



HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON COMMUNICATIONS, TRANSPORT AND MICROECONOMIC REFORM

Reference: Role of rail in the national transport network

MELBOURNE

Tuesday, 24 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

FEHLBERG, Mr Ray, Manager, Logistics Services, Australian Wheat Board, 528 Lonsdale Street, Melbourne, Victoria	699
FLYNN, Mr Joseph Anthony, Customs and Traffic Manager, Ford Motor Company of Australia limited, 1735 Sydney Road, Campbellfield, Victoria	713
HILL, Mr David Welbourn, Research Officer, Australasian Railway Association, PO Box 494 Collins Street West, Melbourne, Victoria 8007 . .	731
KIRK, Mr John Phillip, Executive Director, Australasian Railway Association, PO Box 494 Collins Street West, Melbourne, Victoria 8007	731
MARTIN, Ms Joanne, Government Relations Manager, Australian Wheat Board, 528 Lonsdale Street, Melbourne, Victoria	699
McCUTCHEON, Mr Raymond Ian, Australasian Railway Association, President, PO Box 494 Collins Street West, Melbourne, Victoria 8007 . . .	731
McMILLAN, Mr John, Deputy Secretary Contracts, Regulations and Compliance Services, Department of Infrastructure, Government of Victoria, Nauru House, 80 Collins Street, Melbourne, Victoria 3000	655
O'DONNELL, Mr Roger, Senior Analyst, Transport, Australian Wheat Board, 528 Lonsdale Street, Melbourne, Victoria	699
O'LOAN, Mr Roderick Francis, Chief Executive Officer, V/Line Freight Corporation, Level 1 Transport House, 589 Collins Street, Melbourne, Victoria 3000	655
PLUMMER, Mr Geoff John, Manager Australasian Logistics Services, BHP Transport, Level 29, 600 Bourke Street, Melbourne, Victoria	721
ROGAN, Mr John Michael, Director, Infrastructure Investment and Programs, Department of Infrastructure, Level 23 Nauru House, 80 Collins Street, Melbourne, Victoria 3000	655
ROGERS, Mr Murray, Managing Director, Australian Wheat Board, 528 Lonsdale Street, Melbourne, Victoria	699
SUTTON, Mr John Robert, Chief Executive, Victorian Rail Track Corporation, Level 17, 589 Collins Street, Melbourne, Victoria 3000	655

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Present

Mr Neville (Chair)

Mr Ross Cameron	Mr McDougall
Mrs Crosio	Mr Peter Morris
Mr Hollis	Mr Tanner
Mr Marek	Mr Wakelin
Mr McArthur	Mr Willis

Committee met at 8.48 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 Micro-Economic Reform in its inquiry into the role of rail in the national transport network. The public hearings today and tomorrow are in Melbourne. In opening the 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 proposals. The committee's role under the terms of reference is to investigate how rail could operate better now and in the future and to report its findings and recommendations to the parliament.

The public hearings this morning will enable the committee to take evidence from officers of the Victorian government, including the Department of Infrastructure, Victrack and V/Line Passenger and Freight. This will provide the committee with another state perspective on issues being considered by this inquiry. Also appearing today will be the Australian Wheat Board, the Ford Motor Co. of Australia and BHP Transport. Later today the committee will hear from the Australasian Railway Association, which has a wide membership drawn from those interested in or working in rail. On behalf of the committee, I welcome everyone here this morning, both witnesses and those in the public gallery.

McMILLAN, Mr John, Deputy Secretary Contracts, Regulations and Compliance Services, Department of Infrastructure, Government of Victoria, Nauru House, 80 Collins Street, Melbourne, Victoria 3000

O'LOAN, Mr Roderick Francis, Chief Executive Officer, V/Line Freight Corporation, Level 1 Transport House, 589 Collins Street, Melbourne, Victoria 3000

ROGAN, Mr John Michael, Director, Infrastructure Investment and Programs, Department of Infrastructure, Level 23 Nauru House, 80 Collins Street, Melbourne, Victoria 3000

SUTTON, Mr John Robert, Chief Executive, Victorian Rail Track Corporation, Level 17, 589 Collins Street, Melbourne, Victoria 3000

CHAIR—I welcome this morning the Victorian government witnesses. I wish to advise all witnesses that, while the committee does not require you to give evidence under oath, committee hearings are legal proceedings of the parliament and warrant the same respect as those that would be accorded to the House. Any false or misleading evidence is a serious matter and is regarded as a contempt of the parliament. A couple of points I would like to bring to your attention: if you use any proper names or quotations, you might defer to *Hansard* before you leave so that the record is accurate. Do you have any comments to make on the capacities in which you appear before this inquiry?

Mr McMillan—I am Deputy Secretary of the Department of Infrastructure and am responsible for contracts, regulation and compliance services. That includes responsibility at a departmental level for the rail industry primarily.

Mr Sutton—I am the Chief Executive of the Victorian Rail Track Corporation primarily responsible for the provision of access in the state, maintenance of the track and infrastructure—that is the non-electrified part or the non-Melbourne part—and managing train controls throughout the state.

Mr O'Loan—My responsibilities as CEO of V/Line Freight Corporation are for the commercialisation during the corporatisation process of V/Line Freight.

Mr Rogan—As director of infrastructure, investment and programs in the Department of Infrastructure I have a general policy responsibility within the department.

CHAIR—Thank you, gentlemen. Do you have any corrections or alterations to make to your submission at all?

Mr McMillan—No.

Mr Rogan—There are two typographical errors that I should correct: on page 1,

paragraph (f) (ii), the word 'returned' at the end of the second line should be deleted; and on page 10, paragraph 48, in the last complete line the word 'will' should be deleted.

CHAIR—Thank you. Mr McMillan, I presume you are leading the delegation?

Mr McMillan—Yes, Mr Chairman.

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

Mr McMillan—Firstly, I would like to thank you for the opportunity of being able to address the committee. By way of introduction we would like to update the committee on events that have occurred since we lodged our submission. The Victorian government's submission to the inquiry focuses on two ways to enhance the strategic position of rail as a significant provider of Australia's transport needs. The first is to improve the existing management and use of the rail system through: designation of a national track network joining the mainland state capitals and their ports with investment and management effort concentrated on the network; operation of the network as a single network with consistent investment and access arrangements rather than on a corridor or line-by-line basis; and the Commonwealth assuming responsibility through two separate entities for provision of standards for access, investment and ownership, and safety and accreditation standards.

Secondly, the Victorian submission addresses the strategic development of the rail industry and proposes that the Commonwealth stimulate this through shifting management and ownership of interstate rail operations and infrastructure from government to the private sector; addressing issues of competitive neutrality between road and rail, including restoration of the diesel fuel rebate to the rail freight industry; and developing an evaluation framework for rail infrastructure investment in prioritised funding on the national interstate network on a cost benefit basis.

There has been a significant move towards these objectives as a result of the Rail Summit of September 1997 and decisions of the Australian Transport Council in November 1997. The subsequent establishment of the Australian Rail Track Corporation and the study into harmonisation of operating standards and practices are very important initiatives.

Victoria strongly supports these proposals and has agreed in principle to lease its interstate track infrastructure to the Australian Rail Track Corporation for a period of five years. The terms of a lease agreement are currently being developed and a comprehensive due diligence process is being undertaken jointly by the Commonwealth and Victoria.

The rail industry is in direct competition with other modes of transport, particularly road transport. It is imperative that a level playing field be delivered if investment decisions are to be made in an environment which reflects the proper cost of such decisions. It is clear from the work conducted to date on the harmonisation study that

there is a great deal to be achieved before the freight industry would be prepared to make a long-term commitment to rail as a primary source for long distance transport.

It is important that the inquiry ensures that critical reforms are addressed. The harmonisation of safety standards and operating procedures will facilitate the entry of private sector operators into the industry, stimulating competition and efficiency. To emphasise our commitment on these issues, Victoria would support a single national safety and accreditation body. The Commonwealth government should lay the permanent foundations for a long-term, economically sustainable rail industry and accelerate its development. This should include a shift in management from government to the private sector over the longer term.

While there is currently a window of opportunity to make significant progress in reforming the rail industry, progress is painfully slow. It is now 15 months since the Commonwealth government indicated its intention to sell its shares in National Rail, but we still do not have a commitment from all shareholders to allow that sale to proceed. Victoria has agreed in principle to support the Commonwealth in the sale of its interests in the National Rail Corporation and has given approval to National Rail competing for business on the Victorian intrastate system.

The Melbourne-Adelaide and Melbourne-Sydney corridors are likely to continue to dominate rail freight movement. There is scope to gain significant returns by increasing utilisation of existing rail capacity in the Melbourne-Sydney corridor where rail provides only a small portion of the total medium and long distance freight market. These corridors should be the major focus of investments which address current capacity constraints and performance limitations. Those projects with the highest benefit cost ratios should be given priority for investment.

The Victorian government welcomes the Commonwealth's proposed \$250 million rail infrastructure package over four years as a crucial step in this reform process. Indications from previous work by the Bureau of Transport and Communications Economics in its 1994 study, the work of the National Transport Planning Taskforce and the current harmonisation review are that this sum is well short of what will be required. Victoria nominated \$246 million of rail infrastructure works in Victoria on the Melbourne-Sydney and Melbourne-Adelaide corridors in its submission to the Commonwealth government for the Federation Fund. An initial survey carried out by the Commonwealth's Track Access Unit to develop a capital program for the Australian Rail Track Corporation has identified some \$1.2 billion worth of works required on the national network.

In summary, it is clear that a strong commitment is required at the highest levels if we are to take advantage of the window of opportunity that exists to reform the rail industry and to make it a long-term viable and significant contributor to the national transport task. Victoria believes that a robust rail industry is fundamental to our future transport requirements. We support the current reform initiatives and believe that the

Commonwealth must take an increasingly significant role in accelerating rail reform in the national interest.

CHAIR—If I could open the batting. This is evidence we are taking from other people, so I am not setting you up for a particular question. What is your view on the likelihood of rail being able to compete in the long term if there is not a major injection of funding? You have used the figure of \$1.2 billion on the track, but what is your general view of how much needs to be injected into the system, especially the Brisbane to Perth system, in the foreseeable future if we are not to see rail slip further behind? We had evidence in other centres that a critical point was emerging beyond which rail would not be able to compete. What is your view on that?

Mr McMillan—What we are doing is confirming the views that have been brought out by expert reviews and expert assessments of the industry and of the infrastructure in particular. The figure that the Commonwealth's Track Access Unit is quoting now of about \$1.246 billion is really consistent with the figure that we have used and which was developed by the National Transport Planning Taskforce. It certainly seems that the scale of works to be done to get the infrastructure up to a reasonable level is fairly consistent.

It is quite clear from the information and feedback we are getting from the operators—as you know, we now have a number of private operators apart from National Rail on the interstate system—that the condition of the infrastructure is certainly precluding them from further developing the businesses that they are currently operating and in the long term represents a real impediment to further development. Our general position is really to support those views that have come out of those various reviews by the experts.

CHAIR—Getting into the particularity of it, we have received two points of view on how that might be achieved in the short to medium term. One is that, unless rail can compete efficiently with road in terms of transit times between major centres, the whole thing is a lost cause. The other view is that if we were to look at incrementally improving all the hot spots around the Australian rail system—longer loops, more of them, strategic positioning, removing dangerous and slow curves and so on—we could improve the system by the strategic positioning of these incremental upgrades. What is your view on that? Do you think we have come to a point where we have to go for the big dollars?

Mr McMillan—Mr Sutton can add to the comments that I make. In establishing the Australian Rail Track Corporation it was agreed that the funding of the extent we are talking about—in total terms of \$1.2 billion and that sort of thing—is just not available in the short term. It is very clear from the outline you gave of spending the money that is available on the hot spots that it would give you a very big return for relatively small investment and is the only practical way to go.

Some of the thinking in the discussions we were present at in the lead-up to the decision to establish the Australian Rail Track Corporation was that the corporation will

have the ability to borrow money for commercial investment. Perhaps a line of thinking for the new corporation might be to seek private investment in those parts of the infrastructure that are a good investment and that would appeal to investors, and perhaps to leave its grant money—for the want of a term—to those second order of things. The ARTC might be able to attract money from outside for those most critical things with the highest returns and reserve their own funding for those things that are still of high benefit but perhaps not as high a benefit that might attract outside financing. Mr Sutton, do you want to make a comment?

CHAIR—I might come back to Mr Sutton because I had some specific questions about the Melbourne to Adelaide line, because that has come up in evidence just about everywhere as being the weak line in the national system. Just before I defer to my colleagues, I would like your view on the community service obligations. Again, this is not directed specifically at Victoria, we have asked the same question of the other states. What is your annual CSO on the suburban or metropolitan rail network? Also it is not quite clear from your submission how you handle the country and urban rail services; are they separate CSOs or are they a collect one? The other question we would like to know is how many urban passengers you carry per day in the metropolitan area.

Mr McMillan—In answer to the first question, at the moment the Department of Infrastructure has a service agreement with the Public Transport Corporation of Victoria, which is a government statutory authority, to deliver rail passenger services, metropolitan and rural urban.

CHAIR—Do you split those?

Mr McMillan—They are separate businesses within the PTC but so far as our granting them a subsidy—or a CSO as you referred to—it is a total subsidy that we provide at the moment. It is in the order of \$180 million per annum.

CHAIR—Could you give us a rough break down of suburban against country?

Mr McMillan—I cannot give you those specific figures.

CHAIR—Could you come back to us on that?

Mr McMillan—We could probably come back with those. That is the subsidy that covers at this point in time rural passenger, metropolitan suburban train services, the metropolitan tram service and the remaining government bus service.

Mr McARTHUR—Could I just ask: how do you establish the \$180 million figure?

Mr McMillan—In very simplistic terms, how it is calculated is that the PTC puts

in a budget each year; we agree with them the level of services for the various businesses; they do an assessment of things like patronage and other revenue increases, their costs and the productivity improvement gains they have to get; and essentially the subsidy is the balance between the difference of the various revenues and so forth against the total costs.

Mr McARTHUR—What is the total loss of the total railway system?

Mr McMillan—Do you mean in accumulated terms or per annum?

Mr McARTHUR—Per annum.

Mr McMillan—At the moment our contribution to the Public Transport Corporation is just less than \$200 million in cash—cash subsidy per annum.

Mr McARTHUR—The rest of it is a break-even position?

Mr McMillan—One other service is Mr O’Loan’s V/Line Freight which is a separate body and has been established on a commercial basis, but we are negotiating with them a very small CSO for a particular part of the freight business. The other part of the rail business is Mr Sutton’s track business which at the moment is running in deficit but has a commercial charter to be operating in the black after a couple of years.

Mr McARTHUR—So from Treasury’s point of view, it would only be allocating \$180 million extra to keep the show on the road?

Mr McMillan—That is just in cash per annum.

Mr McARTHUR—Thank you. Sorry to interrupt, Chairman.

CHAIR—Just taking that point up, could you come back to us with the figures separating the suburban rail as distinct from buses and trams so we can get comparison state to state; and also—if you have not got it on the top of your head—figures on how many suburban passengers are carried per day, again excluding buses and trams.

Mr McMillan—In the 1996-97 year, there were total passenger trips of 300 million and the suburban train system was—

Mr Rogan—Slightly over 110 million trips per annum.

CHAIR—Per year?

Mr McMillan—That is per annum. The country rail passenger service was around about seven million passenger trips per annum. So the metropolitan electrified rail passenger service, the commuter service, carried about 110 million people per annum or

110 million trips and the country rural service was about seven million trips per annum.

Mr McARTHUR—The definition of a trip is from A to B in the morning being one trip and then the evening back again another trip?

Mr McMillan—Yes, so a lot of those are the one person making a trip in and a trip back.

Mr McARTHUR—I just want to be clear that we are all counting the same way.

Mr McMillan—Exactly.

Mr McDOUGALL—In reading your submission I can only get the idea that Victoria wants to get out of the rail business and give it all to the Commonwealth. Based on the evidence you have just given in relation to losses, why do you want to get out of it? We have New South Wales who runs a \$650 million deficit on their urban rail and they do not want to get out of the business. Why do you want to get out of the business and pass it all over to the Commonwealth?

Mr McMillan—I do not think we are suggesting that it all be passed over to the Commonwealth. We are making two suggestions. I think Victoria is going down the track that the rail operation is best left to the private sector; that is, the operation of freight rail operations and the operation of passenger rail operations are best left to the private sector. So far as infrastructure is concerned, we accept the responsibility for our own state infrastructure, which is the area that Mr Sutton looks after. The thrust of our point about the Commonwealth is there does need to be a national approach to the overall management of the interstate network, the track, the infrastructure, the access to it and the investment in it.

The other thing where we believe there has to be a national approach is on safety and accreditation. At the moment we have five different safety and accreditation bodies. Speaking to the private operators who have come into the national rail system, they have indicated to us that, if they knew at the outset the processes they had to go through to get onto the system, they probably would not have done it. There have been references made on the rail safety side to adopting the aviation model, and that is the sort of thing we are talking about. Probably if there had been Federation before the advent of rail, we may well already have had an aviation model applying.

Mr McDOUGALL—Just on the point of access, in your submission you seem to be saying that the Commonwealth should take the role on access, and one therefore assumes that we should take the role in settling disgruntled customers through a tribunal or a commission system somehow. We have taken evidence in New South Wales about a parallel system where there is a body called IPART, although it is questionable as to whether it has any teeth and whether it works. We have already seen the NCC make a

decision and the state decide not to go along with the decision. In Queensland we see a vertical system where the QR is setting up its own tribunal system so Caesar judges Caesar. On the basis of the evidence that has come to us that those two states do not want to give up that role and that power under any circumstances, do you really believe that we could get an agreement between the states to pass some sort of legislative power to the Commonwealth to act in that role?

Mr McMillan—Obviously we cannot speak for the other jurisdictions but we do not believe it is mission impossible either. If we go back to the rail safety issue—

Mr McDOUGALL—You have said the safety; I am more interested in the access side.

Mr McMillan—All right.

Mr Sutton—Under the agreement between the states and the Commonwealth, under the responsibilities of the Australian Rail Track Corporation an access regime was to be established as part of their initial requirements. I do not see any reason why for the interstate component, depending on how they establish that regime, they would not be able to get the concurrence of the other states under that particular jurisdiction to have an embracing regime which encompasses the issues that they are talking about without infringing on their so-called sovereign rights. I do not see a problem with the ARTC establishing a regime. Depending on how far they go with that regime, whether they want to test it through the ACCC or whatever process they want to go through, certainly one of their first requirements is to do that and I do not believe it is a situation which is impossible to achieve.

Mr McDOUGALL—I have a lot of other questions and I know that my colleagues are going to ask a lot of them, but if I could just ask one more question in relation to private investment: you no doubt are aware of the proposal for the Melbourne to Darwin railway. If a private operator comes along and wants either to lay a track within an existing Vicrail easement or within the interstate easement or to create a new easement to run a rail, what are the terms and conditions that the Victoria government would grant that easement and would they charge a cost for the rights to run that easement?

Mr Sutton—That is a difficult question to answer directly because I simply do not know at this stage what their view would be. But we know that the sympathies of the government here would be towards embracing and encouraging that sort of development. Just how far it may go in terms of costing the various options, I cannot answer at this point in time other than to say to you that the attitude here would be certainly one which was conducive to very cooperative development in ensuring that, once the benefit was determined, that the process occurred.

Mr McDOUGALL—Queensland has answered the question. Is it possible that you

could get an answer to the committee?

Mr Sutton—I think we could an overall view in an answer, yes.

Mr McDOUGALL—Yes, I would appreciate that.

Mr WILLIS—Gentlemen, you make quite a point about the importance of privatisation. What do you see as most important, privatisation of existing operators or the introduction of private sector competition against the existing operators?

Mr Rogan—I think both are important elements. Our approach to this has been basically that in the long term governments should not have an operating stake in the industry. In Victoria we have also gone out of our way to encourage private freight operators. We would see them as complementary initiatives.

Mr WILLIS—I presume you would have some concerns if you had private sector operators in monopoly situations. Do you see competition as being the most essential aspect in that circumstance?

Mr Rogan—If you look at how Victoria has handled privatisation in other industries such as electricity and compare that with some other jurisdictions around the world, Victoria has been at pains to ensure competitive arrangements. Fundamentally, competition is what we are seeking to achieve even if that means that there are diminished proceeds for the state as a result of the privatisation.

Mr WILLIS—You say in your submission that there are 10 private operators. Could you give us a list of those operators and I do not mean tell us now. I think we have one of them coming before us—West Coast Railway

Mr Rogan—Sure. SCT is also appearing.

Mr WILLIS—You include the SCT. Can you give us a general assessment on how significant those private operators are in the system at this stage?

Mr McMillan—On the passenger side there is West Coast Railway which operates the Melbourne-Warrnambool line and there is Hoys Transport which operates the Melbourne-Shepparton-Cobram service. I mentioned that the total country passenger service was about seven million trips per annum. Those two companies between them probably carry some half a million trips out of that total. That is on the passenger side. On the freight side, most of the private operators are actually in the interstate trade—SCT, TNT and Patrick's—and within the state system there are some small operators who do some shunting and small yard services.

Mr WILLIS—In relation to the CSO of \$180 million, how has that moved over

time?

Mr McMillan—You may recall that, when the current government came to power, that figure was in excess of \$500 million per annum. I must say on that point that, in responding to the issue as first raised by the chairman, that is the cash subsidy of the operating deficit. There is a capital money and so forth on top of that, and depreciation and things like that. So I just repeat that that is the deficit of fund recurrent operating costs.

Mr WILLIS—That has been reduced by what means?

Mr McMillan—When the current government first came to power in October 1992, the then minister announced the reforms from a system to a service, which earmarked \$245 million per annum of recurrent savings and those things included driver only suburban trains, driver only freight trains, general efficiencies, closure of several workshops—all of those sorts of reforms. It is a well published reform package which we could make available to the committee, if you were interested.

Mr WILLIS—If you could give us that, that would be good. Could you also tell us what you propose in relation to privatisation of the metropolitan system which I understand has been announced?

Mr McMillan—Perhaps I can start and then Mr Rogan can finish answering the question. In terms of privatisation, there have been two things that have already happened. In 1993 the government privatised the first of the government buses. In Melbourne we had a fleet of something in excess of 400 government buses when 80 per cent of that fleet was privatised with the private operator commencing in November 1993. The balance of the government bus service has just been privatised and the new operator will commence in March this year. The government will then be entirely out of the operation of buses in the public transport system. So far as the privatisation of the balance of the public transport system, the Minister for Transport announced on 17 April last year that the passenger train services—that is metropolitan and country—the tram system and the intrastate system, V/Line Freight, would be privatised by the end of this year.

Mr WILLIS—I am grateful for that information but I was asking you particularly on the metropolitan railway system because I understand there has been a proposal put forward for the privatisation of that. Could you tell us how that is going to take place?

