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HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON COMMUNICATIONS, TRANSPORT AND MICROECONOMIC REFORM

Reference: Role of rail in the national transport network

KARRATHA

Tuesday, 21 April 1998

PROOF HANSARD REPORT

CONDITION OF DISTRIBUTION

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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.

CONDITIONS OF DISTRIBUTION

WITNESSES

HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON COMMUNICATIONS, TRANSPORT AND MICROECONOMIC REFORM

Role of rail in the national transport network

KARRATHA

Tuesday, 21 April 1998

Present

Mr Neville (Chair)

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

Committee met at 4.04 p.m.

Mr Neville took the chair.

CHAIR—I declare open this hearing of the House of Representatives Standing Committee on Communications, Transport and Microeconomic Reform in its inquiry into the role of rail in the national transport network. Appearing before the committee this afternoon are representatives of Hamersley Iron Pty Ltd. We understand that Hamersley runs one of the most efficient railway systems in the world, using latest technology, and we welcomed the opportunity to see that operation during the day.

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

Before beginning I would point out that, although you are not under oath at these hearings, committee hearings are legal proceedings of the parliament and warrant the same respect as those of the House of Representatives. Any false or misleading evidence is a serious matter and may be regarded as a contempt of the parliament.

RICHMOND, Mr Malcolm Ross, Managing Director Development, Hamersley Iron Pty Ltd, GPO Box A42, Perth, Western Australia 6837

WATLING, Mr Alan Stephen, Manager Railways, Hamersley Iron Pty Ltd, PO Box 21, Dampier, Western Australian 6713

CHAIR—On behalf of the committee, I welcome representatives of Hamersley Iron Pty Ltd appearing before us today.

Mr Richmond—In the time available to me, I would make four points of a general nature that reinforce some of the more detailed comments in the submission we sent to you a number of months ago. Firstly, I will cover the fact that we are an internationally competitive business, and that places certain problems and challenges before us in our roles of miner, rail transporter and shipper. Secondly, the way we run—in this case—our rail today is as a key part, an integrated part of our mining, shipping, blending process, and it is not rerun as infrastructure. The ramification of that I will also explain.

Thirdly, I hope we can offer some useful insights in the way we carry out our operations. Our company is quite prepared to share some of these insights and technology with other people who run railways in Australia. Fourthly, I want to make this point: in your opening remarks you asked how operations can be run better in the future. I guess we will be making a point there by answering ‘by getting the government off our back’ and, to whit, we will touch on some specific legislation.

Slides were then shown—

Mr Richmond—Let me go to the first issue. I will make a couple of pretty obvious points here. But the rule of success in commodity businesses in Australia and anywhere else is that, if you do not stay at the low end of the world supply curve, your future is going to be short and sharp.

Looking at this slide, the supply curve for iron ore—which, as I speak, is pretty current—for a long time has been shifting downwards at around about 2½ to 3½ percentage points per annum in real terms. Another way of explaining it is that the price of iron ore has halved in the last 10 years in real terms. So, to stay at the low end of the curve demands that your productivity in some way or other has to match that shift.

Specifically, when we look at each of our costs—and obviously I have picked up rail here—our cost of production in real terms over the last 10 years has also fallen by a similar amount. That is just operating cost, I should say; our comprehensive capital is not in there at all. I should mention though that we demand the same sort of performance in each part of our operation.

To this end, I have a bunch of statistics here. I guess BHP would show you something similar, as would our competitors. When you are running an iron ore mine—and I will explain some of the reasons shortly—with a fairly narrow focus, in the good sense of the word and the bad sense of the word, you can drive down performance.

In terms of labour productivity and locomotive productivity, and so on, our figures are quite good. But, in one sense, you would have to concede that they are not apples with apples because they are competitive best practice in terms of infrastructure railway. You also have to concede though that, if our figures are a lot better because we have a much narrower focus on what we do, that in itself is a key success factor. I do not want to go on too much about that but merely point out the fact that the narrow focus does allow us to do a lot better.

In fact, we have made a virtue of that necessity. We run our railway to totally suit our mining and port operations. The decision rules in which we have decided to schedule our railways totally are the same rules using expert systems and optimising systems that also minimise mine costs, mine maintenance, shipping maintenance, and so on. In other words, basically we have figured out an optimal way in which to have maintenance shuts that fit in with each process. So, if we want a big mine shut, we would just as soon have a big rail shut at the same time. It is with that sort of integrated process that we run.

I have a fourth slide which is a bit of a problem. I would like to put it in a confidential bin, if I can. It shows you how operations with the rail and port interlink in a way—

CHAIR—If you do not want to put it up on the screen, I would suggest that you might send it to the committee under letter requesting confidentiality.

Mr Richmond—Yes.

Mr PETER MORRIS—I have trouble with that, Mr Chairman. If you cannot put it on the table, do not put it up. I have not sat on a committee where confidential information has remained confidential information. I do not want to be a member of a committee where information is submitted that at some other point in time ceases to be confidential.

