



HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON COMMUNICATIONS, TRANSPORT AND MICROECONOMIC REFORM

Reference: Role of rail in the national transport network

CANBERRA

Monday, 4 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)

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|-----------------|--------------|
| 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

**GARRETT, Mr Michael John, Chairman, Australian Railway Industry Corporation, GPO Box
5301, Sydney, New South Wales 2001 1098**

**HOPPE, Mr Charles William, President, Charles W. Hoppe Inc., 4851 N35th Road, Arlington,
Virginia, 22207, United States of America 1114**

**HUTCHINSON, Mr Grahame, Director, Australian Railway Industry Corporation, GPO Box
5301, Sydney, New South Wales 1098**

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STANDING COMMITTEE ON COMMUNICATIONS, TRANSPORT AND MICROECONOMIC REFORM

Role of rail in the national transport network

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Present

Mr Neville (Chair)

Mr Hollis

Mr Peter Morris

Mr McArthur

Mr Wakelin

Mr McDougall

Mr Willis

Committee met at 7.14 p.m.

Mr Neville took the chair.

GARRETT, Mr Michael John, Chairman, Australian Railway Industry Corporation, GPO Box 5301, Sydney, New South Wales 2001

HUTCHINSON, Mr Grahame, Director, Australian Railway Industry Corporation, GPO Box 5301, Sydney, New South Wales

CHAIR—I declare open this public hearing. Having called the representatives of the Australian Railway Industry Corporation, I would like to ask that if you use any quotations or proper names during evidence tonight you might defer to *Hansard* before you leave. I would like to inform you that although you are not under oath these are proceedings of the House of Representatives and the same dignity attaches to them as it does to the parliament. Do you understand that?

I would like to welcome you here tonight as I would like to welcome other witnesses who will be appearing before us later. I would like to emphasise that in addressing the terms of reference the committee's role is not to lobby the Commonwealth government, or for that matter any other government, in the support of individual rail proposals. The committee's role under the terms of reference is to investigate how rail could operate better now and in the future and to report its findings and recommendations to the parliament. On that note, I thank you again. Mr Garrett, would you like to make an opening statement?

Mr Garrett—Thank you very much for the opportunity to address the committee. As Chairman of the Australian Railway Industry Corporation I represent a group that is very specifically focused on export issues. The group consists of over 75 companies from a diverse range such as a manufacturers, suppliers, consultants, rail operators, and employs more than 30,000 people, if you include the major rail authorities such as Queensland Rail and R.S.A. and the private rail operators such as BHP. Whilst it would argue that exports do not fall in the terms of reference of the inquiry, ARIC firmly believes that they do, that they have a major impact on the make-up of the rail industry and consequently of the transport in this country. Exports currently account for over 70 per cent of the turnover of some of the major companies in the Australian rail industry and without this export business they would not survive.

Conversely, a lot of the export business enjoyed by local companies—over \$500 million in 1995-96—would not be possible without a buoyant local industry. That is probably the key emphasis that we are putting to the committee, that larger companies such Goninan, Walkers, Evans Deakin, Westinghouse, GEC, Barclays, John Holland, and other companies, have won major international contracts in the Asian region as a result of their domestic base. So it is important that there is a strong link between that domestic base and the international base.

I have a copy of the ARIC membership list here for the committee and also a summary of the \$150 billion worth of projects that are being tracked by those companies in Asia. We feel that one of the major issues for the industry at the moment is to develop a long-term coordinated vision for the interrelationship between the international and domestic rail industry and how this coordination hopes to generate income and subsequent employment for Australia. We feel it is essential that the domestic and export rail industries work coherently together for increased efficiencies, improvement in the Australian rail industry's competitiveness, a concentrated focus on export approaches and the introduction of new technologies into the industry.

CHAIR—Thank you. Could we have a copy of those documents?

Mr Garrett—Yes, I have copies for everybody.

CHAIR—I would like you to expand on the advantages and disadvantages of having the domestic and export rail industries working coherently together. You made that statement. Would you like to track for us how that happens?

Mr Garrett—An example of that is Grahame Hutchinson and his company. Perhaps I would ask Grahame to give an example of an experience that occurred in the last two weeks.

Mr Hutchinson—Without a viable domestic industry, those of us who export do not understand the need, the technology and how to go about doing it without having some success at home. That is one significant point. Another one is that very few of the rail industry people out of Australia will talk to Australian people about their industry unless that person is well represented within the Australian industry, and that is not necessarily as a railroad; it could very well be as a supplier or a consultant to that industry. If somebody in South-East Asia or Europe knows that you have had runs on the board—if you wish to use that term—on an Australian railway somewhere, it is a very good lead into the marketplace. Without it, there is no lead. The leads dry up.

We are a very small organisation. We have only 30 people on our payroll, but we are a very active member of ARIC. We have been involved in railway work on the XPT—something we are all quite familiar with. The technology that went into that train originally was British. We are now very rapidly reaching the stage where we will be sending the coal back to Newcastle where we will actually be manufacturing components for those trains and exporting them back to the UK. That is great, but the only reason we can get approval to even enter into this process is because we have a viable XPT running around this country. That is the major link that we are talking about, and it is critical. If our domestic industry was to retract and not carry on research and development of its own in conjunction with what it learns from overseas, then we also cut off the ability to export.

CHAIR—Having said that and having operated with the various state railways and also having worked with componentry manufacturers and systems manufacturers, do either of you have a comment on the condition of the rail network in Australia?

Mr Garrett—The group that we represent is export orientated, so it would be unfair for us to comment on that. That is probably best left to the other industry association—the ARA. I think the recognition that we get in Asia with the products that are being exported out of Australia reflects on the healthy state of the manufacturing industry in Australia.

CHAIR—Let me phrase the question another way. If we are capable of such good technology in Australia, why is it that we are not putting more of it into our networks? Why do we have 22 operational regimes between Brisbane and Perth, yet we export the technology offshore? Why haven't we introduced more of this to Australia? What is your experience or your organisation's experience in selling that sort of componentry to railways? Is it a matter of a lack of coordination between the states?

Mr Garrett—The systems are all there. It is up to the individual rail operators to take the opportunity to gain access to that technology.

Mr McARTHUR—But you are saying that you are good at exporting. The chairman is suggesting that some of our regimes here in Australia are well behind world's best practice. Interstate connections, breaking the gauge, work practices and a whole lot of things have been brought to our attention. How do you get the differential that, on the one hand, you are world's best practice and, on the other hand, evidence suggests that we are not up to—

Mr Garrett—We are not saying that all the exports that come out of Australia are world's best practice. They are fitness for purpose to suit what the client needs in Asia. The railways in Asia are potentially 20 and 30 years behind us in technology. Some of the technology that is in Australia has been filtered from America and Europe to best suit the needs of the climates that we are exporting into. The markets in Singapore and Hong Kong are much further advanced than probably what the Australian markets are, but we have manufacturers that are adapting to suit the Australian conditions and then exporting away from Australia.

Mr Hutchinson—There is one other point here, Mike, that might be significant in answering the question. The people who are doing this successful exporting—the manufacturers, the consultants and engineers—are not the people who are running the Australian system—the 22 operators. If we were, then probably it would be a little different.

Mr Garrett—In the industry group that is made up of the 75 companies that are on the list that we gave you there are probably only five or six government railways there. Only two or three of them are very active in export in that side of the business that we are in.

CHAIR—Are you saying that with that technology some of the countries that you are currently supplying are perhaps 20 or 30 years behind Australia? That would not be the case in Malaysia, for example, would it?

Mr Garrett—No, Malaysia—

CHAIR—Isn't Walkers doing the rail cars for the Commonwealth Games?

Mr Garrett—Walkers are exporting light rail vehicles out of Maryborough to the Star project in Kuala Lumpur, but the government owned railway, KTMB, is exporting to a privately run operation in Kuala Lumpur. If you look at the government owned railways there, their technology and the state of their railway network is probably at least 10 years behind us.

Mr Hutchinson—At least. That varies greatly throughout South-East Asia.

Mr WILLIS—You say that exports grew from \$50 million to \$530 million in just two years from 1994-95 to 1996-97. Presumably it is not expected that that rate of growth will be maintained. Why did we have that sort of growth in two years, and what is the prospect of it continuing in the light of the Asian

economic crisis?

Mr Garrett—We feel that that growth can potentially be maintained and that it could potentially grow in the next five years to \$2 billion. The reason that the growth is there is the recognition by the Asian economies that Australia is a viable option from which to buy the rolling stock, the signalling systems and the other things; that they do not necessarily have to buy from Europe and American and that there is a viable rail industry here.

A lot of delegations have been to Australia in the last four or five years. The industry group that I head has been running for 10 years. There was a gestation period. A lot of hard work was done in those initial five years and it is all coming to fruition as a result of that five or six initial years. It is coming to fruition now to the point that companies like Goninans and Walkers are being short-listed for major projects in Hong Kong. It has taken a long while for those companies to get a foothold in those markets, and it is starting to come to fruition.

As far as the Asian downturn is concerned, the projects on that list I have given you will go ahead because Asia will not survive the car. There are major metro systems being built in Manila and Bangkok. They cannot afford not to have public transport systems.

Mr WILLIS—So you do not expect the rail projects to be cut back as many projects in South-East have been cut back in the last year or so? You do not expect that to happen in the rail area?

Mr Garrett—They will be delayed, but ultimately they will be progressed.

Mr WILLIS—Whose figure is the \$2 billion that you say has been identified in relation to the potential for exports to grow from \$1 billion to \$2 billion over the next three to five years?

Mr Garrett—Austrade and our industry group. Austrade has recognised that by making the rail industry their eighth priority industry.

Mr WILLIS—You expect those exports to be mainly—overwhelmingly it would seem from your list—rolling stock and railway goods rather than railway services?

Mr Garrett—The services area is a potential growth area, but the majority of it will be in the major componentry and rolling stock areas as such, yes.