Mr Rogan—The metropolitan rail system is currently divided into two businesses, Hillside Rail and Bayside Rail, with Hillside servicing the Clifton Hill and Burnley loops and with Bayside servicing the balance of the lines. Those two businesses are proposed to be privatised over the latter part of this year and early next year. They will clearly require ongoing subsidies from the government. It is anticipated that they will be privatised as integrated businesses. In part it reflects the fact that in the case of Hillside they are the

only operator on the track and in the case of Bayside over 90 per cent of the traffic is Bayside traffic with a small amount of freight and V/Line passenger traffic.

Mr WILLIS—And the two systems will travel on each other's territory?

Mr Rogan—No, they are separate networks.

Mr WILLIS—So no train on one network will travel on the other network?

Mr Rogan—There may be certain circumstances related to special events or emergencies and the like, but they are discrete networks even in terms of the loop lines. However, they do share some common station infrastructure and have a train information system which can be made partly divisible. It is certainly our intention long term that infrastructure investments by either operator would need to be consistent with what the other operator was doing. We would not want to get too balkanised a railway system over time.

Mr WILLIS—How is that going to operate? Is it on the basis of a competitive bid for a minimum CSO, minimum subsidy?

Mr Rogan—Yes, it will be a bid for a subsidy subject to quite detailed passenger service requirements that the government will specify as part of the contract.

Mr WILLIS—What happens to fare control in that assessment?

Mr Rogan—Fare control is intended to remain with the government contractually.

Mr WILLIS—So the government will continue to set the metropolitan fares?

Mr Rogan—There is currently a multi-modal system in place, the met ticket system. It is envisaged that that will remain and that will in effect act as a cap on any fare which operators might choose to impose on their own route.

Mr WILLIS—There are various other questions I would like to ask but I better let somebody else have a go.

Mr WAKELIN—Just following up on the CSO operating subsidies, can I get a feel for the trend of the \$180 million or \$200 million over a decade and looking into the future? I presume that all governments are trying to minimise, but what might it have been five years ago and has there been a significant trend down?

Mr McMillan—Yes, there has. As I mentioned in response to the last question, there was in excess of \$500 million as at 30 June 1992 and the comparable figure to that now is the \$180 million that I mentioned.

Mr WAKELIN—You mentioned something about the capital as a separate line—maybe I missed this too—did you mention the sort of figures that might be?

Mr McMillan—The capital expenditure has varied over the years. It is currently running at under \$200 million.

Mr WAKELIN—So it was around the \$400 million type input in the last financial year?

Mr McMillan—Roughly, yes. When I mentioned that \$500 million, the capital still had to go on top of that as well.

Mr WAKELIN—Yes, that was back in 1992?

Mr McMillan—It is important not to confuse the recurrent deficit funding and capital injection figures.

Mr Rogan—There are certain other unfunded items, particularly depreciation and superannuation, that are on top of those two numbers.

Mr WAKELIN—Yes.

Mr McARTHUR—They are very severe. They are quite big items with depreciation of the whole infrastructure?

Mr Rogan—Yes.

Mr McARTHUR—And the rolling stock?

Mr Rogan—Yes.

Mr McARTHUR—And the superannuation?

Mr Rogan—Yes.

Mr McARTHUR—Pretty big figures, are you prepared to give us a ballpark figure on those?

Mr Rogan—We can check it up. I think our asset base is about \$7 billion in historic cost terms, but we can give you a more informed figure on each of those items.

Mr McARTHUR—Where does the depreciation come into that, where is it allowed for?

Mr Rogan—It is not provided in the accounts per se because they are cash accounts.

Mr McARTHUR—I thought the Kennett government was re-adjusting their outlook in those matters.

Mr Rogan—It certainly will be made transparent in this privatisation process which does actually crystallise these liability issues.

Mr WAKELIN—What might be the timeline in that sort of accounting methodology?

Mr Rogan—All these things have to be made transparent over the next 12 months or so.

Mr WAKELIN—What I am trying to get a picture of—and the chairman mentioned this right at the beginning with this CSO, or whatever we want to call it—is the Victorian situation because we have some pictures of Queensland and New South Wales. Pretty big numbers are being talked about: in Queensland, they talked \$500 million or \$600 million; and in New South Wales \$600 million to \$700 million. So we are really talking in ballpark figures of not a dissimilar amount in terms of operating subsidy, capital input and those unfunded liabilities, if I can put it that way, that are out there currently.

Mr McMillan—As long as in each case we are comparing apples with apples.

Mr WAKELIN—I am not trying to set it up in that way; I am just trying to understand what the nature of the funding is because the Commonwealth is being asked to do certain things. We are just trying to get a picture of it.

Mr McMillan—Sure, I understand that. But the figures we have been quoting to you have been the cash injections required on an annual basis. But we have undertaken to give you the total figure including depreciation, superannuation costs and those sorts of things.

Mr WAKELIN—Fine. You touch on safety accreditation in your presentation. In the summary you state:

. . . Victoria's vision for rail in Australia envisages:

* a period of continuing reform at the individual jurisdiction level, particularly in respect of operational issues.

I am trying to find out what you understood was a reasonable timeline for some kind of progression from the Rail Summit.

Mr McMillan—After the last Australian Transport Council meeting on the harmonisation of safe working and operational practices it was agreed that SCOT—that is the Standing Committee on Transport—was to come back to the next ATC meeting, which I think is scheduled for April this year, with a program of the issues that actually had to be addressed, a time frame against which they could be addressed and some suggestions for practical implementation straight away. I am not sure whether you are aware but the Commonwealth and the states engaged Maunsells to do a particular study of all of those safe working and operational practices and to come back to SCOT with a detailed report for consideration in April. I would imagine ministers of the Australian Transport Council would be able to sign off on a harmonisation implementation program at that meeting—or that was the hope anyway.

Mr WAKELIN—That is quite positive because obviously a period of time has elapsed where you have had roughly six months to try to get to that position.

Mr McMillan—Yes.

Mr WAKELIN—So that is quite optimistic of where you might get to with those operating procedures.

Mr McMillan—I think it will allow the Australian Transport Council to move from the generalised description of problems that were being put forward by industry and operators and so forth to a detailed inventory of the sorts of things that need to be addressed as well as possible time frames.

Mr WAKELIN—And really have the prescription and time frames?

Mr McMillan—I believe so. It is quite an extensive study that is being done by Maunsells.

Mr WAKELIN—You have touched briefly on National Rail and the issues there. Despite the 15 months or so that has elapsed, I presume that you would be optimistic that that would proceed in this current period; is that right?

Mr McMillan—We certainly hope so. Our government has taken an in principle decision to sell its equity in National Rail in concert with the other shareholders.

Mr WAKELIN—I have just one more question dealing with rail staffing practices and it touches on, for example, the trains changing crew at Dimboola and the cab back. Could you comment on that issue in the context of how that is coming along in terms of general practices like that throughout the industry?

Mr McMillan—I certainly can remember the changeover arrangements at Dimboola. Most of those arrangements were tied to the old days when the various state

freight systems were jointly operating interstate systems but they were generally bound by the working conditions and arrangements that applied to the intrastate system. They were also very historical. I think National Rail—through the development of their EBA and the intention that they operate from a greenfields position—were able to negotiate away many of those things, but it has been a progressive thing. In Victoria our situation of going to driver only freight trains has been a process of evolution and making a gain at each step along the way.

Mr WAKELIN—I do have one more question; I will just indulge myself. In your submission you make what I think is a very good comparison about the freight transfer between various modes in Australia and you draw on the experience of other countries. Australia has not been too bad in that it is holding onto rail, which is perhaps a little bit contrary to the public perception. I would appreciate a comment on that.

But perhaps as important as anything is this constant discussion about the competition—you touched on it as well; we all do—between road and rail and the need to come to terms with the proper signals in terms of the investment climate for road and rail. Could you make a couple of comments in the international context of the holding or not holding onto rail and also on the sort of investment policy we should look at for the Commonwealth?

Mr McMillan—Perhaps I might ask John to make a comment.

Mr Rogan—Some of that data is somewhat historical now. A more current reflection on that issue is to have a look at what has happened with freight in the UK with EWS, which is a Wisconsin US based firm. Basically what they are doing in the UK is going out and aggressively taking product off road rather than confining themselves to traditional traffics. EWS also now owns Tasrail and we understand that similar things are happening down there. So while there has been generally a traditional modest decline, that is not to say that, with the right management and the right drive, those sorts of trends cannot be reversed. Some of the private operators are now showing some evidence of that in other places. I am sorry, I missed the second part of the question.

Mr WAKELIN—Just this constant issue between road and rail in relation to investment and incentives. For example, the Commonwealth is the one that comes up with \$600 million or whatever it is for the Pacific Highway—this is not related to Victoria directly but the pressure of competition that then puts on to the rail system from Sydney to Brisbane—those sorts of road-rail investment issues.

Mr Rogan—How we are trying to handle road here is basically by putting both rail and road investments through benefit cost tests. Traditionally, rail has been disadvantaged in many jurisdictions because it has been subject to a financial test not an economic benefit test. In Victoria it is subject to an economic benefit test so that if, for example, there are major travel time savings to passengers on a metropolitan investment then that is

taken account of, even if the investment itself has a benefit cost ratio of less than one. That is the test we would propose. It is not simply a matter of \$600 million for roads and \$600 million for rail, it is looking at the relative benefits and costs of specific investments. It relates to the question Mr Neville asked earlier about hot spots and trying to address those parts of the network that particularly have high benefit cost ratios. And that is nationally—not specifically with respect to any project in Victoria.

Mr WAKELIN—Thank you.

Mr McARTHUR—Firstly, could I compliment you on your very good submission. Can I raise five issues fairly quickly: first, the access charge from zero to a figure. It has just been a bit hard for the committee to establish what various instrumentalities are basing their charge on and what rationale they are using. We were in a bit of trouble working that out in New South Wales. Queensland has a different approach and, of course, National Track is still setting up their regime.

The second issue is this integration argument with the track and the rolling stock being under one control. Mr Burkhardt has put some evidence to this committee that on international experience it is better to have the rolling stock, the operator and the track under one control as they have done in Tasrail. I would be interested to know your comment on that. Likewise with Queensland Rail, it would appear to me that they are controlling access under their regime. They are going to give us some further evidence on their philosophic view of the matter.

The third matter is the capital investment. It has been suggested by a number of studies that the Australian railways system needs at least \$3 billion in capital investment. Is your privatisation program an attempt to make up for that lack of investment by the Victorian government in the Victorian rail system?

The fourth one is the matter of safety which looms large in terms of the comparison with the road network. For instance, with dangerous goods transit from Perth to Brisbane, there is only one requirement by road operators while I gather there are numerous requirements on the railway. It is quoted that there are 22 safety regulations around the Australian rail networks. How would you overcome that?

The final minor point is the standard gauge arrangements for V/Line Freight, in the next submission from the Australian Wheat Board they are saying it would be helpful if there was a standardisation of gauge to assist in the transport of their product.

Mr McMillan—Thank you, Mr McArthur. Perhaps on the access question, your first question, on how we frame our charges and how that system works I will ask John to respond to that.

Mr Sutton—In Victoria we do not post prices per se but we have a two-part tariff

system which is made up of a fixed cost and a variable component. What we have here is a regime which is defensible in terms of one competitor challenging me against the fact that he may be paying more or less. This is because we do not post prices. I need a very defensible regime here between competitors in order to ensure that I treat one exactly the same as the other within reason.

We have a defensible access regime here but it is principally made up of two parts. Most of the costs are fixed in rail. We need to strike a balance between what we believe help reduce the cost of providing the infrastructure in the first place with those two parameters, the fixed and the variable component. All of that needs to be put into context of what we believe is the market price process. It is no good my putting access regimes together which just reflect my costs if they do not allow for some degree of competition from a market point of view because, if we were to price it accordingly, they could all go by road. We have a market driven process here made up of two parts.

CHAIR—Mr McArthur, it might help for clarification on that point: Mr Burkhardt from Tranz Rail made a very interesting observation. He does not agree that just giving access is necessarily the answer and that various rail systems may be competitive within themselves but a Balkanised rail system may not compete with road in any way, shape or form. In the context of Mr McArthur's question, could you just open that up a bit? How do you protect the Victorian system from getting into that Balkanised state? Do you have a value judgment model as well or is it just open access and that is it?

Mr Sutton—No, in the case of the interstate market it is a well formulated market tested regime. The operators there are private freight forwarders that are competing against road. There is a certain market share with road versus rail that they have in that particular area and it is a well tested process. They may argue that there are differences from one regime to another which they believe do not need to be there. The establishment of the Australian Rail Track Corporation will address that particular issue.

Apart from a number of issues which it is designed to introduce, it also makes the thing a lot more seamless from the customers' point of view. But even in the case of the access regime per se that we were talking about, there is not a great deal of difference between the quantum of the charge between regimes. Some post them; so do not. All of them are generally based on a regime of fixed and variable components largely.

So there is an incentive to grow the business as a result of that, but overall it is designed to balance with the market driven forces which allow that sort of modal share to occur. If it was lowered or raised, then it would certainly affect the modal share. In many cases, the rate that is charged does not necessarily bear a direct resemblance to the actual cost of providing the infrastructure in the first place. What I am saying is that it is a market based regime rather than a cost based regime.

Mr McARTHUR—Integration was the next one.

Mr Rogan—In dealing with integration, there is no set formula around the world. The US and New Zealand are integrated; the UK is separated. There are probably three competing factors that are pulling in different directions and they became a judgment on the facts of any individual situation. The three key factors are firstly that technically rail is the task that most closely relies on a very close relationship between vehicle and track. So technically it pushes you in the direction of integration. Depending on the degree of competition that either is occurring or is likely to occur on the track, that is pushing you in a separation—other things being equal. The third one is how you handle the two different types of task, freight and passenger. If you integrate track with a freight operator, which tends to be what happens in those places which are generally integrated, how do you ensure an adequate passenger regime. It is a judgment on the facts based on the specific markets that are operating in your particular jurisdiction.

Mr McMillan—I think relevant to that point too is that Mr Burkhardt himself has supported having a common owner of the interstate network rather than vertical integration of the interstate network, which was originally proposed when National Rail was established. But he certainly supports vertical integration in the case of smaller systems which are not so open to competition and where the real competition is with the road. I think he has made those two separate points in discussions I have had—

Mr TANNER—Self-interest might have something to do with that.

Mr McARTHUR—I agree there is a bit of self-interest in it, but he does bring to bear some international experience on the argument.

Mr McMillan—The US experience is very much one of vertical integration because that is the way their systems grew up.

Mr McARTHUR—And he would claim regulation, which is one of his other arguments.

Mr McMillan—Yes.

Mr McARTHUR—You have three more to go—the capital investment on the privatisation.

Mr McMillan—On the capital investment, I would just like to make a point to start with where I think he made a reference to Victoria underinvesting in the track. Probably the issue that highlights that most is the east-west corridor between here and Ararat. Originally, the main freight line and passenger line between Melbourne and Adelaide via Ararat was via Bacchus Marsh and Ballarat, and that was A1 first grade track. Now National Rail in its wisdom—and we do not question—decided that, for the standard gauging, the best option for them was to upgrade the line through Cressy, which

was a secondary line. Cutting a long story short, there was not sufficient money put into that upgrade to bring it from a broad gauge second-class track to a first-class first grade track. That is a point that really needs to be understood in the criticisms of the Victorian part of the interstate network, but perhaps John might like to say a bit more about that.

Mr Rogan—In terms of the capital investment and privatisation, one of the things that the government has not got particularly right over a long period has been an efficient use of capital. One of the rationales behind the reforms in Victoria is to seek to ensure that capital investment decisions are made on a proper economic basis. That does not mean that there will not be government support either directly for the capital investment or indirectly through subsidy for that particular project, but it is hoped that by introducing privatisation you will get a stronger market discipline on those investments than perhaps has been the case historically.

Mr McARTHUR—All the evidence we have had is that governments have not invested in rail while they have invested billions of dollars in road networks. They have put nothing into rail comparatively.

Mr Rogan—There has certainly been less investment in rail.

Mr McARTHUR—Less? There has been virtually nothing.

Mr Rogan—Over a couple of decades there has been significant investment in metropolitan rail systems in Melbourne, Sydney and Brisbane and actually in Perth, although it has been much less so in Brisbane.

Mr McARTHUR—But compared with the road network, there has been virtually no investment in the rail network.

Mr Rogan—There has certainly been dramatically less, yes.

Mr WILLIS—Can I just ask: whose responsibility do you see it as being to upgrade the Melbourne to Ararat track where I understand there are piles of concrete sleepers piled up beside the line and everyone is refusing to pick up the tab to put them under the rails and to get the line in a much better shape; whose responsibility do you see it as being?

Mr Sutton—Primarily the Victorian government's. As you are aware, it has entered into an agreement to lease its asset to this new organisation which is being established through the Commonwealth. Nevertheless, to answer your question, it is Victoria's primary responsibility to ensure that the situation on that section of line is attended to. In fact, there are plans for that to occur.

The issue that Mr McMillan was talking about was the criticism that has been

aimed at the Victorian government for supposedly lack of investment on that standard gauge line. It was to give you some idea of the reasons why it came about but it was not to do with lack of investment by the Victorian government; it was to do with the failure of the One Nation money funding program to adequately finish that section of track. The money ran out before the concrete sleepers could be laid. They were purchased as part of that process but there was simply no more funding available under that program for the project managers, who were National Rail at the time, to put them into the track.

Mr WILLIS—If you said it has been the Victorian government's responsibility to do it, when is it likely to do it?

Mr Sutton—There is a section of track there, about 200 kilometres in length, which are now operating with various types of speed restrictions. The most serious part requires the installation of those concrete sleepers that you were talking about and there is a program in mind to have that done over the next 12 months.

There is another section of line which is operating at a slightly reduced speed restriction between Melbourne and Geelong, and there are plans to have that rectified by the end of this calendar year. The remaining section, which represents about a third to a half, is not so easy to rectify. At the moment there is about a 20 kilometre an hour speed restriction on that track and it is substantially below standard for running over 100 kilometres an hour. It needs a fair amount of investment in there. What we are looking at the moment are specific sections within that area to see whether we can improve the process—it will not be done in one year—while we determine a program for how that section is to be upgraded.

The other issue associated with that whole exercise will be the process that the ARTC will use in conjunction with Victoria, and that is the benefit cost process to determine where it is best spent. There is an allocation of funding, as you are aware. In the first year I think they are proposing to spend about \$36 million on the interstate standard gauge network. Obviously, those sorts of issues will loom high in terms of their determination on the priorities of where it should be spent.

Mr WILLIS—For those two sections of the rail where you say there are plans to do it in the next 12 months or by the end of this calendar year, when you say 'plans', are they decisions of the government to do it or are they potential decisions?

Mr Sutton—The reason I suppose we are sort of hedging on that is the contention that Victoria has, which is that the problems in that area are not of its making. So therefore Victoria has had a sort of a claim, if you like, initially against National Rail, who were the project managers, but more lately against the Commonwealth. But, at the end of the day, if there is no money forthcoming this state will need to pick up the deficit and fix the problem up.

Mr WILLIS—Thank you.

CHAIR—On that same point, we have had a fair amount of evidence to say that the Melbourne to Adelaide link is the weak link in the Brisbane to Perth system and that even the Alice Springs to Darwin link will be inhibited somewhat if it cannot take rail freight in the appropriate time spans out of the Victorian system. In those comments you just made about the condition of the rail, were you referring just to the Victorian border?

Mr Sutton—Yes, I was.

CHAIR—There is also apparently a section in the Adelaide Hills.

Mr Sutton—There are probably a number of sections right across the network, but I agree that the particular section you were referring to between Geelong and Ararat does need attention—we recognise and acknowledge that fact. We have given you the reasons why it is in that condition at the moment and the fact that, no matter what happens, there is an obligation for us to put some capital into that.

Mr McMillan—Perhaps to finish off on that point, we have estimated that, for the Victorian section of the east-west track, there is probably about \$90 million worth of works required to bring it up to the A1 interstate standard although we can get over the most immediate problems like concrete sleepers of that section. We would believe that some of those works would rate very highly in consideration by the Australian Rail Track Corporation for investment of some of that \$260 million. As I said in my opening statement, the Victorian government has included works on that line in its request for funding out of the Federation Fund.

Mr McARTHUR—For a new railway line as well because I understand the railway line is past its use-by date?

Mr Sutton—That is in another section. But, yes, there is a part of the interstate network which ultimately will require some re-railing.

Mr McARTHUR—Safety in the V/Line Freight: safety between the national and the state operations compared with road operators safety requirements; could you just give us a comment on that?

Mr McMillan—Rod can perhaps enlarge on my answer. The most simplistic response is that for a road operator to operate on the interstate system he simply has to get his vehicle registered and you have to make sure that he has a driver with the appropriate endorsement level of licence. But to operate on the interstate rail network between Melbourne-Sydney-Brisbane and west to Adelaide and Perth, an operator has to—

Mr McARTHUR—There are 22 different safety standards.

Mr McMillan—That is from the operating side; that is just safe working; they are the rules. But what I am talking about here is actually getting an accreditation to operate, the rail equivalent—

Mr McARTHUR—We know all that but what are you going to do about it?

Mr McMillan—That is why we have been supporting the Commonwealth to say that there should be—

Mr McARTHUR—No, what is the state attitude?

Mr McMillan—The first step in getting some rationalisation into all of this was the intergovernmental agreement that was struck at the Australian Transport Council in 1995. As a result of that, Victoria has introduced its Rail Safety Act to implement the rail safety regime that was spelt out in the intergovernmental agreement. We have done that and our regulations are about to go out through a regulatory impact statement process to put in place the regulations that provide for the accreditation regime to apply.

The point we are making is that, even though there is a consistency attempting to be made in the rationalisation of each state's rail safety legislation, even at the end of the day there is still going to be five safety systems and five interpretations of it and all of that sort of thing. I think the point we have been trying to make through our submission is that there is a further step that needs to be made, that is, to establish some sort of national safety management entity.

Mrs CROSIO—Your submission very clearly demonstrates what you feel the role of the Commonwealth is in the rail industry. Where do you envisage the state and local governments going in the future?

Mr McMillan—We see that the state still has a very clear responsibility in relation to its intrastate and metropolitan systems. Our references to the Commonwealth are largely about the national system. The problem with the national system at the moment is that it is a combination of state systems. I think the things that are being done that we have touched on here this morning that have come out of rail summits and Australian Transport Council are all steps in the right direction.

Mrs CROSIO—Do you think those steps are going too slowly or—

Mr McMillan—I guess everybody says they are going too slowly, but they are advancing. Through our federal system we only move as quickly as the slowest mover in the race, I guess. It is always going to be difficult. But there is progress being made there. We are definitely not trying to transfer responsibility to the Commonwealth. We are just saying that in the national interest the Commonwealth, again in simplistic terms, perhaps needs to consider the national rail network in the same terms as it considers the national

road network: that it is a national piece of infrastructure and not just a conglomeration of the pieces that are in each state

Mrs CROSIO—We heard the comments of the state as regard to subsidies to the rail industry. Could you provide figures as to what the Victorian government has invested over the last five years in capital works and infrastructure?