CHAIR—Mr Deputy Chairman, I was about to make this covenant: to the best of our ability, Mr Richmond, we might wish that your document remain confidential, but it will be one amongst many public documents and, if it does leak out, we would not want that responsibility. We would do our best to make sure it was kept confidential, but we cannot give you an ironclad guarantee.

Mr Richmond—All Right. I do not want it to be put up. We have spent many millions of dollars on optimising algorithms on how to run an operation, and this slide gives you an insight into some of the effects of it. Therefore, I will not put it up.

My next point is that I hope the committee might think of some ways where we can provide useful insights for the rest of Australia's infrastructure and the Chairman's objective of improving rail operations. Those statistics are quite good. It is very difficult to divorce them from: is it because we are all pretty clever, we have good managers, we reinvest; or is it because the fact that it is a captured mine per se gives us an advantage? More likely, it is a bit of both.

I would have thought you may have seen some of today's technology already, such as the very careful, almost scientific leading edge stuff we have done on rail profiles and the way you measure them. It might seem somewhat prosaic, but this never ending attention to detail—I guess it is a very kai san style; we have all learnt a lot from Japan—in the way we have applied technology from around the world is something that others in Australia can also usefully do; there is no reason why they should not do it. If you are running at such high axle loads, maybe you have to do it anyway. But I cannot see why rail in the east, at the very minimum, should not aspire to at least best technological practice. Also, I think some of the maintenance workshop organisation issues are worthy of consideration elsewhere.

I think we have mentioned most of the innovations in the slide, or whatever. I understand that concrete sleepers also have quite an interest that might be raised later.

I will get on to the fourth point then—and I guess you may well have heard it from other private operators. We run what we think is a very good system. It is part of an integrated way of mining and delivering a product that the customer wants. But we see our ability to keep to those sorts of improvements we have made—and cost reductions there are 50 per cent in 10 years—as not having been matched on the eastern seaboard. In fact, I think you will find that most of the people who have come to see you have complained about some of that.

We feel that any threat to the running of our operation in the way we do—that is, through enforced third party access—is harmful to our interests. There are two parts in part 3A of the Trade Practices Act where we think we would like to see some change. One is that the act—and I do not know whether you are aware of it or not—when you negotiate an access price, does not allow for compensation; there is no compensation for loss of profits that we would face because someone else is now taking our market with their mine they are using on our rail. We feel that is manifestly unfair. We are building new railway to Yandi. We are, in fact, facing access discussions with two people, both of whom would be direct competitors to our Yandi mine.

I guess the other factor is that there is little clarity in the act as to what is, in fact, infrastructure. By infrastructure, I have tended to mean—and I think it is common usage—the underlying facilities, buildings and so on, that an economic or social operation needs to be able to perform. In our case that includes roads, housing, and so on. Infrastructure, however, in common usage tends to mean the capital more related to the indirect production than the direct production. So drills, shovels and reclaimers are really part of the direct process. It would seem that people feel rail is part of the indirect process too and, therefore, sharable. This is quite counter to the way we run our own railway line and our own rail process.

So the fact that the act itself is so imprecise and vague on this catches up people who choose to run in a certain way. I have likened it in my submission to Mazda, or whomever, claiming to have access to, say, the numerically controlled drilling machines that Ford have to, say, machine engine blocks; they are used in much the same way as we use our trains.

So, with those two exceptions in mind, I guess that I just wanted to flag the point that Hamersley views that with some concern. I think my allotted time is up. I could talk for another half hour, and I dare say I would send you to sleep if I did.

CHAIR—Hopefully we will pick up some other matters in questions. Would you like to headline some other issues that you would like to discuss with the committee which we might be able to pick up in questions? Would you like to give us a few dot points?

Mr Richmond—Those four points are all I want to raise, thank you.

CHAIR—That will do. But of the things that you did not raise—

Mr Richmond—No, I am quite happy at this stage.

CHAIR—You have made quite a point and been most open about your attitude to access. You say that the definition of infrastructure is the thing that is the sticking point. If someone did seek third party access to your operations, what would you anticipate their seeking? Would they be seeking the use of the track? Would it go as far as wanting to use the rolling stock and the conveyor belts? Can you give us an idea on that?

Mr Richmond—There are two different approaches two different people are taking. One wants to use our track, and that is all—or wants to have equity in our track, in fact. One wants the full service.

CHAIR—Are you not comfortable with any aspect of third party access? Would you be comfortable perhaps with someone with their own trains using your track and paying that access?

Mr Richmond—No, we are not comfortable. Our view is this: remaining on a very rapidly shifting cost curve is not easy. To date, over the last 10 or 15 years, we have done it quite well, and we think we know how to run things better the way we are—and we have succeeded. We feel that, if we were moved off a success formula, that could well be damaging. It is not in Australia's interests to have an iron ore mine that is not competitive.

CHAIR—You mentioned earlier today that you had the capacity to turn around seven trains each way a day.

Mr Richmond—Yes.

CHAIR—Is that almost at full capacity for the length of track you have?