Mr WILLIS—We do not have people coming and asking us how to run a railway system; rather to help them equip their railways?

Mr Garrett—No, we have 200 visitors a year to Queensland alone looking at how we run our railways. That is an example of the visitors that we get in a year looking at the railway systems in Australia.

Mr WILLIS—I notice you say also that the curtailment of programs such as DIFF and the findings of the Simons report have the potential to limit opportunities for the rail industry in Asia. You say later on that

you are eagerly awaiting the response in the Mortimer report and the Simons report. You have got those responses now. What is your position in the light of that?

Mr Garrett—We are not real happy with the responses that we have got to date. What happens with major infrastructure projects in the countries we are concerned in is that you can put aid and products into producing humanitarian goods—and we are not doubting that the humanitarian projects do do good—but if you have rice in the north of a country and you cannot shift it to the south of the country because the infrastructure is not there money has to be spent on the infrastructure, and a lot of other countries in the world do supply those countries with infrastructure money, and the DIFF scheme was a way for Australian companies to do that sort of business in the Asian economy.

Mr WILLIS—Do you know of any projects which use DIFF that will not be able to use it in the future?

Mr Garrett—In the rail sector, there were projects in Indonesia, Vietnam and the Philippines that were caused problems with the abolition of the DIFF scheme.

Mr WILLIS—But, despite that, do you adhere to the \$1 billion for \$2 billion figure?

Mr Garrett—Yes.

Mr WILLIS—So is it a problem or isn't it? You say that it is going to maintain a spectacular rate of growth despite the fact that you have lost this assistance.

Mr Garrett—It is a problem. The growth will be there. It is a matter of whether we get our share of the \$150 billion business that is there.

Mr Hutchinson—That is the significant point: \$1 billion to \$2 billion is very dramatic growth. But it is not a huge proportion of the market. So, in order for us to succeed, we do not have to get 10 per cent of the market we are trying to get into; we need only a relatively small part of it.

Mr Garrett—The problem is the unfair competition that we have to face from the Europeans and the Americans who do have similar programs for their industry.

CHAIR—Support and finance are important to the development of the export industry component. Is that what you are saying?

Mr Garrett—Yes.

CHAIR—You make a comment in your submission that the Australian railway industry does not win its fair share of Asian Development Bank and World Bank work in developing regions. What is the reason for this? Why do you think that QR and RSA have been successful in winning international contracts, especially in Asia?

Mr Garrett—Can you ask the question again?

CHAIR—You mention in your submission that the Australian rail industry does not win its fair share of Asian Development Bank and World Bank work in developing regions. What can be done to rectify this? What do we need to do to rectify this?

Mr Garrett—The awareness of that business is out there, and the industry as well, so we have to educate the industry as such, and industry associations like ourselves do try to raise the profile amongst our members as to what they have to do to win that share of business.

CHAIR—Does there seem to be some deficiency in the Australian industry?

Mr Garrett—There is a lack of awareness of how to do business at those funding agencies.

CHAIR—Is that why we are not getting the World Bank money?

Mr Garrett—Potentially, yes. One of the reasons is that it is a very competitive market and we need to compete very heavily with the Europeans and the Americans and the Japanese in that market, and they tend to win the bulk of that business in the services sector.

CHAIR—It is purely our lack of skills that is causing this, not some other external force?

Mr Garrett—Australia puts a fair share of money into the lobbying of those agencies, and we are saying that we do not get reimbursed for that investment.

CHAIR—Do not be shy. Does the Australian government lobby sufficiently?

Mr Garrett—The Australian government could lobby harder.

CHAIR—What is your view of the success of QR and RSA in winning international contracts, especially in Asia? What has been the secret of that?

Mr Garrett—The coat of arms; that they are seen as government railways, efficient and effective railways—and that works very well in the Asian market—and are not seen as another consulting or contracting company; that they have been around for 130 years; that they are seen as efficient operators of railways by the Asian railways; and the presence and profile their chief executives have in that market. It is also working with the private sector; it is not just in their own right. It is working with the Walkers and the Goninans to help them win business as well as in their own right. So it is a partnership as such with the private sector.

Mr WILLIS—Is Queensland Rail actually winning export contracts in its own right or is it more the equipment suppliers for QR who are the beneficiaries?

Mr Garrett—As an example of what is happening, Walkers are manufacturing the vehicles for the

light rail vehicles, Kuala Lumpur. Queensland Rail in Maryborough was appointed the checking engineer by a Swiss company for those light rail vehicles. So it is a partnership that the Malaysians were happy to see where a government entity is acting as the checking engineer. Queensland Rail has been paid a quarter of a million dollars by a Swiss company to be that checking engineer. So it is a partnership.

Mr WILLIS—Are there other examples like that?

Mr Garrett—Yes. In India there are driver simulator projects where Queensland Rail has been doing the training component with BHP Kinhill and with the other parts of the sector under AusAID funded schemes. In Indonesia, Queensland Rail worked with Westinghouse to write the rules and regulations for a major DIFF funded project that they were doing for the Indonesians. The operating expertise of a government railway was beneficial for the private sector to be there in a partnership. So there are two or three examples.

Mr WILLIS—Thank you.

Mr Hutchinson—Queensland Rail's entry into Vietnam in the early days by selling locomotives has made it a lot easier for those of us who are now following.

Mr Garrett—For example, the 20th ASEAN general managers meeting for all the ASEAN railways is in Vietnam for the first time this year. Queensland Rail's chief executive, Vince O'Rourke, will potentially head the industry delegation to Vietnam as part of that partnership and of taking the private sector and the government sector to Asia.

Mr Hutchinson—I think it is true also that the Australian Railway Industry Corporation is the only group in the ASEAN general managers conference that actually gets an invite. So we are the only external group at the ASEAN general managers conference.

Mr Garrett—That is a result of 10 years of attending that ASEAN meeting and raising the profile of the industry gradually.

Mr McARTHUR—I would like to raise two issues. The first one is: what would you see as the role of the Commonwealth government in assisting your group to create better export opportunities?

Mr Garrett—The support that we get from Austrade is a perfect example of that. We have had a retainer agreement with Austrade and the support that we get from the overseas posts and the Australian operations of Austrade is an excellent example of the support we get from the federal government.

Mr McARTHUR—Have you found that to be effective?

Mr Garrett—Very effective.

Mr McARTHUR—Would you be encouraging more of that?

Mr Garrett—Yes. We are about to sign another three-year retainer agreement with Austrade as of 1

July.

Mr McARTHUR—Are Austrade able to overcome some of the intense competition by other governments?

Mr Garrett—Austrade facilitate the process for us extremely well offshore. The competition is very tough, but they do facilitate very well for us offshore.

Mr McARTHUR—You talk about the Asian market and you mention Bangkok and Manila. For the committee's benefit, could you just expand on the whole fundamental problem of moving large numbers of people in an urban context? You did make the comment that the car would not survive in those two cities. Do you see the possibility of rail travel dominating Asia because of the large numbers of people concentrated in urban areas and the demise of the car, relatively speaking, in another 30 years? Could you expand on that whole scenario?

We have had some comments before the committee about the predisposition of governments, particularly in Singapore, to charge the car user because of the lack of space. I guess your whole marketing strategy is based on that. Could you help us on that?

Mr Garrett—As for the demise of the car, there is a growing middle class in Asia that will want to buy cars, so that issue is very difficult. If you look at the example of Hong Kong, where they shift nearly 6 million people a day in a very intense environment, it is a perfect example of where the metro systems are very effective at moving people. If the rail system in Hong Kong shuts down for eight minutes, Hong Kong shuts down. The people just flood up because they do not have an alternative way to move around.

Bangkok and Manila and those mega cities in Asia have to start planning for some sort of metro system. We are telling the Vietnamese that Hanoi will be ruined because the streets are too narrow. Unless they plan for population growth as they go from pushbike to motorbike to car there will be major traumas for those cities.

Mr McARTHUR—How are you convincing the city planners of, say, Hanoi that your proposition is correct when it has not worked in the Western world where the car has taken predominance?

Mr Garrett—We bring them to Melbourne and show them the biggest light rail system in the world—the metropolitan tram network in Melbourne is the biggest metro system of its kind in the world. Most people are not aware of that.

Mr McARTHUR—Are you saying that is an effective mode of transport?

Mr Garrett—It does not have to be heavy rail as such. There are alternatives to conventional rail systems—it can be light rail, heavy rail, bus rail, a public transport system.

Mr McARTHUR—Your group has fundamentally based its assessment on the fact that there is this tremendous market in Asia because of this fundamental feature. Is that what you are saying?

Mr Garrett—Yes.

Mr Hutchinson—It is that and also that we have identified specific markets that are now already signed off. They are in that list that we have given you. A lot of that is Hong Kong and Singapore. Although those two countries, Hong Kong particularly, have substantial populations, they have come from, supposedly, where these other cities such as Jakarta and Manila are currently at.

Mr McARTHUR—What would you say about China? It is a big country agriculturally and they have some big urban centres. Will you be making forays into that market as well?

Mr Garrett—China is building 12,000 kilometres of railway line in the next five years. It is the biggest railway system in the world after India. They have something like 50 metro systems planned for the 50 cities with populations greater than two to three million people. They are planning light rail systems.

Mr McARTHUR—What is their fundamental policy position? Do they want to shift the people by rail and keep the cars off the roads?

Mr Garrett—Basically.

Mr McARTHUR—So they are agreeing with you?

Mr Garrett—Yes. They are basically saying that there is an opportunity there to build metro systems, but the issue is how you fund them and how you get a return on that capital investment.

Mr McARTHUR—Why have they moved in that direction? Is this an environmental consideration or is it the straight out economics of moving human beings on a rail system?

Mr Garrett—It is the economics and logistics of moving millions of people around on a regular basis—day in, day out.

Mr McARTHUR—Why did they come to that fundamental understanding early in their development?

