give them any proper names that they may not be familiar with. In what capacity do you appear before this committee?

Mr Hardwick—Thank you, Mr Chairman. My name is Anthony Hardwick. I am a chartered accountant of some 50 years standing and I have formed a group called the Wide Bay, Burnett and Burdekin Railway Company. We have a name called Dial a Train. I have been involved in trains and railways, I suppose, for most of my life in Europe, America and also in Australia. I have, in fact, ridden on most of the railways in Australia. I have ridden up with the drivers in the cabins. I have always had a great regard for the work that our colonial forefathers did in developing it.

CHAIR—Mr Hardwick, are there any alterations that you want to make to your submission?

Mr Hardwick—No, Mr Chairman. There is a brief outline.

CHAIR—I have cautioned you generally on respect for the parliament. You are aware of that. Would you like to give us a three-minute overview of your submission and then we will throw the matter open to questions from the committee?

Mr Hardwick—Thank you, Mr Chairman. Good morning, ladies and gentlemen. Thank you for making time available for me to appear early this morning to this committee. I did not state earlier, but I am a member of the joint coalition transport policy committee of the state of Queensland and I suppose that it is fair to say that I am one of the few on it who come from the country areas of Queensland and who is mainly interested in the rail problems as well as road.

I believe that this state is unique in that the early colonial fathers spent large sums of money developing a network which opened up the state. A lot of that network has been closed down, mostly since the war, for some reason or other. One of the arguments is that there is no money in people's transport in outlying country communities. Therefore, if they are not going to patronise them, why should we run trains? The fact is that the government, through its subsidy of QR, spends something like \$650 million a year subsidising services, both city rail and some of the outer western services that go to Mount Isa, Charleville and Longreach. These services probably lose a lot of money, but they are there because the communities and their representatives demand that there be a service.

What we are on about is, to start with, to develop a service on the existing north-south line. I suppose it is fair to say that, over the past number of years, we have spent about \$1 billion on upgrading the line from Cairns to Brisbane. Of course, the cost of the electrification to Rockhampton was far in excess of that. This line is very much improved on the old existing line. We have the tilt train, which you may or may not be familiar with, and we are going to run a tourist train, which is not yet finished, on it. The tilt train is going to run from Rockhampton to Brisbane and pick up at only a few centres. Our concept is to develop a people's service that will pick you up between main line provincial centres and take you into those centres. Whether you want to pick up the tilt train, or the *Queenslander*, or the *Sunlander*, it will deliver you there and you wait for the ongoing express, or you may want to go and shop in Bundaberg or Rockhampton or Gympie or Maryborough—wherever you wish—or see the doctor at Nambour. The whole idea is to pick people up in all of these hamlets, who now are frustrated because they have no means of going to the bigger centres.

The motor car, certainly, has taken over a lot of the traffic in this state on the Bruce Highway, but the motor car is a dangerous thing to be in because of the huge pressure of freight traffic on the roads. Many of the young school kids would prefer to go into town by train than in the school bus. The buses are now picking up all school children to these main centres. I believe that that traffic could be brought into the railways. We carry, I believe, about three per cent of the traffic on the Queensland routes on rail. I cannot believe that we cannot improve that.

In Switzerland or in Europe you will find that these country hamlets have regular services. Everyone uses them. The community must get involved with their trains. The local shires must get involved. It is all right grizzling about people not staying in the country towns or the country hamlets, but if they have no public transport, why do they want to live there? When you retire from your farm, you have to go into Maryborough or Gympie because people cannot stay where they were born, and they want to. I believe that it is all about people. The railways of Queensland—QR—should allow third-party access, they should encourage access on the lines, and they should really try to develop a concept that they are responsible for the railroad and let private enterprise deliver the goods.

CHAIR—Thank you. One thing that was not clear from your submission is that, in forming this company, do you propose to actually purchase these units and run them or are you hoping that Queensland Rail will purchase them and that you will get into some sort of subleasing or promotional relationship? What is your modus operandi?

Mr Hardwick—What we want to do, first of all, is convince QR that they have got to allow third-party access. As you know, the government has stated that—

CHAIR—That is going to happen by the year 2000, anyhow.

Mr Hardwick—Yes, you are quite right.

CHAIR—So I do not know that that is going to be a debate.

Mr Hardwick—The idea is to have them as a joint venture—not to finance it but so that they can provide the infrastructure, the drivers—and we can integrate with their operational needs, because it is no good a private operator running and QR—

CHAIR—You will build the units?

Mr Hardwick—The units will be built to our requirements to make sure that they stand up to the best practice on the line and they will be financed by private enterprise. Recently, AMP has said that it is going to finance the new line from Parramatta to Chatswood. If you know how much money the AMP is putting into infrastructure, they are the sort of people who may do it.

CHAIR—Have you done a feasibility study on the likely numbers that would use this? Mr Wakelin has a very interesting story on this in his own area of South Australia that he might relate to us when he gets to his questioning. Has there been a feasibility study done? You say the line will be right through to Cairns, but most of your submission thus far has been centred around the area from about Nambour to Bundaberg.

Mr Hardwick—That is true. The first part of the scheme is to pick up where the busier corridors are, which is really south of Rockhampton. Then when you talk to the people at Townsville, they say, ‘We want a service so that we can go into town. We are sick of driving out to work to the industrial areas.’ Some of my friends north of Townsville up to Cairns say, ‘Why can we not have a service because the people in Innisfail and all of these other communities want to go down to shop?’ Their kids want to go down and so on and they have no service. There is a big area that can be tapped, but I think initially we are going to concentrate on the lower end, which is Nambour to Rockhampton, but mainly Bundaberg will be the first stage.

CHAIR—What is the paid up capital of your company going to be?

Mr Hardwick—At the moment there is no paid up capital because the company is an entity until we know we can get third-party access and we can put a proposition together. We have spent money on surveys and things of that nature, but we have not spent a large sum because we cannot justify that if we are not going to get the cooperation of the railway authorities. It really all hinges on them.

Mr HOLLIS—Do you think that there would be sufficient passengers? I heard you talk about Parramatta to Chatswood and, of course, a lot more people live in Parramatta and Chatswood than live here. I am a little confused about where you are going to get the economic return from what is a rather large capital injection.

Mr Hardwick—Sure.

Mr HOLLIS—Being an accountant you would know how important it is to get an adequate return on investment funds. I cannot for the life of me see how anyone would invest a large amount in this for the small patronage that is going to be there.

Mr Hardwick—You say small patronage and QR has argued this with me for a long time. I am a cockroach and I have had talks with people in Queensland Rail ever since I first came to Queensland. I believe that they do not market their product to the ordinary man. I have gone to the communities and I have spoken to local government groups. They all say the same thing to me. For instance, if you take where I live at Gunalda, there are over 2,000 people in the vicinity of that area, many of whom are on the lower end of the economic scale and who have no means of getting to the main centres unless they can get someone to drive them in a car. They share cars and they drive bombs that should not be on the road.

Mr HOLLIS—The reality is that what people say they want and what they actually use when they get it is very different. I do not like being parochial and the chairman does not like it either, but let me give you a personal example: I represent the area south of Wollongong. We have all the problems that you have mentioned, including lack of public transport and people buying cars while we are trying to get them off the roads—we have all the problems that you are talking about. We got grants from the federal government and the German government and established what we call call-a-bus. You ring up when you want a bus. Everyone was so enthusiastic about it. The council went ahead and it was written up nationally and perhaps even internationally, but the thing lasted six months because no-one would use it.

Like it or lump it, people in Australia are wedded to the car. You talk about Europe. The difficulty we face in comparison to Europe is that Europe has a much higher density population. That is where we always fall down in transport. We do not have the density of population to give us a return. I will be honest: I am sceptical that you would ever get the financial return on the very large capital input that this would require. If I was an investor, I would be looking for something very, very different to invest my hard-earned money in. That is only my view.

Mr Hardwick—I think that is the sort of standard negative view, with respect, Sir, to the problem.

Mr HOLLIS—But realistic.

Mr Hardwick—I believe that you have to market your product and sell it to the community. You have to get the community involved in the benefits of it. I agree with you that it is no good spending \$30 million on equipment only to have it sit there with no action taking place. You have to make sure that the community is locked into it. Therefore, maybe you have to sell equity interests to all the communities so that they can say, 'I have shares in the railway so I want you to travel on them.' There is a lot of money in

places like Maryborough and Bundaberg. People would be very interested in putting it up if they thought that the community would support it. There has to be community interest in it and local shires have to support it. I believe that it is viable because people say, 'Why not go on this train?' You have only to press a button at the station to stop the train at, say, Tarro, or you ring up to arrange that the train will stop. You do not need any staff. The driver knows the runs and he knows the people. He has the power of arrest so that if anyone plays up on the train, they are in trouble. You can virtually give them a great ride from, say, Maryborough to Gympie. People say, 'Why would they drive all the way down when there are semitrailers on the roads and so on?'

Mr HOLLIS—Good luck. I wish you well. I would not be putting my money into it, though.

Mr WAKELIN—We would all like to see rail succeed, but Mr Hollis has just reminded us of the realities of public transport and getting people out of their cars. In my own area, very significant investment has been made in railway stations and passenger services. That lasted about 18 months. That is the sort of reality that we are dealing with all the time in terms of this sort of situation.

CHAIR—It was from Whyalla to Adelaide.

Mr Hardwick—May I say, Sir, that first of all we start with educating people and the people we educate are the young. I do not know what your background is, but no doubt when you were a small child you went on a railmotor to school. Certainly a lot of the Queenslanders that I know went to school on a railmotor.

Mr WAKELIN—I rode a bike.

Mr Hardwick—Well, either they rode bikes or caught the railmotor. Mum made sure that you got the train and she was happy you were on the train. When you came back, she was there to pick you up. The children were educated about railway travel and trains. We have to get them off school buses and into the trains that I am talking about, so that they get educated and then their mums and dads start to realise that this is better than driving.

Mr WAKELIN—Excuse me for interrupting, but the point of the question is that wherever it is in Australia, the record is not solid. Would you agree?

Mr Hardwick—I agree. It is an uphill run. I think it is like everything else in this country: you have to educate people.

Mr WAKELIN—I suggest that there are some wonderful people who can promote and sell. To come back to Mr Hollis's example, there are wonderful efforts being made at promotion, but then people do not use the service. Therefore whoever you are, whether

you are a private investor or public investor via the taxpayer, the responsibility is to assess those realities. That is what we are trying to understand.

Mr Hardwick—Community involvement means the Queensland government, because we are spending millions of dollars subsidising school bus runs. All that money should be poured into paying for the cost of kids going to high school or primary school by rail transport.

Mr WAKELIN—My last question is simply to do with your view of the access system in Queensland. We are not here to talk about specific projects, but we need to talk about the principles.

Mr Hardwick—That is very important. I believe that there is a culture in QR whereby they do not really want to let the private operators into the system. Take the coalmines. I cannot believe that we spend all this money on buying trucks and diesel engines when the coal owners or the miners could finance their own railways, as they do in north-western Australia. All the money that the railways have to generate should be put into the permanent track, which should be like the Bruce Highway or other roads where you can run freight trains from Murwillumbah to Brisbane, you can run railmotors to Kingaroy or you can have charter sports groups coming down.

Mr WAKELIN—So the access system, in your opinion, is not as effective as you would like it to be?

Mr Hardwick—No.

CHAIR—Mr Hardwick, I am sorry we had to squeeze you into such a short time.

Mr Hardwick—Thank you very much, Mr Chairman.

CHAIR—We have a very full itinerary, as you are probably aware, and a very tough schedule today. Thank you for coming in and thank you for your submission. If we require any further information, I trust you would be prepared to provide it in writing?

Mr Hardwick—I certainly would. I was wondering whether Mr Wakelin was going to tell me about his survey, but he did not.

CHAIR—He might correspond with you privately on that. As is the practice, the secretariat will provide you with a proof of the *Hansard* record of today's proceedings.

[9.12 a.m.]

CLARKE, Mr Xavier Fitzgerald, Corporate Adviser, Australian Transport & Energy Corridor Pty Ltd, 53 Willara Street, Carseldine, Queensland

COMPTON, Mr Everalld Ernest, Chairman of Directors, Australian Transport & Energy Corridor Pty Ltd, 53 Willara Street, Carseldine, Queensland

DAVIDSON, Dr Kenneth, Engineering Consultant, Australian Transport & Energy Corridor Pty Ltd, 53 Willara Street, Carseldine, Queensland

CHAIR—I welcome the Australian Transport & Energy Corridor team to the second day of hearings in Brisbane. I would ask that if you use any proper names or quotations that might be unfamiliar to *Hansard* you defer to the Hansard reporters before you leave and give them the correct names and spellings. For the purposes of the record, would you please state capacity in which you appear before this committee.

Mr Compton—I am Everalld Compton, chairman of directors of Australian Transport and Energy Corridor Pty Ltd, which is planning to build the Darwin to Melbourne railway. I have with me Dr Ken Davidson, who is our engineering consultant and Xavier Clarke, who is the corporate adviser to the company.

CHAIR—Thank you. As you are probably aware, these proceedings carry the same weight as those of the parliament and they warrant the same respect that is given to the House of Representatives. False or misleading evidence is a matter of contempt. I have to caution all witnesses on that, Mr Compton. Please do not think that that was directed at you personally. Do you wish to add anything to your basic written statement at this stage or will you pick that up in your overview?

Mr Compton—Perhaps if I could make a brief opening statement. Thank you for inviting our company to attend this hearing. Our company is only 12 months old, although the concept which we are organising is more than 60 years old, having first been presented to the Lyons government in 1934, and a number of attempts have been made since then.

We intend to build this railway with private capital and we are advanced in the homework that we are doing. We have done a preliminary economic study and Dr Davidson is currently involved in a preliminary study of the route, all financed by capital provided by the inaugural board of directors. I have raised a number of issues in my submission which we believe are crucial to the successful development of what we are doing. Therefore, we welcome the opportunity to speak to those issues and to answer questions about them.

This will be the largest infrastructure project in the history of Australia, when we get it up and running. We do not in any way fail to recognise the enormous problems that

lie before us in doing it, but I wanted to make it known to the committee that it is our intention to see this project through and have it built. We look forward to discussing the issues with you today.

CHAIR—You have mentioned the amount of money that is involved. The committee might find it useful if you could just give us a few benchmarks of things like whether the project is being developed in stages, whether it is going to link back to the coast anywhere on the way up, the time spans that you are looking at and how you propose to raise capital. Can you give us a few benchmarks as a basis for discussion?

Mr Compton—In relation to our preliminary estimates of cost—and Dr Davidson can go into more detail on this—our best advice at this point is that a figure of somewhere around \$A5 billion will be needed for a single track line from Melbourne up through New South Wales, Queensland and into the Northern Territory via Tennant Creek. If it is a double track, it could cost a further \$3 billion, making it \$8 billion. There are arguments amongst technology experts today as to how much double track you need along the great expanses of Australia given the technology they have in controlling trains, and it may be necessary only to have numerous passing bays along the line and not a total double track. They are issues that we will face up to.

There is a number of proposals, albeit in their infancy, to link this railway line with things along the coast. This is a proposal that has had recent publicity, that is, the revival of the very fast train from Melbourne to Sydney. There is a thought that it could come up our line as far as West Wyalong, and then only 120 kilometres of track is needed to be put in to link up at Goulburn with the proposed Sydney to Canberra very fast train. Irrespective of whether the very fast train is built, we believe that a project that we would undertake after having built the first line would be to seek permission to put in that 120 kilometres of missing track and link Sydney into the Darwin line, which could be crucially important economically.

There is a proposal at present by the Queensland government to link the port of Brisbane with our line at Toowoomba. There is another proposal for a standard gauge line to go from Gladstone to link with our line at Moura. These are not things that we are undertaking but which others are planning to undertake. There is some debate about the possibility of having a link from Hughenden to Townsville. There is a group of people who say they will float a private company to link the railway line to the port of Karumba. There are some people in the north west of Western Australia who want to have a line from Kununurra to Katherine so that the Kimberley is linked with eastern Australia by rail for the first time. Whether any of those links will come off is a matter of conjecture, but people have approached us and discussed the possibility of those links.

Mr MAREK—Has your operation looked into the different rail systems that operate in different states? In the process of getting your rail operation running, have you had a look at some of the errors and problems in the other states?

Mr Compton—I will pass this question over to Dr Davidson. He has travelled the whole route from Melbourne to Darwin and has done previous studies for governments on a national rail system. I would ask Dr Davidson to comment on that.

Dr Davidson—I am not quite sure what aspect of—

Mr MAREK—I will repeat the question. You are putting together a rail system. I imagine that by this stage you have looked at problems that other rail systems in this country are experiencing. I am led to believe that we have about 30 different safety systems or whatever running in the country now. Have you looked far enough into your operation to see whether you would apply your own set of safety systems or adopt somebody else's? Is the reason you are proposing a completely privately funded operation that you want to be able to keep out other interest groups so that they do not have an involvement in what you do?

Dr Davidson—I do not think it is any of those things at all. The genesis, as far as I was concerned, was a separate submission I made to this inquiry about a national trunk railway proposal. The whole concept of that, which this has been picking up, is to integrate Australia's railways, not pull them apart. Although I agree there is a variety of safety and all sorts of other standards in Australia's railways, the point of this would be to build an integrated national railway which would use a lot of the corridors existing in all the states. But we would integrate this in a unified operational whole.

Mr MAREK—So your train will run on pre-existing track in some areas?

Dr Davidson—It probably could not, because none of the existing track or alignment is of a sufficient standard. Therefore, it would all require upgrading, that is, any part that we use of the existing corridors.

Mr Compton—We could use existing corridors, not tracks.

Mr MAREK—We have so many different systems and gauges of track. As I said, if you go from one state to the other, you have to change different jackets and so on for safety programs. There are different signalling systems throughout the country. Are you aware of that?

Dr Davidson—Yes, but the access regime which is increasingly coming in is forcing rapid changes in that. As all of the railways are thrown open to all comers to use, those systems have to be unified much more than they have been. The whole point of this railway will be to get as many users as possible. ATEC is primarily a rail construction and rail owning company, and it would be expected that everybody, including the existing state railway operators, would choose to use us because we are so much more efficient than any other route.

Mr MAREK—Okay. You also say—

CHAIR—We have taken a lot of evidence over the past couple of days about unifying the various state systems. I do not think there is much point in pursuing that. I think you will find we have plenty on that. Perhaps you could move on to another question.

Mr MAREK—In your own opinion, would you consider that there are not so many problems with access?

Dr Davidson—The access regime makes all of this feasible. But the operating details have to be very carefully studied. Nobody else in the world has done what we are proposing. Nobody is developing a very high speed railway on which ordinary freight trains operate as well. So there are innumerable complex issues to be resolved. We believe they are able to be resolved.

Mr Compton—I think the Chairman wants us move to another point.

CHAIR—This is a very important project—probably the highest profile project in Australia, so I want to flesh out as much information as I can and get all my colleagues participating. Mr Marek, I meant no criticism of your question. It is just that we have already fleshed out that issue over the past couple of days and I do not think it is worth wasting valuable time on it.

Mr McDUGALL—I will ask a question about access, which is an important issue. With respect to evidence taken in Sydney, there seems to be some conflicting evidence concerning the operation of the Access Corporation in New South Wales as to its pricing mechanisms in regard to access, the clarity of the responses it gives and the operation of IPART in relation to its being an effective tribunal system to try to resolve questions. Obviously, if part of your proposal was to involve part of its track system, you would have to be involved with it in regard to access. It gave an indication that it prices access based on the type of operation. Have you any comments in relation to that at this stage? Are you proposing to use any of its operation? That brings in the access question. If you are not, obviously it will not raise its head?

Dr Davidson—The route that we are proposing to build would finish up using no actual track that it has at present. We would be rebuilding the track on its alignment. Therefore, we would be making a major capital contribution to what it is doing, which would change the whole negotiation about access charging.

Mr McDUGALL—Are you saying that you could give reverse access?

Dr Davidson—That would be to be negotiated between ourselves and the Rail Access Corporation.

CHAIR—If you close down one of its lines, that would be imperative, would it not? If you took over one of its corridors, say, from the border to halfway or a quarter of the way up New South Wales that subsumed, say, a grain line or something like that, the point Mr McDougall has made is that you would have reverse access?

Dr Davidson—Yes, we could very well.

Mr Compton—Obviously, we could only do that with its permission and after negotiation with it in that regard. I presume those things would be handled then. Xavier Clarke was wanting to comment on that.

Mr Clarke—Access is quite a difficult issue, particularly when a private company owns some of the infrastructure along the route. Obviously, we are going to have to get access to some existing infrastructure and we will have to build some of our own infrastructure, which in some cases we might own. In Queensland, you cannot own it. There is a restriction. The government really owns it. You might build it. The government acquires the land. The government really owns it and leases it to you to use. But I think in some cases it might be that we actually own the infrastructure and the corridors and then have to lease them or provide access to different entities. It actually raises a separate issue which was raised in the submission that has been made, too. There are significant taxation implications or restrictions when providing access to state owned rail authorities, because it really limits the ability of state-owned rail authorities to run trains on privately owned track.

Mr McDOUGALL—In New South Wales, we have a horizontal structure. In Queensland, we have a vertical system. IPART in New South Wales is supposed to be independent. QR is setting up through the vertical integration system a tribunal structure to be able to negotiate and rule on access questions. We have not been to Victoria yet and we do not know what it has. Based on the fact that you have existing rail authorities which own infrastructure that do not have the same systems, would you think that it would be better for the Commonwealth's role to be structuring a tribunal system to determine access questions, or should we end up with what we have at the moment—multiple state things? We know the history of multiple state things; they tend to not agree and make it very difficult.

Mr Clarke—My firm has been involved in the Brisbane Airport Rail Link, which is the first privately funded rail project in Queensland. We have had to crash through some significant access barriers. I think the vertically integrated system is extremely challenging. We have been involved in other projects, too. Queensland Rail provides train services and has to provide access separately. Firstly, it has a conflict of interest. Secondly, it has inherent difficulty in providing access to private sector operators when it has its own operators involved. On a national scale—and this raises the old ugly national issue—if you are going to have cross-border trains, you have to have one system. You have to drive towards one system. You cannot have separate systems and operators. It is

all right under the federation model, but the fact is that it will not work and it will not work efficiently.

Mr Compton—We believe the only organisation that can build this railway line from Melbourne to Darwin is a private company which acts as the catalyst to negotiate with states individually. Whereas if states and the Commonwealth are negotiating, they will probably argue for years for the reasons you have stated. Our attitude is that we will negotiate our way through whatever problems there are. Our system of negotiating is that you have to have a system where everyone wins, not where somebody wins and someone loses. We believe that only a private company can act as the catalyst to overcome these very significant problems that you have raised.

Mr McDOUGALL—Can I put another question to you, this time in relation to land acquisition, whether land acquisition is through leasing or through purchase. You may actually lease it from an existing state authority which has access to it. To my mind, that then raises this question: if you are running in a corridor and you have two lines in the corridor, one owned by a state authority and one being a private organisation like yourself, how easy do you believe it will be to get the state in question, whichever state it is, to agree to give you land access which in some cases will be in competition to its own operation which it is funding through cross-subsidy in the first place? And if you start taking business off it, the cross-subsidy by that government to that entity will have to be higher. So you get competition again in that question. Do you foresee that the states may throw up a block either directly as the government or through the departments to prevent you from getting into land acquisition?

