HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON COMMUNICATIONS, TRANSPORT AND MICROECONOMIC REFORM

Reference: Inquiry into federal road funding

TOWNSVILLE

Tuesday, 15 April 1997

OFFICIAL HANSARD REPORT

CANBERRA

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

Members:

Mr Vaile (Chair)

Mr Albanese	Mr Peter Morris
Mr Bob Baldwin	Mr Neville
Mr Ross Cameron	Mr Randall
Mrs Crosio	Mr Tanner
Mr Hardgrave	Mr Wakelin
Mr McArthur	Mr Willis
Mr McDougall	

The Commonwealth, under its roads program, provides funds to the States and Territories for the National Highway and Roads of National Importance. The Committee is asked to:

1. Review the Commonwealth role in road funding and identify the most effective means of fulfilling that role;

2. Assess the adequacy and extent of the National Highway as currently declared in meeting the objective of providing a national road system that meets the needs of industry and the community;

3. Assess the level of funding required to adequately fulfil the Commonwealth role. This should take into account the current condition of the asset, depreciation and maintenance requirements, as well as new investment required to meet demand growth, changes in technology (especially increased weight limits for heavy vehicles) and community expectations of road standards;

4. Examine whether current administrative arrangements have an adequate performance focus, promote effective and efficient use of funds and adoption by States and Territories of best practice, and provide an effective Commonwealth/State interface; and

5. Assess the scope to supplement Government funding through innovative arrangements for private sector involvement in the provision and maintenance of roads infrastructure and the scope for pricing of road services to reflect full resource costs.

In undertaking this review the Committee is to take into account the National Commission of Audit principles of clarifying the roles and responsibilities of Governments with the overriding objective of improving the outcome to clients and achieving value for money for the taxpayer.

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WITNESSES

HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON COMMUNICATIONS, TRANSPORT AND MICROECONOMIC REFORM

Inquiry into federal road funding

TOWNSVILLE

Tuesday, 15 April 1997

Present

Mr Vaile (Chair)

Mr Ross Cameron	Mr Neville
Mr Lindsay	Mr Randall
Mr McArthur	Mr Tanner
Mr McDougall	Mr Willis
Mr Peter Morris	

The committee met at 8.59 a.m.

Mr Vaile took the chair.

[8.59 a.m.]

DOYLE, Mr Neil Anthony, General Manager, Corporate Services, Queensland Department of Main Roads, GPO Box 1549, Brisbane, Queensland 4001

KROSCH, Mr Allan Douglas, Executive Director, Roads Division, Queensland Department of Main Roads, PO Box 1549, Brisbane, Queensland 4001

MUIR, Mr Donald Jamieson, Deputy Director-General, Queensland Department of Main Roads, GPO Box 1549, Brisbane, Queensland 4001

PEUT, Mrs Karen Shirley, Executive Director, Roads Programs Division, Queensland Department of Main Roads, GPO Box 1549, Brisbane, Queensland 4001

WHARTON, Mr Richard John Eardley, Director-General, Queensland Department of Main Roads, GPO Box 1549, Brisbane, Queensland 4001

CHAIR—I declare open this public hearing of the inquiry into road funding by the House of Representatives Standing Committee on Communications, Transport and Microeconomic Reform. Today is part of the committee's 12-day program of hearings and inspections covering all states and territories. The committee is pleased to be in Townsville, which is an important transport centre. In particular, access to the port of Townsville is vital and one of the issues the committee will be considering today.

I should emphasise at this point that, in addressing the terms of reference, the inquiry should not be seen as a forum for advocating the funding of specific road projects. The committee is investigating the underlying principles for funding Australia's national road system.

On behalf of the committee, I welcome everyone appearing before the committee today. Before proceeding, I wish to advise all witnesses that, although the committee does not require evidence to be given under oath, committee hearings are legal proceedings of the parliament and warrant the same respect as proceedings of the House itself. However, the giving of false or misleading evidence is a serious matter and may be regarded as a contempt of parliament.