Mr Richmond—Yes and no. It is a little bit more complicated because we are at full capacity, but that capacity currently is set by our train dumpers. Did you see them today at the port?

CHAIR—Yes.

Mr Richmond—They are, in fact, operating at near full capacity right now as we speak. Let us say that we added another dumper; that would take us to, say, 90 million tonnes. The track could possibly take 90. Ninety is, in fact, our targeted tonnage for sales in the next few years. We shipped 60 today.

CHAIR—How many trains a day would that involve—eight, nine?

Mr Richmond—No, it is more, because Yandicoogina is further. I think it is 10.

CHAIR—Allowing for that expansion, would there be any spare capacity inside that for any third player?

Mr Richmond—If we built another line parallel, yes.

Mr McARTHUR—I would like to ask about industrial relations in this part of the world. Having a look around your plant today, it appeared to me that the work force were multiskilled. There were obvious examples of that. They seemed committed, and obviously there was a high level of technical efficiency. Would you care to give us a comment about the relationship of the management and the work force and your ability to achieve world's best practice?

Mr Watling—I think it is predicated basically on the all staff program, where management has a very close relationship with its employees; and there is a lot of interactive and iterative processing in terms of deciding on how the best work is to be carried out. So there is a very big team role in that focus.

Mr McARTHUR—Why would it happen in your company and not, or not as well, in other companies?

Mr Watling—There is no reason why it could not happen in other companies.

Mr McARTHUR—But why has it happened well in your company?

Mr Watling—From a personal point of view, you would have to look holistically at where Hamersley has come from to where it is today. I think it is an evolutionary process. There have been some catalysts along the way, obviously.

Mr McARTHUR—Mr Richmond, I refer to this access problem. Would you argue the case that you are really at full utilisation in terms of capacity—if not now, potentially—of your railroad system and, therefore, there is no further capacity for an outside entrant? Would that be the basis of your argument if you were in some discussion with, say, the Western Australian government?

Mr Richmond—Yes. However, I am making another point over and above that one. That is that I feel, as I have said a little while ago, infrastructure comprises the basic underlying facilities; and, if you share them, the efficiency of that sharing process improves it. So, if you have a state railway in New South Wales and you have a lot of people sharing it, you could well have lower freight rates. But we are not running such infrastructure here; we run it quite differently. We are running part of a process, a production process. If there were to be a third party intervening in a production process whose decision rules are linked backwards and forwards, we would find it very difficult to see how we could accommodate a third party easily. That is our argument.

CHAIR—In your original agreement with the state government, were you required to give any understandings as to third party access or to carrying freight or passenger services?

Mr Richmond—Yes. The Hamersley Range Act 1966 required Hamersley to provide a full service to deliver other people’s mine product on the basis that it was feasible for us to do so and did not unnecessarily or unduly interfere with our existing operations.

CHAIR—You mention that in your submission; on page 120, you said that you would offer door-to-door freight services for a relevant third party.

Mr Richmond—Yes.

CHAIR—But you would want it on the basis that you could control the operation, the flow of the product. Is that the idea?

Mr Richmond—Yes.

Mr McDOUGALL—Mr Richmond, I have not seen the agreement. Do you think that, when the agreement with the state was drawn up, that clause was really put in not believing this situation would ever come to fruition?

Mr Richmond—I am told that is the case, but I do not know. I honestly do not know, but I have been told that.

Mr McDOUGALL—If you believe so strongly in your position, have you in any way made an approach to the state government in relation to changing that agreement or making an amendment to the agreement?

Mr Richmond—You cannot now; the state has no power to do that because now they may not act outside the terms of the Commonwealth access agreements. In fact, we, like every other mine, are having to look at those clauses with the state in relation to those agreements within the act right now.

Mr McDOUGALL—You commented pretty strongly in regard to your concerns about a competitor coming in. Let us take the position of a sister company of yours who mines coal in Newcastle. The infrastructure was built by the public purse. Your sister company made a decision that it was going to apply for third party access; it did a little bit more than that and actually bought the train.

To my knowledge, my understanding is that the company did not operate it because it found it was not going to work out as being the best way to do it. It leased it back to FreightCorp to operate it on its behalf—and at the same time not just restricting it to its coal but restricting or not allowing it to be used for anybody's coal. I suppose my question is: what is the difference between coal and iron ore?

Mr Richmond—If you look at my graphs, the answer is about $6 a tonne freight. We operate our freight costs vastly lower than they and the state do. I am not trying to add the point that we are clever, that it is our training or that Alan is a fine guy. I am making the point that it is intrinsically more efficient to line up a process with another process. It is really quite a different fundamental way of running things. I know it sounds a little bit esoteric but, once the maths works out, it is pretty potent. Let me give you an example. If we had to pay the same rates as our coal people do, Hamersley would make no profit—zero, none.

CHAIR—It is that critical, is it?

Mr Richmond—Yes. The margins in our game are very small.

Mr McDOUGALL—What is driving down the price of iron ore?