Mr McMillan—We can provide the committee with that information.

Mrs CROSIO—Could I follow up also on Mr Sutton's statement when you were saying one of the problem areas in the track was the fact that the One Nation money ran out. It ran out because of bad investment or costings? Why?

Mr Sutton—No, there was a finite commitment by the Commonwealth to a quantum of money. At the time I know there was concern that there was not enough, but it was a finite amount put there. A program was envisaged to do a particular task with that amount of money. As it turned out, because that standard gauge conversion section was one of the last bits to actually get undertaken, the money was getting tighter and tighter. There was an attempt to rationalise the track work knowing that there was a limited amount of funds available to a point where there were some decisions made just before it ran out to go ahead and do it properly. Then there was a decision that no, they will not but they will not spend any more money. They had ordered concrete sleepers, which should be put in there, and then the funding was chopped off. There was no more money available for that to be actually put in the track. It was really a matter of someone controlling the purse strings to the extent that, if they did not, then it is probably a situation where there will be more and more money spent.

In my own personal opinion, it was a combination of some project and management issues which came up. They knew how much money was available and what it would be likely to cost to do the job properly. Certainly it was a decision to go on the longer route and to do up a section of track which was second-class in the first place. I think a combination of all those things resulted in a job not quite being finished towards the end.

That has left Victoria with a fairly large recurrent liability to try to keep that track operating. We have speed restrictions on it now simply because it needs some capital put into it in order to guarantee the safety of that particular section at the speed which it was originally designed to run at.

Mrs CROSIO—But did I understand you also to comment, in an answer to a question, that you estimate or expect that capital expenditure is going to be over the next 12 months or longer?

Mr Sutton—No, when answering the question about whose responsibility it was—

Mrs CROSIO—When you stated this morning the Victorian government has accepted that responsibility?

Mr Sutton—It is primarily our responsibility, yes, although we are suggesting that that ranks high in that other \$250 million priority issue which is being developed by the Australian Rail Track Corporation. Nevertheless, there is, we believe, a necessity to remove at least half of those speed restrictions over the next 12 months and therefore put some money into the track, particularly the concrete sleepers, for instance. That is the part that really needs current attention.

Mrs CROSIO—Mr Rogan, in answering a question from Mr Willis earlier in the piece about privatisation of your urban track, you said that there were two separate areas, that the Victorian government is controlling still the fares and you are looking at certain subsidies in the tenders on how they are going to pick those subsidies up. How do you actually put into the contract what you expect as a government into servicing the actual infrastructure of those tracks under privatisation?

Mr Rogan—The full details of that are yet to be resolved. There are a range of options.

Mrs CROSIO—So the contracts are not let yet?

Mr Rogan—No, we are in the process of preparing information memoranda and documents for privatisation. It is not envisaged that the privatisations will be complete until late this year or early next.

Mrs CROSIO—How long then, if you are going to complete privatisation documentation by late this year, will it take you to estimate what capital expenditure you expect from a private operator to be put into the infrastructure?

Mr Rogan—There are a range of ways in which you can define what the private operator has to do with respect to infrastructure. They can be either input or output based. We have not yet resolved the right way to go. Generally, for much of the term of a franchise, you would expect the operator to have an incentive to maintain the infrastructure reasonably. Your problems with franchise arrangements tend to arise towards the end of the franchise period where there will probably need to be greater scrutiny by a regulator or the contract manager to make sure the asset does not run down. We would prefer that they were as output based as possible, but we have not defined the precise arrangements, rather than simply requiring a minimum spend and not having that done necessarily in the right places or the right way.

I should add that, if you are interested in this issue, possibly the best place to look is in the UK, which has established and floated a private infrastructure entity rail track, and many of the criticisms in the UK have been that that money is actually being spent

visibly and quickly and not necessarily on the things that are most important to the rail system. So the infrastructure issues are ones we are wrestling with to ensure we have the proper regime to ensure the money is being spent in the right way on the right projects by private operators.

Mrs CROSIO—Could you just take me back one step: when you were talking about franchisees, you were saying that obviously the problem you have is towards the end of it. If you have the problem towards the end of it and the money is not spent on infrastructure, who picks up the tab?

Mr Rogan—There is clearly an end of franchise problem, or potential problem, with respect to infrastructure transfers in that you have got long-lived assets which franchisees, as they get towards the end of their franchise period, have less incentive to maintain. If they enter into a 15-year franchise, for the first few years they also have an interest in ensuring the right investments are made, the right maintenance is made, et cetera. As you get closer to the end of that period, and particularly if they do not win the subsequent franchise, then they clearly have less incentive to maintain the track properly. That is one of the issues we are wrestling with in structuring our arrangements—to ensure that the right thing is done through the franchise period, particularly at the end of it when the incentives are not as well harmonised as they are at the beginning.

Mrs CROSIO—But if you are wrestling with that now—and everyone I know is talking about privatisation as the way to go, and your submission talks about more private operators and then fewer private operators—how are the taxpayers of this state going to know that the goal is going to be a better investment in the long term with a better fare structure, et cetera, for them over that period of time, when you cannot at this stage even envisage what type of infrastructure is going to go into a tender to say how certain expenditure is going to be done on a track that has already been put into place?

Mr Rogan—I think that is strongly overstating the position I have been representing. We are looking at a range of investments that we may require operators either to undertake as part of the tender or to have provided in the franchise documents so that these projects can proceed over the course of a franchise if the government wishes them to proceed. What I am saying to you, though, is that one of the challenges in setting up franchise arrangements—and it is not only a rail franchise, but any franchise—is that towards the end of a franchise period operators have incentives to cut costs and not do the long-term things. That is one of the issues that we are seeking to address.

Mrs CROSIO—I think the people in New Zealand would agree with you at the moment, seeing they are a week without power with no maintenance being done by the private operators. We will not see rail going off the rail, will we? I apologise; I am being a little facetious. I actually envisaged from your submission, when you were very much gung-ho on the privatisation and where Victoria should be going in the future, that you actually put a bit of meat in the sandwich before you had come today. But it has to go a

little bit down the track yet before we will be able to see how it is going to done?

Mr McMillan—To add to what John has been saying, we have been down the privatisation track. Okay, they were not large privatisations, but the West Coast rail exercise, the Hoys exercise and what we have been through with the buses show that it is a very worthwhile track to go down. Without going into chapter and verse, for instance, on the bus operations, the privatisations delivered in excess of 20 per cent savings on the previously government run exercise—and similarly with the small privatisations of country rail.

What John is saying here now is that the government has taken a decision to privatise the balance of our public transport system. As to the exact detail of the franchising contracts in relation to rolling stock and infrastructure, there are various models that can be used—picking up on what has happened in Britain and so forth. The government is working through those things. Cabinet will take final decisions on those and then the bids will be framed and put out for open tender. That is the process we are looking at.

Mrs CROSIO—Thank you.

Mr McARTHUR—Implicitly you are acknowledging the lack of investment by governments in the railway network.

Mr Rogan—Mr McArthur, I referred earlier to the fact that the issue is that one of the great benefits we see of privatisation in a capital investment context is that you actually get the right investments undertaken and not necessarily those that are commended for other reasons.

Mrs CROSIO—I was just going through your submission again. I had another one underlined. In your submission you talk about the difficulty private operators face in obtaining access to New South Wales. Could you elaborate a bit further?

Mr McMillan—As I think I said in my statement, some things have happened since then. The ATC has agreed and we are setting up the Australian Rail Track Corporation in combination with the Commonwealth. New South Wales has agreed to come into that process for access to the interstate network. I think at the time we presented our submission there were some feelings of frustration that operators were having at that time in getting access into New South Wales. New South Wales have a particular set of difficulties that we do not have. It would not be fair for us to make any criticism of New South Wales. But it was at that point in time when there was an expression—

Mrs CROSIO—I acknowledge your submission to us this morning, but do you see a short-term solution to those problems yourself or do you think it is going to take a while?

Mr Sutton—One of the initial criticisms of the regime up there was based largely on a costing arrangement where they were required to recoup certain returns on funds invested. That issue has been now resolved. It was pertinent at the time, in terms of the fact that it is much more a market based regime for access than it was before in New South Wales.

Mr MAREK—Good morning, gentlemen. Just a couple of quick ones. In your submission you say that the rail freight industry should receive a diesel fuel rebate. What are your reasons for recommending that?

Mr Rogan—We believe that it is one of the relatively limited supports that the Commonwealth has provided, or can provide, to the industry compared with the support that it provides to road in a whole range of ways. It is fairly widely supported throughout the rail industry. It was in place for a number of years and we believe it should be reinstated. In many ways it is a simplified way of dealing with the whole rather more difficult issue of equity of taxation between rail and road modes, but we think there are compelling arguments in support of it. I think there are a range of witnesses before you that can go into those issues in a lot more detail than we can.

Mr McMillan—Just to add to what John has had to say, I think there is a feeling that because, from the Commonwealth fuel levies, \$1.3 billion or \$1.4 billion goes back into the national road infrastructure, it seems a little incongruous that rail is paying the same levy as a road user on diesel but at that time there was certainly very little coming back by way of capital investment in the interstate rail network.

Mr MAREK—Would it not be cheaper for the rail industry to rail something from one place to another than for it to go by truck? In your industry you would have the building through sales tax exemptions and those sorts of things for maintenance, bits and pieces and so forth, whereas your everyday operator of a truck possibly would not have those exemptions. Do you know where I am trying to come from?

Mr Rogan—Most of those exemptions are either going in Victoria through competitive neutrality pricing or ultimately, if the operations are privatised, then those operators will be fully exposed. But that does not negate the argument on the relative contribution by the Commonwealth to road and rail and the diesel fuel rebate.

Mr MAREK—Do you find it difficult to introduce new innovations or new technology or work processes into rail in Australia? Do you think people who work within the industry are happy to adopt new technology, or do you think people are very resistant to change?

Mr McMillan—That is a pretty broad-ranging question.

Mr MAREK—Give a broad-ranging answer.

Mr McMillan—I think rail has accepted the technological challenge, for the want of a better term. In terms of rolling stock, if you look at investments that have been made, National Rail has invested in a state-of-the-art locomotive fleet. Here in Victoria, we have started to move from locomotive hauled passenger services to the much more flexible sprinters, we call them—diesel passenger vehicles—the same as New South Wales has. In signalling, train control, and all of those sorts of things, we are again on a cost-benefit basis. In getting the best return for your dollar, they have gone for the highest technology things.

Mr MAREK—Ultimately, you talk to people who work in the industry and you talk to people in different states. Each state is very parochial in the way it operates and those sorts of things. Can you see the opportunity, somewhere down the track, where we will have one set of safety systems, operating systems and gauge systems throughout this country or will that only ever happen if the federal government throws everything it has got at it in the way of funding?

Mr McMillan—We have traversed this subject a few times. On the safety side, part of it is funding, technology, innovation and all of those things. The rest of it is getting in place the optimum national management arrangement. That is where there is a single national system. I am not saying that it necessarily has to be the equivalent of the civil aviation authority that has to be established, but some national body that drives consistency and harmonisation. That is half as much of the battle there, as actual investment in technology—

Mr MAREK—We have had a few people, very early on in this inquiry, mention that we should probably have a one-off body like the Civil Aviation Safety Authority or the FAC to overlook the system and to look into safety investigation and those sorts of things. Do you believe it is imperative that a body like that should be put in place quickly?

Mr McMillan—The Victorian position believes that we should move to that sort of situation as soon as we can. It seems to be the next natural move to the current attempts that are being made to get consistent safety legislation in each state.

Mr MAREK—But ultimately, as far as the states are concerned, it will not happen unless we make it happen because the individual states cannot make it happen.

Mr McMillan—Again, it is all hands to the pump. It is happening. We have a safety system out there and everybody at state and Commonwealth level is working very hard to make that work. What we are saying is that the same group of players can make that next quantum step to get in place a federal regime that would be much more helpful to the industry than the current one even though what we are doing now is a big step

forward from where we were.

Mr MAREK—Thank you.

Mr HOLLIS—Gentlemen, we have heard lots of comments in the inquiry about what is wrong with the railways of Australia. There does not seem to be much right with them. Do you see any overseas model that would be suitable for Australia or should we have our own stand-alone distinct Australian model?

Mr McMillan—Perhaps the others might like to comment on that. The overseas models are so different. The US model and their interstate carriers are absolutely huge in comparison with us. CSX carries 300 million and 400 million tonnes per annum and the geography, the population and the history of rail is so different. They tend to be freight railways in the US. They have developed the way they have for a lot of reasons. Whereas, in Europe, it is more of a passenger base system. Here in Australia, and particularly in Victoria, we are trying to make the best in rail of both freight and passenger. I do not think there is any model anywhere that you can simply pick up and say is just what we need to fix the situation here. There are pieces of all of them that we can beg, borrow or steal to put into the Australian system to get the best Australian system.

Mr Rogan—At a very high level, I think we have to be looking at models that basically introduce greater competition into the system. That has been what has driven the reforms in Victoria. It is also what has driven the Commonwealth in terms of national competition policy reform. Different states are proceeding to competitive models at a different pace and really pressure needs to be sustained from the Commonwealth level to ensure that we are all basically trying to make our systems more competitive. I think then, as different states innovate and as different jurisdictions overseas innovate, one will learn from the another. At the moment, we have three quite different approaches to reform in Queensland, New South Wales and Victoria and I suspect we will all learn certain amounts from what others have done. But the pressure needs to be maintained on all of us to produce a more competitive system in Australia's national interest.

Mr HOLLIS—It is interesting that we have had two lots of suggestions put to us. Everyone is saying that you have got to have a competition, so that means that you have to have a lot of private operators in the system. But then someone has also said in a subsequent submission that I read that you do not get the economies of scale. If you have a lot of small competitors, although you get a competitive system, the initial costs are still quite high. Do you understand what I mean? Because you have not got the one, you cannot get the economies of scale. The other argument that has been put to us a couple of times is that you should not exchange a government monopoly for a private monopoly. So we are getting the two conflicting stories about privatisation.

Mr Rogan—There are two things there. One is that we are not saying there should be a private monopoly in place of a government monopoly. We are saying that there

should be a competitive regime in place. It may be that you will also need some reasonable degree of regulation if you have a private monopolist—that is probably too strong—but a private operator that controls a certain part of your network. I think the argument with economies of scale is generally overrated in a lot of infrastructure industries. I think that has been shown in electricity; I think it will also be shown in rail.

Mr HOLLIS—So it is a problem that you see of running freight and passenger in the same system?

Mr Rogan—It is not specifically a problem of that. Clearly, if you have an integrated freight operator, you have to be mindful that there has to be a very strong access regime that protects the rights of passenger operators to run on that system. But it is not specifically a function of whether you have mixed traffic or not.

Mr HOLLIS—I suppose related to all this are performance indicators. What performance indicators would you recommend for benchmarking in Australia?

Mr Rogan—Passenger or freight?

Mr HOLLIS—You can have them both.

Mr Rogan—I suppose the way we are approaching it is by specifying what we want delivered, through the passenger system, in terms of train kilometres run or services run—and I am speaking passenger here—in ensuring there is not excessive loadings of passenger vehicles, and the like, and then to test that against minimum subsidies. We are not actually in the business of prescribing the way operators deliver that. What we want is an output product. If they are able to deliver that in a more efficient way, good luck to them. On the freight side I would defer to Rod.

Mr O’Loan—What we are looking for as an operator is certainty in terms of reliability. So the KPI that you would wish to have first and foremost would be reliability within agreed time frame such as what a timetable would give you. Then, of course, you have details within that such as agreeing the delivery of a certain quantum of freight within a time frame et cetera. Reliability and certainty all mixed in there are the major drivers for the customer and therefore the operator.

Mr Sutton—I will just add to that. What the industry in general is wrestling with at the moment is base parameters for performance indicators. They are in the nature of axle loads and speeds which are appropriate—I am talking freight now—for the freight business, consistent with the level of investment that is required, and it is normally exponential as you go up in both axle load and speed. So assuming you have established some base parameters, the key performance indicator there from that process would be transit time from the customer point of view. A key issue is transit time.

Mr HOLLIS—But all this is dependent on, firstly, the infrastructure having the lines there. You talked about axle loads, and given the age of some of the wagons, the Wheat Board mentioned how old and inefficient these were—even the locos that pull them. It seems to me that, while you have a mishmash of equipment—locos, wagons, inefficient rail and so on—you are going to find it impossible to reach these benchmarks.

Mr Sutton—The point I made earlier was that those sorts of base parameters are justified on a business analysis basis. If someone is saying that the rolling stock is inefficient and old, I would challenge that in terms of its inefficiency. It is all a matter of being able to justify its replacement and the same applies to locomotives. Each of those pieces of assets can be justified on a business basis in their own right.

It is easy for the Wheat Board or whoever to say that it is old and obsolete and all the rest of it. They are in the position to be able to invest in that rolling stock if they wanted to themselves through all sorts of mechanisms. At the end of the day, it just boils down to what is cost effectiveness in terms of the nature of the investment. Someone needs to sit down and analyse all those options in particular industry segments. In grain, for instance, it is marginal business to rail and always has been. It takes careful analysis to be able to determine, in that type of industry, just what is justified from a capital point of view and what is not.

CHAIR—We have been around the table once and I would like to go to the second innings now. In opening the batting, I would like to swing the emphasis on to freight for a little while. Mr O’Loan, you are probably in the firing line this time. One of the things that has cropped up, especially in Brisbane and Sydney, is that the freight corridors, through the centrepiece of the rail system, have become subservient to passenger and suburban services to the point where some misgivings were raised in Sydney as to whether freight could come in to certain lines during the Olympics and so on.

Brisbane is getting very close to a similar situation where freight access through the city to other lines is a big problem. Is it a big problem in Victoria, in either Melbourne, Geelong or any of the cities, where you have major rail infrastructure and, if so, are you addressing that problem in terms of putting funds aside to specifically address it or even to go to freight corridors?

Mr O’Loan—Thank you. I would say that the problems in Victoria are not as great as they are, say, in Sydney certainly and perhaps not to the extent that we see them in Brisbane either. We are not too greatly fussed other than we notice when there is, for example, lack of activity for whatever reason on the passenger network—our timetables seem to be achieved with greater ease than otherwise. So there is some issue there but it is not a major driver for us to look to put funds aside.

Mr McMillan—In the main in Victoria, the freight trains come into the west of Melbourne and they leave from the west of Melbourne. Very few freight trains actually go

through the Melbourne metropolitan rail system to Gippsland. National Rail have steel trains that come through and run down to port Westernport but very few freight movements go into the metropolitan rail system proper. It is a much less difficult situation, as Rod says, than in New South Wales.

Mr O'Loan—I just add that the majority of our freight in containers is exported through the port of Melbourne. There we have a good location. So there are good synergies and logistics arrangements between Dynon, which is remote from the passenger area, and the port. The majority of our bulk freight goes through Geelong and Portland, which is again well remote from the passenger area.

CHAIR—I will get Mr McDougall and Mr Morris to touch on that in a minute, but the other thing that came across with some of the non-government witnesses was that there is one major impediment to the efficient handling of freight, notwithstanding the fact that the federal government might invest in the track, notwithstanding the fact that the states might come together with one operating regime on the main line, notwithstanding all these things. There seems to be an overriding concern amongst the private operators that one of the key areas for the efficiency of rail freight is good terminals—good intermodal rail to road terminals. We have just been probing what the views of the various state authorities are on that.

One model, for example, would be to have something like an industrial estate where the state provides the main artery through it and then people can lease properties—lease terminal space—off the side of that for their own operations. But the whole thing should be coordinated to a very efficient operation. In Sydney, for example it is very difficult to get terminal space at a reasonable distance from the CBD on a major freight line.

The comment was made, as I said, that this is one of the greatest impediments to the efficiency of rail freight. What is your view on that? Do you have the same problem in Victoria? Do you like the model of having some sort of industrial estate where private people can invest? Perhaps the land could be leased to them first and then later, if they fulfil their development conditions, they could be allowed to freehold it and so on. What are your views on that?

Mr O'Loan—Certainly, the interface between road and rail is very important, given that, for example, it could take, in terms of dollars, almost as much to move a box from, say, Parramatta to Chullora or here from Dandenong to Dynon as it does to move the freight from Melbourne to Adelaide. Whereas, if you are moving it Melbourne to Perth, it is a different equation. So, yes, these costs of interfaces are very important.

It is also a question of how well you run your terminal. What the freight forwarders complain about is the time the trucks are sitting in queues to wait for access to the terminal, and therefore depositing their boxes on the train or to ground. If you do it to

ground, of course, you have to double lift and so on. So a large percentage of your overall cost to the freight forwarder and to ourselves, to some extent, in short haul, let us say, Melbourne to Adelaide, is a function of those interfaces.

My view is that you need to identify the particular skills to run a terminal as opposed to running a train. They do not necessarily tie in. There are some synergies. You have to depart the train et cetera from a given place. But it does not mean to say that, just because you are good at running trains, you are good at running a terminal. I think we have to look to see how various models are put together, again drawing from the experience in the states where about 50 per cent of the terminals are outsourced to experts in running terminals as opposed to running trains.

CHAIR—So there is some evidence that there should be some work done on terminals in Australia?

Mr O'Loan—Yes. Our experience at Dynon is that we have a facility just over the road, literally, from South Dynon where our level of efficiency on a box per person basis, cost per lift et cetera, compares quite favourably. It is an issue. We have had a complaint just recently about the delay in being able to receive trucks et cetera because of the emphasis we are putting onto interstate activities. It is a very real issue; and it is a scheduling and logistics issue for the customer, because it is very visible. Whether the truckie is telling the truth about how long he was delayed at the terminal is another matter. There is very little policing. If you want a KPI, that is one to have in relation to the dwell time or the wait time at a terminal for a truck. Generally I know National Rail are trying to get it down to about 28 to 30 minutes. We are looking at around 15 to 20 minutes. But it is a very real cost, and the more efficient you are in that area the better off you are and the more you will attract freight to rail.

CHAIR—There are two figures we would like you to give us. In terms of the interstate task out of Victoria and into Victoria, what percentage is carried by rail and what percentage by road? Do you know those figure?

Mr O'Loan—Yes, approximately—John might have more accurate information.

Mr McMillan—Yes.

CHAIR—Or you could provide it, if you are not certain.

Mr McMillan—Roughly, in percentage terms, east-west traffic is slightly in favour of rail—a bit over 50 per cent—and on the Melbourne-Sydney-Brisbane corridor, rail is somewhere between 20 and 30 per cent by comparison with road and shipping. But we can get you that—

Mr O'Loan—Out of Melbourne to Adelaide it is a lot less than that 50-odd.

Mr McMillan—I am talking about the whole corridor.

Mr O'Loan—I think you have to look see why it is less out of Melbourne to Adelaide than it is Adelaide to Perth, given that there are some synergies and some good reasons once you get it on rail to leave it on rail out of Melbourne, and that is what the objective should be—

CHAIR—You have economies of scale on the long haul.