I welcome representatives from the Queensland Department of Main Roads. We have received your submission and admitted it as evidence. Mr Wharton, would you like to make a brief opening statement?

Mr Wharton—Yes. Thank you for the opportunity to appear and to present Queensland's submission to the inquiry and to answer the inquiry's questions with regard to that. From a Queensland government perspective, we believe that this inquiry is a very important one for the nation as a whole and also for Queensland. You will see that we have got most of our senior management team here today to assist the inquiry.

Historically, I believe there has been a lack of good roads infrastructure in Australia. To some extent, this inadequacy has tended to impede our economic development, particularly in the rural and regional areas.

In reviewing the Commonwealth's role in roads, I think this inquiry has a unique opportunity to add value to the economy through improvement in the road network and to work with the states in addressing what we see as a significant inadequacy.

I will briefly set the scene regarding Queensland's road network. There are about 170,000 kilometres of roads in Queensland, of which 136,000 come under local government control and are funded through local government funding sources, assisted by state and Commonwealth subsidies and grants. The remaining 34,000 come under the state government. The Department of Main Roads is controlled by the Minister for Transport and Main Roads. He also has the Department of Transport under his control.

Overhead transparencies were then shown—

The first slide explains the relationship between the organisations. I will not go into it in detail at this stage but I can expand on that if the committee wishes.Main Roads is responsible for the stewardship of the state road network, including about 4,000 kilometres of national highways within that network. The management is driven by a state road network strategy which we have developed. From that, we publish annually a roads implementation program which implements the strategy.

Queensland Transport has prime carriage of the preparation of integrated transport plans, together with those other functions shown on the board. In addition, we work closely with Queensland Transport and Queensland Rail on various transport initiatives in support of industry developments. As an example, recently, on the Atherton Tableland, we cooperated in preparing an integrated package of road and rail for upgrading of the sugar industry on the Atherton Tableland.

Queensland's growth rate presents us with a major challenge in all of our transport arenas, but particularly in roads. We have got a population growth rate of 2.6 per cent per annum, twice the national average. Our road freight volumes are increasing by between four and 10 per cent per annum, depending on which region you look at. This growth has been imposed on a relatively immature road network. The combination of having to catch up the backlog of that immature network and providing for growth means that all three levels of government, in our opinion, need to lift their resourcing levels.

I will deal now with the particular issues identified by the committee. We are now looking at the second slide. As outlined in our submission, we believe that the Commonwealth role in roads should be concentrated at the strategic level through identifying goals and targets to achieve outcomes that are important to the nation as a whole in terms of transport. The states are managers of the road systems within their boundaries. They are really best suited to handle the detailed road program and delivery to meet Commonwealth desired outcomes.

In addition to taking a strategic rather than an operational focus, the Commonwealth could add value by focusing its investments in the growth areas of the nation. Of course, you are in such an area now. For instance, the sugar industry along the coastal area of Queensland is really a major export earner for Australia and it is in a growth phase. It has undergone growth of 50 per cent in the last five years and we expect another 25 per cent at least in the next five. Road investment is needed to ensure that that growth can happen in an orderly way and not be impeded by lack of road network.

The second issue before the committee was the adequacy of the national highway network - slide 3. We have been a bit concerned for some time that concentration of Commonwealth funding on the national highway subset of roads tends to distort investments in determining the best possible outcomes for the nation and the best return on the dollars invested. But having said that, there is no doubt there is still a lot of work to be done to complete the job on the Queensland national highway network. If the Commonwealth decides to continue with a separate national highway system, we believe it should at least complete the job it started on the national highways in Queensland before the network is expanded any further.

Slide 4: although there is no national strategy for the national highway system across Australia, we have developed a strategy ourselves for the Queensland national highway corridors within our own national highway network. This is a strategy which we believe is based on very modest standards, lower in fact than the previously documented national standards, which really have never been affordable.

Slide 5: the strategy estimates that capital funding will need to double over the next 10 years and there will need to be an almost 50 per cent increase in maintenance, if these modest standards are to be achieved. If the Commonwealth decides to persevere with the national highway network, then it needs to develop a practical national highway strategy that everybody understands—and towards which they can develop their own network strategies—and then fund that strategy.