Mr Richmond—That is a pretty good question. Let me give you two parts to the equation. On the demand side, the demand curve is clearly a bit of a problem. The price of steel in real terms is also falling two per cent; that is no coincidence. I think, if you look at it as a ratio, the ratio of the price of iron ore to steel over the last 20 years has probably been the same.

Secondly, I suppose iron ore is potentially in surplus, there is some slight surplus at present, and in many parts of the world the demand for steel has been contracting—although in our area that is not the case. So, in answering your question, I guess it is primarily the fact that steel itself has also fallen.

Mr McDOUGALL—So you are not suffering what coal is suffering, which is a price brought about from competition from developing countries and, therefore, there being lower production rates?

Mr Richmond—By and large, that is true—by and large.

CHAIR—Has the Asian meltdown affected you at all?

Mr Richmond—Very much so. Did you see the port today?

CHAIR—Yes.

Mr Richmond—There are no ships.

CHAIR—That is a reflection of that, is it?

Mr Richmond—Yes.

Mr LINDSAY—Mr Richmond, in relation to the operation of part 3A of the Trade Practices Act and the state agreements, if this committee were of a mind to make a recommendation in relation to those issues and in relation to access to private rail infrastructure, in your view what are the critical points that we should include in such a recommendation?

Mr Richmond—I have pointed out two and, in my company's view, I think they are the correct ones. Firstly, at present, the act explicitly—it is in the preamble, I think—excludes the allowance for loss of profits that we would face once we let in another competitor.

We are putting in a new mine; you might have heard people talk about the Yandicoogina. We hope to have it up and running in February, perhaps March. That is in direct competition to a mine nearby from the Hancock group who also want it going, and from Robe. It is a similar sort of ore, and that would be direct competition. So, if we let them on our railway line, we would sell less product from our own mine. You would have to concede that, if that situation were to occur, only an idiot would build their own infrastructure.

The second point is that the vast bulk of the act is concerned with domestic competition, and by and large its application has been too. All of a sudden, you are in an export situation here where the rules of competition are conducted somewhat differently and, with a few sweeping gestures, it is said that people who are exporting are going to be subject to the same rules. For a number of reasons that I would rather not go into now, that causes some real headaches for Australia and ourselves.

Mr PETER MORRIS—I am a little intrigued with these different views taken by your company: on the east coast it has one view about market access; on the west coast it has another view, one of exclusivity that you are referring to. At what level are those decisions made—board level or state level? Would you have made that decision in your operations here, or is that a decision made by Rio Tinto at the top?

Mr Richmond—Could you be a bit clearer on what decision are you asking me about?

Mr PETER MORRIS—I refer to the issue that Mr McDougall raised with you: Rio Tinto in its coal mines in Newcastle complaining to the committee that the freight rate being charged to the industry for transport of coal to the port is some $77 million too high per year. It bought wagons itself because it wanted exclusive access to the public system—a system which the taxpayer paid for and the other 24 coal mines use—and then found it did not work, as Mr McDougall said, and then it leased those wagons back. Now it wants access to public infrastructure.

You can argue very strongly in your case that you had exclusive access to a national resource at a time when the other resources were not known to be there and it was not practical or commercially viable to go ahead and develop those resources. What competition rules are saying now is that that is essentially part of the public infrastructure system.

I would have thought that a good idea for you would have been a joint venture with other proponents. You might find that they would make a capital injection to expanding capacity, getting a better overall net cost of transporting ore. But in this case, the national interest comes in: there is a resource there that needs to be developed that may not be viable in isolation but could be viable in a joint venture in terms of transport. Do those things come into consideration?

Mr Richmond—Yes, they are good points. There are about four pretty good questions there. Can I just answer them in part?

I will take your organisational one first. Each business unit—and basically that is the Hamersley board, of which I am a member—would take the view of how it would be in Hamersley’s interest to compete internationally, and that is the end of it. With our own operational approach—and that is the one I have just outlined: running this as an integrated process—we have chosen to run that way because we have shown that that is the best way to get our costs down. And, as you can see from that world cost curve, we have been successful in it. That is the way we have chosen to run the business and run it well. At the end of the day, our decision is only guessed in the sense that we have to produce a reasonable bottom line—and we have.

Coal, because of its history and circumstances, has a state infrastructure. The way in which it can get its lowest cost is up to it to determine. I reckon that, if I were running the coal business, I might try a similar tack to the one it has taken. I can say no more than that. I think that is the way the history goes. But the rules we have for our iron here we think are the best for our business. Your next question was: would our rail be considered a national resource?

Mr PETER MORRIS—Certainly iron ore deposits are a national resource, are they not? You would agree with that?

Mr Richmond—Yes, and we pay a lot for it. Our royalties to the state alone were of the order, I think, of $70 million last year.

Mr PETER MORRIS—That is a commercial decision you make, is it not?

Mr Richmond—Yes, but you cannot have it both ways too. I have a national resource, and I am paying for it. I am not complaining.

Mr PETER MORRIS—We can share it.