Mr Compton—Could I say that we expect thousands of blocks to be thrown up at us in all sorts of ways before we get this thing through. Our discussions with state ministers for transport at this point have not been that we are going to steal business off them, but rather how can we all make a profit by teaming up together to have an infrastructure in which their existing rail links link in with ours. I am inclined to believe that they will probably give us, in some form or other, total access to the line we are going to take over and not have competing lines, on the understanding that they get use of in it various ways. As far as I am concerned, whatever blocks they toss up, we are going to negotiate our way out of. I might be a much older man than I am now by the time it happens, but we will try.

CHAIR—Can Dr Davidson tell us to what extent he has surveyed the route and what percentage is on existing corridors and what new corridor has to be found?

Dr Davidson—I have not calculated the percentage precisely, but in some areas it is very significant.

CHAIR—The new line is very significant, or the old line?

Dr Davidson—No, in some areas you are using basically an existing rail corridor with deviations to allow you to run it on much higher speeds. There is no existing rail line that could be used for very far, because as soon as it comes to the first curve, you would have to change it.

CHAIR—We had a demonstration yesterday of the tilt rail. We understand what you are saying. To get these high speeds, you have to have straight runs and very gentle grades and the like. We are familiar with that. Coming back to Mr McDougall's point, how do you negotiate your way through all these difficulties?

Mr Clarke—It might be worth talking about how we are advancing the project. I think Dr Davidson alluded to it before. The Australian Transport & Energy Corridor essentially will be, if you like, the owner of the infrastructure. I use that in a pretty broad sense, because it might be leased infrastructure; it might be directly owned; it might be subleased. This has been put forward on the basis that that is to be totally privately funded. In that sense, it will be project financed, much like a power station is project financed and much like any other project financing takes place.

The company itself, on one hand, will not do anything. It will have the responsibility for developing the project in a number of stages over the next couple of years. I am talking about a number of development stages, not geographic stages. We say that the idea was in place. That was broken down and we have defined it. We have really finalised the concept, which has been done by a detailed report by KPMG and a report that is being finalised by Dr Davidson now. That will finalise the concept upon which we will move forward. It has a basic alignment and things like that.

That leads to an amount of money that we are going to spend over the next 12 months doing what we call preliminary development work. That will look at more detailed work: the demand that is in place for the corridor, the engineering costs and where the interfaces are. That will determine what the correct alignment is. If that is feasible or bankable, we will then move into detailed development and detailed negotiations. Then, in a couple of years' time, construction commences, which will be over a period of time, and then the operations commence.

If you look at ATEC at the time construction commences, essentially a construction contractor will do the construction. The operation and maintenance of the track will be undertaken by an operation and maintenance contractor, much like Transfield and the Abigroup do in different roles around the place now. The train services will be competitively bid by, for example, a TNT or a Toll Group or a P&O—if they are going to get into rail transport. So, in the end, ATEC itself will be a shell. As it will have the rights of access, it will then grant access to the service companies who want to run services up and down the track. That is whether it is passenger services or freight services.

CHAIR—You are not going to run rolling stock yourself?

Mr Clarke—No. The proposal is no. Whether ATEC owns them or does not own them, the risk of ownership will be off-loaded, because they might be leased or something like that.

CHAIR—So if, for argument's sake, you pick up a stretch of track that normally takes grain and that normally takes five hours and you can reduce that to four, then presumably the state government or some other instrumentality would buy time on the track.

Mr Clarke—Yes. If you look at the breakdown, at the end of the day, what we propose to end up with—because we will not own directly all, but we would have then our own access arrangements for the length of the corridor—

CHAIR—You would be the access authority, in other words.

Mr Clarke—It is not quite like that. It would be playing a very similar role.

CHAIR—That includes the gas pipeline as well?

Mr Compton—That is a separate venture entirely. We are dealing with a lot of very complex legislation about gas pipelines. If we think that there are big differences between states on railways, you have only to read the big differences about gas to get your mind to boggle almost totally.

CHAIR—We will leave that out if it is complicated.

Mr Clarke—Gas is dealt with in the same way. If there is a demand for gas, and if it can be built, it would be built on a turnkey construction basis, with someone buying the pipeline or the rights to the pipeline. ATEC would see itself really as the railway controller. Someone would come and take the rights to the pipeline separately.

Mr Compton—It is a matter of expertise. The whole issue of freight, and what we call 'seamless' freight going out to the world connecting a whole lot of freight systems—rail, air, sea, the works—it has to be contracted out to people who have expertise in that area, who can do it efficiently and make a profit. We believe we would be getting right out of our area of expertise if we suddenly said, 'We are the world's great freight experts.' We will build and maintain the line. Some of the state rail authorities have already said to us that they want to tender for the maintenance of the line. They see it as an opportunity for business, not the other way around.

Mr McDOUGALL—We took evidence in Newcastle three days ago from Goninans. I asked a question of Goninans in regard to technology development regarding gas turbine development for engines. Obviously we know that gas turbine technology is available overseas. If the gas pipeline was to come in—and we are talking about energy

efficiencies and energy credits in relation to the future ozone problems that this country has, and the agreements that we have come into in Kyoto—Goninans seem to be very confident that, as far as they were concerned, gas turbines were not an option for Australia.

Mr Compton—Were not an option?

Mr McDOUGALL—As one of the major locomotive producers in this country—I do not know what I saw that as. I do not know whether you have had a discussion with them, whether they are interested or not, or whether they could be interested.

Mr Compton—Put it this way: I spend a fair slab of my life at the moment listening to people who tell me what I cannot do about this railway line. We have met with a company in Vancouver, Canada, which is in partnership with Rolls-Royce, who say that they will be able to drive passenger trains at 300 kilometres per hour with gas turbine engines by 2002—a German group here in Australia, who say that they have that technology. So it is matter of whom you talk to.

If, in the final analysis, it is proved that gas turbine driven engines, which could be a new Australian industry given to Bendigo or Maryborough or somewhere to do and a first in the world—and that is why I am interested in it, not just for our trains but for the subsidiary industry it would create—if that proves to be impossible, we will back off. We are in the business of making this railway line work. You could have all sorts of grandiose ideas. In the final analysis, you have to back off if they are not going to work. We will do that if it happens. I would rather have a go at it than listen to some negative guy now—not you, the guy you spoke to in Newcastle—who tells me it cannot be done.

Mr HARDGRAVE—As we are inquiring into the role of rail in the national transport network, I think I might ask Dr Davidson where he envisages some of the problems that could exist. I am not wishing to cop a tirade from Mr Compton about being negative, but I want to throw up the fact of life that there are incredible bottlenecks in Sydney, in particular. I guess that the infrastructure that you are proposing is, in a lot of ways, all about getting out of those bottlenecks.

Dr Davidson—Exactly.

Mr HARDGRAVE—Can you see where those bottlenecks could also affect the viability of this line if, in fact, you end up having to transport things into the port of Sydney? Are you going to have to rebuild things into ports as well as this ‘steel Mississippi’ that you are proposing?

Dr Davidson—I think that, for example, it would open up the usefulness of a lot more northern ports. I suppose it would also require ports to be much more competitive with each other, because shippers all over Australia would have access to a much greater

variety of ports. Therefore, if the port of Sydney cannot stack up, I guess it loses business, because the port of Gladstone or the port of Darwin can out-perform it. In that sense, I suppose it leads to efficiency. Certainly, one of the major drivers of my thinking about the railway was to try to get out of the extremely difficult congestion problems that places like Sydney have. It is very hard to imagine any way to overcome those problems in a railway sense without expending more than the sort of money we are talking about here for the whole railway.

Furthermore, of course, Sydney is not really very good railway country. We are proposing to get out into the flat inland plains, where you can cheaply, quickly and easily build a very high-speed line. It is the speed that allows you to do it. We could get a freight train—even at ordinary freight train speeds—between Melbourne and Brisbane in about 14 hours. At present, it takes 35 hours, and a lot of that is through congestion in Sydney.

Mr HARDGRAVE—So this is all about avoiding the current system?

Dr Davidson—It is about integrating the current system to make it work better by providing a rail freeway. Its purpose is exactly analogous to that of a freeway for a road network: to get you out of the congestion.

Mr HARDGRAVE—If you do not get the current system and the bottlenecks straightened out as well, it will prevent you from realising the idea of high-speed freight transportation, will it not?

Dr Davidson—Not entirely, because if the only problem is approaching Sydney and you have managed to get from somewhere else to the outskirts of Sydney at a constant speed without having had any delays, then your overall travel time will be very much less than if you had been subject to delays all the way through, or, indeed, if you had had to go through Sydney and be subject to all sorts of uncertainties. If the delays are at only one terminus, that resolves the problem to an extremely large extent.

Mr HARDGRAVE—You have spent 35 years as a transport planning professional. How would you advise this committee as far as planning for transport is concerned? Rail is one of a handful of modes that are used in this country. Should we be trying to get an overall national transport plan and then slotting rail into it? In other words, which particular item comes first?

Dr Davidson—With the National Competition Policy, we have opened up the possibility of private investment in infrastructure now. I suppose, therefore, that that downplays the value of government prescriptive planning. I have said in my submission to this committee that I believe that the Commonwealth has always been extremely poor in developing national transport strategy. Maybe this committee will make a change, but until now the Commonwealth has toyed with transport rather than got serious about it in any

way.

Mr HARDGRAVE—Can I borrow your expertise and apply it to something other than this particular project? Do you have a feel for, an understanding of or a guesstimate of, the kind of cost involved in fixing up the whole shooting match, the whole rail network across the country?

Dr Davidson—What we are talking about here, and what ATEC wants to build, is what I would regard as the north-south leg of the national trunk railway. There is some improvement required between Melbourne and Adelaide and across to Perth, but much less than is required for the north-south. In the sort of approach that I am taking, whereby you build a trunk route in very easy country and then build whatever short links you require into the major centres, I would think that you could fix up the whole thing for about \$10 billion. Half the cost would be on this north-south trunk that ATEC wants to build.

Mr HARDGRAVE—If I could go to Mr Compton, possibly, to handle the politics of it a little, what is the role of government in all of this? I have to say that I think the role of governments in Australia has always been to provide infrastructure, or, if nothing else, to encourage—using the private enterprise philosophy—those who would like to provide the infrastructure. There is a significant role, in a country with sparse population and great distances, for a central authority to provide infrastructure. What sort of the role do you see for government here? I noted that you suggested a ministry for infrastructure as being a priority for a federal government. What is the logic behind that?

Mr Compton—I see the role of government as to not build another piece of infrastructure ever again. In fact, any government that does build another bit of infrastructure ever again ought to get tipped out. What should happen is that governments make it easy for private investors to do the job, so that they approach it from a capacity that it has to be done in a way that is going to be efficient and provide a profit—which tends not to have happened with government enterprises in the history of this country. There is a tremendous role to be played in making it simple and easy for private capital to do what it needs to do and for governments then to control some of the excesses that private capitalists get into from time to time—which is not for the good of the whole country.

I see the need for a ministry of infrastructure to get over the great bottlenecks that you strike in these projects. Luckily, in this particular project, because it is almost a national icon—the idea of Melbourne to Darwin via New South Wales and Queensland—there has been splendid cooperation from both sides of the House in five parliaments. At a preliminary level, we have had nothing but good cooperation. But we are very aware from the preliminary things that we do that, because you go to so many government departments and to so many sets of public servants, who all feel that they have to alter something, and you have to go with so many levels of government, it is an enormously daunting task: the sheer paperwork that you get into, in getting something going. There

needs to be one minister who has the power to say, 'This infrastructure project is going to work, and I am going to organise every federal government department and I am going to liaise with the states.'

Mr MAREK—We need Russ Hinze.

Mr Compton—Yes. I will refrain from commenting. We need someone who can be the coordinator of infrastructure projects and give them a national priority. Every person that I have spoken to who has been involved in infrastructure—and I have made it my business to meet most of them, to become aware of what we are into—will say that the amount of paperwork, negotiation and political discussion that you have to have to get anything off the ground is crippling in the extreme and that governments need to do something about it. Private capital is out there waiting to do these projects—if they can get a level playing field and a reasonable go and not be buried in paper.

Mr HARDGRAVE—But isn't this at the heart of the discussion—a national transport plan, perhaps formulated by your minister for infrastructure, with submissions from private investors? Perhaps that is what is missing from this whole equation, because private capital can come and plug into projects if we understand where things are going to be. You would hate to see a series of white elephants developing around the country. You would hate to see publicly owned infrastructure become greatly devalued along the way and its overall viability decline. There needs to be an overall plan to fight the way through the bureaucratic maze that you have outlined, with 23 different signalling systems and umpteen different safety requirements and so forth. There is this great problem in the country.

Mr Compton—I agree that there needs to be an overall plan. It is the role of governments to have an overall plan and then invite private capital to come in and contribute to that plan—financially and otherwise. The history of Australia is loaded with white elephants built by governments. So it would not be rude for private enterprise to build a few as well; we would just be evening up the field on that point. The point is that there is no need for white elephants if there is a plan and if there is expertise and capital that goes into it. We could have some of the infrastructure that Australia needs.

Mr HARDGRAVE—I must say that I am certainly not including your project in that because it strikes me, from a lot of the evidence that I have seen, that this is the kind of thing we need and it makes good sense. The concept of links from places such as Sydney to Brisbane, Gladstone, Rockhampton—Mr Marek's and Mr Neville's area—and Townsville, which Mr Lindsay's domain, are all viable. Obviously, they would make this line even more viable, would they not?

Dr Davidson—It would require them. The line would not work without them.

Mr Compton—Also, I think that you have hit on an important philosophical point.

When we first mentioned this railway line, people came from everywhere to say, 'You are going to pinch some of our business.' The road guys said, 'You are going to pinch business off us.' The ports said, 'You will pinch business from us.' We have asked, 'Are you guys looking at a static national pie that we are all trying to get a bite of, or are you looking at an expanding national pie that we are all going to get a slab of?' You have an expanding national pie only if you give everybody a go in the whole situation. We believe that those links to ports are important to give everyone a go. There will need to be road systems that come to the pick-up points on our line for freight, which will keep the road operators happy bringing things to the pick-up points along the way.

I venture to say, without getting political, that we will fix the wharf situation in Australia—if they do not shoot one another in the next few weeks!—because, when we have a fast, efficient line from Melbourne to Darwin hooking into the ports, the stevedores and the unions are going to have to get together and ask, 'How do we fight these blokes who are running the line to Darwin?' The only answer to that is that they have to get efficient if they want to compete with us going to Darwin. I think that we will have a totally different attitude towards the waterfront.

Mr WAKELIN—Dr Davidson, I thank you for your paper. It states:

Nevertheless the imbalance in capital expenditure on roads compared to rail has resulted in rail being unable to perform its proper role in serving our national economy. This has got so bad that there is now a national mindset, obviously shared by most policy makers, that rail is not capable of performing a major role effectively.

Two pages on, there are two points: the investment issue and the lack of investment in rail infrastructure, and then the structure where you are coming on the flat country rather than the mountainous country—the rail country versus whatever you might call it. In other words, you are dealing with 100 years or longer of the rail industry. The point that you are making on my page 233, but page 4 of your submission, is that if we follow through on the old infrastructure line we really will only touch the surface of it.

Dr Davidson—Yes.

Mr WAKELIN—This is what this inquiry is really trying to come to terms with. I would like to take you back to that first statement about the investment between road and rail and then to come to the point about the interactions involving better data flow—in other words, I presume, accuracy about where we are at. Could you comment on what I have tried to get to in that short statement?

Dr Davidson—As I say, we have fallen into the trap in Australia of believing that, because our railways were built earlier than the road network was and they have not had sufficient investment, rail can actually never perform. We have really not looked at the potential that rail has, if it was built to the equivalent modern standards that our road network has been built at. If you go and look at a road built in the 1940s, it is virtually

unusable in today's terms; but most of our railways were built before the turn of the century, and many of them have not been changed since. We really have not got a strict, proper comparison between the road network and the rail network. If we were to take advantage of the advances in technology that rail has had and we were to locate our transcontinental railways in sensible places, then the whole ball game would change dramatically.

Mr WAKELIN—But the very important thing to me is that, if we follow the same track strictly north-south, we are really not going to solve it properly.

Dr Davidson—I am suggesting that it would be extremely difficult because, if you use the existing intercapital route, particularly between Melbourne and Sydney and Brisbane, at least between Sydney and Melbourne, and partly between Sydney and Brisbane, you are going through land on which it is almost impossible to develop a high-quality route.

Mr WAKELIN—On the point about data, can you give us some examples of what you think we need? What tonnages are we talking about?

Dr Davidson—As a transport planner, I find it extremely difficult to get data about freight flows in Australia with any precision. In urban areas, it is fairly easy to get data, because people do the same thing day after day and you can generally get information about that and model it. We know very little about the trip generation of movements of freight in Australia in any detailed sense, or about the sorts of things that makes it choose the road that it does choose. We have a great imbalance of information upon which to do detailed careful planning between modes.

Mr WAKELIN—Can you give us a clue about where we might start? What sort of research? Who does it best? Who might give us some of this data? Who might give us some leads on some of this stuff?

Dr Davidson—A lot of it does not exist. The ABS collects a lot of it, but then it charges through the nose to get access to it. So most researchers cannot afford to get it.

Mr WAKELIN—But it is there, if we worked at it, if we wanted to attack it?

Dr Davidson—No, not entirely; because we do not know where our factories are. We do not know where our flows come from in any sort of integrated way, nor, more importantly, how the transport system could change them.

Mr WAKELIN—We need plenty of work in that area?

Dr Davidson—Very much so.

Mr Compton—Actually, for a good fee, he will find out for you.

Mr WAKELIN—In all seriousness, I agree with you: it is critical to get some basic research and, if the fee is reasonable, maybe the Commonwealth should be—

Dr Davidson—I worked with Queensland's Main Roads in trying to do an industry study in Queensland, to get some feeling for the nature of freight flows. We have hardly scratched the surface, and the information that we have is almost useless, although a lot of effort has gone into it. It is not a minor task.

Mr WAKELIN—And even the methodology of how you get there.

Dr Davidson—Exactly: the methodology is not there, nor is the data.

Mr WAKELIN—On the Alice Springs to Darwin route—as I am a South Australian, you would expect me to ask this—I understood that the most expensive part would be from Tennant Creek to Darwin, because we have got to build bridges. Therefore, the path from Tennant Creek to Alice Springs would not be in there. So is that just a ballpark? Really, it would seem that you would not be looking at \$1 billion to go from Alice Springs to Darwin; you would just want to go from Tennant Creek to Darwin, wouldn't you?

Dr Davidson—Our route would be doing that. But presumably, if the Darwin to Alice Springs one becomes serious, there would be some sharing of the costs written into the route from Tennant Creek to Darwin. Alternatively, if the ATEC one got up first, it would be a piece of cake, as you say, to build a route from Tennant Creek to Alice Springs. So the Alice Springs to Darwin one would almost fall out of the equation. I would say, though, that my understanding is that the Northern Territory government's planning for this railway is not to the same standard that we are talking about. So there would need to be some extra planning to get to the higher speed standard that we would require.

Mr WAKELIN—But would you have a ratio of Alice Springs to Tennant Creek and Tennant Creek to Darwin? Is it 3:1?

Dr Davidson—Off the top of my head, I would say 4:1, or something like that, at least.

Mr WAKELIN—In terms of your timing and your presentation, the Darwin to Tennant Creek to Mount Isa section has prospects of being financially viable in its own right. Obviously, you would think of connecting with the existing freight.

Mr Compton—That was a comment that I made. A study was done some years ago on the viability of a line actually from Cloncurry to Darwin. The figures at that time

stacked up for a profitable line, mainly because of the minerals out of the north-western province and the cattle trade and what have you. So that comment is based on a study done by a totally different group about five years ago. There is every reason to believe that Cloncurry to Darwin could be a very profitable line.

Mr HOLLIS—To follow on from Mr Wakelin's question, if the Alice Springs to Darwin line goes ahead and if this one goes ahead, is there enough business there for two lines to Darwin?

Mr Compton—First of all, I would say that we hope that the Adelaide to Darwin line goes ahead, because I do not believe that any infrastructure project in Australia should be knocked, and they have been trying for 100 years to get one. The problem is that the freight that they will carry will be almost totally different from ours. We are going through the great productive areas of Australia all the way, whereas, unfortunately, they go through a hell of a lot of rocks and sand on that line. They also have the problem that the line from Melbourne to Adelaide is so poor that it could not carry trains at high speed. We will have freight out of Melbourne into Darwin before their trains get to Adelaide, because of the poor state of the line. There are all sorts of problems to overcome in that, but I believe that we are handling two different sorts of freight.

Mr HOLLIS—This is quite an exciting project. It is a huge project and a huge investment. What rate of return would you be looking at?

Mr Compton—I will ask Xavier to handle that. He is my money man.

Mr Clarke—Rates of return are driven by, obviously, the risk in the project. If you look at it from the time of construction, the company itself and the investors in this company are really looking at what risk they have. The market risk is who is really going to catch the train. I am talking about whether it is freight or whether it is passenger transport. We would expect to enter into take-or-pay style contracts with train services providers, whether it is a TNT, a P&O, an Orient Express or something like that. In essence, they will have to agree to provide X number of services per week. Therefore, they will be taking that market risk. The rate of return then can be less, because if we can get a rate of return of 12 per cent, it is better than having your money in a bank and it is fixed over a 30-year period because they are the style of contracts. If we took the market risk, the rates of return would have to be somewhat higher because you have to reward that market risk, so it might be 20 per cent or something like that.

Mr HOLLIS—Say I am an investor and I have a few thousand dollars that I want to put somewhere. I am going to look through various prospects. What are you offering? For example, BHP is saying that unless it can get a return of 15 per cent on steel, it will walk away from it. I know you cannot give me the exact figures, but is it 12 or 15 per cent?

Mr Clarke—I imagine it is totally driven by what risk we are really taking.

Mr HOLLIS—I know, but you have to offer something to the investor before he takes that risk.

Mr Clarke—I know, but it is very difficult to offer at this stage because the market situation might change. We do not know, but it will be driven by what market exposure we take. If there is minimal market exposure, the rate can be down because people know that every year they will get this rate of return which will be 12 per cent. However, if we take a higher market risk, the forecast internal rate of return has to be significantly higher. It might be 20 per cent or it might be 24 per cent.

Mr Compton—People investing in this railway line will not only look at the annual return you get, but also the capital gain that comes with it. In the long term, the railway line will get more valuable every year. It comes back to the point of regional development that I raised in the submission. The future viability of the line will depend upon the regional development that happens along the railway line. Ever since I was born, governments of every size have told us at every election how they are going to develop the regions of Australia. Tears run down your face as you listen to what is going to happen with the regional development of Australia, and it has never happened.

This is a catalyst for it to happen, because we will be able to say to people in Sydney, Brisbane and other places, ‘Why have a factory in Sydney on high-priced land when you are polluting the place to death, your staff take hours to get to work and their housing costs too much, when you can be on our railway line on cheap land. Your staff can sell up in Sydney and make a profit by going there. Whatever you produce we can get to Darwin and out to the world in 24 hours. What the hell do you want to be in Sydney for?’ We believe that we will provide a catalyst for the decentralisation of Australia for the first time in the history of this country. Anybody wanting to invest needs to stick around for that to happen. You are young enough to stick around.

Mr McARTHUR—Could I get a couple of precise answers to some of these questions. Firstly, why are you running a double track when nobody else in the world wants to run a double track of this magnitude? Secondly, what actual freight are you going to take from the southern region to the northern region? How many passengers might run on this rail? Who is going to upgrade the port of Darwin, if that is going to be such an important point?