Slide 6: continuing on about funding, I have mentioned the high growth rates in Queensland and these are reflected in the needs for road investment. Desirably, Commonwealth road funding should promote economic development, not just encourage more urban commuters. It should seek to fund the sort of transport outcomes which help achieve that economic development. At the same time, as I said earlier, it needs to ensure that the backlog, which is restraining growth in certain areas, is also dealt with.

As far as the administrative arrangements are concerned, the current Commonwealth detailed approval processes - slide 7 -are creating some real and expensive delays to road projects in Queensland. Delays to approvals, particularly up in this part of the world, can push projects into the wet season and therefore give you much greater costs, create difficulties in continuity and of work and also disrupt the orderly expenditure of funds. If the Commonwealth is to add real value, it should get out of this detailed multi-stage approval process that has been developed over recent years, and approve instead multi-year rolling programs of larger project groups, which are designed to achieve those Commonwealth outcomes that would be set out in the strategy. This requires a strategic approach. At the same time, there needs to be a performance accountability placed upon the states, and that should be reported to the federal parliament.

Slide 8: If I could just comment briefly on private sector funding of infrastructure, we believe in Queensland there are limited opportunities for privately funded toll roads and they are mostly in the urban and near urban areas, with high traffic volumes. Some of these investment opportunities could be facilitated by the Commonwealth, with some improved long-term infrastructure investment marketing, but only if additional financing is obtained at a reduced overall cost to the taxpayer, could it be considered.

Our current toll road facility, by the way, is funded through a wholly government owned corporation, Queensland Treasury Corporation, and the toll road company, Queensland Motorways Ltd, is also government owned. Government takes the risk, but they also get the rewards from it and they control all of our tollways.

We are generally not supportive of propositions for shadow tolling; it seems to us to provide no real opportunity for market forces to operate in determining which network is going to be used. At the end of the day, shadow tolling often requires the taxpayers to pay more for the facility than if things were funded through the normal process.

Slide 9: I would like to finish by briefly summarising Queensland's submission. We plan our roads in Queensland through a road network strategy within an integrated transport framework. We believe that a similar strategic approach should be adopted by the Commonwealth rather than the detailed project by project approval basis used, which we think is inefficient.

The nation needs a significant boost in investment in roads if it is to achieve the sort of national transport outcomes that we need to compete in world markets. The Commonwealth should also seriously consider a change from the present concentration on just one subset of roads, to those roads that achieve the national outcomes—and I include in that network the roads to ports. If the government decides to continue with the national highway system, then we would like you to note that we still have a long way to go in Queensland in developing our existing network to meet current needs, and we have plenty of growth occurring on that network.

I would like to thank you for the opportunity to appear before the committee. My colleagues and I are happy to answer questions and to show you some of the road issues that we are involved in around Townsville, together with the Townsville City Council officers, and also in the Mount Isa area tomorrow.

CHAIR—In your summary, you said that roads are planned as part of the integrated transport system in Queensland. I would imagine that a lot of taxpayers across Australia would appreciate that maybe that is what should happen right across the Commonwealth. I am interested in your comments as to how the Commonwealth could achieve that and how to put that strategy in place. How do we get the states to agree together to a set of common goals across Australia?

Mr Wharton—It will not be easy. States have competing priorities and, in my experience, inevitably the sum of the priorities is far greater than the funds that are likely to be available to solve those priorities. I see it starting with a vision from the federal government as to what it really wants to achieve in terms of the overall transport network in Australia—and that includes rail, sea and air. We cannot get away from the fact that road and rail are competitors at the margin in a number of markets.

Having got those Commonwealth outcomes and having achieved some sign at least from the states that those are the outcomes that we should obtain—and you may not get every state to sign off on every outcome, but at least that would be a start—it would then be up to the states to ask, 'How would we achieve those outcomes within our network?' It would then be a cyclic process to take that through to a summary form at the Commonwealth level and ask, 'Is this likely to be funded and how do we go about funding that? What role would the states have in funding it? Can the Commonwealth leverage its available funds to achieve better outcomes through involving the states and, to some extent, the private sector?'—although I believe that there are limited opportunities in the private sector. The Commonwealth would also need to consider all three major modes of transport around Australia.