Mr Hutchinson—They looked at Hong Kong—a population of 6.3 million and six million people move on the train each day.

Mr McARTHUR—So they saw the example of Hong Kong and Singapore and thought that that was the way to go rather than the congestion of Los Angeles or Bangkok or places like that?

Mr Garrett—They see the alternatives to building roads. They are building roads as well. Another example is Taiwan, which is building high speed rail projects and airport railways. But they are not just putting all their funds into roads; they are building alternatives to the roads.

Mr PETER MORRIS—You have answered questions about DIFF items, but I would be happier if you were a little more specific about that. You mentioned rail generally. Could you put some sort of numbers

or dimensions on it? You are also critical in your submission of what you call the 'lack of vision' for the rail industry. What is your organisation's vision? It seems to me that your brief is just more people building more railway related equipment.

Mr Garrett—Our vision is that there is a potential for a renaissance of rail in the domestic market and without that vision for the domestic market we will not have an export market.

Mr PETER MORRIS—But your export market needs to have some sort of decent domestic base. That is what you are really saying. I can accept that and understand that.

Mr Hutchinson—Yes.

Mr PETER MORRIS—What are your top three priorities in projects domestically?

Mr Hutchinson—We do not have one. Our brief says export.

Mr PETER MORRIS—You cannot run away from that. Come on! You have given us this submission and you want us to take you seriously, and you say you do not know what your No. 1 project is. What do you think is the most important investment?

Mr Garrett—I think that is more appropriate for the ARA, the other domestic based industry group, which we are about to merge with, to comment on. We are export focused; we are not based in the domestic market. We do not delve in the domestic market.

CHAIR—Let me interpose here. The deputy chairman has asked a very pertinent question. You say that for Australia to be a major player in Asia it must have a local base and you see Australia poised on the verge of a renaissance in rail. If you do not want to answer his question in specifics, what are three areas in which Australia might improve its performance?

Mr Garrett—The technology that is being built at the moment, the tilt train technology in Queensland, is an example where the Asians are eagerly awaiting a narrow gauge tilt train to be operational by the end of this year. They look at the high speed link to Canberra as an example of technology that is being brought to Australia. They look at the Tangara in the Sydney system, a purely Australian based technology that Goninans developed in Australia for Australia. They are examples of that technology.

Mr McARTHUR—What about the Pilbara region?

Mr Garrett—The Pilbara region is another example where there are heavy haul, privately run railways. There are the heavy haul railways in New South Wales and in Queensland. They do not have two-kilometre long trains with that technology in Asia and they are looking for us to potentially take that to Asia.

Mr PETER MORRIS—What about the technology and all the vehicles required to bypass the rail jam around Sydney? What about the improved technology, the rolling stock and signalling to bypass that?

Mr Garrett—It is the signalling systems as well, it is the smart systems and the IT. The computers and the smart systems are being developed to export as well. There are Perth based companies and Melbourne based companies that are developing that. But the high profile potentially at the moment is in the rolling stock area and the major projects. There are smart systems, computer systems—

Mr PETER MORRIS—I look down your membership here, and BHP is a member of your organisation. We were in the Pilbara the week before last, and BHP are buying the heavy steel rails in Japan. They send the iron ore up and bring it back as heavy rail. Hamersley told us they are buying rails anywhere, wherever they can get them. I would have thought your organisation might have some sort of concern, some in-house enthusiasm about membership in Australia where money is being spent in Australia trying to encourage best performance to get that expenditure in Australia.

Mr Garrett—That is a personal decision by BHP and the companies in the Pilbara to get the best value for their dollar.

Mr PETER MORRIS—That is the stock answer they give us, but you say to us as members of the parliament that there ought to be a national vision about this, we ought to have a national vision, but the players in the industry do not need to have a national vision. There has got to be some sort of partnership about this. That is what I thought.

Mr Garrett—Agreed.

Mr PETER MORRIS—I think it would help a great deal if that kind of thinking was coming forward from your organisation. We have been given some very hard-nosed proposals, and priority one is probably getting through the freight congestion around Sydney. That would make the greatest contribution of any project within Australia in return on dollars invested. Then there is rerailing Melbourne to Sydney and then Sydney on to Brisbane. Or would your organisation be happier with, say, Melbourne-Darwin or Alice-Darwin, those kinds of projects?

Mr Hutchinson—We have got to remember that we are representing ARIC, and to answer your questions correctly you would be getting personal answers, not ARIC answers, because ARIC does not address those issues.

Mr PETER MORRIS—That affects what sort of measure we place upon the submission you make. It does for me personally anyway, because I think they are fairly fundamental to the whole issue. If you are saying to us, 'Just spend more money on rail stock, rolling stock, and help us build up our export market,' fine, but if you say to us, 'We have a vision for Australia, we have a vision for our rail manufacturing industry and all its associates, and these are the kinds of priorities where we think government should be spending money,' I think that has got more weight.

Mr Garrett—We have a vision for a \$2 billion export industry and most of our efforts are spent in Asia promoting Australia. We do not market domestically and we do not lobby the parliamentarians, the federal governments and the operators domestically about export issues because most of our focus is on the markets offshore.

Mr PETER MORRIS—Your membership do?

Mr Garrett—Yes, the membership individually—

Mr PETER MORRIS—You may not do it formally as an association, but your members do it quite actively.

Mr Garrett—Yes, and that is one of the reasons we are merging with the other industry group: to get a very cohesive, focused industry group so that export and domestic issues are treated coherently. That merger will occur at the end of next month.

CHAIR—When does ARIC meet again?

Mr Garrett—On 2 June in Brisbane.

CHAIR—If you do not feel comfortable speaking for the whole organisation in the terms in which the deputy chair has asked you these questions, would you be prepared to tell us what projects or what types of projects in Australia might enhance both our domestic and export potential? You are saying that for this renaissance to occur some of it has to occur at home. Could you give us a bit of a feel at your next ARIC meeting—with the benefit of all the players present—where you see the government being most helpful to you on the domestic scene?

Mr Garrett—Yes, we would be more than happy to canvass our members. I notice that a couple of members of the committee are from Queensland and we would be happy to have them along.

CHAIR—I would like that in written form.

Mr Garrett—Yes, we will do that. We are looking to have our August meeting in Newcastle with Mr Vaile present, so we would be more than happy to give you a written response.

Mr PETER MORRIS—If you are picking out individual members to go to meetings, you are getting yourself into ticklish water, I would suggest. What I meant—and I think what the chair meant—was that the committee is looking for a joint submission that comes to the committee rather than to us as individuals.

Mr Garrett—Okay.

Mr PETER MORRIS—That carries weight—

CHAIR—I would like you to give us a feel for what will trigger this renaissance.

Mr PETER MORRIS—Let me put it another way. Given the importance of your export efforts to our economy and to the railway systems generally and the importance of your colleagues and what they do in the operation of the rail systems, you could have a major influence on shaping thinking about priorities. We could kill two birds with one stone: one about improving the rail systems, the operation of them and

investment in them domestically; and, two, building a base for you to build the export. It needs both. It is put in a positive way.

Mr HOLLIS—I want to clarify the answer to a question I asked Mr Garrett earlier. I wanted to know your view on the Asian economic downturn and you said that the projects would go ahead even if they were deferred. That is correct, isn't it?

Mr Garrett—Yes.

Mr HOLLIS—That was all I wanted to know.

Mr McDOUGALL—I just have one question. I looked at this list of projects in the ASEAN area and, to be honest, I cannot recognise the names of some of them. Predominantly I am looking at passengers. If we are going to have a renaissance of rail in this country, we have to talk about freight. What is the difference? Let us be honest. You talk about your membership. I have marked about nine which I know are operational in the domestic market, and there are probably a lot of others as well but they are the ones that come to my mind immediately.

We are talking about the export market, and I think that has been canvassed, but I am more interested in what the rail industry—your side of the industry—is doing about the renaissance of the rail network in Australia which is predominantly freight. This inquiry has told us it is freight. Frankly, I do not believe anyone is going to run 2.8 million people between Canberra and Sydney in a 12-month period in a blue moon. There are 250,000 people down here, and I do not know how you can get them on the tracks and make that 2.8 million per year figure reliable. What about the renaissance of freight? That is what we are talking about.

Mr Garrett—The freight in Asia is people.

Mr McDOUGALL—I accept that; I would not deny that at all.

Mr Garrett—It is different for different railways in the world. You are looking at freight. The products that we sell go into different markets. You may shift a million tonnes of coal or iron ore in the Pilbara, but that technology is adaptable to passenger business. It is not product related.

Mr McDOUGALL—So what you are telling me is that your two organisations are going to merge to try to make this thing work. We do not have a very good history of revitalising Australia's railways except for a couple of individual projects. What do you think you can bring to the other group to enable you to say, 'Look, we are going to be able to make Australia's railways work, particularly in freight'? If you have all the abilities to attract that sort of business and get on with what you are doing, is it possible that you can do that in Australia?

Mr Garrett—No, because we do not have 500 million people in Australia, and that is what is sitting on our doorstep. They are different markets.

Mr McDOUGALL—So you are a people mover, not a freight mover?

Mr Garrett—No, we are a rail industry group that sells technology and expertise out of Australia.

Mr Hutchinson—There is more to rolling stock than freight and passenger rolling stock. There are consulting services and the infrastructure—the rail, the signalling systems and so on—which are similar for both passenger and freight. So there is that part of the market. In the narrow gauge market, we have had some influence in freight because of Queensland Rail's experience, particularly in Vietnam and a lot of narrow gauge countries up there. However, the heavy haul, world best practice BHP activity is a long way from our potential markets in Asia, certainly between now and when we reach \$2 billion of exports. They are not ready. They are not hauling huge amounts of coal and wheat like the Canadians and we are. We are little bit unique there, and there are not too many long haul distances. In China and in India in years to come when we want to make that \$5 billion, yes, there will be, but it is a bit early at this stage.

