HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON COMMUNICATIONS, TRANSPORT AND MICROECONOMIC REFORM

Reference: Role of rail in the national transport network

CANBERRA

Tuesday, 5 May 1998

OFFICIAL HANSARD REPORT

CANBERRA

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

Members:

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

Mr Ross Cameron	Mr McArthur
Mrs Crosio	Mr McDougall
Mr Hardgrave	Mr Randall
Mr Hollis	Mr Tanner
Mr Lindsay	Mr Wakelin
Mr Marek	Mr Willis

Matters referred for inquiry into and report on:

(1) How current administrative, institutional, operation and pricing arrangements can be improved to promote effective and efficient use of the national rail network, and to investigate the role of the Commonwealth and states/territories in achieving consistency in these areas.

(2) The opportunities to increase the participation of the private sector in the rail industry.

(3) The opportunities to maximise access to, and utilisation of, the rail network.

(4) Effective investment and ownership arrangements for the rail network.

(5) Characteristics of international best practice in rail operations.

WITNESSES

HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON COMMUNICATIONS, TRANSPORT AND MICROECONOMIC REFORM

Role of rail in the national transport network

CANBERRA

Tuesday, 5 May 1998

Present

Mr Neville (Chair)

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

Committee met at 8.16 a.m.

Mr Neville took the chair.

EGGLESTON, Mr Colin, General Manager, Toll Holdings Limited, 20 Crawley Road, Brooklyn, Victoria

LUDEKE, Mr John, Operations Director Long Distance, Toll Holdings Limited, 20 Crawley Road, Brooklyn, Victoria

CHAIR—I declare open this public hearing of the House of Representatives Standing Committee on Communications, Transport and Microeconomic Reform. This is the fourteenth session of public hearings for the inquiry into the role of rail in the national transport network. In opening today's proceedings here in Canberra, I should emphasise that in addressing the terms of reference the committee's role is not to lobby the Commonwealth government, or any other government for that matter, in support of individual rail proposals. The committee's role under the terms of reference is to investigate how rail might operate better now and in the future and to report its findings and recommendations to the parliament. On behalf of the committee, I welcome the witnesses appearing before us today and the many people in the gallery.

I welcome the representatives from Toll Holdings Limited. Before proceeding I would like to caution you that, although you are not under oath, committee hearings are legal proceedings of the parliament and warrant the same respect as those of the House itself. Do you have anything to add to your submission?

Mr Eggleston—To the first submission or the second one?

CHAIR—Do you have any additional material?

Mr Eggleston—We provided a second round of material.

CHAIR—Right. I would invite you to give a three- to five-minute overview of your position.

Mr Eggleston—Certainly. There has been a change since we attended a private meeting here in July last year. Perhaps I can read the pertinent points from the material to start off with.

On 18 December 1996, TNT Limited was wholly acquired by the Dutch postal and telecommunications company, KPM. On 1 December 1997, Toll Holdings Limited acquired the non-core assets of TNT Australia Pty Ltd, wholly owned subsidiary of KPM, in a private sale. Included in that sale was the rail business, originally established by TNT in June 1996. The contracts on which the business was established have been assigned by the various rail authorities and other service providers so that TNT Limited has assigned them to Toll Holdings Limited. Toll Holdings Limited is now operating the rail business in its own right and basically with the same structure and people prior to that date of sale. The strategic positioning of the rail business remains under review and at this stage it is being assessed as to our further direction.

The submissions made by Ms Vanessa Fanning and myself for TNT Limited on 24 July 1997 remain valid today and are endorsed by Toll Holdings Limited. Toll Holdings remains available to put verbal submissions to the committee via the executive responsible for heading that rail business.

There are some specific comments that need to be reinforced from our original submission. The rail track infrastructure is neglected—Australia's rail and regulatory structure are in urgent need of reform. The government needs to create a structure which will promote effective competition and neutrality which is transparent. The government's contribution to rail funding has been on an entirely different basis to that of road funding and that approach to access charges in the two modes lacks consistency, as does the approach to cost recovery. There is a need to ensure that government investment is prioritised according to where it will deliver the greatest net national benefit. Track access regimes remain splintered and there is still no certainty or cohesion. This is perhaps the single greatest threat to the successful implementation of competition in rail.

Accreditation remains an issue of significance, despite the inter-governmental agreement, as each state seeks to maintain a level of independence by producing different rules. The uncertainty of the environment for the re-negotiation of the Toll Rail contracts with its various service providers—and I say above and below track—is perhaps worse than was the case in July 1997. By way of example, there was the privatisation of V-Line Freight and our agreement with V-Line Freight. There is a clause that states that it will only be as good as six months after the new owner would take effect as to the validation of that contract, which would leave us without a business if they were to choose that they did not want to work with Toll Holdings.

The commitment by the ARTC appears less than vibrant having regard to our understanding that rail operators will deal directly with the infrastructure bodies in the states of Western Australia and New South Wales. The funding being made available to the ARTC for capital works is inadequate in the extreme. Compare the $250 million being made available for capital works across the ARTC proposed network, where the total of all proposed programs exceeds $1 billion—refer to the attached—with the $138 million being made available for eight kilometres of road works in the Adelaide Hills: there is no comparison between the condition of the national highway and that of the national rail network.

Toll Rail is concerned for the future of ARTC given the small budget for capital works—just $250 million over four years—and the current commitment to the ARTC of just four years with review in the fifth year. There is no formal understanding of the capital works spending to be undertaken from revenue derived from track access fees. Taking Track Access's current authority for the interstate network there are no tangible signs of track or infrastructure improvement and Toll Rail remains concerned that the pattern could continue.

There is a need to formalise in the ARTC agenda a commitment to spend a designated percentage of revenue received from track access charges on capital works. This money obviously should be separate from any funding to be made available by the government for the immediate improvement of infrastructure.

The ARTC has proposed a short list of projects for action involving $250 million of government funding and Toll Rail is taking a broader view of that industry in that its current east-west code of operation endorses the program as a sound starting point. We do not accept that the $250 million funding to be spent over five years is at all adequate for the work that we would deem necessary and required. Toll Rail does accept the ARTC proposition that an opponent or other rail user of a specific capital works program should provide funding for the works. Rail operators should make a direct contribution to funding of maintenance and capital works programs through the unique cost recovery regime of track access charges, of which there is no comparable charge for road and there should be no further requirement then from the rail operators.

A question needs to be asked before acceptance of the ARTC proposition: on what basis does the government compare and analyse projects of worth between road and rail? On what basis does the government distinguish between cost recovery for rail operators against road operators? Toll Rail is seeking that the rail be given sufficient funding to operate a network that is fit for use and can be maintained. This needs to be done in an environment that is conducive to effective competition where competitive neutrality is maintained by a transport access regime. We are very concerned about the imminent creation of duplicated state based bodies to administer rail safety. The creation of a single track access body has occurred at long last yet there is the idea of three different safety bodies, one for Western Australia, South Australia and Victoria and New South Wales, et cetera. They are all pursuing the same objective of rail safety but it is like a return to the old days of having artificial rail borders at the borders.

Each body will differentiate their approach to deal with those matters of parochial concern. We fail to understand how that adds value to the rail industry. We query the cost burden on rail, having three different state based administrations deal with rail safety on the east-west corridor, which we are currently operating on. South Australia have advised that the cost of administration of their rail safety act 1996 is estimated to be $500,000 per annum. We are expected to contribute about $20,000 to that cost. The total cost of contribution across all three states of current operation for Toll Rail is yet to be understood, but on any view of the matter the cost of contribution will have to be matched by three levels of understanding from an operational perspective which does not assist a national approach.

What considerations have been applied to understanding the economics of scale in establishing a single rail safety body is a further means of enhancing the competitiveness and efficiency of rail. What is the real cost of instituting and administrating a national rail safety act? What benefits will it bring to the national interest as against the current scenario of individual state based systems? In conclusion, I would like to recap from page 1 of our opening statements by Ms Vanessa Fanning on Wednesday 24 July 1997. It reads:

The government, to take its transport infrastructure investment decisions, is looking forward, not looking back. There has to be a mechanism which will allow the rational evaluation of alternative investment options by the various transport modes. We need an analytical framework to make these decisions, not a gut reaction to past mistakes. It is also imperative that governments stop making investment decisions based on regional political considerations. We need to implement mechanisms that will ensure the government’s transport investment spending is prioritised according to where it will deliver the greatest national benefit. This requires well researched and transparent cost benefit analysis, proper prioritisation and commitment to long-term structural funding. At the moment the government has no means of evaluating the merits of a major investment in rail versus a major investment in road. It has no means of evaluating whether rail investment funds would be better spent upgrading existing track or building a new track between centres in northern Australia. What we do know is that the government’s contribution to rail funding has been an entirely different basis to road funding. The approach to access charges in the two modes lacks consistency, as does the approach to cost recovery. The issue is that decisions are being made when governments have no rational basis for determining their approach to rail or road funding. We stand the risk of passing up forever the opportunity to capture the value locked up in the nation’s historical investment in rail infrastructure. In short, we need a national land transport policy.

CHAIR—Broadly speaking, what do you see is the role of the Commonwealth in this whole scenario that you paint?

Mr Eggleston—In short, it is defining what is required for this country to have a land transport task where moneys will be best spent, whether it be in road, rail or infrastructure with sea in working with the rail and road networks.

CHAIR—We have received evidence suggesting that we should treat the track from Brisbane to Perth as a national highway or a national track and that the Commonwealth should contribute to that. Perhaps there should be a second level of important railway lines known as track of national importance and perhaps a third level paralleling the black spots programs on roads with an emphasis not so much on safety but on removing bottlenecks—a hot spots program. What do you think of that type of scenario; a three level approach where the Commonwealth would participate at different levels in those three areas?

Mr Eggleston—It certainly would seem to have merit in respect of the privatisation issues that are emerging such as the sale of V-Line Freight, Western Australian potential and the fact that Australia National has been broken up. You will have a regional requirement that will be specific, but you will also have the national requirement that is very specific and needs one controlling body, not having it broken up and having parochial interests.

CHAIR—Do you run your own trains from Perth to Melbourne?

Mr Ludeke—Yes.

CHAIR—Why do you not run them to Brisbane as well?

Mr Ludeke—We are investigating the possibility of that right now.

CHAIR—What is the impediment to that?

Mr Eggleston—The impediment has been the degree of difficulty in obtaining rail access charges through the state of New South Wales. We have been through a period where TNT rail was sold to Toll Rail, and there has been a period where we have not had the ability to proceed with our intent, as we had stated back in July of last year.

CHAIR—Finally, how has the privatisation of AN affected your operations?

Mr Eggleston—We have a contract with Australian National that was assigned to ASR, Australian Southern Railroad. To say that the service performance has deteriorated since that date of sale has been very much of paramount importance to Toll Holdings. The service levels are abysmal.

Mr HOLLIS—Are you referring to the service levels from AN?

Mr Eggleston—From ASR.

Mr HOLLIS—Can you give us an example of how they have been abysmal?

Mr Eggleston—To be specific, they supply a range of services, and one area of service is the supply of horsepower to haul the trains. Our service level has gone in round figures of on-time performance from 90 per cent above at our destination points to where we are lucky to get around 30 per cent at the current time, predominantly driven by a failure on locomotives.

Mr HOLLIS—Are your referring to old locos?

Mr Eggleston—They are old locomotives but they have been refurbished. In fairness to them, they took over a fleet that had been run into the ground through the sale process.

Mr HOLLIS—In that contract which you negotiated with them, surely there would be clauses that would allow you to recoup losses of a commercial nature.

Mr Eggleston—No, they do not.

Mr HOLLIS—One should have perhaps looked at the way they signed the contract. It would seem to me that in most contracts, even in building contracts, there are clauses which provide for builder delays or overruns and things like that. Does this not apply in rail contracts?

Mr Eggleston—We are talking under confidentiality and going into the detail of a contract that I do not think I am in a position to talk about.

Mr HOLLIS—No, I do not want you to give me the commercial details. I was just a bit surprised.

Mr LINDSAY—Mr Eggleston, could I examine with you a scenario that may be a little different to what you might have been expecting. You may respond as yourself rather than the general manager of the company if the question is difficult. What happens in Europe in the task of moving freight across that community is perhaps different to what happens in Australia. If cabotage were removed on the waterfront, and if there was some focus on saying, 'It is too costly to upgrade the national rail track, it will cost billions of dollars, the country should move towards feeding rail into ports and then everything moves by sea between the ports,' how would you expect that kind of scenario to work in this country? Is it practical? People tell me that moving things by sea is less costly than moving them by rail. As an operator, how do you feel about that?

Mr Eggleston—There is a market there today. Our company utilises that operation between Brisbane, Sydney, Melbourne and Perth on those specific legs, but it is only a certain sized market. There is a time sensitive market that requires road. There is a time sensitive road requiring air too, although it is small. There is a market requiring the service that rail can provide to Perth. I would suggest that market is different from what would suit the market for sending goods by sea.

Mr LINDSAY—You are saying that the national rail infrastructure should remain in place.

Mr Eggleston—I certainly am.

Mr LINDSAY—In your opening submission you said that you saw a need for a national land transport policy. Is it appropriate to have the word 'land' in there? Should it just be a 'national transport policy'?

Mr Eggleston—Okay.

Mr LINDSAY—I am asking you whether you see a role for sea transport.

Mr Eggleston—Yes, I do. There is a market now.

Mr Ludeke—We use sea a lot for non-time critical freight, especially going from Sydney to Perth. We as a company probably have the largest fleet of trucks in the country. We would like to see more volume go on rail, especially between Melbourne and Brisbane and Melbourne and North Queensland and return. We would like to take more volume off road. As I commented previously, we are investigating the possibility of running trains on the eastern seaboard, if you like. In the long term our preference would be to put more volume on long-haul rail and sea, where it is applicable—where it is not time critical—and less on road, especially on the eastern seaboard.

Mr LINDSAY—How critical are delays to your movements caused by speed restrictions on track—in other words, the state of the infrastructure? Is it causing your company problems?

Mr Eggleston—Yes.

CHAIR—Could you identify some of the areas?

Mr Eggleston—Across the Cressy Plains there are speed restrictions down to 50 kilometres an hour. That is a large impediment on the corridor between Melbourne and Adelaide. In Western Australia the section between Kalgoorlie and Southern Cross has as much as 10 per cent of the track under speed restriction at any one time, which is way above the industry average of about three per cent on a corridor.

Mr LINDSAY—If you were running a rail corporation as a private business, would you say, 'All the country branch lines that run $2,000 worth of freight a week should go; all the passenger services should go; the rail network in Australia should be something that simply moves big and bulky things long distances?' Would that be the ideal operation? You may not be in a position to answer that.

Mr Eggleston—I know we are talking generalities here. As I said in my first submission, there is a niche for short haul in specific areas. That is directed by a market requirement and has an efficiency. So I would not like to underplay the fact that there is an opportunity for short haul in some areas. A great example of that is in America. A number of short-haul operators have been able to emerge out of a deregulated environment in the United States. I can see that there will be pockets of that, probably short haul in the bulk area.

Mr LINDSAY—Is an ideal situation one where all of the railway infrastructure in the country is run by private operations—get government out of rail infrastructure?

Mr Eggleston—In the long term, yes. Definitely.

Mr LINDSAY—Thank you.

Mr WAKELIN—You make a point about the percentage of revenue from track access going back into upgrade or infrastructure improvement. Do you have a formula in

mind?

Mr Eggleston—No.

Mr WAKELIN—I would have thought that that, to a degree, would have been happening now. There is obviously maintenance, but you are talking about capital infrastructure.

Mr Eggleston—We have not been able to have any involvement whatsoever. The project and the cost involved needs to be understood and compared with the moneys received to determine whether you are going to get the best return from it. Without being able to understand that, I cannot respond to you. We have endeavoured many times to get that understanding. In a generalised sense, I do not believe that for any of the moneys that we have paid—one-third of our dollar is going in track infrastructure cost—we are seeing any return. The track has not been improved one iota since we first started just on two years ago. The classic example is the concrete sleepers that are sitting out there across the Cressy Plains.

Mr WAKELIN—So the transparency issue was critical to know was happening in the first place.

Mr Eggleston—Very much so.

Mr WAKELIN—You mentioned, or perhaps Vanessa Fanning did in her comments, governments making investment decisions based on regional political considerations. Can you give us some examples of that?

Mr Eggleston—If you take it on a state basis, here in New South Wales freight is second class to suburban traffic and is probably third class if you take into account passenger traffic. A recent example is the events at the showground over Easter; with regard to the transit time between Sydney and Brisbane, 24 hours was added to the freight component. There will be an impediment due to any events being staged at the new Homebush stadium area and freight will be second class to it.

Mr WAKELIN—So the passenger demand blew the freight away?

Mr Eggleston—It has a priority.

Mr McDOUGALL—You made a comment that you were looking at the Melbourne to Brisbane line but there was an impediment to gaining access charges from New South Wales.

Mr Eggleston—Charges and paths.

Mr McDOUGALL—How long have you been having negotiations with New South Wales Access

Corporation?

Mr Eggleston—We have been having negotiations for over two years, on and off.

Mr McDOUGALL—What is the current state of play?

Mr Eggleston—The current state of play is that it has taken us four hours just to get a confidentiality agreement signed. But we are negotiating again under a different requirement to how we have approached it previously, hopefully to see how this gets across the line.

Mr McDOUGALL—A report in the media says that the access charge is $3 per tonne per kilometre. Do you think that is a fair rate?

Mr Eggleston—Based on?

Mr McDOUGALL—I am just quoting a media comment.

Mr Ludeke—It would depend on what the job was. It seems very high.

Mr McDOUGALL—Do you think you should be paying at all?

Mr Eggleston—There has to be a cost recovery depending on the condition of the track and where it is located. Let me give you, once again, a very generalised approach to it. As I understand it, the track gang within the suburban areas is made up of 40-plus people. The track gang out in the country can be as much as four or five people. The cost of maintaining within the suburban network is proportioned out to a user so we pay a percentage of that cost. We do not need it at that standard but we have to pay a percentage of that. I do not agree with that process of costing.

Mr McDOUGALL—On that basis, then, would you be arguing that there should be a dedicated freight line from Melbourne to Brisbane—get the city trains the hell out of it and run at a freight standard rather than a passenger standard?

Mr Eggleston—That would be a simplistic approach to it. Having had a little experience in running trains over a period of time, we were successful years ago in running a dedicated train through the suburban network through the peak hour period and running it for years on that basis. We were able to negotiate at that particular point in time; we are not able to get that train passed today and we would suggest there is more political reason behind it rather than commercial. I would suggest that you can mix freight with a suburban network and a passenger network. It is physically possible.

Mr McDOUGALL—What is the great incentive for you to want to spend all this time—two years—bashing your head against a brick wall? What is the incentive for you to continue going to get that access? Why do you want to do it? Why not stick with road?

Mr Ludeke—We want to control our destiny. We have a very large freight forwarding business—the largest in the country—and we want to be able to control our own destiny. The way rail in Australia is structured at the moment, we cannot do it. National Rail do not provide the necessary service and I do not think they really care about Toll. We are competitors. We do not feel that we would be safe in their hands medium to long term, whoever owns them.

Mr McDOUGALL—That was not really my question, my question was: why do you not stick with road and forget about rail?

Mr Ludeke—Because rail long haul is cheaper. You can move larger volumes more cheaply long haul. Short haul between Sydney and Melbourne is a different scenario but Melbourne to Brisbane or Melbourne to Perth is cheaper by rail.

Mr McDOUGALL—On that basis, what percentage of your current freight from Melbourne to Brisbane, including the Sydney to Brisbane component and the Melbourne to Sydney component, if you were able to get the access you want at the price you want, what percentage of your current freight would you take off the road and put on the rail?

Mr Ludeke—I would have to do some work on that, but it would be a significant amount, because transit times for rail Melbourne-Brisbane are not that much worse than road. We offer service from Melbourne to North Queensland, and transit times again on rail are not that much different.

Mr McDOUGALL—Would you be prepared to let the committee know that figure on a percentage basis?

Mr Ludeke—Sure.

Mr EGGLESTON—Can I just give an example of that under TNT's hat. We changed over 100 trailers a night each way off rail onto road. What we put back on the Melbourne-Adelaide corridor, to give you an example, was 75 trailers a night each way.

Mr McDOUGALL—Would you be able to give that percentage on a basis of containers versus general cargo as two separate figures?

Mr Ludeke—We can do that. To continue, we probably will continue to do road express freight out of Melbourne into North Queensland because that is a service we provide, but general freight, probably will switch from road to rail.

Mr McARTHUR—Your TNT operations, as I understand it, are basically a road operation. Can you comment on the fundamental problem that this committee sees, that road hauliers really get the road 'for free'. They pay some tax but they get the whole infrastructure, whereas in the rail operation there are a whole lot of other costs and lack of investment, which you talk about in your submission. Can you just give the committee a view of how you see that from your organisational point of view, being fundamentally a road operator? I would probably make the observation that you are cherry-picking the best out of the rail system as you see fit. But how do you see that break-up, being a road operator basically and using the rail as it suits you?

Mr Ludeke—I do not think I agree with that. We purchased very large rail operations from TNT, probably the largest in the country. As I mentioned before, we would prefer to move more volume on rail than road. Rail can move larger tonnages cheaper over long distances. That is our preferred strategy long term, to get off road onto rail.

Mr McARTHUR—We would observe on this committee that the true cost of the road network has never been evaluated, whereas in relation to the cost of the rail network there is a great debate about how much investment is needed. You make that comment in your submission, that there has been a lack of investment and the whole access regime revolves around what price entrants have to pay. Whilst you say you want to go on the rail because it is cheaper, it is only cheaper because maybe someone has not paid the proper costs.

Mr Ludeke—I think we are paying the proper costs; in fact, we think we are paying too much for rail.

Mr McARTHUR—Paying too much.

Mr Ludeke—We think we are paying too much in access charges. As I just said a moment ago, we want to use rail more. We are using less road vehicles and we are moving more freight on, for example, B-doubles and B-triples than normal trailers these days so that we can move greater volume with less equipment.

Mr McARTHUR—But some of us would observe, as a private opinion, that the advent of B-doubles is a disaster for the domestic traffic in terms of their being hard to get past and extra wear and tear on the highway without compensation to the road construction.

Mr Ludeke—I think tests have proven that in fact B-doubles do not damage roads as much as normal trailers used to. There are more axles, there is an ability to spread the weight more efficiently.

Mr McARTHUR—You have to concede, though, they are an obstruction on certain roadways in particular.

Mr Ludeke—I do not know whether I agree with that either.

Mr McARTHUR—If they are so good, why aren't they allowed to travel on any road in Australia?

Mr Ludeke—We are happy to travel as we are supposed to on certain roads at certain hours. We are happy to do that; during the middle of the night.

Mr McARTHUR—That's a debate. It leads me on to the other fundamental question. We had a very interesting witness last night, Mr Charles Hoppe, who was indicating that in rail versus road you had to ensure that there was an integrated rail system that was competing on reasonable terms with the road freight operation. How do you see that operation in Australia? Do you see that we might end up with one National

Rail operation competing with all the road networks, or is your suggestion of getting access where you see fit a better way to go?

Mr Eggleston—I certainly do, and that is what we have put forward. We just had a National Rail network and within five years it is up for privatisation.

Mr McARTHUR—But wait a minute, the road network gets $6 billion invested in it each year and the rail network had $400 million by the One Nation plan. That is all they have had. It is a bit unfair to say that they have fallen over after five years with all the problems that they have been facing.

Mr Eggleston—We could go into a long debate about this, but with respect, it is certainly underfunded. We agree with that and we have put that forward in our submission. The success of the National Rail operation personally gives me great concern since I was involved part and parcel in the original set-up and structure. We had great faith and hope that it would work. It is a crying shame that it is in this position today, but that is a fact of life. That is one of the reasons, as Mr Ludeke said, why we are sitting here today. We are going to make our endeavours with rail. We see it as an opportunity.

Mr McARTHUR—But do you see what the real costs of using rail are?

Mr Eggleston—Yes, sir. It is very much unfunded.

Mr McARTHUR—What is the real cost? Are you saying that you are being charged too much to go on rail? On what basis is that?

Mr Eggleston—Just on the basis of our costing exercises and evaluation.

Mr McARTHUR—Have you been allowing for the full capital structure? It is an interesting point: you can travel on the road for nothing—the rest of your road operation—and you are telling us it costs you too much to go on the rail network.

Mr Eggleston—But that is based on what costs we are being charged to run on it. That does not mean it has got any relativity to what the real cost is.

Mr McARTHUR—Thank you, Chairman, we will leave the debate at that.

CHAIR—Mr Wakelin, you had a point to add to that, did you?

Mr WAKELIN—It was on the National Rail and the hope that was unfulfilled. I have some experience of National Rail in recent years and if there was one point where it really did not succeed, could you enlarge on that, and why?

Mr PETER MORRIS—There has not been a national rail network. Your language is a bit loose. You are referring to a National Rail Corporation freight service, which is vastly different from having a single operator.

Mr WAKELIN—That is what I mean, yes.

Mr Eggleston—That, specifically, yes.

Mr PETER MORRIS—Could you elaborate on that because I am very interested in that too.

Mr Eggleston—The most fundamental aspect to me is the fact that the industry that was utilising rail has been totally alienated by the corporation in a very short space of time. I have never seen the industry united really at all on anything, and yet this is totally aligned at the customer base. I put it down specifically to it being developed, I believe, on an uncommercial basis and with a total lack of regard to the service that the market requires. Why else would we be trying to do what we are doing here?

Mr Ludeke—I will be specific. I do not think their terminal infrastructure is as competitive as ours. We can put a truck in, unload it and put the container on a train probably in half the time it takes National Rail to do the same function. Another concern with National Rail is—I have had recent meetings with their senior management; we are obviously a major competitor to National Rail—I have said to their senior management, 'We are a competitor, what about providing, because your intermodal revenue is declining rapidly, contract trains for us, for example, on certain corridors? We have got the largest volume in the country. Why not provide dedicated trains?' They are not interested. They have the perception that they are adding value in their terminals and they do not at all. In fact, they detract from any sort of value they think they might offer.

Mr WAKELIN—Thank you. Chairman, that is quite useful to me and I appreciate it.

Mr PETER MORRIS—Mr Ludeke, does that apply to South Dynon, the Sydney terminal? Are all terminals the same? We have seen some of them and it is a bit hard to relate what you are saying to what we have seen.

Mr Ludeke—I will give you some examples. We operate a freight forwarding business at Islington, which is next door to the National Rail terminal. Colin operates his train from Gillman, which is probably half an hour away by road. We can have a vehicle leave our freight forwarding terminal and go to the Gillman rail terminal, be unloaded and be back at Islington before the time it takes a vehicle to go next door to National Rail and do the same function.

Mr PETER MORRIS—But what actually happens? Are there queues waiting to be unloaded?

Mr Ludeke—Yes.

Mr PETER MORRIS—It is a logistics thing; it is not the actual function in the yard itself?

Mr Ludeke—It is a combination of both.

Mr PETER MORRIS—I think it would help if you would be a bit more specific; you are just generalising.

Mr Ludeke—I can come back and be specific; we can give you some instances of what has occurred in the last six months.

Mr PETER MORRIS—How long does it take to put a truck through there?

Mr Ludeke—It would probably take an hour for Islington, whereas we can be up and back from Gillman—which, as I said, is 20-25 minutes further away—in less time.

Mr PETER MORRIS—So it is 20 minutes up there; it is 45 minutes alone to get up and back. So if there is 15 minutes, you have an hour to go through Islington—I just do not understand.

Mr Ludeke—All I am saying is that with Islington, which is next door to our freight forwarding business, we probably should take a maximum of 15 minutes for the same function.

Mr PETER MORRIS—That assumes that nobody is waiting—there is nobody ahead of you—or is it just that your volume up at Gillman is low?

Mr Ludeke—No, we have large volumes.

Mr Eggleston—I think it is a logistics task and an operational function. One of the areas where we have been superior in service—and I come back to the service content; at the end of the day, it is what the customer requires—is our ability to have throughput in a terminal, which does require a great degree of planning, and then you have got to have a cohesive operation that will carry it out. One of the abilities we have is that we have developed a greenfields site approach because we are brand new and starting. National Rail may have taken on board some previous baggage.

CHAIR—We have had evidence in the inquiry about the inability of state authorities to make proper terminal space available—they have held the old yards for their own facilities but they have not created the ability for the private operators to have good access to rail at terminals. Is that a fair criticism?

Mr Ludeke—In Sydney, especially.