Mr Richmond—That is not quite true, I would complain. But we pay a pretty fair price. So the question is: do we have an unfair monopoly of some sort and that someone else should share in it?

At the moment we have a party looking at developing a new mine and they are more interested in running and building their own railway line. For reasons, funnily enough, that run parallel to ours, they want to control their process too. They see the prize of running their own process is the sine qua non to being at the low end of the cost curve.

The other party also seeking access to our line takes a different view because I would suspect it does not have the money to put up a railway line. You could argue economically, ‘Well, why should we help that party?’ Is it in the national interest?

Mr PETER MORRIS—No, they would have to pay; they would have to pay commercial rates.

Mr Richmond—Given the way economists in Canberra seem to behave, I would not want to bet my life on it. I could have some bizarre argument by saying that you can have marginal costs plus a little bit, and all of a sudden we are having to end up charging these new people less than we charge ourselves. I simply do not have the faith. There is no case law yet; there are only these brochures that have been put out that we have all read. There is no case law or precedent yet to suggest that we would be treated fairly. I suppose we are arguing on that point. Our point is very simple: we do something awfully successfully; why muck it up?

Mr PETER MORRIS—You put up a graph. The committee would like to see how you benchmark against those who are in the same business—and that is BHP. The seagulls out there tell me that you are a long way ahead; they say that you are considerably ahead of BHP in your economies and moving, I think, about $6 a tonne, getting iron ore from the ore body down to the wharf.

Mr Richmond—It is fair to say that we are about 15 per cent lower cost overall, when you look at their profitability versus ours.

Mr PETER MORRIS—Why don't either of you ever show any figures on that? The market is such that you know exactly what they are doing and they know exactly what are you doing. Why are you so reticent, the pair of you? It would help the rest of us.

Mr Richmond—I suppose we are living proof that there is a lot of competition in iron ore. We take competition very seriously.

Mr PETER MORRIS—But the figures are about right though, are they not? You are doing it better than BHP is doing it, and they would like to do it better.

Mr Richmond—It could be.

CHAIR—Mr Richmond, do I take it that you are saying you do not mind open competition on similar criteria, but you do not think there should be an artificial form of competition imposed? Is that what you are telling us?

Mr Richmond—Correct.

Mr HARDGRAVE—I would note a couple of things out of the submission from Hamersley Iron. On page 6, they say:

> . . . we believe that the Commonwealth and States/Territories might well consider using our railway system as a benchmark for operating performance and technical standards sought elsewhere.

Then on page 4, under the heading 'Term of Reference—4', they make the point about effective investment and ownership arrangements for the rail network and note things such as:

- sensible taxation arrangements
- environmental requirements that are realistic
- reasonable land access processes
- and the basic point that the railway will remain a sustained point of competitiveness and profit (and is not subject to being hijacked by newly imposed conditions).

Having said all of that, what kind of criteria do you apply or would you suggest be applied to those who may also seek to invest private money into rail infrastructure?

Mr Richmond—That is a good point. I guess our experience is that private companies tend to do things better than public—and I do not want to go into that too much—because we are allowed to do things better. The investment criteria, through our investment committee, are tougher, harder edged and more searching. So we probably spend investment dollars wisely.

Also, I guess there is a certain degree of urgency there because of the fact that we will be out of business if we do not maintain the sort of performance improvement we have made. Therefore, we are keen to look for things that lower costs and constantly improve productivity. The question often asked is not 'Why are you investing so much?' but 'Why are you investing so little?' We have tended to take the long-term view on investment dollars, and over the long haul we think that has been a wise investment decision.

When we ask the General Manager of Rail Operations, who is in the room here, how he is performing, it is often on the basis really of how he is performing versus other mines around the world that we also see. Of course, we do not have detailed understanding of BHP, but we have a pretty fair view of what the Brazilian costs are—and they are our main competitors. In fact, I was there only a few months ago. We are substantially better than they are at present.

Mr HARDGRAVE—Perhaps, Mr Wattling, given that you are a railway man, you might be better qualified to answer this question: if you were not just running a single purpose railway, which is almost like a conveyor belt from your mines to the ports, could you apply principles similar to those of your preventive maintenance programs and your general philosophy to the running of this railway—in other words, keeping it running—to a multipurpose railway line, something that was running passengers, freight, and so forth?

Mr Watling—So, could we transpose our disciplines into a state government railway?

Mr HARDGRAVE—Yes, or a more general purpose railway,

Mr PETER MORRIS—A multipurpose railway.

Mr HARDGRAVE—Yes, a multipurpose railway.

Mr Watling—Yes, I think there is potential there. I would qualify that with the fact that different focuses are required. When you are in a very focused railway, as with a heavy coal, iron ore railway, you are driven by certain parameters within the operating of that railway itself. For example, if we were to move into a multipurpose railway, we would have to look at the curvature of the rail. Technically, in terms of passenger trains, you would want to have them banking corners for speed. You cannot do that. So it is always a compromise in terms of running heavy haul against passenger.