CHAIR—Your department and the Queensland government are participants in Austroads; do you see a role for that body in trying to formulate or co-ordinate some strategic vision across Australia?

Mr Wharton—It would be an excellent organisation to do that in so far as the road component is concerned. There would need to be linkages into the other transport modes, of course. But, yes, Austroads would be an organisation that could do that. Basically, Austroads is made up of the chief executives of the state road authorities and it has been singularly successful in the past in achieving some of the harmonisations that we needed to achieve in the road transport industry. It was the main legs behind the National Road Transport Commission's early moves in that area.

CHAIR—Yes, to do with standardisation, and road use and the like but I am talking more in terms of getting some sort of a coordinated strategy together that all the states are committed to. Let us extend the notion that you put forward about the Commonwealth generating a vision for a national road strategy, from time to time. The Commonwealth would have to say, 'In the next two or three years, we are going to concentrate on this very important area of the economy. It may well be Queensland to the detriment of some of the other states and some of the other states may have to accept it.' The point I am making is that it seems that the Commonwealth continually has to be arguing with the states over dollars and that gets away from trying to get in place a strategy that is going to be in the best interest to the nation economically.

Just briefly, before I ask other members of the committee to ask questions, I have a question on the funding that Queensland generates itself to spend on Queensland roads. Do you have any fuel tax for roads or do you just use the charges that are hypothecated directly to road expenditure?

Mr Wharton—We have no fuel taxes in Queensland. We gain a proportion of our funds essentially through vehicle registration payments. While those funds are not legally hypothecated to roads in fact there is an agreement with Treasury that a fixed proportion of those funds will go to roads. As we get growth in the vehicle fleet, we get growth in the funding that is coming from that component.

CHAIR—As you go through the process each year, leading up to your budget, have you got an idea of the amount of money that you are going to have to spend on your roads budget or have you got to go in and put in a bid in the budgetary process and argue the case through the process?

Mr Wharton—We have a basic budgetary allocation which essentially is, as I say, linked to the registration payments. So we have a high degree of certainty as to what our base level of funding will be, which is most of our funding. There are certain specific projects approved by government from time to time for one year or two or three years, or even longer. In that way, we know that those components can be added on with a high degree of certainty. I speak of things such as the Pacific motorway upgrade. There are also one or two projects which we present to our cabinet budget committee for consideration as specials. A decision is then made as to whether one or all of those gets funded. So, basically, for the bulk of our funding, we have a high degree of certainty, and for a few there is a smaller amount.

Mr LINDSAY—In your submission you have indicated that the federal government should move very strongly into strategic planning. What length of planning horizon would you recommend that the Commonwealth adopts that would best suit the states?

Mr Wharton—I think planning with only a very short-term horizon is likely to lead us into less than optimum outcomes, that would be my view. I would like to see planning with at least a 20 year vision of what the Commonwealth thinks should happen over the next 20 years and where we want to be in 20 years with our networks.

Mr LINDSAY—And is that 20 years to link in with your 20-year plan?

Mr Wharton—No. It is 20 years because I believe that is the right length, and that is why we have 20 years in this document. Much less than that and you really are taking too short a view. Having got that vision, I think, for the detailed planning of what projects should be done, 10 years is probably good enough in the short-term. But, if we are talking about development of a corridor, we need to take a longer view because corridor acquisition and corridor protection, and those types of things, take a long time.

Mr WILLIS—This is really following up on Mr Lindsay's question about the role for the Commonwealth. You seem to me to be saying that the Commonwealth ought to be developing an overall plan or strategic vision, I think is the term used in the submission, and that basically they should hand over all the money that is currently spent on the national highway system, black spots and roads of national importance, as identified, and grants to the states. The states would spend the money, and the Commonwealth would just have a role in some overall strategic plan and in handing over all of the money it currently spends on roads. Is that right?