Mr Eggleston—Sydney would be, but I would suggest that there is not an abundance of rail terminals on the standard gauge in this country. Take Victoria, for example, where it is predominantly broad gauge rail operation; it is outside the National Rail terminal. I said in our first meeting that there was only one road, one rail line in Melbourne, that could handle intermodal freight outside the National Rail terminal. That was No. 7 road. So our size of train was dictated by that size of length of track. Then when you look at investing in terminals, where do you get a piece of land these days that would take a rail terminal in or near where the market would be? It is very, very difficult, no matter what state you are in.

Mr McARTHUR—Have you any comment on the terminals with the sale of V-Line Freight in Victoria—that that sale might be interfering with National Rail and the whole operation of the sale and the final outcome of those terminals?

Mr PETER MORRIS—This is not a regional political consideration!

Mr Eggleston—If I could hitchhike on what I have just said, there is minimal terminal opportunity for anyone wanting to be an intermodal outside what National Rail have under their current operation. I would ask you: for the benefit of the country and the economy, do we really need to be developing two terminals—or three terminals? The cost of a terminal is a minimum of $20 million-plus and then you may have to duplicate it in each state—say, $100 million around this country—if you want to be in the operation. Can, first, the product, or the market, sustain that cost? Secondly, to get efficiency out of a terminal, you have to get throughput and you have to run a number of trains through that terminal. I would suggest that we have some terminals in this country that can be far better utilised, managed and controlled without having to go to duplication. So if they are to be part and parcel of the sale of National Rail, then whoever is going to be the purchaser—

Mr Ludeke—Be specific: Islington is one.

Mr Eggleston—Islington is one. Dynon is a very good terminal, but at the end of the day maybe the purchaser will have a stranglehold on the operation.

CHAIR—Do you think there should be more free flowing?

Mr Eggleston—Definitely.

Mr McARTHUR—If V-Line Freight were sold to a private operation and they got hold of Dynon—

Mr Eggleston—North Dynon, to be specific.

Mr McARTHUR—What would happen to the National Rail network?

Mr Eggleston—National Rail is across the road in South Dynon. They are two separate issues.

Mr PETER MORRIS—Mr Eggleston, you made a comment about the National Rail Corporation which I would like clarified. I understood you to say that the National Rail Corporation service has not performed as was expected when it was set up.

Mr Eggleston—Correct.

Mr PETER MORRIS—What is before the committee—and much of what Mr Hoppe said last night—has to do with above rail, below rail as one integrated operation and one national operation given the skinniness of the market. Your comments were not based on that, were they? Your comments were based upon the service being provided by the National Rail Corporation, which is totally different from what we were discussing. National Rail Corporation have also made the point in the past that they inherited locos. They inherited equipment. They went through the same experience. There were difficulties in getting through the state systems. There was not the coordination.

Mr Eggleston—I would not like to leave you with the impression that we are in exactly the same position as National Rail were re locomotives because Australian National had those locomotives prior. I would suggest there is a totally different philosophy in the maintenance and the running of their operations compared to how it was previously done. They are the same locomotives.

Mr PETER MORRIS—We have seen the Goninans set-up on loco provision and power provision in Melbourne. I know very well that in the early stages the locos that were handed over then by the respective state systems were the ageing beauties. They were the clapped out locos, and the best locos were kept. Can you tell us something about your using foreign shipping to move domestic cargo from east to west? How do you arrange that?

Mr Ludeke—Foreign shipping? Whatever ship might be available.

Mr PETER MORRIS—No, I am referring to the mechanics. How do you do that?

Mr Ludeke—We know what ships are due to arrive in certain ports. If we have freight that is not time critical, we then use the best rate we might get to move volumes.

Mr PETER MORRIS—Do you do that through a shipping broker?

Mr Ludeke—No, we talk directly with the shipping company.

Mr PETER MORRIS—Your own organisation has all those contacts?

Mr Ludeke—Yes, we do.

Mr PETER MORRIS—Can you tell us something about the nature of that cargo?

Mr Ludeke—For example, there would be grinding balls out of Commonwealth steel in Newcastle to go to the mines in Western Australia.

Mr PETER MORRIS—But they are running their own ship doing that.

Mr Ludeke—No, we use different shipping lines.

Mr PETER MORRIS—Containers?

Mr Ludeke—Yes, they are in containers.

Mr PETER MORRIS—I am looking at the December quarter figures which show 210,594 tonnes of cargo was moved by foreign shipping around the Australian coast. I am trying to get some handle on the contents of the containers. Are they empty containers? Are they manufactured goods from Sydney and Melbourne?

Mr Ludeke—No. Shipping lines offer empty containers for placement in places like Perth from places like Sydney and Newcastle. So we use those containers. We do not send any empty freight.

Mr PETER MORRIS—You are not repositioning empty containers?

Mr Ludeke—No.

Mr PETER MORRIS—But you have not told us about the containers of stuff that is going around. Grinding balls are not that much. I know what they are.

Mr Ludeke—No, they are significant amounts.

CHAIR—Is there a way to integrate rail more effectively with other modes of transport? We have talked about the necessity of good terminals, especially in Sydney and Melbourne, but are other forms of intermodal activity adequate in Australia?

Mr Ludeke—We are looking at the opportunity of using rail to ferry large volumes of product into ports. For example, with TNT we picked up the port management of Geelong, Hastings and Newcastle. So we are looking at opportunities to use rail to ferry large volumes of product into the wharf.

CHAIR—Are the rail links to those ports adequate?

Mr Ludeke—They are reasonable.

Mr Eggleston—Albeit that Geelong does not standard gauge.

Mr McARTHUR—Would you be able to put that in because you will pay for it and it will be commercially viable?

Mr Ludeke—I certainly hope so.

Mr PETER MORRIS—And not have any regional political considerations. You really have not answered the question. I am trying to get a handle on the composition of those cargoes. They are east-west essentially, are they not?

Mr Ludeke—We would have to come back to you.

Mr PETER MORRIS—But it is essentially east-west?

Mr Eggleston—Yes.

Mr PETER MORRIS—Okay. You made reference, Mr Eggleston, to political considerations in passenger freight decisions around Sydney. What were you getting at there? I am sure it is not party political. Do you mean as between industries? What are you getting at there? Are you suggesting that the passenger trains in Homebush Bay should all have been held up, not operated, and that freight should take precedence?

Mr Eggleston—No. I believe it is an act of local parliament that the suburban trains have priority in timetabling compared to freight. Freight paths have been negotiated and a track access fee is paid for a guaranteed supply of a train to travel at a time unless there is a special event on, then you will be made second class and will travel—

Mr PETER MORRIS—So Toll will run a public campaign now saying passenger trains should be set aside while their freight trains go through? Is that what you are going to do?

Mr Ludeke—All we are suggesting is that we should not have been delayed for 24 hours.

Mr PETER MORRIS—But you know better than us what those rules are all about. In the last dot point on page 1496 of this later submission you say:

Governments' contribution to rail funding has been on an entirely different basis to road funding, the approach to access charges in the two modes lacks consistency as does the approach to cost recovery.

What is your proposal—that road charges need to be increased? How are you going to overcome that problem?

Mr Ludeke—Are you talking about the difference in charges for different back axles—

Mr PETER MORRIS—I am reading the last dot point on the first page of your supplementary submission. You made a comment. What is the solution that you desire? You talk about an inquiry into the role of rail and the international road network. It is the last dot point on that page. You have used small print there, Mr Eggleston. This is a follow-up to the submission. It is the last two lines.

Mr Eggleston—I guess that is just the overall aspect of cost recovery from rail as compared to road. There has been a lot said and understood about that, I am sure, by the inquiry here. We wanted to once again highlight that inadequacy between the two modes. We just say that it lacks consistency between the two. If there were a uniform policy between the modes—

Mr PETER MORRIS—You have not provided any proposals on how to achieve that?

Mr Eggleston—Not here, no.

Mr PETER MORRIS—You have got foreign shipping on one hand. You think rail is cheaper, so you prefer to use more rail. Then in the submission you say that road—this is the point that Mr McArthur also made—does not pay enough. Then you draw attention to the inconsistency of it. It would help if we had some suggestions. We are ordinary mortals. You are doing it; we are just looking at it. If you do not have an answer, the last thing I want to ask you is about TNT. If we go back a few years and look at the role and practices of road transport in relation to charges, and the decision for very heavy fines paid by TNT as a result of the ACCC decisions, is there any evidence of that now? Everything is squeaky clean? There is no collusion? There is no collaboration on charges?

Mr Eggleston—I cannot talk on behalf of TNT.

Mr PETER MORRIS—No, I am talking about the present players. You are the largest operator?

Mr Eggleston—Definitely not.

Mr PETER MORRIS—TNT was one of them. You know the other companies that were involved; they do not have a very good history about charges. We are hearing a lot about costs here.

CHAIR—With great respect, is that relevant to the new operator?

Mr PETER MORRIS—Yes, it is; it is the same industry. I am not suggesting that you are doing it. I am saying 'In your knowledge of the remainder of the industry'.

Mr Ludeke—I am certainly not aware of it.

Mr Eggleston—Definitely not.

Mr PETER MORRIS—Good. I do not want Professor Fels making comments about it.

CHAIR—Before moving away from this area, I have a couple of points on access. You say in your submission that you think things are less effective with the ARTC. Given all the state authorities, why do you make that statement? Are you saying that the ARTC is not taking over the role effectively or that the states are not surrendering sufficient control to ARTC? What was the meaning of that comment?

Mr Eggleston—Perhaps I could say that we are yet to see it implemented, it is yet to start, but certainly a lot of hard work has been done to get it up and started, and hopefully it will be the 1 July start date as committed to earlier. But I would suggest that the body to be in charge will still have to deal with the respective state systems—for example, New South Wales and Western Australia. Firstly, it is an additional cost, which no doubt will be passed on back to the industry.

CHAIR—Yes, another layer of operational bureaucracy.

Mr Eggleston—Correct. Secondly, it then will be weighed up with other people's requests and may be put in some sort of prioritised issue that you do not have any input with.

CHAIR—Pursuing that, let us say that you could get some form of dedicated freight loop around the back of Sydney and that the states then surrendered that access on that main line from Brisbane to Perth—really surrendered it.

Mr Eggleston—It should be one body, I totally agree.

CHAIR—Do you think it would work then?

Mr Eggleston—Yes.

CHAIR—You make another comment that state initiatives in the name of competition principles actually make competition more difficult. Can you just spell that out a bit more?

Mr Eggleston—Can you refer me to where I have made that comment?

CHAIR—I have it in our documents on page 581. It is a direct quote. It states, ‘State initiatives in the name of competition principles actually make competition more difficult.’ What I am getting at is: in what way are the states perverting genuine competition, if that is the inference? We just do not quite get your drift there. Also, is that comment made in respect of both vertically integrated and desegregated rail systems or is it peculiar to one or the other or both?

Mr Eggleston—I am just trying to do this back from our submission in July. If I could highlight there and just take, for example, terminal and rail access: are they combined or are they separate? If we take Victoria—and this was raised earlier—we still do not understand where the decision will go as to whether the terminal will become part or will not be part of the sale process. Yet, in the current corporatised structure that V-Line put in as of 1 July last year, terminals were going to be part of the track access—and, in fact, I think it has been structured accordingly.

But now we are to have a change again within maybe 18 months, with privatisation coming through, and there could be a totally different approach to it yet again. This is making it very, very difficult for us to make investment decisions as to where we are going with our own operation. That is by way of an example to the way I read that.

CHAIR—In your long haul freight operations, do you find that the state initiatives in the name of competition actually lead to competition?

Mr Eggleston—State initiatives?

CHAIR—I am asking the same question of you in terms of your long haul freight operations. Is the answer the same—that it gets down to terminals and the like?

Mr Ludeke—I think it would be fairly similar. At the end of the day, if we could have uniform regulations—whether for road or rail—one body, lower costs to run trains or roads or whatever, that is the way we have to go in this country.

Mr Eggleston—I would just add, though, that I think the one that is right on the plate at the moment is the safety accreditation. As I have highlighted in this add-on report, each state is driving their own agenda for a safety and accreditation situation, where it really should only be one body. There will be a cost implicated in each state and an operation requirement to which we will have to adhere to try to get a train from A to Z—instead of there being one body.

Mr McARTHUR—Could we just be clear on this terminal. Would you observe that the terminals could prevent you from operating if they came under the control of one entity, if National Rail became—

Mr Eggleston—It is a possibility.

Mr McARTHUR—If they excluded you, what would happen to your operation then?

Mr Eggleston—It would stop.

Mr McARTHUR—Are you prepared to add to that a fraction?

Mr Eggleston—No, it is as simple as that. That is why—and I probably did not make myself clear earlier—the implication of the V-Line Freight sale and our contract renewal is that there will be a six-month clause put into the new contract that the new owner has the right to cease the contract. It would be as simple as that. It would cease our business because, once again and repeating, there are no roads or terminals in Melbourne that you can turn to as alternatives outside the terminal that National Rail has; hence our comment that it become a general purpose terminal rather than be sold in the National Rail process.

Mr McARTHUR—What would happen to you in the scenario if V-Line Freight were sold to a big consortium who then bought National Rail? What would you think of that outcome?

Mr Ludeke—It all depends on who the consortium is.

Mr McARTHUR—Say they were big enough to take both operations: they would then control the terminals, North Dynon and South Dynon, and the track and the rolling stock of V-Line Freight and they would have the apex of National Rail east-west.

Mr Eggleston—If they were the right people, they would be looking to make a commercial response out of that. As was suggested earlier, the place does not need three, four or five terminals. If you are going to get efficiency and return to make that a commercial venture, you would want to utilise that asset as best as possible. They would be looking for our business to go through it at a commercial rate.

Mr Ludeke—If they were attempting to exclude Tolls, we would run our own trains.

Mr McARTHUR—How, if you have not got the terminal? That is the point of the chairman's question.

Mr Ludeke—No, we do have access to terminals now in certain locations.

Mr McARTHUR—So you are saying to the committee that, even if somebody prevented you from getting some of the terminals, you would get from east to west and north to south; you would have enough access to make your own terminal, to make a point?

Mr Ludeke—We have terminal infrastructure in Brisbane, we have terminal infrastructure in Perth and we have access to a terminal in South Australia, which is Gillman. I think we should get access to Islington. But, taking up Colin's point, my view is that Dynon should be open to all users of rail.

Mr PETER MORRIS—Like a common usage level.

Mr Ludeke—That is right.

Mr McARTHUR—Are you making that recommendation fairly strongly to the committee?

Mr Ludeke—Definitely.

Mr Eggleston—And we did in the first submission too.

Mr WILLIS—You have been critical of the access charge and rates that you will be varying. What do you think the basis of access charging should be?

Mr Eggleston—In the structure or just what the cost—

Mr WILLIS—On what basis should an access charge be decided? What cost should it be seeking to cover?

Mr Eggleston—I would be seeking the cost of running over that piece of track on an ongoing basis as against trying to have recovery costs of a run-down system being brought up to a standard. If you take it at a standard and start from that, then the actual cost of running over that piece of track.

Mr WILLIS—The incremental cost of just having another operator run down that track, I suppose, is probably fairly small, and then at the other end you have the possibility of contribution to the fixed cost of the whole operation and the return on capital, et cetera, which is the maximum level back in New South Wales.

Mr Eggleston—Yes, but you have to have it at a standard to start with rather than what we think would be the industry having to bring it up to that standard to be able to operate. It is a neglected business that has been run down for the last 50 to 60 years. I am very concerned that we start at a standard and then go for full cost recovery.

Mr WILLIS—But we are not starting at a standard. We are starting at a very low standard at the moment.

Mr Eggleston—And that is the huge task in front us.

Mr WILLIS—So, in that circumstance, given that built tracks everywhere need a lot of upgrading, what is your view of what the access charge should be? Should it be just covering incremental costs or should it be making a contribution towards the need to upgrade the track?

Mr Eggleston—To me, not on recovery. It should be at the standard to start with and then on a recovery—

Mr WILLIS—But it has got the standard to start with.

Mr Eggleston—I understand that—therefore it will require funding to bring it up.

Mr WILLIS—From where? From the access charge or from somewhere else?

Mr Eggleston—Somewhere else.

Mr WILLIS—You said at the bottom of the second page of your submission that funds from the access charge should be used by the government for the improvement of infrastructure. If the access charge is just covering the minimum costs involved with an additional operator, there is not going to be any contribution coming from the access charge to improve the infrastructure.

Mr Eggleston—We have no idea what the costs at the moment bear relevance to. You are talking about improvements like putting in another passing siding or the easing of curvature or the improvement of access to terminals, et cetera. But I am talking about bringing it back up to a standard so you do not have these speed limitations that are currently in vogue and that affect the transit time between the two points. I am talking about getting that back to a standard. They are two separate issues.

Mr WILLIS—They are not two separate issues for us; we are in the situation where we are looking at a system which everyone recognises is badly in need of investment to bring the track up to anything remotely resembling world's best practice. The question is: where is that money coming from? You seem to be saying that it should not be coming from access charges; it should be coming from somewhere else. Is that right?

Mr Eggleston—Correct.

Mr Ludeke—I think Colin is saying that we should not have to bear the cost of bringing track up to a certain standard when for 50 or 60 years it has been in a state of neglect. Why should we, who want to start running our own trains now, have to bear the cost of bringing it up to that level? We are prepared to pay a reasonable cost from now on to maintain the track at a certain level so that we can increase speed, for example, on certain corridors. But we should not have to bear the cost of bringing the track up to a level to make it economically viable.

Mr WILLIS—Okay. It has been put to us that in New Zealand the success of rail has been very much based on the fact that there was a move in road charging to a mass-distance basis which has a much higher rate for trucks than applies in this country. That has made rail a much more competitive operation and New Zealand Rail apparently has quite a successful business. What is your view of implementing such a proposal in Australia?

Mr Ludeke—Are we talking about the same sorts of scenarios?

Mr WILLIS—We are talking about implementing a similar sort of system to that in New Zealand.

Mr Ludeke—Putting on my road hat for a moment, I think that we bear a fair amount of cost in terms of registration and taxes for road vehicles as it is at the moment.

Mr McARTHUR—Nowhere near the total.

Mr WILLIS—BTCE showed quite clearly that for large trucks the charges are nowhere near the costs that they are imposing on the highway, let alone externalities.

Mr Ludeke—We could debate that; we think the charges are fairly substantial at the moment.

Mr WILLIS—So you are not in favour of improving the competitiveness of rail by making trucks pay a reasonable charge?

Mr Ludeke—Toll is looking at integrating road and rail more in this country. We are talking to major customers and saying that we will move large volumes from their manufacturing site to the railhead—so we are really combining road and rail—and then move large volumes by rail. We are trying to integrate the road-rail system in this country.

Mr WILLIS—I understand that. But the economics of rail is obviously very much influenced by whatever charging regime is there for road. Road basically has a free infrastructure—a state of the art highway in many places these days.

Mr Ludeke—We do not have time to debate this at the moment, do we?

Mr WILLIS—It is at the heart of the debate for us.

Mr Ludeke—We bear a fair sort of burden in terms of registration costs and taxes for road vehicles at the moment.

Mr WILLIS—No way. Okay, we will leave it at that.

CHAIR—Thank you very much for your evidence today. Could you please let the secretariat have the extra papers that someone asked for? Thank you.

[9.25 a.m.]

OGG, Mr Terence Geoffrey, Chief Executive, Railway Services Authority, Level 14, Pacific Power Building, 201 Elizabeth Street, Sydney, New South Wales 2001

CHAIR—Mr Ogg, you realise that, although you are not under oath, these proceedings carry the same weight as those of the parliament and are entitled to be treated with the same respect?

Mr Ogg—Indeed, Mr Chairman.

CHAIR—We are a little surprised that your organisation did not put in a written submission. Was there some reason for that?

Mr Ogg—Being at the end of the food chain, as it were, in terms of the rail business and not having a business directly associated with the determinations this committee is going to make, and indeed being an authority without a board directly responsible to the New South Wales minister, and knowing that the Department of Transport and the minister had made ample submissions, we felt that we need not therefore put in an independent submission. There are, however, matters I am delighted to discuss and I will raise those issues in my opening statement, if I may.

CHAIR—Would you like to give an opening statement? In your instance, you might need a bit more than three minutes because you have no written statement, but please keep it reasonably short so we can allow maximum time for questions.

Mr Ogg—Certainly. I would like to thank the committee for the opportunity to appear before it and to present this brief opening statement. Railway Services Authority is a statutory authority of the government of New South Wales. It came into being on 1 July 1996, following the disaggregation of the old State Rail Authority. It will, from 1 July this year, be a statutory state owned corporation. The legislation seeking to establish it as a corporation has passed the third reading in the lower house and has gone to the upper house. It is supported by the opposition and it has been moved by the government.

I have not prepared a formal submission. However, matters being considered are vital to RSA. Our business is almost entirely dependent upon works and services supplied to New South Wales Rail. We have expanded beyond rail; we undertake line maintenance in the Hunter Valley and maintenance tasks in the power industry. We have also expanded nationally: we are working in Victoria, Queensland, and Western Australia. Internationally, we have had 22-odd people in Hong Kong on contracts since November. Those contracts are coming to an end. We expect to have some contracts renewed and to be pursuing additional works in Hong Kong.

The size of our business is substantial. Our revenue is approximately $700 million, our gross assets are around $420 million, our net assets are $215 million and we have 5,500 employees. There has been, since our formation 20 months ago, an extensive and successful business improvement program under way within the organisation. Realised savings are approximately $150 million in two years in maintenance in New South Wales. We are planning to deliver a further $35 million in efficiency gains in 1998-99. If we are successful in that $35 million efficiency gain, we will have reduced the infrastructure maintenance spend from approximately $670 million, which was our target on 1 July 1996, to around $520 million in 1998-99.

We have certainly assisted our client Rail Access Corporation, the owner of the essential rail infrastructure in New South Wales, to shift its spending from routine major periodic maintenance to capital investment projects. Indeed, the mix of our business in 1998-99 shows a quite dramatic shift towards capital investment projects. We are on track to deliver over $1 billion in savings in just over six years. The savings have been achieved by research, development and implementation of projects focused on doing things better. Less than a third of the savings have come from work force redundancies. In other words, more than $100 million of savings has come from changing policies, processes and practices and less than $50 million has come from downsizing.

The key issues for RSA as a business are, first of all, reasonable job security for its work force; second, commitment to regional development; third, capitalising on our core competencies to create and grow a new business enterprise; fourth, using size and scale to direct our activities into selected international markets; fifth, demonstrating that a business owned by government can achieve the objectives set by its owners for the benefit of the people of New South Wales; and sixth, delivering a viable, safe and reliable rail system. RSA's vision is simple: we want to survive and grow. It is an organisational vision but it is also a personal vision. Each and every one of us wants to do just that: survive and grow. Importantly, we also want it for others. We want to see our kids survive and grow, we want to see our communities survive and grow and we want to see our nation survive and grow. We want to see our customers, our suppliers, our stakeholders and, most importantly, our work force survive and grow. The $150 million in savings made to date helps our organisation to do that, to survive and grow. We can deliver efficiencies, we can reduce the cost of rail infrastructure maintenance without impacting on safety, availability and reliability. The $150 million in savings is available to assist our community survive and grow. It can be spent on hospitals, schools and upgrading land transport infrastructure.

RSA's vision, as I said, is simple: we want to survive and grow. Our mission is to become Australia's leading asset management contractor. We want to extend our services to other owners of major systems of assets: power, roads, mining and water. We believe the competencies we have can assist power companies, mining companies and water companies to lower the cost of maintaining their assets. That helps them to survive and grow while at the same time helping us to do the same thing.

The vast bulk of our revenues in the next three to five years will come from rail. Our problem is that the competitiveness of rail has suffered over the past 40 years as there has not been any significant development of the rail network. It follows the same paths that were laid for it over 100 years ago. I welcome efforts by governments at all levels to view rail as a component of land transport and to investigate ways of ensuring that rail can and will continue to play a role in land transport.

Once again, Mr Chairman, thank you for the opportunity to meet with you to discuss these and other issues. Many of the issues, such as suspension of contestability for rail infrastructure maintenance contracts in New South Wales, have been raised with others that have been called as witnesses before this committee. I am happy to answer questions on any of the matters I have spoken about or other matters that have been raised in discussions with other witnesses.

CHAIR—Could I take you up on the statement you made that nothing has happened in rail for 40 years. Quite frankly, it was available to your masters at any stage to do something about that, even before the disaggregation of New South Wales Railways. Now the Commonwealth is beset with the problem of trying to get some sort of efficiency back into the rail system or to investigate how that might best occur. Certainly there is quite a bit of evidence of the need for the Commonwealth to participate. How would it be most effective from your perspective, especially in infrastructure maintenance? Where do you see the Commonwealth participating?

Mr Ogg—On the opening statement that you made about, 'I have been up to my masters to do something about it,' I have only been in rail for two years. I have been in the private sector. My background is in finance journalism and investment banking. The way in which you asked the question—forgive me, please—is part of the problem. I do not see this is as a state-Commonwealth fight. I see it as a land transport mode which has been neglected for a variety of reasons, partly because over 30 or 40 odd years it has been inefficiently managed as a business—and I can understand the lack of willingness to invest.

At the same time, we have had major shifts in the economy of the state. Rail was vital to the economic growth and development of the state and, indeed, the nation. We have seen massive movement in the economic drivers for the nation and the state from the rural hinterland to the coastal areas, particularly the major cities. We have seen the growth of one and two motor vehicle families. Not only have we seen almost no investment in the major section of the track—that is the bit between, say, Sydney and Melbourne or Sydney and Brisbane—but we have not seen anywhere near the sort of investment in the interchange areas, the yards, that a competitive environment may have created.

I can remember back in 1973 being taken by TNT to see their interchange operation in Sydney where you have got local couriers meeting overnight trucks. I can remember going down and seeing the Darling Harbour goods yard at exactly the same time. I can remember going and seeing the Cooks River goods yard at exactly the same time. At that time, when TNT had conveyor belts and an excellent facility, the station master, as he still was at Cooks River, had a receiving dock that had been built in 1930. He had a used or a recycled carriage as his office. He had a bicycle to get around his 25 acres. He had a phone in his office and he had another phone down the other end of the facility. I think there have been a lot of decisions made over 40 years that have militated against the growth and development of an efficient rail system by a variety of people: Commonwealth and local.

CHAIR—You in particular in your role are going to be central to whether the whole system works in this respect, that unless things move efficiently around Sydney the whole system from Brisbane to Perth is in jeopardy. How is your upgrade, for example, of the Chullora terminal proceeding?

Mr Ogg—At the Chullora terminal, which is a National Rail facility, the Rail Access Corporation are connecting that to the main line. We have certainly tendered for both works. We hope to win both works. We will have those works completed within a very short time frame, if we win both works. Certainly we will be tendering at an efficient cost. As I mentioned in my opening statement, we have reduced rail maintenance costs by $150 million, which is roughly 25 per cent, in just two years. We can see further cuts coming.

CHAIR—Are you under some sort of pressure in that field? In the *Financial Review* of 11 February it was reported that, because of private sector competition for maintenance contracts worth about half a million dollars, they had been suspended because the RSA had won only one of the three contracts. Why did the RSA win only one and what maintenance does the RSA carry out at present for the RAC?

Mr Ogg—We carry out maintenance on 10 of the 13 contract bundles. You had better ask RAC the reason for our loss of those three contracts. Our understanding of the reason for the loss is that there were between 18 and 22 criteria on which we were judged.

Prices was one; others were safety, reliability, our financial track record, our management information systems, our reporting systems and experience in contract management. Because we were created on 1 July 1996, in our first year we relied on the systems we inherited from the State Rail Authority until we could implement our own management information systems—they are now eight or nine months old—and we were not getting the marks that some of the private sector organisations had been achieving in management information systems. It is quite understandable. They had been in business, some of them for 150 years with management systems that date back and have been progressively upgraded to enable them to meet the task.

CHAIR—What is the modus operandi? You are responsible for infrastructure maintenance, yet if there is a major contract it goes out to tender. Is that the idea?

Mr Ogg—No. In the months leading up to the disaggregation of the SRA, we signed 13 deeds of agreement with Rail Access Corporation which cover 12 geographic areas of the state of New South Wales and one state-wide area to do with systems—signalling and systems upgrades.

CHAIR—What about the track?

Mr Ogg—The track is part of the 12 contract bundles. Three of those contract bundles have been put out to tender. Two have been won by Fluor Daniel and one has been won by a joint venture in which RSA has a 60 per cent interest and Thiess Contractors has a 40 per cent interest, which was the Richmond to Blacktown line. So we do all of the design, maintenance and construction for rail infrastructure in New South Wales. We are doing design and construction in Victoria, maintenance in Queensland, consulting works in Western Australia and signalling installation and commissioning in Hong Kong. We have recently tendered for work for Track Access in South Australia.

CHAIR—All the evidence shows that New South Wales is a bottleneck both administratively and operationally. Are you satisfied with the condition of the track between Sydney and Albury?