Mr Compton—First of all, I cannot give you specific answers on that because we are not far enough down the track.

Mr McARTHUR—You have to answer a couple of these things, otherwise the proposition does not stand up.

Mr Compton—Come back and see me after we have done another few million dollars worth of study and I will answer the questions. I do not want to pretend that I am Christopher Skase selling you an investment. I do not know the answer to those questions at this point in time.

Mr McARTHUR—You have to have an idea on the freight, surely.

Mr Compton—Hang on, can I just answer the question. I am not a politician being jibbed at. We have not said that we are going to build a double track. All of our literature says that we are looking at both options. That still has to be proved in future engineering studies. Xavier, do you want to comment on the freight?

Mr Clarke—I talked at the outset about how the project has been developed and the work that is being done. We had an idea, it has been broken down into concept that has been defined by a market usage study which has looked at where the freight is going to come from and where the passenger demand is coming from. Dr Davidson has done the conceptual engineering work to date. Specific answers to your questions will not really surface until more work is done, which is now being undertaken. That work will come about by detailed, initially desk-top studies—

Mr McARTHUR—Wait a minute. You are coming before this committee and telling us that you have a \$5 billion to \$8 billion project, but you cannot give us any ballpark figure of what freight you will put on the railway. I find it amazing.

Mr Clarke—I am sorry. We could give you the information—

Mr McARTHUR—You cannot tell us whether you are going to carry iron ore or raw products, or where the people will come from.

Mr Clarke—I do not have a copy of the KPMG report here, but it certainly identifies the transport demand along the corridor. I have not got it with me.

Mr McARTHUR—You ought to understand that. You are coming before the committee to give us a proposition and you have not actually told us what the freight is or where the people are coming from.

Mr Clarke—It is a 100-page report and I have not rote learned it. We would certainly be happy to provide it to the committee.

CHAIR—Could the committee have a copy of the report?

Mr Compton—Absolutely. We can get that to you. The KPMG report does not give the accurate figures that Mr McArthur is asking for because it is a preliminary study. They are forecasting what they believe will happen in various ways. A copy of that report

is in the hands of the Minister for Transport and Regional Development, the Minister for Finance and Administration, the Prime Minister and every state premier. We have not hidden that report from anyone. I did not realise that that was one of the issues that was going to be raised today.

Mr McARTHUR—It is a pretty fundamental issue, though, what you are actually going to carry on the railway line. That is the first question.

Mr Compton—We are not denying that, but we did not come here to sell this committee a proposition. We came to report to the committee on what we are doing. If you thought I was going to sell you a deal, I did not come here to do that nor did I imply that I was coming here to do that.

Mr McARTHUR—No, but you have to demonstrate to the committee that you are putting in an infrastructure project and convince us of the merits of it.

CHAIR—We might be talking at cross-purposes. Stewart is looking for the end play. ATEC is saying that they are not that far down the track yet.

Mr Compton—Exactly.

Mr McARTHUR—But they have come to the committee and have spent an hour with us, and they cannot tell us what freight they will put on the train or who will upgrade the port of Darwin.

Mr Clarke—To address the port of Darwin point, if you look at the documentation that came out with the Alice to Darwin project, they clearly say that the first stage of work for the expansion of the port of Darwin was to be completed in November or December and the next stage was to be completed in the next couple of years. I imagine that next stage is totally dependent upon the viability of the Adelaide to Darwin project and this project as well. That is on the agenda for the Northern Territory government and it is also going to be on the agenda for our project. How can we build a railway from Melbourne to Darwin and then dump it in the sea at the end? Of course we have to have the links that then go from Darwin to Asia.

Mr McARTHUR—You are putting a proposition to this committee and we are asked to consider it, but you are not addressing a couple of very fundamental arguments. What will go on the train and how will you handle the port of Darwin?

Mr Compton—I can only repeat that we did not come here to put a proposition to this committee. We came here to inform the committee of where we are. We have only done one year of homework in a preliminary way in order to find out if there is enough political and community support for the thing. We simply have not done the homework to answer you now. My opening remarks were that we have only been working on this for

12 months. We are about to spend another \$5 million answering the questions that you are asking. We are not asking anyone to invest money in this project until we can prove all of those things. At the moment the money for the project has been put in by me and the other directors of the company who are taking a risk with no guarantee of any return to find out those things. We have not come here to make a submission on this project. We have simply come here to outline what we are about, so that you can be aware of what we are about.

CHAIR—Stewart, I think that is a fair enough answer.

Mr WILLIS—Mr Compton and gentlemen, we all admire your development vision and your entrepreneurial spirit. However, as you would have gathered, there is a degree of surprise that such an expensive project, a \$5 billion to \$10 billion project, can actually be viable. That is a tremendous amount of money. As a minister for some time, I saw various studies for the Alice Springs to Darwin line. None that I saw showed that to be a viable railway line in the near future, although the last one did say that as we move into the 21st century, perhaps it is starting to reach a point where it may be a viable proposition, but with support from government. As you know, at the moment that project has commitments from three governments for about \$300 million to try to make it a viable proposition.

I appreciate that you are not here seeking our approval to do anything, but nevertheless it is a legitimate concern of ours whether this is actually a viable proposition. If a project which is a far less expensive project to connect Darwin to the south and which has government support is still struggling for economic viability, one wonders whether another line, which is totally privately built and costing maybe eight to 10 times what the other line with government support is costing and which goes to the same place, could possibly be viable. Do you seriously think both lines are viable? You are spending millions of dollars, so you must have some initial study which indicates that there is financial feasibility in this. What is that study? Is it the KPMG study or something else?

Mr Compton—I accept your point and at this stage I cannot prove to you that our line is totally viable. We are still in the homework stage. All of us on the board believe that it is viable and the preliminary studies that we have would indicate that we will carry 10 times the freight than will be carried on the Adelaide to Darwin line, simply because of the nature of the country that we go through, the freight that we can pick up and the freight that we can distribute. One of the problems with the Adelaide to Darwin line is that if you bring imports into Darwin and you send them by train to Adelaide, what do you do with them when you get to Adelaide? You have nowhere in the Australian scene to go. We have the potential to distribute freight down the eastern seaboard.

We believe that any railway line that requires government support to get it going should not be built in the first place, because it is probably non-viable. If our line does not stack up privately, we do not intend to come to governments asking them to bail it out. I

do not believe that this nation can afford any unprofitable enterprises. All we have said is that we intend to spend enough money to prove that it is a goer. The initial KPMG study said that given a whole range of factors that need to be handled in the future, there is the possibility that shareholders will get a dividend. Xavier might like to add to that.

Mr Clarke—I suppose it is important in taking on board what you have said, that this is not the first of these types of projects. It might be the biggest, but all the infrastructure projects that are moving now have really worked on this basis. I have said a couple of times now that you get an idea, you do some work on it at a high level to refine the concept and then you start doing the detailed work.

If you look at it, there are really three alternatives. Something can be built, acquired and operated on a profitable basis with total private sector funds and no government involvement at all. The second alternative is that if the cost of building it cannot be repaid over the operating period, it can still be operated profitably, like a road. You might not be able to build a road and recover the costs from the toll, but you can certainly operate it because you have a couple of toll gates. There is a role for the private sector there as the operator, but in a sense it might need government assistance to get that project on line. If it cannot be built or operated profitably by the private sector, you might need government assistance building it, but if you define the scope of limited funds to help an operator do it privately, there is still a role there for the private sector.

To get to that point requires moving down the idea, concept, preliminary development, detailed development stages and working out the actual costings to then determine the feasibility of it. At each stage you have to go through a gate that asks: is it worth continuing with developing the project based on the figures that we have? Certainly, with the work that I did on the Brisbane Airport rail link, there was no way in the world that seemed like a sensible project. In June or September of this year, that project will bank \$160 million to build eight kilometres of track to connect the airport to the city in Brisbane.

As the project evolves, it is not a connection between the airport and the city; it now goes to the Gold Coast. Of course, that brings the Gold Coast closer to the city. The project and the concept evolve, the credibility and viability of the project develops, and you expand the deliverability of it. I think that is really important to bear in mind, because if it sounds too hard we can always walk away. But the fact is that if someone is prepared to risk some money to prove the credibility, it becomes similar to Monica Lewinsky—a bit irresistible as it gets closer.

Mr WILLIS—I appreciate what you are saying. If you can make a success of this, good luck to you. A concern of any government committee, ministers and cabinet will be that, if a project of this enormous size gets under way and then fails, there will be tremendous pressure on government to start picking up the tab. That is something which will cause considerable concern for governments as this project goes on. I issue the

caution that governments will be concerned that, if it goes ahead and fails, they will be left with a white elephant and a lot of pressure to run it on a loss-making basis or in some way to put in capital or subsidies to make it a financial goer. You keep saying that you can do it under your own steam. If you can, good luck to you. But governments are going to be concerned that that might not be the case and that they will be asked to pick up the tab at the end of the day.

Mr Compton—In all my discussions with the five governments involved at the moment, the issue of whether we will drop it in their lap at some point has been raised in all the conversations. They have asked us to proceed with our planning. All they have given us approval for is to do some planning on the understanding that, if the planning does not stack up, the loss is totally ours. That has been a clear understanding. Also, from your long experience in politics, you will realise that in many of the conversations I have had—and I have interviewed 120 peak members of parliament in five parliaments about this—the predominant question I have been asked is: if this fails, who takes the blame? I have said to them that people will look at my grey hair and say, ‘Poor old Everald. He was a good bloke for 60 years, but he lost the plot in his old age.’ So I have undertaken to take the blame.

Mr Clarke—The important thing about the government carrying the can—

CHAIR—Could I ask you to make a short closing statement and then we will hear from Dr Davidson. We are cutting into the time of the next witnesses.

Mr Clarke—As Everald said, it is totally at risk until what we call financial closing, which is before construction commences. At that time, on a private basis bank debt funds come in to fund the project. If it falls over in the operations, all of the take-or-pay contracts I talked about have to fall over and the banks have to lose all of their money. A lot of people are standing in line in project finance transactions before it ends up back in the government’s court.

Dr Davidson—I wish to say something further to what Mr Willis was asking. The fundamental thing about this project is that it will comprehensively change Australia’s transport system in a way in which nothing else can. The Darwin-Alice Springs railway was designed as a 100-kilometre an hour line. This is a 300-kilometre an hour line. The impacts will be dramatically different and its ability to attract freight and passengers will be dramatically different. For example, some initial work which BTCE did on the Melbourne to Brisbane part of this proposal before it was a very high speed one suggested a rate of return of about 12 per cent, and that was leaving out most of the benefits and adding in all of the costs. If you look at sections of this line, they are undoubtedly commercial.

When you put all of the benefits of the whole route together and the benefits that long distance travel over the whole route add to the sections, you really do have a

proposition which I am confident will stand up in the end. I do not believe there is any serious risk to government, because most of the route in any case is on line which you have either already got or would like to have.

CHAIR—That was a very stimulating presentation. I thank you for that. If we require any more information—

Mr Compton—I will send you the KPMG report. Also, the Davidson report will be out in about two weeks. We will ensure that the committee gets copies of both.

CHAIR—Thank you very much. We will send you a copy of the transcript of today's proceedings for you to peruse.

[10.25 a.m.]

ANTHONY, the Right Honourable John Douglas, Chairman of Directors, Northern Rivers Railroad, 9 Armada Crescent, Currumbin Waters, Queensland

JUDD, Mr Warren William, General Manager, Northern Rivers Railroad, 9 Armada Crescent, Currumbin Waters, Queensland

RICHARDS, Mr Idwall Charles, Director, Northern Rivers Railroad, 9 Armada Crescent, Currumbin Waters, Queensland

CHAIR—Welcome to the hearing. Do you have any comment on the capacity in which you appear before the committee?

Mr Anthony—Mr Idwall Richards, who is a director and partner of the Northern Rivers Railroad, is also the chairman of a family company that has nationwide interests in waste disposal. By way of introductory remarks, I thank you very much for inviting me here. This seems like old times, being before a parliamentary committee.

CHAIR—I do not need to caution you, I am sure; you know that these are proceedings of the parliament and carry the attendant responsibilities.

Mr Anthony—I feel rather aged, but when I look across and see Ralph Willis sitting there—

Mr McARTHUR—He is one of our best members.

CHAIR—Doug, would you like to give us a three-minute overview of your submission? Then we might break into questions.

Mr Anthony—Thank you for the opportunity of giving you the experience that we have had in setting up a private rail operation. We acknowledge the value of this type of committee. It is of great significance. It is doing something to capitalise on the huge amount of money that has been spent on railroads in this country over the past 100 years, railroads which are not being utilised properly today. If we are going to have any optimisation of transport in this country, it will be by doing something in the rail sector.

The Northern Rivers Railroad was set up two years ago. It was granted an interim accreditation by the New South Wales government to operate on a restricted area of northern New South Wales. I would like to explain how we originated. There had been studies of the branch line running from Casino to Murwillumbah by the New South Wales rail department. That was carried out for Countrylink by Kearney and Sinclair Knight a couple of years ago, and they recommended that the line should be closed north of Lismore.

This was totally unacceptable, as far as I and the people of northern New South Wales were concerned. It was crazy to think of closing that line when this was an area that was rapidly expanding in population. We had only to look across the border to see how they had closed down the south coast line in Queensland in the 1960s. They sold it up, and now they are spending 10 times as much to acquire land to put a rail line back in. We have a good rail line, and the potential is there. We saw an opportunity to make a business out of it.

Firstly, we started thinking that there could be an opportunity for a tourist train. We acquired the Southern Cross tourist train that had been operating between Sydney and Melbourne for a period. It consisted of about 18 carriages, and we picked up four locomotives to go with it. We were really pre-empting privatisation. We ran into all sorts of difficulties. There was no legislation in New South Wales to handle private operators, only the heritage people. There was no area in northern New South Wales where we could store our trains. It was all put on the backburner.

Our train was stored in southern New South Wales, which was the only place we could store it, until a couple of years ago when we managed to acquire the old workshop complex known as the Roundhouse at Casino. That was totally dilapidated. It had gone to ruins. I venture to say that, if we had not picked it up, within a couple of years it would have been a total write-off. Today we have cleaned it up. We have got it operating. We have mechanics in the Roundhouse and we have totally resurrected it. But we are only just starting with freight operations. We have an arrangement with FreightCorp in New South Wales to carry freight on the northern sector—that is, north of Grafton. Our first contract was with fly-ash cement to Casino, Lismore and Murwillumbah. That is operating. We are running one or two trains per week up there. It is all going according to plan.

We think it is crazy not to be utilising this railway. At the moment, about 100 containers per week are going from the meatworks and the fruit industry in the region to the port of Brisbane. We could take that through on one train with two drivers, in one operation. At the moment, about 100 trucks take it over terrible highways. They take the Summerland Highway, which is really a country road going through Kyogle and Beau-desert, or they take it out on the Pacific Highway, further saturating the road running up through the Gold Coast to Brisbane.

We find that it is difficult for a private operator to operate. I think this is where we can be of value. Certainly, administration and access into the rail business is difficult. Access fees are very high. If you want to encourage private operators, you have to make it reasonable, otherwise we cannot compete with the road people. The insurances have to be made uniform. At the moment—and my colleagues will talk about this—you have different insurance rates for different states, and they are exorbitantly high for a little operator like us. Taking out insurance for \$100m or \$200m is a big load on us. These are some of the problems that we run into.

We have a good relationship with the New South Wales rail department. We have been able to make satisfactory arrangements with the unions about drivers and workmen. We are showing that it can be done. But some of the rules, regulations and charges have to be minimised. I think that is good enough for an introductory remark.

CHAIR—You are saying that you think the access rates are too high. Do we take it from that that you think there is not sufficient transparency in the Rail Access Corporation's regime? We did take some evidence in Sydney that suggested that it was not all soft lights and sweet music with the access corporation. The suggestion was put to us that it had favourites. It was less than forthcoming in telling us what its pricing policies were. Do we take it that that is where you are having trouble? If not, if we are opening up the railways to competition by having access corporations—or, in Queensland's case, a mechanism within the vertically integrated system to allow access, and if the private companies are not stacking up and cannot take their share of the cost of the track, for want of a better expression, should they be in the game? That is a two-sided question. Firstly, is the track access transparent enough? Secondly, if it is transparent and fair, how can government intervene to bring the costs down?

Three scenarios have been put to us: one is that there should be a national transport strategy; a second is that there should be a major investment in the rail network; and a third is that there should be strategic incremental improvements—longer loops and deviations to take all the hot spots out of it.

Mr Richards—Absolutely.

Mr Anthony—We are putting the emphasis on this line because we can see the port of Brisbane becoming the first port of call for overseas ships. They will be putting their containers on rail, going right through to Adelaide from there. It saves shipping time and it is a quick turnaround. That line cannot cope with it. I can add to our situation: we have had a number of discussions with the New South Wales Forestry Department, as has the New South Wales Forestry Department with Japanese investors, Nippon Paper-Mitsui. They see that area stretching from Coffs Harbour right through to the border—a huge tract of country—as having real potential for forestry.

It used to be dairying country and it used to be beef country. It is pretty poor farming country these days and is slowly depopulating as a result of that. The Forestry Department has a program there of planting 10,000 hectares per year at the moment. They are delighted with the progress. The trees are growing fast. They are thinning them out within five or six years. Nippon Paper wants to come in and start developing big tracts of timber country for the future. They are talking to us about taking the timber through to the port, either as chips or logs.

Mr Richards—And it is all in this Northern Rivers sector.

Mr Anthony—It is silly; they should be looking at the cost of road transport or train. It is just stupid. For a few bob, they might make the decision to go to road instead of rail. We are talking about 200,000 tonnes of woodchip per year coming out of the area, as a starter. That would make about 14,000 truckloads through to Brisbane. It is going to go up the main highway, through the urban areas, when we could put it on a train and reduce that immensely and take the weight off the roads and remove the inconvenience to the public. Yet we cannot get final decisions on a lot of matters that are important. The Japanese want to know, ‘What price are you going to charge us to do this?’ They are concerned only about price—and, of course, all we are concerned about is being able to do it profitably.

CHAIR—We are into the break, but we might keep going for a couple of minutes.

Mr Richards—There is just one other point that I would like to make, when I get the opportunity.

CHAIR—Yes, sure.

Mr WAKELIN—Do you want to make your point now?

Mr Richards—If I may. Throughout the rail system, in all states—I do not know about Queensland, but in other states—there are literally hundreds of millions of dollars of obsolete equipment. Some of it is fairly old, but it is obsolete in that it is surplus to needs because of the shrinking operations of the railroads over a number of years. There is all this surplus equipment about. There is a tendency at the top to let that surplus equipment drift off to the wreckers to be broken up. If you get an old flat-top that is five years old or 50 years old, the wheels have not changed much and the brakes have not changed; it needs only a set of new bearings and you have got virtually new rolling stock. There is this tendency in the bureaucracy to hive it off to the scrap heap. There is a little bit of reticence on their part to let it out to the private sector. It is a terrible waste, really. It is not going to see us through to the next millennium but we are going through a transition period in the railways system. We are only one of a number of players.

CHAIR—You have built it up over time.

Mr Richards—We are trying to rejuvenate, and for the transition this would meet the needs. It would help us combat—

Mr WAKELIN—But who is controlling that rolling stock?

Mr Richards—The various state authorities. Generally speaking, it is controlled by state authorities.

Mr WAKELIN—We have heard that National Rail is controlling some of the

stock, too.

Mr Richards—It could be. That picture is not very clear to us because of the recent legislation with National Rail. They have come in over the top of everything. We are not quite sure where it is at.

Mr WAKELIN—Is it control or accreditation as well?

Mr Richards—No, just this rolling stock—who owns it and how they are going to dispose of it. As I say, they are reluctant in some instances to let it out to private enterprise for fear of it coming back to bite them, I suppose.

Mr McARTHUR—Just for the record, we had some evidence a couple of days ago on that very issue by National Rail. I think that there is a similar situation in Victoria.

Mr Judd—It is throughout Australia; it is not just Victoria.

Mr McARTHUR—They will not let you buy the material. I think that it is a very important point that we ought to get on the record—that the state rail authorities will not allow the private sector to purchase equipment that will work with a bit of maintenance to get these private sector operations on the go.

CHAIR—There is a bit of a dog in the manger attitude going on. There is no risk about that.

Mr Richards—That is the point that we are trying to make.

Mr WAKELIN—They are controlling it and at the same time some of them are importing at pretty cheap prices some of their other rolling stock to replace it, as I understand it. I think that you have just about answered the Commonwealth's role in the rail industry. Just to clarify the hides issue and going past the particular community—I think you mentioned Casino—would you prefer to go to Brisbane or Sydney? Is it a matter of picking it up at Casino on the way past or is it a matter, do you think, of going straight there?

Mr Judd—We are a short-line operator and our strategy is to work with other rail operators. We do not want to be the king of the castle. We are looking at short-line operators and if the product is for Brisbane, yes, we look to take that through to the north. For freight going south, we are happy to take it to Grafton, which is a good interchangeable point, and then interchange with National Rail, FreightCorp, whoever.

Mr WAKELIN—But what I am trying to understand is, do the regulations for National Rail, the interstate carrier, prohibit picking up at Casino?

Mr Judd—I beg your pardon, yes.

Mr WAKELIN—I am just trying to understand whether it is regulation—

Mr Judd—That is correct, but I believe as of this month those regulations no longer exist.

Mr WAKELIN—In terms of the fuel tax, in your letter you make the point that the rail operators, without doubt, are propping up the road transport operators. Obviously, you would be aware of the common complaint. Can you just give us your exact analysis?

Mr Judd—Just the imbalance. What we are suggesting there is that the fuel excise is always supposedly for road infrastructure. Look at the imbalance of those fundings—1975-97, \$33 billion spent on roads, \$1.8 billion on rail; 1997-98, \$1.6 billion on roads, \$0.25 billion on rail over four years. I just do not have those figures here with me now, but the amount of fuel excise that rail is contributing is enormous.

CHAIR—We have had other evidence to that effect—that there needs to be a balancing up.

Mr Judd—Absolutely.

Mr Anthony—There needs to be a catch-up, too.

Mr WAKELIN—You mentioned the Australasian Railway Association in relation to the insurance issue. As a smaller operator, how does this organisation, this Australasian Railway Association, cater for your needs? My point is that we have been looking for a champion of railways in the national scene. It seems over the last three or four years that maybe this is the organisation. How do you find that organisation as an advocate for railway generally and for a smaller railway?

Mr Judd—As an organisation, excellent, but my honest opinion is that it favours the big fellows.

Mr WAKELIN—Thank you very much.

CHAIR—Mr Willis has a question, but just before he does, could you provide us with a couple of pages on this insurance problem and your suggestions for standardisation?

Mr Judd—Yes, we can. There was a paper done, actually.

CHAIR—No, we would like it from your perspective. You are a small operator. Could you demonstrate the problems—what cross-border jurisdictional problems that you

have and so on? Could you provide us with a short paper on that?

Mr Judd—We can.

CHAIR—It does not need to be a lot.

Mr Anthony—It is a real headache for us.

Mr WILLIS—Just while we are on that point, the amount you give there is \$200 million for New South Wales. That is the amount for which you have to be insured?

Mr Judd—That is correct, public liability.

Mr WILLIS—I just want to get a couple of things clear.

Mr Anthony—We are only a little operator.

Mr Richards—Just finding the cover is hard, even if you can afford to pay for it.