There are some disciplines you could take across, certainly in terms of the workshops, wagon maintenance, locomotive maintenance. In terms of track maintenance, it would be a little more difficult I would think.

Mr WILLIS—Mr Richmond, in your submission you say that a possible alternative to allowing third party access would be for the company to provide door-to-door freight services for any new mine. Would you like to explain just what you mean exactly by that door-to-door service; and why would it be preferable to third party access?

Mr Richmond—Yes, that is a good question. By 'door-to-door' I mean that a Hamersley Iron train on Hamersley Iron track would pick up ore from mine X and deliver it to port Y; that is what I mean by 'door-to-door'.

We regard that as the least of the ills, because it does help overcome one of the main concerns we have—namely, we would control the schedule totally to fit in with our own schedule. So, if we want to shut our mine down and shut our train track down, we will shut the train track down, and we would not necessarily worry about mine X. We would only be able to deliver their ore at a fairly uneven schedule through that month. But, presumably, we could shift a few million tonnes.

That is going to cause a problem with how efficiently we subsequently handle our product. Let me give you an example. Mr Hardgrave just brought up a fairly good point there as to how we and our costs stack up with, say, an infrastructure state railway, and what the implications are. Our costs are somewhere between three and five times less than a very good infrastructure railway. The chance of our running backwards is simply so great that I am extremely unwilling to even try it. So, in answer to your question: yes, that is the least worst.

Mr WILLIS—I can see from your point of view that that has advantages. But, from the point of view of a potential new mine operator, it may well be that they think the price you want to charge them is fairly high and that they could do it cheaper themselves if they were the operator. Why shouldn't they be given the opportunity to do it more cheaply themselves? You might say, 'Well, we're the best in the world, and they'd be battling to beat us' and that may well be true. But at least theoretically they may think they can do it more cheaply; why should they not be given the opportunity? Of course, that is on the proviso that they do not screw up your operation—that is understandable.

Mr Richmond—That is a big if.

Mr PETER MORRIS—Could I interpose? This is precisely what their sister company wanted to did in the Hunter.

Mr Richmond—But that is a big if, isn't it? You are throwing away one of the key issues. We have just told you that, prosaic as it sounds, worrying to a minute degree as to how a wheel profile fits onto a track profile is phenomenally important. I would be guessing, but I would not think the east coast railways would even tell you what their profile is. You are running the risk of having someone who is second rate with a second rate loco coming onto your line. That is my worry.

Mr WILLIS—But it may well be that, to provide a satisfactory service for you and to allow them access, it requires some additional investment. If it does require additional investment, everyone would expect that the access price would reflect that; in other words, they would have to bear their share—and maybe it is a large share—of the additional investment.

Mr Richmond—Mr Willis, if I were allowed to charge this mine for the loss of profits I am facing because he is taking away my market—my opportunity cost—I might come back with a different answer. But with the way the act is at the moment, I cannot.

Mr WILLIS—You are not Robinson Crusoe in that. If you looked at other operators, that is exactly what they face. Look at Telecom. It is forced by the competition laws to allow access. Every time it allows access to Optus or anybody else, it means there is a reduction in the market share for Telecom. So it is being forced to forgo market share—and, therefore, you could say profits. But it is doing that on the basis that there is a national benefit in the context of allowing competitors to operate and to force them to operate to maximum efficiency, et cetera.

Mr Richmond—I am pleased you have raised that, because that is exactly my point. I can see that it is in the national benefit with a domestically orientated act that says the price of phone calls in Australia fall. Per se, I think that could well be a good thing. I do not think you would add that, if the price of iron ore fell because of surplus competition, the price of ire ore exports should fall. That is not in Australia's interests.

Mr WILLIS—I think if costs come down, that is probably a good thing.

Mr Richmond—But what if the prices coming down?

Mr PETER MORRIS—That is a huge leap, Mr Richmond.

Mr WILLIS—Yes, that is another issue.

Mr Richmond—No, it is not. You have not sold a tonne of iron ore in your life.

Mr PETER MORRIS—Of course, I have seen enough with you talking about it. One more mine opens up in the world production of iron ore, and you go down? Are you so weak? I think a bit more of Hamersley than that. We will have a talk after.

Mr Richmond—I am caught, Mr Chairman. I would like to reply but only in confidence on that one, because I have a problem.

Mr WILLIS—I would just make the point that it seems to me, with the pricing aspects, this whole area of access is relatively new. It is very new in rail. There are so many uncertainties that everyone is a bit on tiptoe as to what it all will mean. So we can understand your concern about that. We, ourselves, are just trying to find our way around the issues. But it does seem to me that we are far from settled on what the pricing principles would finally be. Certainly the points that you are making, I guess, are some that should be taken into account but not necessarily become part of the final charging regime. What is an appropriate access price to be charged is something for the NCC to consider.