Mr Ogg—The track between Sydney and Albury could be straightened. If you had a different lineament you could get trains down there a lot faster. If you are not going to change the lineament, the condition of the track is in fact fit for purpose: it has concrete sleepers, well-tied track, the rail weight has been upgraded over time, there are no speed restrictions that I can recall on that main line segment at the moment so trains are capable of operating at speed. It is not capable of handling the 1,500 metre trains that National Rail want to run. We have to put in extended passing loops along that segment to ensure that you get efficient use of that particular track.

CHAIR—Is that being planned for now?

Mr Ogg—That is being planned for. There are some difficulties between Rail Access and National Rail as to how that is going to be funded. I would be delighted if they could resolve those issues so I could make money building it for them.

Mr McARTHUR—What is your impression of the track on the other side of the border—from Albury down to Seymour?

Mr Ogg—Forgive me; I am an economist, not an engineer. My understanding is that in the whole of New South Wales one per cent of the track is affected by speed restrictions; in Victoria it is somewhere between 25 and 30 per cent. It is a fairly telling statistic.

CHAIR—What about access around Sydney? We hear of dire problems arising for the Olympic Games. I understand that you are negotiating with the Commonwealth at present for freight access around Sydney. What is the status of that?

Mr Ogg—My organisation does not negotiate with the Commonwealth; Rail Access Corporation does. We certainly undertake rail works and services for Rail Access. As far as the freight flyover at Flemington is concerned, we have started work on the design for that. We have certainly accelerated our participation in that.

CHAIR—What is the estimated cost of that?

Mr Ogg—The estimated cost of that particular one is somewhere between $30 million and $35 million.

We completed the laying of the track for the Olympic loop; we completed the junction to get the trains in and out. All that was completed ahead of time and just on budget—it was slightly below budget in fact. When the Olympic trains were running, I think everybody will say, it was an unqualified success; they actually got up to 28 trains an hour through the loop for about an hour, so they were running at design capacity.

CHAIR—I don’t think we doubt that for a second. I think our concern is that there is already difficulty in getting freight around Sydney and, more particularly, it is going to get worse as we approach the year 2000. We spoke earlier about the weak link between Brisbane and Perth being New South Wales, particularly around Sydney. My question was more particularly what you have in hand to address that and you say that that question should—

Mr Ogg—Rail Access is the owner of the infrastructure; I am merely the contractor. We are having discussions daily with Rail Access Corporation as to what projects may be of value to the infrastructure, the state, in order to get those completed. Certainly the dedicated freight path through Sydney metrop is vital for efficient delivery of freight. The high speed rail link between Sydney and Canberra will be good to move people between those two capitals. The airport link, the tunnel, is going to deliver significant and efficient transport between Kingsford Smith and the city. We would be delighted if the funding of a dedicated rail path through Sydney—not only around it but into it, so that you can get movement of freight from the collection points out of the city through the peak hour—were done. Again, it comes back to the point that my business depends upon the efficient and available rail as a vital part of the land transport mode. The more we have, the better; but I am not in a position to dictate to Rail Access or to government what they should do.

Mr LINDSAY—In your opening remarks you listed some of what I thought were goals; they may not have been goals, they may have been something else. But they were a series of six points. The first point was job security for your employees. You went though items such as ‘using size and scale’ and ‘demonstrating that a business owned by government can achieve the objectives set by its owners’, and your last point was: ‘deliver a viable, safe and reliable rail system’. Is there something wrong about the psychology of the order in which those items are placed. Shouldn’t No. 6 be up at No. 1?

Mr Ogg—From my perspective, my business is a contracting business. We get no money from government. We earn all our money from the contracts we win, and those contracts have a certain maturity date. Therefore, looking after the 5,500 people and the families that depend on those incomes is something that I am very conscious of. A safe and reliable rail system is something I am also very conscious of, but my organisation at the moment has a relatively demoralised work force, a work force that has been going through change now for over 12 years: there were 42,000 people employed in New South Wales rail 12 years ago; there are now less than 20,000. It has had a huge impact on individuals and rural communities. Therefore, I think that focusing on the morale of my work force is quite important to my business. Those people, those individuals, are the core competencies of my business. Their skills, in individuals and in combination, are what I use to generate my revenues. Therefore, making sure that I keep those skills and I look after those people and that I employ them in such a way that does not increase the stress that the situation they are going through already engenders for them and their families is a vital business consideration to me, as well as a proper personal goal for any chief executive.

Mr LINDSAY—I was interested that you are contracting maintenance in Queensland. What sorts of work and who do you work for?

Mr Ogg—We work for Queensland Rail. It is a contract that maintains the standard gauge from border loop, which is the loop just this side of the Queensland border, into Brisbane itself. It is about a $2 million contract for us and it employs about 12 to 14 people.

Mr LINDSAY—Is that because the signalling systems are common to New South Wales and not related to whatever Queensland uses?

Mr Ogg—It is more to do with the fact that we are already up in the region and we have equipment that can handle it, because it is standard gauge stuff and our equipment can run straight through it, but it is also due to the fact that we are quite efficient maintainers of track.

Mr LINDSAY—Was it your organisation that attracted some attention on *A Current Affair* recently?

Mr Ogg—*A Current Affair* focused on the condition of the New South Wales track. My organisation is the maintainer of it. Rail Access is the owner of it. So to that extent, yes.

Mr LINDSAY—Were you asked to comment on it?

Mr Ogg—No, I was not.

Mr LINDSAY—Where you see track in a degraded condition—your maintenance people say, 'This is in a degraded condition'—what is the mechanism for going back to whoever pays for having that fixed to say, 'Look, we really should do something about this'?

Mr Ogg—First of all, we lay down the standard: what should the track look like? Is it fit for purpose? We do it via a five-year asset management plan and via a one-year technical maintenance plan. That outlays a program of work to be done. It is coincidence, I suppose, but the segment of track shown in the first program, which was the main line track just north of Goulburn around Marulan, is part of a segment of track which is going to have 61,000 sleepers placed in it with a program beginning in June. So that program was showing some sleepers that are in fact 20 years old. They are wooden sleepers and they are about to be replaced. They are replaced on a rolling five-year cycle where you do roughly one sleeper every five years so that the track is tied and tied efficiently.

So we have the program that we follow using asset management plans which are based on track condition assessments by our track recording vehicles. We have technical maintenance plans which focus on the next 12 months. We have inspectors going out inspecting the track—either walking it or doing front of cab inspections. In the metrop it is twice a week. Any issues or problems that they see, they mark. We have just introduced portable data loggers so our people walking out there can log those electronically. Those become work orders, which get prioritised. Some of those things that people see are not things which need to be done immediately but they need to be watched. So we put them on what we would call a check list or a watch list. Each time inspectors go out, they know where those things are and they inspect them again to make sure there has been no deterioration.

If there has been deterioration, our inspectors have the capacity to call for emergency repairs, to put speed restrictions on or indeed to stop trains. For example, if our inspectors found a broken rail they would simply stop trains or put on speed restrictions until that rail was fixed. That rail would be fixed instantly. So there is a whole variety of responses built into the maintenance regime, and agreed, discussed and negotiated with our client, Rail Access Corporation.

Mr LINDSAY—Where is the boundary between the rolling stock and its impact on the infrastructure and the control of the safety of the rolling stock and so on in terms of what you do?

Mr Ogg—We are very interested in what we call the rail-wheel interface because a lot of issues exist at that rail-wheel interface. We have a number of mechanisms dealing with it, like grinding the profile of the rail to improve the wear of the rail, et cetera. We are involved in rail wheel meetings with Rail Access Corporation. The access agreements certainly specify what operators have to do in terms of wheels, wheel profiles, et cetera, and there are penalties for flat wheels.

The issue is being managed. There is research going into rail-wheel interface. Certainly our technical services group does what we call a scan of international literature and presents its findings once every six months to Rail Access Corporation. Rail interface is a prime area that we are looking at. There are a lot more things that we can do, but again the issue is: how much money is available for the work that needs to be done? We would like to see a lot more money spent on the track, but we have to balance that against what the community can afford.

Mr WILLIS—With the suspension of private sector competition for 12 months, was that something that the RSA sought?

Mr Ogg—It was not something that the RSA sought, but we certainly welcomed it when it occurred. I think I agreed with the New South Wales Premier, who stated at a press conference that he did not want to put 4,000 jobs at risk to a burst of misplaced economic rationalism.

Mr WILLIS—Why was it misplaced?

Mr Ogg—I think the focus was more on how one could manage the reporting and financial requirements of a contractor doing work on a track than on how one got the best efficiency gains out of delivering safety and delivering maintenance in New South Wales. If you look at the total cost to government of efficiency gains, you have to include in that the cost of redundancies—and the costs of redundancies for the individual, for the family, and for the community are quite substantial. Those were not being factored into any of the gains. I think the suspension of the contestability program gives an opportunity for those things to be considered. So when contestability resumes on 1 July next year they will be considered.

Mr WILLIS—What is being done in the interim to make RSA more competitive with private sector competitors?

Mr Ogg—As I said in my introduction, we have already saved $150 million—

Mr WILLIS—That was not good enough to enable you to win those contracts.

Mr Ogg—We will be saving a further $35 million. We implemented a new management information system on 1 July last year. We still rely on hardware owned by the State Rail Authority to run the software and the program. We will be moving that to a private sector supplier. We will be upgrading those management information systems. We are changing the structure of our organisation from one which was essentially a geographic based organisation to one which is more attuned to the needs of our client, using a thing called the resource contract model. And that will line our processes up with the needs of our client, which, we think, will make significant further efficiencies in areas of administration, management of payroll, and procurement, and enable us to implement some very up-to-date approaches to project and contract management using standardised work breakdown structures and other things.

We are also embarked on what I would call a research and development program using reliability centre maintenance and other maintenance statistical techniques. The application of those techniques two to three years ago in the Sydney metropolitan area saved SRA $30 million and won my organisation the inaugural maintenance industry excellence award given by the Institute of Engineers in April 1996. There are a lot of things that have been done. There are a lot of things we are currently doing which are building on the things that we have done.

At the end of the day cost savings are really asymptotic. They are not constantly declining. Once you get to the efficient frontier, it becomes very difficult to move beyond it. By getting the costs down to around $500 million with no change in the scope of works for New South Wales, we are on a glide path to achieve a billion dollars worth of savings in just over six years.

I would be delighted if state and federal governments would say that half that money could be spent on enhancing the New South Wales rail infrastructure. That would be more jobs for my people. It would improve the rail infrastructure and benefit the country as a whole.

Mr WILLIS—Once competition resumes, does that mean that all of the business that you have is open for competition with the private sector, or are there reserved areas?

Mr Ogg—There are no reserved areas. All my business is open to competition.

Mr WILLIS—In terms of your work force which you are showing some concern about maintaining, do you see the future as being one in which you can maintain a work force of that order, or is it inevitable that there will be some decline over time?

Mr Ogg—It depends upon how successful we are in, first of all, winning contracts in rail and, secondly, diversifying our business into road, power and water. The competencies that we have maintaining bridges, culverts and embankments are just as relevant to road as they are to rail, because those things are part of the road infrastructure. We already maintain the largest power distribution network in Australia, that is, the Sydney metropolitan electrified system. We do an awful lot of work in the stormwater area because we seek to prevent the infrastructure from being inundated. So we have skills and competencies in those areas.

Those three areas are also diversified throughout New South Wales. There is an opportunity, if we can, to win contracts in other parts of New South Wales which will enable us to keep those people employed. It takes a fair bit of effort. We have had some limited success to date and we will be directing greater efforts in that area over the next 12 months.

Mr WILLIS—I thought you said in your opening statement that you were not on a corporate basis at this stage and that you simply reported directly to the minister. Do I understand from that that there is no corporate business structure in place and there is no board of directors with a whole corporate logo or corporate arrangement?

Mr Ogg—At the moment we do not have a board of directors. As CE, I report directly to the minister. However, in order to try to achieve proper corporate governance, I have established procedures; what I would call an internal or executive board of my directors report. We meet monthly. We have a telephone hook-up every Monday. We certainly instituted risk management practices. One of the first things that was done in fact was a major review of our risks and understanding how they were being managed.

There is proper reporting to that executive board.

My concern—which is now being addressed in our incorporation—is that there is no external governance that one would get by having in place directors of national and international calibre and standing to assist in the growth, development and governance of the business, and to ensure that our strategy and mechanisms for delivering that strategy are in keeping with the business environment in which we operate. But that is being addressed through the corporatisation process.

Mr WILLIS—Is that applying to all of the other divisions of the old SRA as well?

Mr Ogg—We are the only one that did not have a board when we were formed. The SRA is an authority with a board. The Rail Access Corporation and FreightCorp are both corporations set up under the State Owned Corporations Act.

Mr WILLIS—Why were you left without such a structure?

Mr Ogg—I think you would have to ask the bureaucrats for a response there.

Mr McARTHUR—My question was along the line of the one Mr Willis raised. Can I continue that line of discussion. I find it surprising that there was some political interference to make the change on the tendering. When the new process comes up for review, you are saying that it will be next year, 1999?

Mr Ogg—The cabinet minute states that contestability will resume on 1 July 1999.

Mr McARTHUR—What happens if your group does not achieve any contracts under the new process? Is the process of tendering for maintenance work fair and is there a system of selective tendering where the tenderers are known to be capable of doing the work?

Mr Ogg—Let me answer those three questions and if I miss one please correct me. The first one I will look at is what happens with contestability when it restarts. That is going to be entirely up to the processes that are put in place between now and then. It is very much in the hands of Rail Access Corporation and the state government. I do not see any reason why it will not resume on 1 July.

What happens if we do not win contracts? For two years and two weeks I have been acting CEO of this organisation. I have been saying since I have been in that chair that job security is based on the revenue that the business generates. If we have no revenue our costs have to be zero and therefore our work force has to be zero. That is a message that very clearly got out to all the people that work for this organisation. We are aggressively bidding for work. We have won $150 million worth of work in our first 18 months outside the work that was given to us through the deeds of agreement.

We have proved that we are competitive with the private sector; indeed, some of my private sector competitors are complaining that we are too competitive. That is an issue for them. We were one of three on a short list for work for track access. It is a pity because it was $150 million over roughly five years. That has gone to one of my private sector competitors, I presume because their price and their service guarantee were better than mine. I do not question or challenge that. It is the right of the owner to make that decision, the same as it is the right of the owner in New South Wales to make the same decision.

Contestability was not just stopped in New South Wales. We registered our interest for maintenance contracts in Victoria and two to three weeks after contestability stopped in New South Wales it also stopped in Victoria, for totally different reasons, but it did stop in Victoria. Again, I do not dispute the rights of governments to change their minds and owners to make decisions regarding which supplier they wish to choose.

Mr McARTHUR—Selective tendering was the other one.

Mr Ogg—The way in which the process operated in New South Wales was that Rail Access Corporation went out around the world to encourage interest in the rail infrastructure maintenance work in New South Wales. It attracted a lot of interest from international organisations. Consortia have been formed by other state rail organisations and international organisations, and the competition for rail infrastructure maintenance in New South Wales is probably the most aggressive of anywhere in the world.

What Rail Access did was, having encouraged a lot of interest, ask for expressions of interest from people who wished to participate. The first expression of interest got something like 23 responses. That was whittled down to a short list of four plus the Railway Services Authority which, as the incumbent contractor, went through the expression of interest process direct to the request for proposal process. We then submitted requests for proposals which were very detailed and long. Rail Access made its decision based on its evaluation of some 18 to 22 different criteria which mapped back to its corporate objectives. We would expect a similar sort of process when it starts again.

Mr McARTHUR—Are you telling the committee, though, that you are happy with the fact that the people you were competing with had the ability to do the job and it was fair and genuine competition that you had between like groups looking for the work?

Mr Ogg—Each of the parties have their strengths and weaknesses in terms of what it is they bring to the table when they put in a tender. We brought to the table our existing work force, our plant and equipment, and our skills and knowledge of the track. No other party could bring that. They brought to the table other things such as private sector contracting experience, management information systems that were more advanced than ours, et cetera.

The competition, if you like, took place on two different levels. It became a judgment that the owner had to make. We had the plant, the equipment, the people, the skills and the knowledge; others did not but they had the management information systems, the contracting knowledge and experience, et cetera. When you went through the 18 items, you added up a number and somebody won.

Mr McARTHUR—But in the broad, you were happy that the process was fair?

Mr Ogg—The process was fair. It was reviewed by ICAC in New South Wales; it had independent observers. The process itself was a fair process.

Mr McARTHUR—Come 1999, would you be happy to be involved in all that again?

Mr Ogg—We would be delighted. Hopefully we can do it with less cost.

Mr WILLIS—Why did ICAC review the process?

Mr Ogg—I think it was just to make sure that it was a process which met all the criteria of public procurement, because the letting of contracts for rail infrastructure maintenance was quite a massive public procurement process.

Mr WILLIS—Was there some suggestion of corruption?

Mr Ogg—No. It was just to make sure that it did meet all the appropriate guidelines.

Mr PETER MORRIS—It was good insurance.

Mr McDOUGALL—Mr Ogg, you said a while ago that one per cent of the track in New South Wales is subject to speed restrictions. In reading from RAC, I believe that they are of the opinion that the upgrading of the rail network in the Melbourne to Brisbane corridor would make rail freight more attractive. They have said that this includes $450 million for a freight line path across Sydney and, I believe, some other $30 million project with National Rail somewhere along the track. We have taken evidence from potential private operators who say that if the track were in better condition and you could move a train faster then the reality of operating freight trains—more freight movement—through that corridor from Melbourne to Brisbane would be viable, and competitive with road. So, based on that information, what is the average speed of a freight train from the Victorian border to the Queensland border? What does it need to be to compete with road and, to achieve that, what do you believe is the cost of the upgrading of existing infrastructure and the new work to be able to get that speed up to achieve that goal?

Mr Ogg—Thank you very much for the question. I would like to take it on notice and get back with the detailed information, but let me give you some indicative numbers now. The average speed on that corridor, bearing in mind that you occasionally have to park trains to allow others to pass, is somewhere in the order of 40 kilometres to 50 kilometres an hour. If you get a good smooth run at track speed, you could average somewhere around 65 kilometres to 70 kilometres on that track. There are parts of it where you will have track speed higher than that, but there are lots of curves, particularly on the part between Sydney and Brisbane.

What would it cost to upgrade? I think $12 billion is being spent on the Pacific Highway between Sydney and Brisbane, and that is after about $5 billion has already been spent on it. I reckon that if you spent half of that you would have the infrastructure capable of handling average speeds for trains somewhere around the 70 kilometres to 80 kilometres between Sydney and Brisbane. If you spent a similar amount, or a little bit more, around $1 billion between Sydney and Melbourne, you would get the average speed on that segment of track probably up to around 85 kilometres.

But I think there are other areas that you would need to spend money on, for example, assembling guards, either in Sydney or just out of it, because there are still a lot of inefficiencies in the way we assemble trains. You would also need to look at how you would deliver longer trains and double stack container trains through the metropolitan Sydney network, because that would be the way to get true efficiency on that east-west corridor. There would be about a $450 million spend to get around Sydney, there would be a spend of about $700 million to $800 million to straighten some of the curves and raise some of the speed between Sydney and Brisbane and there would be about a $1 billion spend between Sydney and Melbourne. But, if you look at that amount of money, it still pales into insignificance beside the amount of money that has been spent on the Hume Highway between Melbourne and Sydney and the Pacific Highway between Sydney and Brisbane.

Mr McDOUGALL—But you can give us some more detail?

Mr Ogg—I can give you more detail.

Mr McDOUGALL—I would appreciate that. Also, evidence has been given that RAC made investments in rail infrastructure which were not necessarily top priority in terms of improvements in rail operations. The example given was $80 million for a spur line to service two coal mines in the Hunter. Did you do those upgrades as RSA? If you did, was this upgrade of maximum benefit to the users in the area and why?

Mr Ogg—I do not recall those two. I think one of them is currently being done. We are certainly tendering for some of that work in the Hunter at the moment. I will take that on notice and come back to you. Rail Access have a process of evaluating investments on a business case basis. I can only assume that those two investments met their business case criteria and were recommended by management and approved by the board. I think a proper process would have been in place to evaluate those.

Mr McDOUGALL—But you can give us some more information?

Mr Ogg—I can check on that.

Mr McDOUGALL—Thank you.

Mr WAKELIN—Could you give a brief definition of how you see the Commonwealth role in rail?

Mr Ogg—The Commonwealth role in rail is, I think, similar to the Commonwealth role in government as a whole. I think the Commonwealth role in rail is to be an enabler for the achievement of community, state and national objectives in land transport.

Mr WAKELIN—How do you see the New South Wales role in the national rail network? We have touched on Sydney a number of times as to the impediments that may be there to a national network. How do you believe New South Wales sees its role?

Mr Ogg—I do not know how the government sees its role, but if you look at New South Wales from a rail perspective New South Wales is certainly the largest economy in Australia and it is one of the largest economies in the Asian region. That economy has changed its shape and nature over the last 50 to 100 years.

The rail network has not kept pace. The movement of goods to and from our shores has changed over the last 40 to 100 years. The rail infrastructure has not kept pace. For example, there is not an airport in New South Wales that is connected by rail yet, so movement of freight by air almost by definition cannot go by rail. I think that New South Wales is a vital economy for the whole of Australia.

I think that for a whole host of reasons which you have probably already explored in these hearings rail infrastructure has been very much a second cousin in land transport. I think that needs to be addressed for the good of the nation, the good of the state and the good of the communities, because you are not going to get things like clean air and environmentally friendly freight and passenger movement without some form of rail participation in that transport mode.

Mr WAKELIN—I have two quick questions. I understand that under the One Nation project $88.3 million was spent upgrading the Sydney to Brisbane corridor. Did Railway Services Authority play a role in the upgrade and was National Rail the manager of the One Nation project? Were other firms commissioned for the work?

Mr Ogg—Did Railway Services Authority play a role? I do not think it did because most of the One Nation money was spent before Railway Services Authority came into existence. However, the predecessor—bits of the SRA which are now part of RSA—did play some role in that. National Rail, as far as I am as aware, was the manager of that program. Most of the money was spent on track strengthening and also passing loops at vital parts of the track. It was focused, as much as anything else, on the efficient use of National Rail.

Mr WAKELIN—Do we know whether the RSA or its predecessor was the only group that did the work?

Mr Ogg—No, I think there were private contractors there. John Holland and maybe Barclay Mowlem were involved. Certainly, Holland was involved up in northern New South Wales.

Mr WAKELIN—Thank you.

CHAIR—Thank you, Mr Ogg. You will get back to us with those items that we discussed? I thank you for your evidence today.

[10.22 a.m.]

BONES, Mr Terry, General Manager, Marketing, Rail Access Corporation, Level 16, 55 Market Street, Sydney, New South Wales

STACK, Ms Judi, Chief Executive Officer, Rail Access Corporation, Level 16, 55 Market Street, Sydney, New South Wales

CHAIR—I have to caution you, as with other witnesses, that, although you are not under oath, these are proceedings of the federal parliament and warrant the same respect as would attend to the House. Are you going to lead, Ms Stack?

Ms Stack—Chairman, we made a second submission after our last appearance before you. Thank you for the invitation to attend again. I am very happy to go straight into questions.

CHAIR—You have no opening statement?

Ms Stack—No, we rest on our second, supplementary submission.

CHAIR—The question that really besets us—one theme that is coming through very clearly—is that, having now gone through about 130 witnesses, for a number of reasons New South Wales is a sticking point operationally and in terms of access. We are anxious to know what recommendations you could make to us or what role the Commonwealth could play that would improve that situation. Obviously, if we are going to have a national track from Brisbane to Perth, and that seems to be the desire of a lot of the witnesses, New South Wales is crucial to that. Before we go into the minutiae of various questions, can you give us any reason why that should be so? Is it because of the enormity of the task in New South Wales? We are getting this common theme that people are having trouble negotiating access through New South Wales, and the other one of course is the freight bottleneck around Sydney. Would you like to make a comment on those two points before we proceed any further?

Ms Stack—Firstly, addressing the issue of the actual physical difficulties of the New South Wales rail network (I think we talked about this last time): clearly, because the New South Wales network is a standard gauge network and carries a variety of different traffic, passenger and freight, the majority of the freight being intrastate freight; because of the congestion in certain parts of the network on both the main line and in particular throughout the Sydney region; because of the requirements on the system in the greater metropolitan region to deliver an efficient and on-time public transport service; and because of the relatively lower priority that is given to freight on those parts of the system—where that congestion occurs means that the reliability and the capability of the system to achieve fast transit times through Sydney and a significant number of additional train paths through the system are very constrained.

We have talked about that in our supplementary submission. We have addressed the ways in which the Rail Access Corporation believes that can be solved, by the provision of segregated freight paths through Sydney, the total cost of such a project being in the order of $450 million. Certainly, we are moving quite quickly, we hope, to start that process. We have advanced planning in place for a grade separated junction at

Flemington Junction, which is a key bottleneck in the system.

CHAIR—To what extent will that relieve the pressure?

Ms Stack—That will relieve the pressure in respect to particularly the Homebush Bay environment during major events. We managed during the Easter Show, by the reorganisation of freight paths and time tabling of freight paths through Sydney, to get a number of longer trains through Sydney during the day, despite the pressures on that particular part of the network. But it was a less than satisfactory arrangement for our freight customers. Certainly we want to be able to guarantee them the freight paths that they have contracted with us for, regardless of the passenger movements around that area.

I am pretty positive that the state government will come to the table in the next budget with half of the money that we need to do that grade separated junction, which is about $30 million. The state government is seeking some support from the federal government out of the new fund to fund the other half of that junction. But, of course, that is just the beginning of a much bigger project.

Your second point, in respect to the administrative obstructiveness that has been reported to you by some witnesses before this committee, I will comment on. I have reviewed the transcripts of the various witnesses that have come before you and I am aware that a number of parties—for example, Macquarie Bank and Rio Tinto—have said they were dissatisfied with both the pricing arrangements and the access arrangements within New South Wales. I have to say to you we have never had any negotiations with the Macquarie Bank or directly with Rio Tinto. So on what they base their evidence I am unclear.

However, I will say to you that we know that the pricing methodologies that we have adopted in New South Wales, which we described in some detail last time and which we have set out for you in our supplementary submission, have been somewhat controversial within the wider transport community. There has been an articulated preference for a posted price. We do not believe that a posted price in the sort of network that we have—where we have a range of different operators serving very different end markets—is an efficient allocative pricing mechanism to ensure that we get the most efficient and cost effective use of our network. There is certainly going to be an ongoing debate about that.

But while there have been attempts to have our networks declared by the NCC, we believe the NCC will shortly certify the Rail Access regime. That will be the first regime to be certified in Australia. They have indicated to us that that will be coming shortly. I think the pricing systems that we have established within the regime, which have been modified through discussions with the National Competition Council and our cabinet office in New South Wales, will be recognised as being reasonable under national competition policy framework.

I believe that most of the other allegations of administrative difficulties are unfounded. We have not had a single appeal in respect to our pricing or our access arrangements to IPART in New South Wales. All operators or prospective operators have that avenue to appeal our administrative or pricing procedures.

I would submit that we have a fair and reasonable administrative arrangement. Those customers who have signed access agreements with us are generally reasonably happy with the prices that they have acquired. I believe most of the allegations of administrative obstruction are unfounded.

CHAIR—Notwithstanding that, it is a fact, is it not, that there is not one private train yet travelling from Melbourne to Sydney or Melbourne to Brisbane as such?

Ms Stack—What you will find is that the reason that there is not a private train travelling is that the prospective operators have not been able to get their business cases together to run a train.

CHAIR—Yet they do it very successfully on the east-west corridor.

Ms Stack—That is because of the economics of rail travel.

CHAIR—I accept that the economics are better. Nevertheless, it is somewhat bewildering to the committee that the north-south corridor is not operating as efficiently. To move on a bit, what will be the operational regime for someone requiring access under the new ARTC arrangements? Will there be a requirement to negotiate both with yourselves and with the ARTC? Or will one body act for the other? Can you track us briefly through the operational regime?

Ms Stack—It is very early days. We have written to the ARTC in the context of the New South Wales government's commitments in respect to the ministerial agreement and said that we would be seeking to have a commercial arrangement with the ARTC—if you like, a contract—to allow them to deal directly with customers that would be their customers that would be running on our network.

The ARTC has not yet been in a position to commence negotiations on that contract. Certainly, until such a contract is put in place, we would have no basis on which the various accountabilities and financial arrangements would be established between ourselves as owner and the ARTC as the seller of access to the track. Having said that I think it would be a relatively simple matter to sort out the commercial arrangements between us, there will be a need for us to be providing the ARTC with a range of different services in respect to pathing of chains, and in respect to possibly providing key performance indicators on the services that we provide them. I would think there would be an ongoing interaction between us and the ARTC's customers on the day-to-day operational type issues.