Mr Wharton—No. Our suggestion is not as broad as that. Our feeling is that, as part of developing the detailed programming strategies and the detailed programs of projects, the states would have to tune their strategies to the overall Commonwealth strategies and Commonwealth officers would be involved in that development. The Commonwealth would then at least have some surety that their requirements were being built into the state programs. Realistically, I would see that the states would then need to go back to the Commonwealth, to the federal minister, and say, 'We now have this suggestion for a series of programs of projects to achieve those outcomes that you have given us.'

At that stage you would have to be putting dollar values against those, and the Commonwealth would then decide programs of projects—that is, which it was going to fund and which it was not. It would not just be handing the money to the states. By way of example, let us say that the outcome is to reduce travel time for freight vehicles between Brisbane and Rockhampton. One of the identified problems might well be a lack of passing opportunities or excessive grades. The Commonwealth outcome would be to reduce travel times and the state would have to come up with a strategy which involves reduction of grades, additional passing places—perhaps a town bypass. There would then be a program of projects to achieve that over an identified period of time.

The federal minister could then say, 'Okay. I'm happy with that. I'm prepared to go along with this strategy over the next three years or five years, and I am prepared to fund it at this level.' Then we would get to the detail. The state would have to report as to how it was achieving that outcome.

Mr WILLIS—As things go at present, is it not the case that you make suggestions about what work should be done in the national highway system? You have an idea of what the priorities are and you make those known to the Commonwealth. So you have your input in that process.

Mr Wharton—Yes, we do. In fact, that is what we have tried to do with this strategy which gives a 20-year vision, a 10-year strategy and then five-year implementation plans that are put forward for approval to the federal minister.

Mr WILLIS—I am trying to see what the difference would be. At present, you advise the Commonwealth of the priorities—presuming it is the Commonwealth that makes the final decision—in what you are proposing. You are suggesting now that you would still go back to the Commonwealth for approval of particular projects. Frankly, I do not see that there is a great difference in the two approaches.

Mr Wharton—When I say a program of projects, I mean a whole bunch of projects, not individual project by project approval. The two differences are that currently there is no national strategy for the national highways at all. We have attempted to develop a strategy to say what we think it should be within Queensland, but it is not linked to any great Commonwealth vision so there would be a difference there.

The second difference is that at present, when we get a program of individual projects agreed to, we then, on a project by project basis, have to have a series of approvals. There can be up to four approvals for the same project to come from Canberra. This can be a project that might be, say, $3 million, which is a relatively small road project today.

Rather than have this long, drawn out approval process, which can add a lot of time to projects, the federal minister would say, 'There's three years worth of projects in what I want you to achieve there. I'm happy for you to head down that track.' Or, he might say, 'We feel that having too many town by-passes is not a good way to spend your money. Go back and have another go.' But eventually we would reach agreement on that overall program of projects. Individual projects would be handled in the normal state system and the reporting would go back to the federal government. We would of course have to be accountable.

Mr WILLIS—But the Commonwealth currently spends over $800 million on the national highway system, black spots and roads of national importance, and you would see all of that expenditure directly by the Commonwealth being withdrawn and paid out by way of identified grants to the states. Is that right?

Mr Wharton—Roads based grants, yes. I would not necessarily drop out things like black spots and some specific funding for specific projects or specific Commonwealth initiatives that they might want to run with. For instance, if it was decided to build a space base at Cape York, the Commonwealth may take a view that that is a good thing for the nation and it wants to fund road access to it to make the project happen. I could see the Commonwealth coming in and saying, 'We are going to fund that as a separate item.'

There are certain issues of, if you like, national uniformity where I believe the Commonwealth also has a role. Intelligent transport systems are one, where we really must have the same IT systems throughout Australia. We should be able to drive anywhere we like in Australia without having to have a different set of black boxes in our cars or trucks. Some time in the future we are going to run into a problem like the problem of the different railway gauges, if you like, if we do not get that right. I see the Commonwealth having a role to foster uniformity in that area across the states. It also has a role, I believe, in funding transport research on a national basis.