But the key issue that concerns me, I must say, is that you seem to be prima facie objecting to another operator as almost intrinsically likely to mess up your operation; whereas it does seem to me that, with a cooperative approach, new operators might well be able to work well with you, particularly if it means new investment. You might need more passing loops, or whatever, to accommodate more trains on a line. Okay, that is new investment for which they would have to bear some cost.

Mr Richmond—Obviously we have thought about that issue you have raised. It is a very important issue, and we have modelled it very carefully. We have come to the view that net/net we are worse off. That is a view about which I am happy to talk in some detail in confidence. But we have done a lot of work on that point. In fact, it is with some of the modelling that you saw today on that train which was moving around that we figure out the answer. We simply can’t not give that issue very careful consideration—and we have.

Let me put it another way. The price of iron ore sends certain signals. I might add that the price of iron ore at present is quite low, and it will probably stay that way. But that is a signal that says, ‘Look, we don’t need new capacity.’ The price of iron ore today intersects at the marginal cost the direct cash cost of a Brazilian producer going to Japan.

That signal says that we do not need new capacity. All of a sudden, I am being told, or possibly legislation is suggesting, ‘Well, you’ve got to bring someone else in,’ over and above what market forces suggest is needed.

Mr WILLIS—I do not think it is over and above market forces. That new player would have to assess the market in exactly the same way as you.

Mr Richmond—If he gets access to our infrastructure at lower cost, which he could well do—

Mr WILLIS—The question is: what is lower cost? At appropriate access prices, it is not necessarily—

Mr Richmond—It has to include our opportunity losses—and it does not.

Mr WILLIS—I think I had better leave it at that.

CHAIR—I must admit that I have some sympathy for your case, perhaps more so than my colleagues. There is something I have difficulty with, and it comes back to this problem of infrastructure again. You have a vertically integrated system. Could you get a situation where a new player wanted you to use part of your capital to go to his or her mine, to take product out at inconvenience to you on your system, to use your conveyor belts? Presumably, if he or she or the company was in some sort of market situation similar to yours and required you to do the mixing for them of the various grades of ore, I come to a point in my mind where that becomes so artificial that it is not a form of competition at all; there is a very fine line between genuine competition and free kicking. In your examination of the act, do you think that infrastructure could be pushed that far: to the point of you being required to stockpile and mix as well?

Mr Richmond—Yes. Mr Willis’s point and yours I think merge quite well. At the moment we all are not quite sure where the act is taking us. Maybe in hindsight it was not as well written as it should have been, but I guess most acts are like that. And with time, it will sort itself out.

But under this condition of extreme uncertainty as to what would be allowable costs and what would be a reasonable access charge—for which there is no real agreement at present—the fact that we have tended to take a somewhat pessimistic cautious view, I think, is inevitable. I guess that I am agreeing with both of you, except for the fact that I am being more cautious until I can get better case law and a better outlook for what it is. We have almost $2 billion tied up in that investment—that is just the rail. On behalf of our shareholders, we have to make sure that it is looked after properly.

Mr McDOUGALL—How do you get over the problem that occurred in New South Wales with the situation where the NCC said that access was to be available and the Premier turned it down?

Mr Richmond—That can happen with state owned rails, but it cannot happen with private.

Mr McDOUGALL—You would like a Premier like that.

Mr Richmond—I cannot see it.

Mr McARTHUR—It is obvious that you run a very good railroad operation here in the private sector. We have heard a lot of evidence around Australia about changing practices in railway, privatisation, different ways of doing it. With your experience in doing this job well, what would you recommend to the committee to change the face of rail transport in Australia?

CHAIR—Just before you answer that, I was going to make the point—and I am glad you raised the question Mr Macarthur—that we only have six minutes left. Mr Richmond, I would like to pick your brains and Mr Watling's on the broader issue of rail in Australia. Some of your colleagues in this field have been a bit shy, but I have noted in your evidence this afternoon neither of you are very shy about telling us what you think. We would like the benefit of your opinion on things.

In particular, I imagine that your company has had experience in bringing freight from the eastern states, and so forth, across the Nullarbor. Perhaps for the next five or six minutes—starting with Mr McArthur's question—we could fire a few quick questions at you about your views on rail and perhaps, according to your observations, where you think the state and the new private operations can improve as well as what you see as having been done wrong in the past. So please start with Mr McArthur's question.

Mr Watling—Obviously, not to go back too far into the past, a simple gauge would be a great start for there to be throughout Australia just one standard operating railway. So there are some technical issues in terms of standard gauge and narrow gauge.

CHAIR—What do you think of this concept that has been put to the committee: that we should parallel rail in a manner somewhat akin to roads, where the main line, say, from Brisbane to Perth should be treated like a national highway where the Commonwealth would play a dominant role; perhaps another category being that something like the Brisbane to Cairns track would be a track of national importance; and a third program being to fix up the hot spots in Australian rail, such as around Sydney, between Adelaide and Melbourne, and things like that, where the Commonwealth might place some discretionary funds at various times. What do you think of that concept?