It would probably not be practical—if, for example, there was a timetable change required because of some incident requiring changes to service provision—for there to be a communication back through the ARTC. With the operational day-to-day matters, I would expect there still to be a relatively high degree of involvement from us and our contractors.

Mr Bones—As Judy has said, at this stage we are really at first base in negotiating a commercial agreement with ARTC which will set up the framework for access. Certainly the intergovernmental agreement makes it clear that ARTC will be the one-stop shop for access. We are certainly very serious about cooperating with ARTC to make sure that that comes into being and that, where appropriate, access contracts will be innovated to ARTC.

Also, I might expand briefly on the previous point about operations on the east coast and administrative difficulties in access negotiations generally—that is my direct accountability within RAC. I would make the point that there are a number of different components of a rail operational equation that need to be satisfied before a train operator can commence operations. They need to get rolling stock, crews, terminals and servicing facilities.

It has certainly been our experience that any delays in the commencement of operations have been caused, in an overriding sense, by the need to satisfy those other requirements. We have never had a situation where access negotiations have been the overriding determinant of the commencement of rail operations. We have certainly had some very efficient access negotiations where, from go to whoa, we have negotiated access contracts within about two months where people have had all those other bases covered.

Mr WILLIS—As you are aware Ms Stack, everyone who seems to be coming before us is critical of the state of the track in Australia and there is I think a clear need for massive investment in rail if rail is ever going to become a really efficient industry and compete properly with road. The question that raises is: where is the money coming from?

In that context one of the issues certainly is the role of access pricing in raising any funds which go towards development of investment in the industry. What is your view of that? Do you think that access pricing, where possible, ought to incorporate an element for not just maintenance of the track but for development of the track; or will that mean that the price is so high that it actually stops newcomers coming into the business and we do not get the expansion of the business that everyone wants to see?

Ms Stack—Theoretically in any business you want to be able to cover your costs and cover your cost of capital and provide for some reinvestment in your business. Certainly ideally you would price between your various markets to enable that to happen, which would allow you to price in a marginal way for some markets and with different contributions to fix costs, depending on what various markets could afford.

Certainly in New South Wales, even with the cost structure that we have at the moment—which, as was said by the previous witness, Mr Terry Ogg, is being rapidly decreased from previously very high levels and with a substantial CSO payment which is also programmed to decrease over seven years—the interstate and intrastate network cannot be priced at anything above the sort of price we have at the moment, which is a bit above a marginal price, without affecting operators and their ability to pay. So ideally we would like to see some contribution to fix costs and towards maintenance costs. But in some markets for rail, that is not financially viable.

Peter Mason, who was with SCT, has argued that there should be no access rate on the Sydney to Melbourne corridor. If you look at the sums he has done, basically that business does not stack up—that, because we are at the bottom of the food chain, somehow we should provide it for free. Quite clearly, that does not provide any incentive for us to either maintain or reinvest in the system. So we really have to continue, I think, to look at rail as a mixture or a system that will be partly funded by government, partly funded by access fees, but that those of us who are managing the system have a responsibility to do that at the most efficient cost.

Mr WILLIS—Do I take it to be your position that in the context where access to road effectively is free, that it is impractical to look to access charges in that environment to raise very much of development capital for the rail system?

Ms Stack—Certainly, as I think I said last time, in the Hunter Valley we believe we can charge a very reasonable rate of return. It is a rate of return that our coal-mining friends will challenge, I am sure—and I am surprised they have not done so already—and that is entirely appropriate because that system is heavily utilised, and there is an ability to pay in that sector which allows that sort of price to be charged. But in the general freight market, if I remember correctly—and, Terry, you might correct me—we were looking at a rate between Sydney and Melbourne of something like 0.277c per GTK, or something of that order. Is that right?

Mr Bones—What we are getting now?

Ms Stack—Is that 0.27c?

Mr Bones—A little bit higher than that. Overall, our access charges are basically comparable with those in the former Australian National system at around the 0.3c per GTK mark. That is very heavily discounted, relative to the cost of providing that access, and it covers, say, between a third and a half of the cost of provision. I think within that context, you would see—and I guess it is fairly self-evident—that there is not a lot of capacity to pay from our perspective in that market in terms of putting money into new investment. That is not to say that there are not specific investments that cannot be made and funded through access fees.

We are just finalising negotiations with National Rail Corporation to extend some crossing loops in the east coast corridor that will provide some additional track capacity and provide them with some operational benefits. Essentially, that is being funded through access fees. In terms of wholesale upgrading of the network, for example, for the cross-Sydney route it would be completely out of the question in terms of market ability to pay.

Mr WILLIS—Do you see much scope for the new ARTC to be able to bring in capital funds investment by operators to assist them with their development of the track?

Mr Bones—As I have said, I think there is some scope for that in terms of specific projects. But our analyses suggests that, if we are talking about wholesale upgrade such as the cross-Sydney route or major track realignments on the east coast, there is very limited ability within the market—that is, within rail operators—to fund that sort of investment through access charges.

Mr WILLIS—Why do you think there is that scope? Why do you think that operators would not be prepared to put in a capital contribution?

Mr Bones—Why would they?

Mr WILLIS—Yes. Would not they regard it as somebody else’s responsibility to develop the track?

Ms Stack—No, because what happens is, if National Rail analyses their own business, their total business, and if they can get major efficiencies in their operation costs—rolling stock utilisation, crew utilisation, fuel, and so on—those cost savings to them over the life of a project would allow them to invest in our infrastructure in a commercial arrangement which we are currently finalising with them but which would allow us to own that infrastructure. So really the benefits of that investment are directly accrued to National Rail through savings in their operations. So those are the sorts of investments that Terry is talking about.

Certainly in terms of large scale perhaps major infrastructure financing type works, like the Darwin to Adelaide or the inland route type of proposals, I think we have a fair way to go before we are going to get sort of clever financial instruments to get major private sector investment into the rail network, unless there is any sort of revenue stream that is going to support that. Having said that, we are looking at the moment at the sorts of things we might be able to do in respect to our ability to be able to pass on taxation benefits to other parties, and so on. So it is possible that we or ARTC can explore more innovative financing packages together with probably some government investment, providing we can punt on a business case that there will be returns there from access fees in the longer term—and these are pretty long life sorts of projects.

Mr WILLIS—In relation to posted prices against your negotiated approach, you were saying that posted prices were inappropriate because you had so many different trains and different circumstances that it would not be a feasible thing to develop a posted price arrangement. My understanding is that the old AN system of posted prices did have quite a bit of variability not only for types of trains but also for different sections of track. So you have a lot of variation in the prices which are payable, depending on what sort of train you are running and which section of the track you are running on. Does that not mean it would be possible for you to do the same?

Ms Stack—Theoretically it is possible. We have a much more complex network obviously than AN. In my view the argument for posted price has really been an argument about a fixed base price rather than a posted price versus a negotiated price arrangement. Certainly we would not want to be charging our customers in the Hunter the same as we are charging people to take boxes between Parkes and Broken Hill because that would mean our revenues would be reduced dramatically or, alternatively, we would not have anyone carrying boxes between Parkes and Broken Hill. There is a very wide discrepancy in the prices that we are charging.

Mr WILLIS—Is that why you do not really want posted prices—you do not want that discrepancy to be public knowledge?

Ms Stack—We want to be in a position to negotiate a price on the basis of end market use. For example, we were approached by a major corporation to give us a price to carry cars between Melbourne and Sydney. That was a new product for rail. Cars have not been carried on rail in New South Wales for I do not know how many years.

Mr Bones—Many years.

Mr WILLIS—They smash them up, that is why.

Ms Stack—We wanted to attract that new business. We were able to provide a price that we believed was very slightly above marginal price, which was lower than our prices going into the container market, for example. That company ended up not winning that business for a range of reasons which I am not privy to. But certainly we want to be in a position to attract new business to rail and we want to have some flexibility in our pricing to enable us to do that. Having said that, and I think I said this last time, we charge the different customers who are operating in the same end market the same rate. So the rate that SCT will be paying when they start operations on the New South Wales network will be the same rate that National Rail is paying for the same end market utilisation.

Mr WILLIS—Why not have posted prices then?

Ms Stack—Because we do not believe at this stage that we have identified necessarily all of the end markets for rail. If we wanted to use the down time in the network, for example people were wanting to provide services at times when no-one else was using the network, we would want to be free to negotiate a lower rate. Alternatively, we may be looking to increase rates for peak, congested parts of the network. We have not explored all of those opportunities with our customers.

The AN track access group has a relatively homogenous market for its product compared to ours. We think that the pricing of rail is going to be a very important factor in the efficiency of the allocation of train paths, and in terms of attracting new business to rail and getting a return eventually on that business to enable reinvestment.

Mr Bones—I think I said before that the interstate access prices are very heavily discounted relative to the cost of providing that access. That is certainly not the case, as Judy has said, in other markets. The problem with posted prices is that it is effectively more or less one size fits all; that is the posted price and everybody pays that.

Mr WILLIS—You can vary it with the circumstances as AN did at the outset.

Mr Bones—They really only addressed those to one market. They had no market differentiation within their pricing. They certainly had differentiation by line sector.

Mr WILLIS—What about by train?

Mr Bones—They had some differentiation by the speed of train.

Mr WILLIS—There are about four different categories of train.

Mr Bones—That is right, which is essentially related to the maximum speed. The sort of differentiation that we need to pursue for commercial reasons—and there is economic sense there as well—is between markets. In coal, there is the ability to pay full access charges. We have discounted the prices in the interstate market in order to support the interstate business. With the one size fits all, we are potentially faced with the situation where we give away some margin in other markets and price business off, because we were adopting an average price approach.

Mr WILLIS—What approach do you think the ARTC should take?

Mr Bones—If you want my opinion as a commercial manager in the rail industry, I would have to firmly say that I think all track owners should be practising market based pricing with some differentiation by market. I do not know whether ARTC have at present faced this situation, but sooner or later they may well face the situation of someone approaching them and saying, 'We have a new business proposal, but we cannot afford your current posted access prices. Can you give us access, please? It is new business to rail and unless you drop the access price a bit, this will go to road.' They are the sorts of situations that we face.

Mr McDOUGALL—Thank you very much for your letter of 23 March, Ms Stack. It seems to have addressed a fair few matters I asked about the last time we met. Are the results of the metropolitan landbridging study out yet in relation to the Port of Botany?

Ms Stack—No, they are not.

Mr McDOUGALL—You noted in there on 23 March that it would be about two weeks.

Ms Stack—I have not seen them.

Mr Bones—I am not quite certain why that time scale was given. That study has not been finalised at this stage. There is some additional survey work that is being undertaken in relation to cross-metropolitan road and rail movements. That is really a prerequisite to finalising that study.

Mr McDOUGALL—I have would be interested in that if you could get us some more information.

Mr Bones—Sure.

Mr McDOUGALL—I am referring to the figures that you supported with sheet one giving us the details of Melbourne-Brisbane, Sydney-Brisbane, Sydney-Melbourne and the breakdowns. You are acknowledging in there that undoubtedly there is room for improvement in rail's market share and the freight in that total corridor. It is a bit surprising, but the figures show a total of about 70 per cent road and 30 per cent rail. But your figures also show—and it is a bit odd—that road is only 3.3 per cent in containers, but rail is 96 per cent. Are those figures correct?

Mr Bones—Can I clarify which figures?

Ms Stack—This is the letter we sent to you, which I do not think I brought a copy of.

Mr McDOUGALL—There seems to be an anomaly there and I am just trying to clarify it. If you work those out, it is around about 70:30 road/rail, but in containers it is about 96 per cent rail.

Mr Bones—Are you talking about shipping containers there?

Mr McDOUGALL—Yes.

Mr Bones—The general categories there are also all containerised. The shipping containers are basically export containers.

Mr McDOUGALL—What you are saying is that, Sydney to Melbourne, road carries no export containers at all?

Mr Bones—Basically that is landbridging and there are a couple of reasons why there is very little on road. Normally, when it is dropped at port, if it is going on a truck, it is going to somewhere within that state for distribution. I guess it is no longer a shipping container. Secondly, shipping containers often tend to be very heavy which tends to favour rail over road transport.

Mr McDOUGALL—In other words, you are showing by your figures that in shipping containers 96 per cent of that total corridor is carried by rail and only 3.3 per cent by road?

Mr Bones—Certainly, and that is what our analysis has shown.

Mr McDOUGALL—Also I read that the Sydney-Melbourne corridor—and I am talking about total freight—is 78 per cent to 22 per cent. I am asking, particularly on the grounds that you are saying that you are looking for a bigger share of the pie, what sort of growth rates would you expect to be aiming for in the next couple of years to change those percentages around? Do you have a target?

Mr Bones—Growth rates?

Mr McDOUGALL—Yes.

Mr Bones—We expect the total market to increase by three or four per cent and we would hope to turn around the current market share declines in the market. We do not have a firm figure at this stage, but we are aiming for over three per cent growth in rail.

Ms Stack—That is what our business plans say, however, I should say that, with the impact of the increased axle loads that may be permitted by ministers on road transport, we have not yet done an analysis which would tell us what those changes in the regulatory arrangements for road might do to rail transport. But I would expect that we would see some erosion of rail transport—freight carried by rail—due to those measures. We will be doing some more work on that over the next few months. Certainly the minister for transport in New South Wales expressed at the ATC a great deal of concern about the idea of spending $1 billion on upgrading bridges in New South Wales to increase these axle loads without having the opportunity to consider, in an overall land transport sense, where that investment might be better spent.

Mr McDOUGALL—You said that you would like to increase your business in the Sydney-Melbourne area and in the overall corridor. If you are going to be competitive with road—you have just said what road is spending and what they are doing—what do you need spend in that corridor for you to make that three per cent gain in the overall freight task in the corridor?

Ms Stack—We believe that, under the current strategy we have, which is essentially the network as it is currently configured with better management, better marketing and more efficiencies by operators which we believe will occur through privatisation and rationalisation in the ownership of operators, that three per cent can be achieved without significant investment in the system. We are suggesting that is a sort of status quo business case and that is obviously what is in our business plans because we do not have $450 million at the moment to invest in a segregated freight patch through Sydney or an additional $500 million to $1 billion to invest in the rest of the network.

I think we said last time that we were in the process of doing the analysis of what those investments might create for us in terms of recapturing market share to road. We have not completed that work, although we have had a preliminary report from our consultants which Terry might like to discuss.

Mr Bones—Basically, the results we are getting to date have shown that, in order of priority of different service characteristics in the end market that we can potentially translate into additional traffic on rail—and, from our perspective, additional access revenues—travel time is certainly down the list. One of the things that is most critical is, in particular, reliability of service. So, in framing our investment strategy, they are the sorts of things that we will be focusing on first up, which is where things like the crossing loop extensions come into play. They improve the reliability of the corridor and allow rail operators to improve their ability to provide on-time delivery to their end markets.

Following reliability, which is almost taken as a given in the market, price is also very critical. It is a very price sensitive market. At the end of the day, for most end customers speed is worth a certain amount in their inventory chain. So a delivery half a day later is worth half a day's inventory. It is not necessarily a good in its own right. People expect overnight delivery because road has offered overnight delivery, but our analyses suggest that there is certainly a price to service trade-off there that can be made. People are prepared to accept longer delivery times in return for lower price.

Mr McDOUGALL—All right. I want to refer back to some of your documentation which refers to your annual reports. You say in your documents here that you own-manage rail, track, signals, bridges, electrification, fencing and communications. You put your property, plant and equipment value at about $373 million. You said that in 1996-97 you made a $1.5 million profit on that.

We see in the *Sydney Morning Herald* that you are going to spend $880 million out of that $2.5 billion. Obviously that is going to add tremendously to your property, plant and equipment valuation. Adding $880 in the next five years to that must have some impact in relation to your profitability. Are you going to milk the coalmines a bit more to get your profit margin back up or are you going to go chasing some real business and try to compete with road?

Ms Stack—We are trying to chase real business and compete with road. Let me explain how we go about our asset valuation because it is critical to an understanding of how we price. For the purposes of our balance sheet our assets are valued on the recoverable amounts test, which is the accounting standard that we are required to conform to. So our assets are valued with respect to the future cash flows that they can generate through access fees. Essentially 100 per cent of the asset value of the $373 million is our Hunter coal valuation. That is because that is the only place where we are earning a return. The rest of our network—the metropolitan network and the interstate and intrastate networks—is valued for balance sheet purposes at zero.

This year we are spending about $500 million on maintenance and asset renewal, which is expensed in our accounts. We are spending about $250 million on capital, all of which in this financial year is going into the metropolitan network. That network essentially is not returning us a profit at this time; therefore, once those expenditures are made they will be taken up in our balance sheet at zero valuation. In other words, that investment will be written down immediately to zero or some amount slightly above zero if we can forecast some future cash flows. The Hunter Valley valuation is in fact where we are looking to get our return and it is the valuation of those assets only on which the 14 per cent rate of return is based.

Mr McDOUGALL—Are the four projects that you are going to do—your Richmond lines, your Western Olympic lines, your East Hills line and your new southern railway—all related to passenger?

Ms Stack—Yes, they are all metropolitan passenger—

Mr McDOUGALL—So at the end of the day you are going to write those down to zero.

Ms Stack—Correct.

Mr McDOUGALL—And we are going to be back to square one.

Ms Stack—It is the only way to deal with it because we are not actually going to ever get a return on it. Essentially these are non-commercial investments—no commercial business would make those investments because there is no profit coming from those investments. In the UK, Rail Track was established to get a commercial rate of return on its investments from the franchisees who run the metropolitan network. So effectively they can invest in the network through the normal flows of revenues that they receive from their customers. In our case the New South Wales government determined that they did not want us, in the initial stages anyway, to receive a rate of return from the metropolitan network and so they have to continue to fund it through essentially non-commercial capital grants.

Mr McDOUGALL—You say that the pricing does not provide for cross-subsidisation; you also say that Hunter coal is profitable and subsidises CityRail. Which is correct? You say you do not cross-subsidise but then you say you do.

Ms Stack—Essentially, in the first year of operation we lost money on the CityRail business and obviously the amount of money that we made on the Hunter Valley business was not reflected by way of a profit straight through to our balance sheet because we lost money on another part of our business. And that is not our objective; our objective is to make money on all parts of our business. Certainly we are moving in that direction in the latest round of access price negotiations which we have just completed with CityRail. However, whilst we made money in the Hunter, we did not make more in the Hunter than what we were permitted to make under the rail access regime.

Mr McDOUGALL—Your freight CSO is $177 million?

Ms Stack—That is right.

Mr McDOUGALL—Declining over seven years to what—zero?

Ms Stack—No, it is declining by 17.5 per cent in real terms over seven years.

Mr McDOUGALL—You say that operators make capital contributions to the extent that it is in their interest. Can you give us some details on what you mean there?

Ms Stack—This is the sort of capital contribution from National Rail we were discussing before and which Terry was talking about, where an operator might decide to provide money for us to enhance infrastructure because of savings that they can accrue in their own operation, and CityRail does that as well. There are things that CityRail wants us to do specifically in order to be able to make their operation more efficient.

Mr McDOUGALL—I would like a quick answer on the $450 million. If you actually got the $450 million and you built that dedicated path line, would you guarantee to potential rail operators that CityRail would stay off that line—guaranteed, sworn on the Bible?

Ms Stack—Yes, we would, because we would not put any electrification on it. History shows that, where electrification has been put on freight paths, there has been an invasion of those freight paths by passenger services.

Mr McDOUGALL—In some discussions that I have had with one of the bidders for the Sydney to Canberra rail, they will say that they need 2.8 million passenger journeys to make such a service viable. I have some figures here that are very interesting, which say that 2.982 million people travelled between Sydney and Canberra in 1994-95 and that 2.357 of those went by road. If they are going to find the 2.8 million, obviously we would wipe out all air, car and coach travel and add it to rail travel, and we are going to get upwards of that.

During those discussions with one of those bidders, I questioned the service, and they told me they are going to operate half-hourly from St James down to Canberra. They are going to run out through Campbelltown and offer a fare for people from Sydney to Campbelltown. One would think that, all of a sudden, the 2.8 million journeys come from a fair bit of those people who are going to do this trip between Campbelltown and Sydney and return. It is the only way I can read it. In your access arrangements with such an operator who wants to run a half-hourly service on time to make it work, during peak hours when you have already an enormous problem down that way, would that access agreement be giving them the right to carry domestic passengers—what I call urban passengers—in Sydney, as against your other partner in CityRail?

Ms Stack—I have some difficulty in answering questions in relation to the Sydney to Canberra bids, simply because the tenders are now in and Rail Access Corporation is part of a reference group that is evaluating those tenders and assisting the New South Wales state government.

CHAIR—Do you see a conflict, then?

Ms Stack—In terms of the confidentiality arrangements we have in respect of that process, I do have some difficulty.

Mr McDOUGALL—I have one more question, and you may choose not to answer it. Did those bidders come to RAC before the closing of the tenders, to discuss access?

Ms Stack—The actual tender document that was put out discussing RAC's requirements regarding access fees was extensive in respect of the network, constraints on the network, investment plans we would have and the prices we would be seeking for various types of services. The actual document that went out to the tenderers set out the position of the Rail Access Corporation quite explicitly. There were a lot of discussions, as I understand it, through the normal processes, and questions that were referred through the bidding process to Rail Access Corporation, which we answered in accordance with the probity procedures that were prescribed.

Mr McARTHUR—I raise three issues. One is this age-old argument of integration or division. It has been put to us by a couple of witnesses with American backgrounds that in the long haul lines an integrated approach is a better way to go, that the rolling stock and the track are better to be under the ownership of one group, and that access or track rights can be negotiated as between the owners of those tracks or operations. The argument runs that they do have a better customer focus over time and that by splitting these operations, as we are proposing to do in Australia or as is now happening, over a period of time we will not enhance railways as a mode of transport competing with road. Would you care to defend your position in the light of those remarks?

Ms Stack—Firstly, let me say that it is not my position. The decision to split out the monopoly elements of major government owned infrastructure activities was a decision that was in response to the competition policy agreement, the COAG agreement and competition policy principles outlined in the Hilmer report. The New South Wales response has been to align our public utilities and the management of our public utilities with the objectives that are contained in those various agreements and reports. As far as I am concerned, and I think I said this last time, any structure can work.

Certainly I believe that we have seen tremendous results from competition policy in New South Wales in rail already, because the old vertically integrated, government owned monopoly structure was certainly not efficient and was also not easy to deal with for other operators seeking to get access to that network. So I think that the change that has taken place has been very positive. Our estimation of the reduction in freight rates to the end of this financial year in the coal market is of the order of about 16 per cent in coal and about 10 per cent in general freight, so there has been a downward pressure on freight rates.

In terms of the costs of the maintenance of the network, the greatest beneficiary so far has been the state government budget, as the state government has been underwriting that maintenance cost. But, if we had continued to spend at the rate that the State Rail Authority was spending in 1995-96, in the first three years of the existence of Rail Access Corporation we would have spent a total of $660 million more than our three-year plan shows that we will be spending. So the level of cost savings in terms of competition and the threat of competition on the contracting, the service delivery or input side—

Mr McARTHUR—Are you suggesting you have actually got more track and better quality track and better maintenance?

Ms Stack—The track safety conditions of the track overall have improved and the track condition index is continually improving as well.

Mr McARTHUR—You have had the savings and you are telling us that the track is better.

Ms Stack—That is what I am telling you.

Mr McARTHUR—Quite categorically.

Ms Stack—The track is better. We monitor the condition of our track three times per annum. All of our track is monitored, and the track conditions indices are improving overall over the network, under the new maintenance arrangements.

Mr McARTHUR—We have also had some more evidence about the complexity of these access regimes. We had evidence tabled last night indicating the complexity state by state of national and interstate arrangements, so much so that it is suggested to us that the sheer complexity of the access regimes will in the longer run make it almost impossible to operate. Would you care to comment on that?

Ms Stack—I am not sure of the basis on which those propositions were being put forward or by whom, but certainly I believe that we are in the early stages of trying to reform the railways in Australia. We are talking about taking railways from vertically integrated, inefficient government monopolies, where there was were very big hurdles to both access and efficiency—

Mr McARTHUR—That is another argument. We are talking about access.

Ms Stack—That is right. We are now moving along a path of reform, part of which will be the initiatives of the federal and state ministers in respect to the ATC agreements with ARTC. We are on a path of improvement of those relationships and of the complexity. I do not think we are there yet, but I do think the situation has greatly improved from where it was two or three years ago.

Mr McARTHUR—Some of our witnesses are not too pleased with the access problems they have to get on the track.

The third issue is really going back to this cost of access. I note that some of your comments over time have moved around the whole argument. We had submissions from the miners in Queensland who were complaining quite bitterly that Queensland Rail had used their monopoly position to subsidise their capital expenditure. I hear what you are saying, that the miners in the Hunter Valley are paying a higher access regime.

Can I raise this fundamental question yet again of how you can have an access regime compared to road, where the road is basically for free, especially that Hume Highway, and yet you are saying to us that your government needs a rate of return? How can rail ever compete with the road network which is fundamentally for free except for the diesel excise tax?

Ms Stack—In actual fact, the road network is not free. There is hypothecated funding through to roads—

Mr McARTHUR—Some of us would fundamentally disagree with that. The hypothecation is no longer a fact of life; that $13 billion is collected by governments and $6 million is spent. So there is no hypothecation and yet in the rail system you are saying you have a direct charge.

Ms Stack—No, what I am saying is that the revenues to the road system are in part distributed back to the road system through taxation. The rail system does not have those sorts of revenues being distributed to it from either state or federal governments, and yet the economics of rail and road in terms of maintenance costs and capital costs are very similar. So we have a high cost structure and we do not have any revenue.

Certainly, the New South Wales state government has been supporting the rail network in New South Wales to the extent of in excess of $1 billion a year. They are keen to get some efficiencies in the system. One way to do that is to put into place proper business practices which are going to allow for proper business evaluation of investment and some sort of pricing signals to customers which will allow for the efficient allocation of those resources.

Mr McARTHUR—But governments have not made any contribution to the rail network over the last 20 years, in comparison with the road network.

Ms Stack—That is not true. The New South Wales government currently is putting $650 million into the new southern rail project. It is $650 million. Our total capital program this year, as I said before, is $250 million.

Mr McARTHUR—But the comparison between road funding and rail funding is hardly worth talking about.

Ms Stack—I suggest that is a matter for the federal government.

Mr PETER MORRIS—There was massive capital investment in New South Wales in the 1980s of almost $1 billion.

Ms Stack—There is very large ongoing capital expenditure on the New South Wales rail network, but it goes where the government sees the priority to be, and that is in the passenger rail system. There is no comparable investment on those parts of the network that are principally used by freight, other than in the Hunter Valley, where the prices will support that investment.

Certainly, we argued before that there should be a land transport strategy and I know this committee has been thinking about that. With these sorts of massive investments that are going into road, the question can be asked as to whether there may be other, more appropriate places to make those investments.

CHAIR—There is one thing that troubles me. Great Southern Railway Ltd, when giving evidence, informed the committee that all its New South Wales access negotiations were with the RAC including access to railway stations. Is that correct?

Ms Stack—No, they negotiated with the State Rail Authority with respect to the railway stations.

CHAIR—You don't own the stations?

Ms Stack—No.

Mr Bones—We attempt to facilitate some contact there, but it is not our responsibility to negotiate access to stations.

CHAIR—Terminal stations included?

Mr Bones—We do not own terminals either. It is the operator's responsibility to locate their own terminal facilities.

CHAIR—No, I meant terminal type stations.

Mr Bones—No, we do not own any stations.

Ms Stack—There was a lot of debate about that, at the time that the SRA was split up, but that was what the government determined.

CHAIR—You mentioned during the public hearings that the RAC and NR had jointly planned $30 million worth of extended crossing loops on the north-south line. Can you give us a report on the status of that?

Ms Stack—We are just finalising the commercial agreements with the NRC.

CHAIR—When you say commercial agreements, do you mean that NR would have preferential treatment on those loops?

Ms Stack—Yes, they would. They are going to fund them. This is sort of operator provided capital and we would be looking essentially to seek recoveries from other operators that would be using those loops in the future.

Mr Bones—There is comparable treatment at the end of the day between NRC and other operators. If another operator uses the loop, we collect an access fee from that operator.

CHAIR—Thank you, Ms Stack and Mr Bones, for your evidence today. Did we have a request for additional material? You have got a note of that.

Ms Stack—Yes, the metro landbridge, Chairman.

CHAIR—In the fullness of time you will receive a transcript, which I understand you peruse very closely.

Ms Stack—We try to, Chairman.

Proceedings suspended from 11.22 a.m. to 11.34 a.m.