Mr McARTHUR—I was wondering whether our witnesses might give us a two-page response to the question I raised about the potential market in Asia because of the large numbers of people—the Hong Kong, Singapore, Manila type arguments. Could you give us a two-page response as to how you see the market developing there because of the movement of people by train compared to road? It is pretty fundamental to the outcome of this inquiry. There has been debate, especially in the urban areas, as to whether in 30 years time in Australia you will have to have a rapid transit system rather than the roads being clogged up by motor cars. Could you just expand on the answer you gave me? I thought it was a good answer, but if you could expand on it in a couple pages for the committee it would be most helpful.

CHAIR—Mr Garrett and Mr Hutchinson, thank you very much for your attendance tonight. It has been very interesting and you have put a new dimension on rail. You have shown how important it is for the success of Australian exports that there be a base at home. Albeit that we are only a nation of 18 million, we have developed some very fine technology, and for that to continue there needs to be that partnership. If you could give us a bit of a feel for that in a follow up to that question that I asked you earlier and also the one that Mr McArthur asked, I would be most grateful.

Mr Garrett—No problem. Thanks for the opportunity.

[7.59 p.m.]

HOPPE, Mr Charles William, President, Charles W. Hoppe Inc., 4851 N35th Road, Arlington, Virginia, 22207, United States of America

CHAIR—I welcome to the table Mr Charles Hoppe, who is President of Charles W. Hoppe Inc., from Arlington in the USA. We very much thank you for reorganising your itinerary to be with us today. We understand you went to considerable lengths to be with us and we appreciate your gesture. Having someone of your standing to be able to appear before the committee adds another dimension to our inquiry. It gives us some international benchmarks against which we can compare evidence.

If you have any direct quotes or special names, you might defer to the Hansard reporters before you leave. You realise, of course, that although you are not under oath these are proceedings of the parliament and, similar to your American committees, they carry the same sort of weight. We have varied the procedure slightly, because we have been asking people to give three to five minute addresses, but you have come with such a comprehensive report that we wondered if you might give us a 15 minute overview of your submission. Could you state the capacity in which you appear before the committee?

Mr Hoppe—Thank you very much, Mr Chairman and members of the committee. My company is a transportation management consulting firm, and I should point out before I start that although I am currently working with FreightCorp in Sydney and I left a management seminar there this afternoon, I want to make it clear that I appear today in a private capacity; I am testifying for myself and the views expressed are my own and not necessarily those of FreightCorp or any other of my clients here in Australia or anywhere else.

I will hand out an additional exhibit that I would like to include in my testimony. It was not included because this exhibit did not exist, except in the heads of several of us who met in Sao Paulo, Brazil, the week before last. We were working with the government of Brazil which has privatised all of its federal government owned railroads in one year, from start to finish. It was a really amazing process, but now they have to deal with the fact that they did not get all the regulatory pieces in place because they were moving so quickly. So, having done that, these are incidentally vertically integrated railway privatisations done on a franchise basis. We have been working on the regulatory regime and one of the issues we were dealing with is the issue of competition as a source of improvements in efficiency and effectiveness on the railways, and how much is enough and how much is too much, which is one of the points I want to deal with today.

In a few minutes I will get to that chart and hand it out. I also have available some colour versions of the chart that was in my testimony that was somewhat hard to read because it did not transmit very well, and I have some clean copies of that if anyone would like one. I would like to summarise my testimony briefly and then I would welcome any questions, and I will try to do that as quickly as I can.

It is my assumption that your goal in Australia with the rail restructuring process is something like optimising railway service and value to customers while ensuring viable rail competition to other modes over the long run. It is the question of what you have in the long run that I am going to be focusing on most attentively here today; in other words, the long-term viability of rail as a transport competitor here in Australia.

Let me say, to start, that I think this is somewhat at risk with the process you are going through now and it mystifies many of us in other parts of the world, so probably some of the things I will be saying will sound controversial or argumentative. I do not mean them to be that way, but I am doing this out of my concern.

My first observation is that to have real rail competition it is not necessary to separate infrastructure from train operations, either a separate company or a separate organisation within a company. We have had trackage rates in the US which we use for one railroad over another. When I was running the Long Island Rail Road I took 200,000 of our customers in and out of New York every day over Amtrak which own the tunnels going into Penn Station. Before I got there and when I first got there we had a lot of arguments with Amtrak over how we did that and we finally worked out a joint agreement where we ran it for six months and they ran it for six months, and so it was a mutually assured destruction deterrent strategy and it has worked extremely well.

Those agreements exist all over the US. The railroads are using them now in their efforts to create competition where it makes sense as they try to merge the railway systems into more efficient carriers. It is not necessary to separate infrastructure to make that work; it is workable without that. I also believe that the interface between infrastructure and train operations is very important in improving the performance of railways. I have that direct experience from running the highest density railroad in the US. If I had to refer to a lawyer to get the chief engineer to do things that needed to be done, that would have kept us down several percentage points in our time performance. I made those decisions every day either to improve the efficiency of the engineering operation or to ensure that we got the trains in and out of New York on time.

There is an assumption that economists make that this is a benign relationship, and if it is out in the middle of the countryside where nothing is happening you can view it as benign, but if it is in an area of intense railway activity the relationship is not benign by any stretch of the imagination. I think you will find almost everybody who has run a railway will come to you with that belief, and I would suggest from my own experience that is true.

One of the other worries I have about the separation of the infrastructure from the operations is making sure that the investment that goes into the infrastructure makes sense from the standpoint of the marketplace with which it is dealing. It is very difficult to avoid having people build things that are monumental if they are very far removed from the direct marketplace and they are not trying to balance the economics of the marketplace in their decisions on how to invest. So I think there is a risk of reducing the customer focus in the separation of the infrastructure from the train operations. I mentioned in the paper some concern I have about community service obligations, which can become a game if they become the main business of what the railroad does. In other words, you do not want to be in a situation where a railway is, as its primary business, running community service obligations. If you do that, it becomes another government agency, perhaps more skilled at negotiations than it might otherwise be, but basically focused on satisfying that.

My primary concern about this is the complexity of the process as you are structuring it in Australia. If you look at the charts that were in the report and you look down in the corner at Tasmania where it is vertically integrated and you close your eyes and then look at the others, you will see that you have created

an incredibly complex set of interfaces in which the Australian freight market is going to have to operate and with which the truck market does not. I think that is a very, very serious risk. Just look at Tasmania, which is vertically integrated, and also represents the system in New Zealand, Canada, the United States—many of the countries with which Australia competes in world markets—and I think it is important to think about what that added complexity does and how much management time and energy it takes away from focusing on customer needs and causes you to focus on, frankly, bureaucratic needs. I am a former bureaucrat, so I am not an anti-bureaucrat. I have been on both sides, and that is all the more reason why I believe that is a problem.

If you compare the success of the US vertically integrated privatisation model, post-deregulation in 1980, with the as yet unproven open access model in the UK, which has totally different problems, and the planned access model you have here, most of us in looking at it think it is more complex, not less complex, than the UK model. Frankly, in working with railways here currently, they are experiencing those complexities right now. We are working on installing breakthrough customer service strategies—that is the seminar I am dealing with right now—and right in the middle of the strategy we essentially encounter a break of gauge. We have a different organisation with a different philosophy that we are trying to integrate into the competitive strategy to go after the trucking business. This is of great concern to me.

I attended hearings a couple of weeks ago in Washington. The US model is working almost too well from the perspective of the railroads. The government is no longer investing in freight railroads. The railroads are in fantastic shape. They are making lots of money. Some of the shippers are feeling painfully compressed on the issue of competition. The hearings in Washington were significant because the shipper witnesses were calling for the Surface Transportation Board to change some of the techniques of measuring return on investment, and so forth, to make it simpler for the customers to win the battle, seeing the game is stacked too high for the railways.

By far the majority of the shippers were not suggesting anything remotely similar to open access—although there were a couple of people who were into that—because they realise that it is important for the railroads to be successful in the market to serve them well. They want to rebalance the scale so that they can cause the Surface Transportation Board to look at the rates as being excessive. The argument is that the railroads do not earn their cost to capital, and yet in the stock market in the US their stocks are generally doing quite well—or were before this issue came up.

I think you need to think a little bit about the model that is used in Canada, the US and many other parts of the world, even though it is not the model used in Europe, because I think it may be more pertinent to what Australia is doing. I realise open access is here—I am not arguing that. I think it is good. I am not opposed to competition because I think it is essential, but I think you need to look at how much competition you can sustain in Australia with the level of traffic that you have. You do have truck competition in most of your markets for most of your business—not all of it, but for most parts of it.

It is my view that the separation of track from train operations in Australia is not only unnecessary but also dysfunctional. I am trying to get my son to go into my business so he will be available in a few years to re-engineer this process. A situation, that calls for re-engineering, almost by definition. As you look at it, it is so complicated that the people who are involved in re-engineering businesses will come back to you

some day to consult with you and to say, 'I have a solution for you.'

Mr PETER MORRIS—They are micro markets.

Mr Hoppe—So I believe strongly in privatisation, but I do not think it is a magic wand. It does not automatically change people from being one type of person to being another type of person. If you wave privatisation over them their service does not suddenly jump up and get better. You have to do a lot of hard things to make the business work better. Commercialising the business through corporatisation or privatisation takes a lot of political fortitude. The basic reality must be dealt with at some point in the process if you are going to have an efficient transportation system.

The heavy hand of government persisted in the US before 1980, and it drove the private railroads in the east and the mid-west so far into bankruptcy that we could not reorganise them in a normal financial reorganisation and the government had to step in and bail them out for a lot of money. One of the reasons the US policy is more focused on truck-rail competition rather than rail-rail competition—not that we do not have it or do not want it; in fact the whole issue with the CSX-NS takeover of Conrail has to do with creating rail-rail competition in markets which can support it, but there is a lot more focus on railroad viability in the US as a major goal—is because the federal government does not want to have to go through what they went through in creating Conrail in 1976 where they literally ran the private railroads into the ground through over-regulation. Right now the railroads are paying taxes to the government. They are not using tax money to support them.