Mr WILLIS—So that would be the same amount for National Rail in New South Wales?

Mr Anthony—Probably would be, yes. I think that it would be the same amount.

Mr WILLIS—I understand your concern.

Mr Judd—May I suggest that the imbalance is that we are operating at this point between Grafton and Murwillumbah and, particularly in the branch line, there are no other trains. The risk factor is not that big. National Rail are operating through Sydney with electric trains. The risk factor is just mega compared with ours and that is where we say the imbalance is in insurance.

Mr Anthony—And if it is in Victoria, what is it?

Mr Judd—Victoria is \$50 million, South Australia is \$100 million. There is no consistency.

Mr WILLIS—Yes. You also said that you were bogged down in negotiations with the Queensland Department of Transport. You may have said this, but I missed it: what exactly are you negotiating with the Department of Transport or trying to negotiate?

Mr Judd—That our rolling stock is fit. Through the Department of Transport, we have to prove to them that we have done—

Mr Richards—Our plant is registrable in Queensland. That is what it comes down to.

Mr Judd—If we are registered in one state, you would think that we would be right for the other states. That is our problem.

Mr WILLIS—So it is the registration aspect. You are not discussing access charges or anything?

Mr Judd—No, we have not got to that point.

Mr WILLIS—So the next step would be to discuss that with Queensland Rail?

Mr Judd—We are going to talk to another department in relation to access.

Mr WILLIS—Queensland Rail, presumably.

Mr Judd—Yes.

CHAIR—Are you going to use your own drivers? In New South Wales—

Mr Judd—No, we have our own crews.

CHAIR—Why could you not get ahead of New South Wales and get yours accredited in Queensland?

Mr Judd—At this point, our drivers are accredited to operate in Brisbane.

CHAIR—It is the rolling stock in your case?

Mr Judd—It is only rolling stock and for Queensland DoT to satisfy themselves that we have all of their regulations as well.

Mr WILLIS—You raised the trucking issue in your letter to us. We have had various people suggesting that there is a significant imbalance in the way in which rail and road have to pay access fees and that, for road, we should be moving to a mass/distance type of charging, which would put a much heavier cost, as New Zealand has done, on large articulated trucks. They have increased their charges some four or five times. Correspondingly, that reduces it on the lighter trucks. This has to do with the relative degree of pavement damage that they do, which is much greater for the large trucks. Do you have any views on that kind of approach?

Mr Judd—I fully support the New Zealand model, for sure, but the interesting thing that is happening here now is that it is already before the legislators. Truck weights

on a standard prime mover have now been raised from 28 to 31 tonnes. That has all but happened. We have these experimental situations. This is where it gets to the point that what is really happening is that the freight is moving off the rail onto roads. In Victoria now, they are running B-triples on a trial basis. In Sydney and Melbourne suburbs, you have B-doubles zapping around the city streets. Once the trial period ends and a precedent is set, it is very hard for the other states not to do it. We have got the situation here in Queensland now where the local Minister for Transport, Vaughan Johnson, has suggested a 16-hour driving time for trucks. The trucks that he is talking about are cattle trucks which, in fact, are road trains. Sixteen hours driving time: that is simply ludicrous.

Mr Anthony—This all means that it is making it more difficult for the rail industry to be developing, and that is what we ought to be putting national emphasis on.

Mr WILLIS—Thank you.

Mr MAREK—Looking at it from a fundamental point of view, would it be fair to say that on the bigger screen there is a reluctance to reform the operations and the systems? Everything is actually being stopped, and the major operators are supporting the lack of reform in order to keep control of the whole thing. I have been listening to what people have been saying. You have been saying today that you keep bumping into problems with the states, that you bump into problems with FreightCorp and other major operations, and that you bump into trouble with departments, such as the Department of Transport. Who is in the way? For so long people have been talking about reforming the rail, but it has never happened. We still have all the different safety systems and different gauges of track. Then I hear somebody say, 'If the federal government is prepared to pay for it all, we will reform it.' However, when you listen to other people, they say that it might happen, but the states will probably end up derailing the whole thing anyway. But which state is going to be the state that has the appropriate system? Where is the problem?

Mr Richards—In a nutshell, it is a complex problem, is it not?

Mr MAREK—That is right, and we are trying to take the complexity out of it. Where is the problem?

CHAIR—We have heard over the past three days that no-one is asking the Commonwealth to bail out the regulatory system. Mr O'Rourke and various other people have told us that the Australasian Railway Association was already addressing the matter of cross-border—

Mr MAREK—This has been going on for a long time. I want to hear your opinion on this. Where is the problem? Why is it not happening? Is it the unions? Is it the states? Is it the departments? It is the bureaucracy? Or is it the government?

Mr Anthony—It is all those things.

Mr MAREK—What will we do about it?

Mr Anthony—We have to keep the pressure on. We are making progress. As I said, when we started trying to run a tourist train in 1990, we did not have any hope. A lot of progress has been made since 1990 through the privatisation act that we now operate under. There are a lot of difficulties, and we are trying to iron them out. We will have to be patient and persistent. We want whatever help we can get to bring in fewer and more uniform regulations.

Mr MAREK—I would have presumed from the debate that we have had this morning that you were all genuinely concerned about the fact that you cannot get things to happen quickly enough: that reform is happening too slowly and that people are becoming frustrated and are starting to lose patience. I am asking you once again, where is the problem? How long is this reform going to take, and who is standing in its way?

Mr Anthony—We do not live in a perfect world. You cannot tell me anything that is perfect. Nothing is perfect.

Mr MAREK—I know, but how long has this reform been going on?

Mr Richards—Only since about the middle of 1996, actually. Remarkable things have happened in less than two years. Two years ago, we could not have even contemplated getting accreditation. Now we are within a cat's whisker of getting it in New South Wales and, as I understand it, the move into Queensland will not be all that difficult. There are anomalies in all the arrangements, and we have mentioned those that we have gone through. We do not want to recap on those. Streamlining those anomalies is going to help the industry tremendously.

CHAIR—The work of the committee is to try to identify to the Commonwealth government what these problems are, whether the Commonwealth can take a leadership role in solving them, and how that might happen—and, obviously, to put things in our report which may be salutary for the states. That is what this whole inquiry is about.

Mr Anthony—Take the union situation: we thought that that would be one of our very big problems, but we have been able to get an enterprise agreement with them and everybody is happy. It is all working out okay. We could not have done that two years ago.

Mr Richards—It took us only about six months to make those arrangements, and we virtually have our own agreement with labour.

CHAIR—I am sorry to have to wind this up, but we have gone a quarter of an hour over time. I thank the Northern Rivers Railroad, Mr Anthony, Mr Richards and Mr Judd. I particularly thank you for taking the time to come from another state to Queens-

land for this hearing. We appreciate the fact that you had to travel to do so. It makes our work all the easier when people like yourselves are prepared to cooperate and come to a capital city. We appreciate that also.

Mr Anthony—It has been a pleasure. I hope it has been useful.

CHAIR—We look forward to the paper from you on the insurance problems. As you know, you will receive a proof copy of Hansard for your perusal. Thank you very much.

Proceedings suspended from 11.05 a.m. to 11.14 a.m.

CAMERON, Mr John Mellanby, Executive Officer, Australian Sugar Milling Council Pty Ltd, GPO Box 945, Brisbane, Queensland

CHAIR—Welcome. Do you have any comment on the capacity in which you appear before the committee?

Mr Cameron—I appear by invitation on behalf of the Australian Sugar Milling Council. I am a member of the Sugar Milling Council staff and have extensive operational experience in sugar mills and other manufacturing environments. The Sugar Milling Council is a voluntary organisation. It represents, where appropriate, the interests of the owners of raw sugar mills. I might also add that the Sugar Milling Council itself does not actually own railway networks. They are owned by the nine milling companies, which operate networks in 23 sugar mills.

CHAIR—You recognise, of course, as you would be experienced at this, that these proceedings carry the same weight as those of the parliament and that they demand the same respect as that of the House. The giving of false or misleading evidence is taken as a contempt of the parliament. Do you have anything to add or subtract from your statement, or will you cover that in your overview?

Mr Cameron—I will cover that in the overview.

CHAIR—Can you give us a three-minute overview? Then we will get to the questions.

Mr Cameron—I will briefly reiterate a few things in our paper. As you are aware, the sugar industry harvests its raw product, sugar cane, over a six-month period of the year. As described in the submission, the privately owned cane railway networks which transport that cane are part of the manufacturing process of transforming sugar cane into raw sugar. You can really look at those cane railway networks as some sort of conveyor belt in the process from field to factory.

Nowadays, because sugar cane is mechanically harvested, it is a bulky and perishable product; hence it has to be processed as quickly as physically possible. We have sophisticated logistic management systems to coordinate the harvesting, transporting and processing functions. I have heard Queensland's rail system described as 'narrow' gauge. The industry's is 'very narrow' gauge. It is actually a two-foot, 610 millimetre gauge.

To give you some history, from what we can see it had its genesis in the 1850s or 1860s in France, when a sugar beet grower decided to cart his sugar beet to the factory by rail. He was an innovator. Since then, it has spread right across the industry. Australia in particular has stayed with that system of transporting cane.

Over many years, the industry has indeed spent capital on making sure that the size of the cane railway network aligns with the growth of the industry and the expanding cane areas. The networks have always been owned and maintained by mill owners who have provided the capital for rail network expansion. As with many industries, of course, the high cost of capital has become a major consideration in commercial decision making.

The extension of cane railway systems is a costly exercise. We would suggest that the investment allowance system that is similar to that of the minerals and petroleum industries be looked at. We would like to present a supplementary paper on that if we could.

The industry is a great innovator in this area, and I will give three examples. The whole system, of course, is driven by clearly commercial and internationally competitive considerations. The innovations include, for example, manufacturing our own concrete sleepers in various places throughout the state, on a commercial basis, of course, and the introduction and redesign of cane bins so that they carry greater quantities of cane. That is a simple logistics exercise: the larger the load, the cheaper it is to carry. Geographical Information Systems are used so that we know at all times the positions of loads for safety and management reasons. That is also an innovation. That money for research and development is being fed from the industry to the research and development people who can do the best job all the time.

One example would be in the signalling system throughout the cane railway network. As I mentioned, most mills are under the geographical information systems. Those that are not are developing towards it. They are in radio contact all the time. We do not have the complex signalling systems that the state rail systems have. We do a lot of training of our work force so that they all understand how the system works. That would be one example of where the industry rail network is different from the state system.

Mr WAKELIN—It is more appropriate to your own circumstances, rather than appropriate to the general public rail?

Mr Cameron—Yes.

CHAIR—That is a very interesting line of questioning that Mr Wakelin has opened up. A couple of the sugar mills use their cane trains for tourist purposes. Do they have a different code of practice?

Mr Cameron—A couple of sugar mills used to.

CHAIR—Mossman has one.

Mr Cameron—Mossman has only a small section left. That has been subcontracted out, as I understand it. I would have to take that on notice as to what has happened

there. Generally, the very stringent regulations as to taking passengers as opposed to taking freight made it a non-viable proposition. Also, I do not think there were the numbers available.

CHAIR—You probably heard Mr Anthony give his evidence. Are you being required to insure to unrealistic levels? Is that part of it?

Mr Cameron—It would be difficult to comment on that. I will take that on notice. As I understand it, yes, the requirements were quite stringent. It took a long time for those terms to work towards—

CHAIR—We have seen and heard evidence about all sorts of tourist trains. We went on one last night. With that great stretch of Queensland coastline, it seems a pity from a tourist perspective, when the trains are not being used for six months of the year, that 4,000 kilometres of very interesting rail system cannot be utilised.

Mr Cameron—Yes, that is correct. There would be another restriction. A legislative restriction could come into play. The easements for the cane railway systems over lands have been allowed on the basis that only cane is transported on them. That is an added complication.

Mr McARTHUR—I am only a Victorian, but I have had a look at your cane operation in Far North Queensland. I would be fascinated personally, and also for the information of the committee, to know why your cane train operation has continued to operate for 100 years. Has there been any alternative? What is the sheer economic advantage in the short-haul trains, compared with the fundamental thesis of long haul, where trains come into their own?

Mr Cameron—The economic advantage is in the very high tonnages that are moved. For example, I think it is going to be 39 million tonnes in six months that we will move. The average haul distance from a field is about 18 kilometres. The cane has to get to the mill within 10 hours. Anything longer than that makes it very difficult or nearly impossible to process because of the deterioration of the cane. It is a highly perishable product. I think that, because the infrastructure has always been there, it is highly advantageous.

Mr McARTHUR—Has the cane industry looked at another alternative of shifting their cane; or, because the structure is there, have they said, 'It's working, we'll leave it there'? Have you really looked at rubber-tyred vehicles?

Mr Cameron—Certainly, yes.

Mr McARTHUR—Have you found that not to work?

Mr Cameron—Commercially, I believe it has been looked at. There are two new mills. There is one mill over in the Ord River now that is operating and has done for two or three years. There is a new mill being built on the Atherton Tableland. Certainly, the Ord uses road transport, big rubber-tyred, high-volume transporters.

Mr McARTHUR—Is that working or not?

Mr Cameron—I believe so, yes. I believe that it is not as commercially attractive as originally thought. It is certainly working physically, yes.

Mr McARTHUR—You are really saying that the operation of the railway has been economic for its intrinsic benefit: there was steel on rail—

Mr Cameron—The formation was there.

Mr McARTHUR—and you had the formation close to the mill. Can we expand on the other point of the monopoly position of each mill, because they had the rail structure next to it? Do you see any change in that with more open competition in relation to other mills that want to take the product? You did mention that. How would they actually shift it if they went from one mill to another producer?

Mr Cameron—I think the industry looks at everything on a commercial basis. How would they take that cane? In fact, cane is being transported by road in various places. It does go to a mill.

Mr McARTHUR—If you wanted to move away from your original mill, you would have to do it by road?

Mr Cameron—It would be essentially road, yes.

Mr McARTHUR—There would be a penalty on that, would there?

Mr Cameron—It is not as commercially attractive as the rail system. That would be the penalty. I cannot quote the figures, but you could possibly say that, on average, it is twice the cost to cart by road than it is by rail. That is a rough estimate.

Mr McARTHUR—Would a factor of the rail's success be that you are in high rainfall territory and you have a solid operation compared with rubber-tyred vehicles in heavy rainfall country?

Mr Cameron—That is certainly one factor up in what we call the wet tropics area. Yes, there is a fixed rail system there.

CHAIR—Rail is more reliable in the wet weather.

Mr Cameron—It is reliable in the wet weather. It does not get knocked around in flood times. Sorry—it does get knocked around, but it is relatively easily put back into production again.

Mr McARTHUR—What is your interface with Queensland Rail in terms of your own independent private system? Is there any connection with the state rail system?

Mr Cameron—As far as the cartage of cane is concerned, no. All that interaction has ceased now. About 50 per cent of the raw sugar, that is the final finished product, is transported by Queensland Rail where it is commercially viable.

Mr McARTHUR—Just in the normal commercial commodity process?

Mr Cameron—Absolutely.

Mr McARTHUR—There is no real interface between your own little light rail systems and Queensland Rail?

Mr Cameron—No, only at the crossing of the rail.

Mr McARTHUR—Does that provide any problems?

Mr Cameron—Yes, the crossings with Queensland Rail have to be made to a particular standard. I believe they are very expensive to build. There are some new developments in policy in that area where there has to be grade separation between Queensland Rail and the sugar industry rail crossings. That is expensive in the extreme.

Mr McARTHUR—Do you think you are world's best practice in your whole rail system compared with Cuba and some of the other places that you have mentioned?

Mr Cameron—We think we are, yes. I have not physically seen them, but there have been various reports from people. Certainly, we do not have any data to say that; but we have lots of visitors from various countries wanting to see our cane railway system. To some extent, they marvel at the innovation of the sugar industry in Queensland.

Mr McARTHUR—At the transport aspect? Is your rail system at world's best practice?

Mr Cameron—I would say it would be.

Mr McDUGALL—You said that it is very expensive to road freight your cane. If it is such a major problem, how do the growers between Brisbane and the Gold Coast and the growers in New South Wales—who, I think, all use road freight—become competitive with the finished product of sugar?

Mr Cameron—Let me put it this way: the cost of transport of cane is around 18 to 20 per cent of the total. Those areas that cart by road are probably—and, again, this is not from personal knowledge—operating at smaller margins.

Mr McDOUGALL—Would it be fair to say that we could suggest that all the export sugar comes out of Queensland and the domestic market takes it out of New South Wales and southern Queensland pays the price for it in the supermarket.

Mr Cameron—I could not comment. Let us answer that by saying that I think that market forces should predominate.

Mr McDOUGALL—Do all the train lines in your network travel on private land? Do they travel on public land?

Mr Cameron—There is a whole complex system of easements. Sometimes those easements are over private land. I do not have data to show what percentage. Sometimes it is private land. Sometimes it is crown land—along the side of a road, for example. Rather than use the road, the rail system is off on the side. Of course, some are on mill-owned land.

Mr McDOUGALL—How does the system work where it travels on crown land? Who pays?

Mr Cameron—For the easement?

Mr McDOUGALL—Yes.

Mr Cameron—At the moment, the easement is just granted. I will have to take this on notice. I understand that that easement is just granted by the crown.

Mr McDOUGALL—If a private railway system were to set up in Australia—and we had evidence here this morning that one is trying; Melbourne to Darwin—one would assume they would have access agreements with government in relation to an easement. Whether it is independent of an existing easement or inside an existing state rail easement, one would assume that they would pay a fee. You are saying that you get yours for free.

Mr Cameron—As I said, I take this on notice. I am not certain, but I would agree that there would be some problems in getting those easements, I would imagine.

Mr McDOUGALL—Let us take a scenario. Let us say that you do not pay. Let us say that a new operator comes in and does pay. Should there not be a bit of equality around the place?

Mr Cameron—I guess that is the decision of the incumbent Crown at the time. It

depends on whether you want that development for the community or not.

Mr McDOUGALL—One assumes they are both there for economic purposes. It just strikes me that what you are telling us is that the sugar industry has put a lot of capital into and developed a great system of cartage, but it uses public land. For some reason—maybe it is that it has been doing so for so long—it gets it for nix; it gets it for free. The community does not get any benefit out of that. If another operator comes in today, they will most likely have to pay. That is what you are saying.

Mr Cameron—I would say that the community does get a benefit, in fact, because the rail system is keeping, as I noted before, 28,000 trucks a day off the roads.

CHAIR—I was just going to say, if you go to one of these provincial towns and ask them if they would like another 28,000 trucks with red soil going through their main streets—

Mr McDOUGALL—I would appreciate if you could find out what the cost is. I think that is important to this inquiry in relation to private investment in railway infrastructure. You commented that 50 per cent of your finished product moves to, I assume, terminals and ports via the Queensland railway system.

Mr Cameron—That is correct.

Mr McDOUGALL—You use the normal freight rate system? Are the sugar cars owned by QR and you just simply pay a freight rate?

Mr Cameron—That is virtually what happens, yes. There is a negotiation, I believe, every year with Queensland Rail about freight rates. There are from time to time discussions—they do not happen very often—about the development of newer and bigger wagons to carry more sugar quickly. As I understand it, the wagons indeed belong to QR and QR gives, as I understand it, a normal freight rate, which the mills pay.

Mr McDOUGALL—Under this new access arrangement that has been put in place in the railway system, is your industry considering investing and becoming a freighter itself because of your high tonnages and going to QR and saying, ‘We want to go into your infrastructure. We want to have an access arrangement with you. We believe that we can get better economies of scale out of us operating our own trains from mill to port’?

Mr Cameron—I think that would be a question that a milling company would have to answer.

CHAIR—Individual companies.

Mr Cameron—Individual companies. The milling council itself could not answer

on their behalf.

Mr McDOUGALL—So each of the arrangements with QR are done by each individual mill?

Mr Cameron—By each individual milling company.

Mr McDOUGALL—Does everybody pay the same freight rate?

Mr Cameron—I am uncertain about that.

Mr McDOUGALL—Could you find out?

Mr Cameron—Certainly, we can ask but it is usually commercial-in-confidence.

Mr McDOUGALL—Don't you think that there should be some transparency to ensure that we have some honesty in pricing? It might be that someone is paying a little bit more to cross-subsidise somebody else.

Mr Cameron—I just think that they are purely commercial arrangements. That is what they are envisaged as—commercial arrangements. It depends on lengths of contract—a whole range of activities—and the service that is provided; it is not just rates.

CHAIR—I think what Mr McDougall is saying is that we would be interested to know, if you raise it with the Sugar Milling Council, whether or not your members are happy with the transparency.

Mr McDOUGALL—Something that is striking my mind is that this thing has been in operation for so long, you get free access, free access to land, presumably, and you are going to clarify that.

Mr Cameron—I will certainly clarify that.

Mr McDOUGALL—‘We have been doing a deal with QR for so many years, I wonder whether we have checked it.’ I think that it is very important to this inquiry when we are talking about the future development of railways, the future investment policies and the future access regimes in relation to the competition policy, that we understand fully what actually goes on today and why. I think that it is very important and I think that my other colleagues would appreciate it if we could get a bit more information.

Mr Cameron—Thank you. I appreciate that, Mr McDougall. We will certainly make reference to the milling companies involved.

CHAIR—Thank you, Mr Cameron. That has been very interesting. I appreciate the

fact that the industry has responded. There was some doubt at the beginning whether the industry would respond. I think it is a part of the rail system that is not well understood. Just from the questions here today, it is not just the two-foot gauge going to and from the mills but also the cartage of sugar to terminals which is an important aspect of the work of the committee. We must try to flesh out all of these issues. So I trust that you will convey to the director, Mr Desmarchelier, our appreciation of the appearance of your committee and the time that you took to do that. I saw you taking a note of those matters. We will provide you with a draft copy of *Hansard* for your perusal.

[11.49 a.m.]

PEARCE, Mr Norman, Governing Director, Thew and McCann Pty Ltd, 43 Enterprise Street, Cleveland, Brisbane, Queensland

WILLIAMSON, Mr Charles Ernest, Chief Executive, Thew and McCann Pty Ltd, 43 Enterprise Street, Cleveland, Brisbane, Queensland

CHAIR—I welcome the representatives of Thew and McCann to the table. Before proceeding, I have to caution all witnesses that these proceedings carry the same force as those of the parliament and that they should be treated with the same respect accorded to the House. Any false or misleading statements are treated as a contempt of the parliament.

Mr Pearce—I understand.

CHAIR—You have given us a written submission. Are there any additions or deletions from that or will you cover that in your opening remarks?

Mr Williamson—We will cover it.

CHAIR—Could you give us a three-minute overview on the points that you wish to highlight and then we will take up the rest with questions.

Mr Williamson—Our company is a respected supplier of electric power products for rail and tramway operators. Our core expertise is derived from the electricity supply industry, in which we have a strong background in electrical safety. To attest to this, our governing director is Chairman of the Queensland Electrical Education Council and the Electrical Development Association of Queensland, both organisations being active in the promotion of electrical safety. As a supplier, we have been interested observers of the process of reform in the electricity industry as well as being commercially affected by the changes being implemented therein.

We present our submissions to this inquiry into rail on the basis of this experience. Some of the changes in the electricity supply industry have been very beneficial, indeed, they have been long overdue. However, there have been very great detriments in terms of increased overseas ownership, loss of in-house technical capability and social impact, due in part to the speed of change through slash-and-burn restructuring as well as the nature of the change itself. We would not like to see a reckless pursuit of commercialisation visited upon the rail industry.