FISCHER, Mr Hans-Gerd, General Manager, Project Development, Transfield Pty Ltd, Level 36, Gateway, 1 Macquarie Place, Sydney, New South Wales

McDONALD-FERRITTO, Mrs Deanne Lee, Manager, Commercial Project Development, Transfield, Level 36, Gateway, 1 Macquarie Place, Sydney, New South Wales

CHAIR—Welcome. Although you are not under oath, these are proceedings of the parliament and the same respect attaches to them as to proceedings of the House. Do you understand? Thank you. Do you have any amendments to your submission, or could you give a short overview?

Mr Fischer—We are pleased to do that, thank you. From our brief insight into the committee's proceedings to date, in our preparation for today's hearing, it occurred to us that you have undertaken a very difficult and complex task.

CHAIR—You can say that again.

Mr Fischer—Hopefully, this task is made somewhat easier and more palatable by the depth of the contributions you have received. We welcome this opportunity, although Transfield will present its views from the purely private sector application. In that, it is perhaps opportune to step back a moment in time and look at Transfield and any other construction company in the 1970s.

The typical task that a construction company would have undertaken in those times was to respond to a very well designed and very well detailed specification presented by a utility, such as the rail corporation or an energy utility, and provide services which purely related to the engineering and construction. It was left up to the rail corporation to raise the funds and to manage the interface between the various suppliers and construction entities which assisted in the project. Out of that initial stage a totally different picture evolved where the private sector, now at the other end of the extreme, is also raising the funds for a project and, as of late, brings the market into the equation, which means it takes market risk. It is important to note that we are still talking about the same Transfield, but with quite a different skill base today.

In other words, the public sector has felt fit over the past 10 to 15 years to expand the role of the private sector. Today, depending on which industry we are, we are basically observing the private sector involved in outsourcing activities such as operation and maintenance, in pure construction activities still in the traditional specification style, but also as an owner of infrastructure which previously was publicly owned, and, what is more important, introducing a risk shield through what was originally the public—the taxpayer—by also taking market risks. That is a very important evolution and you could argue that that perhaps reflects a maturity, particularly in the Australian construction industry, which has emerged to date.

I believe it also creates unique opportunities, if you try to tackle a very difficult field, such as your committee is investigating. When you look at rail infrastructure delivered by the public sector, you cannot escape the notion that those which were successful to date basically originated from unsolicited proposals. Take the New Southern Railway, the Brisbane Airport Rail Link project. Somebody had an idea. It was not the utility. It was not the rail corporation. Somebody in the private sector had an idea. Attached to that, they had the stamina to run that idea through the bureaucracy until it found fertile ground, and a combination of private sector interests, financiers, et cetera, to deliver that.

I believe one of the critical elements is if you find a circuit breaker in this ideas development process and find a better audience for ideas, which should deliver a better system between the private sector and the public sector. Then we have got a crucial foundation stone laid for improving over a long time. The skill base on the one side is there and the whole profile. The dialogue I would say is somewhat retarded to date and could definitely be improved.

The Queensland example, and Mr McDougall will confirm this, is so far rather unique, because we are dealing with Queensland Rail and we are dealing with Queensland Transport and Treasury as two different groups. Queensland Rail is a corporation which negotiates with us on access. Transport and Treasury are the state shareholding ministries in QR but also the party which issues the concession. That in itself raised a series of questions which for this one particular case we had overcome, and we are delivering the Brisbane Airport Rail Link. But I guess, in view of future evolution of cooperation between the public and private sectors, it could be handled a little bit better.

CHAIR—Thank you. You say in your submission that you would like to see the Commonwealth acting as a regulator. What do you see as more broadly the role of the Commonwealth? Yes, a regulator, but that runs somewhat contrary to the spirit of the federation. The states resist in a very determined fashion any intrusion into their traditional roles. Nevertheless, I think there is an acceptance that we have to notch up the rail to a better standard right throughout Australia, and that will require some Commonwealth involvement.

What do you think of the proposal of having a main highway, if you like, a rail highway from Brisbane to Perth to which the Commonwealth might contribute fairly generously? That could be followed by tracks of national importance: Brisbane-Cairns, Portland, Adelaide to Alice Springs and so on. Then there could be a third group, a sort of hot spots program to bring the major tracks around Australia up to some acceptable standard. This would be somewhat akin to the black spots program on the roads, although perhaps not with the same emphasis on safety rather than on reliability. What is your view on that approach?

Mr Fischer—Let me just try to dissect it. Coming from a different upbringing and having always lived my life with a national railway, so to speak, when I first arrived in Australia it was quite intriguing to see that the states had this autonomy in managing their own affairs. It did create something which I think a central regulator would have prevented—physical differences in the infrastructure, in gauges, which nobody could understand really. Traditionally then, of course, it continued to create these boundaries. I guess the role for a central government in this context is to impose a vision which will break the short-term expediency of a state which also happened to compete with another state in attracting population, in attracting services et cetera, which then at the end of the day might not be compatible—by chance, purposely or whatever. You have to tell me if the regulator sitting in the Commonwealth has got a constitutional base. I would hope so.

CHAIR—No, I am afraid not, except in very extreme circumstances, I imagine. This will have to be a surrender of autonomy by the states for this to work. But let us move on from that. I did not want to get bogged down on the philosophical argument. You have built a lot of railways. You have been involved both here and overseas in major projects. Have you ever taken a view of what it would cost to bring the national rail system up to an acceptable level? I am not talking about standardisation, but to bring the existing infrastructure up to a good operational standard.

Mr Fischer—I cannot answer that. We have not done our own report on that. We are relying on reports which have been done by others.

CHAIR—So you are very sectoral in your approach. If you see a project, like Brisbane Airport or something like that, you focus solely on that.

Mr Fischer—That is right. The projects which we tend to raise and identify are projects which are associated with a funding task which somehow is manageable. The project which you have outlined stretches out into cooperative arrangements which we would find quite awesome to drive single-handedly. It would need to be done in a style of cooperation between public and private sector, which we simply have not identified.

Perhaps I can illustrate that by an example. For the Brisbane Airport Rail Link we were asked not just to deliver the infrastructure but also to deliver the corridor. If you can imagine this task, which traditionally is invested in a government lands department, to identify and acquire an 8.5 kilometre corridor in a city like Brisbane and transfer it at no cost to the state so that the state will take the ultimate ownership and lease it back to us, then you will see somebody who is pretty hardened and toughened over the last two years of excitement. Then stretch that to not 8.5 kilometres but 800 kilometres or 1,600 kilometres or 2,000 kilometres—that is one aspect. It is a very tricky question.

The other thing is that we were asked to do the environmental impact assessment, which was a similar exercise of public consultation, out of our own pocket as a private developer. Fortunately these rail projects do have an attraction to the public. Fortunately the public can associate with the benefits once they have been explored and communicated, so in this instance it has worked very well. But I doubt that that would be easily translatable to anything else.

So in this instance we were basically, from the idea to the evolution, left entirely by ourselves. I do not think that that is the appropriate way to tackle these larger, overreaching projects.

CHAIR—So you would say that if we were looking at upgrading the line we should perhaps take a sectoral approach, picking an area that is particularly bad and doing that well, for example the Melbourne to South Australian border?

Mr Fischer—Yes.

CHAIR—And a firm like Transfield would be interested in that type of project, is that so?

Mr Fischer—Yes, sure.

CHAIR—You mentioned a number of projects, including the Sydney airport. You may recall in the *Financial Review* of 2 February there was an article that was fairly critical of Transfield. The New South Wales Auditor-General was quoted as being critical of the $600 million contribution that the New South Wales government had to make to that airport project. Why was that additional funding necessary? When will the project be completed?

Mr Fischer—The second one is probably the easier one to answer. The project is bound to be completed so that the period during the Olympic Games can benefit from this additional infrastructure. We are trying to complete it early in the year 2000. That has always been the case.

The funding question has evolved over a number of years. The original proposal was associated with the utilisation of benefits which, for this particular corridor of rail infrastructure and additional stations on the path to the airport, would have led to quite substantial opportunities in the land utilisation and development of suburbs. That was factored into the original proposal, and later on it was decided by government to be directly utilised by the government itself.

It was quite clear that, without the additional realisation of those benefits, the substantial funds required for drilling an 11-metre diameter tunnel for some 10 or 11 kilometres—with the tunnelling boring machine, in itself, costing $30 million—is just not to be recreated by a revenue stream. Indeed, both the New Southern Railway and the Brisbane Airport Rail Link have a portion which they fund—in Brisbane, with the airport rail link, it is a total expenditure of $190 million. I think the New Southern Railway is $200 million or $220 million—I do not know what the published figure is—out of fare revenue.

Queensland Rail has a substantial CSO underpinning. For a city train in Brisbane with a substantial CSO underpinning, if you then say to the private sector that they do not get access to the CSO, that makes it very difficult. It obviously leads to a premium in fare charges in order to make it stack up and to make it economically viable.

When we did our patronage studies, we identified that a traveller to the airport would be willing to pay a premium, and that is what we are utilising. We work out our economics on the expectation that there is a premium being paid for that ticket to the airport because it is a unique destination. It could only compare, perhaps, with Homebush.

Mr WILLIS—You indicate in your submission that you see some value in integrated operations, rather than the break-up of the railway system into various segments. You tend, it seems to me, to say that that is probably the best model to pursue. Would you like to elaborate on that a little further? This is an issue of some interest and importance.

Mr Fischer—Very much so. Remember that Transfield has gone through the energy sector, the water industry and whole transport. In each of these sectors we find an increasing number of players. Power stations are islands. You can imagine that there is a power station owned by A, and another power station owned by B. They both submit to the grid, and that is workable. The M2, M4 and the M5 are independent roads. It becomes quite interesting and intriguing when you try to harmonise the tolling arrangements between these various operators.

With regard to the water industry, in the early 1990s Sydney Water, with great success, purposely invited international companies. There were three competing groups successful in delivering build-and-operate water treatment plants. They are still there with great expectations. These opportunities have not continued, and we now see an overservicing of the few opportunities with a huge number of players.

Over time it creates quite considerable fragmentation. That is, perhaps, a concern which we would like to express. One should shy away from being too keen to do these little bandaid measures where you have private sector here and private sector there. Suddenly they all sit around the table, each pulling the tablecloth in a different direction. Then you substitute a problem, perhaps a funding problem, by having achieved infrastructure, but you are creating another problem by coordinating and regulating these various players. It is a great concern to us.

Obviously, we do not have the answer as to how that is to be done, but I think that one has to be very conscious in modelling the future not to run into the difficulty of fragmentation. When you take a satellite view of Australia, you already identify the fragmentation through the states, in a way. That is what we try to address. Do not let us substitute that fragmentation with another set of fragmentations.

Mr WILLIS—How else do you see getting competition in the system? Are you really saying that you do not need competition within the rail system, per se, and that you can rely on competition from other modes of transport? Let me just elaborate for a moment. The Americans, for instance, have integrated models which do compete, but they are separate integrated operators, running on different tracks to the same place. We certainly would not want to develop that kind of competition through our system in Australia.

Mr Fischer—They use the same corridor, but they use dedicated tracks.

Mr WILLIS—It is much more sensible to utilise the same track for different operators. If we do not have the access regime, it seems to me that unless we go down the American model we do not have competition within the rail system at all. Are you really saying that that does not matter? Are you saying to let us just have competition with other forms of transport, such as road?

Mr Fischer—Clearly, when we revamp the industry, the attempt to introduce some mode of harmonisation between the cost to use the road and an equivalent cost to use rail ought to be one of the prime objectives. There will be no distinction between a road user that gets away with paying substantially less, and attracting from the state, out of a different political ambition, a greater investment in rail. I heard in previous comments that there has been quite a considerable awareness being established in different funding attitudes over the past 20 years: one to road, and one to rail. We want to restore the balance. How do we do that?

The introduction of access regimes is definitely a step in the right direction. It is quite clear. Look at how Queensland has responded to that. The access group reports to the same chief executive for rail as the city train operator does. How can I negotiate with the access group as an impartial access regime? I can see what the concern is. We tried to compete with Q Rail for the same end user, and we did not manage to, because we had to talk to Q Rail about 60 per cent of the determined effect of the price. They had basically under their control whether to achieve private sector access or not. Rather than that becoming lip-service, one would like to see a much greater emphasis on the dynamics of an access group operating under the jurisdiction of a regulator. That would create genuine opportunities, rather than fulfilling the outward sign of an overall trend.

Mr WILLIS—I have a couple of other questions about private sector operations that are already taking place. These tend to be largely integrated operations, don’t they? For instance, will the owners build and operate the New Southern Railway to the airport?

Mr Fischer—Yes. The integration aspect ought to be seen as utilising the existing infrastructure and future extensions to the optimal level for users. The private sector element ought not to produce an extra hindrance or hurdle, because it has not the chance of being a seamless integration.

Look at Sydney: if this were to be a spur line to the airport, privately owned and privately run, you would have rolling stock which was not compatible with the rolling stock of the rest of rail network, and people would have to transfer at Central Station. Is that a service? We do not want to have a transport service that is not seamless. To achieve that seamless integration, we need to make sure that the rolling stock is compatible.

Mr WILLIS—On the topic of that railway, can you tell us what the ownership structure is? To what degree is the New South Wales government an owner of that railway?

Mr Fischer—I will try to answer that but, potentially, I have to take that on board and give you a clear answer—

Mrs McDonald-Ferritto—Perhaps I could answer that question. The New South Wales government is constructing the tunnel and track component of the railway, and they own and are funding that element of the railway. The private sector owns and is maintaining and constructing the stations of the railways—that is, four privately-owned stations. The value of the tunnel and track component is about $650 million to $700 million, and the stations component, which the private sector is funding, is around $150 million. At the end of the concession period, the stations will be handed back to the New South Wales government as part of their integrated network system.

Mr WILLIS—Once the business starts operating and presumably makes a profit. What is the structure of the company? Does the New South Wales government have a share of the ownership according to the capital contribution?

Mrs McDonald-Ferritto—No. The way the contract is structured is that the private sector is the only equity participant in the private stations. It is putting up $30 million in equity, and the National Bank of Australia is contributing the debt portion of the construction cost. The New South Wales government—for the tunnel and track only—are receiving from the airport company an access fee for utilising that section of the track. That comes out of the ticket cost, and they are paid that on a monthly basis.

Mr WILLIS—So any profits are not paid to the New South Wales government: they will come back to the private owner, will they?

Mrs McDonald-Ferritto—That is right. But, ultimately, the more people that use the stations and track, if the element is contained in the ticket price, the more tickets sold, and the more goes back to the New South Wales government.

Mr WILLIS—Can you just tell us a bit more about these new project opportunities that you see here? Some of these are familiar to me. The Alice Springs to Darwin, and the Canberra to Sydney projects, I have heard of. Someone did mention the

Chatswood-Parramatta rail link as a cross-suburban rail proposal.

Mr Fischer—It is on the drawing board.

Mr WILLIS—The Tullamarine-Melbourne rail link is something that has been talked about for a long time. As far as I am aware, it is not a hard and fast project at this stage. Can you just say something about the Surat to Gladstone coal freight line?

Mr Fischer—You may have seen the initiative which the Queensland government took to develop the Surat-Dawson coal basin. It has led to three distinct developments: the Nathan Dam at the Dawson River; a potential power station; and, for the exploitation of the coal, a dedicated rail link out of the Surat-Dawson to Gladstone, or to Bundaberg. Bundaberg is also under contemplation.

At the moment, it is at the feasibility stage. The government has identified the preferred developer—which, I am sad to say, is not us: it is somebody else, and good luck them. The government is identifying, in a $10 million feasibility study, the route and the market for coal haulage. It means new mines, new coal markets and new commitments to export. Obviously, the Queensland government is very interested in stimulating that last aspect.

Mr WILLIS—Is the Perth-Jandakot-Mandurah link a hard and fast proposal?

Mr Fischer—I cannot comment on that.

Mr WILLIS—The Central Pilbara railroad: what is that? The committee has just been to the Pilbara recently, and no-one talked about a Central Pilbara railroad, to my knowledge.

Mr Fischer—I will have to take that on notice and respond to that separately.

Mr WILLIS—The Barossa Valley upgrade is another one that I had not heard of, either.

Mr McDOUGALL—Mr Fischer, the projects that you have been involved in are predominantly passenger ones. We have been discussing here today that between Melbourne and Sydney there is a 10 million tonne freight task. Why is the private sector not taking the same interest, or as big an interest, in resolving—and I am now talking about a land freight task with road and rail combined—the freight task as they seem to be taking in the passenger task on a specialised basis?

Mr Fischer—Where is the forum to develop ideas further? What forum would be available? Obviously, it involves states and the federal government. Is there such a forum which has this as its task? If we can establish a task force where people genuinely look into that and create the definition of what is to be done, from then on we will go to the next step down and say, 'How can we produce it and how can we deliver it?’

Mr McDOUGALL—Is that not already being done in the case where we have got a private sector investor that has said, ‘I want to build a railway line from Melbourne to Darwin’? He has obviously found out that the freight task, which has a link into Sydney and a link into Brisbane—is potentially about 10 million tonnes. He has given evidence before the committee, and he has decided that there is a business there. Is Transfield involved in the development of that concept?

Mr Fischer—Not in this particular one, no. But how would the state and the federal government go about it? Again, you have the same situation. There is an ideas guy—and I know the people who are involved in that—and they are running through department after department, and have been doing that for quite some time now. In the process, they collect more data and more evidence: it is a double thing. What would be the next stage?

Mr McDOUGALL—On the basis that they get access arrangements in relation to land between the three states, they can go ahead and build their railway line and run their trains on it, and run any other private operator’s trains who wants to buy access to the line. Why should they be stopped, if they believe that there is a freight task there which is not being catered for by the two rail corporations that exist in Victoria and New South Wales particularly, and they see the opportunity? So why should we stop competition? If the state organisations are not prepared to put the money in to their existing track and upgrade it, and somebody else wants to build it and can raised funds and do it and operate it, why should not that happen? Why should the states get involved at all? Is Transfield involved in any of the bidding process for Sydney to Canberra?

Mr Fischer—No. There have been a number short-listed; but Transfield is not part of that.

Mr McDOUGALL—But it is proposed that two of those bidders, to my knowledge, would go through St James and the airport sector that you are involved in, and would go through those stations that you will own.

Mr Fischer—Yes.

Mr McDOUGALL—Do those people have to bid for access to the stations, or do they have to arrange access with the government to the stations?

Mr Fischer—They would have to arrange access to the track with the government. For access to the stations, they would have to talk to Transfield.

Mrs McDonald-Ferritto—To the Airport Link Company, yes.

Mr Fischer—To the airport link company.

Mr McDOUGALL—Has that happened?

Mrs McDonald-Ferritto—Not that I am aware of.

Mr Fischer—We can find out.

Mrs McDonald-Ferritto—Yes, we can get back to you.

Mr Fischer—Would you like to know?

Mr McDOUGALL—I think that is very interesting, on the basis that we have got the state government, which is now in the process of considering the tenders, and that there is some doubt as to whether they have even had a discussion with the Rail Access Corporation or have just taken the documentation that was given to them as part of the bidding process. They plan to use four stations that you own, and yet they can put in a tender without negotiating access. I find that difficult to understand.

Mr Fischer—Is it perhaps because the deliberations of these tenders are at a pretty preliminary stage? We cannot deny access. We can negotiate an access regime. On the basis of that knowledge, they might say, 'We will put that one to one side; we will do that later.' I do not know, but that might be one of the answers.

Mr McDOUGALL—But Transfield obviously did not see it as being of interest to say to one of those consortiums, 'Well, why not extend the rail from Canberra down to the Snowy and hook up with the ski tube and find another business access?' I find it quite astounding.

Mr LINDSAY—Mr Fischer, public passenger operations in capital cities run at a significant loss. Do you think it is possible that some other mechanism could be found to run them at a profit?

Mr Fischer—Yes: if you convince the fare paying public to pay more. This is an interesting subject. If you consider somebody who has taken out a novated lease on his car and, say, pays $25,000 for 25,000 kilometre annual travel, he pays about $1 per kilometre. That must settle down in the mind of that person. If that person were to live, as I do, in Kenthurst, which is about 40 kilometres out of the city, and pay about $80 purely to travel into the city, adding $20 for parking and the toll and whatever, that is about $100. Why wouldn't that person who pays $100 not be able to pay, instead of $3.10 per trip, $6.20 per trip and still come out ahead?

There is, again, an imbalance in the perception. Again, I think it has been lifted to the political level where it becomes one of these untouchable issues. You just do not increase fares, and there is an emotive background rather than a rationale behind it.

Mr McARTHUR—I raise the issue of your involvement with the Mascot-Sydney rail link to the airport and the Brisbane Airport Citylink. What was the rationale for using rail to link with a major airport in those two instances?

Mr Fischer—It was the basic integration of transport medium to the airport, and definitely by not burdening the existing road system: that was the instigation. Also, remember that from Central Station down on the way to the airport we have three other stations which we introduced, which create quite an attraction to the population living around there. So the population grows in that precinct of the city, as well as there being a transport medium, which is an extension of an existing one but which does not add to the road burden.

Mr McARTHUR—But would the people who are using aircraft would be happy to transfer themselves onto rail, in a psychological sense—in a way similar to your car example?

Mr Fischer—Judging by the experience of other cities, this is the entrance into the next century. All of Europe, even the commuter airports, have now got dedicated rail connections to these airports, in order to ease—

Mr McARTHUR—You are telling us that that argument has been won, basically, and that there will be a rail link to airports to overcome traffic congestion, in order to allow better timing of scheduling?

Mr Fischer—Yes, we still have to find the proof in the pudding, but the point is here that we have carefully analysed the patronage behaviour of airport travellers. The only way you can do that is by doing studies, interviews, et cetera. From that we learnt that, out of the current travelling public to the Brisbane airport, 12 per cent would be willing to change their mode of transport to rail—and that is a pretty conservative estimate, when you see that at Heathrow quite a high number do that out of convenience.

In Brisbane we have on elevated structures the rail platform, basically as an extension of the terminal. So it is an easy mode: it is under cover, and people simply see the train arriving on the first floor. We believe that it has an ingredient that changes a little the mood of the public. That is another point: we must not lose the missionary spirit that is required to get people away from their current—

Mr McARTHUR—Are you going to take your missionary spirit down to deal with Mr Kennett, in terms of the Citylink?

Mr Fischer—Wouldn't it be interesting.

Mr McARTHUR—Mr Willis and I have a bit of an interest in this Citylink in that it has been suggested that, because it is in the private sector, it has a component that prevents construction of a rail connection to the airport. How would your missionary zeal overcome that?

Mr Fischer—The argument here is not does it prevent, but I would assume what it says is that the state is prevented from subsidising an alternative mode of transport to the airport. We have a similar provision agreed by the state in Queensland. That means that if we spend that money and build it and attract passengers, what we must make sure is that the state or the Brisbane City Council cannot undercut us by a subsidised bus service, for example, which instead of our $7 charges $1 or 50c.

Mr McARTHUR—Except in the city link it is based on a private sector operation where there are toll considerations. It is a presumption there will be a certain traffic flow. If you get into rail—

Mr Fischer—That is right. But again I would say that it would not extend to preventing a rail link to be produced but by saying not subsidised.

Mr WILLIS—No, I think it is a compensation arrangement.

Mr Fischer—And it would trigger a compensation arrangement.

Mr McARTHUR—Very simply, how would you change the argument? You have done it in Sydney and Brisbane. How would you change the argument in Melbourne? What would be your approach to try to get a rail link into Tullamarine?

Mr WILLIS—Change the government.

Mr WAKELIN—Mr Fischer, as to the emphasis on customer service and understanding customer business and needs, how do you view Australia's performance at the moment particularly in the rail industry in that area?

Mr Fischer—The participants in the rail industry are very proud people, and it is quite interesting to see it world wide. They are a clique in themselves. If any one of you had participated in their annual do, the conference on rail, as I did last time in Melbourne, you would have realised what a close-knit community it is. They are very proud of what they are doing. They like playing trains. So, to that extent, I would say that they all project a very positive outlook. Queensland is very proud. Judy Stack even said, 'Well, we do it right; we do everything right.' So you cannot tackle that.

But still, to the uninitiated, the observation is overwhelming if you sit in Queensland in a city train versus sitting in New South Wales on a Tangara train. There is a difference; they are different in quality. So there is a competing outcome, I would say, from the various states. But, basically, there is no lack of motivation for getting it right. And perhaps the reason why we see what we see is a larger interwoven political issue that certain improvements are just simply not forthcoming in the way they should be.

Mr WAKELIN—But you would perhaps say we have a little way to go before we start to maximise?

Mr Fischer—My view is that we have to attract a greater population. You can only measure our success if you achieve that. What we are seeing is that we are heading towards Bangkokian circumstances in all transport. I think our affiliation with our Asian neighbours ought not to go to the extent that we import the negative outcomes of congested traffic, et cetera. It is not necessary.

So I think the ultimate aim ought to be to measure our success in actually diverting people from current modes of transport, which basically are based on cars—and similarly freight. And we should do that in concert. There is not a single body; there is not that single company who runs around with an idea and suddenly can acquire 1,600 kilometres of land corridor and say, 'I have done it, I will now start building.' When you analyse it, the stakes are just too high for any single entity to do that. It is not of the character of BHP or Macquarie Bank or any other bank. I think it needs to be a concerted effort. It is that which I think we ought to trigger in a continuous dialogue of this style and see if we can get this task definition down. I think that will create a better future.

CHAIR—Mr Fischer and Mrs McDonald-Ferritto, thank you for coming here today and giving us

Transfield's perspective on this inquiry. You will receive a copy of the *Hansard* proof in due course.

Proceedings suspended from 12.20 p.m. to 1.18 p.m.

[1.18 p.m.]

KERR, Mr Ross, General Manager, Information Technology, Logistics, Footwear, Big W Discount Stores, Division of Woolworths Limited, 3 City View Road, Pennant Hills, New South Wales 2120

ROBERTS, Mr Trevor Hedley, General Manager, Distribution, Woolworths Limited, Corner Dursley and Fairfield Roads, Yennora, New South Wales 2165

CHAIR—Welcome, gentlemen. I suppose you recognise that, although you are not under oath, these are proceedings of the parliament and the same respect attends to them as does to the House itself. Do you have anything to add to your submission?

Mr Roberts—I was going to give an outline of the salient points.

CHAIR—That was going to be my next question. Would you like to give us a three- to five-minute outline of your paper?

Mr Roberts—Yes. Thank you for the invitation to address the committee on the subject of rail reform.In considering Woolworths's requirements from its transport provider, our needs would be basically along these lines. Our policy of minimum stock within the supply chain drives our need for the most reliable, secure, flexible and convenient transport mode. Currently, rail does not uniformly achieve these standards.

The bulk of our volume is moved relatively short distances. Our transport provider must capitalise on that advantage by minimising multiple handling. Freight moved by rail actually travels via road, rail and then road transport.

We incur a time penalty for each cross transfer which only becomes cost effective over interstate distances. When selecting from those transport modes which achieve our standards, simple economics really dictate the preference for the cheapest pallet rate, and currently road generally provides that.

One underlining factor in replenishing supermarkets is an extremely short lead time between store placement and receipt. The Big W division have a more flexible arrangement, but even so, lead times are important to them as well.

Transport reliability and flexibility is fundamental towards maintaining the market advantage. The best transport provider for Woolworths must not only operate between current vendors—that is suppliers, our distribution centres and stores—but must be capable of expanding that coverage with company growth. Given the enormous cost of rail infrastructure and rolling stock and the comparatively short quantities that Woolworths moves, an interstate distance rail with few exceptions is not seen as being cost effective in providing that service.

These are the key parameters, I guess, which characterise our transport operations and underpin our current heavy reliance on road transport. The key factors, which, if addressed, would give rail more relevance to our operation, would include the following list—and this is very much a wish list. I do not seek to suggest how that could be done, but certainly there could be a reduction in the current excessive lead times which would move our freight more quickly. The provision of genuine competition between rail service providers would assist in decreasing wasteful practices, engendering a spirit of being able to do something beyond the mentality that seems to exist within the rail system. There could be the introduction of flexible scheduling, the redesign of rolling stock to maximise high cube capacity and facilitate the quick cross transfer of palletised merchandise for local delivery and the provision of a more flexible pricing structure. They are basically the matters.

We are here by invitation more as a user of transport, of rail. The majority of our rail is in and out of Queensland, from Brisbane, Cairns being the first port and then north. Big W use a lot of rail, particularly from their distribution centres through to Perth. We also use rail within the supermarket division, moving stock between capital cities. That again is via road onto rail and then off rail onto road to our distribution centres.

CHAIR—Those trucks that carry your banners, are they your own trucks or are they contractors?

Mr Roberts—We have our own transport in Victoria, but other than that, they are all contracted.