One thing that keeps bothering me here is that there is a sense that if a railroad is owned by the state then it is automatically not efficient and not effective. That is not true. Conrail, New Zealand Railways, to a great extent FreightCorp, and many of the other railroads in Australia have gone a long way from where they were whilst in the control of the government. The reason for the privatisation of railways, in my view, is to make sure they do not drift back into the political sphere, but it does not mean that you cannot fix them—you have to commercialise them—without privatising, nor does it mean that if you privatise them they will be fixed automatically. I will wrap up here.

I also have a great concern that the economics of running a railroad requires high traffic density. There are several reasons for that: to compete with the trucks the railways need non-stop high speed services or limited stops; to match the flexibility of trucks they need to run frequent services; to make the economics of a train operation work there have to be enough wagons on the train to create the revenue to justify the expense of the train; and, finally, the revenue yield per wagon has to be sufficient to make it a continuing viable business or you drive the railroads out of business, just as we drove Penn Central and the other railroads in the US out of business in the late 1960s.

The chart that I mentioned I will pass out at this point. This is a non-dimension chart and I apologise for it. It is a conceptual chart and it deals with the question of the degree of competition and the effectiveness and the efficiency of the railway operation. You will notice there is a vector running out of the south-west corner called 'Simple economic theory', and that theory is that to the extent that you increase competition you increase the effectiveness and efficiency of the railway.

Frankly, from having been involved in this now for 25 years, the assumption that economists make generally about this subject is not correct because there are several other forces at work. For one thing, and we have seen this already in Australia, to the extent that there is an anticipation of competition, the efficiency and the effectiveness goes up and the costs come down. After you go a way into the increasing competition you start to lose efficiency and effectiveness because the investors see no chance to get a return on their investment, because of the erosion of the yield on their revenue base, and they start disinvesting or not investing. Then, if you add on top of it the complexity that we are talking about here, the focus shifts away from customers to negotiations with the various parties in the transaction.

I think it is important that, as you go through your deliberations, you make sure in the process that you end up with at least one viable railway system because there is a risk that they could cherry-pick their way through the economies of the business and you could end up with a bunch of weak railroads. If it is your view that the role of government is to do what they started out to do in Sweden which was to set up the railways to operate as if they were on highways, and you want to make that kind of investment commitment, then almost everywhere a man would be glad if he did not have to get a return on investment on that basis. But if you plan for them to be somewhat self-supporting, you have to think carefully about the direction in which you are going. Thank you.

CHAIR—Thank you, Mr Hoppe. Colleagues, you have the chart in front of you. Is it the wish of the committee that the document be incorporated in the transcript of evidence? There being no objection, it is so ordered.

The document read as follows—

Mr WILLIS—I have a question about the chart. Is that a 45 degree angle, from simple economic theory? It does not look like one. I assume it is supposed to be.

Mr Hoppe—Since it is undimensioned, you can have whatever angle you want. Yes, the concept is that it continues to get better as you go farther. Frankly, I do not think reality supports it. This curve is somewhat empirically derived without numbers but with a fair amount of experience of what has happened in New Zealand and other parts of the world.

CHAIR—Mr Hoppe, you have consulted to a number of railways, have been out here a number of times, have looked at railways around the world and have consulted to railways around the world. Having regard for the fact that the federal government is withdrawing from the ownership of the railways that it took over in the seventies, what role would you see for the federal government of Australia as a coordinating—part-funding perhaps—driving force to get some sort of uniformity and efficiency into the Australian rail system?

Mr Hoppe—I believe that there are two models that you can go through. To the extent that you end up with a healthy railroad with some niche competition to it, you probably are talking about reducing the amount of investment that the government has to make. To the extent that you add carriers into that beyond wherever this optimum point is approximately, I think you only have a few markets where that involves rail-rail competition at best—only a few, maybe not any, but probably Perth to Melbourne-Sydney is the candidate where that, in terms of the interstate rail operations, would probably make sense.

In most of the rest of the markets, if the railway cannot make a return on investment that is fairly healthy—competing with trucks in those markets in particular—you are going to be funding it or not having it. I am fairly blunt on that. I worked on the original plan for the national rail freight initiative and it was very tough in those days to figure out how to make the economics work, short of a monopoly on interstate rail freight service.

CHAIR—That is a bit of wishful thinking around here.

Mr Hoppe—I think they have a lot of the cost issues taken care of, as I see it, but when you start cutting back on the revenue stream from the market, which is already thin, I think you create a real risk of almost an impossible situation. If we had known about the open access regime, we would not have recommended it. I am quite sure of that. We did not look at it because we did not think about it at the time but a basic part of our thinking at our time, as I recall, had to do with the assumption that they would at least have all interstate rail freight.

Mr PETER MORRIS—It would be one national interstate operator?

Mr Hoppe—Yes. That was the assumption we were making.

Mr PETER MORRIS—I think that is pretty important, Mr Chairman, given our interest in that.

CHAIR—Do you want to pursue your questions from this point then?

Mr PETER MORRIS—That is fundamental to the whole approach in national terms. I read through his submission and I see a great deal of merit in what he is saying. He expressed it previously in the committee when he said that the size of the Australian rail task is so small in global terms that what we are doing is salami slicing—we are cutting up a little system. You are referring to it as cherry picking. To put it into perspective, do you have some numbers that give us some sort of comparison between the US national inter-state system? Are there a couple of operators in the east and a couple in the west? How many operators are there across the continent?

Mr Hoppe—There are three in the east at the moment. In the north east—the section between Pittsburg, Buffalo and east of there—there is one, Conrail, for all practical purposes. There are two west of there in the north east, Norfolk Southern and CSX. In the south east there is Norfolk Southern and CSX. In the west there are a couple of other railroads but basically it is BNSF and Union Pacific. So basically we are down to a system where we have two carriers going head to head in the markets. If NS and CSX are successful in their efforts to acquire Conrail and split it up then there will be competitive rail service in the north east.

I was with the federal government working on that reorganisation. I was vice-president of operations in charge of the plan to put those together. We attempted very earnestly—because I believe in competition; I believe it has to be realistic—to get CSX to participate in the market when we set up Conrail because we knew we were setting up a monopoly. A monopoly is not a healthy thing to have if it has no competition. But we could not come up with a plan that would do that and not drive it all back into the federal government's hands to revitalise one more time. If there was one thing that was clear in Congress—and I testified up there several times at that time—it was that they did not care to have that problem come back; they had enough problems with the Cold War and other things that they were dealing with. They really did not like having railroad to worry about.

Mr PETER MORRIS—What you are telling us is that the viability of the national network is a key factor and that what you see being done here does not have the essence of viability about it—we are undermining it by dividing it up into little niche systems.

Mr Hoppe—I think that there is an assumption that started this process, and that is that competition will solve all problems. I generally believe that but the nature of the railroad business, as I said earlier, is that you have to run a lot of trains, you have to run them frequently, they have to have some wagons between the beginning and the end and you have to get revenue out of those wagons. If you cut away at that very significantly you will end up with a bunch of sick railroads or no sick railroads.

Mr PETER MORRIS—I would like to get from you some comparisons between your experience in the US and in Australia. Over there you are looking to road and rail and the competition between the two. What sort of a tax is applied to road over there?

Mr Hoppe—The taxes are far short of the cost of the damage the trucks do, in my view and that of a lot of other people. I cannot give you the number offhand.

Mr PETER MORRIS—This question comes up at almost every hearing. You make some reference

to the efficiency of the interchange between rail and other transport. We have also had a deal of reference to that. That is really at the seaport and road connection. I have a recollection that under your ISTEA Act—Intermodal Surface Transportation Act—the federal government makes grants available to the reorganisation or the construction of these intermodal transfers where it will enhance the efficiency of the system overall.

Mr Hoppe—There is that in there. Most of the money in ISTEA goes, of course, into the highway system and into transit. There is a piece that goes into intermodal facilities. The bill was still moving through Congress when I left.

Mr PETER MORRIS—We have a copy here. Mr Chairman, I mention that because it is important. It relates to the terminals where the systems link across. Here is a precedent for saying that there are grants available but those grants are linked to conditions that make the whole system mesh together better and more efficiently. That is why I asked that question. That is all I wanted to ask at the moment. There is a great deal of substance to what Mr Hoppe has put to us.

Mr McARTHUR—I support the chairman's remarks. We are delighted that you have been good enough to come and testify to the committee. We appreciate the way in which you organised your personal affairs to do so. I have three matters I wish to raise. You raised the complexity of the state access system and this committee has certainly heard a lot of evidence from state authorities and the problem of how the national authority might work. Can you make a comment as to what your recommendation would be, having in mind the difficulty with the state regimes that we have in Australia. Can you also add what the problem in the US is?

Mr Hoppe—I was heartened, frankly, because I understand at least that the freight operations in Victoria will be vertically integrated. I gather that from what I have heard and, if that is the case, that is good. I am not arguing about open access because that is your policy; that is where you are and that is what you need to do. The question of how you implement that worries me.

If the goal is to do what the Swedes set out to do—and they have done a lot of it—which is essentially that you are going to fund the right of way and the infrastructure on the same basis relatively speaking that the highway system is funded, therefore, presumably one can get on the railway with a lot less confusion than exists today. With access today it is early in the process, so there is a lot of learning going on. I am suspicious that, as the learning curve evolves, it will still be complicated.

The railway has to go through a lot of complex negotiations to go out and get business from a shipper, but on the other hand the trucker can drive up, put down his tailgate and say, 'For X dollars I will haul your freight to Melbourne.' That is not a balanced competitive scheme. To get to open access that way you are putting a terrific penalty on the users of rail, because you are making it more complicated and ultimately you are making it more expensive.