Our submission notes the key role of governments through direct investment in and regulation of infrastructure industries. However, governments are increasingly aware that failure to achieve world's best practice by their enterprises results in cost inputs to industry which affect Australia's international competitiveness. To achieve efficiencies,

governments have variously implemented industry restructuring, corporatisation, deregulation and privatisation, depending in part on political and economic circumstances.

However, we do not believe that our governments have seriously taken up the challenge of requiring publicly owned corporations to achieve world's best practice. Rather than strive for high performance, some states have sacrificed the long-term benefits of public ownership in asset fire sales to overseas owners, who have a sufficiently long-term view to recognise the value of our public entities. Just this week, yet another spectacular political backflip has been performed in the proposed sale of electricity infrastructure, resulting in a further sell off of the family farm for short-term gain. In terms of promoting infrastructure development, our view is that the federal government has failed in its responsibility to the Australian people in the pay TV fiasco. We feel that government needs to clearly identify its role in providing and promoting infrastructure without adherence to economic dogma or a short-term focus on a favourable budget for the next election. Perhaps a bipartisan approach would lead to the necessary long-term focus in our federal and state legislatures.

Our company makes no apology for the fact that we support public and Australian ownership of strategic assets, of which rail is seen as a major element. However, the introduction of private operators with experience in different environments around the world would provide the opportunity to review traditional standards in the rail industry. Concurrently, there may be the opportunity to re-evaluate the effectiveness of current practices in Australian rail operations.

Change should not prejudice traditional values and norms of rail operation and practice, particularly in the field of safety. We perceive rail standards and authorities to be conservative but, with higher stakes in terms of the consequence of a major accident, we feel that this is not necessarily a disadvantage. We further consider that a strong in-house technical capability is a major advantage of an integrated rail organisation.

Therefore, our submission urges the committee to consider the options for the future of rail, not in terms of a doctrinaire approach to reform but rather for government to create the regulatory and commercial framework wherein rail can perform efficiently and cost effectively to achieve world's best practice with appropriate private sector involvement. Regulatory restrictions which prevent rail from competing on a level playing field should be eliminated. Likewise, national standardisation should be promoted to increase economic efficiency.

Our key concern is that, in an increasingly deregulated environment, rail finds a place in the economy of this country that is profitable for the stakeholders, adds value on behalf of the people of our society, and recognises its importance to the strategic defence of the country.

CHAIR—Thank you. You imply in your submission that privatisation may have

negative consequences. Does this always occur? Would you like to apply that principle to, say, Queensland Rail as an example?

Mr Williamson—We have to say at the outset that we are not experts in the rail industry. We provide very specialised products.

CHAIR—That is a pretty sweeping principle.

Mr Williamson—That is true.

CHAIR—We are talking rail. The inquiry is about rail.

Mr Williamson—Yes.

CHAIR—I am asking you, are there any linkages? Is it privatisation that you are against? Are you against corporatisation as such?

Mr Williamson—We feel that the approach taken by government has to be one that delivers the best outcome for the Australian people and the nation—whether this is complete privatisation; it may be industry specific. There was a bit of hoo-ha at the time—but, whether you could class Qantas as an airline in the airline industry being of strategic value to Australia, I think, in hindsight, probably was not an argument for having it nationalised for so long. In terms of rail, where it affects a lot of local rural communities, I think that there is probably a different set of values that have to be considered. So I do not think that there is a case to say that privatisation is necessarily all bad or all good. I think that it is the way in which privatisation is achieved, whether that be by just selling off to a big overseas corporation or whether it should be achieved, as in the case of the Telstra float, by involving ordinary Australians in an opportunity to buy part of the national farm.

CHAIR—I do not think that there is any prospect that the Queensland government plan to sell QR. They have certainly corporatised it. They have certainly demanded that there be profit centres within their operations and that any payments into the system have to be by way of CSOs, but you do not have any objection to that style of operation?

Mr Williamson—I do not think so, so long as everything is open and transparent and it is identified where the benefits are going to go to and that all the costs are truly met by the people who incur them.

CHAIR—In one part of your submission, I thought that you were arguing two cases. They seemed to be in conflict. In one part, you say that the emphasis on safety and reliability in the rail industry breeds a distinct conservatism, making it difficult to introduce new technical innovation unless supported by a solid field of experience in other rail environments. Then you go on further and say that there is not sufficient innovation.

To me, you are arguing against your own argument. I just could not quite see where you were coming from there. Could you just delineate those two points again?

Mr Williamson—I think that the rail industry is extremely conservative. The nature of the business is that it is always conservative because of the horrendous consequences of an accident. I think that they are very slow to adopt a new technological device. They are very conservative. They want to see test reports and they want to see a track record. As a matter of fact, I am on my way to Queensland Rail this afternoon to talk about—

CHAIR—Is that conservatism or just prudence?

Mr Williamson—There is a feeling you develop after you deal with organisations. There are some organisations where they make decisions straightaway and say, ‘Yes, we can see the benefit in that and we will try it.’ With others, it takes time to introduce something that, to us, might seem self-evident. For example, we have quoted the case of our dealings with one of our overseas principals which has said, ‘It took us 20 years to get this particular development into German Telecom.’ There is innate conservatism in some industries and that is not atypical.

CHAIR—Are you the major provider of safety and maintenance for the electrical system in Queensland?

Mr Williamson—In our particular very specialised product range, which is electrical safety, we believe that we are.

CHAIR—Does that get down to part of the electrical infrastructure itself or is it only in the safety equipment?

Mr Williamson—It is really only in the equipment itself.

CHAIR—The external safety equipment?

Mr Williamson—Yes, to ensure that the traction wiring is dead before people work on it.

CHAIR—Why are you in favour of the vertically integrated structure? Is it because of this philosophical idea?

Mr Williamson—I come from the electricity supply industry which was quite vertically integrated. There are a lot of advantages in the people who make the design decisions having ready access to the experience of the people who are actually operating in the field. One of the concerns that we have about the way that a lot of industries are going in this country is that they are starting to develop a schism between that. You will

say, 'Okay, we need some design resources so we will just go out and hire them from a consultant.' That is done without finding out where the consultant got the expertise from. As we say in the submission, there is a lot of expertise among the consultants right now because utilities have been downsizing. That expertise is fine and it is very competent, but we are concerned about where we will be in 10 years time because the trimmed-down utilities are not hiring young fellows to come along behind. The people with the expertise gained that expertise on the ground doing system operations and things like that, but people are not out there doing that now.

One of the other consequences, of course, is that, as you trim an organisation down, the few young people you have left tend to be given more and more responsibility. Twenty years ago when I was a young engineer, you had a very limited scope and you always had somebody mentoring you with a hand on your shoulder, saying, 'Hey, you are getting out of your depth here.' The danger we have now with drastic downsizing is that we do not have that any more. Young people are in a position where they have to make decisions about such and such without any concept of the enormity of the decisions that they are making.

CHAIR—Coming back to railways, Mr O'Rourke has made the observation that large capital investment in QR's workshops at Ipswich, Rockhampton and Townsville has actually brought about the reverse of that. For example, all the cabinet making, fitting and turning associated with the new Orient Express carriages are being done in their own workshops with the consequent flow-on of apprenticeships and so on. Is it just a matter of downsizing or is it more a matter of going out and making yourself competitive in the market with new technologies? You spoke against restructuring in your submission a couple of times. When you talk about restructuring, are you just talking about the restructuring of companies from time to time or, in this instance with QR, are you talking about a fear of vertical integration going to horizontal separation?

Mr Williamson—Once again I have to stress that we are from the electricity industry and we have limited knowledge of the details of what goes on in rail. Our concern really is the speed at which this tends to happen. It tends to be driven by political and economic forces and we tend to say, 'Okay, we need the organisation to go from this big to this big. We are not particularly concerned how it happens, just make it happen.' In the process a lot of the systems and the skills get churned through the mincer.

Mr WAKELIN—Have you noticed that happen in QR? Is that your concern?

Mr Williamson—I could not answer with any authority, because we are not as close to Queensland Rail as we are to the electricity industry.

Mr WAKELIN—The point of the question is that, as the Chairman was saying and as you mentioned, you are drawing on your experience of the political and the economic. I am just trying to understand what the examples are.

Mr Williamson—As I say, our examples tend to come from the electricity supply industry. I could not answer with any authority on what is happening in Queensland Rail.

Mr WILLIS—Gentlemen, your submission rightly, I think, points to some of the downsides that can occur from structural change and governments seeking to improve efficiency in what were, at least originally, government enterprises. I think we all accept that this can be done in an insensitive, inefficient or socially damaging way. Perhaps to some degree some of those consequences are almost inevitable in any sort of major change and in seeking efficiencies. One has to balance up the pluses of the efficiency against those downsides.

From my experience in dealing with various government enterprises, it seems to me that your assumption that you can achieve world's best practice merely by telling government businesses to do so without providing the spur of competition is not really a valid position. I have had various experiences with government business enterprises, having been Minister for Transport and Communications for a period. I must say that my overwhelming view is that no matter how well motivated the boards of those enterprises might be and no matter how well motivated the government might be towards wanting to improve the operations of a government-owned business enterprise in a monopoly situation, it very rarely achieves a satisfactory outcome. The real way to get efficiency improvements that previously seemed impossible is by opening the system to competition. That is why the previous government, of which I was a member, adopted the competition policy, and for a large part that remains the policy of the present government. There has been more or less a unanimity of view in the parliament that we do need a competition policy to get government business enterprises to operate much more efficiently and produce, therefore, better priced services for Australian industry and the Australian people.

Excuse me for the preamble, but you seem to be making an assumption, which I think is invalid, that you can do this without competition. I put to you that, in my experience, the contrary is true and you do need that competition. That is why it is there in the telecommunications industry, the postal industry and other industries and it is why I believe that it is appropriately included in the rail industry. If we are going to get a much more improved railway system, we cannot just rely on telling the railways to get to world's best practice. They need the spur which comes from the loss of their business from competition in order to achieve maximum efficiencies. Would you like to comment on that?

Mr Williamson—Yes, I would. I take your point. I think there is a role for competition policy for sure. However, we felt that governments had not adequately explored the idea of achieving world's best practice. Our proposal would be to say, 'Okay, what is world's best practice? How is it identified and how is it benchmarked?', and then give it to the board and say, 'Do it.' We do not want to be involved in how it happens.

There is a problem with benchmarking. I think the New South Wales utilities had a

performance agreement with the minister. This is going back a long time, but I can recall seeing some benchmarks that were set by a government through the minister. I can recall looking at those benchmarks and realising that they were considerably below the level of achievement that was actually being achieved in other electricity supply authorities at that time in Australia, not just internationally. So the benchmark that was being set by government really was like a cosy relationship: 'We want you to get a bit better so get to there and we will be happy.' As we say in our submission, probably a key part of it is for government to have the determination to stay right out of it. That means that when things get tough industrially, the problem belongs to you as far as the board is concerned. These are all very difficult things to achieve, but we take the point that maybe you can only go so far and competition is the way to go.

We feel that a lot of things have been sacrificed just on the altar of competition. We have very strong views that pay television, with great respect, was a complete disaster. It was always going to be a disaster and it still is. I do not know how anybody could possibly say that you can justify putting two sets of infrastructure in a country as big as this. What was the problem with the infrastructure monopoly?

CHAIR—I know the point that you are trying to illustrate, but we are straying from the focus of rail.

Mr WILLIS—This raises an interesting point that is related to rail, which is about access policy. If we had had as much development experience as we now have in developing competition policy in an access-type regime, the system of providing and enabling Optus or other operators to utilise Telecom's wires would have been the sensible way to go. When the decisions were made to allow duplicate development, there was no competition policy and there was no access regime. We did not have experience of that in any industry. It has been only in the last few years that we have done that. Obviously looking back I would agree that it would have been much better to have an access-type regime, but we did not have it. In the railway industry, where it is starting to open up, we do have the opportunity to provide competition to the existing operators through an access regime. You seem to be arguing for vertically integrated structures which, in my view, are less conducive to access and competition than structures which disaggregate and provide for the impartial infrastructure owner who does not have a vested interest in keeping various new operators out, as happens in the integrated structure.

Mr Williamson—In our submission we recognise the disadvantages of the large organisations, but we do point out that vertical integration has some distinct advantages. I suppose government has to weigh that up. In terms of access, to stray onto that model a little further, the reforms in the electricity industry are all about access. We are not expert in this area, but there does not seem to be a great deal of difference between electricity wires and telecommunication cables. The reforms in the electricity industry were always predicated around access arrangements. I did not think pay TV was that far out of step with it.

Mr WILLIS—It has been more recent. The decisions on pay TV were taken some years earlier; they had special legislation to enable that competition to develop in the electricity industry. I do not want to pursue the argument.

Mr Williamson—It is a side issue.

Mr WILLIS—I just make those points to you.

Mr McDOUGALL—It has been an interesting discussion. You are in the business of supplying goods, though, to the railway industry.

Mr Williamson—Yes.

Mr McDOUGALL—Without having an electrical background, but having some background in manufacturing, I am looking at the range of products that you sell. My interpretation would be that your interest in this inquiry is either philosophical, and we have heard all about that, or is it about how bringing competition into the railway industry will affect your business and your industry? That is the way I would like to look at it for a moment. Would I be correct in saying that some of your products have a shelf life?

Mr Williamson—No, they do not.

Mr McDOUGALL—My understanding of wiring is that you put a product in and, under the safety standards, at a certain stage you have to change it irrespective of whether it is faulty?

Mr Williamson—Yes.

Mr McDOUGALL—Therefore, your products have a component in them that requires those products to be turned over on a fairly regular basis? I am not saying a quick basis, but a regular basis.

Mr MAREK—Preventive maintenance.

Mr McDOUGALL—It is preventive maintenance.

Mr Williamson—Yes.

Mr McDOUGALL—That would be true?

Mr Williamson—Yes.

Mr Pearce—Before you go any further, Mr McDougall, are you talking about parts of the product that have been sold or the whole of the product?

Mr McDOUGALL—I am talking about the component parts that you sell to the industry. When you are involved in manufacturing and in running a machinery operation, which the railway industry is—for example, whether it be in running the rolling stock, maintenance depots and all those things—they have a safety standard and, through that maintenance process, have a turnover. Throughout my 20-odd years in the manufacturing industry and my involvement with government departments and selling to them, which went on for a long time, historically, business was pretty good. You stuck a maintenance product on a shelf in the store and half of them were never, ever used, because they had too much stock. However, they still had to roll them over. So the order would come in and half the stock would go out the door because it never got used; it was time for it to be rolled over.

When you bring competition and privatisation into government operations, you make them leaner and meaner and you make them operate like the private sector and make them return on the money invested to their shareholders. In the case of government enterprises, that is the government and therefore the public. I put it to you that this change in the working structure may have hurt your industry and other industries which used to live on, what I would say, the fat of the land. And now they have to be a lot meaner. They are not any less safe, but they no longer carry the stock. They do not have to carry the stock any more if they are going to operate on an efficient return on funds. What is affecting you more, the changes to government enterprises and the way they operate through competition policy and opening up access to private enterprise, which is hurting your business more, or is your problem really about ideology?

Mr Williamson—For a start it is not rail; it is mainly electricity, and it tends to be the process of change. When you are dealing with purchasing officers, if they think they are going to get sacked next week, they put their hands in their pockets and do not buy as much as they used to. We believe that there is an underlying need within infrastructure. Maybe the stock that is on the shelf will not be carried as much as it was in the past, but we believe that the underlying requirement to fix overhead line clamps and things like that will be there. We see more of the utilities interested in saying, ‘Can you carry the stocks for us?’, and entering into long-term relationships.

Mr McDOUGALL—That is what private enterprise does.

Mr McARTHUR—That is what motor car manufacturers do.

Mr McDOUGALL—Absolutely. It is happening all over the world.

CHAIR—We cannot let this lapse into a philosophical argument.

Mr McDOUGALL—I am not. I am trying to find the difference between philosophical argument and economic argument. Who carries the responsibility of the economic argument? Is it the taxpayer? I think that taxpayers are looking for efficiency,

and that is what competition policy and access are about. It is about getting efficiency and value for the dollar. That is what it is about.

CHAIR—On that very spirited note, I assure our witnesses that no offence is meant. We are a very diverse group and we hold some very strong views. We certainly will take your very measured submission into our deliberations. It is quite unlike any other we have had. You should not be surprised that it provoked some spirited debate. Do not take offence to that. We note your concerns. They are genuine. I am sure they have been made honestly. We will take them into our deliberations. On that note, I thank you for your attendance. If we require any more information, I trust you will be prepared to provide it to us in writing. Also, we will be sending you a copy of the *Hansard* proof for your perusal. Once again, thank you.

Proceedings suspended from 12.20 p.m. to 1.30 p.m.

[1.30 p.m.]

RUYGROK, Mr Michael John, Engineering Director, Foxboro Australia Pty Ltd, 42 McKechnie Drive, Eight Mile Plains, Queensland

CHAIR—I welcome the representative from Foxboro—L&N Pty Ltd. I have to caution all witnesses that these proceedings hold the same sway as those of the parliament. They warrant the same respect as proceedings of the House of Representatives. The giving of any false or misleading evidence is considered a contempt of the parliament. I offer that general caution to all witnesses. Is there anything you wanted to add to your submission, or will you cover that in your opening statement?

Mr Ruygrok—I will cover that in my opening statement. Could I correct the company name?

CHAIR—Yes.

Mr Ruygrok—The company name has changed from Foxboro—L&N Pty Ltd to Foxboro Australia Pty Ltd.

CHAIR—Mr Ruygrok, would you like to give us a three-minute opening statement or overview of your submission, please?

Mr Ruygrok—I thank the committee for allowing me the time to speak to it this afternoon. As I alluded to in my submission, the particular criteria for the submission do not necessarily influence Foxboro Australia's business in Australia at this time. However, we felt that it was appropriate, given that we were an international supplier and have interests in competing in Australia down the track, for us to offer some comment today.

May I firstly introduce Foxboro Australia to the committee. As noted in my submission, Foxboro Australia is an international SCADA and control organisation. It has provided control systems to utilities in Australia and internationally for a number of years. Foxboro Australia has recently been involved in rail projects in Hong Kong. In 1992 it entered the market. To date it has two major contracts in Hong Kong to the value of \$100 million. Both of those contracts are with two major organisations in Hong Kong, the Kowloon/Canton Railway Corporation and the Mass Transit Railway Corporation. In December 1997, Foxboro Australia was awarded an Australian export award for the work that it is doing in Hong Kong. That award was provided to us by the Australian Railway Industry Corporation.

Today what I would like to try to understand is what the government can change, and how those changes may influence the way Foxboro does business in Australia in the future. It would appear that, with the implementation of the national competition policy,

privatisation and corporatisation will move forward in the future. We see in the energy industry that these actions are already taking place. We believe this is to the benefit of Australia. The reform of the transportation sector has been needed for quite a while. From somebody who has not been working in the industry, it is obvious that it has been a closed shop for quite a while. The practice of the industry and the suppliers has been fairly old fashioned to say the least. We believe that in time, with privatisation and corporatisation, those efficiencies will be improved. Foxboro Australia can compete internationally on an international playing field. It has proven that it has the capability to win large, major infrastructure projects.

Fundamentally, the question is: in Australia, can the rail industry be viable? We see internationally, in Hong Kong, that there certainly is an opportunity for those corporations to be viable; but, in reality, the majority of the profits that the Kowloon/Canton Corporation makes in Hong Kong are out of real estate and through opportunistic development of real estate on their real infrastructure holdings. In Australia, in relation to the freight business, I believe that there is no doubt an opportunity to improve efficiency, to compete and to make that commercially viable. In the passenger business, I think we need to reflect on whether or not we need to provide those particular services as a community obligation or whether we do, in fact, want to make them commercially viable.

Given that overview, I would like to look at some of the changes that privatisation and corporatisation may have on us and may have on the government organisations and railway corporation. The ramifications of the rail corporations divesting engineering capability, which is now occurring due to corporation and privatisation, are significant. The committee needs to be aware of the significance that that may have on the industry in the future and the significance that that may have on the engineering capability in Australia to support the rail infrastructure and to support our international capability to provide systems overseas. Foxboro Australia would certainly like to deal with the likes of the RSA and QR Consulting. We are a little concerned that the playing field may not necessarily be level at all times. We agree that they have a significant amount of skill that they bring from the industry into the private sector. We agree that in time we would like to partner with those organisations to develop the infrastructure in Australia and develop the infrastructure overseas.

The bottom line is: are we competing on a level playing field? From some of the indications to date in New South Wales, this is not necessarily the case. The commercial obligations of those particular organisations, the RSA in particular, do not appear to be on a level playing field with the private sector. Recently, there were many contracts that were to be let. There was a significant amount of effort made by large organisations like ourselves in the E and M and in the civil engineering areas to provide services to the new rail corporation of New South Wales. Our understanding is that those contracts have now been put into a state of limbo on the basis of issues associated with where those contracts are being let and how they are being let. This is not necessarily a concern to us that the

contracts have gone into limbo; it is more a concern that companies like ourselves are investing a lot of money into bidding for projects, attempting to win those projects, and diverting resources to those bids rather than diverting them to something that is winnable and thus reducing our capability to be profitable.

CHAIR—Can you just explain what sorts of systems you provide to the railways?

Mr Ruygrok—Foxboro Australia provides centralised control and monitoring equipment. This equipment is primarily installed in control centres. It gathers data from a wide area network. Those services can be related to—

CHAIR—Train positioning?

Mr Ruygrok—Absolutely. Train positioning is one of the subsets of information that is—

CHAIR—Making sure that they do not cross lines?

Mr Ruygrok—Absolutely. We do not provide track-side equipment. We gather the data via a communication medium and display it to the operators and provide for the checks and balances in the train control area in particular.

CHAIR—You do not have remote—

Mr Ruygrok—We do provide remote data interfaces, but we do not provide track-side equipment for the interfaces to the physical track infrastructure. We are not a mechanical engineering organisation. We do not provide interlocking or signalling equipment track side. We would interface to that particular equipment and gather that data.

CHAIR—The fact that you do not provide both services, could that be part of the reason you might have difficulty getting contracts in Queensland and New South Wales?

Mr Ruygrok—We do not have difficulty. We have not competed in the market to date. The issue of whether or not we would compete in the future is an obvious consideration. Our input typically would be associated with gathering data for power control, and also gathering data for the miscellaneous services on the railway and providing that to the control centre. Typically, it is the infrastructure issues on a railway, the telephones, the electrical supply systems, the train control interfaces, the video control interfaces, and the collection of and provision of that data to the central control point. To answer your question whether we have a fully integrated solution, whether that would impact on us in the future, we are looking to develop relationships with other control companies to provide a total solution to any particular organisation.

CHAIR—You say that you have had trouble with RSA and QR in general terms.

Mr Ruygrok—No, I beg to differ. We certainly have not had any difficulties with QR Consulting. We are concerned about the whole issue associated with QR Consulting.

CHAIR—You said that the playing field was not level. I took that to mean you were having trouble.

Mr Ruygrok—No, we considered that there is a potential that the playing field may not be level.

CHAIR—In what spheres do you think it is not level?

Mr Ruygrok—Obviously there are issues with those organisations divesting their engineering capability, that—

CHAIR—Do you think that QR and RSA would like to retain some of those things in-house?

Mr Ruygrok—I would not necessarily say that. I believe that there is a culture there that is obviously being broken and, over time, it will split.