Mr O'Loan—so it just goes straight through.

CHAIR—Could you give us a bit of a paper on that, just a one-pager perhaps?

Mr O'Loan—Yes, certainly.

CHAIR—What is the percentage of the freight task intrastate, in round figures?

Mr O'Loan—V/Line Freight Corporation would probably have about 60 to 70 per cent.

CHAIR—Sixty per cent?

Mr O'Loan—Yes. We moved eight million tonnes last year. A large percentage of that was bulk freight—grain, in other words. If you are talking intermodal, we would still have a very high percentage.

CHAIR—Could you give us those two figures, your bulk and your modal?

Mr O'Loan—We have over 50 per cent of boxed container freight, recognising—and this has been in the news of late—that rice going through to Papua New Guinea is on our service and that tends to swamp a lot of the other traffic, so up goes the percentage.

Mr TANNER—Are those figure by tonnage or by value?

Mr O'Loan—They would be by tonnage and by value. They are approximately the same. Our charges are not dissimilar.

Mr TANNER—But you have bulk and boxes in there?

Mr O'Loan—Yes, I am sorry. For example, we have 95 per cent of the Wheat Board's export freight task and 60-odd per cent of its domestic distribution. With intermodal, which is the boxes, we would have in the order of over 50 per cent, closer to 60 per cent, but that, as I was saying, is influenced greatly by export to the wharf. We can get a detailed run-down for you, both inter and intra.

CHAIR—Some of my colleagues want to follow up with some questions.

Mr WILLIS—I want to follow up briefly on access pricing. Mr Sutton, you said that you did not have a system of posted prices, that it was a market determined thing through negotiation. It has been said to us by some existing or potential private sector operators that they would very much prefer to see a system of posted prices. They think that is the most conducive to additional competitors coming into rail, because clearly they know what they are coming into and they do not have to go through a protracted process with the rail access authority to try to get into the system. Why do you not support that kind of system?

Mr Sutton—Because generally I believe that, ultimately, posted prices do not actually become the real prices over time. We reserve the right to look at a particular customer or a client with a type of commodity which we might believe is breaking new ground, either in terms of new business to rail or it has some other strategic advantage—not that it has happened, yet I might add. I suppose we reserve the right, if we believe the business is something that is completely different from the normal competitive type of business, to be able to provide some encouragement.

In the past, rail used to have a book price, if you like, for freight rates. The common practice always was to discount those for particular reasons, special promotions would occur from time to time. At the end of the day, even though the posted prices were there, they were for guidance purposes only and they did not necessarily reflect the actual price being paid by the various users of the system. But I recognise the fact that at the end of the day, if I am the odd ball out on this process and everybody else posts a figure, it will be largely academic shortly on the standard gauge simply because the ARTC will be taking over responsibility for that. But they are the main reasons.

I have come under significant challenge from users because of that process. I have had to convince people like the ACCC and others that I have a regime which is highly defensible; and should somebody challenge that process I certainly have to be in a situation where I can do that, because I am constantly asked—for instance, one competitor versus another—that I am not providing one with a better financial advantage than the other. I am doing business with these people and I have to look them in the eye and tell them what the regime is and they are not being discriminated against. Certainly they can challenge that at any point in time. But, primarily, it is for reasons of that flexibility that I reserve the right to be able, from time to time, to go outside of a so-called price regime if I believe it does not fit into that particular pattern. But, as I said, it has not occurred yet.

Mr WILLIS—You must have in mind a basic set of prices that you are aiming to achieve each time, so in your mind there must be some kind of posted price that you can then vary according to the circumstances of the operator?

Mr Sutton—Yes, it is. As I said earlier, a price does not change very much

between regimes around Australia and it is based on the prevailing market conditions. They might vary slightly. In Victoria compared with, say, the Commonwealth component, where you might run from Adelaide to Perth, it is quite a different market from Melbourne to Adelaide, for instance.

Mr WILLIS—Are there some minimum costs that you would always seek to cover and, if so, what are they?

Mr Sutton—We would try and seek to recover as much of the fixed costs, because it is predominantly a fixed cost business. If I can provide some contribution to those fixed costs, that is what I am aiming to do at the same time, but—

Mr WILLIS—As well as covering operating costs?

Mr Sutton—That is right. The operating costs are reflected in the variable component of the charge and I have to adjust the two to ensure that there is that incentive for the business to grow. There has never been more synergy between the rail user and the rail provider than there is at the moment. They need me and I need them in a way which is very material. I have to strike that balance between what it costs me to provide the infrastructure and, at the same time, to provide an above rail user with the incentive to use more of the product that I am offering him.

Mr WILLIS—I want to go to another matter. We have heard from Sydney and Brisbane about, in the case of Sydney, the actual construction of a city to airport rail link and, in Brisbane, substantial work being done on developing that program, not yet to the point where a contract has been signed up but they have a preferred bidder. Are there any such plans in Melbourne and, if so, what are they?

Mr Sutton—Do you mean the airport link.

Mr WILLIS—Yes.

Mr Sutton—Yes there are. John, you might want to cover them.

Mr Rogan—There are studies under way to identify the appropriate corridor.

Mr WILLIS—For what?

Mr Rogan—For the link. In other words, there is a number of corridor options under the consideration and there is work currently proceeding within the department to identify which would be the appropriate corridor to reserve for a link.

Mr WILLIS—Would that be a light rail or a heavy rail link?

Mr Rogan—It is likely to provide a corridor that is capable of being a heavy rail link.

Mr WILLIS—Are there any restrictions through City Link on a light rail link?

Mr Rogan—I do not know.

Mr Sutton—I can take that on notice. I do not think so. The linkages that are being looked at at the moment are ostensibly to do with existing network. It is an extension perhaps of the existing network, as well as other options for a dedicated link. Neither of those would preclude the use of light rail. We have light rail now running in Melbourne on the conventional heavy rail network, which used to be heavy rail but now there is light rail running on it.

CHAIR—You extended the tram out there not so long ago?

Mr Sutton—Yes. There are two or three light rail networks operating which were originally heavy rail operations.

Mr Rogan—But, given the distance the airport is from the city, it is likely to be more viable as a heavy rail network than a light rail.

Mr McARTHUR—It has been suggested that City Link have in their contract that you are not allowed to put a railway to the airport. Would you care to comment?

Mr Rogan—I am happy to take that on notice and we can give you advice on whether there are any restrictions in the concession. It also came up 12 months ago, as I recall, at the roads inquiry. We might have answered it on the record then.

Mr McARTHUR—You are going to give us a precise answer on that?

Mr Rogan—Yes; I have taken that on notice to provide you with an answer.

Mr McARTHUR—It is a pretty critical question—

Mr Rogan—That is right. I am sure we would not be doing the studies if we were precluded.

Mr TANNER—Would it be within the ambit of the studies to consider park and ride options associated with the airport? The bulk of the traffic coming down the Tullamarine Freeway is not associated with the airport, so would you also consider park and ride arrangements as part of your—

Mr Rogan—This study, as I understand it, is a corridor study. I am not sure

whether it is talking about individual station capacities in detail. Certainly there has been a strong policy of the Victorian government over the last five years to upgrade park and ride, and it has done that very successfully in a number of parts of the metropolitan area. So I would imagine that, implicitly, once we had moved to that stage park and ride would also be looked at.

Mr McDOUGALL—I want to come back to this access thing. On your page 4, in No. 14, you specifically make a statement with regard to difficulties faced by some private operators in New South Wales in achieving access. You have said that it illustrates that reliance on other national policies. Can you give us the actual cases you are referring to there? What are you actually referring to?

Mr Rogan—I forget which of the operators, but one of them—SCT or whatever—had an application before the NCC in relation to access in New South Wales. Someone in this hearing has referred to the decision having come out since we wrote the submission. That was specifically what was in mind.

Mr McDOUGALL—That is the one you had in mind at the time?

Mr Rogan—Yes.

Mr McDOUGALL—Following on from that, we know that the end result of that was that the Premier of New South Wales refused to declare the rail line. Have any cases like that happened in Victoria?

Mr Sutton—No, in one word; but we have taken precautionary steps with the ACCC and NCC bodies to determine our potential exposure in that regard in order to prepare a submission. The state so far has not declared but is in the process of putting together a regime to operate within this state. It had originally decided to do so, then, for other reasons, it did not want to pursue that. Because of this privatisation process it has now determined that there is a need for a process to be put in place, a regime to be determined by the state. Whether it actually gets tested by the ACCC is another issue, but there certainly is a regime being proposed to be put in place in the state here.

Mr McDOUGALL—Is that an arbitration, a tribunal, regime for people who do not agree with you on your access price and for them to be able to go to?

Mr Sutton—Yes; it will allow a process for people who decide that they have a beef with whatever we are doing to take it to that body.

Mr McDOUGALL—Is that body going to be independent of you? I ask the question specifically because, in New South Wales, I do not know whether IPART is independent or not. In Queensland it is obviously not, because the system that they are currently trying to put in place is within QR. Yours will be independent?

Mr Sutton—It certainly would be independent of me.

Mr McDOUGALL—Yours will be independent?

Mr Sutton—Yes definitely.

Mr Rogan—We have a regulator-general in Victoria that is dealing with access issues in respect of electricity and is likely to take on a role with respect to other infrastructure issues.

CHAIR—Will there be appeal mechanisms to that body?

Mr Rogan—Again, many of those decisions are then appealable to the courts if you are dissatisfied with the decision of the regulator.

CHAIR—Will it be the regulator or will it be the appeal—will there be two levels there?

Mr Rogan—In the first instance there would a negotiation with the track entity. Then, if we establish an internal appeal mechanism within the government, it is likely to be the Office of the Regulator-General, who is basically independent from all the infrastructure providers, and, as I said, is currently providing that role in electricity. His decisions, in turn, are appealable to the courts in certain circumstances.

CHAIR—But the government would put a rail unit within that structure?

Mr Rogan—Yes, or just simply a rail responsibility.

Mr McMillan—It is possible under the regulator-general legislation for an industry, such as the rail industry, to be declared an industry to which the legislation of the Office of the Regulator-General applies.

Mr Sutton—That is probably most likely.

Mr McDOUGALL—I would like to follow on from Mr Willis's question in relation to pricing and from what you told us at the start of the hearing with regard to the \$180 million—and that seems to be expanding out. Mr Sutton, when you are setting your access pricing, what costs do you bring in to be able to say, 'I want a return on what'? Do you bring in capital; do you bring in insurance? What do you bring in as your total cost to set your margin that you are achieving? In New South Wales they have said that they set a figure of 14 per cent return on capital and costs—the whole lot bowled in together. What is Victoria's approach to access pricing?

Mr Sutton—The access was established here on 1 July last year as a separate

organisation totally responsible, from top to bottom, for its own costs. So all its own costs are quite distinct from that \$180 million that Mr McMillan was talking about, and we include all of those costs on our bottom line. As I said before, our pricing structure in the state here—

Mr McDOUGALL—What is your target?

Mr Sutton—I have a target of my organisation breaking even, if you like, or no call on government subsidy, over a period of the next five to six years.

Mr McDOUGALL—That includes investment capital?

Mr Sutton—That includes investment capital I have to fund and pay for myself. It is not a grant. I can borrow whatever I like now; I pay for it, including debt servicing charges, like any other private company.

Mr McDOUGALL—So you are not prepared to say that you have a percentage figure return on investment you are trying to go for?

Mr Sutton—No.

Mr McDOUGALL—You are not even putting a high and a low on it to operate in between?

Mr Sutton—There are two issues, to answer your question. First of all, our pricing regime is based on a market based regime, rather than a cost based regime, which I mentioned before. So it cannot be, at this point in time, reflective of any particular percentage return on funds employed or investment or anything else. What I do have, however, is a bottom line, and a projection on that bottom line that says where I am going to stand financially at the end of a period of time, compared with other regimes, say, New South Wales or somebody else. In this state—and, remember, what I do here is everything bar the electric system in the metro area, but predominantly freight and passenger—we have a financial objective at the end of a period of time which is what is driving me and my bottom line.

Mr McDOUGALL—How can a person who is trying to get an access price off you be sure that you are not giving a favour to one industry and the other industry is being made pay? That is what I am trying to get to.

Mr Sutton—In the case of the intra and interstate market here, particularly in the interstate market, it is a tested market. The market out there has already established the price to pay for rail services in this state. There are a number of private operators now operating on it. As I said before, even though the prices are not posted, it is a fairly small industry in terms of competition between the various operators. They are all aware, within

reason, in my opinion, of the prices that are being paid generally amongst the industry.

Even though I do not post the prices, there is no way I would ever get away with putting a price up there that is much higher than another competitor using the same sort of facility. The industry would know it in two seconds flat. Not only that, I would never be able to justify the prices I have charged my other customers. I have to treat them all in the same way. There is a high degree of understanding of access prices in the industry, particularly in the interstate business here, to an extent that I would argue that most of them know each others prices, within reason. A lot of them are posted, so they all know what the mechanism is in any case, but in this state it is only a small section of the interstate component. It is a fairly well understood market.

Mr McDOUGALL—Can I suggest you read the evidence from the Minerals Council in Queensland. It might be of interest to you. If I can change the tack, in relation to the relationship between rail and sea port we heard in evidence in New South Wales that rail carries about 15 per cent of the boxes to the port of Botany and back from the port. We were advised that the highest percentage of containers stay within a very close radius of the port. Their objective is to go to something like 30 per cent of the boxes to the port being carried by rail—that is, from 15 to 30. In Victoria, what percentage do you have of the boxes to and out of the port and what is the variation in those between what percentage actually comes from within the metropolitan area as opposed to around the state and maybe interstate?

Mr O’Loan—In answer to a previous question I indicated that about 50 per cent plus of boxes that go through the port of Melbourne would come in by rail. That would be by V/Line Freight Corporation. That traffic originates mainly in the country areas. Quite a lot of it actually originates out of Victoria—the rice, for example. New South Wales customers in the southern Murrumbidgee area see Melbourne as being the export port in preference to, say, Sydney. So we are starting a long way ahead of New South Wales, although it is interesting to notice that Patrick’s are starting up a train to help with that growth from 15 to 30 per cent. I have taken it on notice that I will give you a comprehensive run-down as to our volumes in terms of tonnage and value, expressed as a market share against road, for freight coming into Melbourne, Geelong and Portland.

Mr McDOUGALL—What you are saying is that the majority of boxes going in and out of the port of Melbourne actually are generated outside the metropolitan area of Melbourne?

Mr O’Loan—Yes.

Mr McDOUGALL—That is quite contrary to Sydney?

Mr O’Loan—Yes.

Mr McDOUGALL—Quite the opposite. What has happened to the Melbourne manufacturing industry—doesn't it do much?

Mr O'Loan—Not as much as it used to. It is because it is swamped by—

Mr McDOUGALL—It uses road, does it?

Mr O'Loan—No, it uses both. But, for example, components for the auto industry that were previously on rail from Sydney to Melbourne have been transferred across to road under a new contract written by one of the major auto companies, because the cost was better, the reliability was better and the KPIs were more stringent et cetera. So that traffic was lost. But that was Sydney-Melbourne, not within Victoria, so we have to start looking quite closely at these definitions. But I would say—I have said it already—that the majority of the traffic into the port of Melbourne would come from outside of Melbourne and it would be on rail.

Mr McDOUGALL—We look forward to those figures.

Mr WAKELIN—You make the point in relation to the withdrawal of Australian National and, prospectively, National Rail Corporation about the catalytic role of the Commonwealth. It seems to me that in the past we have dealt with a lot of the matters of history, and a lot have been issues that have distracted us in some ways, in my opinion, from what is perhaps the main game—making rail competitive and effective in the freight task. I really just make that as a statement in terms of the role of the Commonwealth. If I come to a specific issue, the Melbourne Sydney line, you make the point that rail retained some price advantage over road on interstate, except for Melbourne-Sydney. Why is that? Is it a track issue? What are the issues that make Melbourne-Sydney not have the price advantage?

Mr O'Loan—Compared with road, it is not exclusively the cost in terms of the rate; it is the time issue—

Mr WAKELIN—Yes, you make that point here.

Mr O'Loan—that needs to be addressed. When you add that to the cost of the rate, then you get a disproportionate balance in favour of road over rail.

Mr WAKELIN—I suppose the purpose in trying to get the Commonwealth role fitted into my mind in this was: what is it about that infrastructure? I presume it is just that the infrastructure is very weak, that the permanent way is just not up to it? Is that what you are talking about?

Mr McMillan—A lot of it is such an old alignment, and so forth. I think road freight between Sydney and Melbourne has got something like a two- or three-hour

advantage just in the time point to point. For instance, even the passenger trains between Melbourne and Sydney are at about—

Mr WAKELIN—What is the condition of that railway line?

Mr McMillan—I think they are all the sorts of things we have been talking about. In the opening statement I made, the access unit which is going to be incorporated in the Australian Rail Track Corporation has indicated there is \$1.3 billion worth of works. We have said there is about \$100 million on our side of the Melbourne-Sydney run. I think you would probably find in that figure there is probably a higher figure required on the Sydney side. As Rod said, it is work that needs to be done over a period of time to get the running time for trains between Melbourne and Sydney competitive with the road. The Hume Highway is much superior.

Mr WAKELIN—Just a quick question on greenhouse. The BTCE made the point that:

. . . relatively small gains in reducing environmental externality costs associated with mode shift from road to rail except for urban passenger transport.

You basically stand by that, on the issue of greenhouse? You would not wish to add anything other than just generally support that, that it is a pretty marginal issue in the overall road-rail task?

Mr Rogan—It is marginal in terms of freight. It clearly has significance in the metropolitan area, for the metropolitan passenger.

Mr WAKELIN—But a very, very small component of the overall issue?

Mr Rogan—Yes.

Mr WAKELIN—Thank you.

Mr McARTHUR—I just want to get a philosophical statement, Mr Rogan, from the government's position, on what we call externalities of the urban traffic, car traffic, and the fact that the rail system takes pressure off that system. A lot of congestion is now accumulating, although you have the City Link at \$1.7 billion and you have the ring road. What judgment do you make on that and, likewise, what judgment do you make on the Sydney to Melbourne Hume Highway and the fact that an interstate good freight system might take pressure off that road system? So it is that externality argument of pollution, of congestion, of environmental damage, of the whole system coming to a close if you do not have an efficient rail system. Would you care to give us the government's or your view on that issue of how you would evaluate it?

Mr Rogan—In terms of the interstate traffic issue, I would refer you to the BTCE work. I think that is a more comprehensive than anything we have done at a state level. In terms of metropolitan comparisons of road versus rail investment, we are taking account of externalities from road traffic, that is, particularly pollution and accident cost, in assessing the relative worth of individual projects. Issues like congestion costs are effectively internalised to road users, so there are some travel time savings that are also taken account of. We also take account of noise amelioration works generally, because they are directly funded as part of the cost of the road project.

CHAIR—One final question: at what stage is your standardisation of your intrastate or your across border into southern New South Wales operations? Is that an ongoing program? What percentages in kilometres—

Mr McMillan—In Victoria we have about 5,500 kilometres of track, and about 700 to 800 kilometres that are standard gauge. In relation to further standard gauging, the government has undertaken, through John's area, a further study of the possibilities of further standard gauging. Again, consistent with everything we have been saying here, that would only occur where it stood up to all of those cost-benefit tests. There have been other works done on dual gauging, around Dunolly in central Victoria, in optimise traffic moving from standard gauge to broad gauge to get to both the ports of Portland and Geelong.

CHAIR—I would like to thank the Victorian government, your Department of Infrastructure, V/Line and Victrack for a very comprehensive presentation and, as Mr McArthur said, for an excellent submission. I trust that if there are any other matters in addition to the ones you have discussed, you will provide those to us in writing if we need to contact you again. Those figures in particular would be most helpful. Thank you very much.

[11.09 a.m.]

ROGERS, Mr Murray, Managing Director, Australian Wheat Board, 528 Lonsdale Street, Melbourne, Victoria

MARTIN, Ms Joanne, Government Relations Manager, Australian Wheat Board, 528 Lonsdale Street, Melbourne, Victoria

FEHLBERG, Mr Ray, Manager, Logistics Services, Australian Wheat Board, 528 Lonsdale Street, Melbourne, Victoria

O'DONNELL, Mr Roger, Senior Analyst, Transport, Australian Wheat Board, 528 Lonsdale Street, Melbourne, Victoria

CHAIR—Although you are not under oath, these proceedings have the same force as those of the parliament and warrant the same respect as they would for the House. Any false or misleading evidence is considered a contempt of the parliament. Having said that, are there any amendments or additions to your submission that you would like to make?

Mr Rogers—No.

CHAIR—Mr Rogers, could you give us a three-minute overview of your submission. We will then break into questions.

Mr Rogers—Once again, on behalf of the AWB, I record our appreciation at being able to be involved in this hearing. As a major user of rail transportation in Australia, and on behalf of Australia's 40,000 wheat growers, the AWB has a basic stake in this whole transport system. I will take this opportunity to place on the public record the enormous contribution made by Australia's rail operators in transporting last year's wheat crop, which was a record crop. It was the highest ever recorded at about 23.5 million tonnes. It was marketed, shipped and transported in record time. It generated considerable savings and additional revenue for Australia's wheat growers.

The rail transport providers played a very significant role in this performance. Our rail transport charges were six per cent lower in real terms as the record haulage task provided some terrific opportunities to improve efficiencies. The AWB, on behalf of the growers, contributed over \$300 million to the railways as a result of that record task.

Despite significant reform during the 1990s, Australia's rail systems still fell short of the observed best practice of large northern American systems, such as Burlington Northern in the US. Many of the benefits of the North American systems relate to tonnage and to the distances hauled, which are not available to Australian rail operators.

The reform of rail in Australia has been driven by the removal of regulation which

tied grain transport to rail and the improved competitiveness of road transport. Both rail and the trucking industry have improved through work practice reform. Road transport has gone further than rail through the adoption of what may be termed new technology to reduce costs. The impact of these changes has seen the AWB improve returns to growers in many areas of the country. In Western Australia, our largest grain producing state, rates have fallen by over 25 per cent since 1992. In one of the smaller grain production states, Queensland, we expect to be able to announce shortly details of a new agreement with Queensland Rail which will deliver significant benefits to Queensland grain growers. Despite this performance, there is much that we at the AWB believe can still be done to improve the performance of rail operators and in this way lower costs and improve Australia's international competitiveness in our industry, the grain marketing industry.

We basically have some requirements. These are very basic, but they are three key requirements as we see it. They are a service which responds to our customers' needs; reliable and innovative service provision; and charges which are competitive with North American grain growers. Stating the obvious, there are basically two key components of rail transport pricing. The first is the cost of maintaining the tracks, and the second is the cost of operating trains on those tracks. I will briefly touch on those two issues because I think they are of importance to this inquiry.