Mr McARTHUR—What is your recommendation if you were helping us?

Mr Hoppe—I would recommend that you review the process that you are going through and think seriously about more of a bilateral type of negotiation between players or, if you are going to have an open

access regime, that you concentrate on how to make it simpler.

Mr McARTHUR—How would you handle those difficult state regimes?

Mr Hoppe—In the States the railroads own the right of way to the extent that they are required by the Surface Transportation Board to open up access to another carrier to provide competition. They are directed to negotiate it and if they cannot reach a negotiation, the Surface Transportation Board will resolve it. But they cannot merge, for example, without meeting the requirements that the Surface Transportation Board sets forth rail/rail competition. That is the only involvement they basically get into on that front. It is a bilateral negotiation.

Mr McARTHUR—But here in Australia, how would you handle Queensland, New South Wales and Victoria?

Mr Hoppe—Personally, I would have those railways set up an internal unit within the railway to deal with access. You can monitor the dispatching, because the dispatching record in almost every country is one of the most reliable records the railroads produce because lives depend on it. You can audit that and, if somebody is being unfair, you can deal with that.

I would put the role of government more into the audit and, if people step out of line, punishing them for it, rather than create an agency to do this when you are talking about relatively few places where open access will actually support more than one rail carrier. I do not think the market nationally will support open excess everywhere. You are going to have a lot of people involved in that process. I know a lot of people here do not agree with me, but most railway people do.

I am worried that the process will get so complex and that you will have so many players, with the players further removed from the market than they would be if they were one of the participants in the market, that the investment risk is that the money will not go where the most efficient market responsive place is and, to the extent you have to regulate that relationship, you regulate it rather than go through the pain of trying to create a rail-rail competitive market where it really does not exist in sufficient volume to support multiple players, other than a few places; there are a few where the market would support that.

Mr McARTHUR—You talked about the fact that the American railroads went bankrupt in the 1980s because of excessive regulation. Could you give us a feel for what the regulation was? Was it related to safety issues or was it just an emerging plethora of regulations? In Australia there is a tendency for safety regulations to overwhelm the system. Could you warn us of that possibility?

Mr Hoppe—Frankly, I think that, if you are going to have private railroads or you are going to have the railroads operate as commercial businesses, you need safety regulations—they have to be meaningful regulations—because you want to make sure they do not drift into cutting back on maintenance to support their earnings statement. You can defer maintenance for a long time in the railroad business before it becomes obvious. The life cycle of many of the track components, for example, is 30, 40 or 50 years, and the railroads in the US did that. It paid dividends for a long time. Because the Interstate Commerce Commission was regulating rates entry and exit and service levels and they kept them in the passenger business long after

it made sense, they just literally drove them into the ground while at the same time we were building the interstate highway system, the St Lawrence Seaway and creating very significant competition to the rail operations, which policies I think were good and I personally benefit from the interstate highway system—

Mr McARTHUR—How did the regulations emerge in a political sense? Why were the politicians and the regulators forcing those types of regulations?

Mr Hoppe—It started out because the railroads in 1887 were robber barons. They earned regulation by being excessively aggressive.

Mr PETER MORRIS—And land developers too.

Mr Hoppe—And land developers. The problem was that, as the market changed, the regulations didn't change. They became increasingly out of sync with the market realities the railways were facing. From being the only transport mode, they were suddenly faced with growing and far more effective and less costly highway competition as the highway system was built, and it did not keep up. Plus, with inflation, they could not raise the rates. We calculated, in putting Conrail together, that if we could not bring the rates up concurrent with inflation, which was very high in the 1970s, of course, with the oil crisis, it was going to add a billion dollars to the cost of making it work—just the regulatory lag in freight rates versus inflation. That was a big number, even for the US government in those days. That realisation, which did not come initially, came with the deregulation in 1980. There was, however, some loosening up of the rate regulation with the creation of Conrail in 1976.

Mr McARTHUR—The Staggers Act was in 1980?

Mr Hoppe—Yes.

Mr McARTHUR—What does that really mean? You have moved that regulation, made it more compatible with—

Mr Hoppe—There is still regulation but it is much more on upper and lower limits with respect to the rate making. The entry and exit was made significantly easier. The merger process was made somewhat easier, at least faster, and—

Mr PETER MORRIS—Wasn't there an anti-trust component in it too?

Mr Hoppe—The Surface Transportation Board still basically provides the oversight on anti-trust. I think anti-trust is a very effective weapon to keep businessmen from overdoing because they don't really like the consequences.

Mr PETER MORRIS—We need a good dose of it here.

Mr Hoppe—The railroads aren't real anxious to have anti-trust as a substitute for the Surface Transportation Board.

CHAIR—Can I bring it back to some particularities. You were saying that the reason for federal governments both in the US and Australia withdrawing is that they do not want to spend the money. But the American experience was that they had to spend some money and we have received evidence that suggests that somewhere, sometime, somehow, the federal government is going to have get involved, even if it is purely in a catch-up mode. How can that most effectively be achieved? We have received a lot of evidence suggesting that Swedish model or a variant of it; that the federal government should perhaps control or contribute towards, or whatever, the main line from Brisbane to Perth and ensure that that is of a standard that rail can compete with road. That is one view. What is your view on that? Is there an argument for the federal government to get involved in a catch-up, for example, of the standard of the track?

Mr Hoppe—In Australia, if you want to have a rail system that is truck competitive, you are going to have to, particularly in the north-south quarter on the east coast, put some federal money into it. I have read the Maunsell report and I am not sure what the amount is or what the justification for it is on return on investment, but it is probably going to exceed—at least at the time we looked at that in 1990—the capabilities of National Rail. At that time we conceived that it would exceed their capabilities. At some point in time you are going to have to put money in that quarter.

The trade-off, frankly, is in how many competitors you have on the part of the market where rail does have an advantage, as in the Perth-Melbourne quarter. If it is set up so that you cannot achieve any cross-subsidies between one quarter and the other, then you are going to have put more in. It is a matter of how you want to deal with it. I do not know that the market will support it; I do not know that it won't, but I am suspicious that it will not support the rebuilding and development of a competitive rail alternative, for example, between Brisbane and Melbourne.

CHAIR—We received evidence also that for that north-south corridor to work, access would have to be zero rated.

Mr Hoppe—I do not know what those numbers would be to tell you the truth. I would not be surprised.

CHAIR—But you would be suspicious about the efficiency? There is not yet a private train from Melbourne to Brisbane, or from Melbourne to Sydney for that matter, so what is the problem on the north-south corridor? Is it too much road competition or not long enough hauls?

Mr Hoppe—You have to give people an opportunity to make some money. It is right on the margin of length of haul. You have very large trucks here—the B-doubles—so the margin where a rail alternative makes sense gets longer as the truck costs come down, of course, to break even point. I do not know what it is. I have not done that work for several years. I did look at it many years ago but that is probably not relevant because I think the trucks are bigger and the rate system is quite different.

CHAIR—We have also received evidence that the ambit claim, for want of a better expression, was that it would take \$3 billion to get the Australian rail system into top order again. There is another view, that the committee should be recommending some sort of incremental approach where we would pick the 20 or 30 worst hot spots between Brisbane and Perth—getting around the Sydney congestion; the track between

Albury and Melbourne, between Melbourne and Victorian border in particular; tunnels in the Adelaide hills—and that if money was strategically placed on all those the speed of rail could increase, and you could get a basis on which there could be genuine competition. What do you think of that incremental approach?

Mr Hoppe—Let me first of all say that under oath or approximately under oath I do not want to suggest I know the answer to that because you really have to study that in detail. I have read the reports, but in those reports that I have read I have not seen return on investments calculations done similar to what we did in the early days of the national rail freight initiative in which we were looking at, for example, standard gauging Melbourne to Adelaide. We did do some economic maths. I am sure people have done that, I just have not seen the analysis. I would be speculating in the extreme to say whether one made more sense than the other because I have not done the analysis of what you get for what you pay for. I am inclined generally to think that I would want to look at an incremental investment when somebody is talking that much money, but that is not a really good technical answer to your question. People have studied it; I have not in recent years, so I would be guessing.

Mr McDOUGALL—Getting back to this access thing: my understanding of your comments earlier is that the American system has a multiple access regime but with one regulatory authority which they can go to if they are not satisfied. Is that correct?

Mr Hoppe—Yes. The authority of the Surface Transportation Board to intervene in those transactions is not unlimited. When there is a merger being proposed which they have to approve, typically in approving such a merger they establish what the competitive conditions must be. In the case of the Union Pacific-Southern Pacific merger, they held that open for five years. They may restructure the deal—that is one of the things they are looking at in that case. I will not go into my views on that thought, but at any rate they may restructure the deal and they have the authority to do so as part of the merger agreement. The railroad has the choice in that case of choosing not to merge. It is a voluntary decision on their part because they believe the active merger will be of much more value to them than the loss through competition of the directed trackage rates.

I would say that far more transactions take place between railroads in their own mutual interest in terms of trading opportunities to get into markets: ‘If I can run my trains over your track and take up my track, we might both benefit from that.’ So they sit down and work out a bilateral agreement to do that. Trackage rate agreements are not as easy to run as your own track, clearly, but they are a whole lot better than having somebody in between who is not in the business of maintaining and investing in railroads to produce market results. Frankly, that is what worries most of us who have been in that business.

Mr McDOUGALL—On the basis that we have got this system in Australia where the state governments own the tracks, would we be better off with a national grid from Perth to Brisbane, getting the states the hell out of it and saying that the national grid will be financed by the federal government—as is the national highway—the access authority will be a single authority, the complaint mechanism will be one single authority and that the states and the urban systems can get off that track and stay off that track?