Mr HARDGRAVE—Is it more likely that they would favour those who were in-house over your company?

Mr Ruygrok—Absolutely. The consideration is that the relationships are obviously being built with those who have been in the camp previously. The issues are relationships and the capability to work those contracts and—more importantly, in our view—the costing structures that those organisations compete with: whether they are real costing structures, whether they have to produce a profit like we do to ensure that we can support our staff and pay their wages. The reality is that if QR Consulting and the RSA do not make a profit, what are the ramifications? They are a government corporation. They continue to stay in business. They continue to provide work for their staff. All we are saying is that, at the end of day, we would like to be sure that they are competing on a similar playing field to the one that we are competing on, where their costing structures are real costing structures and the prices that they are putting on the table are real pricing structures and are actually achievable.

Mr McDOUGALL—You said ‘QR Consulting’.

Mr Ruygrok—Yes.

Mr McDOUGALL—Who are they?

Mr Ruygrok—QR Consulting Services are currently an offspring within the Queensland Rail organisation. They are run by Queensland Rail. They are a group of

engineers who provide consulting services to many people in the industry.

Mr HARDGRAVE—The background notes state that they have been involved in a number of rail projects in Indonesia, India, the Philippines, Iran and the United Kingdom.

Mr Ruygrok—That is correct.

Mr McDOUGALL—Effectively, they are a GBE inside QR?

Mr Ruygrok—Correct. With the rationalisation of the industry, obviously there is potential for those groups to be split off and to compete with organisations like ourselves. We do not think that is a problem. We would love to partner with them. As I said earlier, the capability within QR Consulting is excellent. They have an understanding of the industry. They know it very well. We do not want to be in a position in which we are competing on a non-level playing field.

Mr McDOUGALL—They go into the tender process with you?

Mr Ruygrok—Not to date they have not.

Mr McDOUGALL—So they get private consulting without having to go into the tender process?

Mr Ruygrok—In some instances they have done that. In other instances, they would—obviously, in the future—want to compete on a whole tender approach, not just a subportion of that particular option.

Mr McDOUGALL—Do you have any evidence from your work with either QR or New South Wales railways that their tender process has any clauses in it which give local tenderers, whether they be state or Australian tenderers, preference on a percentage-weighted basis over others?

Mr Ruygrok—Obviously not—obviously as a supplier, we would not have the capability to get that information.

Mr McDOUGALL—Do you suspect that that happens?

Mr Ruygrok—No, I do not.

Mr HARDGRAVE—Comparing the Australian situation to your experience in other countries—just to follow on this line of questioning for a moment—I imagine that in Hong Kong they must have had some sort of government organisation potentially able to do what it is that you have done there, \$100 million worth and most recently \$50 million in control systems. Did you find something different as far as Hong Kong's approach to

the letting of contracts?

Mr Ruygrok—These groups do not carry a lot of engineering capability. They execute contracts on the basis that third party consultancies provide the engineering services to that particular organisation and third party organisations then provide the control system solutions.

Mr HARDGRAVE—They run the railroads and you provide the expertise for their demands?

Mr Ruygrok—Fundamentally, those organisations are primarily railway operators and focus on being railway operators, not engineering teams.

Mr HARDGRAVE—In another way, how does Australia compare with other jurisdictions like, say, Hong Kong? Obviously, we have a greater distance to travel than they have but arguably they have more people in tighter circumstances. We have problems in this country where, for instance, there are something like 23 signalling systems. Is that a fixable, doable thing? What is the process in having maybe not a central but a series of central controls around Australia?

Mr Ruygrok—That is a very good question, Mr Hardgrave. That is certainly doable. The problem with the railway corporations to date has been that they are state owned and state controlled. With the rationalisation of the electrical and gas industries and the national grids that are being set up for those particular industries, if you followed that model and adopted it to the rail industry, the technology out there would allow you to do that. The capability to interconnect control systems and the capability to interconnect signalling systems is undoubtedly there. There needs to be the will to interconnect, to improve the efficiency of the global Australian railway network, not just the isolated railway network.

Mr HARDGRAVE—There seem to be questions about slot management where you are actually fitting a train into a length of track with safety distances between the next train or the train preceding it. Sydney is a bottleneck. Does the technology exist to not only control the train tracks but also, for that matter, perhaps interlink it with demands from other modes of transport? Is that possible?

Mr Ruygrok—Absolutely. In Hong Kong we have provided a system which has a radio interface that connects to the public transport system so that the buses and the trams are integrated into the total transport solution. With reflection on the issue of Sydney and its current problems, I am sure that you are all aware of the problems that the RAC has been having with that particular control centre.

CHAIR—No.

Mr Ruygrok—Let me allude to some of those. That is an issue that, I believe, comes out of some of the tendering processes that we have in Australia and the selection of suppliers and the selection of the solution for those particular railway corporations. In New South Wales we have a situation where the New South Wales rail authority has spent more than \$50 million, from what I understand, on a control centre and technology that has now been mothballed. The suppliers of that particular control system have failed to meet the expectations of the corporation and, because of the lack of a partnering arrangement in place, the problem has not been solved and the solution has not been found. I am of the view that rail operators and suppliers need to partner to ensure that the technical solution they are providing with the latest technology—

CHAIR—That was within New South Wales, that particular control room?

Mr Ruygrok—Correct, in Sydney.

Mr McDOUGALL—Is that their main control room?

Mr Ruygrok—That was the upgrade for the city control lines for the whole of Sydney.

CHAIR—Is there a danger factor in that or have they just gone back to an old system?

Mr Ruygrok—No. They are still using their old system. The problem occurred in that they were spending a lot of money on technology, did not really have a good solution in mind and failed to be able to provide a solution to the authority.

Mr HARDGRAVE—There is a lot of evidence presented to us that there is a great need to upgrade the gradients—the curves and all of these physical track things. I do not expect you to be the expert on that particular aspect of the discussion, but is there also then an even more critical need to try to get these systems more in line with each other and complementary? In other words, maybe some of the physical things like the two rails might be adequate if there was a universal management system for the system?

Mr Ruygrok—Correct.

Mr HARDGRAVE—So in other words there might well be enough track but there is not necessarily the proper management of the track.

Mr Ruygrok—Certainly. If the technology was applied in a more holistic solution globally to the Australian network, I believe that probably our infrastructure is capable of carrying the current load.

Mr LINDSAY—In relation to the standardisation of control equipment, on the one

hand you have said today that you would see that as a good outcome but you identified that, because each individual rail authority was there, it would be difficult to achieve. Could another possible outcome be, if there was standardisation of control equipment, that competitiveness would go out of the supply industry?

Mr Ruygrok—That is possible, but I think that at the end of the day the rail operators have to be looking for a solution that, to them, will provide them with a more efficient system.

Mr LINDSAY—Does it matter that there are 23 different signalling systems, safety systems or whatever as long as whoever drives on the rails understands them?

Mr Ruygrok—It certainly does not affect the safety. The issue would be the cost to maintain and to continue to maintain those systems and the impact that that has on those particular businesses.

Mr LINDSAY—But if each rail authority is operating independently, you are never going to get them together to get cost efficiencies in maintenance; is that right?

Mr Ruygrok—I imagine that some rail authorities have more than one system and I imagine what they are attempting to do is to provide a uniform approach over time. I agree that there is always the potential of one supplier being locked into an operator and the risk of that goes with that particular solution.

Mr LINDSAY—Just looking at it in the totality of the Australian rail system, why did your company establish in Brisbane?

Mr Ruygrok—As I said in my presentation, Foxboro Australia has traditionally been a control company. Their head office has always been in Sydney. In 1983, we moved an office here to Brisbane and developed a technology centre for the development of a particular product that we produce. That centre has grown from 10 people to now nearly 100, and we continue to grow. As I said, in 1992 we began to work in the rail industry and found that our product, which was focused on the gas and electrical utility markets, was suited to the rail market and has been able to provide control system solutions.

CHAIR—Whom do you provide to outside the rail? That is a lot of staff, 100 people. What other areas of technology do you sell to?

Mr Ruygrok—We are providing control systems to some of the major gas utilities in Australia and the power authorities in Australia. We are providing control systems to three or four generators in Australia.

CHAIR—What were you doing in China in that field?

Mr Ruygrok—In China, we have a control system in a power station. We are currently looking at selling rail infrastructure in China. We have a marketing team in China and we have two opportunities at the moment that I am currently looking at on my desk for bids that are going on the table there in the next month or two.

Mr LINDSAY—And you actually manufacture here in Brisbane?

Mr Ruygrok—Absolutely. We have our Australian R&D centre in Brisbane. This particular centre at Eight Mile Plains will be the global centre for transportation worldwide for Foxboro Australia. We develop our own software, our own hardware and our own firmware and turnkey those projects from that office.

Mr LINDSAY—Are you taking advantage of the government's R&D incentives?

Mr Ruygrok—As the engineering manager, I am not sure where we are going commercially in that area but I presume that, to date, we have taken advantage of whatever is available.

Mr LINDSAY—In relation to when you tender to utilities such as railways, are you happy with the tendering process in all respects? In relation to the RSA, are you saying that that is not open and transparent?

Mr Ruygrok—Our view is that from recent experience of a particular tender that was let we can only surmise, with not having the capability to have a visibility of some of their costing structures, that there appears to be a non-level playing field.

CHAIR—We would like to put a question to you that we have asked all the people who deal with the rail systems. Given that they are moving towards greater segmentation, privatisation and corporatisation, which model do you prefer—the vertically integrated system like Queensland or the disaggregated system like New South Wales? In answering that, you might like to say if there is sufficient probity in the Queensland system to ensure that someone who wants to either get access to track—or, in your case, tender for contracts—is in the loop?

Mr Ruygrok—I cannot really comment on the probity issue, obviously, because I do not have enough insight into what is going on there.

CHAIR—In an aggregated system, you implied in your opening comment that the access of outsiders to rail authorities is not all that flash.

Mr Ruygrok—No. I certainly would not want to put that on the record.

CHAIR—That was the distinct impression that you gave me. I do not know whether my colleagues gained a different view.

Mr Ruygrok—No, I think that there is the capability to get access to them. We are concerned about dealing with the spin-off businesses that may result out of privatisation.

CHAIR—I did not mean access in the sense of going to see them, I meant access on rail for another company. Do you know what I am talking about when I mention ‘access’?

Mr Ruygrok—No.

CHAIR—Sorry. If a private company wants to buy time on Queensland Rail.

Mr Ruygrok—I understand.

CHAIR—They then have to buy that time from the fully integrated Queensland Rail system.

Mr Ruygrok—Yes.

CHAIR—Therefore, the question we are asking is: is there sufficient probity in there or a body that makes sure that that decision of allowing someone on to rail is at arm’s length from the commercial interests of QR? I am asking you, in your case, are you sufficiently convinced that, in the tendering process, in a vertically integrated QR, those companies or those spin-off companies are subjected to the same rigours as you are as a tenderer?

Mr Ruygrok—In relation to QR, I am not willing to comment on the basis that we have not competed with them on a tender to date. In relation to the New South Wales authority, I am willing to put on the record that Foxboro Australia is not necessarily convinced that we are competing on a level playing field.

CHAIR—They have created four different corporations in the state rail system in New South Wales. Which level do you deal with?

Mr Ruygrok—With the RSA.

CHAIR—You are not convinced that, even in a disaggregated model like that, there is still transparency for people like yourself in tendering for jobs?

Mr Ruygrok—Correct.

CHAIR—That is the point we were trying to get to.

Mr HARDGRAVE—Is it more a case that each of those four separate corpora-

tions may in fact be more inclined to deal with each other rather than go outside of that loop? Is that the implication of that?

Mr Ruygrok—I think that is possibly what is going on. As I said earlier, you have relationships that are built and a culture that has been in place for a long time. It has been split on paper. The reality is whether it has really been split commercially.

CHAIR—In your submission you said that you felt reform of the rail industry needed to be conducted with a national perspective. Having regard to the fact that the Commonwealth government does not have that authority, what model do you see as being workable? Do you think that the Commonwealth should be taking a leadership role or do you think we should have common codes or a practice that is adopted by the state transport ministers? What model do you see as being the one that would suit your type of operation?

Mr Ruygrok—I think the model that should be adopted is the one that has been applied to the energy industry where the governments have got together, looked at the way they could work together and have entered into agreements to form a national grid.

Mr WAKELIN—We have been through this, but I want to be clear in my own mind. In your truncated issues paper, you make the statement that, if rationalisation of the industry is undertaken for political reasons only, then the full benefits to rail of the economic window of opportunity that that rationalisation presents to the nation will be lost. What did you have in mind by ‘for political reasons only’?

Mr Ruygrok—Obviously when rail authorities are owned by government, from time to time it might be better for them to be away from the particular problems that may occur in that particular authority. Divesting itself of that particular authority may very well provide the government with a soft political solution. If, for instance, you want to downsize, if it was not the government but the corporation downsizing, then it is a little bit away from the government and the political impact is obviously softened. In some cases around the world where privatisation and corporatisation have been undertaken, the primary focus has been to soften the political blow incurred by rationalisation of the industry. If that is the only focus of this particular committee, then I would suggest that you need to rethink why we need to rationalise the Australian industry. The Australian industry needs to be rationalised because Australia needs to become more efficient and more effective to ensure that exporters like ourselves continue to stay in business and do not have to move their operations offshore.

Mr WAKELIN—Of course, you would be aware that this committee is a federal committee and that the only link with railways is through Australian National. Therefore, I do not know whether, by implication, you believe that the sale of Australian National was inappropriate?

Mr Ruygrok—No, there was no intent to reflect on what has occurred to date.

Mr WAKELIN—You would be aware of the sale of Australian National, of course?

Mr Ruygrok—Absolutely.

Mr WAKELIN—Would you have a view about that sale?

Mr Ruygrok—I do not really have a view about that at all.

CHAIR—Thank you, Mr Ruygrok. That has been a very interesting and thoughtful submission. If we have any other questions, I trust you will provide answers for us in writing. The secretariat will provide you with a proof copy of today's proceedings for your perusal.

[2.10 p.m.]

LOWE, Professor Ian, c/o School of Science, Griffith University, Brisbane, Queensland

CHAIR—Professor, are you appearing for the university?

Prof. Lowe—No, I am appearing in my own right. As far as I know, the university does not have a formal collective position on the role of rail in Australia's transport system.

CHAIR—Before proceeding, I have to caution all witnesses that these proceedings carry the same weight as those of the parliament and demand the same respect as would be accorded to the House. Any misleading or false information is contempt of the parliament. I am sure you are familiar with that.

Prof. Lowe—Yes.

CHAIR—Do you have any additions or deletions to make to your paper?

Prof. Lowe—Not really, no.

CHAIR—Would you like to give us a three-minute overview of your position and then we will start the questions?

Prof. Lowe—Yes. I will try to keep it shorter than three minutes. Mine has probably come from a different perspective than many of the submissions, which I suspect dealt with economic issues. I start from the premise that railways are a basic service and that we would expect the rail network as a whole to be cost effective and make efficient use of resources. It seems odd to me that we apply strictures to railways that we do not apply to roads. For example, nobody would necessarily expect that the roads to Camooweal, Renmark or Bourke would pay their own way, but we have gone around trimming branch railway lines on the grounds that they do not pay their own way as part of the network. We do not expect that of roads and I am not sure why we expect it of rail.

When I looked at the energy and emissions associated with options for freight and passenger transport, it is clear that rail has a huge advantage over road for carrying both passengers and freight. That huge advantage in energy efficiency and carbon intensiveness does not reflect in an economic advantage for two reasons. One is that we have very low fuel costs by international standards and the other is that there are a range of hidden subsidies to road freight in particular that act as a perverse incentive to freight movers to use a form of transport that is less efficient, more polluting and more dangerous to the community.

If I could summarise what I am saying in one sentence, I believe that it is the responsibility of the parliament to ensure that community resources are used effectively. At the moment I believe we are not making effective use of the rail network because a range of perverse incentives are directing traffic away from it towards roads. I think we as community are suffering as a result.

Mr WAKELIN—On the point that railways are a basic service, is it not true that forever in human activity and existence we have had changing modes? I heard someone say the other day that rail put the horses out of business. Is it not true that when aeroplanes started flying from Perth to Sydney, they started to put rail out of business? We have this changing, evolving and constantly dynamic process in our transport system. In a historical and technological sense, how do you see that?

Prof. Lowe—It is true that transport systems have always been changing. When railways were first built in Britain, they put the canals out of business. I think the problem with that is inferring that because railways were here before roads they are a more primitive technology and roads are necessarily superior. It is true that rail was the dominant freight technology of the past and I think it is likely also to be the dominant freight technology of the future because of its huge energy efficiency advantage over road. I probably do not need to remind you that, in Kyoto, Australia was a minority of one among energy intensive countries when we said that we were unable to reduce our carbon dioxide emissions.

Mr WAKELIN—But accepted by the international community.

Prof. Lowe—But accepted very grudgingly in my observation of what was going on. I was actually in Kyoto as an observer. The impression I got from the international community was that they thought that Australia was out of line and that at some stage in the future Australia will have to rejoin the international community and be responsible.

Mr WAKELIN—I have seen you on television many times. To come back to rail, I think that everybody here hopes that rail can take its proper place in the nation's development. I am raising the point that, just because railways provide a basic service, somehow we are married to them in a way that we have to accept them, and you have mentioned those rather lonely tracks that have been closed while roads have been left open. Looking at rail in the contemporary situation of the 20th and 21st centuries, railways have come out of a culture which did not adapt as well as it might have. Railways have gone through absolutely phenomenal change in terms of a whole range of things over the last 20 or 30 years, to a point where we are seeing privatisation, market orientation and all those things, trying to get flexibility and adaptability into them. Could we talk about where rail might adapt best in that contemporary situation?

Prof. Lowe—I am not suggesting that rail is best for everything. For example, when I looked at interurban passenger transport, it is clear that buses are both more cost

effective and more energy efficient at moving interurban passengers than rail. Interurban freight is clearly carried much more efficiently by rail than by road by a factor of about three in terms of energy. My view is that we should try to encourage people to use rail for the things for which it is good, which is the long distance movement of heavy freight loads and moving commuters around in suburban areas.

Mr WAKELIN—Once again going back to our history, up the Great Divide and winding up the east coast we have a line that is about 100 years old. It is suggested that that line is totally unable to cope. You could put \$1 billion into it and it may not be appropriate. How do we adapt from our history to bring us up to the next century? In other words, what should be our investment incentive? In your opinion, what is the best way to get a national transport system that recognises the strengths of both the systems, road and rail, that you talk about?

Prof. Lowe—As I came in, you were discussing with the previous witness the issue of where the Commonwealth's responsibility lies and over what things it has jurisdiction. I think you can be too legalistic about it. The Commonwealth has enormous power to encourage the states to act in particular ways through the size of its wallet.

Mr McDOUGALL—If it was only so big.

Prof. Lowe—Two weeks ago in discussions in a building about 50 yards from here, Dr Alan Reid, who chaired the inquiry of the Academy of Technological Sciences and Engineering into urban air pollution, was asked about the relative investment in roads and public transport systems. The figures he quoted were that each year Australia spends from the public purse about \$14 billion in building and maintaining the road system and a total of about \$1 billion on railways, buses, trams, ferries, cycleways and pedestrian footways put together.

Mr WAKELIN—I will pull you up there. You are talking about the federal wallet. As I understand the road system, about \$1 billion of that \$14 billion is Commonwealth money. The states have a huge input in all of this. You would understand your federation better than I and the issues and weaknesses of the system. You would be well aware of the 23 different safety systems and all of those issues. If you could wave the magic wand at one thing in terms of the Commonwealth-state relationship and the wallet issue, what would you do?

Prof. Lowe—Somebody said that trying to get the states to go in one direction is like herding cats. My response to that was that herding cats is inordinately difficult, but with a bowl of cream you can make cats go anywhere you want. If I were in charge of husbanding the Commonwealth's resources, I would be discussing with the states arrangements whereby relatively small amounts of Commonwealth funding would be tied to investments by the states in areas that you wish to encourage. For example, if I wanted to see a repair of rail infrastructure, I would be trying to direct Commonwealth funds in

ways that encourage that.

You mentioned, for example, that only \$1 billion of the huge amount of money spent on roads is the Commonwealth's. That \$1 billion that the Commonwealth spends on roads is as much as the Commonwealth and all of the states spend together on all other forms of transport. That disparity would be justified if roads carried fourteen-fifteenths of our freight and fourteen-fifteenths of our passengers. But they do not. They carry more like 60 per cent and 80 per cent respectively. I believe that if we made the same commensurate investments in rail infrastructure that we make in road infrastructure they would be much better able to compete.

I think the other fundamental economic disadvantage that railways have is that the railways have to operate and maintain the track, and the full cost of that operation and maintenance appears in freight bills. Road freight operators do not operate and maintain the road. The Australian Road Research Board estimates the difference between what road freight operators pay in taxes and the cost of repairing the damage that heavy freight vehicles do to the roads to be about \$30,000 per truck, and that constitutes a huge incentive from the public purse to freight handlers to send their freight by road rather than by rail. It seems to me that if we were interested in a level playing field we would be trying to ensure over a period that people are allowed a chance to recover investments they have made. We should move towards recovering from heavy freight vehicles the cost of the damage they do to the road in the same way as we recover from rail freight vehicles the cost of the damage they do to the railways.

Mr McARTHUR—I was interested in your comment that the energy used to overcome steeper grades in roads was the reason for that mode of transport's lower energy efficiency. Could you add a comment to that? Steel on steel is one of the key components of providing this long-haul efficiency of railways. Could you add your wisdom to that matter?

Prof. Lowe—It is true that steel on steel involves less rolling friction than tyres on a road. Interestingly, it is probably the road that is most of the problem rather than the tyre. The Paris Metro now runs with rubber tyres on steel rails, and that system is apparently also quite efficient, although it causes a rather unpleasant noise. So there are two reasons why railways are fundamentally more efficient. The first is that railways have much smaller gradients and so less energy is expended lifting the load up only to return it back to sea level at the other end. The other is that steel on steel involves less friction than tyre on road.

Mr WILLIS—I have a couple of questions in relation to the submission, in particular in respect of the conclusions. I refer to the section dealing with urban passenger transport. Table 2 looks at the energy use per urban passenger kilometre for various forms of transport. At the top of the next page you say:

Even more recent BTCE data lead to quite different conclusions for the energy-intensity of rail transport.

You go on to calculate that train energy use is far less than it was in 1991. Why is there such a disparity in those figures?

Prof. Lowe—I am puzzled by that. In the conclusion to table 1, I noted that the apparent energy intensity of Australia's railway systems seems to vary dramatically from one to another. For example, I cannot believe that Sydney's rail system requires only one-fifth of the amount of energy per passenger kilometre as Adelaide's. I suspect there is a defect in the data, rather than there being different efficiencies in the systems. It is probably to do with the fact that, if you are running a railway system, keeping track of your passengers is important, but keeping track of your energy consumption is probably less important. I suspect that the energy data is less likely to be accurate than the passenger data.

CHAIR—Could there have been a greater concentration on electrification over that period—five years?

Prof. Lowe—Yes, that is true. There has been a movement in that direction. There may also have been a change in dispensing with less cost-effective services. That tends to improve both the energy effectiveness and the cost effectiveness of the remaining network.

Mr WILLIS—Under the heading 'Policy Implications' you refer to a current huge subsidy of interurban road freight vehicles estimated at about \$30,000 per vehicle per year. Where does that figure come from?