CHAIR—As a matter of interest, you picked Warwick as your major distribution centre.

Mr Roberts—Warwick is the Big W distribution centre.

CHAIR—That runs contrary to a lot of the patterns we have seen. You might just give us a word on that. Do you use rail at Warwick as well?

Mr Kerr—No, not at all. Just to give you an idea of the Big W division, we are a little bit different from Woolworths. We only have 82 stores Australia wide spread from Darwin down the north coast of Australia across to Perth, Adelaide and Melbourne. We have virtually split the country in half. We service all of New South Wales, Queensland and the Northern Territory out of Warwick in Queensland. Currently, we service the rest of Australia out of a warehouse in Melbourne. I am in the throes of constructing a warehouse at Monarto, near Murray Bridge out of Adelaide.

The reason we chose to put our distribution centres in a country town is first and foremost that it was the geographical centre of where we wanted to distribute our goods. If you think about the fact that we are going as far north as Cairns and Darwin and as far south as Canberra from Warwick, it is pretty much the centre of that. We have also had the ability to get hold of some very good people who obviously need the work and who look at that sort of centre in a country town as being an important source of employment.

CHAIR—You do not use rail?

Mr Kerr—We do not use rail at all.

CHAIR—In your submission, you talk about the adding and removing of wagons at country depots, which would be an improvement. Do you have a response to that?

Mr Roberts—It is the timing factor that is the important aspect from our point of view. Queensland seems to have improved their services to the extent that we do use more rail in Queensland. They seem to have overcome a lot of the timing problems and the transfer costs that other states have not addressed. We are in the position where we are not users of rail to any great extent. Therefore, we take advantage of whatever service is being provided. We cannot dictate to any large extent in regard to the services. If the service improves, as it has done in Queensland, then we will take advantage of it. From Cairns onwards the cost between road and rail is certainly reasonably marginal. Therefore, rail is being used.

Mr Kerr—That also came from me in siting the warehouse in Monarto and wanting to be in a country town. The Monarto warehouse will service by rail all our stores in Western Australia and Perth. I had some discussions with Australia Rail as to whether there were some country towns where we could put the warehouse, where I could add carriages, if you like, to the trains going across the Nullarbor. In the end, there were only two places where we could do that—namely, Adelaide or Melbourne. We ended up placing the warehouse at Monarto, which is about 45 minutes out of Adelaide. This gives me the advantage of a country town but it is close enough for me to ship the Western Australian stock into Adelaide, put it onto rail and then send it across to Perth. One of the towns that we were looking at was Dimboola where currently they add on some wagons, but it was not a possibility for me to add extra wagons.

CHAIR—You made another point about railroad technologies, describing roll-on and roll-off intermodal freight systems. We had some evidence of a particular operation. I do not know whether you have seen this. Is this the sort of thing that you are referring to?

Mr Roberts—That would certainly give the impression of being able to speed things up.

Mr Kerr—The whole idea would be that the rail is set about three feet down—about a metre under the surface—and semitrailers can just drive straight on and off the flat-top wagons. That is the theory of it. It is shipping the prime mover with the wagon.

CHAIR—The top of the wagon then presses in between the bogies and takes the trailer part with it.

Mr Roberts—You do not ship the prime mover with that.

CHAIR—No.

Mr Kerr—That would not be unlike what QRX are doing in Brisbane. They are using—

CHAIR—I would like to know whether you are talking generally or you had a particular technology in mind?

Mr Roberts—Talking generally. As I say, we are users and we will respond to whatever the freight forwarders are able to offer. I made the point that the freight forwarders are probably the ones that have the greatest influence, from our point of view, in any submissions to your inquiry.

CHAIR—We are fairly short of time.

Mr LINDSAY—Do any of your major suppliers use rail? And if so, have they indicated any problems to you?

Mr Roberts—A lot of the suppliers use rail but they ship it into a central depot and move it on from there. We were using rail into one of our warehouses. It was not as effective as getting it by road. The lead time again was too long by the time it was shunted around and eventually came to us. We get more efficiencies and effectiveness by having it come in by road.

Mr LINDSAY—Do you think that was because the rail system was too bureaucratic or not responsive to customer needs?

Mr Roberts—Certainly not responsive but I do not know why.

Mr Kerr—I think they were just not timely enough for the operation. The main reason we abandoned that was because of the time it was taking. This was a rail spur we had into one of our facilities where they had the ability to shunt wagons in there. One of the things that I looked at at Warwick was whether we should not bring containers from the wharf at Brisbane via rail. But by the time we got them on and off we lost 24 hours and we cannot afford to lose 24 hours in getting containers off the wharf, into our system and out and away. So we drove them up from Brisbane.

CHAIR—Over Cunningham's Gap?

Mr Kerr—Yes.

Mr LINDSAY—In the past you have used rail in your operations, so I take it that the use of rail has decreased?

Mr Roberts—No. We use rail extensively between capital cities. All of our stock that we ship between capital cities goes by rail.

Mr WAKELIN—Have you any idea of what percentage of product might be moved by rail for Woolworths, who is a huge Australian concern?

Mr Roberts—It is quite small. In Queensland about 35 per cent of our stock goes by rail but in other states it all goes by road, other than Big W when they ship their stock—

Mr Kerr—About 10 per cent goes by rail. That is really everything that goes to Perth. I have to say the service we get into Perth—there are private trains running into Perth—is an outstanding service compared to what it used to be. You get two trains a week which go across to there and effectively they are costing three days in lead time. SCT is the company used.

Mr WAKELIN—You are obviously well pleased with it and it is serving you well.

Mr Kerr—Certainly better I would think in our regards than road transport for that distance and certainly cheaper.

Mr WAKELIN—How long has it been running?

Mr Kerr—We have been using it for as long as I can remember—the improved services probably for about two years.

Mr WAKELIN—I had in mind a certain flood that occurred—

Mr Kerr—Yes, that cost us some time. That happens with road as well.

Mr WAKELIN—Yes. Those things happen but once in 100 years.

Mr Kerr—And that happens with the road transport occasionally.

Mr WAKELIN—In point 6 you talk about rail containers being designed to fit Australian standard pallets and say that there could be a greater availability for these containers. Could you just enlarge on that a bit? It seems to be quite an important point in terms of building containers to fit the standard pallets.

Mr Kerr—To my understanding what we are using across to Perth at the moment are old louvre vans. They fit two Australian standard pallets on them and we can get the pallets in eight foot high. I think they pack them with—the last time I looked—old rubber tyres. We are moving them inside the van and it is quite a shuffle to get them around. We were really saying that if we were going to do rail properly, we would need containers that could be easily unloaded and loaded. I think that is happening; it is not fair to say that that is not happening in some cases.

Mr WAKELIN—No, but it is certainly an area that could improve and make it that much better.

Mr Kerr—Yes.

CHAIR—What would have to change for you to use more rail? Is it just timeliness or is it double handling? What is it?

Mr Kerr—For us I guess it is just the timeliness and double handling. But all things come at a cost of course. Some of the stock for supermarkets going north is by rail because it is a cost effective way. One of the problems we have got in general merchandise is our freight is cubic rather than weight. We also have made some comment that we need to get containers on the rail that are more cubic so that we can get more stock in them, rather than some of the weight. I guess at the moment we have the option to use rail on the north Queensland route but, whereas Trevor chooses to use rail, I choose to use road transport because it suits our business better. We do not ship stock in full containers. We would send six pallets to one store, four to another, so with road transport we can drop some at Bundaberg, some at Gladstone, and so on as we go up the coast.

Mr McDOUGALL—I am sorry I was late coming in and I did not get to hear your comments, but are either of you involved in export in the Woolworths distribution?

Mr Kerr—No. I am not.

Mr Roberts—I am not specifically. Export is quite small. It is mainly produce at the present time.

CHAIR—Do you have any stores in Papua New Guinea?

Mr Roberts—No. We have been shipping stock. Obviously it goes by sea but it is frankly a pain in the neck at the present time. It is so small and so difficult. It was not a big market and it has disappeared altogether now.

Mr McDOUGALL—It is interesting and I go back to comments that were made by Woolworths during an inquiry we had into air freight. One got the impression there strongly that Woolworths were going to become a major player in the export of produce out of Australia to Asia. Are you saying now that you—

Mr Roberts—We ship produce by air but that market has dried up completely—well, I wouldn't say completely. It is a lot less now than it was 12 or 18 months ago. Mainly because it was going to Asia and the market is no longer there. And produce is a difficult commodity. You have to have it ready when it is ripe. The market is difficult to handle. It is an opportunity for us which we will develop as we go on but it is certainly not a major part of our business.

Mr Kerr—It is certainly the company's intention to pursue that export of fresh food.

Mr McDOUGALL—The question it was leading to was whether Woolworths were going to be part of this in the future in regard to exporting out through Darwin.

Mr Roberts—I think there is a definite opportunity as far as that is concerned.

Mr McDOUGALL—By fast sea freight.

Mr Roberts—Yes. The areas surrounding Darwin have opportunities from a growing point of view and we certainly see that being an opportunity, provided there were the facilities and the infrastructure to be able to deal with it.

Mr McDOUGALL—Would you have any interest in either of the two projects they are talking about—Adelaide to Darwin or Melbourne to Darwin rail?

Mr Roberts—I would see that as the case, yes.

Mr Kerr—There is not a lot of freight coming back out of Darwin at the moment. In fact I have had some discussion with my transport provider that delivers to Darwin whether we could not drop containers into Darwin and bring them back using the road bridge at the moment. But that is not feasible for us. There are not enough ships in fact visiting Darwin on a regular basis, so we really abandoned looking at that because of the sailings. But certainly there is an opportunity for all sorts of things if there was a rail link and more sailings or Darwin became a more regular port.

Mr Roberts—In the supermarket area, we bring in between 60 and 100 containers a week in the peak time. If we can shorten that lead time we will certainly be interested in doing it.

Mr McDOUGALL—You would bring the bulk of those from South-East Asia?

Mr Roberts—A lot comes from South-East Asia, Korea and Taiwan.

Mr Kerr—Even that coming from Europe usually comes through Singapore anyway.

Mr Roberts—We like a lot of consolidation in Singapore so we ship as much as possible into full containers.

Mr McDOUGALL—So 60 a week if there was a port—

Mr Kerr—I bring 3,000 a year through the Brisbane port at the moment: 3,000 twenty-foot equivalents. We measure everything in twenty-foot equivalents if you like.

Mr McDOUGALL—If one of those rail links was built to the port of Darwin and Darwin became a suitable point with the right connections to those, that could be of benefit to you and offer you a rail link for backloading freight which they would obviously be looking for.

Mr Roberts—Yes, it would depend on the price.

Mr Kerr—Obviously the cost and once again the time that it takes to get it down there.

Mr Roberts—One could certainly see that as being an opportunity. Darwin is quite a strong retail area for both Big W and supermarkets and if there are opportunities to ship it in both directions and the pricing and timing is right we would certainly take advantage of it. We are a user of the service and provided the service is being provided we will certainly respond to what is being offered.

CHAIR—With regard to the handling of freight, do you have any evidence, even anecdotal evidence, of difficulty in accessing freight from the major terminals at, say, Dynon in Melbourne and so on. Do you have any comment to make on accessing freight?

Mr Kerr—We used to, occasionally, bring freight up from Melbourne to our Sydney stores and, when there was a low availability of trucks, sometimes it was sent up by the rail and that came into a depot at Petersham, I think it is, out that way somewhere, a TNT depot. Certainly whether it was TNT's inefficiencies or whatever happened, that freight quite often got held up. We man our stores at night for the load that comes in that afternoon to be put on show that night so that there is not any stock sitting round the next day and that is the way the both of us run our businesses. When the stock does not turn up and you have got 30 or 40 people sitting round waiting for it to arrive, it is costing you.

CHAIR—What role do you see for the Commonwealth in all this?

Mr Kerr—I would have thought providing some uniformity for a start across the rail network. I have got to be honest with you; I do not see much of a role for the states in anything. Quite frankly this is a big country and we have a huge job of infrastructure and freight to manage. One of the things that I very much believe in is that putting things in country towns is a very important issue for Australia because it will help all of our infrastructure in the long run. It crosses state boundaries and really the Commonwealth has a huge role, I would have thought, in providing the infrastructure. Operators can operate on the rail, I guess.

CHAIR—On that very provocative note, I thank you both for your evidence, Mr Roberts and Mr Kerr. I do particularly thank you for responding because I think there are only two retailers that have appeared and it gives us a bit of a feel for how the end product gets to where it should be going. We will send you a copy of the *Hansard* proof.

[1.45 p.m.]

HILL, Mr David Welbourn, Research Officer, Australasian Railway Association, PO Box 94, Collins Street West, Melbourne, Victoria 8007

KIRK, Mr John Philip, Executive Director, Australasian Railways Association, PO Box 94, Collins Street West, Melbourne, Victoria 8007

CHAIR—Welcome. You realise that, although you are not under oath, these are proceedings of the parliament and they deserve the attention that is normally accorded to the House.

Mr Kirk—Yes.

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

Mr Kirk—We would. Thank you for the opportunity to appear again before this inquiry into the role of rail in the national transport network. The inquiry has attracted a good deal of attention and the industry looks forward to your report. At our previous appearance we briefly touched on regulatory matters. In this overview I wish to focus on the impact of regulation on the rail industry.

Rail is a demonstrably safe transport mode. The cost to the community of rail accidents is around one per cent of total transport accident costs in Australia. Rail travel is seven times safer than car travel, with just 0.11 people killed per 100 million passenger kilometres, compared with 0.77 people per 100 million passenger kilometres for cars. In spite of this excellent safety record, rail operators are subject to a vastly more complex and costly regulatory regime than road operators. Notwithstanding a common rail safety standard, AS 4292, and an intergovernment agreement that embraces the principal of mutual recognition, 20 or more sets of state-based operating rules and regulations still exist. Transport safety regulators; occupational health and safety agencies; workers compensation agencies, like Workcover, Worksafe, Comcare and so on, and environment protection authorities all seek to impose their individual requirements on rail operators. There are gray areas of responsibility between these bodies, leading to the imposition of additional costs on operators.

The intergovernment agreement on rail safety was intended to provide an easier path through the mutual recognition process, but in practice safety accreditation is proving to be a difficult and costly process. In particular, interstate operators face substantial costs in complying with different state requirements, including accreditation fees that must be paid to each state jurisdiction, irrespective of mutual recognition.

While the road transport industry continues to free itself from the burden of state-based prescriptive regulation, the newly resurgent rail industry is in danger of being strangled by increasing red tape and government charges. I would like to provide two examples to highlight these issues. The first is rail safety accreditation fees. The recent announcements by the South Australian and Western Australian governments regarding the new rail safety accreditation fees highlight the costs of state-based regulatory regimes. South Australia and Western Australia will soon be joining Queensland and New South Wales in implementing charges for rail safety accreditation. In true break of gauge mentality, the models for calculating the fees are all different. They are, however, similar in two respects. Firstly, they are de facto duplicate access charges and they are not based on any commercial services provided by departments. Indeed, they have been calculated to achieve full cost recovery of departmental costs.

While mutual recognition will apply for owners accredited in another state, local state charges will still be levied, even where no accreditation service is provided. This means that operators will be paying more than once for the one accreditation audit. The rail industry is not opposed to paying fees for service, providing that these are commercial fees based on actual services to rail operators and owners.

In effect, the new fees are anti-competitive and unfairly discriminate against rail operators. Our competitors in the road industry pay fuel tax but are not required to pay a separate access charge that includes the road kilometres travelled each year. They do not pay a charge on owning private roads or terminals. In addition, road operators are generally not required to meet full cost recovery for the services provided to enforce compliance—for example, traffic police and road inspectors—nor administrative services like departments of transport and roads, accident investigation and prevention, nor do they pay for accident recovery, like ambulance services.

The second example is the New South Wales Environment Protection Authority and its noise requirements. Different standards for noise emissions apply to road and rail in New South Wales and Queensland. Locomotives are permitted 87 decibels, about the average hum for street traffic, whereas heavy trucks are allowed 105 decibels, approximately 10 times more and the equivalent of a noisy pop group for which earplugs would be recommended. The new Goninan built NR locomotives are the quietest in Australia and have difficulty complying with these noise requirements.

A further anomaly remains. Existing operators with equipment that does not comply with the EPA noise limits can continue to operate that equipment. A new operator with identical equipment must comply with the EPA regulations. This effectively limits the ability of short-haul operators to operate in and out of Sydney because of the difficulty and expense in modifying second-hand equipment to comply with these standards. In practice, one 2000-horsepower locomotive, which is typical of what a short-haul operator would have, that is hauling 30 containers on 15 wagons needs to comply with an 87-decibel noise level. The same task on road would require 30 semitrailers with a noise level of 105 decibels for each truck. You can imagine the din as they streamed past each other. So much for environmental protection when the EPA prefers 30 very noisy trucks to one moderately noisy train.

At our last appearance, we also touched on diesel fuel excise. Having regard to our conversation, we decided to take a slightly different approach to this conundrum in looking at savings to rail customers if this was removed. Diesel fuel excise amounts for around 10 per cent of rail operating costs and affects 60 per cent of Australia's rail freight. This impacts on the export of most coal and wheat, as well as a wide range of other commodities. Export coal and wheat comprise 15 per cent of total exports and are worth $12 billion per year to the domestic economy.

Coal and wheat producers would save at least $45 million per year if rail received a diesel fuel rebate. Exempting rail from fuel excise will lower costs. This will improve export competitiveness and attract extra freight to rail, resulting in savings in road wear and tear, reduced road congestion, less fuel consumption and fewer greenhouse gas emissions.

In closing this overview, the ARA congratulates the federal government on the initiatives it has taken designed to provide uniformity in rail regulations and operating standards. The ARA is committed to working with all governments to progress these rail reforms. Our aim is to consolidate rail as a competitive and profitable business, with a key role in the transport network, adding value to its customers and providing a range of social, economic and environmental benefits to the community.

CHAIR—Thanks, Mr Kirk. I will try to keep the questions short so we can get through as many as possible. Last night we had Mr Chuck Hoppe in. In his submission, he said:

Forcing rail/rail competition in markets without sufficient density to support it, could drive the railways out of the market . . .

and ultimately leave freight to the road.

What is your view on that? In other words, if you force competition without sufficient density, you may end up with a worse scenario than before.

Mr Kirk—I would agree with that statement. One of the key problems that we have in some of our rail corridors is that the markets are very thin. The industry operators all agree that in many of the corridors they are lucky to sustain the industry. In the most profitable corridor, which is east-west, there are three operators. In other corridors, you would be lucky to sustain two operators.

CHAIR—What is your view on the congestion in metropolitan cities, in particular Sydney, and the solution to that problem? How does your association see that?

Mr Kirk—Our association has identified a number of priorities with regard to improving rail performance in terms of infrastructure investments. It is fair to say the top priority would be providing some kind of separate freight corridor through Sydney to alleviate that congestion.

CHAIR—We heard this morning that the Flemington overpass is going to cost $35 million to $40 million and a full dedicated $150 million. Who should pay for that?

Mr Kirk—I understand that the New South Wales government has indicated willingness to pay for some part of the Flemington junction upgrades.

CHAIR—Half of that.

Mr Kirk—The extra half of that has been sought from the Commonwealth. With regard to the rest of the funding, if the project is seen as a part of the national rail network, it should come from the same bucket of money that we pay for our national road highway network.

Mr McARTHUR—If we get back to this issue of integration, last night Mr Hoppe really put a fairly good case for integration of rail and rolling stock. Could you give us your association view? On the access argument, we have had Ms Judy Stack giving us some comments on the New South Wales model. Could you give us your understanding about the way in which that might have the best outcomes? What will be the outcome on this regulation of noise and safety? Could the two issues you raised in your earlier remarks completely overwhelm the rail system?

Mr Kirk—I will take the last one first. We are very concerned about what is the overregulation of the rail industry. We do believe that has an effect of not only stifling existing operators but also providing a significant barrier to new operators, particularly the niche market short haul operators who not only have to pay these huge accreditation fees but also have to comply with these noise requirements. From the way the states are behaving, I guess it is a very good argument for a single authority—

Mr McARTHUR—Would you see a role for the Commonwealth government similar to its role in the carriage of hazardous chemicals, so that the Commonwealth became the agent of control?

Mr Kirk—As I understand, the Commonwealth had a significant role in aviation regulation and bringing the industry together under one umbrella regulator whereas, in the past, there were state based regulations. The Commonwealth has also played a significant role, in terms of leadership, with road regulations and achieving a high level of uniformity which has really enabled the road transport industry to operate efficiently.

Mr McARTHUR—Would your association be recommending that to this committee?

Mr Kirk—I think we would consider that a single rail regulator probably would be a good idea, given the current way the states are going in all different directions.

Mr McARTHUR—You have not quite recommended that. Are you recommending that or not?

Mr Kirk—I guess it would be a preferred option. There would be one body to deal with rather than lots.

Mr McARTHUR—Would you give us your views on integration versus access.

Mr Kirk—Within the association are a number of different views on integration and access. I do not really believe that the industry structure, overall, is so important. It is really how we grow the market share for rail. I think that, whichever model you choose, there are always going to be issues that need to be dealt with by regulators and governments to make sure that there is access or competition, or whatever.

It is quite clear from a lot of the evidence overseas that integrated railways are successful railways. It is also clear that, for rail operators overseas to run good businesses, they need to be able to control the investments in track. Good track equals good business. From that point of view, there is strong evidence to indicate that the most successful railways are vertically integrated railways. We are seeing other examples in the UK where freight operators like EW&S—English, Welsh and Scottish Railway—are able to turn the industry around in a separated system. It is largely horses for courses. I think the evidence is overwhelming in favour of vertical integration.

Mr McARTHUR—I have a final question. Mr Hoppe was suggesting that the access regime was so complex that the whole system might fall over. In his evidence last night, he produced a very interesting statement. Would you care to comment on that?

Mr Kirk—I think that map speaks for itself. It is a very complicated set of interrelationships and regulations.

Mr McARTHUR—What is the association's view on that?

Mr Kirk—It needs to be simplified and we are supporting the government's initiatives that were recently embedded in the Maunsell report to simplify all those interfaces in terms of—

Mr McARTHUR—So your group would be saying that, if we can implement some of the Maunsell detail, that would help to facilitate a simplification of this outline.

Mr Kirk—Certainly.

Mr WILLIS—I have a few questions. Firstly, in your introductory remarks, you said that an increase from 87 decibels to 105 decibels was a tenfold increase. Could you explain that to me a bit more?

Mr Hill—That is the relationship between sound level and sound pressure. There is a chart that we can provide which explains how the relationship between sound level and intensity is actually exponential, not linear. So that, if you increase the decibel level, the actual intensity level increases exponentially in relation to that. From this chart, you can see that, with an 87-level decibel to 105, the pressure goes up about 10 in intensity. So it is not a linear 18 increase. Because it is exponential, it increases far greater in proportion to the actual sound pressure.

Mr WILLIS—I will study that with some interest.

Mr Hill—As you can see, it relates different sorts of things to different sound levels. So you can see that the 105 is basically like a pop group and the 87 is similar to traffic. That is the sort of difference that we are dealing with.

Mr LINDSAY—If I can just challenge that, I do not think that is true. For each 10 db increase, you get a 10-times increase.

Mr Hill—In pressure?

Mr LINDSAY—Yes. That is beside the point, I know. I think you will find I am right.

Mr Hill—So what you are suggesting is even greater than what we said.

Mr LINDSAY—It is greater, yes.

Mr Hill—That is okay; we do not mind that. I was just going from this. It looks like that. If you are saying it is even greater, that is fine. That supports our case even more strongly.

Mr LINDSAY—But it is a logarithmic—

CHAIR—We had better keep it moving, colleagues.

Mr WILLIS—In regard to the intergovernment agreement on rail safety, you seem to be fairly disparaging of that. You said that the states are all going their own way anyway, setting up their own charges. What are we getting out of it? As I understood it, we were supposed to get a one-stop shop for accreditation. Have we got that and is that all we are getting out of it or is there something else to be gained?

Mr Kirk—The IGA was set up with the great hope that it would provide the one-stop shop for accreditation and so on. Although we have now got the one rail safety standard, and we have got a number of compatible and very similar rail safety acts, the way these are being interpreted and implemented by each state is quite different, and that is where the variations are occurring.

Mr WILLIS—So that, if you get accreditation in New South Wales, say, that gives you accreditation now in all other states, does it, straight off? You do not have to go to them separately?

Mr Kirk—Supposedly, that is the case. That is the intention of the agreement. That is the case. In practice, it is not working out quite like that.

Mr WILLIS—Why not?

Mr Kirk—Because some states are choosing not to recognise accreditations in other states for a whole range of reasons.

Mr WILLIS—Won’t that go totally against the spirit of the agreement?

Mr Kirk—Exactly; and add the charges on top of that, so that each state is charging for services they are not really providing.

Mr WILLIS—Yes, I took that point. That is something for us to chase up. In your original submission, you made a really telling point to us about track access fees. You gave the example that, in 1996-97, the NRC paid $117 million in track access fees to state authorities to carry about 17 billion in tonne kilometres of freight. The same amount of freight would have required 3,100 B-double trucks and they would have had to pay a road access of about $17 million. That is $17 million compared to $117 million; it looks terribly unfair to rail.

I think that point is quite telling, but I think you have also got to take into account the fact that rail does not pay any sales tax. If you look at the sales tax that the road industry would have paid on 3,100 B-doubles, I do not know exactly but, off the top of my head, it is about $40,000 or something. I presume that they cost a couple of hundred thousand. You would be looking at around $120 million in sales tax. It seems to me that has to be part of the equation, doesn't it?

Mr Kirk—In this particular example, we removed everything but access fees rather than looking at the extra things like diesel fuel excise and sales taxes and so on. We tried to make it a bare minimum just to compare the access charges. There are swings and roundabouts and it is quite clear that rail had an advantage with sales tax exemptions. I think studies need to be done on the impact of balancing sales tax, diesel fuel and excise.

Mr WILLIS—If we are looking at levelling playing fields, it seems to me that has got to be part of the equation. You seem to be saying that the rail industry is paying a diesel fuel road user component and not getting it back on roads, but we are ignoring the sales tax exemption. It seems to me that we need to look at all those aspects if we are going to have a proper appreciation of the inequities of the playing field.

Mr Hill—The actual level of sales tax paid on B-doubles in 1995-96, in the report done by the standing committee on transport supported by the Road Transport Federation, was $2.9 million. It is not a huge amount. It does not add significantly to the $17 million which, as we pointed out, is purely an access fee for the situation anyway.

Mr WILLIS—No, but if there were 3,100 B-doubles immediately brought into the system—

Mr Hill—Maybe so, but the point we are trying to make is that it would not increase it substantially.

Mr WILLIS—What you are saying is that, if you took the trains out, you would need 3,100 B-doubles.

Mr Hill—That is right. That is exactly what we have been saying.

Mr WILLIS—Obviously that is not the situation and, therefore, it is not showing up in sales tax. But if they were brought in to do it, that is what they would have to pay. That is what you have to look at to get an appreciation of the relative costs that the two modes are bearing.

Mr Kirk—As I understand it, there is a study being done on competitive neutrality with regard to tax issues and all these things are being looked at. I think it is one of the recommendations from the rail summit. There is a report being prepared.

Mr WAKELIN—On the charge sheet of the Australian rail freight task in billion net tonne kilometres, you make the observation for 1995-96 of significantly increased tasks by rail. That makes the point very clearly that rail is an essential part of the Australian transport industry.

A lot of it is commodity. Do you know the percentage of the share in that area—say, national rail freight and the state rail authorities, apart from the commodity—in terms of total freight task, particularly rail to road? It is a difficult question. It is a big amount of freight there and it is pretty well specialised.

Mr Hill—Sorry, are you asking what proportion of total rail freight NTKs National Rail has?

Mr WAKELIN—No, I am trying to get to: how much of your general freight is done by rail and how much is done by road basically, apart from the general commodity stuff?

Mr Hill—We do not have that information readily available here. We could probably find something out though.

Mr WAKELIN—What I am trying to get is a picture over a 25-year period of how rail maintains its percentage in that general freight task.

Mr Hill—We would need a comprehensive survey. One of the difficulties we in the transport industry have is the lack of adequate and rigorous data in those areas and highlighting notable share of particular freight types is difficult. For example, if a container comes to a National Rail depot, they do not know what is in it. If it comes from a freight forwarder, it is put on a train. It is difficult, unless you take it apart, to actually look at that.

Mr WAKELIN—Fine, I accept that. I just wondered whether you had any anecdotal evidence and some feeling over 25 years of how it is going. Is it maintaining its share?