Let us face it, we have had enough evidence to tell us that there is not much good of building any freight track across New South Wales because city train will take it anyway, as it does now. We have got

freight trains which operate from Melbourne to Brisbane. I put it to you that the only reason the private sector is not running trains is that they cannot afford to sit for three or four hours waiting for slot times across the back of Sydney. What makes them unprofitable is that they cannot get access. Where do we go in this access question? You made the comment that FreightCorp is effective. I put it to you that, if you take out Hunter Valley Coal, how effective would FreightCorp be?

Mr Hoppe—Let me rephrase that. They are in markets that you would not be in as a private sector business because there is not enough business there to support them in that market. What I am saying is that the way they operate, in not all but in many of those markets, is as good as any private sector operator. They think, at this time, in the same terms. What I am doing with them are the same things they did with Transrail about six months ago, which is a private sector business. We have been doing the same basic things there and here. So the standpoint that because they are owned by the state they are not operating efficiently is assuming a whole lot more comes out of privatisation than you get.

The real issue is: do you make the tough decisions with regard to, 'I am not going to go to certain markets'? Those are tough things to do and if you decide you do not want to do those things because you do not want to support them then I would suggest that the system get more efficient. Clearly, the Hunter Valley Coal operation is close to world's best practice given the conditions under which it operates. I think it is really very good. I was up there just a few weeks ago.

As to the question of how do you get through Sydney, the Long Island is basically a passenger commuter railway which has most of the same attributes that CityRail has. I worked on CityRail in the late 1980s and I took many of the ideas from CityRail back and used them on the Long Island because there were some very good things that were done there. I had a freight operation as well as on the Long Island and we moved freight trains in the middle of the day, but not in the peak of the peak. I had trains running in with thousands of people on them who were supporting our primary reason for being there in New York, running on both tracks, inbound every morning and outbound every evening. For about two hours there you could not have put a freight train or any train—we could not have put another passenger train—in the network because every slot was taken.

I could have gone to Governor Cuomo and said, 'I am going to cut out some of these passenger trains and put freight trains in the slot,' and I think rightfully he would have fired me. New York needs those trains, just as Sydney does. You cannot get along in Sydney without moving the people because the highway system does not do it all that well, speaking as a regular driver out to Parramatta and elsewhere. Parramatta Road is not a monument to road building success. I do not mean to get flippant and I apologise for that.

What I am really saying is that you can get freight trains through if you know what the hours that you can go through are. You should be able to run freight trains to match up with that, to be honest with you. I think that can be done. It is a matter of running trains through slots. If you are at the upper limits of capacity you have to run the train when it is supposed to run. That says to the shipper, 'If you want your freight on this train, it is leaving at 5.07 p.m., the cut-off is 4.30 and if you are not there it goes on the next train when we get the next slot.'

I have been working with Amtrak on their negotiations with NS and CSX on the north-east corridor.

In the past, Amtrak kept all the freight trains off there essentially; it was not quite all of them but they did not want them on the corridor interfering with their passenger trains. They realised that freight trains represented a revenue source for the north-east corridor that they really did not want to give up because they were very successful and were essentially taxing the freight trains off the corridor some years back.

We have been working on how to get more trains through that corridor, because some freight cannot wait for when the passenger guy feels real warm and comfortable about running a freight train. Part of the key to doing that is making sure you run the freight trains on schedule and in their slots. That is not an impossible thing to do. They do it in New Zealand they are running the freight trains—I was up there some weeks ago—about 95 per cent within about 15 minutes of schedule. That is not the same as passenger on-time performance, but it is a whole lot closer to the times most freight trains operate to.

That takes a bit of a different discipline in managing, but that is coming as the railroad people start thinking about how they are going to address their freight market. They have to think in terms of running trains in slots, and if they are going to get through Sydney they are going to have to negotiate—whether it is CityRail or they own the track. Getting people in and out of the city, which is very time dependent, is probably going to take precedence over freight. You may want to build a freight by-pass, which would be a recommendation without numbers. I cannot tell you what the return on investment would be, but to loosen up that problem and probably create more capacity in the corridors within Sydney would probably be a project worthy of review. But I have not studied it, so I do not know whether it would pay.

Mr McDOUGALL—I come back to the point that Melbourne to Perth is working and an access price is paid because it operates, even though the evidence we have got is that Melbourne to Adelaide is pretty lousy and probably should not even have a train on it by the sound of it, on the speeds that they get up to. A speed of 60 is not very fast for a train.

Mr Hoppe—Not kilometres.

Mr McDOUGALL—But it works. One would assume that the freight task between Melbourne and Brisbane is greater than between Melbourne and Perth. We are told that it is not feasible to operate a train between Melbourne to Brisbane because—we keep getting the answer—there is not enough business, but if the freight task to Brisbane is bigger than it is for Melbourne to Perth and the Perth one operates why can't the one from Melbourne to Brisbane operate and take some share of the freight task which makes it competitive?

There is a problem in there, and the problem we are being given in evidence is Sydney access. Sure, there needs to be an upgrade of the line or a whole new line between Newcastle and Brisbane—one or the other—but the private operators are currently saying, 'National Rail is running that. We will buy a freight rate off them and stick our freight on their trains. The time factor is obviously not the question and therefore we can afford to put the freight on the train and let the taxpayer cover National Rail's \$40 million loss per annum on that sector.'

All the evidence points back to the fact that the New South Wales access regime is the stumbling block. Why? Do you prefer a horizontal or a vertical structure? New South Wales is horizontal. My interpretation of the evidence is that half the problem is that the New South Wales regime is horizontal.

Mr Hoppe—I have attempted to say that I prefer a vertically integrated railway because I think it is a much more practical regime. That requires, in the environment in which you are in, a bit more pressure being applied to make sure that people function in a rational way for the economy as well as for their bottom line.

Businesses deal with that kind of issue all the time. They have to do certain things. If they are going to get funding, for example, that is usually a very strong lever. If you are going to get funding, you are going to get funding with certain strings attached, and you decide you either want it or you do not want or you do not want to play in the game. I would rather have a railroad investing in that process than a bureaucratic operation. I am not saying the people in New South Wales are bureaucratic. In general, I think the closer it is to the market, the more likely the investments will be targeted to the things that need to be done.

It can be done. We funded Conrail with government money for two or three years—big time; lots of money—and they were a publicly owned railroad. They had operations of passenger trains all over the place as well as freight. We funded it, but they understood that they had to deal with that in an effective way. It was part of the deal. If you are going to put up money, you do not necessarily have to create a government agency to operate the railway. If you are going to do it, I certainly would not have multiple layers of government agencies as an ideal. That just makes a bad situation worse.

Mr PETER MORRIS—You are anti-competition!

Mr Hoppe—Introduce competition at another level but—

Mr WILLIS—Mr Hoppe, why is rail relatively successful now in the USA? Given that the trucking industry is operating with probably the lowest fuel prices in the Western world, how is rail successful?

Mr Hoppe—Of course, the rail fuel prices also went down.

Mr WILLIS—But that is less important to the rail than it is for the trucks.

Mr Hoppe—Yes. I think it is operating successfully because the railroads have focused on becoming extremely efficient, and they have. For example, Conrail, when it started in 1976, had 110,000 employees—10,000 of which were in commuter passenger services, which they spun out. They now have about 23,000 employees, and they are doing more than they did with 100,000 in 1976. All the railroads have invested a lot in plant, but with Conrail it was basically their own money. They have invested in improving the management processes. They have invested in equipment. They have invested in better locomotives. They have also invested in figuring out how to run the business better. They now have a 40 per cent share. It was down as low as about 37 per cent a few years ago. So they are gaining share from the trucks even though the trucks are themselves becoming extremely efficient. The playing field is pretty well balanced.

The coal shippers were quite clear in their view that they were cross-subsidising some of that service, and they are. In the US we operate with what they call Ramsay pricing, where you charge what the market will bear. I am suggesting to you that you may want to think about that if you do not want to pay for these things to the same extent that you are probably going to have to if you essentially take all cross-subsidy out of it. It is a matter of where you want to pay, how much you want to pay and who is going to pay. But I am

worried that if the process gets too complicated, it will not be viable in the long run.

Mr WILLIS—I take that point, but there is no such thing as a mass distance type charging regime for trucks in the US.

Mr Hoppe—There is in a few areas, but basically not. You have that in New Zealand.

Mr WILLIS—Sure. It has been said to us that that is the major reason for the success of rail in New Zealand.

Mr Hoppe—It certainly helps. The railroads in the US would be very happy to see that happen in the US. But, realistically, they are more concerned right now about trucks getting bigger. I think they have given up on getting a mass distance type tax.

Mr WILLIS—In relation to rail competition, as I understand, the US model basically is integrated railways competing with each other. So you have a company which owns the track and runs the train perhaps in competition with someone else who has track and runs a train. How much competition is there in the US where people who do not own any track can run a service on somebody else's track?

Mr Hoppe—Basically, it would be difficult to do. Where they have sold off branch lines to groups of railroad holding companies which operate regional and short-line railroads, there are situations where they can work out haulage agreements where I do not run the train, it is a hook and haul type of thing, or even less.

In the inter-modal part of the business there is competition because the two railroad systems, while they may not serve the same plants, are offering trucking-related services to and from the same points. So if Norfolk Southern is not giving me a good rate, I go to CSX and their truck—or the truck that uses their route—or a trucker will pick it up and they will get it in inter-modal service.

Mr WILLIS—It seems to me that, in the US, the use of track by somebody else is basically agreement by vertically integrated operators to allow another vertically integrated operator to use their track in part.

Mr Hoppe—And there are thousands of those.

Mr WILLIS—Sure. But you do not have the non-track owner being able to come into the business and operate a rail service to any substantial degree. If we in Australia want rail competition—rail-rail competition—we certainly would not want to have someone building another railway line to duplicate the service that is already there and running pretty uneconomically most of the time.

Mr Hoppe—I would say that would be even worse—

Mr WILLIS—Indeed. So if we want competition in our rail system, haven't we really got to have an open access regime?