Prof. Lowe—That is a calculation by the Australian Road Research Board, based on the fact that the damage done to pavement increases very rapidly with increasing axle load. They calculate that it is about proportional to the fifth power of the axle load. For those who are non-numerate, that means that if you double the axle load you increase by a factor of 30 the damage to the pavement. If you increase it by a factor of four, which is about the difference between a truck and a sedan car, you increase by about a factor of 1,000 the rate of damage to the pavement. Their calculation of the difference between what a typical interurban road freight vehicle pays by way of fuel taxes and so on and the damage it does over a typical operational year to the pavement is about \$30,000 per vehicle.

Mr WILLIS—Are you able to tell us where that figure is? Can you give us the article? Can you provide it to the committee later?

Prof. Lowe—I will provide it to the committee. It was a study done by the Australian Road Research Board when I was on its advisory committee about four years ago.

Mr WILLIS—Further down on that page you say something which I must say somewhat surprised me. You say that you do not see why people would want to have greater private sector participation in the rail industry except for ideological reasons. If it is possible to get new players to come into the industry who were not there before and who are providing new rail services which are privately owned, I would have thought that the whole thrust of your submission would be to the point that that is not a bad outcome. You seem to be suggesting that it is not a good outcome at all.

Prof. Lowe—I perhaps did not word what I wrote as felicitously as I might have. What I meant to say was that turning a government-owned rail monopoly operation into a privately owned monopoly rail operation is unlikely to improve either the energy efficiency or the economic efficiency. I think that having more players would be a good thing. I would personally encourage the committee to look at ways of using the existing rail network for different players to operate freight carriage in the same way as we allow the existing road network to be used by different players. I would hope that we would make more of an effort with the rail network than we do with the road network to ensure that the charges to those operators reflect the real cost to the community of their operation.

Mr WILLIS—I assure you that the committee has been very interested in these access issues.

Mr McDOUGALL—I might follow up on that access issue. As you know, the Commonwealth has very little control over rail. We have taken evidence now in two states, with varying degrees of comments in regard to how good access is. We have the horizontal system in New South Wales, which has an arbitrary system which seems to have a very large question mark over it as to whether it works. We have a vertically integrated system here, which is controlled all within one government operation. I believe they are still trying to put in some sort of dispute resolution system. They have not got it into being. There are obviously some problems and it will be interesting to see what happens in the other states. What is the role of the Commonwealth in all of this? If the states cannot work it out, where do we go from here? The two states we have seen seem to have a problem in being able to work it out. The private sector, the people who are trying to get access, have got what seem to be some pretty legitimate complaints.

Prof. Lowe—And there is a bit of a constitutional problem about the Commonwealth being involved in the day-to-day operating regulations of state rail networks. As I said earlier, I think the Commonwealth can provide incentives and perhaps a code of practice, but I do not see how you have the constitutional power to direct the rail systems of the states. Historically, a whole range of problems have stemmed from that, right down to the fact that until recently we could not agree on how far apart the wheels were on railway vehicles. I am not sure that there is any easy answer.

The last time I was in Britain I did see that the rearrangement of what used to be British Rail has resulted in passenger trains operated by different companies running on

the same track. When I inquired about it, they thought that the key to safety was that one authority was responsible for scheduling and routing, but within that different companies could operate passenger services. That seemed to be functioning. So it is not beyond the wit of humanity to devise a system where different carriers can use the same route, although it may be beyond the wit of some of the humans working on the problem at the moment.

Mr WILLIS—I think we have that in Victoria now.

Prof. Lowe—Yes.

Mr McDOUGALL—Earlier in relation to roads you were saying that cost recovery is not there and that public funding is unfairly covering the cost of road freight. I think you put it quite simply by saying, ‘Well, if you make the railways work better, you might be able to resolve the issue and get the problem off the roads and get it on the rail, because you could get a cost recovery through the freight rates.’ How would you do that when we have had evidence here that the Queensland government, and therefore the Queensland taxpayer—and obviously the Australian taxpayer through the grants system—covers through funding a loss of some \$500 million, I think it was, or a bit over \$500 million. In Sydney alone the Cityrail urban system is subsidised by the taxpayer by some \$650 million a year. Where is the unfair advantage on the basis that they also subsidise the road system? I cannot see the logic of this argument, because the taxpayer is also doing that for rail. How do you get cost recovery from rail to get rid of that debt?

Prof. Lowe—In Queensland, the taxpayer certainly does not subsidise rail freight. My understanding of the Queensland operation is that rail freight makes a significant profit which is used to reduce the operating loss on passenger operations.

CHAIR—There are two sectors. There is coal and minerals and general freight.

Mr McDOUGALL—Coal and minerals covers costs, but general freight does not. And they do not get enough out of coal and minerals to subsidise the general freight.

CHAIR—Their argument and also New South Wales’ argument is that, unless we have some catch-up mechanism with the upgrading of rail, that general freight sector will continue to fall.

Prof. Lowe—As I said earlier, the general freight is operating at the financial disadvantage that the commercial road freight operators are being subsidised. You are saying that the general freight operation on railways is also being subsidised but, I think on those figures, not to anything like the extent that road freight is. If the subsidies were equal, as a community we ought to prefer rail freight because of the huge reduction in the energy used and carbon dioxide emissions that result. It really is a way of painlessly meeting international expectations. If you transfer 100 tonnes of freight from road to rail,

you reduce carbon dioxide emissions dramatically without reducing the community's perception of the service.

Mr McDOUGALL—Just by way of information, in the railway submission in 1995-96 the payments were: suburban passenger, \$277 million; long distance passenger, \$49 million; and general freight, \$268 million. So we get up to some pretty big numbers pretty quickly. I know of your great interest in urban transport and passenger transport over many years, and your great passion for riding a bike. I ride one, too, for exercise. Professor, have you ever come to the answer, though, to this question: although you can put all these systems in place—and you might if the money was put there to put it in place—how do you change the culture to get people out of a car and into either a train or a bus? That has always been the greatest challenge to me. It is like a great wish list. When you build it and they do not use it, that is also a loss.

Prof. Lowe—I agree. It is clearly possible, because we have achieved the opposite change over a period of about 40 years. Forty years ago, everyone in urban areas commuted by train or bus or tram. We have managed to entice them out of the trains, buses and trams into cars by a combination of building better roads to make driving more attractive and continuing to offer very cheap fuel. So that sort of change is possible.

As to how you make changes in the opposite direction, there are three ways you can effect change. One is through regulation or legislation. One thing that has increasingly been done overseas is to discourage the movement of vehicles into cities, particularly at peak hours, by regulation. In Vienna now you cannot drive into the centre of the city. The last time I was in the USA, I was attending a conference in Washington, and on the bus going from Baltimore airport into the city, I noticed signs on the freeway saying that it was only accessible to buses and cars with at least three occupants inbound between 7 a.m. and 9 a.m. and outbound between 4 p.m. and 6 p.m. In other words, there are regulatory means of changing it.

The second way is to provide economic incentives. I have said for some time that we ought to be trying to make public transport more financially attractive. We do not act in an economically rational way, I would suggest, with regard to public transport. Let me give you an anecdote to illustrate that. About five years ago, I attended a conference in Barcelona. Because I had never been to Spain before, I wanted to stay at a hotel in the centre of Barcelona. The conference was at a university campus 40 kilometres away, so I went each way by train. I found that the train fare was about \$2 each way, whereas the cost of the necessities of life, like coffee and beer, in Spain were about the same as they were in Australia. I commented on the fact that this rail fare seemed very low, and I was told that the service was losing money, so they reduced the fares.

Now, if you think about it, that is economically rational behaviour. If you are selling apples and you cannot sell them for \$3 a kilo, you reduce them to \$2 a kilo to make it more attractive to consumers, because it is better to sell them at a lower price than

not to sell them. But if you think about what we do when public transport services are losing money, we usually either put up the fares or reduce the service, which is what you do if you want to discourage custom. So it seems to me that we need a more entrepreneurial approach to public transport in which we encourage people to behave as vendors of apples would behave, trying to make the product more attractive.

The third way of changing human behaviour is changing attitudes. I think that there have been significant changes in the last 10 years in people's environmental awareness. I see in Brisbane increasing numbers of people riding bicycles. There is clearly at my institution a dramatic increase in the use of car pooling because of one structural thing the university did, which was to set aside a car park near the buildings for those who came in groups of at least three. So as a result, those who came three to a car instead of one to a car have a five-minute walk to the building instead of a 20-minute walk, and that is enough of an incentive to encourage more people to do it.

I do not think things can be changed overnight. There are a range of ways of changing behaviour. However, we have changed Australian cities from being public transport based to being car based. Various cities overseas have made the transition back again. There are quite civilised cities in western Europe where 30 per cent or 40 per cent of all urban journeys are made by bicycle and 40 per cent or 50 per cent are made by public transport. I am not suggesting a car-free nirvana, but I am suggesting that we could make more intelligent use of the car and probably have our urban transport system less dominated by it.

Mr McDOUGALL—The state railways throughout Australia—certainly on the eastern seaboard—for many years have given pensioners three free tickets a year. I think some of them are even interchangeable. I believe now that, on intercity trains, they make up about 60 per cent of the passengers. We are still subsidising the passenger trains, because they cannot make any money—and we can understand why, if 60 per cent of pensioners get it for free—and they are for paying passengers. Between most cities it is cheaper to fly than to get a train.

CHAIR—We might move on, if we can.

Mr HARDGRAVE—I actually do not disagree with the marketing concept of what you said. In fact, after having been caught in the traffic trying to cross the Victoria Bridge this morning, I suspect that if we could put Jim Soorley in charge of traffic planning in every city in Australia, people will soon be walking because it will be faster than cars. Could I quickly solicit your view on some of the new railway concepts? In urban areas we are seeing the introduction of light rail in a number of major cities around the world, including here in Australia. I note that the Queensland government is talking about one for the city of Brisbane, which is good. What about these big ticket things, like the Melbourne to Darwin rail link and, for that matter, the completion of the Adelaide to Darwin rail link? Some of these things will go through areas which may not have had rail

in the past. Given your strong green credentials, I just wanted your view on those particular projects.

Prof. Lowe—Any project, whether it is a rail line or a road, needs to be subjected to proper environmental assessment. I think there were some environmental concerns about the proposed very fast train from Sydney to Melbourne on those grounds. I did not look at the exact route. The other thing is that there needs to be a hard-nosed economic assessment. Some of the figures I have seen concerning proposed large projects have been optimistic, bordering on irresponsible. If we are talking about spending billions of dollars of taxpayers' money, I think there needs to be a hard-nosed assessment to see that the investment is justified. The one significant difference between Australia and western Europe is that we have a much lower population density, so we do not have the volume of traffic that justifies something like the TGVs in France. However, if you had a good, fast train service between Sydney and Canberra, for example, I cannot imagine why any rational person would fly, because it would actually be quicker city centre to city centre and less dangerous, less stressful and better environmentally.

Mr HARDGRAVE—What about the transportation of big lots of freight on current rail infrastructure? It is apparently not really a goer. We almost have to look at new infrastructure, or certainly rebuilding the current line.

Prof. Lowe—As I understand it, rail still carries the bulk of the freight across the Nullarbor from Western Australia to the eastern states. It is clearly economically preferred. I suspect that the thing that is killing inter-urban freight on, say, the Melbourne-Sydney-Brisbane corridor is not so much the operating efficiency of the long hauls but the problems of getting the freight off the rail vehicle and to the end user. If I were looking to do something about making the freight lines more attractive, I think I would be looking first at the process of getting the freight to the terminal and from the terminal to the end user at the two ends. I think what happens in between is not too bad, but what happens at the two ends is what is probably driving stuff onto the roads.

CHAIR—Thank you very much for your submission today. If there is any follow-up material that we require from you, I trust that you will provide it in writing to us?

Prof. Lowe—Certainly.

CHAIR—As is the custom, we will provide you with a proof copy of today's transcript for your perusal.

Prof. Lowe—I have undertaken to provide the detailed reference of the Australian Road Research Board study of the subsidy of road freight.

CHAIR—It would be most appreciated if you could forward it to the secretariat.

Prof. Lowe—Certainly.

[2.40 p.m.]

BLAKE, Mr Paul, Executive Director, Land Transport and Safety, Queensland Transport, GPO Box 1549, Brisbane, Queensland 4001

FORD, Mr Greg, Manager, Rail Safety Accreditation, Queensland Transport, GPO Box 1549, Brisbane, Queensland 4001

McCALLUM, Mr Bruce William, Director, Structural Policy Division, Queensland Treasury, 100 George Street, Brisbane, Queensland 4001

STEBBENS, Ms Helen Maree, Director, Rail and Port Authority Policy, Queensland Transport, GPO Box 1549, Brisbane, Queensland 4001

CHAIR—I welcome representatives of the Queensland department of transport.

Mr McCallum—Actually, I am with Queensland Treasury, not Queensland Transport. However, we are involved in the Queensland government's submissions.

CHAIR—No doubt you have appeared before government committees. You would realise that these proceedings carry the same weight as those of the parliament and are entitled to the respect that is accorded to the House. Any false or misleading evidence is a contempt of the parliament. I presume you would recognise that. Do you have any additions to make to your submission?

Ms Stebbens—No.

CHAIR—Would you like to give us a three-minute overview of your submission?

Ms Stebbens—I actually prepared a short introduction. I did not go over the same ground as the submission.

CHAIR—That is okay.

Ms Stebbens—I will try to fully explain the various roles we have here. As Bruce has said, he is a director in Queensland Treasury. He is responsible for the implementation of the national competition policy as it impacts in Queensland. Paul Blake is responsible for road use management issues and road and rail safety. That is the area within which Greg works as the manager of the safety accreditation unit. I am in the area which looks at rail policy issues and at establishing the initial contractual arrangements for rail services that the government wishes to fund. We also have a division that is responsible for integrated strategic transport planning across the state for all modes, including rail.

Queensland Transport's policy planning and regulatory roles specifically with

respect to rail have been developed since July 1995, when QR became a corporatised entity with a commercial charter. I think that is different from a lot of other states, which have traditionally had that split much earlier. Queensland Transport is also the custodian of the rail corridor land on behalf of the state, with QR being the lessee of the existing corridors, as the major user. I emphasise that we have only had the regulatory policy split being retained in the core departments, with QR being a corporate entity, since 1995, so it is relatively early days, but we would like to thank you for this opportunity.

The Queensland government fully supports your inquiry. If we cannot answer all the questions now, may we please provide answers in writing?

CHAIR—We are glad you came in this afternoon. We have had some fairly disturbing evidence from other witnesses. If I could deal with one, your colleagues in Queensland Rail spoke quite passionately about access and said that everyone who wanted to be in the loop would get an equal opportunity and that there would be a system of probity to protect them against any unfair advantage accruing to Queensland Rail. But the practice seems to be somewhat different. We had a submission today from the Northern Rivers Railroad Company seeking accreditation of their rolling stock in this state on the four foot eight track, which is not part of the normal day-to-day infrastructure of Queensland. It is virtually an extension of the New South Wales system for our convenience. They are at a loss to know why for a very simple thing—to bring product out of northern New South Wales to the port of Brisbane—it should take over a year to get accreditation right.

Our own experience as a committee—not on this inquiry, but on an official inspection that we did to Brisbane about some nine months ago—was that the four foot eight standard gauge line to the port of Brisbane is still underutilised, if utilised at all, because of regulatory problems between New South Wales and Queensland. Surely to heaven, with all the rhetoric and all the promises and assurances that are given at a theoretical level, there would be something. When it comes down to the practice level it is not happening.

Can you tell us what the problems are—for example, why this company has trouble even getting answers to correspondence? When this sort of thing happens you can understand how the criticism could arise that the Queensland government is protecting its own marketing interests at the exclusion of allowing access to another operator. That might be an unfair thing and there may be a good and adequate explanation for this, but we would be interested to hear about it. If we cannot get something as fundamental as an extension of a rail line across a border to a port—50 or 60 kilometres—what possible chance do we have of getting 23 regulatory systems from Brisbane to Perth into some sort of order?

Mr Blake—I might begin to answer the question, then perhaps ask my colleague Greg Ford to give a little more detail. When we took over responsibility for rail safety

accreditation through the development of the legislation in Queensland, because my division also has responsibility for road transport regulation, we chose to create an environment in which effectively there was a level playing field at least as far as possible within the safety accreditation regime. As such, we tried to borrow as much as we possibly could from the approaches that had been used nationally with the National Road Transport Commission to develop those regimes for dealing with rail.

CHAIR—Don't we do this already with the interstate train that comes into Roma Street? Why should it be any different going down to the port?

Mr Blake—The interstate railway in National Rail has been accredited. We used the mutual recognition approach. In other words, if a railway was accredited interstate, it could get accreditation in Queensland. A number of railways have approached us since the act came into force and they have been given accreditation. In terms of any delays or anything like that in their accreditation process, I think that, if you spoke to those railways that have achieved accreditation in Queensland, they will report that generally the process was quite satisfactory.

CHAIR—To make sure I understand you correctly: if this company gets itself accredited in New South Wales, it will ipso facto be allowed on the Queensland system?

Mr Blake—I would not say 'ipso facto'. We accept that accreditation and then perhaps place any other specific conditions that might apply. For example, if they wanted to run on the three foot six gauge in Queensland, then we would want to make sure that the accreditation they had in New South Wales in terms of signalling, safety practice and so on was applicable to that. In terms of the four foot eight, that is certainly the case in terms of National Rail and the—

Mr Ford—SRA.

Mr Blake—The SRA. I might ask Greg to just outline where we are with the accreditation applications that we have before us at the moment.

Mr Ford—We have currently accredited 10 railways in Queensland. Three of those were based on the mutual recognition process, under which, under the terms of the intergovernmental agreement on rail safety, as Paul outlined, we will recognise accreditation given by another state provided their operations in Queensland are of a similar nature. The basis that the IGA agreement was signed on was that railways will be accredited to Australian standard 4292 on rail safety management. That way we have a level of assurance that each railway is being assessed across the country on the same basis. In relation to some railways that have applied to us and got accreditation in New South Wales, it has been a matter of just satisfying some local Queensland conditions. Of course, we do need to know, for example, that their insurance will cover them in Queensland; we do want to know if there are any additional risks that they may have in Queensland that

they would not have had elsewhere. Generally, we accept the mutual recognition principle.

CHAIR—That is another criticism; you touch on another point. Small railway companies are being asked for the same amount of risk cover as the larger companies. I think it is \$200m in New South Wales and I think you ask for \$100m; is that correct?

Mr Blake—No, that is not correct. I do not know what it is in New South Wales, I am sorry.

Mr McARTHUR—\$200m.

Mr Ford—In Queensland we ask for the company to tell us that it is insured in Queensland for public liability insurance and that there is some evidence that that level of cover is suitable. We do not tell them the level of cover. We expect the insurance broker to come back and say, ‘This is an acceptable level of cover.’

CHAIR—Have those points been made clear to the Northern Rivers Railroad in correspondence—that you have the Australian standard in terms of safety and that all you require is a demonstration of adequate cover in Queensland?

Mr Ford—We have certainly written to the New South Wales department of transport.

CHAIR—No, this company has been dealing with you and it seems quite—

Mr Ford—The company actually deals with the New South Wales department of transport on a one-stop shop approach. So that company writes to the New South Wales department of transport and asks it to facilitate accreditation wherever it wants to operate.

Mr McARTHUR—It takes a year for the two departments to write a letter.

Mr Ford—No, it does not. We have written back—

Mr McARTHUR—That is what the evidence was this morning.

Mr Ford—We have written back a number of times to New South Wales and asked them where they are with Northern Rivers Railroad’s accreditation. It has told us that Northern Rivers Railroad is not yet accredited in New South Wales and will not be probably until around March.

Mr McDOUGALL—How does it operate?

Mr Ford—It has an interim accreditation on a specific part of its railway and it does not yet meet the Australian standard.

Mr McDOUGALL—Is it the New South Wales access corporation that you are dealing with?

Mr Ford—No, this is the New South Wales department of transport—Transport Safety Bureau.

CHAIR—Yet FreightCorp allows it to operate certain lines in New South Wales. It just does not seem to add up. The other charge that it makes is that there are certain types of flat-top wagons that are essentially the same design all over Australia. Even some quite old ones—providing the wheels are still in good condition—if they are serviced properly, re-engineered with new ball bearings and so on, they can have quite a useful mechanical life. Because the existing railways have tied up their excess rolling stock perhaps for their own commercial protection, some of the new companies are having difficulty getting onto the tracks. For example—is it in AN's case that we heard the example?

Mr WAKELIN—NR.

CHAIR—NR, I should say. In NR's case, quite a huge proportion of its flat-top fleet is just tied up rusting in rail yards whereas other operators have to import equipment from overseas. One of the charges that it made was that it would like to retool New South Wales flat-top wagons and do it properly—appropriately. That is being used as another reason for excluding it. NRR makes the point that, if it cannot get the rolling stock because the existing rail authorities are going to keep it tied up for their own commercial protection, it has to either import it or retool existing rolling stock which it says is quite safe. It says again that this has been thrown up by the other side of the rail authorities—the access authorities and, I imagine in this case at this preliminary stage, even the transport departments—as another reason why it should not be operating on the lines. It says, of course, that if it cannot crawl before it walks there will not ever be any new players in the field. What is your answer to that sort of charge?

Mr Ford—We do not accredit rolling stock as such in Queensland. We accredit the railway to make sure it has processes in place.

CHAIR—Who would be objecting to the quality of their rolling stock?

Mr Ford—I am not sure. Maybe it is an access issue, but it certainly has not been us.

CHAIR—You have no interest in that whatsoever?

Mr Blake—The only thing we are interested in is their management systems to make sure that they have the appropriate rolling stock and that it is, as you pointed out, adequately re-engineered. For example, Queensland clearances are well known to be narrower than other states, so we would be concerned about being assured that their

rolling stock would fit within the Queensland loading gauge. That is part of their accreditation proposal to cover those sorts of things. That is what my colleague Greg was saying before. They are the sorts of things we ask them: if you are going to come and operate in Queensland, how is the risk different from what you might operate in New South Wales? In building our accreditation regime in Queensland, we have avoided getting into that nitty-gritty inspection of rolling stock and those sorts of things and we have adopted a performance based approach so that if an operator can show us—

Mr McARTHUR—Surely you have some influence over this whole attitude. We are getting evidence that a number of the rail operators are just putting their old rolling stock to one side and not allowing anyone to purchase it. You are the department of transport. Have you got any influence on that policy position? It seems strange to us when an entrepreneurial new owner wants to buy just second-hand rolling stock, yet government instrumentalities will just not release it.

Mr Blake—We do not have any direct intervention. All I can say is that I am aware that Queensland Rail has had a very active policy of selling off surplus rolling stock over the past few years. In fact, they have got a—

Mr McARTHUR—Whom to?

Mr Blake—I think to anybody who would basically buy it.

Mr McARTHUR—Are you sure it is not to the scrap yards?

Ms Stehbens—To Tasmania, and a lot of it is being sold overseas. No-one else has the same gauge.

Mr McARTHUR—It is a pretty serious issue because it means that some of these new entrants are just not able to get rolling stock which, with a certain amount of repair, could continue on for 10 or 15 years. It is a policy matter. I am sure you are pretty quick off the mark to pull people into gear on safety issues and some of these other things which are, in some ways, a bigger issue, but you say, ‘It is not our responsibility.’