From the track issues point of view, Australia's grain network operates on axle loads of between 16 and 25 tonnes, but mostly in the range of 16 to 20 tonnes. Consequently, we are at a considerable disadvantage to overseas competitors in North America, which run trains on 25- to 30-tonne axle loads, which is almost double what it is in some parts of Australia. We view the ability to have competitors accessing the track network as critical to ensure that sufficient competitive pressure exists in the marketplace.

Track access authorities have been seen as a means to facilitate this competition. While it may be true at a national level, it does not yet appear to have worked at a state level. The state which has proceeded furthest down the path of improved track access is New South Wales with its Rail Access Corporation. Since RAC's inception, we have observed no significant improvements in track speeds or axle loadings on New South Wales grain branch lines. Indeed, we believe the RAC is proposing to restrict the size and speed of trains on some branch lines. This initiative will increase FreightCorp New South Wales costs and further limit scope for freight reductions that may involve significant increases for New South Wales grain growers.

When compared with an efficient vertically integrated rail operator such as Westrail, perhaps the correct formula may be vertically integrated state systems incorporating third party rail access mechanisms which readily allow new entrants onto intrastate rail tracks. The recently established Australian Rail Track Corporation would still be responsible for access to the interstate network and the coordination of these movements.

To conclude, I will touch on the issue of train operating issues. Taking into

account the before-mentioned rail and train operating factors, there are a number of issues which we believe warrant further examination. Firstly, many of Australia's rail operators use old locomotives, which are highly fuel inefficient and costly to maintain. Clearly, there may be some need to encourage investment in new equipment. This investment does not appear feasible in the traditional state government owned rail system, where intense competition for funds with other government priorities applies. Whilst we cannot quantify the cost, labour reform is still required in some states, including the use of single person train crews and the minimisation of shunting practices.

Our organisation, the Australian Wheat Board, thanks you, Mr Chairman, and the committee for the opportunity to put our position at this important forum. We stand ready to answer any queries you or your committee may have. We put forward our willingness to participate in any way we can with this inquiry, which we have observed, from our industry point of view, as being important.

CHAIR—Thank you, Mr Rogers. In your submission, you have been highly critical of several aspects of the current system, including the multiplicity of gauges, the point you just touched on about the fuel inefficiency of locomotives and the axle loads, which you also highlighted in your opening remarks. Is it not a fact that, by and large, grain is carried on branch lines to port facilities, so there is not a big cross-border operation? It does not necessarily have to operate at the speed of perhaps some of the other forms of freight handling that may be on the major trunk routes. Is it not an efficient or practical use of government infrastructure to use those branch lines with adequate, though not necessarily the top, rolling stock that the state may hold?

Mr Rogers—I will come at that from a couple of points of view. I will ask my colleagues to follow me through. First of all, we see opportunities in the future to regionalise rather than sit within state borders for transportation by rail. So we will be hopefully crossing some borders in the future.

CHAIR—What are some examples of that?

Mr Rogers—A good example may be crossing the border from South Australia into Victoria to take grain to Portland. With regard to axle loads and pick-up points at silos, those trucks go onwards to a grain terminal. We have a branch line where we would like to pick up bigger quantities. I will pass to my colleagues on the right, who are doing this job day in and day out, to really give you some background.

Mr O'Donnell—It is fairly clear that, with the axle loading, in North America, the class one railroads have shed a lot of branch lines and sold them to dedicated short line operators. Yet the branch lines still operate at those higher axle loads. In Australia, we are still stuck with this basically 16- to 20-tonne axle load area. Further to Murray's comments about working across state borders, it is a fact that, until a few years ago, grain was relegated to each of the state government rail systems, which had long-term contracts. We

are coming out of that period of long-term agreements where we were locked into state borders. We expect that to change over the next 12 to 18 months.

Mr Fehlberg—I have a further observation to make on the issue of track speeds. Some of the branch lines are not just low but ridiculously low. The locomotives have to crawl along because derailment is a constant threat. There are aspects of infrastructure which are beyond their technological use by date. Either investment into suitable roads to carry that produce to a major rail line needs to be made or else some investment should be back into the infrastructure.

CHAIR—Bearing in mind that a lot of those lines are purely grain lanes, has the board ever thought of purchasing some of those lines and operating them?

Mr Fehlberg—The short answer is that that is outside what we regard as our core mandate.

CHAIR—Or acting as the catalyst, perhaps, for regional groups to own them.

Mr Fehlberg—That is more likely to be done through the privatisation process, which is occurring in most states. Some sections of branch lines may be on sold further to particular specialist small-scale operators. That is perhaps a more natural path. Certainly we would be prepared to assist in that transition process.

Mr HOLLIS—In your submission, you are quite critical of a lot of the rolling stock. You say that it is inefficient, old and so forth. In your opening statement, you also mentioned this. Has the Australian Wheat Board ever thought of investing in any rolling stock, or is this outside your charter as well?

Mr Rogers—Even if it is outside our charter, we are not experts in operating a railway system. We are experts in organising the logistics and making sure that the movement of grain hooks up to, for example, international customers at the shipping end. We are not experts in managing a train system, such as driving and operating trains. We are experts in organising that to happen.

Mr HOLLIS—I quoted your submission when we had the Victorian government representatives before us. Their response was that there was nothing stopping AWB, if it is so critical of it, from investing in this area. You mentioned a couple of examples of North America. I asked the Victorian government if there was any overseas model or aspects of one that they could see relevant to Australia. They seemed to argue that because of the geography, the differences in populations and the distances carried there was no real model. You mention quite a lot here the Burlington model in the United States.

Mr O'Donnell—I will take both your points. Firstly, with the ownership of rolling stock, until about three years ago when grain transport was deregulated in Victoria, we

would not have had the opportunity to own any rolling stock. The only operator that could run on the tracks was the Public Transport Corporation. As you would appreciate, rolling stock costs a lot of money. It is a long-term investment decision. We have to go down a fairly considered investment process before we run out and buy rolling stock.

We mentioned Burlington Northern once or twice in our submission. Again, we always stress that, while they are a benchmark organisation and we would love to have their net tonne kilometre rates, we realise that it will not happen in Australia because of the distance and the tonnage efficiencies that you do not receive in Australia.

Mr Fehlberg—With regard to your point about a model, certainly the North American system has a lot of short line rail operators. We really see that in terms of the parties interested in buying into the Australian network. They have their core competency in the shorter line work. We do not see Burlington Northern looking to invest directly into the current Australian rail systems. We see many of the small regional operators interested in the investment potential here in Australia because it complements their home based expertise. In a way, that constitutes a form of a model which, in a way, we are heading towards.

Mr HOLLIS—On page 34 of your submission, you talk about track access. At the fourth paragraph, you mention the long tortuous journey from somewhere in western Victoria to Port Kembla. That is not really appropriate, is it? You will not be sending wheat from western Victoria to Kembla?

Mr Fehlberg—Certainly we do not in any normal event do a transition journey like that. Sometimes during periods of drought feed demand and so forth, we move wheat from very distant locations to satisfy that demand. That happens relatively infrequently. We also need to recognise that in North America that is a very common form of occurrence. There are only one or two major regional port infrastructures. We have still a fair few ports dotted around the Australian coastline with the consequent higher costs involved in both port operations and land transport operations. If we had lower cost structures, grain would have been moved further because you would be able to complement the quality of the cargoes better. We make specific compromises in terms of cargo assembly because of the costs of moving grain to a more efficient but more distant port. I agree that it is an extreme example. At times, it would be nice to be able to do a movement like that easily. Currently, we are not able to do that.

Mr HOLLIS—I thought you were going to tell me that Kembla was so efficient and cost competitive that it would pay you to ship from western Victoria to Kembla. What do you mean in your last paragraph of page 38 when you mention shipping issues?

Mr Fehlberg—Could you read that section for us?

Mr HOLLIS—It says:

When a ship fails survey (due to structural or hygiene problems) the resulting disruption to the grain accumulation programme can be costly with accumulated grain congesting terminals, requiring double handling and slowing or stopping the unloading of rail wagons.

You are not suggesting that some of these ships that fail surveys should not fail surveys, are you?

Mr Fehlberg—Not at all. Australia has a very effective regime of monitoring the standard of vessels used to transport goods from Australia. There has been a lot of work done in that regard. The current arrangements are working at a good and practical level. This is an example of where the rail infrastructure is influenced and disadvantaged at times by unavoidable events on the shipping side. Shippers know our requirements in terms of structural requirements and cleanliness. At times, the ships still require significant work at the Australian port end before they are signed off to load grain. That causes the back-up of rail operations and problems.

Mr HOLLIS—You do not charter the ships yourself? You use an agent?

Mr Fehlberg—Most of our sales are FOB based sales, which means that the buyer basically provides the shipping. We traditionally have done about 10 per cent of our overall shipping task in contracts or chartering, which the AWB organises on behalf of the buyers. That ratio is now increasing. We are seeing that it is a competitive advantage to our function and to Australian grain growers if we can increase the ratio of chartering. I think currently 16 per cent of total tonnage is organised via charter by the AWB specifically with individual ship owners.

Mr HOLLIS—You specific the quality of the shipping?

Mr Fehlberg—We do specific the quality of the shipping. There is a trade-off in price to quality. That is the universal equation of international shipping markets. They know our regulations and they know that they have to pass them.

CHAIR—We have only a half hour, so I ask that we keep the questions and answers more to the point.

Mr WILLIS—On page one, you refer to the fact that in real terms grain haulage rates have fallen dramatically since the mid-1980s. This change has been driven by the deregulation of grain haulage. Would you mind giving us some idea of what you mean by dramatically?

Mr Fehlberg—I will ask Roger to give some further illustrations. It is about a 25 per cent reduction.

Mr O'Donnell—In 1987-88, we were paying approximately \$22 per tonne. We are

now down to something like \$16.70 per tonne.

Mr Fehlberg—As an Australian average.

Mr O'Donnell—That is an average across Australia. In some areas, the changes have been more dramatic. Western Australia has come down much further. Western Australia has come down by about 25 per cent since 1992, as Murray outlined in his initial presentation.

Mr McARTHUR—Why has that happened?

Mr O'Donnell—Westrail has invested in new locomotives to haul its grain. They have the youngest average locomotive fleet in Australia. They have a very good interface with the bulk handler in that wagons are loaded almost when they are placed at country silos. Because of that, they achieve a 24-hour turnaround of rolling stock. It is an efficient use of the rolling stock. The rolling stock itself is very efficient.

Mr WILLIS—It looks like about a 25 per cent reduction in nominal terms. You say in real terms there has been a dramatic decline. In real terms, it would be much more than 25 per cent.

Mr O'Donnell—They are real figures.

Mr Rogers—I will add a bit extra to that. The fact that the industry has achieved those reductions is part of the equation. The other part of the equation is that we as an organisation and the rail operators have to look at the bigger picture overseas to make sure that we keep that competitiveness coming more and more. We benchmark continually against our Canadian and US competitors. If they have a competitive issue on rail freight, we have to try to drive at it.

Mr WILLIS—You say that that is being driven by deregulation; that is, the competition from trucks. What proportion of the business has gone to road?

Mr Fehlberg—About 50 per cent of Australian grain production is transported by road while the other 50 per cent is transported by rail.

Mr WILLIS—Is that whole 50 per cent since deregulation?

Mr Fehlberg—No.

Mr WILLIS—What has gone since deregulation?

Mr Fehlberg—I do not have that exact figure. Certainly there has always been a significant road movement component. You have regional based stockfeed users. That has

been the pattern from time immemorial. It would have been a slow, steady increase to road probably over the last 30 years with probably a significant expansion in the last eight years. But that is a set of records that we have not specifically tracked in terms of national grain production. Our ratio for the Australian Wheat Board is much higher because we are predominantly export based. Of the grain we receive, about three million tonnes goes by road and around 11 million tonnes goes by rail.

Mrs CROSIO—Is that three million tonnes by road straight to port or to rail to transport further?

Mr Fehlberg—That three million tonnes does not interact with the rail system at any stage. That is to country based flour mills and stock feeders. Some goes direct to city based users et cetera. There is some direct to port where there is no effective rail infrastructure, which includes parts of South Australia and Western Australia in particular.

Mr WILLIS—Do you expect that the proportion going to road will continue to grow?

Mr Fehlberg—No. We are observing that rail is increasingly competitive in relation to road transport over the last few years. We are really seeing rail take a back market share from road in terms of particularly the export movement to port.

Mr WILLIS—On page 5 of your submission, you give figures on productivity. It seems a bit meaningless without the actual haulage of grain. I understand that these figure relate to 1992-93 to 1996-97. You said that 1996-97 was a bumper year, the best ever, for grain haulage. I presume that all these figures are set against a significant increase in the amount of grain hauled. Is that right?

Mr O'Donnell—Just the staff figure has come down. It is not tied to the haulage task. Shunting staff is the same. Of locomotives used in grain haulage, there would be a difference for the larger harvests. They would have to put extra locomotives in. Grain wagons are basically dedicated to grain haulage. That number is, again, not impacted by the harvest size.

Mr WILLIS—On page 9, you talk about new technology. What do you mean by this? You say that V/Line Freight's road transferable locomotive uses this new technology. What does that mean?

Mr O'Donnell—Basically, V/Line's road transferable locomotive is a very large truck which has rail wheels fitted beneath it. The rail wheels retract when it operates on road. It can move between different grain lines and then go onto rail. They drop the rail wheels down onto the rail. It hooks onto wagons, and it can haul wagons along the rail track.

Mr WILLIS—Are they used very extensively?

Mr O'Donnell—V/Line has purchased one as a prototype. They purchased it two years ago. They are using it on their northern grain line network, where there are many adjacent lines separated by about 40 kilometres of road distance. The radial style of their network means that it is far more efficient to transfer the locomotive power by road rather than to have to run down a branch line and run up an adjacent one.

Mr WILLIS—On page 13, you talk about the closure of branch lines. Those points are well taken. You mention international best practice. You talk about the distance efficiencies available to the North Americans which are not available to Australian rail operators. From the point of view of the grain industry, it must be an advantage to have a shorter distance to haul the grain rather than a longer distance. It cannot be an advantage that America has to haul their grain 1,400 kilometres and us only 300, on average.

Mr Fehlberg—Certainly you are correct. The position has improved. Five years ago, the cost of hauling 1,500 kilometres in the USA was about the same as for hauling 300 kilometres in Australia. Our total charge to growers was the same, even though the distance in North America was much greater. It is naturally to our advantage now to generate a greater benefit out of our shorter haul.

There are a whole lot of logistical advantages which we get out of our shorter haul operations. There is our capacity to move cargoes quickly to port and to stream product from particular growing regions. Quality direct to end customer is something that North America has difficulty emulating. There are many advantages in our short haul. We are still relatively expensive on a cost per tonne kilometre basis. Further improvements in rail efficiency should be available to us. We will never match the long haul on the net tonne kilometre basis. However, we might be able to get a further 40 per cent improvement on our current rates.

Mr McDUGALL—Mr Willis asked about the state variations and the reductions in these rates. You are coming down in rates. You have said that you do not want to get involved in rolling stock. You have also said in your submission that you believe the wagons are underrated in relation to tonnage per actual load. You say that they need new wagons. You keep pushing the price down. Who pays for the new wagons? Someone at the end of the day has to pay the bill. Will it be directed at your industry? You have already said that it is a specialised wagon that no-one else can use. You have this objective. You have a pretty good objective going. You are pushing down the rates yet you are asking someone else to pay the bill at the end of the day for the new wagons.

Mr O'Donnell—Basically, the wagons will almost fund themselves. If you can put, for example, 75 tonnes in a grain wagon as opposed to 50 tonnes, you have greater fuel efficiencies.

Mr McDOUGALL—That is the operation. Who will come up with the capital? Which industry or which taxpayer will come up with the capital?

Mr Fehlberg—Under a private ownership of rail, it would be primarily the private owner. They might have a separate arrangement with us specifically to fund an agreed new set of rolling stock. We might have a usage agreement covering, for example, a seven-year period for which they would get a full recovery. The 50-tonne wagon is the Australian common form. North America primarily uses 100-tonne wagons. It is the axle load issue that we talk about.

Mr McDOUGALL—Does the Wheat Board have a investor who will get into this business and ask for access to Australia's railways?

Mrs CROSIO—Is anyone interested?

Mr Fehlberg—We are seeing the sale of what were the various state based systems. South Australia and Victoria are being bought by private operators. These operators will have close contracts and dealings with the Australian Wheat Board to fund the required investment for the grain haulage. We are not specifically asking for a further injection of government funds to fund new wagon investment or new locomotive investment. We think it is a commercial investment.

CHAIR—You do not see yourselves or grain growers seeking access to any track authority? You hope that to be done by private operators?

Mr Rogers—We hope that it would be done by private operators with expertise in rail operations. The Australian Wheat Board is but one player in the grain industry. There are other players as well, such as the barley and the rice people. There is a number of things. A privatised rail operator will probably look at different truck configurations to handle bigger loads. It would probably be a good payback in time.

Mr WAKELIN—Western Australian figures were quoted earlier as being amongst the significant productivity increases. Do we know of any state government subsidy operating with more capital or anything else in that operation?

Mr O'Donnell—I believe that Western Australia achieved full cost recovery on the rates.

Mr WAKELIN—I do not recall seeing the issue of excise in the submission. It is an issue that most people are raising. Do you have a view on it?

Mr Fehlberg—A number of key studies have shown that there is more than full recovery. There are two components. I will talk about road first. Road more than fully recovers its avoidable costs in, for example, grain haul on arterial road systems in the

country. Looking at the total quantum of government taxes and charges at all levels, there is more than full cost recovery at that level. The royal commission gave a cost of about 1c to 1½c per NTK of cost versus a recovery level of 1.7c per NTK. The more recent work done by the National Road Transport Commission gave a figure of around 18c per litre as their avoidable recovery charge component.

In terms of railways paying the diesel fuel excise, our view is that that is perhaps an unwarranted charge on the rail systems. It certainly adds to the costs which grain growers must face in transporting their product to port. For grain, the transport cost is a high component of the total value of the product. Therefore, the fuel excise which someone else must pay is a significant impost on grain transport charges.

Mr WAKELIN—You would be acutely aware that the recovery of costs on road is contested. You say that to develop competition a number of operators must be able to access the rail system. You would also be aware that there are those who do not necessarily share that opinion. There is quite sufficient competition from road anyway. How are you going to develop a system when we are just beginning to understand how private rail operators are operating?

Mr Fehlberg—There are several components in the answer to that question.

Mr WAKELIN—I am raising the general issue. I am sure that you are aware of it. We are entering new territory with private rail operators. We have a lot of competition from road.

Mr Fehlberg—Certainly in intermodal competition the rail-road competition has been a primary driver. The rapid pace of technological change in road transport has been the real long-term driving force. It is reducing road rates and putting pressure on rail rates. There are still areas where rail has its own natural monopoly characteristics. That is where we really feel that competition within the mode—that is, one rail operator competing with another—will enhance the service and price equation.

Mr WAKELIN—You talk about the grain storage and handling industry. You mention loading rates of 200 to 300 tonne per hour. It has also been brought to us that the grain industry is using the rail industry as a cheap holding yard, if you like. That is really a matter for that part of the industry. Do you agree that it is a matter more for the grain storage and handling industry than for the Commonwealth government or even perhaps the Wheat Board?

Mr Fehlberg—Certainly the AWB has a key role to play in balancing the competing interests of those parties. We are the owner of the product. We pay the service providers to move it. There is always competition over who will force costs on to the other party. The bulk handler tries to force costs on to the rail operator. The rail operator tries to force costs on to the BHA operator. It requires the central coordinating role, the

logistics management role, of the AWB to really bring those parties to a better equation together. That is part of our key role.

Mr WAKELIN—Various state grain handling authorities, as you have said, have significant differently records in it. I am not sure where the Commonwealth government can help.

Mr Fehlberg—They are all privately owned state handling systems. There is a different investment equation there.

CHAIR—We are over time. We will have to wind up soon.

Mr McARTHUR—You are a bit critical of the capitalisation of the locomotives and the rolling stock. You have a utilisation of three or four months of this capital equipment. How can you justify the investment of new capital into that rolling stock and locomotives? Who will pay for the damage to the roads created by the new 42-tonne grain trucks that are taking their grain to local silos and major silos? Will the industry pay for that major damage that is taking place?

Mr O'Donnell—I will address the first part of your question. With the locomotive fleet, it is true that there tends to be greater grain tonnes moved in the first four months after harvest. However, we are not requesting that every locomotive in each rail fleet be totally upgraded. There is a core need for locomotives for grain right through the year. If that core need is addressed and they are upgraded, for the other times of the year, you can use less efficient locomotives. That just makes straight economic sense. It is where we have 40-year old locomotives being used for 12 months of the year on grain where it is clearly inefficient. That is where we believe that growers are missing out. If you like, we will have a central core of efficient units which can run all year. They can attain the utilisation they need. For those periods where we need to top up, we can bring in the older units.

Mr Fehlberg—The second part of your question concerns the use of B-doubles to haul grain if branch lines are closed.

Mr McARTHUR—The big trucks are wrecking the whole country road system. Who is going to pay for it?

Mr Fehlberg—It is a very interesting point about wrecking the country roads. We tend to find that most of our critics, when you look at them, use rail not at all for their own operations. Everyone who talks about wrecking the roads has all their goods and services come in and out by road. They point the finger at the AWB as the source of all evil in relation to this road damage question. B-doubles are a more efficient form of transport than six-axle semi-trailers. They cause less road damage. The overall financial equation is that the total recovery of costs is much greater than the damage caused. There

is the money to enable full road replacement over a life cycle of a road from the quantum.

Mr McARTHUR—It is a very serious question. You know from practical observation that major damage is caused by heavy wheat trucks travelling to silos. It affects the road traffic on local government road networks.

Mr Fehlberg—I agree with you that it is a very serious question. It also requires a serious answer. The serious answer is that there is the total quantum of money garnered from road transport to pay for the full repair of those roads. The fact is that the money does not get down to the local government level where a local government road is involved. The money is usually held at some level, be it the Commonwealth or state levels. There is not the allocation back to where the damage occurs, even though the funds are garnered. That is my understanding of the issue.

Mr McARTHUR—We will have another debate privately about that.

Mr Rogers—There are some places in the country where there is no rail. B-doubles is one thing. In the Albany area of Western Australia, we have B-triples with a spread of tonnage on the road to the extent of 75 tonnes. There are not just B-doubles; they go longer. We as an organisation probably would rather use rail than road. There is no rail. That is another problem.

Mr TANNER—In your opening remarks, you made some reference to shunting practices. Could you elaborate on what you see are the problems?

Mr Rogers—I will turn to the rail expert on my right.

Mr O'Donnell—Basically, we view shunting in most cases as being an unnecessary practice. It belongs to 30 or 40 years ago when rail organisations had thousands of grain wagons and consequently there was a need to pull wagons that were not rail worthy out of a rake easily.

Today most of the rail systems in Australia have only hundreds of wagons. They are running grain as block trains to port rather than part of a general train, as they did years ago. There is less need to break trains up. In some states, we still have many shunters working. The main state where we have a problem with it—and they are aware of it—is New South Wales with FreightCorp. They are looking at that problem and trying to address it.