Mr Hoppe—There is a significant exception to what I said, and that is Amtrak. Other than the north-east corridor, which it owns, it operates over other railroads with its passenger services. If you want to have rail-rail competition, where that makes sense in Australia—which, if you are going to have a viable system at the other end of the process downstream, that is not a lot of places—I do not think you need to go to the complexity of creating all of these organisations to deal with access, unless you are going to fund it. If you are going to fund it, it takes on a somewhat different dimension because you are not expecting the railways to put their capital in and therefore their returns can be lower and less certain because you are not expecting them to fund infrastructure improvements.

In Ohio, CSX has put in around \$200 million of their own money for double tracking and triple tracking their line between Cleveland and Chicago, in anticipation of the traffic they expect to take off the highways with the acquisition of their part of Conrail. They will basically split Conrail—not fifty-fifty but some percentage—so that the two systems at the start of the game are balanced almost perfectly. NS and CSX will have very similar characteristics.

Both railroads are investing extremely heavily and very quickly in the facilities they need to make that work. It has not been approved yet. The Surface Transportation Board could turn them down, and no-one quite knows what the consequence of that would be, but it would be significant. But they are investing in the things that matter for them to compete effectively in the marketplace. The identification of where you are going to put your money to compete is a really significant thing that you have to make sure you get done here, or you may get investment that is not market responsive as much as it would be if the private sector party were doing that.

Mr WILLIS—But if, in Australia's situation, we do not have an access regime allowing other operators to come in and use the infrastructure along with other existing operators, it seems to me that you run the risk of creating private sector monopolies. If you have not got an access regime and you privatise the railways, you basically have private sector monopolies.

That seems to me to be a highly undesirable development, even though, obviously, we do not allow the 19th century robber barons of America to re-emerge with some kind of price regulation, et cetera, but that is never perfect. It does seem to me to be unwise to be developing private sector monopolies. Presumably, you would not want us to do that either.

Mr Hoppe—I am suggesting to you that they are not monopolies in most of the markets, not all of them, for several reasons. First of all, you have very tough truck competition in most of the markets where most of these railways are operating. You have some coastal competition. You have source competition in some cases, not in all, and of course you have some product competition.

A lot of your major markets where the railroads have a very strong position are competing in world markets where the price of Australian products is directly competitive with other countries. You may at some point in time have to make a decision between some regulation to make sure those monopolies do not function, to the extent they are monopolies, in a way that frustrates market outcomes.

My point is that I do not think that is as universal a problem as your current solution suggests. I think

it is worth taking a look at where this need for competition is where the railway is not really competing with trucks or coastal shipping or whatever.

Mr WILLIS—I know you have had a long innings here, but I have one other question. Can you briefly tell us how the Australian access system differs from the UK access system and whether there is any other open access system around, at least in the developed world or anywhere else in the world, developed or undeveloped.

Mr Hoppe—My comment with respect to that relates to the observation that we made as we read about the UK system and we read about the Australian system and we said, ‘My God, it’s even more complicated than the British system.’ It is not a scientific evaluation, but it was an impression that we got. I do not have the material with me about the British system. It is plenty complicated. They go to the dimension of having the Roscos and so forth and rolling stock companies.

There are problems from that process. The British have a different situation than you have with passenger services, most of which are not operating competitively at this point. They sold the franchises and reduced the subsidy. That was good and is good but to some extent they did that by giving them a few years to not have competition.

The European Union is coming out with its directive—I understand there is a new one coming out shortly—on how they will deal with access. I would say that in their case they really have a significant problem with enough traffic to justify dealing with it from an access standpoint. I am not totally opposed to this but I think it does not make sense in a lot of Australia. That is my basic bottom line.

CHAIR—We were talking about National Rail. Do you think that model may be better for Australia or a duopoly type operation, as you are now moving towards in the north-east of the US? Would that be a better model for the north-south corridor in Australia?

Mr Hoppe—First of all, all of that is truck competitive.

CHAIR—As well. I accept that.

Mr Hoppe—If it is truck competitive, I think you would be lucky to support one railway in those markets as an effective competitor which is at least funding its normal on-costs. I have not done that analysis for a long time, but my impression from having done it some years ago is that it is going to be tough to do in a north-south. I think you do need niche competitors because, as in my chart here on the left, the anticipation of competition and the first bit of competition produces most of the benefits of competition. That will cut back, however, on returns. If you have one carrier in the market, maybe in some cases you can support two. I am doubtful but I have not done the math on it, so I cannot say there is not enough there for two carriers to live off. But it is going to be very tight and it is probable that eventually you will end up back with one.

CHAIR—On that basis, I have two related questions. You may not wish to answer this question. What do you think of the viability of an Adelaide-Darwin link, and can an Adelaide-Darwin link work

without the Melbourne-Adelaide link being efficient?

Mr Hoppe—I have not looked at the numbers. I am surprised at the enthusiasm with which that idea is picked up; I do not mean the political enthusiasm. It seems to be people who have looked at it and think it makes sense. I have not looked at the numbers—

Mr PETER MORRIS—You are so careful in what you say.

Mr Hoppe—I am sorry, but I am testifying and I am giving you a lot of opinions and I do not want to go out where people have done the analysis and I have not. I am surprised at what they may have concluded, from what I have seen, but I have not seen the analysis.

CHAIR—What about the second part of that question. What does the country do, or what does the federal government do, when we get an integral part of the national rail system where there are piles of sleepers beside the line, the ballast has broken down and your speeds have been reduced to under 40 kilometres an hour? What is the role of the federal government? Is there an interventionist role to get basic infrastructure back in place?

Mr Hoppe—You are describing the situation we looked at at the United States Railway Association, which was the government body set up to deal with the bankrupt railways in the north-east, only ours was 10 miles per hour—literally thousands of miles of railroad with a 10 mile an hour speed limit—and dividends that had been paid by the Pennsylvania railroad up to and almost including the date of bankruptcy.

Mr PETER MORRIS—Corrigan's railway.

Mr Hoppe—Anyway, one of the things I think you might want to think about doing is setting up an organisation not unlike the United States Railway Association, which was set up for a specific purpose. It has a unique characteristic in the US in that it is one of the few government agencies established which also self-destructed not too long after it had finished its job. It was set up specifically to deal with that with a high level of expertise. The congress required that we give them what was called the final system plan after several hearings and preliminary plans and hearings, which they either accepted or rejected as it was presented. That is like the military base closing process in the US where you cannot manipulate it. They did not want to visit the problem again.

At any rate, I think you are talking here about a fairly substantial investment. If you want to put it into rail, I think it is important to put it where it matters most in the marketplace. Even focused in that regard, I think you are going to be spending a fair amount of money if you want to have a competitive rail system. I think that is a decision you need to make fairly early on. I think you need to make it with a high level of expertise committed to making that analysis as objectively as humanly possible. I am not suggesting anybody else is not objective but I am saying that for your comfort you need to have that analysis done.

CHAIR—Let me revive that model of a hot spots program. Do you think it is feasible to have an engineering type committee which could look at the track from, say, Perth to Brisbane and say, 'These are your worst hot spots. This is where it needs to be spent and these are the numbers'? Is it feasible to have

somebody independent of the state governments, at arms length from the federal government and, as you say, with a self-destruct clause there?

Mr Hoppe—We did that in the US because the Interstate Commerce Commission wanted to do it and the Department of Transportation, which was the equivalent of a ministry, wanted to do it. It appeared Congress—back in history—did not trust either one to do it the way they wanted it done so they created a new agency for that purpose.

CHAIR—With very specific terms of reference.

Mr Hoppe—The agency had not only an engineering focus but also a business, marketing and operational focus. It did not just think in terms of how to fix the railway, which we did—I was responsible for that; we had teams of engineers go out to cover every other mile of the rail system in the north-east—it also made business judgments. The whole thing had to work out with the assumption that, at the end of the game, Conrail would be self-sustaining and privatisable.

The government constitutionally could not continue forcing the bankrupt railroads to operate because they were not reorganisable under the bankruptcy code. The government had to do something. They had to fund it. They funded it while we studied it. You do not have that problem. The goal was to create a plan which made sense not only from an engineering standpoint but also from a business standpoint. Included in that question was, ‘Do we need these lines or not? Are they viable?’ It was very political. I knew every congressional district of every branch line that we were dealing with, and before we made any decisions we made sure that the congressmen involved knew about it. They were good because collectively they knew that if they started messing around with the plans they could not solve the problem and they would have nothing because the government could not continue to fund it until we got it reorganised. They were funding it on a daily basis.

You do not have the bankruptcy issue here, but I think it would be valuable to think in terms of setting up a special purpose group that was independent of all political influences, to the extent that is humanly possible, and which would focus on doing both the engineering and the business case. Then you would make a decision. If, say, it comes out that it is not a positive cash flow, you make the decision from the perspective of the government whether it is nevertheless good for the country. I do not understand Australian politics well enough to know how you do that—that is your business—but that is what I would suggest.

Mr PETER MORRIS—I have one last question—it is a very easy one on the price of fuel for trucks and rail. They are buying the same diesel fuel. What is the price per litre? Is there a differential between one and the other?

Mr Hoppe—There is a differential in that the trucks pay a tax that goes into the highway system. The railways pay the same tax and it goes into deficit reduction. Obviously the railways are trying to change that, but that is the way it is at the moment.

CHAIR—Mr Hoppe, thank you very much for this evidence and thank you for including us in your

itinerary. You have put another perspective on it for us, and that is important.

Mr McARTHUR—Mr Hoppe is one of the best witness we have had. He has put an international perspective on our inquiry. I thank you.

CHAIR—On behalf of the committee, I thank you, Mr Hoppe, the other witnesses who appeared earlier this evening, and those in the public gallery for their attendance.

Mr Hoppe—Thank you.

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

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

Committee adjourned at 9.25 p.m.