Mr Hill—No, indications are that generally it has declined. Advice we have from National Rail is that, for example, in the Melbourne to Sydney market the rail share of the general freight market is something like 15 per cent as against an overall market share in that corridor of a little over 20 per cent. In that segment of the market, it has declined and is now down to about 15 per cent.

Mr WAKELIN—The obvious observation which your figures bring out quite starkly is that in those specialised areas we are world best practice. Everyone accepts that. Rail can do it very well. There is no reason why it cannot do it in the general freight in the same way.

Mr Hill—No reason at all.

Mr WAKELIN—If the practice is what the work of this committee is trying to do.

Mr Hill—It does it quite effectively overseas and there is no reason it cannot here.

Mr WAKELIN—If you are going to talk from an international perspective, where does Australia sit in the pecking order of a rail culture which is starting to take off and get to somewhere where we might like to be? In terms of the US and Europe, where do you think it is heading?

Mr Kirk—Are you talking still about the general freight, or are you talking about the whole—

Mr WAKELIN—Both; but the general is where our difficulty is, and that is why were are here, at the end of the day.

Mr Kirk—Different cultures exist within different operations and they differ according to whether they are government owned or privately owned and whether they are mining railways or grain railways and so on. It is fair to say that we have seen some dramatic changes in the culture of the work force in the rail industry in Australia over the past 10 years. The work force has halved in that time and productivity has doubled, so these achievements speak for themselves. There has been a cultural change, and people are more interested in providing a service.

Mr WAKELIN—I was thinking in terms of international: where do we sit in that general freight area—where we most need to improve, by the look of it?

Mr Kirk—I was talking to Chuck Hoppe last night. We have still got a little way to go, but it is fair to acknowledge that changes have taken place. Looking at some of the overseas experience, certainly there are some goals to achieve.

CHAIR—Keep your questions short, please, colleagues, because we are running out of time.

Mr McDOUGALL—I only have two questions. On the noise requirement problems, you have compared locos to trucks. But, as a person who has a freight line running straight through my electorate, I think you should do your noise comparisons on wheel to rail. That makes a hell of a lot more noise than the engine, let me assure you, and around my area most of the track—in curves and weight ratios—is so poor that the squeal of the wheels is far greater than the noise made by the loco, and so that is what people complain about. You have got to get that one right.

The interesting question to me is this—and you were here this morning, Mr Kirk, when I was talking to both New South Wales bodies. New South Wales is spending $880 million. You are telling us how much government should spend to upgrade freight capacity. $880 million is being spent on passengers, and freight gets nothing, but they have their hand out hoping that we are going to give them something of the $450 million to make a freight line. How serious is the New South Wales railway?

On top of that, they are now saying that, on the Melbourne to Brisbane run, they are averaging 40 to 50 kilometres per hour and that, with $700 million, they can possibly get to 65 or 70 kilometres per hour and that maybe at $12 billion they may be able to get 80 kilometres per hour or, with a bit of luck, to 85. With those increases—which are, in my personal opinion, extremely minimal—how much of that 10 million tonne land freight corridor are they really going to attract off the road? How much money have we got to spend to make this thing really work? Or are we just going to keep on throwing a couple of hundred million dollars at it and not resolve the issue?

Mr Kirk—A good question. I certainly hope we do not throw $200 million at it and not resolve anything. Your question is very detailed, and it is fair to say that one of the issues that the ARA, as an association, has been promoting is the need for more research into some of these issues, and economic research into where the best investments ought to be for the best value. Where would you spend the dollars for the biggest bang for your buck? If you ask the rail operators, they have all got their lists that they will tell you. But, as Mr Hoppe said last night, one of the significant moves that the Americans made when they needed to was to have an independent body to do this.

I understand that the ARTC has been looking for projects to spend on out of the $250 million, and it is subscribed five times over with the list that the rail operators have put up. I also understand that the federal government is going to hire a consultant to sort out the priorities. That is the sort of thing that needs to be done. But, in specific terms, I do not have that information to answer your question. I guess one looks at what happened on the north-south corridor between Melbourne and Sydney: with the billions of dollars that were spent on the Hume Highway, we have watched the market share drift from rail to road with the investment in that infrastructure. I guess one would say that, if the rail line alignments had the same advantages in terms of that kind of investment, we would see the drift back.

Mr McDOUGALL—What you are saying is that we are playing with ourselves on those types of kilometre rates but that, if we got a train running at 150 kilometres per hour on a decent rail track, the railway maybe able to get some business back.

Mr Kirk—I think we are showing that we are getting business back on the conditions we are working under. It shows the ingenuity and creativity of the rail networks. Any of those investments is going to create a huge advantage—absolutely.

Mr Hill—Can I pick up on the noise issue? The issue raised there is absolutely critical to our argument, in that it is not the locomotive noise that the EPA should be addressing but the wheel to rail noise. We would say that that supports the case for noise barriers, such as are put up on freeways to address the same problem with road noise or whatever. You could address the same thing with noise barriers, which are aesthetically unpleasant but—

Mr McDOUGALL—They do not work; they have tried that.

Mr Hill—Whatever approach is taken, that is the type of area that the EPA should be getting at, and not attacking the locomotives, where you would have a very big problem to get them down to the standard.

Mr LINDSAY—If such a large investment is needed to upgrade mainline tracks in Australia, why not just dump the idea and ship everything by sea?

Mr Kirk—Because the community has to pay for it, in the end.

Mr LINDSAY—It is cheaper by sea.

Mr Kirk—It also takes longer.

Mr LINDSAY—You have been talking about competition between road and rail, but what about sea?

Mr Kirk—Sea is certainly in the equation and should be seen as a competitor for rail, as road is. From listening this morning, I think that the Toll Rail people quite clearly indicated that there were road markets and markets for rail and for sea. The freight forwarders will always make those decisions. If they can make a buck out of using rail, that is what they want to do.

Mr LINDSAY—You represent people in New Zealand, don't you?

Mr Kirk—We represent Tranz Rail and the Land Transport Safety Authority in New Zealand.

Mr LINDSAY—Is there anything you have seen in New Zealand that New Zealand does better than Australia does? What would you recommend to the committee that we should consider?

Mr Kirk—There are a number of things that New Zealand has done in terms of political policies. I guess the most significant one of those is their attitude towards the level playing field—in particular, they are looking at commercialising road pricing to equalise that imbalance. That is the most significant thing that they have done, by looking at a more integrated approach to transport—rather than having one mode played off against the other mode, which is what we tend to do here.

CHAIR—Thank you very much for your evidence, Mr Kirk and Mr Hill, and thank you also for the interest you have taken in the inquiry. You have been a constant visitor and we appreciate your interest. As normally is the case, we will send you a copy of the *Hansard* proof.

[2.18 p.m.]

McAVOY, Mr Mark, Manager, Development, Specialised Container Transport, Suite 7, Level 1, 51-55 City Road, Southbank, Victoria 3006

REED, Mr Bill, National Rail Manager, Specialised Container Transport, Suite 7, Level 1, 51-55 City Road, Southbank, Victoria 3006

CHAIR—Welcome. You need to realise that, although you are not under oath, these are proceedings of the parliament and deserve the same respect that is attached to those of the House. Do you have any data additional to your original submission?

Mr McAvoy—I have a handout.

CHAIR—Thank you. Are you going to lead off, Mr Reed?

Mr Reed—Mr McAvoy is going to lead off.

CHAIR—Mr McAvoy, please give us a three- to five-minute overview of your submission.

Mr McAvoy—The first submission dealt with the enormous economic and environmental benefits that have been generated by rail competition. The most recent submission, in February this year, dealt with what was required to bring competition to the Melbourne-Sydney-Brisbane corridor and with the opportunity of locking in a sensible market track access rate through the sale of NRC. What I have dealt with in this current submission is to look at SCT's future direction insofar as rail is concerned and at the issues, mainly recent developments, which may impact on SCT's direction.

In November 1997, SCT commenced its first weekly freight train service between Melbourne, Adelaide and Perth, and became the first private operator to do so. SCT has formed a rail joint venture with K&S Freighters, a member of the Scott group of companies, which will allow it to pursue higher efficiency and performance standards in respect of rail activities. SCT and K&S propose to commence a twice weekly rail freight service between Bathurst, in New South Wales, and Western Australia later this year, with development approval having recently been received for terminal construction works in Bathurst. We are now dealing with the EPA after receiving council approval.

SCT also proposes to construct state-of-the-art rail terminals in Western Australia and Victoria, with development approvals applied for in both states and with construction due to be completed before the end of this calendar year. We believe that we received development approval last night in respect of the WA terminal. The WA terminal in itself is $15 million plus; the Victorian terminal will also be $15 million plus. In addition, SCT proposes to make substantial investments in rolling stock during the next 12 months, which could range between $30 million and $40 million. So you are looking at total investment by SCT of anywhere up to $60 million or $70 million.

One further update from the last hearing, when we had talked about an application to the Australian

Competition Tribunal against the WA Premier's non-declaration, is that SCT believes that it has reached common ground with Westrail, and it will most likely be the case that that application will be withdrawn sometime this week. So, whilst SCT is proposing substantial investment in railway facilities, associated infrastructure and rolling stock, it must voice its concern about—and, in certain instances, its support for—various developments within the rail industry. The issues that we believe will impact on the level of private investment in the future include National Rail's freight rates, the rail accreditation process, the level of investment in rail infrastructure, and the terms of access to be offered by the Australian Rail Track Corporation.

Dealing firstly with National Rail Corporation's freight rates, I think it comes as no surprise that National Rail has been operating at losses for the 1996-97 financial year, as is set out in the most recent report delivered to the Steering Committee on National Performance Monitoring of Government Trading Enterprises. In that report, it is noted that one of the main reasons for National Rail's operating losses was a reduction in freight revenue as a result of continued on-rail competition on the east-west corridor. It is generally accepted that freight rates have already been reduced significantly in the east-west corridor as a result of SCT providing competition in that corridor.

Our position in relation to this is that, in the lead-up to the privatisation of National Rail, which we understand is to take place later this year, we believe that decisions by National Rail need to checked, as far as competition is concerned; otherwise, we believe that competition will be harmed, even in respect of the east-west corridor. We believe that this should be seen to, in view of the fact that National Rail has available to it a wealth of rolling stock, et cetera, but SCT has still taken away business on that route, despite the rolling stock and other infrastructure available to National Rail; and SCT still remains competitive. It should be of concern to all that National Rail's losses continue, despite National Rail's unlimited use of the terminals and rolling stock, which I have just addressed.

The second issue is accreditation. SCT has not observed any willingness by the states to streamline the process of accreditation. To the contrary, SCT is concerned at the way in which South Australia, and other departments of transport, are unilaterally imposing excessive charges for rail safety accreditation. The states appear to forget the fact that track access charges are paid by operators, and there should be mutual recognition of accreditation, whereby accreditation in one state ensures accreditation in another state.

The third issue is the level of investment in rail infrastructure. It appears to be generally accepted that the Commonwealth funding of $250 million is inadequate if the nation's rail network is to become competitive with other transport modes. SCT is concerned that what funding is available will be diverted from corridors used by the majority of operators. SCT supports the Australian Transport Council's approach to consider expenditure and policy decisions in reference to freight corridors as opposed to rail and road corridors. We understand this approach was adopted in response to a request by the NRTC for significant funding on bridge upgrade programs, et cetera. However, it is necessary for governments and key players in policy to understand that the national network of freight corridors as a whole must be considered before concentrating on any one specific freight corridor. Network considerations may impact on specific freight corridor considerations.

The final issue is the terms of access to be offered by the Australian Rail Track Corporation. The present IGA provides that the ARTC is to offer rail access to the various operators for terms of up to five years. In view of the level of investment in rail infrastructure—including terminals and rolling stock—proposed by SCT and outlined earlier, it is difficult to understand why the government would insist on short terms for access. Such short-term access also does not sit comfortably with the NCC recommendation of 15-year terms.

CHAIR—Mr McAvoy, do you have a lot more? I do not want to rob you of question time.

Mr McAvoy—Just one more point. SCT believes that the recent developments, and these discussions and committee hearings, are a first step—and, as such, a positive step—in looking at rail generally. SCT's approach to its present agreements that it has with New South Wales and Western Australia is that, if there is a truly national, competent authority set up, we would take all steps to do whatever we can to assist the ARTC. If that means trying to get one uniform agreement and giving up our present agreements, we would certainly look at that.

CHAIR—Thank you for that. Since we saw you last, we have been to Western Australia and we had as a witness there one of the engineers who worked on the One Nation program for the line between Melbourne and the South Australia border. Is that still one of the prime problems in your network on the east-west corridor? Does that worry you unduly in your particular operation?

Mr Reed—There is a problem between Melbourne and Adelaide, and there is a problem between Kalgoorlie and Perth—pretty much across the Nullarbor.

CHAIR—What does that cost you in terms of time? Round figures will do.

Mr Reed—It is only a guess, but I would imagine two to three hours in both corridors, on slow running. I would not hazard a guess as to what the cost figure might be, but there is a freight damage consideration, owing to the condition of the track, as well.

CHAIR—Freight damage? How does that occur?

Mr Reed—Just by virtue of the fact that the freight will move, with wagons rocking around. You get a lot of chaffing, with products rubbing up against one another : it is that sort of product damage.

CHAIR—On which of those two lines? Both of them?

Mr Reed—It is hard to say, because most of our product runs all the way.

CHAIR—You would have to be getting it out at the other end, to find that out.

Mr Reed—We are currently in the process of putting some ride monitoring devices in the wagons to identify exactly where the worst ride conditions are. That will help us and, once we know that, we can go back to the respective track access authorities.

Mr WILLIS—We have heard lots of reports of the track between Kalgoorlie and Perth being really bad: could you say a bit more about that?

CHAIR—That has come up only today—twice.

Mr Reed—I think it has deteriorated, because the number of speed restrictions has doubled in the past two years—from memory.

Mr WILLIS—The length of track that is subject to speed restrictions has doubled?

Mr Reed—The number of speed restrictions has; I do not know whether the actual length of deteriorated track has doubled, but the number of places where the train has to slow down has doubled. I would not have thought that the distance over which the train has to slow down has reduced at all.

CHAIR—Why do you think there are no private trains on the Melbourne-Sydney and the Melbourne-Brisbane lines?

Mr Reed—The costings we have done on those corridors show it is just not viable to run trains.

CHAIR—Are you doing that negotiation with the RAC? Or have you been dealing with the new federal body, the ARTC?

Mr McAvoy—We have an agreement with the RAC, and our only other agreement is in Western Australia, with Westrail. But, as I said before, if there is a process that has to be undertaken to get one body and one uniform agreement, we will certainly look at what we can do, perhaps by novating those agreements or by whatever else it takes.

CHAIR—We have heard three lots of criticism of that route: we have heard about the condition of the track south of Albury; we have heard about the lack of responsiveness from the RAC; and, we have heard about the bottleneck around Sydney. Which of those three factors impact on your operations?

Mr Reed—None of them impact on our current operations because we only run east-west. We do not run between Melbourne and Sydney and Sydney and Brisbane.

CHAIR—What about negotiations?

Mr Reed—We have not entered into any serious negotiations. We have done costings only at this point and it is just not viable. The growth we have experienced in the east-west corridor anyway has taken up all the resource that we have within the company.

CHAIR—Was it your evidence that said that that access through New South Wales might need to be zero rated?

Mr Reed—That was Peter Mason’s submission. Whether it is a zero track access or you get locos or crews provided for nothing, there has to be some subsidy or reduction in the cost to run trains profitably on that corridor.

CHAIR—Would that be achieved by the upgrade of the line?

Mr Reed—I doubt it. All it will do is allow you to service your clients a little better with regard to transit times and perhaps damage to freight. It is certainly not going to change the economics too much on it. You are going to save an hour or so in crew costs, which, in the total scheme of things, is negligible.

Mr McARTHUR—Could you give us an outline of your process in the way in which you run the trains? You have bought some rolling stock have you? Are you contracting out the hauling operation?

Mr Reed—Some of our rolling stock we own and some of it is leased. We have hook and pull agreements with V-line and ASR, whereby V-line will tow our trains into Melbourne and Adelaide. ASR then put their locos on and crew it, and take it from Adelaide through to Kalgoorlie and then bring it back on the same corridors.

Mr McARTHUR—Are you finding it worthwhile to own this rolling stock compared to having National Rail do the job for you?

Mr Reed—We had no choice initially. Most of our product travels more economically in louvre vans. The louvre van service that National Rail provided to us was withdrawn and we therefore had to start running our own louvre vans. They were not prepared to tow louvre vans on our behalf.

Mr McARTHUR—There is quite a lot of debate about that issue, as I recall. So you found that that was a better mode of operation, to fill up the louvre vans and have it on the long haul?

Mr Reed—You could achieve a better pay load per tare weight ratio in a louvre van than you could on the intermodal service.

Mr McARTHUR—There must be some difficulty involved with the movement of the goods in and out of the louvre van.

Mr Reed—You still have to put them into a container somewhere. The handling component at the depot is greater than it would be with intermodal. But, even taking that into regard, it was a more economical mode of transport than intermodal.

Mr McARTHUR—Another issue relates to a comment you make in your paper today about National Rail’s freight being reduced because of competition and that that makes it more difficult for other operators. Could you just add to that; it seems a strange comment that under competitive pressures they reduced their charges. You are saying that that is a bad thing, as I am hearing you.

Mr Reed—It is a bad thing if they can reduce their rates to below what cost is, and be subsidised and we have to try to compete with them. That is a bit difficult. We cannot reduce our rates below what cost is.

Mr McARTHUR—I find that an interesting comment coming from the private sector back to a semi-government owned operation. They have a charter of making a profit, quite clearly, to get a break-even position and make a profit. I would have thought it was because of competitive pressures that they reduced their freight rate. They did not do it in a voluntary way.

Mr Reed—That is right. The competitive pressures have caused them to reduce their rates. But we are saying that we believe that they have reduced their rates below what their cost is and also below what our cost is.

CHAIR—So you think it is artificial: it is to retain market share?

Mr McARTHUR—What is the benchmark? What are you benchmarking against?

Mr McAvoy—We are seriously looking at that as we speak and we should have a little more information in a week or two. National Rail's new proposed rates for certain customers come into effect on 1 June.

Mr McARTHUR—Will they be up or down?

Mr McAvoy—They will be down.

Mr McARTHUR—And you are saying to us that that is a bad thing?

Mr McAvoy—It is a bad thing, I guess, if they are in a loss situation. SCT has not had the advantages of a national rail, the rolling stock available to it and the subsidies available to it. We are competing profitably. We know exactly what our costs are. We know the costs of the sector.

Mr McARTHUR—But you have had no infrastructure costs. It is a bit unfair to say that National Rail is subsidised. They have to run a lot of infrastructure. They had a lot of setting up difficulties and a whole lot of other problems. You have just come in and basically cherry picked a section of the rail to suit yourselves.

Mr Reed—I would not say we cherry picked. We were already in the rail business, putting it through the NRC. We were forced to go out on our own. The NRC pushed us away from it, so I wouldn't call that cherry picking.

Mr McAvoy—I guess another point on that is that National Rail competes on the east-west corridor, as we do, and the fact is that we have taken freight away from National Rail, and, perhaps, remained competitive in doing so.

Mr McARTHUR—So you would like to put your rates up. Is that what you would like to suggest?

Mr McAvoy—No, we are looking to see exactly where National Rail's freights will be in so far as their costs are concerned. If it is below cost, I guess we would have to look at it.

Mr PETER MORRIS—If they lower their general rate to the public, would that not also lower the rate to you?

Mr McAvoy—No, this refers to rates offered to specific customers, say, the top eight customers.

Mr PETER MORRIS—Do the shipping rates affect you or do Tolls's rates affect you?

Mr Reed—Tolls do. We compete with Tolls.

Mr PETER MORRIS—Do you beat them.

Mr Reed—It is hard to say whether we beat them, to be quite honest, because we use a different method to transport. We use predominantly louvre vans, they use intermodal. Given that we have been fairly successful, you could say that we possibly do beat them.

Mr PETER MORRIS—They say that they are the biggest.

Mr Reed—I guess that is arguable. I don't know what tonnages of freight they send across the Nullarbor each week but I would doubt that it is any more than ours.

Mr WILLIS—How do you know that they are making losses on that route?

Mr Reed—The NRC?

Mr WILLIS—Yes. We know that they are making losses overall because they report losses. But they are also running up the east coast, which is, as you say, much harder tack. Obviously, they are doing less well there than they would on the east-west run.

Mr Reed—Their losses are increasing and the only place they are reducing their rates is on the east-west corridor.

Mr WILLIS—Maybe that is the only place that they are making money.

Mr McAvoy—They are reducing their rates on other corridors as well.

Mr Reed—We are only assuming at this point that they are running at a loss and, as Mr McAvoy pointed out, we are involved in an exercise to try to prove that one way or the other. Without that evidence in front of us, we cannot pursue that much further.

Mr McAvoy—SCT knows what it costs to run an efficient train to Perth and back. We know what rates are now being offered to specific customers of National Rail so we will go that next step and see why they can offer that rate. SCT knows how to cost an efficient train. If those rates are near it or below it, that is of concern to us. We are now just dotting the i's and crossing the t's in our analysis of it.

Mr WILLIS—Maybe they are better than you think they are.

Mr LINDSAY—Peter Mason's evidence suggested that, in the north-south corridor, with the present access pricing, the rail task would diminish until it was trivial and basically the line would close. The question to you is: would that matter?

Mr Reed—I am sure it would matter to a lot of people. We are not actively involved in those corridors at this point so it would not have any impact on our business but that does not mean in the future we would not like to be running on those corridors.

Mr LINDSAY—Should the federal government be concerned that there is a prospect that that line may close?

Mr Reed—I think so. There would obviously be a fairly substantial environmental impact if everything went on road.

Mr PETER MORRIS—Melbourne-Darwin will kill it anyway.

Mr LINDSAY—Melbourne-Darwin will never be built.

Mr PETER MORRIS—I beg your pardon!

Mr WAKELIN—Just following on from that theme, do you believe that the losses from National Rail will be significantly greater in 1997-98 for the same reasons you have just been espousing?

McAvoy—Yes, we do.

Mr WAKELIN—There is the $45.1 million loss in 1996-97. You also make the point that you believe you have been more accurate in forecasting their profitability, or lack of, than their own executives. Therefore, are you prepared to chance your arm as to what it might be in 1997-98?

Mr Reed—Ask us that question in a couple of weeks!

Mr WAKELIN—You comment in point (c) of your submission, in the 'Update on SCT's ten specific recommendations', on Australia's severely damaged ethical standing. You say:

> The NRC has now taken over the Great Southern Railways hook and pull business . . . First of all, the government sold a business to a US operator and then used its own railway to take the business back.

Obviously you see a conflict in interest in this. Can you explain that?

McAvoy—That was Peter Mason's view of the conflict of interest.

Mr WAKELIN—What would you recommend to the committee so that perhaps the government might absolve itself from this position? What would be a way around that, from your position?

Mr Reed—I am not familiar with the previous submission, I am sorry.

Mr WAKELIN—Okay.

McAvoy—Peter saw it as unethical but I do not know whether he wanted to take it the next step.

Mr WAKELIN—That is fine. I have one last question. In point (e) you say:

The establishment of the National Track Access Authority has now been announced. Unfortunately, it does not appear that it will have any of the critical direct controls identified by SCT in its submission.

Can you remind us of two or three points on that, in terms of the critical direct controls?

McAvoy—This is the Australian Road Track Corporation, is it?

Mr WAKELIN—No, the National Track Access Authority.

McAvoy—It is probably the ARTC. I guess the main one was the term being offered to operators, which was one of the points I raised there. If SCT is going to plough in up to $60 million in terminals and infrastructure, then a five year term is just not sufficient. On that point too, the jury is still out on the ARTC. We have not received any indication on pricing structure. As I said, SCT awaits to transfer agreements to support any move to get uniform agreements, but we are just going to have to wait and see.

Mr WAKELIN—While we are on the National Track Access Authority, there is a suggestion about some congestion on the Nullarbor leg, the Port Augusta leg, for access to the line. Do you have a comment on that? It surprises me because I did not think there would be that many trains running up and down that line.

Mr Reed—At peak times, yes, peak times being a Wednesday and a Saturday, evenings in particular, across the Nullarbor from Port Augusta, but at other times there are plenty of pathways available.

Mr WAKELIN—So there is an access issue on those two days?

Mr Reed—Yes.

Mr WAKELIN—Delays of what sort of time?

Mr Reed—The congestion is not causing delays as such but it just means there is no more available pathways at those times.

Mr WAKELIN—Right. What I am looking for is some kind of solution. If it is not in time, what other issue is there and what practical infrastructure is needed, if indeed we want to improve it?

Mr Reed—If axle loadings are increased, and obviously the track condition has to be improved as well, then that means fewer trains. So the fewer the trains the more available paths there will be.

Mr WAKELIN—Maybe that is with Wednesday and Saturday, and with the other days it is the timeliness of delivery to the destination and back loading, I presume.

Mr Reed—For most clients, especially on Perth, they require their freight to leave Melbourne on a Tuesday evening, arrive Friday morning, and leave Friday evening to arrive Monday morning. That is why there is not the availability of paths.

Mr WAKELIN—Two days full capacity, and five days probably is well under capacity?

Mr Reed—Yes.

Mr McDOUGALL—The RAC said this morning words to the effect that they had not refused any application to access on the south-north line, inferring that the problem did not lie with them in relation to their access regime or the service that they could deliver but it lay with the people who were requiring the access and they could not get their act together. What is your interpretation of that?

Mr Reed—On what line was that?

Mr McDOUGALL—From Melbourne to Brisbane.

Mr Reed—We have not requested a path from them so I cannot really comment on that question.

Mr McDOUGALL—Is that because you have been taking advantage of National Rail and getting a freight rate off them so that you have benefited by them carrying the loss?

Mr Reed—No, any freight that we send out of Melbourne to Brisbane goes by road.

Mr McDOUGALL—I see.

Mr Reed—It is very minimal, it probably represents about half a per cent of our volume. It is a service that we provide for the current customers we have that we service to the west.

Mr McDOUGALL—Right. So you do not have any road operation yourself?

Mr Reed—Yes, we have road vehicles.

Mr McDOUGALL—But it is half a per cent of your business, on a tonnage basis?

Mr Reed—What is half a per cent of 400,000 tonnes? That is the answer.

Mr McDOUGALL—Okay. There is sizeable freight going from Melbourne to Brisbane and Sydney to Brisbane, about 10 million tonnes, road and rail. Rail has got 30 per cent. Those are the figures that we have been given. Do you want a share of that market? Do you believe that you can get more onto rail than currently exists onto rail?

Mr Reed—Not with the current costs, no. We could not run trains profitably from Melbourne to Sydney or Melbourne to Brisbane with the current costs.

Mr McDOUGALL—What are the costs that are killing you? You have said that you have not asked for an access price, so how do you know?

Mr Reed—No, we have not asked for a path. We have an access price.

Mr McDOUGALL—Okay. What are the killer costs in that?

Mr Reed—All of them. Everyone is picking on the track access, saying there should be zero track access. Well, I could argue that the government should provide locos free of charge. It all depends on your perspective. The total cost package is prohibitive if you are running trains from Melbourne to Sydney and Brisbane, especially if you are hoping to make any money.

Mr McDOUGALL—Everyone is saying that but I am trying to find out what is the problem and nobody seems to know. They say collectively, ‘We’ve got a cost problem,’ but what is the cost problem?

CHAIR—There must be a huge amount. Between Sydney and Brisbane, Melbourne and Brisbane, that must be the great freight task of Australia, those three ports. Why is not some of it getting to rail?

Mr McDOUGALL—Well, 30 per cent of it does.

Mr HOLLIS—If trucks can do it profitably, and if you look at a train as just as a number of trucks, why cannot a train do it? If you have a refrigerated van or something on the road, or whatever you have got on the road, and it makes a profit despite the costs of fuel and everything, why cannot trains do it? What are these costs that people are not telling us about?

Mr Reed—I do not know what costs you have been told about.

Mr HOLLIS—None, that is why I keep asking the question!

Mr Reed—There are more costs than just running the train from point A to point B, you have to get the freight to the train. You have a road transport component at both ends to start with, whether it be containers, loose freight or whatever. That is fairly sizeable, the cost at both ends. When you have a road truck doing the line haul, that pick-up and delivery—and it might be two or three pick-ups and the same amount of deliveries—is done with that one unit at that one cost.

Mr HOLLIS—It has been put to me that what we should be looking at in Australia is that instead of having trucks trundling through the inner suburban streets, we should have a freight depot on the outskirts of the cities and then have the trucks or trains, whatever they are, taking the freight there and then transferring it to smaller vehicles that take it around the city. If that happened with trucks, that would not be a lot of difference for trains.

Mr Reed—If that were to happen it would probably make trains viable because you are increasing the road transport costs by $200 to $300 per truckload.