Ms Stehbens—Queensland Rail has a commercial charter. That would really be fairly direct intervention from the shareholder, which would be unusual, I guess. Queensland Rail has traditionally sold its excess rolling stock to any other narrow gauge railway that will buy it. In Australia, that is basically only Tasmania. Then there is New Zealand, and most recently they have been selling it in Asia.

Mr McCallum—It sounds more like it is New South Wales’s problem.

CHAIR—Obviously, at this stage—

Mr McARTHUR—I have evidence of it happening in Victoria, in South Australia and with National Rail. Evidence has been put before the committee today that a similar attitude is evidenced by New South Wales—not precisely in Queensland, but we raise the matter with you.

Ms Stehbens—But they are looking at standard gauge rolling stock normally, not narrow gauge rolling stock which we have in Queensland.

CHAIR—You do not have any standard gauge rolling stock—or very little?

Ms Stehbens—No, Queensland Rail is primarily narrow gauge operated.

CHAIR—I understand that; I am a Queenslander. To be fair to them, their point was that they are having trouble getting their rolling stock onto the track, not that Queensland was refusing to sell it to them. As others have pointed out, that was more of a problem with the southern states. The other thing that I suppose disturbs the committee is this. We have had evidence about the disaggregated model and the vertical model that QR has adopted. Does the department of transport have any supervision over the probity aspects of third parties approaching QR or the unit of QR that was established to carry out these things in keeping the two operations at arm's length? If there is a dispute, how do you see it being resolved?

Mr McCallum—As I understand it, the Commonwealth third-party access regime is in existence now under Part IIIA of the Trade Practices Act. There is nothing to stop a rail operator seeking to run their own trains coming to Queensland. The exception to that is that, under the competition principles agreement, there was a five-year moratorium put on the coal lines.

CHAIR—Yes, we are aware of that.

Mr McCallum—That is another issue that was written into those agreements. I think it is a subsidiary of TNT that has already sought access to the north coast line. That went through the Commonwealth regime. The National Competition Council made a recommendation to our Premier that he not declare that service. He subsequently made a decision not to declare. That is now on appeal to the Australian Competition Tribunal, which is the mechanism that is set out.

CHAIR—What was the basis of it being refused?

Mr McCallum—I think one of the bases was that the application was so broad brush.

Ms Stehbens—It included above and below.

Mr McCallum—It covered everything. It was like a scatter gun approach. The point is that the National Competition Council recommended not to declare. The Premier looked at it himself and he agreed with that recommendation, so that is on appeal. We have the Commonwealth regime there. There is an issue with the coal lines, which is the section 78 issue, which to some extent, practically speaking, is less of an issue than perhaps it would first appear, given that there have been commercial deals done between mining companies and Queensland Rail which have effectively neutered or got around in commercial ways that section 78. In terms of the state-based regime, under the competition principles agreement, the states have the flexibility to seek certification of their own state-based regime. We are just about in a position where we are going to seek certification from the National Competition Council or in fact they make a recommendation to the Commonwealth Treasurer. Regarding certification that will provide that the Queensland Competition Authority will be a dispute resolution mechanism under our state-based regime.

The Queensland Competition Authority was established about July last year. It is in the process of gearing itself up, obviously. Third-party access dispute resolution is one of its functions. That is pursuant to the competition principles agreements. In terms of the arbitration side, there is nothing to stop people having access now, or applying for access, under the Commonwealth regime, subject, I guess, to the effect of the moratorium. There is nothing to stop someone from applying under the state-based regime. If they come under the state-based regime, we can deal with it, but there is always that issue of whether the Commonwealth regime can also apply at the same time until we get our regime certified. The way it works is that, if someone applies under the Commonwealth regime, the National Competition Council has to assess whether the state has an effective third-party access regime. 'Effective third-party access regime' does not necessarily mean it has to be certified, if you can understand the distinction there.

CHAIR—If someone was seeking a federal intervention in that matter, does that only apply where there is a cross-state border issue?

Mr McCallum—No. At the moment the Commonwealth regime, under Part IIIA of the Trade Practices Act, applies to all infrastructure. There is the section 78 issue, which attempted to provide a five-year moratorium on the coal lines. That was a separate issue. There is a threshold test under the Commonwealth regime, which basically tries to hone it down to natural monopoly items of infrastructure of national significance, so there is a threshold test that you have to go through before the Commonwealth regime clicks in. As you can imagine, there can be room for debate as to whether those threshold criteria are met or not. It is not just restricted to the interstate bit. The bottom line is that there is, effectively, a Commonwealth regime in place. TNT Carpentaria is already availing itself of that regime. It just so happens that it is before the Australian Competition Tribunal. We will have a state-based regime in place shortly. In one part that will be based on putting through a regulation that will declare open access to our system, excluding the interstate piece, which will come under the Commonwealth regime, subject to section 78.

Mr LINDSAY—I note that your submission states that it is made on behalf of the government of Queensland. It also notes that the submission from Queensland Rail is not necessarily the position of the Queensland government. In your submission, some of the differences do, in fact, come out. In relation to the issue that the chairman started with, yesterday the committee was given evidence from QR and the minerals council which was in open conflict, in my opinion. It also supported evidence that I have heard privately from users of QR, that is, that the minerals council said that there had been no changes in the freight costs levied upon them by QR. However, QR gave evidence that there had been significant reductions in freight costs. You also make a point in your submission that pricing for rail access, which you say is a natural monopoly, should be on a commercial basis and transparent. The question to you is: does the government recognise that the community does not seem to believe that there is transparency in QR's operations in terms of open access? Is the government prepared to override QR in the interests of transparency?

Mr McCallum—We also have to realise that there are some commercial negotiations going on here. In terms of the level of QR's rail freights, I am not sure of the exact disparity that has been given in evidence, but the fact is that commercial deals are being done between mining companies and Queensland Rail in terms of long-term contracts, also including rail haulage. I think what we have to watch, too, is the fact that there are some commercial realities that are going on regardless of, perhaps, what people are saying in submissions or whatever.

In terms of overriding QR, Queensland Rail is a government owned corporation, as Helen alluded to, in that its charter is to act commercially. The shareholding ministers have a power of direction over QR under the Government Owned Corporations Act. As you can imagine, they would be fairly exceptional circumstances in which ministers would seek to override the commercial decisions of an independent board. Nevertheless, the power is there.

In Queensland, we are putting in place the third-party access regime, bearing in mind the Commonwealth regime is already there. We also have a mechanism under the Queensland Competition Authority Act which gives us the flexibility to declare Queensland Rail a government monopoly business activity. It can be subjected to prices oversight. That mechanism is in the act and it has not been triggered as such as yet. I guess the view is that the disciplines are there in that, with the third-party access regimes coming into place, there will be a commercial discipline there that will introduce some sort of discipline that will be reflected in commercial rail freights. I would just like to emphasise that there is coal being hauled on lines now and there are companies doing negotiations and have signed up contracts with Queensland Rail which go out for quite long periods of time.

Ms Stehbens—A significant proportion of QR's coal business, for example, has been renegotiated in the past 12 to 20 months.

Mr McCallum—The basis of the section 78 moratorium was that, under a previous government policy, we collected some de facto coal royalty through the rail freight system, and everyone knew that. The industry and the government played cat and mouse about what the actual amount was but everyone knew we had a very low royalty under the Mineral Resources Act. We have phased out that policy in that we have bumped up the royalty on an ad valorem basis through the Minerals Resources Act and we are putting rail freights on a commercial basis.

Mr LINDSAY—I am aware of the need to move on with the time factor. Can I just take the witnesses to the next point? Are you aware of how the electricity industry allows open access at this stage with its horizontal integration model and that QR is sticking with its vertical integration model? Are you aware that there seems to be strong support from people who want to access the rail system for the electricity industry model rather than the QR desirable model?

Mr McCallum—I am aware of that but I cannot justify the government's position in terms of vertical integration. That is not my role. I guess my position would be that the systems are there such that access can work under a vertically integrated model.

Mr LINDSAY—But the industry is unhappy with it.

Mr McCallum—That is perhaps what I would expect the industry to say.

Mr LINDSAY—You also give evidence that you think that there is a clear need—and I am quoting you—for a single management structure for the interstate rail network, including both access and infrastructure, that is seamless and user friendly. Do you really think that state governments would give up their control over their own rail systems?

Ms Stehbens—When we are talking about that, we are talking about the standard gauge component.

Mr McDOUGALL—The 100 kilometre bit.

Ms Stehbens—A small bit. We would like to call it the most important top end of the standard gauge system.

Mr HARDGRAVE—But is that not the point? This is really going to the nub of it. A lot of the problems that we have with the railways in this country are that you have an accreditation system, a safety system and a signalling system which, you have told us already in evidence, is your system, and you have to subject everybody to it who might want to use your system. Why do you not just give it all up and adopt New South Wales's system holus-bolus?

Ms Stehbens—The Queensland Minister for Transport, when he signed the rail

summit communique, acknowledged the standard gauge network up to Bromelton, which is on the same principle as Sydney. Then it becomes a dual gauge system, which is also used for urban passengers. Arrangements could be made for that to be somehow folded in so that there was the one management structure for that standard gauge.

Mr HARDGRAVE—Would it not make sense for everybody to say, ‘New South Wales has the biggest track miles or whatever; let us just adopt their system holus-bolus. Let us take Queensland’s safety system.’ How far away are you from being in with New South Wales?

Ms Stehbens—Their standard gauge is on the standard gauge system. There has been management agreement in effect for New South Wales management up to Bromelton.

Mr HARDGRAVE—That is that 100 kilometres again.

Mr McDOUGALL—I think that this raises a very important point that has been put to us during this hearing. What are we doing about planning? We have states running around doing their own planning. We have no evidence that there is actually any attempt, let alone a national rail plan, to even get together and get a national land transport plan. How are we going to get a proper access regime, private sector investment and better run state operations if we do not have a constructive national plan in a strategic sense in land transport so that we know where we are all going? Is your department interested in that or do you think that it is just a big waste of time?

Ms Stehbens—No, we have actively been working in the past on those issues and plans, such as the NTPT process from a couple of years ago. In fact, I have just today come back from New Zealand where we have been looking at their national land transport strategies to see how they are working. So we are definitely interested in that. We have a division that does integrated transport planning across the state and it would be most useful for there to be a national framework as well.

Mr McDOUGALL—How are the other states operating? Are you in a dialogue with the other states in relation to trying to develop that and are you getting cooperation?

Ms Stehbens—I think that since the rail summit there has been a considerable rekindling of interest in rail and land transport per se. I guess Queensland sometimes asks for it to be just national transport not land transport, because coastal shipping is also considered important. I guess that is the one difference we have.

Mr Blake—Could I just add that I think that two things stick in our minds very much, and that is that we have a very small amount of standard gauge railway in Queensland and we have a very large system of narrow gauge railway, which is unlikely to change. So our concentrations are on making the best possible use of the standard gauge railway that we have, making the best possible use of the narrow gauge railway that we

have and then trying to do what we can to smooth the interplay between the two.

Mr McDOUGALL—As you know, we have very little jurisdiction over this. At the end of the day, you use all the grant funding that comes out of the federal government. We are being asked to have a look at this. Are we getting value for money? Are we going to end up with a continuation of parochial attitudes? Sure, the gauge is different, but that does not mean that you cannot have an integrated national land transport plan. You can still have one and they can still incorporate both gauges. To this date, there does not seem to be a desire to even attempt to get that through parochial attitudes, particularly with rail. They are all running their own ship. How much power does the department have over QR? You are telling me here today that because it is now a commercial identity, other than the minister, you do not have any power.

Ms Stehbens—As a department, we are not an operator; we are involved in strategic planning. I guess that we would see that we have a significant role in contributing to a national land transport plan and I think in our submission we fully endorse that concept.

Mr McDOUGALL—I have one specific question. You may not be able to answer it but I would like you to try to find out and answer it. We heard some evidence today that the sugar cane trains run a considerable amount of their kilometre track on public land. To their knowledge, and that was evidence given here today, they do not pay any access fees to run that track on public land. In other words, it looks like it might be a thing that happened in the past and it happens. There is a proposal to run a Melbourne to Darwin railway line by private enterprise. When they come to the department in this state and want access to land for an easement purpose, either within QR's easement or separate from that easement, what is the department going to do in relation to that access agreement? Are they going to give them the land free or are they going to find that, no, that happens with the sugar cane but this one is going to have to pay?

Ms Stehbens—The current legislation provides that Queensland Transport is, in effect, the owner and the custodian of the land beneath the track. There is a registered sublease in our titles office at a peppercorn rate for the existing land on which QR has tracks. The legislation also provides—I cannot remember the exact words—that we will recoup the acquisition and related costs of that land, but we have not been seeking a rate of return on the value of that land at all.

Mr McDOUGALL—That answers QR.

Ms Stehbens—No, that is for anyone.

Mr McDOUGALL—So sugar cane as well?

Ms Stehbens—The sugar cane railways are not subject to our legislation, but that

is the same principle. They would have paid the initial acquisition costs over private land or, if it was through crown land easements—

Mr McDOUGALL—So a new player coming in gets the same deal?

Ms Stehbens—Under the Transport Infrastructure Act, any railway manager is treated in a similar manner. The Transport Infrastructure Act actually refers to railway managers and operators, not QR specifically.

Mr WILLIS—Not necessarily now, but could you give us the names of the 10 railways that have been accredited?

Mr Ford—Yes.

Mr WILLIS—I wanted to come back to the issue of the access regime and encouraging competition. You say in your submission that rail reform must seek to engender some of the qualities of road transport in the rail system, that is, to introduce and maximise competition amongst rail operators and other things. As other questions have already indicated, we have been considering the issues of how best one does that. An important issue is the issue of how the railways are structured and whether it is an integrated system or whether it is a disaggregated system.

I understand that late last year the Queensland government confirmed the vertically integrated system in this state. My concern, and I think the concern at least of some of the other members of committee, is that this does not seem to be the most likely way in which to encourage competition in the system because there is a vested interest for the operator, Queensland Rail in this case, to keep out competition rather than encourage it in. One of you said that it had a requirement to operate commercially, but it is in Queensland Rail's commercial interest to keep the competitors at bay so that it gets most of the business that is around, particularly profitable business which is what competitors would want to get into. Why is it that such a system is being maintained in Queensland, if the department is saying to us that an overriding aspect of policy is to encourage competition in the system?

Mr McCallum—I think the argument is that the third-party access regimes are intended to provide that.

Mr WILLIS—The access regime provides a structure under which people can make an application, but the crucial thing is to determine an appropriate rate at which one can get the access—a price for access. Is there any requirement for access price? Your submission is very general in that area. Are there any specifics that have been placed on Queensland Rail in its negotiations in terms of the way in which it should approach the subject of access pricing? I indicate for you that in New South Wales, as you are probably aware, the rail access authority has a minimum rate covering its operating costs and a

maximum rate which gives it about a 14 per cent return on capital. Within that there is a negotiation process. Are there any such arrangements applying in Queensland?

Mr McCallum—Probably not at the moment. I guess one of the problems is that we are in an establishment phase. The Queensland Competition Authority was only established last year and the legislation underpins that. What is happening in terms of our state regime is that Queensland Rail is voluntarily developing what is called a rail undertaking which will set out all that information for access seekers. That undertaking has to be approved or ticked off by the Queensland Competition Authority as an independent body. That body has a private sector board. That process has started, but it has some way to run. Once that undertaking is there, then it is quite open for the mechanism to work.

I guess the problem at the moment is that we are in a bit of an interim phase where, until we get the state regime up and going, the Commonwealth regime is the one that is in place and it is the one that TNT Carpentaria is pushing through. I am not aware of any other application. In a lot of cases, say with the mining companies who have a lot at stake, they do not particularly want to run their own trains. They just want cheaper rail freights. I am saying that they are achieving that through commercial negotiations behind the scenes. For example, BHP has recently signed off a deal with Queensland Rail extending the life of their contracts. They put their signature to that contract. We have a problem in that it takes some time to get these mechanisms in place, but the Commonwealth regime is there and it is available. Commercial negotiations are going on behind the scenes which, as far as I can see, are coming up with some good commercial outcomes irrespective of whether the regime is in place at all.

Mr WILLIS—So far as you are aware at this stage, there are no pricing guidelines given to QR to use when applications are made for access?

Mr McCallum—I am unaware of any.

Ms Stehbens—Other than that they must follow the general competition principles agreement on pricing, which says that pricing must be commercial, equitable, fair and reasonable, or something like that.

Mr WILLIS—It seems to be a pretty broad church to me.

Ms Stehbens—Obviously if people are unhappy with that, they have to take it to the ACCC or the QCA for arbitration, in effect.

Mr WILLIS—Do you have any views on an issue which relates to this matter and which has been brought up by a number of witnesses? They point to the fact that in the AN system there are posted transparent access rates, so any potential new player can see immediately what the rates would be for access for whatever cargo they wanted to carry.

The New South Wales system is not like that. It is a negotiation process and is much criticised by various witnesses because it is like that. What potential new entrants obviously would see as more desirable is to have clear transparent posted prices. This was a point that was made to us yesterday by the Queensland Mining Industry Council, which, as you would have seen in this morning's paper, was rather critical of arrangements in this state. Do you have any view on whether one should have a negotiation process or whether there ought to be clear posted prices available to any potential new competitor?

Mr McCallum—I think under our model there would be certain information about pricing that will be covered in the undertaking. There will be a process of negotiation, but the main thing is that there is also a legislative right of arbitration there. Under our model, the Queensland Competition Authority will be there. The parties do not have to use the Queensland Competition Authority as a dispute resolution body, but it will be there and it will make determinations if they cannot sort it out commercially. As I understand it, certain information will be published in the undertaking which will be made available. That will set the basic parameters including pricing, information access and whatever. Then there will be a commercial negotiation process, which is what happens now. If the parties cannot agree, one party cannot stall the other party. It can go to the Queensland Competition Authority.

Mr WILLIS—It can avoid all that with posted prices, of course. You do not have to have a dispute as to prices which are set under what is seen to be appropriate and publicly known criteria, and that is the rate at which any new entrant can gain access. That avoids conflict and negotiation having to be resolved by some third-party. That is obviously not what is around at the moment in Queensland, so we had better leave it at that.

Mr McCallum—There will be some information. We have not got the undertaking at the moment and I am not involved in that process. That is between Queensland Rail and the Queensland Competition Authority. It is hard to say what will be in it.

Mr WILLIS—There is one final and slightly different matter, which is in relation to the rail link from the airport to the city. I understand that there are negotiations going on with a private consortium to develop such a project. Would it not be more normal to call for applications for any particular body to provide a project at an appropriate cost for the development of such a road? Why is it being done in consultation with one consortium, rather than through an open, public tender process?

Ms Stehbens—When that process started off two or so years ago, public expressions of interest had not been sought. The current consortium that the government is negotiating with became the preferred bidder after a public expressions of interest process.

Mr WILLIS—So what is the likely time frame for that now? Is there any sort of timetable for the likely development of the project?

Ms Stehbens—I do not know exactly but, hopefully, it will be this year. I am not quite sure exactly where the negotiations are up to. They are fairly well advanced.

Mr McCallum—Presumably we could come back to you with a progress report on that.

Mr WILLIS—Yes, that would be good. Thank you.

Ms Stehbens—I know they are well advanced. I am just not quite sure of exactly where they are.

Mr WAKELIN—Your executive summary mentions utilising the surplus capacity in existing rail corridors. Can you give me one or two examples of where in Queensland that would be occurring?

Ms Stehbens—You mean where there is surplus capacity?

Mr WAKELIN—Yes.

Ms Stehbens—I think at the time one of the issues was that we have a lot of low-volume branch lines and there may have been scope for those to be utilised for small localised operations perhaps, what are traditionally called ‘Ma and Pa’ operations, or something like that.

Mr WAKELIN—The context was stated as being ‘particularly where the impediment is purely access cost related’.

Ms Stehbens—If we can value that track at a low value—for example, it does not have a great commercial return value—we can potentially utilise that track on more of a sunk costs basis.

Mr WAKELIN—You already have the flexibility to value that at that level, do you not?

Ms Stehbens—Yes, there is some track in Queensland that, because of the nature of it, is valued at less than the replacement value.

Mr WAKELIN—The executive summary also states:

Responsibility for the regulation of harmonised interstate technical and safety standards of the rail industry should lie . . . with the Commonwealth Government and not with the rail operators. It may be desirable to consider the merits of the establishment of a national rail industry standards body.

Where is that at? Have you any time lines for that?

Mr Ford—From the rail summit held last year one of the initiatives that has come forward was a study to be undertaken across the industry of exactly what the industry wants to harmonise standards and what the priorities should be. First, what should we do? What is it going to cost and what does the industry really want? That study is due to be completed at the end of this month and presented to SCOT. That is probably all I can say. I believe that will cover those issues.

Mr WAKELIN—That is fine. You have given a time line and something is happening. Your executive summary notes the following key points for review:

There is a clear need for a single management structure for the interstate rail network including both access and infrastructure that is seamless and user friendly . . . improve ease of access, cost efficiency and effectiveness . . .

The Commonwealth has a major role to play including the provision of funding for the organisational developments and infrastructure upgrades needed to make the interstate rail network more competitive.

I think somebody mentioned this earlier, but has the standard gauge port link ever been used?

Mr Ford—Yes, I understand that the National Rail Corporation is running trains on it.

Ms Stehbens—It is accredited to run trains on it.

Mr WAKELIN—Is it used regularly? It looks a bit rusty.

Ms Stehbens—I think it became operational only last year in April-May. There were problems with the signals until mid last year.

Mr WAKELIN—So it had not been used up to that point?

Ms Stehbens—No, but it is operational now.

Mr McDOUGALL—How frequently is it used?

Ms Stehbens—I do not know the exact details. I know there has been less traffic going over the standard gauge to the port than there has been historically.

Mr WAKELIN—Could you find that out for us? Or should we find that out—

Mr McDOUGALL—I would like to know. The back windows in my office face the rail line, and I have never seen an interstate train on it.

Mr WAKELIN—It does look rusty.

Mr McDOUGALL—It is extremely rusty. That was finished in November 1994.

Mr WAKELIN—I understand that around \$30m came from One Nation. That is a ballpark figure. I am not saying that this is your responsibility, but when we make these statements about the Commonwealth providing funding and so on, sometimes it might be fair for the Commonwealth to ask: why should we spend \$30m on a rusty track? I leave that thought with you. If you have any comments, that would be good.

Ms Stehbens—There was a Queensland Public Works Committee inquiry into that line recently. One of the recommendations was that there should be greater marketing and so on. I think you will find that the Port of Brisbane and Queensland Rail will actively market that link.

Mr WAKELIN—I note your responsibilities also include port authority policy.

Ms Stehbens—Yes.

Mr WAKELIN—You would have oversight of that as well in terms of utilisation?

Mr Blake—Yes.

Mr WAKELIN—Mr Chairman, I wonder whether we should seek out that state Public Works Committee report.

CHAIR—I thank the representatives of the Queensland department of transport for their attendance today. I am sorry if some of the questions were a little pointed, but that is the sort of evidence we were getting and we needed to hear your side. If we require anything other than that we have referred to, we trust we can come back to you in writing. We are planning a hearing in Canberra on 5 May to catch up on any bits and pieces that might be required. I trust that, if we require you again, someone could come down, but that may not be necessary.

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

That the committee authorises for broadcasting this public hearing and the publication of evidence given before it today.

I thank you for your attendance, as indeed I thank everyone who has been here today, including those in the public gallery. I declare this public hearing closed.

Committee adjourned at 3.35 p.m.