Mr TANNER—So it is not so much specific practices but generally the extent of the labour force and the number of shunters still on the books?

Mr O'Donnell—Basically, trains are almost being stopped so that these guys can move wagons amongst the consist. The train then moves on. The train should just travel

through anyway.

CHAIR—I thank the Australian Wheat Board representatives for their appearance today. I thank you for a very full submission. The committee may have some other questions to ask you. I trust that you will respond in writing at the appropriate time. The secretariat will supply you with a proof copy of today's proceedings. You can let us know if there are any amendments to be made to them. Once again, thank you.

[11.55 a.m.]

FLYNN, Mr Joseph Anthony, Customs and Traffic Manager, Ford Motor Company of Australia limited, 1735 Sydney Road, Campbellfield, Victoria

CHAIR—I welcome Ford Motor Company of Australia representative to the inquiry. While the committee does not require you to give evidence under oath, committee hearings are legal proceedings of the parliament and warrant the same respect as those of the House. Any false or misleading evidence is considered to be a contempt of the parliament. Mr Flynn, do you want to add anything to your original submission?

Mr Flynn—No, Mr Chairman.

CHAIR—Are there any amendments to it?

Mr Flynn—There are none.

CHAIR—Could you give us a three-minute overview of your submission. We will then break into questions.

Mr Flynn—I will provide a little background with regard to where I am at at Ford. The title is sometimes a little misleading. Nonetheless, I am the manager of the customs and traffic department which, among other responsibilities, includes the procurement and the ongoing day-to-day operations of the company's transport requirements, both domestic and international. That is with the sole exception of the company truck fleet that operates between Geelong and Broadmeadows.

I come to this forum as a user of transport services. Ford Australia has absolutely no interest in entering into the rail business. As such, I am here representing a previously significant user of rail services which has significantly reduced its use of rail services.

In my submission, I have detailed Ford's usage of the Australian rail network historically and in present times. When reviewing the reasons for the demise of rail, I think it can be summarised as a total lack of customer consciousness on the part of the management of the networks. This has enabled Ford to provide the road transport industry with the opportunity to prove its capabilities in addressing the organisation's needs. It has done this through a mixture of excellent management and listening to the voice of its customer. It has addressed the economic drivers, particularly in relation to the automotive industry's never-ending quest to reduce inventories.

It will be difficult for the rail networks to regain the business that they have lost. To do so, they will need to clearly address three crucial cost elements: transit time; transit damage; and price. Having said that, however, Ford clearly sees a role for rail to satisfy its future product distribution needs. It welcomes this opportunity to participate in this

inquiry. I keenly await your questions.

CHAIR—Your submission details that historic background. What was the one single factor that drove you away from rail?

Mr Flynn—I would say that it was an attitude of non-commercialism. We experienced terrific difficulties in negotiating rates. We experienced difficulties in negotiating insurance cover for motor vehicles. We experienced general difficulties in doing business that we did not experience when we dealt with particularly road transport organisations.

CHAIR—You mention in your submission the volumetric nature of motor vehicles as distinct from the weight component. Was there not enough sensitivity to that sort of thing?

Mr Flynn—That was part of the issue. My business is divided up into two basic elements. We have motor vehicles and motor vehicle components. Certainly the motor vehicles were subject to high levels of transit damage. We sought to see some specialised transport arrangements in either the covering of the wagons or adding to the security of the product. It never eventuated.

CHAIR—Why should that be so? Road transporter sometimes have vinyl side panels but, by and large, they have open frames and are semi-double-deckered. The trains are not dissimilar. Queensland Rail used to hook a couple of these behind the train. The Sunlander would allow people to take their cars to North Queensland. Why should they be any more damaged in a railway yard than they would be at the side of the road?

Mr Flynn—In our experience, the majority of damage or pilferage would occur on rail sidings. I remember when we once had 40 vehicles travelling by train and every one of them had its spare wheel removed when the train was parked at a siding.

Mrs CROSIO—How long was it there for that to occur?

Mr Flynn—I am not sure of the actual number of hours. Nonetheless, it was an absolute example.

Mr MAREK—I take on board your comments. I have been involved in the smash repair industry for a long time. I gave away as a bad joke the job of shifting panels from one place to another with rail. There was not only security issues but also damage in the shifting of vehicles. If they were not smashed with rocks, there was graffiti on each one. I take on board your concerns. Other people involved in the rail industry do not seem to be able to do anything to help us.

Mr WAKELIN—You say that you were impressed with TNT's ability to run a

reasonable service.

Mr Flynn—That is correct.

Mr WAKELIN—You state in your submission:

When Adelaide cargo was switched to standard gauge the containers were off-loaded at an AN-controlled terminal.

You ran into a bad-news story.

Mr Flynn—There were inconsistent arrival times with the freight. This freight is utilised for our production line. Time certainty is important. I rely on the certain arrival of that product in the assembly line in order to keep it running. We had enormous difficulties with our Adelaide sourced product during the time that AN operated that part of the terminal.

Mr WAKELIN—Are you still operating through that terminal?

Mr Flynn—No. We are totally road operated from Adelaide and Sydney.

Mr WAKELIN—Where are you at with TNT in terms of rail?

Mr Flynn—At this time, TNT is no longer my carrier. We resourced our business at the commencement of this year. All my interstate component deliveries are now handled by road.

Mr WAKELIN—We are moving towards more private rail operators. You do not have that experience.

Mr Flynn—No, we do not.

Mr WAKELIN—That is where it ends at this stage?

Mr Flynn—That is correct.

CHAIR—Is your role purely to get the product to your state manager, or do you go right to the end point, such as Cairns?

Mr Flynn—I go directly to the dealers, be they in Darwin, Broome or wherever.

CHAIR—So it is not delegated once you get to the state?

Mr Flynn—No, it is not.

CHAIR—It is direct?

Mr Flynn—Yes, it is.

Mr ROSS CAMERON—You mention the absence of a commercial culture or a customer orientation in your dealings with the rail authorities. Do you attribute that primarily to the fact of the government monopoly ownership of assets? Is it industrial practices within the work force that affected those organisations or some other factor?

Mr Flynn—I believe that at the time it was probably a monopolistic attitude that prevailed. Having said that, the demise of rail for Ford really commenced perhaps 10 years ago. My experiences of recent rail management styles is certainly unknown.

Mr ROSS CAMERON—A previous witness implied that we were virtually making work for various classes of state rail employees, such as shunters, because we had to have something for them to do. Traditionally, the rail systems have been regarded as a comfortable place to park large numbers of people. Was the industrial climate a problem for you in moving things from one area to another, or did you not see that as a particularly big problem?

Mr Flynn—Not the industrial climate. It was more an attitudinal issue from the workers' position as opposed to an overall industrial climate or set of circumstances.

Mrs CROSIO—You have not had any contact over the last 10 years. Have systems changed?

Mr Flynn—Indeed they have. That is without a doubt. Our usage decreased over that time. The only rail we use now is between Adelaide and Perth, as far as my motor vehicles are concerned. However, we still distribute spare parts in container loads from our spare parts depot to capital cities around the country. We utilise rail for that purpose.

Mr McARTHUR—Would you consider returning to rail if their operations became efficient, safe and profitable? I notice that we have rail technology where road transport vehicles can be put onto flat-top rail. If that sort of system could be implemented from capital city to capital city with a safety factor built in, would you consider returning to rail operations if it were profitable?

Mr Flynn—Certainly. I can further enhance the answer by the fact that Ford still maintains the rail spurs into its Broadmeadows assembly plant. Despite attempts over the years to have them removed, they still exist. We ensure that they remain there. They may be asphalted over. Nonetheless, they are still there and we can still get at them. It is certainly better than removing them.

CHAIR—You are obviously an acute observer of transport and intermodal

transport and the like. Do you get any feeling for a better regime in rail from private operators having access to the track?

Mr Flynn—Yes. I do believe that that is the case. In recent times, there have been advancements made. Whilst we do not use TNT, they should be put forward as an example. I did so in my submission with regard to their very large cartainer. That is something that is pretty new at the moment. We really watch that with great interest. There is another motor vehicle transport company that is running covered wagons out of Melbourne to Sydney, as I understand. There are developments occurring. Organisations are investing in rail infrastructure. We would certainly look to increase our usage of rail under those circumstances.

CHAIR—We received evidence in a couple of locations about a lack of appropriate terminal space. I know that this probably does not apply to you in terms of your factories, but it may in the light of your earlier comments about pilfering and the like. Each state government could set up a proper freight terminal where operators could lease land. After they had carried out their development arrangements, the government could lease it freehold. The state government would provide the major access line and they would spur off it. Would that make your type of industry more secure?

Mr Flynn—Yes, it would.

CHAIR—If all the trains were within properly secure terminals?

Mr Flynn—Indeed. Look to the ports as an example. Dedicated car terminals are now being established at the ports around Australia. That is an example of how those types of terminals would operate. They now include pre-delivery organisations and those organisations that add value to a product in transit. Clearly rail would be enhanced if similar types of terminals were established and available.

CHAIR—You obviously call for tenders or expressions of interest every year. Do you have a benchmark figure of what it costs to shift the average vehicle from the average Ford plant to a showroom floor? If you cannot give us that figure, what would it cost to shift it from a factory to Sydney or Brisbane by road compared with rail?

Mr Flynn—I cannot. It is a long time since we have used rail, particularly into the Sydney-Brisbane-Adelaide areas.

CHAIR—Have they ever come back to you?

Mr Flynn—No. That is quite surprising.

CHAIR—They have never come back with a new deal?

Mr Flynn—Not at all. It is only in very recent times that they have knocked on my door, perhaps as a result of this inquiry. I do not know.

Mr WAKELIN—You mentioned prohibitive insurance rates. How prohibitive are they?

Mr Flynn—From recollection, it was something like 10 to 15 per cent of the value. I would need to check my numbers. That is a recollection of the value of the vehicles.

CHAIR—The wholesale value of the vehicle?

Mr Flynn—As I understand it. It was incredible.

Mr WAKELIN—That Forrest experience would have been a penultimate one?

Mr Flynn—The Forrest experience relates to our current transport provider. We do not contract directly with rail with regard to the business between Adelaide and Perth. We contract the business to the car haulier, which subcontracts the rail.

Mr WAKELIN—I have to ask a question on sophisticated tracking systems. Could you comment on that quickly. It is quite important.

Mr Flynn—We are in the process of linking our production systems to the car hauliers' distribution system. At any point in time, we can tell where a vehicle is. Our dealers know when they can expect to receive the vehicle. Whilst it is not in place right now, it will be. It is on our agenda this year to implement it.

Mr ROSS CAMERON—In your submission, you talked about the unsuitability of rail for anything that could be done in a one-day haul.

Mr Flynn—Within a one-day time frame. That is correct, yes.

Mr ROSS CAMERON—There is this pressure you all have to reduce inventory and rapidly deploy stock to dealers and so forth. I am asking the same question as Mr McArthur. For relatively short hauls, does the fact that you have to double handle and you do not get door-to-door service basically mean that rail will never work for you as a haulage system?

Mr Flynn—That is right. Delivering door to door is the key issue. It is to get the product to the customer in the quickest possible time at the best level of quality. As long as rail has that rail-head to rail-head service, it will never be able to compete, certainly in the short haul; we have defined it as such.

Mrs CROSIO—I understand the economic viability in which your company now has to keep pressure on. What happens in the American system? Do they transport a lot by rail?

Mr Flynn—They do.

Mrs CROSIO—Is there any reason why we should be taking that on board here in Australia with our rail structure in comparison with what they are doing there?

Mr Flynn—As I understand it, rail is the predominant mode of vehicle distribution in both America and Europe. They have dedicated rolling stock that is used by the auto companies.

Mrs CROSIO—Who owns the rolling stock?

Mr Flynn—As I understand it, the rail lines do. The networks own them. Certainly in America these are fully enclosed. They are fully lockable. They are very efficient units in that they are all triple deckers. They are not limited, as we are, by bridges and tunnels et cetera. Certainly in America and Europe, rail, as I understand it, is the predominant distribution mode for motor vehicles.

Mrs CROSIO—Have they been able to overcome the door-to-door delivery problem?

Mr Flynn—At the moment, I am in the middle of a benchmark study on how Ford performs with regard to its overseas affiliates. Currently, it appears that we are delivering our vehicles far more quickly to our customers than is the case in America.

CHAIR—More quickly and cheaper?

Mr Flynn—We have not completed our benchmark study yet. At this time, we are looking at transit times. There are other issues that we have to take into account. I have not included the transit damage aspect at this time. Certainly it would appear that we are putting our cars into our dealers' showrooms far more quickly in Australia than they do in America.

Mrs CROSIO—It does not help us with the cost.

CHAIR—What do you factor into a vehicle as the basic delivery cost? When you work out the cost of the vehicle, do you have a standard charge, or do you have differentials?

Mr Flynn—As I understand it, a standard charge gets included into the price of a vehicle.

CHAIR—Do you have to meet that, as the manager of that department, by X number of vehicles?

Mr Flynn—No. I am given a total budget each year. I am expected to meet that budget each year.

CHAIR—It does not actually come down to a unit cost?

Mr Flynn—No. Not at this time.

Mr ROSS CAMERON—If I walk into a showroom and I want a Falcon, what percentage of the retail price am I paying in transport costs to get the vehicle there?

Mr Flynn—I do not have those numbers with me. I can provide them.

CHAIR—Thank you, Mr Flynn. Yours was an unusual submission in that you have a single focus. It has been a very valuable one. We have heard from a lot of bulk users and rail access people and the new transport companies. We have not had a single focus potential operator who was prepared to come before us and give evidence in the detail that you have. We are most appreciative of it. If we have any other questions, we trust that you are able to respond to them in writing.

Mr Flynn—Certainly.

CHAIR—As is the practice, the secretariat will provide you with a proof copy of today's proceedings. Thank you for your attendance. The meeting is suspended until 12.55 p.m. We have a very tight schedule this afternoon.

Proceedings suspended from 12.18 p.m. to 1.00 p.m.

PLUMMER, Mr Geoff John, Manager Australasian Logistics Services, BHP Transport, Level 29, 600 Bourke Street, Melbourne, Victoria

CHAIR—In resuming this afternoon's session, I would like to welcome BHP Transport Pty Ltd to the table. If you need to use any proper names or quotations, I would ask you to defer to *Hansard* before you leave. I have to caution all the witnesses that, although you are not under oath, these committee hearings are legal proceedings of the parliament and warrant the same attention as those of the House of Representatives, and any false or misleading evidence is taken as a contempt of the parliament. Do you wish to add or amend any of your submission at all?

Mr Plummer—No.

CHAIR—I understand you are having a little bit of trouble with your voice. We are allowing everyone a three-minute overview but, if you find that too taxing, feel free to shorten it. We will try to keep the questions fairly short in terms of asking for a response so that we do not wear you out.

Mr Plummer—I can talk but it is hard for you to listen. Thank you for the opportunity to appear. I would like to give a short overview of where BHP sees the key issues facing rail and comment on some of the recent developments in the rail policy area. Firstly, in relation to why we use rail: BHP is a significant user of both interstate and intrastate rail. As well as that, we are currently Australia's largest private rail operator. From our perspective, rail has the opportunity to be cost effective particularly for frequent, large volume and long-haul tasks; it has a distinct safety advantage for a number of products and applications; and it allows us to provide our customers with the service levels they require, particularly in these days of minimum stock holdings requiring reliable delivery.

I think you will be aware that BHP is National Rail Corporation's largest customer. We currently account for almost 30 per cent of their revenue and tonnes moved. From BHP's perspective, there are a number of key issues to be addressed in order to attain the sort of rail system that, no doubt, we are working towards. Firstly is the need to integrate the rail system into a national whole. Rail already has significant competition from road and that comparison to road is relevant in the context of these hearings. Road benefits from having a national highway. The interstate rail system would also benefit from having an interstate national highway. This means we need to approach the designated national track as an integrated national system much as is done for the road network.

In thinking about the strength of road compared with rail, road has a national regulator which in recent years has made significant progress in achieving uniform standards and national accreditation systems. Rail currently still suffers from actual breaks of gauge and regulatory break of gauge which are significant impediments to the efficiency of rail. At this point I think rail has an opportunity to get its act together and to resolve

some of these issues.

One of the key issues to be addressed is the condition of rail infrastructure. Rail infrastructure has suffered from a lack of funding for some time and we believe some catch-up investment is required to allow rail to compete against road and other transport modes. It is certainly required if rail is to be a cost-effective alternative. An appropriate level of funding for the network is also required to give confidence to both prospective investors and customers in the rail system. The funding needs to be targeted in such a way as to provide for the long-term viability of the entire interstate network not just for sections or corridors. There needs to be recognition by owners of the track of the quantity of funds that are required and a clarification of the sources of those funds, as well as more effective targeting.

We believe the establishment of the Australian National Track Access Corporation is a very positive initiative and we applaud the state and Commonwealth ministers for that decision. We have long called for the establishment of such a body, believing that the one-stop shop is necessary for rail to achieve its efficiencies. However, in saying that, I am conscious that there are some significant issues still before the Track Access Corporation. We would not want to run it down before it has progressed its task too far but we would like to make some observations.

Firstly, it is important that the Track Access Corporation be given sufficient authority to carry out its task and to ensure that it does not just become another layer of bureaucracy. The issue is also important with respect to the Track Access Corporation's ability to promote operational efficiency and uniformity of standards. Capital application must be approached by this body on an appropriate set of evaluation criteria such that projects which give the maximum benefit to the entire system and network are those that receive priority funding. The source of funds, as we understand it, is still to be determined and it is not clear whether or not they will be sufficient for the task required.

Regarding pricing, the revenue level to be derived from access charges on the network is yet to be determined by shareholders. However, it must be priced at a level that will encourage rail users and attract increased volumes to rail as the way to achieving longer term sustainability. Increases in prices will just push volumes off rail and onto road and be counterproductive.

In order to achieve a one-stop shop, operators should be able to negotiate access charges for a point-to-point service through the Track Access Corporation; that is, the corporation should control access for all movements regardless of their origin and destination. BHP believes that the track corporation is a significant step in the right direction but there are still significant issues to be resolved. We believe these issues have been addressed in the submissions we have previously made. I would be happy to elaborate on anything further today. Thanks for the opportunity to talk.

CHAIR—Thanks, Mr Plummer, that was very good. You raise some interesting points both in your submission and in your overview. I think there is a recognition from the witnesses we have heard thus far that there would be two ways of tackling this: one would be a major injection of funds into the system, looking for the total upgrade of lines, grades and the like; and another one is an incremental upgrade as a first step where we would pick the hot-shots across Australia, increase the size of loops, and take out dangerous and slow curves and so forth. What is your view on that?

Mr Plummer—I think I would like to have a halfway position but, if I had to pick a priority, my first priority would be to ensure there is an appropriate prioritisation of the spending that is available and that it is targeted at maximising the benefits for the entire network. We, as well as a number of parties involved in rail—

CHAIR—But do you not think that this is the problem that successive governments, state and federal, have looked at the big picture and it has been too big and they have stepped back from it? Or is it not better to accept that priority into an incremental regime where we might at least get some major upgrades in the areas that are bottlenecking the system at present?

Mr Plummer—What I was trying to say—and perhaps I have not made myself clear—is that setting the priorities is the thing that must be done first and is the most important. With whatever funds are available, that will deliver considerable benefit. Given that, I think that exercise will also show that some level of investment is warranted on a catch-up basis. In picking between the two, prioritisation is the first challenge and, historically, I think that is what has been lacking from the perspective of a national interstate system—being able to attack it from an integrated whole. In our example, we currently suffer from limitations in terms of speed or axle loadings at some 80 points between Melbourne and Western Australia. Resolving 79 of those—

CHAIR—Does not solve the problem—

Mr Plummer—Does not solve all of the problem. However, tackling the worst five might be enough to address axle loading limitations if not speed restrictions. So the targeting will give benefit, but some of the issues will still remain.

CHAIR—What percentage of BHP's task is conducted on rail and what percentage on road?

Mr Plummer—In terms of domestic steel movements, at this stage rail is the majority. As a broad guideline a little over two million tonnes on rail, a little over one million tonnes by interstate road, something more than that on intrastate road where rail is not a competitor and about one million tonnes by sea between Port Kembla and Westernport. So if you count the sea mode, it is about 50 per cent rail, 25 per cent interstate road and 25 per cent by sea.

CHAIR—What about of your bulk commodities such as coal?

Mr Plummer—Our bulk commodities; it is almost entirely by rail.

Mr McDOUGALL—I am interested in your comments in relation to access and your one-stop shop concept. From evidence that we have taken in New South Wales, Queensland and then here today with Victorian transport, there seems to be a very interesting situation. Victoria obviously without doubt in their submission wants what you are suggesting—a one-stop shop—even to the point where I think they would like the Commonwealth to take it over altogether. But we do not seem to get the same sort of reaction out of New South Wales and Queensland. They have the two different type structures, as you know, with Queensland terribly in-house and New South Wales a little bit broader but questionable as to whether IPART really works. So if the states cannot agree, how are we going to achieve a one-stop shop?

Mr Plummer—I am not sure I can comment on that. I suspect it is a political issue which is outside my area of expertise. We have spoken in varying degrees to each of the states—very limited discussions with Queensland but we have spoken to New South Wales and Victoria at different times—and the position we put clearly is that our history going back prior to the establishment of the NRC was that trying to deal with a range of bodies, particularly where those bodies might be subject to different political agendas from time to time, is extremely ineffective and inefficient in terms of time and confidence.

Mr McDOUGALL—So you believe this is one of the major roles that the Commonwealth should take on board?

Mr Plummer—We are strongly supportive of a true one-stop shop.

Mr McDOUGALL—This morning we had the Australian Wheat Board tell us that they have had some rather good reductions in freight rates in recent times down to an average across Australia of \$16 a tonne and they are looking for more reductions. But when we were in Queensland we heard from the Minerals Council and one of the representatives from the Minerals Council was a person from BHP. The Minerals Council assured us that they are not getting the same benefits in Queensland in relation to freight rates but could not tell us what their freight rates were. There had been some benefit but they were not quite sure what it was. Have you had any involvement in negotiations with Queensland Rail on freight rates?

Mr Plummer—Not with Queensland Rail, no. That has been handled through my colleagues at BHP Australia Coal primarily. I would have nothing further to add than what was said by the Minerals Council, as I understand, on their behalf.

Mr McDOUGALL—So BHP Transport really only looks after the steel operation?

Mr Plummer—Basically the steel operation, yes.

Mr McDOUGALL—You have got a very large commitment into rail and over the years BHP has gone into the iron ore carrying yourselves—so you have made that commitment. What is the future of BHP in making a commitment to put capital investment into rail—whether it be in rolling stock, whether it be in building their own lines in the future—or is it something where BHP is saying, ‘No, we want to get out of that now and leave the capital investment to somebody else,’ and you would simply want access to the rail either directly in your own right or through someone like National Rail operating for you?