Mr HOLLIS—So you are saying that that is the advantage, that door to door delivery with the trucks. The train has the one spot and then there is the delivery door to door from that other spot.

Mr McDOUGALL—This is worth following through because if we are going to make some recommendations then we have got to know what is the cause of the problem.

Some people tell us that the trains are too slow, that they are not reliable and that the backlog across Sydney is a problem. They also say that we should tip $700 million into this infrastructure and upgrade the line from Melbourne through to Brisbane, that we should put in the bypass through to Sydney at another $400 million and get your train speeds up from 40 to 50 kilometres to maybe 75, if you are lucky. But you are telling me that, at the end of the day, after we have spent all of the money, you will still not use it because the problem does not lie with the railway, it lies with the road transport at either end. Is that what you are saying?

Mr Reed—The overall cost of road against rail that is the problem.

Mr McDOUGALL—But you have to help us. I mean, private sector wants to be in the game; private sector wants to be competitive; private sector is asking the government to overcome this machination of problems between the states. At the end of the day everybody says, ‘Tip big bucks into it and we will resolve the problem.’ The last thing the taxpayer in this nation wants is for the Commonwealth or the states, singularly or combined, to tip $1 billion into something so that the freight component of that corridor remains at 30 per cent on rail. We will not have achieved a damned thing.

Mr Reed—I have not heard anyone say that, by you tipping that money in, the volume is going to increase. I am certainly not.

Mr McDOUGALL—What is going to make this work?

Mr McAvoy—Would not the answer be to look at a model which you use for the east-west corridor and apply that to the north-south corridor? We will apply the track access rates that we believe will be charged, and that will either show up as a loss or profit situation, on volume, as we believe it can be sustained.

CHAIR—What is a fair access rate?

Mr Reed—I have no idea.

CHAIR—It must be down the lower end because we have had witnesses suggesting zero access.

Mr Reed—That is an access rate needed to make the Melbourne to Sydney and Melbourne to Brisbane corridors economical. But as I said, you can take away government—

CHAIR—Do you think that ultimately the government's only option will be to say, 'We want to have rail freight taking a certain percentage of the task on those corridors and there will have to be zero rating' or something similar.

Mr Reed—Something similar, provide locos free of charge. There has to be some type of subsidy there, otherwise rail cannot compete against road because road is too cost effective.

Mr WILLIS—What about the alternative? What about mass distance charging for roads? They have that in New Zealand and it has resulted in long haul trucks paying four times what they pay here for access.

Mr Reed—That is another way of making rail competitive against road if you increase road costs. Either rail has to come down or road has to come up because road is very effective and efficient at this point in time.

Mr WILLIS—They are using a free highway.

Mr HOLLIS—That is the only reason road is efficient, is it not? There is not that initial infrastructure cost.

Mr Reed—Yes. With door to door, you are eliminating two handling processes so you also eliminate the potential for damage. The transit time is also a consideration but people would wear an extra hour or two transit from Melbourne to Sydney if the price were cheaper. But they are certainly not going to wear it for similar or more expensive transport costs.

CHAIR—Have you done any work with intermodal activity such as taking semi-trailers on flat tops and so on?

Mr Reed—Yes. Do you mean between Melbourne and Sydney?

CHAIR—In general.

Mr Reed—That is the railways technology concept that you are referring to. Yes, we have had a look at that.

CHAIR—Is it viable?

Mr Reed—No, not with the current track access. With all the costs there, it is not viable. Their model suggests that it is. We may be wrong and they may be right but I do not believe that they have put in all the costs for the pick up and delivery.

CHAIR—So there is not enough in it to risk it?

Mr Reed—Certainly not.

CHAIR—Thank you for appearing, once again, Mr Reed and Mr McAvoy. As ever, you answer questions as forthrightly as you can—although, my colleague here would have liked you to be a bit more specific on that last question. We thank you for your interest in the inquiry. We recognise the role that you play in land transport and your expertise in that field as one of the pioneers in private rail activity. We will send you a copy of the *Hansard* proof and, hopefully, you will figure prominently in the report.

[2.55 p.m.]

BEETHAM, Mrs Robyn, Assistant Secretary, Rail, Department of Transport and Regional Development, GPO Box 594, Canberra, Australian Capital Territory 2601

CHAIR—Welcome. As with other witnesses, I must make sure that you realise that, although you are not under oath, these are proceedings of the parliament and warrant the same attention as those of the House.

Mrs Beetham—Yes, I do.

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

Mrs Beetham—I do not have a particular submission to make. We had previously made a submission to you and we have also provided a supplementary one.

CHAIR—Would you rather just deal with questions?

Mrs Beetham—Yes, I would, although I was going to mention one or two developments that have happened since we last appeared before you. Predominant is the finalisation of the Maunsell report, which we have submitted to the committee—and we sent an additional submission in to the inquiry. Also, there was a quite significant development at the recent Australian Transport Council meeting, where we had gone with a proposal that we might move to establish an independent rail transport commission. Ministers at that meeting considered that, but felt reluctant to establish another separate transport body. But, more importantly, they saw an increasing need to take an integrated approach to rail and road, and so they have commissioned the standing committee on transport to look at options for establishing a more comprehensive body to encompass both road and rail, including extending the function of the National Road Transport Commission to encompass rail.

CHAIR—With the same personnel?

Mrs Beetham—It is very early days. They took quite a step at that meeting, I must say. So, while we were talking about perhaps setting up an independent rail body as an interim step to a national body encompassing road and rail in a land transport commission, they have taken that step unexpectedly, and I think it is great. But we have not got as far as personnel. What we need to do is consider how we might give effect to that. We are cognisant of the fact that there are a number of vested interests in the existing support for road. The rail industry so far has been very supportive of the notion of a land transport commission. In principle, the road industry is, too, but self-interest might at times cause them to resist any perceived diminution in the power they currently have through the NRTC and any watering down of the focus on road.

CHAIR—Has the Department been following the transcripts of the inquiry?

Mrs Beetham—To some extent. I confess I have not read them all, because we got another pile last night and I have not read every one.

CHAIR—What is the general view? Do you have any comment to make on the idea of having the federal government making some substantial contribution to a national rail track—say, from Brisbane to Perth—much along the lines of the national highway system?

Mrs Beetham—That is a difficult one for me to comment on.

CHAIR—I know it is getting into policy.

Mrs Beetham—I have a personal view. In a policy sense, I think it is arguable that the Commonwealth is already going some way to recognising, through the ARTC and through the commitment of $250 million, the need to help upgrade the track, and to try to boost the interstate system in terms of both its fundamental infrastructure and the operational arrangements which apply to it. In a sense, the Commonwealth has already committed itself to at least trying to assist in the upgrade of that. As to further expenditure, I would be talking from a personal view rather than a government policy one.

CHAIR—You would be aware then, if you have been following the evidence, that there is a fair body of evidence that says that even to improve the track in an incremental sense, to pick the 20 or 30 worst hot spots and eliminate them, it will cost between $500 million and $750 million above the existing $250 million you have just referred to. So, we are talking in round figures of somewhere between $750 million and $1 billion.

Mrs Beetham—Yes, we are. In a personal sense, being responsible for rail policy, rail development and rail in general, I am sympathetic to the notion. However, I accept that from a government policy point of view, government has to ration its resources to where it thinks it can get the best returns. I cannot commit the Commonwealth, but I am looking at—

CHAIR—I know we are drifting very close to policy, but I just want to get a feel for how the department is reacting to some of the earlier evidence.

Mrs Beetham—We are working within the bounds of the $250 million that we have, and we are very appreciative of that. What we are endeavouring to do through the ARTC is to make that go as far as we can. For example, in Western Australia they were looking to replace the wooden sleepers on a section of their track. The ARTC has asked what it would cost to replace the wooden sleepers with concrete sleepers. That comes to about $45 million. It would have cost Western Australia about $25 million to replace the wooden sleepers. So the ARTC is going to make up the difference and they will put down concrete ones.

On that basis, if you could do that across the network then the $250 million may become $400 million or $500 million, if you are really lucky. It may even be possible, depending on what we are talking about, to have some private sector investment involved as well. I know at least one operator has talked of helping to fund passing loops works in New South Wales. I do not limit my horizons to $250 million—

Mr WILLIS—Who was that?

Mrs Beetham—It is fair enough to say that it was NR. They are not quite private but with luck they will be privatised. It is not quite the same thing as a government subsidised body in that NR has been subsidised in the past, but direct Commonwealth funds to NR have now been terminated.

Mr WILLIS—With the losses they have made—

Mrs Beetham—They are running an operating loss, I accept that.

Mr WILLIS—It is a very generous outfit!

Mrs Beetham—I take your point, they are not wholly private but they are operating as a private corporation in terms of company law and they have judged that from their point of view it is worth their while. I do not know, there may be other instances. What I am trying to say is that I do not limit myself to the $250 million, I think that may help provide the seed money for further investment.

CHAIR—The other thing we have seen, and it comes up frequently, is the ludicrous situation of having 22 or 23 operational systems between Brisbane and Perth. Is there a case for a body like CASA or BASI for rail, firstly, to look at some form of independent regulation, standard setting, and then, secondly, when it breaks down an investigatory role for the other body to look into where the safety did break down?

Let me ask a third question and then you might like to comment. Is there a role for a school or a standard training curriculum for engine drivers—as we do with airlines—so that we move towards some form of common standard for Australia? Does the department have a view on this?

Mrs Beetham—We do have a view. As to whether you need a national body, when they set up the current intergovernmental agreement on rail safety it proved impossible, and it was only four or five years ago when they first began to move to establish that. You could not get a national body, it was not possible to obtain state agreement to that. So they went through a cooperative system based on consistent state legislation but overseen through the intergovernmental agreement and a cooperative approach. The Maunsell report has certainly highlighted the need to address a lot of the issues in that and we are picking that up now.

Some of the issues they have raised will be driven now by an industry reference group which will report to the rail group established under SCOT, and they will be looking to progress changes. One of the things that Maunsell said was that there are a number of things you can do within 12 months time to iron out some of those things. We will continue down the path of trying to make that IGA work as effectively as we can, using Maunsell as a very useful tool to bring home some of the shortcomings. In fact, at the next IGA meeting we will be looking to cause the IGA to have a very critical look at itself and see where it needs to smarten up its act to address many of the criticism. We want to continue on that path.

At the same time, the problems that have been identified do raise the question of whether you need a national body and whether there is a case for it. Maunsell itself comments that maybe you cannot successfully do that if you are focussing only on the interstate system because of the difficulty of breaking out of the interstate and having a national approach to that and perhaps something else for the intrastate because the states may prefer to keep it that way.

We are going to have a look at that case, the case for having a national body, and see where we get with it. Certainly, the signs seem to point that way. But to be fair to those involved in the intergovernmental agreement, we have come a long way in three years in the sense of having a standard set up and having legislation passed in all of the states that is basically pretty consistent. The difficulty often comes in implementation, and those are things we can work on.

CHAIR—But that is cold comfort for the private operators who have an expectation that the government, be it state or federal, will deliver.

Mrs Beetham—I accept that, but they are a large part of it. The ARA itself is going to be helping to develop and drive the codes of practice that will apply to the standards. They have been involved in the development of the standard thus far and, in fact, we were meeting with John Kirk this morning. We have already written to them asking them to nominate representatives on the industry reference group.

CHAIR—So you think a CASA and a BASI and a training facility might be a bit premature in this stage?

Mrs Beetham—We have not got that far yet. We have not got so far as to determine whether we think there is an argument for a national body. In terms of the CASA-BASI issue, when it comes to investigation we are already looking at a model that would move investigations closer to a BASI model. The setting of the standards and the investigation of how well they are applied are separate issues and should be addressed separately. We are looking to move down a path whereby we have much more open and transparent investigations.

CHAIR—Both are going to have to lead to training, aren't they?

Mrs Beetham—I am very supportive of the notion of training. I have not formed a view yet on whether that is a government responsibility but certainly I think that training has got to be part of it.

CHAIR—If you fly a Fokker Friendship at Albany or at Cairns, the same air safety rules apply.

Mrs Beetham—Yes, and I think there is a strong case for that. There is clearly a strong case for training. There may be justification for different systems to operate, for example, around the Blue Mountains area and down the escarpment there as opposed to an iron ore train in the Pilbara, but drivers need to be trained to cope with those, and well trained. Also, the world is changing, they need to become far more sophisticated because there will be increasing use of high technology and they are going to need the skills that go with that. But I am not an operator, so—

Mr McDOUGALL—Is the Commonwealth paying out $250 million? Is it really going to make a difference to the freight task, or are the states simply passing the bill to the Commonwealth and we are not going to get any freight gains out of it?

Mrs Beetham—We will get some freight gains though I cannot quantify them. I think there is a recognition that the current rail system is not operating even to the standard it was built for and the desire is to at least get it up to that level if we can through the funding that we have. However, the funding was not linked to a specific standard at the time, it was more a case of what was available. We would expect from that, given what industry says about the cost penalties, and given the state of the current track and the safety risks, that we will get improvements and some growth on rail.

Of itself, it may not be enough to make a big difference in the overall proportion of freight on rail. There are some natural economies with road, particularly in the north-south corridor. Given that the overall freight task will grow, there is an argument that if rail holds only its current percentage, it is going to be taking more freight. To the extent that we can put rail in a more competitive position with road, it is much better able to attract some of the freight that is currently on road. So it may grow in terms of the share of freight, but it will grow in terms of sheer volume anyway.

Mr McDOUGALL—Are there financial gains for the Commonwealth in road funding if we assist the states in upgrading the track to be able to carry more freight?

Mrs Beetham—I do not know the answer to that. I would have to say that roads certainly receive quite a lot of support within government. A lot more money is spent on roads than on rail, and also very often the cost-benefit ratios for roads warrant that sort of expenditure.

Mr McARTHUR—That is an interesting debate.

Mrs Beetham—It is an interesting debate, and I do not have the answer to it.

Mr McARTHUR—You would need to be careful.

Mrs Beetham—True, but some of the cost-benefit ratios for rail projects do not rate so highly.

Mr McARTHUR—Depending on the parameters you put in them.

Mrs Beetham—Certainly.

Mr McARTHUR—The road people have been so skilled at running this argument that they just put some cost-benefit ratios wherever it suits them.

Mrs Beetham—True, there is something in that. But particularly if you look at urban roads and so on, there is a high pay-off. It does depend on what you are talking about, that is true, but I noted the point you made—and I think it is a legitimate one—about road pricing. That is an issue that the government is going to have to come to terms with. It is not my purview and I cannot make a judgment on it, but clearly that is an important element in the road-rail debate.

Mr McARTHUR—That is why the argument that this cost-benefit ratio is obviously in favour of road needs to be challenged, because nobody takes into full account the taxpayers' dollar.

CHAIR—There is probably another factor there too: there needs to be a catch-up in rail.

Mrs Beetham—I believe there is—and that is part of the equation too—but I do not know whether you go so far as to spend the money that people talk about when they cite the BTCE figure of $3 billion. That was getting rail up to a level whereby it was competitive with road, say, for overnight delivery from Melbourne to Brisbane—and some of those things may in fact not be so relevant to rail—and to a fairly high standard. It also had some elements in there that we would not be talking about if we were focusing just on the interstate track.

Mr McDOUGALL—On 3 April the state of New South Wales announced $880 million worth of capital works, which is all CityRail—a couple of little projects, maybe $15 million worth. I am not talking about their ongoing annual capital expenditure or recurrent expenditure; I am talking about new work expenditure. To me, I smell the rat: 'This will allow us to do all the work we want to do on CityRail. We are going to then shift the task of upgrading the freight component of rail to the federal government on the grounds that if they get enough pressure from everybody else through this inquiry and other means, it is going to happen.'

But at the end of the day I am trying to get down to the bottom of whether we are going to get better value out of the expenditure on the rail or the road. We must ask that question, because if we are still going to sit at 30 per cent of freight on road at the end of spending $1 billion, irrespective of the growth in freight, we are going to have the corresponding growth in road freight and the expenditure on road. So have we really made a gain? Nobody seems to have done the work.

Mrs Beetham—I think that is true. I do not know that anybody has come up with a conclusive judgment about what the overall gain will be of investing this $250 million in rail.

CHAIR—Building on that, and coming back to that earlier comment of the catch-up factor, I think we have had a figure of $1 billion on preventative maintenance across the various jurisdictions. There is a significant amount being spent each year which a proper catch-up mechanism may reduce quite dramatically. I would like to flesh this hot spots idea out a bit more. You have illustrated some of the ways in which the $250 million might be spent. Do you think the government should guarantee more funding to get to a minimum standard of track?

Mrs Beetham—Governments have already committed themselves to achieving that at the summit and so on. They set these standards and—

CHAIR—But it gets down to dollars, doesn't it?

Mrs Beetham—It does get down to dollars. At this point I do not know the degree to which the states are going to be prepared to be forthcoming with some funding for that. New South Wales is indicating a preparedness to put some money in towards separating out the freight and the passenger lines.

CHAIR—That is round Flemington.

Mrs Beetham—Yes, Flemington Junction. One of the things that the ARTC would be doing, once it has assessed the various proposals that have been put to it for expenditure of the $250 million, would be seeking to work with the states to do joint funding, rather than have them just take their share of the $250 million and go. Our intention will be that they are not able to do just that, so that the Commonwealth is not just picking up the tab. It has to be a shared effort. The states did commit themselves to lifting the track to the standards that were set at the rail summit. Inherent in that, as far as I am concerned, is a commitment by the states. I mentioned earlier the preparedness of Western Australia. They were going to put $25 million in to replace their wooden sleepers. Marrying that with some funding from the ARTC will get concrete sleepers. Victoria has indicated that it is now going to fix up the concrete sleepers that are sitting by the line between Melbourne and Adelaide.

Mr McARTHUR—I bet they do not.

CHAIR—Oh ye of little faith.

Mrs Beetham—I have written seeking confirmation. I have heard a minister say it, so I am hoping that—

Mr WILLIS—Does that make it right?

Mrs Beetham—I cannot comment on that.

Mr McDOUGALL—I just ask another thing here. Let’s take this national access regime. We are having negotiations between a national access authority and the state access authorities. Who judges or oversees whether or not this agreement they come to is fair? At the end of the day, we might end up with a national access pricing, but is the person who goes out to buy the access pricing going to know what the component make-ups in it are? Are the other states going to know what the other states are charging? How public is this final figure going to be? I can smell a little continuation of an existing operation under which we will not deliver any more access to the track. You might have an access regime, but are we going to deliver more access to the track and have people take up that access because it is then going to be competitive? How is it structured that the states are now negotiating with the national authority? Who oversees and who fleshes out whether it is an honest broker’s negotiation?

Mrs Beetham—Ultimately the users, I guess. That is the operators. As the ARTC negotiates with the states and so on, they will be aiming at a certain pricing policy, and I am not sure they have actually determined what that is yet. If it is anything like the existing AN or track access unit pricing policy, how they price is fairly transparent. I have never heard any complaints from the industry about that. I have not even heard them say it was too high because they understand the basis of the pricing. Where I have heard criticism, and I am not making a judgment about this, is that the New South Wales system is less transparent, and that has been considered a problem.

Mr McDOUGALL—That basically is what I was getting at.

Mrs Beetham—I thought you might have been.

Mr WILLIS—Victoria has the same principle.

Mrs Beetham—Victoria will come within the ARTC proper because it will manage it. So that is being addressed. It will be a commercial issue between the ARTC and—

Mr McDOUGALL—Is there a time limit on the ARTC to finalise this agreement?.

Mrs Beetham—We want it up and fully operational by 1 July. It may or may not get to that, but it is going to have to have some arrangement in place, even if it is an interim one, by then.

Mr McARTHUR—But I just raised the issue that this inquiry has really identified some major changes of attitude towards railways, privatisation, private operators, track access and awareness that railways do a good job in the long haul. Since the transport task has been nominated by the politics of road funding over the last 20 years, is there a bit of a change of attitude within the department about genuinely having a look at the railway task and seeing what can be done from the Commonwealth's viewpoint or do they just continue to argue about road funding ad infinitum?

Mrs Beetham—It is fair to say that one of the things we raised in the context of the rail summit was to develop a rail model to be able to look at the relative merits of investment in rail. Also through the rail group, we have initiated some work to look at the Sydney-Melbourne corridor and the implications of road versus rail. This was particularly raised by New South Wales in relation to the increase in mass limits. It is probably fair to say that we do not have a common bag of money and that there is a debate about whether funds ought to be used on road or rail. Those two issues do tend to be pursued separately.

Mr McARTHUR—We are talking about the culture and the policy making bureaucracy. Have they changed a bit of their emphasis from just a straight-out road funding argument to having a genuinely good look at the role of rail in the transport task?

Mrs Beetham—I think that is where the establishment of a national transport commission would be extremely important. I think it is a great step forward because that is where the debate will ultimately be focused. They will have an awful lot to say about where the funding is going to go. It will really bring to a head there that relativity. Within the department we are making some sort of attempts but, as I said to you, we still tend to think in terms of the rail policy agenda and road funding. They are argued separately because, up until now, governments have viewed them as two separate appropriation items and not as one where you have to work out how you share between them.

Mr McARTHUR—Is there a bit of a change in the culture?

Mrs Beetham—There is certainly a change in the culture, given the emphasis being given to rail. We have welcomed the notion of a national transport commission to get into that mode. We have endeavoured to tackle it too through the National Transport Council, which Minister Sharp originally established and which Minister Vaile is continuing with in order to try and force us into an intermodal approach.

CHAIR—Is the infrastructure investment tax incentive scheme likely to give much support to the private sector provision of rail infrastructure?

Mrs Beetham—I am not responsible for that. I do not know how the decisions will be made. That whole thing is directed at land transport, so it is road and rail. It will look at proposals that are put to it, but it will not be going out to seek them. If it gets rail bids, it will look at those on the same basis as it will road bids.

CHAIR—So is it very much up to the industry?

Mrs Beetham—Yes.

Mr WILLIS—I have one observation first. You have been discussing the possibility of a national land transport commission. I notice in yesterday's *Financial Review* that a bid for $6 million to fund such a body was rejected by the ERC, if that story is right. I am pleased to hear you say that the department is more concerned about rail. I must say that what has come out of the inquiry to me is just how bad the system is. I am sort of shocked to realise just what a terrible state the railway system is. It is a national disgrace.

Obviously, if we are to have a viable industry, it needs a hell of an application of effort by government to bring that about, and a lot more than we look on track to be doing at the present time. In particular, I am really worried about the future viability of rail in the north-south corridor. We have had a number of witnesses suggest to us that the viability of that system is perilous and, unless something happens to change it, we can see the end of rail freight in our lifetime or sooner in that area.

We have people like SCT today reiterating the point that they do not see it as being a profitable operation. National Rail is running that system at the moment, probably doing it at a loss, and it is in the process of heading towards privatisation. A private operator is not going to continue to run it at a loss.

If we are looking at a system that is not running profitably now and that, unless something changes, is not going to run profitably, it seems to me that there is a real need for government to think very seriously about where policy is going. This is so especially as, on road, we have more money being poured into the Pacific Highway and money now being put into the Newell Highway, as part of the national road highway, giving a direct link from Melbourne to Brisbane. All that makes road transport more efficient. In our circumstances, it seems to me that there needs to be something pretty dramatic done to rail if we are going to have it, or else we should decide not to have it.

Mrs Beetham—This is really a matter for governments, rather than for me. When it comes to the north-south, it does get down to the question that you mentioned: are we going to have a rail system?

CHAIR—It needs a leap of faith, doesn't it?

Mrs Beetham—I think it does—and a lot of money, too. I have only been in rail a fairly short time and in transport a short time.

CHAIR—A leap, with a chequebook in your hand.

Mrs Beetham—To a degree, it does need that, because sometimes you would not know what you have got until you have fixed up the rail system and have managed to bring people's thinking around to rail. I heard a freight forwarder say that he had gone on rail once and had got bitten, because people stole the wheels off the cars he was transporting across the Parkes line. He went away from rail and back to road, where he could keep better control of what happened to his goods in transit. He then went back to rail after a while, thinking he would give it another go, but he had an accident and the stock on the train was not insured and he was bitten again. People need to think about some of those cultural things, too. There is a national question, in that, if the north-south route is not profitable, how much are we prepared to pay through the government to keep it there? I do not even know if anyone knows the answer to that.

CHAIR—And to what standard?

Mrs Beetham—And to what standard—yes. And the standard is material as to whether it is going to be viable or not. If you could put a high speed rail track through, it may or may not make a difference—I do not know. As I mentioned earlier, there are some things that are naturally better on road, because of the time sensitivity and so on.

CHAIR—To use an analogy, we are really coming up against the same types of decisions that probably previous governments faced with ANL, and I do not say that with any criticism of any particular party. It eventually got away from us, as a country. I echo the former Treasurer's view that this north-south corridor needs to be one of the main focuses of the report.

Mrs Beetham—I am an optimist. Governments previously thought they had the solution when they established AN, and then they thought they had it again when they established NR. But a lot of them stepped away from maintaining rail, and rail was not given the support it needed, and so it has been allowed to run down. But there is a tremendous new interest in rail from a number of perspectives, and some of the people that have invested in the purchase of the South Australian railway system and the Tasmanian one have also got their eyes on other systems, such as V-line. The types of companies that are now coming into Australia and are involved in rail seem to me to suggest that they have read the industry here as such that they can make a dollar out of it.

I am aware of Mr Hoppe's concerns about volumes and integrated systems and so on. I do not think the lack of integration at this point is the key issue. I am quite optimistic about rail. North-south will always be a little difficult, but the economics of longer hauls, and also the social factors, are driving people more towards rail.

CHAIR—You made the comment about the possible need for one major operator on that corridor. Is there perhaps a case for a Qantas-cum-Ansett type of arrangement, where you have not a government-backed but a government-tolerated duopoly, where you have competition but you restrict the competition to ensure that the two players can stay in the field?

Mrs Beetham—I do not know that I would go as far as saying there was a case to effect that type of arrangement. But my own speculation is that, while competition policy is driving a lot of what is happening now, if you remove the barriers and free up access to rail, as we have done, you may initially have a number of players but, over time, that may reduce and you could possibly end up with two major interstate operators, or maybe even one. I would see that possibly being supported by some small regional ones. As long as there was nothing significant stopping new entrants coming in to that, I personally would not have a problem if you got down to one or two key operators doing the interstate.

Mr McDOUGALL—The new operators are coming into the passenger rail business: the private sector, who are coming in and investing—

Mr WILLIS—That is not true.

Mrs Beetham—No. Tasmania is freight and South Australia is freight.

Mr McDOUGALL—I was talking mainly about the Indian Pacific and the Ghan.

Mrs Beetham—Yes. That was a separate business that bought just those passenger services.

Mr McDOUGALL—Now we have got the private sector wanting to build a railway to the Brisbane airport, we have private sector consortia wanting to build between Canberra and Sydney and, as I said earlier, we have the state government in New South Wales wanting to tip a fortune into passenger rail and opening that up publicly. Everyone is acknowledging this freight problem, but no-one is putting any real money into it and no-one really seems to want to do that.

What I fear is this, and I would like your comments on it. We see a couple of these passenger rail projects go forward—and let us take the Canberra to Sydney one, which is worked out on 2.8 million passengers, because 2.8 million people move between Sydney and Canberra now on all forms of transport, including cars; so they are going to take every car off the road and put the people in a train. I do not know how they are going to do it, but it sounds good. The thing that bothers me is that, when the private sector maybe finds that these two projects—the one at the Brisbane airport and the one here between Sydney and Canberra—go ahead but then fall over, the public has an expectation on governments, both state and federal, to pick those projects up.

Let us take the scenario where, all of a sudden, it happens and so we pick them up. But, in the meantime, if we have not really contributed anything major to freight, where have we gone? Rail has got a bad name again, because all of a sudden a couple of major projects have failed and have not worked, and we really have not attended to the freight task in the meantime, because we have been too busy looking after these high CSO cost urban electric systems.

Mrs Beetham—I do not know the answers to all this. There is a CSO for the electric systems in the urban areas, which are state government systems anyway, but you need an urban public transport system and they need to put some money into them.

Mr McDOUGALL—I am not denying that.

Mrs Beetham—I suspect it is probably not really possible to run them profitably. People have not managed to do it so far. It would be interesting to see how Victoria goes with privatisation in the metropolitan area.

CHAIR—I am sorry to wind this up, because it has been one of the most stimulating sessions we have had. You are our last official public witness, and we have shared some of our concerns with you, since you come from the department, and we were looking for some feedback. What you have given us—and I realise it is within the constraints of policy—has been very helpful, and I thank you for your attendance today. There is nothing else we have requested. In due course, you will get a copy of the *Hansard* draft. I also thank everyone present for their interest and attention.

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

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

Committee adjourned at 3.34 p.m.