Mr Watling—My personal opinion is that it has some merits, as an interim period. My view is that you are not going to have an efficient railway in world standards until you privatise, because your people are not going to be driven to the type of commercial and customer focus that you need. You need to suck it up, breathe it and live it every day, and you are not going to do that as a government funded body.

Mr McARTHUR—Just to be clear, we are talking about privatisation. What about a national track authority? If you have the concept of privatisation, would you privatise that and, if so, how would you do it?

Mr Watling—I think you are asking me to make a comment on a very complex process. But I think, if you want a competitive railway, you have to operate very much like these three railways in Australia do up here. They have to be very cost focused and very customer focused. They have to know who their customers are, what they want and when they want it.

Mr McARTHUR—So you are for privatisation.

Mr Watling—Yes.

Mr McARTHUR—What about the track that the Chairman has spoken of, the standard gauge from Brisbane to Perth with access possibilities: how are you going to privatise that and get private operators?

Mr Watling—Whether you keep that under the Commonwealth umbrella or whether you privatise it is really, I think, one of those issues that you have to look at. It depends on where you want to rest the authority and, basically, whether you want to keep the expertise in Australia for Australia's future generations.

Mr McARTHUR—As a railway man, would you like to privatise that track authority and then get access as we have to the national highways—exactly as the Chairman as has put it—or are there problems with that concept?

Mr Watling—I do not think there are problems with it if it is governed properly. If it is managed properly, I do not think there would be problems with it. But you would have to have a very good board of directors.

Mr McARTHUR—Do you have any other bits of advice to give the committee on how to make the rest of the system work better?

Mr Watling—I just think, basically, it is a commercial business. You are a transport industry. Forget about being a railway. You are competing with trucks, are you competing with aircraft, you are competing with all of that. You are a transport industry.

Mr McARTHUR—Yes, but trucks get the free road, comparatively.

Mr Watling—So you are coming from behind the eight ball; you have to try harder.

Mr PETER MORRIS—With value adding, what is a good tip to go for? Do we go for high smelt, or do we go for HBI?

Mr Richmond—We have put a lot of money into high smelt. It is high risk, but it has a lot of technical promise. It has one benefit, of course: it uses the high phosphorous ores that the Pilbara has. That is a characteristic of Australia.

CHAIR—That might be straining the area of relevance.

Mr Richmond—Could I make one point? I have been in and out of Hamersley for a long time, and my background is in R&D and engineering—and I headed up SAR's strategic planning for a while. The greatest things I think we did in running the rail were the two things I have mentioned, but I would like to expand on them.

Firstly, our objectives were fairly narrow in the sense that Alan's predecessor and his predecessor's predecessor were given two or three very specific goals that make running a little easier. One is, 'Well, we know Brazil is running at $2.50 a tonne; you'd better do the same if you want to keep your job.' That is a little bit blunt, but perhaps you get the drift. And, 'You've had five derailments this year which is far too many; halve them next year.' But that is the taking.

The giving is this: we expect these guys to be pro-active in spending a lot of dollars in R&D and investment to turn it around, and we are not afraid to spend that long-term dollar. That has been rigorous. You have quite high powered people on our investment committee, far-sighted thinkers and businessmen.

CHAIR—Is your inference then that the Commonwealth should be putting some up-front funding into improving the track and R&D? Is that your inference?

Mr Richmond—No. I think the key to success has been our investment committee. What is your equivalent?

CHAIR—I see what you mean.

Mr McARTHUR—It has been your investment committee; is that what you have said?

Mr Richmond—Yes. I cannot add a lot more to that. I was on that committee for quite a long time, and I suppose I can see it from quite a way. The thought that we give to new investment in terms of 'Well, do it' or 'Why aren't you doing it?' goes through a fairly rigorous process, and I have not seen anything similar in the Commonwealth. I was a Commonwealth public servant for a short while but will not say I am an expert on it. But the rigorousness with which we have done, say, Hamersley rail or Hamersley port, or whatever, has added immensely to the last 15-year performance. We are very careful that the right investments are made—very careful.

CHAIR—You have given a very stimulating address. You said at the beginning of your evidence that you would not be handing over an additional piece of information.

Mr PETER MORRIS—They are not going to tell us the comparison of costs between their company and BHP, which is the only real benchmark.

CHAIR—We might do that privately out of respect for the confidentiality of that document. If we require any further information, other than that confidential piece of which we have just spoken, I trust that we can contact you in writing. You had three slides which you made available.

Mr Richmond—Yes, they are available to be received publicly.

CHAIR—Is it the wish of the committee that these three slides be incorporated in the transcript of evidence? There being no objection, it is so ordered.

The slides read as follows—

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

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

CHAIR—On behalf of the committee, I would like to thank Hamersley for their evidence this afternoon. It has been frank and very much to the point. It is the sort of thing we would have liked to have had from a lot of other witnesses. We thank you for your attendance. We particularly thank you for your hospitality today, and for showing us over your very efficient operations. We also thank members of your company and the public who have attended and added to the fabric of our deliberations. On that note, I declare these public hearings closed.

Committee adjourned at 5.02 p.m.