Mr Plummer—The difference between steel and iron ore is that the rail there is an integral part of the operation. We in steel are a user of the interstate network almost in its entirety and we do not see rail in those circumstances as being part of our core business. We have made some significant investments in rail in support of that—particularly to do with terminals, information systems, management systems and so on—but it would not be part of our core business. We would prefer not to invest directly either in track or rolling stock, although it is something we investigate from time to time.

Mr McDOUGALL—You raise an interesting point there in relation to communications systems which has been raised in the inquiry before. Do you believe there is sufficient progress being made in relation to information systems between the different modes of transport? It has been put to us that in technology the shipping system, the rail system and the road system cannot talk to each other because they all run different sorts of systems. How does BHP get over that problem?

Mr Plummer—It is an area that BHP puts considerable effort into trying to improve and it has made considerable progress. Much of that is within our own interfaces. In steel, those interfaces are things that we have learned to manage and have made significant progress in managing. But, certainly, there is still some way to go. In situations like into the ports of Melbourne or Sydney where we are using public or common user facilities, there are opportunities to improve in those areas which can impact significantly on cost in terms of turnaround of rail wagons, waiting time for road transport at rail terminals or ports and so on. That is an area where we believe there is considerable opportunity to improve.

Mr McDOUGALL—How do you believe that should be done?

Mr Plummer—I think where most of the improvement has come from in our experience has been in the example we are talking about here: some years ago there was a philosophical change between BHP and what became National Rail, and we moved from an adversarial approach to a partnering approach. We have spent the last four years trying to build a partnering relationship. Both parties have made considerable progress in improving our understanding of how we impact upon each other. The first step is that we

need to recognise our shared problems and our shared opportunities.

Mr WAKELIN—You mention the Commonwealth commitment to \$250 million being inadequate, but there it is on the table. What sort of level of funding do you believe would be adequate—it is difficult to be specific but what order?

Mr Plummer—It is not an area of study that we have made. We have relied on work done by the National Transport Planning Taskforce and groups like that. I know that figures of up to \$2 million or \$3 million have been quoted but it is really not an area that we have studied. We are convinced that some investment would quickly have returns if it were targeted in the right areas in terms of maximising axle payloads, maximising train links through increased passing loops and those sorts of things. But we have not got to the point of costing those things.

Mr WAKELIN—That is fine. You have mentioned the partnering relationship with National Rail over the last four years and you would be aware that there is a move to privatise National Rail; would you see that as a step forward?

Mr Plummer—We are aware of it. The privatisation is something that generally we would see as positive, but it is not fundamental to the changes that are before us. The priorities that would be getting the track access and the track condition resolved first—surety and confidence in that—and then out of that you can have the basis for effective above-the-line competition and private ownership.

Mr WAKELIN—The specific nature of your freight would, I presume, be steel billets—

Mr Plummer—It is both steel finished product which includes things like merchant bar used in the building industry, flat products which are used in whitegoods and automotive industries and semi-finished products which are slab and billets which go to other steelworks for further processing.

Mr WAKELIN—What I was leading to was the timeliness and general product delivery at each end. I know that at Whyalla, for example, it is quite clear because it is right alongside the plant. But in terms of general delivery to meet your requirements, how much of an issue has that been?

Mr Plummer—We have the advantage that generally we control our own terminals. We have put considerable work on getting absolute reliability within NRC. For example, the service to Western Australia is about 4½ days. Now, the intermodal services are looking for something quicker than that. We have focused in the first instance on getting reliability, and that is now at a pretty fair level. Once that is achieved, we can look at trying to shorten the service.

Mr WAKELIN—Just a last question and coming back to the privatisation competition issue: in the cost structure that National Rail has to absorb with its access costing—and noting that you are 25 per cent of National Rail's business—the opportunities to reduce those costs for National Rail and therefore for yourselves, would you see the issue of competition and of privatisation as having some significance on the general ability to deliver a better service?

Mr Plummer—I think they are very significant. Our view would be that the focus needs to be ensuring that there is an integrated national system. If what comes from this study and from prospective changes is a system where some operators can cherry pick or marginally price based on not recognising the cost of assets that are used, I think we will end up with something where we do not have a national system and, in our view, that would be a significant step backwards.

Mr McARTHUR—I understand you transport a lot of your steel products by rail. Have you looked at the alternative of road or have you been locked into your handling systems so that you have had to stick with your railway systems? Secondly, could you comment on your submission in relation to integration or not fragmentation—could you expand on your arguments why the Australian rail system should be integrated with some access?

Mr Plummer—In relation to the first question, we are continually reviewing our modal options. At a micro level on a day-to-day basis, we are deciding whether rail or road is the best option given cost, delivery, product damage requirements within established parameters for market share and so on. Basically, when we are negotiating with our suppliers each year, we change those parameters and shift from road to rail or vice versa. Those shifts have been quite significant from one year to the next, depending on issues not just of cost but also of reliability either on road or rail.

In relation to your second question, our concern would be that there would be the opportunity for one, two or perhaps three operators to be viable on the east-west corridor—that is, Victoria and New South Wales to Western Australia. Whether or not there is the same opportunity for people to be viable from Melbourne to Brisbane on a basis where you have to pay for the full cost of upgrading just sections of the track in either Victoria, New South Wales or parts of Queensland would be a different question. But the issue would be if those rail corridors fall over, inevitably it leads to other modes being used—either sea or road. Those have significant cost issues not just for BHP and its customers but also for the community in terms of the number of trucks that would end up, for example, on the Sydney to Melbourne highway.

Mrs CROSIO—Mr Plummer, you have suggested in your submission that \$250 million funded by the Commonwealth to rail over the next four years is inadequate. What do you actually perceive would be a more appropriate figure and, if I could put an adjunct to that, where do you think that funding should come from?

Mr Plummer—We have not said it is inadequate. We have expressed a concern that it will be inadequate once the prioritisation process has gone through, which was discussed in the first question. Our view would be that, having done the prioritisation process, there would be a significant improvement in the competitiveness of rail and its ability to attract volumes from road.

The concern we have is that rail is in a catch-up position. Road generally now has moved towards a fairly cost-effective system in terms of the permanent way, the highway system, and over the last several years it has made significant progress towards standardisation of registration licensing and other issues to do with it. What we need to do is be able to address those issues so that rail has the opportunity to compete with road. At that point, I think rail would be able to fund the necessary level of investment and maintenance expenditure required.

Mrs CROSIO—In other words, from its generated revenue?

Mr Plummer—After a catch-up period, yes.

Mrs CROSIO—What difficulties have you experienced as a private operator in the rail industry particularly after the privatisation of AN; has that affected your rail operations?

Mr Plummer—After the privatisation of AN, nothing significant at this point.

Mrs CROSIO—With the infrastructure sharing that has been put in access to utilisation of the rail network, does your company actually feel that they should be into infrastructure sharing?

Mr Plummer—We would not see that as part of our core business. We certainly have been trying to work with NRC and, through NRC, AN and so on to do what we can do to optimise the national rail system; but our preferred outcome would be for us to be a customer of rail. Our energies have been focused on being a good customer of rail in that regard.

Mrs CROSIO—It is also stated that BHP runs one of the most efficient rail systems. Is there any point that you perhaps should be giving us as a committee that we should now be taking back as how it can be achieved and how it can be done that perhaps you have not been able to cover in your submission?

Mr Plummer—You are referring to our iron ore operations in Western Australia?

Mrs CROSIO—Yes.

Mr Plummer—That is a specialised and dedicated task. There has been extensive

benchmarking investment and management time as a key part of that. It is those sorts of issues we have been trying to work with National Rail on to achieve mutual benefits and mutual improvements. I think a better parallel is that the road system in Australia is approaching world's best practice in many areas. If you ask why is that so, the answer to that lies in investments that have occurred in the permanent way and the steps that have been made in removing regulation and assisting competition above the permanent way in the road area. That is a better parallel for where rail is currently at but, certainly, some issues to do with benchmarking and so on apply also to the iron ore operations.

Mrs CROSIO—A previous witness stated that one of the most inefficient things they find in rail is the fact that it does not deliver door to door. In your type of industry, do you just create the lines to carry it from door to door?

Mr Plummer—We create the lines. That goes to the question that was asked previously about managing the interfaces. We have invested considerably. Often we control the rail terminal within our works so we can load out but, where we are delivering, to is often a terminal in Melbourne, Sydney or Brisbane and so on. We have invested considerable time and effort in reducing the interface costs at that end and maximising the benefits of road and rail: rail's benefits are particularly long haul or large volumes, particularly where they are regular and frequent; road's benefits are local, flexible and able to respond quickly—so you can get the benefit of both worlds if you gear up correctly. It is easier to say, it is more difficult to do.

Mrs CROSIO—I am just wondering if you are not unique in your type of industry and that is why you can actually do these things whereas others cannot.

Mr Plummer—We certainly have some differences compared with many of NRC's other customers who, for example, have a common terminal.

CHAIR—Just to flesh it out some of the points Mrs Crosio made. On the one hand you say you would like to become a good and faithful user of the rail; on the other hand, in Western Australia you have one of the most efficient privately owned railways in the world. And, regardless of what the purpose of that operation was, you must have developed a lot of skills and been able to assess the efficiencies of rail being operators yourselves. Do you find any attraction in the in-between model of BHP having its own trains perhaps on a rail access system?

Mr Plummer—That is something that we have kept under review and we keep looking at. In our steel business, we would not see it as a core business so we would prefer to be a customer of rail. But it is something we have the ability to do and the willingness to do, if that is the best outcome at the end of the day.

CHAIR—What about on your coal lines?

Mr Plummer—Our major coal shipments are either in the Illawarra, which is relatively short haul and unique, or in Queensland where we use QR.

CHAIR—I take your point. The other thing you raised in response to Mrs Crosio that I am sure the committee would find interesting—while it may not apply to you particularly, we would be interested to hear your views on this—we have had a fair amount of evidence saying that part of the inefficiency of the rail to road interface is the lack of appropriately positioned and designed terminals, and you have confirmed in your own evidence that, where you have your own terminals, you get a very efficient result.

What is your view on the state governments being asked to have major rail terminals designed in such a way that they have access to road and designed in such a way that all operators can move onto the site—something like an industrial estate—with the state government providing the basic infrastructure, the rail access, but each of the factories or the individual company terminals feeding off that? Do you think that would improve the efficiency of rail in general if you had good terminals in all the major cities?

Mr Plummer—I think I would have to say yes but qualify my answer by saying that we recognise the importance of terminals to our business. I really do not have enough detailed knowledge of the commercial intermodal operators and the role that terminals play in them. But, in our business, the terminals are critical.

CHAIR—You have put a lot of time and effort into that interface?

Mr Plummer—Yes.

CHAIR—Mr Plummer, thank you very much for your evidence today. It has been most helpful. As I said in that second last question, you have that wide range of operation from being a rail operator right through to an end user. If we require any further information, would you be prepared to provide that to us in writing?

Mr Plummer—I would be more than happy to.

CHAIR—As is the custom, the secretariat will provide you with a proof copy of today's proceedings. Thanks once again for your attendance.

[1.35 p.m.]

McCUTCHEON, Mr Raymond Ian, Australasian Railway Association, President, PO Box 494 Collins Street West, Melbourne, Victoria 8007

KIRK, Mr John Phillip, Executive Director, Australasian Railway Association, PO Box 494 Collins Street West, Melbourne, Victoria 8007

HILL, Mr David Welbourn, Research Officer, Australasian Railway Association, PO Box 494 Collins Street West, Melbourne, Victoria 8007

CHAIR—I would like welcome representatives of the Australasian Railway Association—or the ARA as we so frequently hear it called. I just ask that, if you use any proper names or quotations, you defer to *Hansard* before you leave for the sake of accuracy. Do you wish to make a comment on the capacity in which you appear before the committee?

Mr McCutcheon—My role in business is Managing Director of Westinghouse Signals Australia.

CHAIR—I just have to caution you that, although you are not on oath, these proceedings have the same legal binding as those of the House and warrant the same respect. Any false or misleading evidence is taken as a contempt of the parliament. Do you have anything to add or to amend in your submission?

Mr McCutcheon—We would just like to make an introduction.

CHAIR—That was going to be my next question. Would you like to give three-minute overview of your submission?

Mr Kirk—There is a brief omission from page 16 of our report that we have recently had brought to our attention. There are two lines missing, which we would be happy to supply. On page 16 of our submission under ‘investment strategies’ there are two lines missing. They should read:

The main Sydney to Melbourne corridor suffers from a 35-year-old worn-out track between Melbourne and Albury. That section was identified by the federal Bureau of Transport 20 . . .

and it goes on ‘years ago’ at the top of the page.

CHAIR—Can you provide that to the secretariat?

Mr Kirk—Yes.

CHAIR—It does not alter the substance?

Mr Kirk—No.

CHAIR—If you would give us a three-minute overview and then we might get into the questions.

Mr McCutcheon—Thanks for the opportunity to appear before this inquiry on behalf of the ARA. The Australasian Railway Association is the peak industry body representing the interests of the rail industry in Australia. Its membership comprises over 100 public and private sector companies employing over 75,000 people in a wide range of industries. The association's members are actively involved in the rail reform process. They are working cooperatively to overcome more than a century of break of gauge mentality that has hampered the competitive development of rail in this country.

The Australian rail industry provides a significant economic benefit to the nation with an output of goods and services in excess of \$7 billion per annum and generates over \$½ billion in export income. Employment in the rail or rail related sectors comprises a substantial portion of the employment base in many rural and regional centres. The industry plays a major role in moving the nation's freight: 56 per cent of the non-urban rail and road freight task is undertaken by rail compared with 44 per cent by road. It also moves most of Australia's export iron ore, coal and wheat worth \$14 billion annually to the nation's economy.

The rail industry is very proactive about reform. Over the past 10 years, productivity has increased 200 per cent, while government rail employment has halved. Rail freight services, which are in direct competition with road transport, operate as commercial enterprises at, or close to, profitability. To fulfil its potential as a key component of the nation's transport system, a level playing field must be created between road and rail. The present approach to transport funding applies broad social and economic criteria to road funding but narrow commercial analysis to rail projects. We need consistent evaluation criteria so that the positive social benefits are equally attributable to road and rail projects.

A more balanced approach to funding is also needed. Between 1975 and 1997, the federal government has spent \$33 billion on roads compared with just \$1.8 billion on rail. The proposed expenditure of \$250 million over four years on the interstate rail network is much less than the rail operators will pay in fuel excise over the same period and compares poorly with the NTPT—the National Transport Planning Taskforce—recommendation that \$150 million per year be spent on the network over 20 years.

At present, there appears to be a lack of political will to tackle the issue of competitive neutrality in regard to road and rail access pricing. When all costs are considered, heavy vehicles do not pay their way. Rail access pricing is mass distance based but road access pricing is not. Australia's government rail operators pay around

\$160 million per year in diesel fuel excise of which \$85 million is nominated as a road user charge. This is an embarrassing anomaly as rail operators should not be funding road infrastructure. All rail operators should be eligible for the diesel fuel excise rebate along with farmers, miners and even Japanese long-line fishing vessels.

Rail operators need consistent regulations and standards across Australia. Most importantly, Australia's rail operators need a single point of entry for access to the national rail highway. Road operators enjoy largely uniform operating standards and access conditions across Australia, whereas rail operating standards still vary between each of the states. There should also be uniform regulations for the carriage of dangerous goods. Rail freight services are at least three times more efficient than road transport. Ten additional trains each way between Melbourne and Sydney would take the entire 3,000 daily truck movements off the notorious Hume Highway and save one million tonnes in greenhouse emissions per year.

The Australian rail industry requires, in our view, an independent, non-government research and advisory body—which we would like termed 'AustRail'—to investigate and make recommendations on economic and regulatory matters affecting the rail industry. It would provide an appropriate mechanism to implement the findings of the current study into harmonisation and standardisation of rail regulations and operations.

In summary, the rail industry is not seeking handouts. The industry seeks nothing more than to be able to maximise its contribution to Australia's economy. To achieve this it must be considered a key part of an integrated land transport network. The rail reforms are well under way. It is now up to governments at all levels to underpin the benefits by implementing policies and provide a fair go for rail. Thank you.

CHAIR—Thank you, Mr McCutcheon. A couple of questions we have addressed to most of the major witnesses and one of some concern to us is what is your view on the community service obligation; how do you believe it should be applied; do you think it is sufficiently well identified? Does identifying it accurately make a contribution to the overall efficiency of the remainder of the system; could you give us your views on that?

Mr Kirk—I need to say at the outset, Mr Chairman, that the association represents a variety of views on just about every topic you are going to ask us questions about, so it is very difficult for us to give a specific position on this kind of issue—

CHAIR—Nevertheless, it is a major component of the operation of the Australian railways—

Mr Kirk—Absolutely right. It is important to identify the principle of transparency. The association would say that any community service obligations or any form of subsidy should be made transparent. They should be there clearly on the books not only for rail operations but also for any other transport mode. Our position would be that any

such payment should be clearly identifiable as payments for non-commercial activities that governments may require railway operators to undertake on their behalf for social and other benefits.

CHAIR—So you would incorporate within that the urban commuter services as well as the less profitable country lines?

Mr Kirk—Whatever governments decide they need to provide a service to the community—

CHAIR—Your association broadly speaking would be fairly relaxed as long as there is transparency there?

Mr Kirk—I think so, yes.

CHAIR—The other question that keeps popping up is that there is a fair amount of evidence that, in order to bring Australia's rail system up to steam, we need somewhere in the vicinity of \$3 billion to \$5 billion and that governments by and large, state and federal, have tended to balk at those sorts of figures. Another view is that we should be looking at an incremental catch-up on key rail corridors by perhaps taking out some of the hot-shot spots, doubling the size of loops, getting rid of dangerous and slow curves and the like, and generally improving the efficiency of the rail on the major corridors. Does your association have a view on what direction the government should take in providing those funds?

Mr Kirk—I will take your first point that governments balk at the size of the expenditure. I mentioned the reasons why governments might balk at the size of those expenditures on rail when they are quite happy to provide substantial funding for projects like the Pacific Highway which is several times more over the next few years than what rail is asking over 20 years. This begs the question that maybe the criteria we are using for assessing infrastructure projects needs to be reviewed.

Mr McDOUGALL—As a peak body, I assume the state rail authorities are members of your peak body?

Mr Kirk—They are, yes.

Mr McDOUGALL—I am always interested when I see public instrumentalities in peak body organisations. You have a fair membership that is right across private and public sector, as you said. Do you have any rules and regulations in relation to your peak body that, when your peak body comes to a decision, everybody complies with the decision?

Mr McCutcheon—We are not in a position where we can dictate decisions upon

our membership. As Mr Kirk has indicated, there is a diversity of views on a number of subjects. We cannot make representations in those areas at will; we have to give some due recognition to the interests of all of our members. However, there are many areas where we speak with a voice that is universally accepted by all of our members, and those are the areas where we are concentrating our efforts.

Mr McDOUGALL—It leads me into the question about access. You talk about being unified and you talk in your submission about a one-stop shop or one access policy. After the evidence that we have taken so far in New South Wales, Queensland and now here, one has to question in one's mind as to whether there is really a possibility of that happening because of the different attitudes of those authorities in each of those states. So, for your association to make the statement that that is desirable, do you think it is really possible because of the current make-up, structure and culture that exists in those state authorities?

Mr Kirk—It will come down to horses for courses across the various state bodies in terms of their intrastate activities but, over the national network, the move to create the Australian Rail Track Corporation sends a very positive move towards providing just that—the single point of entry for access onto what we are calling the national rail highway or the interstate rail network. Certainly, the agreements that the ARTC looks like having with the various state operators should provide operators with that single point of access.

In terms of the various models that have been discussed, your point is well made that we would have as many different views in our association as there are models and variations of the models. It is quite clear that Queensland have just recently gone through a big review and they have decided they are going to opt for one model, which is integration. Last year in November, parts of Australian National—SA Freight and Tasrail—were sold as integrated railways, and Victoria is looking to do the same.

It may be that we end up with the need to have a national model which will be one thing to enable competition on rail but with intrastate traffic then other models may prevail. But the principle that underlines all this, as far as the association is concerned, is that, whatever model is chosen, the principal aim should be to encourage the growth of rail's market share.

Mr McDOUGALL—Obviously, when you choose a model it is better to get consensus but that may be difficult. What is the role of the Commonwealth government in this in your book? Can we do anything about it other than through our ACCC or NCC policies, which we have? However, we have seen recently in New South Wales where the NCC made a determination and the state government overrode it; so what is the point?

Mr Kirk—That is a good point. The Commonwealth does have a role particularly in relation to the ARTC, the Australian Rail Track Corporation. It always has a role to

play in providing some national legislation to give some teeth to the access policies. For example, I agree with you that it is being suggested that the ACCC may take too long for some of the smaller operators who are wishing to seek access on either the intrastate or interstate network—more likely to be the intrastate networks—and we need to have considerable more teeth.

I am mindful of what the situation is in America where the Surface Transportation Board is backed by some fairly tough anti-trust laws that mean that if railroad companies who are vertically integrated cannot come to any agreement with regard to access across each other's tracks, then this can be dealt with in a pretty efficient manner. We need to have similar legislation, I would imagine, in this country. I would see that that would be the role of the Commonwealth, particularly as one of the real barriers to competition and access that we have is the plethora of state authorities. One of the fastest growing aspects of the industry that causes our association members a great deal of concern is the growth of bureaucracies to do with rail regulation. It is becoming a case where it is almost the last industry that can be regulated so everyone is having a go at it.

Mr McDOUGALL—You mentioned in your opening address—if I can remember the words—that you saw the need for a land transport network to be a priority. From evidence that I have heard, rail has probably failed on its method of intermodal connection over the years—but that varies from state to state and varies differently between sea and road. We heard a completely different story this morning in regard to the component of freight carried on rail to the port in Victoria as opposed to Sydney—a completely different story. How important is a land transport strategic plan? Do you believe the railway is prepared to work in conjunction with road rather than compete with road to get the whole thing working between road, rail and sea; and how do we do that? Where do we come up with this magic land transport strategic plan and who structures the thing?

Mr Kirk—There are a number of levels to your question. It is sort of like solving the world's problems all in one hit. I think the previous witness from BHP indicated that partnerships between rail and road are already there and they are growing. We are seeing more and more of that. With the private operators that are involved particularly between Melbourne and Perth, we are looking at the development of the logistics movement where the line between road and rail is blurring. These companies are looking at integrating their whole operations to provide an efficient and cost-effective service for their customers. So that movement has already happened and I think we are going to see more and more of that.

Tranz Rail in New Zealand is an integrated transport provider. It has fleets of trucks as well as railways and ferries. It is becoming a trend pretty much worldwide that rail is no longer being seen as being in the rail business; it is a mode within the transport business. People who own railways these days are tending to be more and more focused on that point—that just to survive they need to be in the transport business rather than the rail business. We are seeing more and more of these partnerships.

Western Australia is another good example of the partnership between Westrail and its customers where they have a very profitable bulk haul railway because it has developed these relationships. It is also important to say that the association and our industry is not anti-truck or anti-road because we do rely very heavily on the trucking industry to bring freight to our railheads. So from that point of view it is an important part of rail business.

We also have some lessons to learn from the Americans in that the large class run railroads over all have a very profitable business that is in partnership with the road transport industry. Big companies like United Parcel Services, J.B. Hunt and so on all have long-term contracts with the railways to move their freight. This is the trend; this is what is happening. Eventually we will see the break down of road versus rail and we will be looking at transport generally.

Mr McDOUGALL—My final question: we heard this morning from the Australian Wheat Board that they have had some very successful reductions in freight rates. But in the next breath they were arguing that the condition of the wagons in relation to the axle loadings was very low and it was about half the axle loadings of their competitors in North America. But they did not see that they as an industry, even through access, had a responsibility either in capital terms or in their own right to go into wagon production and into putting rolling stock on the rail. If a government operation keeps getting screwed down in relation to freight rates and if their customer wants to be competitive on the international market, who pays for the capital cost of the new wagons and for the upgrade of the rolling stock?

Mr McCutcheon—It is clear that there are international operators who have taken a very keen interest in the purchase of the operating freight rail operations in Australia and who are prepared to invest. They are only going to invest, however, if they are going to get a return. They have to be able to compete effectively where rail is best, and that is in long distance bulk haulage—all of those areas where rail is by far the best mode to operate—and then to interface to the road networks at either end of a corridor. If we are able to improve the national rail highway system to the point where you can run much higher axle loads across most of the network—and at the moment you cannot—then those people who are prepared to invest in operating railways will make the investment. I do not think there is any doubt about that.

Mr McDOUGALL—The only one we have come across so far was Rio Tinto, who built enough rolling stock to create two trains in the Hunter Valley and promptly leased them to FreightCorp because it was cheaper for them to buy a freight rate than to run their own wagons. So where is the example where what you have said has worked in Australia?

Mr McCutcheon—I do not think it has worked in Australia because at the moment the infrastructure is not there to enable them to be competitive.

CHAIR—What sort of infrastructure?

Mr McCutcheon—At the moment the condition of the rail network, for example, between Melbourne and Sydney. You made reference, Mr Chairman, to things like the length of passing loops, speed restrictions that apply because of the state of the rail and restrictions on axle loads such that you cannot run the same axle load through the whole of the network—these are all problems that an operator has to face and grapple with. If the below-the-track investment is made so that we do have a good quality rail highway system, then I believe the conditions are there for people to be able to compete effectively and to invest.

Mr Kirk—If I can I make one final comment about that: we have not seen it happen yet but I think we are about to see it happen in South Australia in Tasrail with the private ownership of the railways there where grain, for example, is a major commodity on those railways. Both the owners of Tasrail, ATN—the Australian Transport Network—and ASR, Australian Southern Railroad, both of those companies have indicated they intend to invest substantially in upgrading the track to provide that better service for the customers. They are also at upgrading both locomotives and rolling stock, again, to provide better service for the customers which in South Australia are predominantly the Grain Board, the Wheat Board and so on.

Mr McARTHUR—Can I congratulate you on an outstanding submission in both its policy content and its assessment of the relativities of rail and road and the other issues. Could I just raise five matters: firstly, you have mentioned in your opening remarks who you represent. Why should this committee listen to your observations and on what grounds? Are you not just another lobby group representing the railway industry? The second point I wish to raise is that, following your discussion about the various models, you have not given us an indication of your preferred position about the access argument. The ranging options have come before this committee in Queensland, in New South Wales and here in Victoria. We are in some dilemma as to what we might be recommending as to the preferred model given all the options.

That leads on to the argument about an integrated system. We had some fairly extensive discussion about the Queensland model and the USA model which Mr Burkhardt is very strongly in support of with the below track and above track responsibilities. There was a suggestion that that was the best way to go given world's best practice, whereas in Australia we are tending the other way.

Could you just make a brief comment on the net tonne kilometre concept that gives relativities between rail, short rail and road so that there might be a better assessment of those tasks. And, finally, could you just give us your observations on the broader issue of privatisation that might induce more competition into the rail network which has never been there because of the monopoly position of state providers.

Mr McCutcheon—If I can just address the first issue, you are absolutely right that, as an industry organisation with 100 members, one of our principal roles is as a lobbyist pure and simple. There is no misrepresentation of that role. What is important to recognise is that, in attracting those 100 members, we do have all of the large state railways as members in addition to all of the large private sector operators and manufacturers. As far as our state rail members are concerned, I think they are more than happy to have a lot of the lobbying conducted by the association because it avoids any embarrassment with their own politicians.

Mr Kirk—What we have also done is that we have brought together what has hitherto been a very disparate group of state based organisations. When the organisation began in 1994, there were just six government and six private companies involved with the formation of this association. So in little over three years we have grown to over 100 members. We now represent pretty well all the major players and also a lot of medium sized and minor players in the industry. The strength of the association is that we have been able to go out there and find out what are the concerns of the industry that we actually all agree on.

So we have been able to rise above all the various differences of opinion and settle on some of the key points that we believe are in the best interests of all the players in the rail industry. What we are working towards is a strong united railway association providing input to government. One of the other things we would like to do is work with governments as well. Rather than being just purely a lobby group, we would see ourselves also wanting to develop partnerships to governments to provide to them the sort of expertise that we have in our association to assist in policy development. Given the number of issues that are occurring at the moment with harmonisation and standardisation, which again is another way of breaking down some of this state based development, we are being very proactive in that area.

Given the comment you made about the access model and what is the ARA preferred position, I go back to my earlier comment that we really do not have a preferred position because there is simply a diverse range of views about that matter. I actually think that which access model is adopted is not really the issue, which may sound a bit heretical, but we could easily get hung up on access and the various models and overlook a number of other important issues.

Whatever access model, the bottom line should be that it works towards increasing rail's modal share. It does not matter whether you have a separated model or an integrated model, you can still have problems with that model. For example, as I was indicating open access and on-rail competition can be a problem for integrated railways. It really comes down to the sort of competition bodies that we have in place and the regimes or the regulation of that legislation that hopefully can sort out any of those problems.

It is also important to say that the on-rail competition has been important. It has

been very useful in driving down rates on the east-west corridor and providing a much higher level of service. But, as yet, even though that particular model is a separated one with on-rail competition, we are still not seeing on the east-west corridor any marked increase in rail's market share. So from that point of view the jury is still out on that as well. There can be no preferred position other than to say the bottom line for any model should be helping rail grow its business.

Mr Hill—The issue of NTKs provides an opportunity to clarify road and rail tasks. The road industry often claims that it hauls 75 per cent of tonnage. However, much road freight is hauled within urban areas. The reality is that 32 per cent of road freight net tonne kilometres are in urban areas, 45 per cent are intrastate and another 23 per cent are interstate. By comparison, 17 per cent of rail NTKs are interstate, 45 per cent are intrastate and 38 per cent are private. Overall, that gives rail a 40 per cent share of the interstate net tonne kilometres road and rail freight task.

CHAIR—Just before we go any further, I would just like to signal to colleagues that we must finish at 2.30 for other commitments; so if we could keep the questions fairly sharp. Have you finished, Mr McArthur?

Mr McARTHUR—You might just give a quick comment on privatisation and competition.

Mr Kirk—One of the important things happening in our industry at the moment is privatisation. It has been very good for the association because it is giving us a lot more profile. We have a number of private investors who are now out there saying, 'we want a return on our dollar,' and hitherto the government owned railways have not been out there being able to say that kind of thing.

The private owners are now saying, 'we've got investment.' Eighty-six per cent of our members are now private sector companies. They are very concerned about their investment. Mr McCutcheon's company is a good example where the low level of investment so far in the Australian railway infrastructure has meant that companies like Westinghouse are becoming more and more reliant on the export activities rather than the local activities. Privatisation is important because it is bringing in more money and it is bringing in different owners with new ideas. I guess we are going to see some pretty interesting changes in South Australia and Tasmania as a result of that. We are also looking at changes here in Victoria. All of these things are going to assist the turnaround of rail.

With regard to increased competition, there is a lot of debate currently as to how much the current market that rail enjoys can sustain competition. For example, the only real competition on rail at the moment is between Melbourne and Perth where there are three major competitors. It is considered that with rail having a market share of between 70 and 80 per cent that the sector can sustain it, but it is not considered that on the sector

between Melbourne and Sydney, where rail has only about a 20 per cent market share, a number of competitors on that sector would be sustainable. Again, it is a matter of looking at it on a corridor-by-corridor basis rather than saying overall it is a bad thing or a good thing. Competition has been important and will be important to our industry. It is assisting with that reform process and it is also reintroducing the customers to rail in that they are now enjoying the benefits of better service at less cost. I guess that is good.

Mr WILLIS—Gentlemen, first I would like to thank you for a detailed, informative and in many ways compelling submission but there are a few aspects with which I do not agree. I will just take you to some aspects with which I do not agree and some aspects where I am just seeking clarification. You say on page seven:

The payment by rail of a road user charge through diesel excise is completely indefensible and has persisted through a total lack of political will to fix the problem.

Can I just say to you that I for one would totally reject that statement. What lies behind this submission, as many other submissions, is a complete falsity about the supposed hypothecation of diesel fuel excise to roads. There is no such hypothecation. There was a post-hoc hypothecation which has been abandoned, and sensibly so. Now there is an allocation to roads from the moneys raised from the diesel excise or from the excise overall but not from a hypothecation arrangement. So I do not think the argument you are making there is valid.

In fact, one could argue that the argument of the rail lobby for a level playing field is sort of confused by this argument, because this is an area where the playing field is level. Both rail and road pay the diesel fuel excise. You are asking for that bit to be made unlevel in order to make up for other parts which you see as unlevel against you. It is better to address the problem areas, the other areas where it is unlevel, rather than make an area where it is level unlevel.

Mr Kirk—That is an interesting debate. The rail industry is aware of this government and also the previous government's views with regard to the fuel excise and the issue of hypothecation. I guess we are following very much in the footsteps of the road lobby and particularly recommendations that have been put up by the National Road Transport Commission which has indicated that 18c of the diesel fuel excise should be nominated as a road user charge. Given that argument which has some credence and some authenticity, we are suggesting that, if that is the case and if it is accepted that 18c of the 35c fuel excise is actually nominated a road user charge which is certainly the belief of the road industry, then it is an anomaly in that case.

It is also important to acknowledge that the whole area of diesel fuel excise ought to be addressed in the context of total tax reform. But given the current situation that we live in, there would seem to be an anomaly there. There is also an anomaly in the area where there are certain rebates given for diesel fuel excise to three groups that we have

identified—the miners, the farmers and the Japanese long-line vessels—that are given a rebate on the grounds that they are off-road vehicles. If that is the definition being employed, we cannot see how on earth rail could fail to be defined as an off-road vehicle. In that case we believe rail ought to be entitled to that same rebate. What we are saying is that, given the political arguments you have outlined, we would have some disagreement with that but I would suggest there are enough other anomalies in there—

Mr MAREK—You still call it a highway. You called it a rail highway; so it is not off-road. I am just playing with your debate.

Mr Kirk—That is fine. What we are doing is that we are introducing the concept of the two RONIs: we have the rails of national importance as well as the roads of national importance.

CHAIR—Back to Mr Willis.

Mr WILLIS—Just on that bit about the Japanese long-line fishing vessels, I find that very implausible when it is \$90 million. The whole cost of the rebate is about \$1.4 billion of which you are saying almost a 14th is for the Japanese long-line fishing boats. I find that very difficult to believe, but we will check it. In relation to the New Zealand inquiry into land transport pricing strategies you talk about ‘support for congestion pricing’. What do you mean by the term ‘congestion pricing’?

Mr Kirk—I think the term ‘congestion pricing’ is part of the whole concept of looking at road pricing and treating roads as a scarce commodity rather than something that is developed in the social good. There has been a number of articles published recently—Mr McArthur is aware of one of them—looking at this whole area of how we should treat roads in terms of the amount of dollars that a community has actually invested in them and that we should determine pricing of roads according to usage, which is not only in terms of the mass and the distance travelled but also in terms of the time that the roads are used. For example, there is obviously a problem at peak times on urban highways when everybody wants to use a freeway. It is suggested that a method of congestion pricing might be the use of an increased toll on those roads or a charge to the users to perhaps persuade people to use other forms of transport or to travel at different times.

Congestion pricing also brings other concepts to regulate road use. I know that the road users in Sydney are very concerned at the moment about the use of their urban road network by large trucks at particular times of the day. They feel that is providing a congested environment and maybe there should be some pricing involved that mitigates against that or at least controls it.

Mrs CROSIO—Does that also control the freight trains in the urban centres?

Mr Kirk—How do you mean?

Mrs CROSIO—If you are going to have congestion pricing for the roads, are you going to have congestion pricing on any of the freight that is going through the urban centres delaying passengers?

Mr Kirk—That raises an interesting point particularly in Sydney with the problem of freight trains and urban trains and the priorities of the owners, operators, regulators and so on. Sydney is certainly an area where we need to look at separating the two, simply because of the traffic demand for rail from the port through to the distribution areas.

CHAIR—Let us not stray into that; we will get back to Mr Willis's questions.

Mr WILLIS—I have a couple of other quick questions. You just mentioned the two RONIs, which is a nice little term, and the national rail highway. It is not quite clear to me from your submission: are you suggesting that they be funded for rail on exactly the same basis as they are for roads? That is, 100 per cent Commonwealth funding for the national rail highway and 50 per cent Commonwealth funding, 50 per cent state funding for the rails of national importance?

Mr Kirk—I do not think we are actually suggesting that kind of formula. What we are suggesting—

Mr WILLIS—That is the road formula.

Mr Kirk—What we are suggesting is that we should look at the whole transport network as a totality rather than looking at road and rail funding. We are also suggesting that we should apply the same criteria to assessing how those things are funded. One of the areas of competitive neutrality we are concerned about is that we are funding them to different criteria. We have very narrow commercial criteria for the funding of rail whereas we have very wide social and economic criteria for roads. Either we have Commonwealth or government funded road and rail or we have totally privately funded road and rail—let us get the thing consistent. Why should they be different?

Mr WILLIS—Well, if you are going to make that submission to us about the identity with roads, it would seem to me to follow that you are asking for the same funding arrangements but you seem to be not quite sure about that. It is a fairly important issue. You are asking for rails of national importance—

Mr PETER MORRIS—RONPIs—roads of National Party importance.

CHAIR—Thank you for that

Mr WILLIS—You are asking a Commonwealth parliamentary committee to push

for that kind of an outcome but you cannot say what the funding arrangements should be.

Mr Kirk—We will say very clearly that if the Commonwealth is going to fund the national highway system and the roads of national importance, then we should identify what is the rail highway that is in the national interest and fund that in the same way.

Mr WILLIS—Just finally and on the same issue, you refer to the recommendation that the Commonwealth and states should set up a transport fund; would they be separate funds for each government level or is it one combined fund; and how do you recommend that this fund be funded?

Mr Kirk—The rationale behind suggesting that a transport fund ought to be set up is again to get away from this notion of hypothecated funds for road and so on—

Mr WILLIS—I understand that.

Mr Kirk—So that we have a fund of money that is collected from road users and is spent on road and that perhaps is part of a total transport policy so that maybe you could consider that some rail projects would be good road projects because they would be reducing road wear, congestion and so on. I guess it would be funded partly by the users of the network as well as by the various levels of government.

We are mindful that, in other countries such as New Zealand, local communities do put a great deal of funds into transport options. In the UK, there are government grants to provide private sidings for companies who want to use rail and so on. There are various mechanisms and examples of where government funds can be used to provide rail within a total transport fund.

Mr WILLIS—Are you suggesting that there would be just the road moneys going into this fund—the current amount of road moneys—with perhaps the \$250 million that the federal government has talked about over the next four years for rail, and that would all be put into a pot to be allocated this way at the Commonwealth level; or are you suggesting that there be further funds; and, if so, where do those funds come from?

Mr Kirk—I think we are getting into an area where we have not done a lot of work on—

Mr WILLIS—But that is fairly important because you are putting the deficiencies in the amount of funding for rail infrastructure. The question for us—if we accept that there is a deficiency, which I think most of us do—is how do you address that; how do you overcome it?

Mr Kirk—One of the things we would like to see is the creation of an advisory body—this is what we call AustRail—which could look at these whole issues and make

recommendations very much in the same way as the NRTC has done for road reform. This body would identify the issues you are raising and make recommendations that would actually work. Where the community is going to get the best bangs for the buck and who pays—these issues that we think need to be addressed not only by ourselves but by the various levels of government. We are happy to work with you on that.

Mr ROSS CAMERON—You talked in your introductory remarks about the importance of developing consistent evaluation criteria for making investment decisions on both the road and the rail networks. What is the industry's view on that question about evaluation criteria of the two major new rail proposals that are under discussion—the Darwin to Alice Springs line and then this idea for an inland route from Darwin to Melbourne? How do you evaluate those two routes and how would you rank them in terms of desirability for investment of funds?

Mr Kirk—It is not the association's role to undertake that kind of assessment and evaluation. We would see that being the responsibility of a number of other bodies who have been set up to do that kind of work. The BTCE, for example, has made a number of assessments of various projects. They have provided good cost-benefit ratio data for the National Transport Planning Taskforce.

What is interesting is that, whenever the BTCE makes recommendations that show very good road projects, they always get whipped up and make great political projects; but, whenever the BTCE has suggested some of the rail projects, they are asked to go and reconsider the figures because that cannot be right—rail certainly cannot be that effective. What we are suggesting is that there needs to be some independent analysis done. Maybe the BTCE is not the way to go; maybe an AustRail research body is the way to go. But it is a matter of whether those projects stack up on whatever criteria is chosen.

Mr ROSS CAMERON—Is there a coherent view within the industry about whether we ought to be expending resources on new infrastructure or on upgrading the existing infrastructure?

Mr Kirk—The clear priority of the association and the rail industry is that we have an infrastructure that is expected to deliver a 21st century service on a 19th century track. Our priorities would be that the catch-up that the witness from BHP was talking about needs to be urgently undertaken. We think that the operating parameters and guidelines or standards that were suggested by the Australian Transport Council are probably too low and need to be looked at as well. From that point of view, we would suggest that the priority would be fixing the current structure. We believe that there are significant economic gains to be made for the community in a number of corridors, particularly the Melbourne-Albury and the Melbourne-Adelaide corridors.

Mr ROSS CAMERON—In much of your remarks the industry sounds a bit like the poor cousin of road and that there seems to be some kind of institutional or cultural

bias in favour of road and against rail—the road projects get picked up and the rail projects do not. What do you say to the argument that some would make that rail in the era of a decentralised market, having geographically dispersed cities, with the incredible importance of just-in-time delivery, with the great attractions of being able to do things door to door, and with the customised nature of individually customised relationships between service providers and their clients and customers—that rail is a 19th century sort of technology? I mean, maybe road is winning just because roads are a better solution.

Mr McCutcheon—No, I cannot accept that at all. All the evidence is that, if you are able to get the land transport task properly integrated, that is where the benefits will come. There is clearly an enormous importance on road and rail working very closely together in the areas of service delivery which they are best suited to. If rail by having a much better long distance infrastructure in place were able to deliver what it is clearly best at doing—and that is long distance, heavy movement of freight—then the integration with the road transport industry at each end of those corridors is going to attract more investment and we are going to get better delivery of freight services for all of the consumers in Australia.

Mr Kirk—A final comment on that: your comments also fly in the face of the developments happening elsewhere. In the United States, the railroads are very much up with the just-in-time principles and are providing integrated logistic service to their customers. The new English, Welsh and Scottish Railway in the UK, which is owned by one of Mr Burkhardt's companies, has shown that they are able to increase wagon load tonnages by 300 per cent in 18 months just by providing a door-to-door service for their customers. Big supermarket chains in the UK are now moving to rail because they are finding it a much better service. Also the roads are so congested that they can hardly move their lorries. All of these things are starting to be part of the trend to show that rail is a modern technology. I go back to my previous point: it is really just another mechanism for moving goods around and should be seen as part of that network rather than seen as a road versus rail issue.

Mr ROSS CAMERON—Instead of highlighting the dichotomy and the competition for resources, should you not be celebrating the commitment of resources to road and making your objective as an association to lobby for greater land transport expenditure rather than a greater modal share of rail as against road?

Mr Kirk—I am not sure what point you are driving at but, certainly, rail does not celebrate the fact that roads are treated like the great last socialist regime where you are simply handing out money hand over fist to the roads as a social good. We certainly do not celebrate that. We certainly celebrate the reforms that are taking place in our industry, given the fact that we do believe that there are a number of inconsistencies and anomalies in the way rail and road are funded. But given those, we are making huge gains in terms of getting our act into order and providing the sort of reforms and economies that need to be there for our survival. We are putting a good foundation in place.

What we are now suggesting is that some of these other anomalies need to be addressed. For example, the road lobby would claim that road users would contribute some \$16 billion per year in taxes and charges and that the road spending by all levels of governments is about \$6 billion. But the question we ask is who is paying for that? As motorists I think you ought to be aware that road users does not equal heavy articulated trucks. There are a number of myths out there about who is actually paying for the use of roads. It is quite clear that the motorists are probably paying in taxes and charges about 2½ times what the governments are actually spending on roads. We do not celebrate that fact either.

CHAIR—I am afraid on that note we are going to have to wind it up there. Would the other questioners please let the secretary have their questions in writing so that we can put them to the ARA.

Mr PETER MORRIS—Can we not read them out now?

Mr MAREK—They require a yes or no answer.

CHAIR—Colleagues, I would be happy if we went for another hour but we have made commitments to people who have gone to a lot of inconvenience to take us to see things this afternoon. I am sure the ARA would be happy to respond to the questions in writing. Mr Marek, Mrs Crosio, Mr Wakelin and Mr Morris, could you let Ms Crooks have the questions in writing.

Mr PETER MORRIS—I want to ask my questions publicly not privately.

CHAIR—Mr Morris, could we have them quickly.

Mr PETER MORRIS—First, you refer on page 379 to an analysis of rail freight tasks. I would like you to provide to the committee is corresponding details of the services and the actual revenues. Secondly, can you give us some information on the association's attitude towards the impact of foreign shipping on east-west rail movements of containers? Thirdly, has an analysis of the freight tasks and revenues which cover the intrastate areas where rail services and rail infrastructure do not exist? Fourthly, what action do you expect to take place in those areas? Fifthly, what are your association's proposals on improving efficiency of rail linkages to sea and road; and, finally, the association's attitude towards common communications language, billing and use of EDI systems? Thank you, Chairman.

CHAIR—Thanks, Mr Morris. I would like to thank the ARA for their appearance here today. There are several questions we would like followed up. If you would be good enough to respond to those in writing we would be most grateful. As is normal practice, the secretariat will provide you with a proof copy of the evidence given today; thank you. On behalf of the committee, I would like to thank all those who participated today

including those in the public gallery. I declare these public hearings closed.

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

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

Committee adjourned at 2.35 p.m.