Mr McDOUGALL—Mr Wharton, you mentioned that you did not feel as though there was much opportunity for toll roads in Queensland. On that basis, what role do you believe the private sector can play in either capital development or maintenance of Queensland roads?

Mr Wharton—I think the private sector is a vital part of the delivery of the road programs, both in terms of the design of projects and the supervision and construction of projects. We have a policy of having three viable sectors operating in Queensland: local government, our own RTCS - road and transport and construction services - commercial units and the private sector. If you are referring to the involvement of the private sector in actually funding and providing roads, there are a number of areas where they certainly do have a role. In circumstances where a private sector road—either tolled or not tolled, as the case may be—adds value to some private sector land or investment, they clearly have a role in constructing that infrastructure. That happens on every subdivision and at mining towns and other developments. So there is a role there for the private sector. There is also a role for the private sector in providing specialist expertise or advice in terms of financing which we may not think of at a government level.

Mr McDOUGALL—Following on from that, you mentioned in your submission and verbally that you see a need for the Commonwealth to look at projects other than the national highway or roads of national importance, such as roads or transport corridors where there is a major economic benefit for the nation. Wouldn't you see that, in the majority of cases, the private sector should be playing a bigger role in relation to the capital funding of those one-off projects? When I say one-off, I mean that the life of a mine might be 20 years and at the end of the 20 years the road or transport corridor is probably going to have no significance to the nation. Therefore, wouldn't you see that the responsibility of building that transport corridor, in whatever form, would be the responsibility of the developer?

Mr Wharton—It might well be the responsibility, or at least in part the responsibility, of the developer. There are a couple of cases in point fairly close to home—and you will be closer to them tomorrow. One is Cannington mine, which is south of McKinlay, where the road between McKinlay and the mine is about 80 kilometres long. It was a local government, black soil track. It has now been upgraded to a dual-lane, bitumen surfaced carriageway by Cannington, at no cost to government. When Cannington is finished, it will essentially be an access road to Cannington station. Ernest Henry have done exactly the same thing: from Ernest Henry into Cloncurry they have built 45 kilometres of new bitumen road for their purposes, and when that mine closes down it will be just an access road to Zingari. So the private sector certainly had that role in those cases. There was no government funding attaching to that project. But I could see mixes occurring.

Mr McDOUGALL—Has the department had any approaches from the private sector wishing to capital develop road structures in relation to, say, areas like the south-east corner, or any major areas?

Mr Wharton—Yes, we have. A whole range of propositions have been put to us, from just funding proposals to BOOT schemes and the like. Bells Creek arterial springs to mind. It runs from Caloundra across to the Bruce Highway. The benefit to the proponent, apart from the licence to operate a toll road, was that there would be a significant enhancement of their land holdings adjacent to the road. From the public's point of view, the benefit would be that it would be a short-cut from Caloundra to Brisbane. The public would make up its mind whether it wanted to take that short-cut and pay a toll or to travel around through the conventional network. That was a particular proposition. We have had lots and lots of offers to lend us money, but we can borrow money a lot cheaper than they can anyway, so why would we do that?

Mr McDOUGALL—Did you take the project up?

Mr Wharton—We have indicated great interest, we are awaiting further proposals, and we have been since—

Mr Doyle—The ball is very much in the developer's court. They have got a franchise, I think, for five years to fully test out whether or not they can make it feasible.

Mr McDOUGALL—You might have seen an article in the *Sydney Morning Herald* on Saturday, 12 April—and I think there have been some other things floating around—with regard to a $10 billion private rail artery in our heartland, which is Melbourne to Darwin, with some great ideas about how to develop our near west in relation to regional development. A big swag of that obviously would go through Queensland. Has the department been approached on such a project and how would you integrate with such a project?

Mr Wharton—I have heard of it, but no specific approaches have been made to me. I do not know whether any of my colleagues have.

CHAIR—Mr Wharton, further to a few earlier comments, the submission presented by MIM mentioned a funding proposal the Queensland government submitted to the Commonwealth for upgrading the Barkly Highway. Could you give us some indication of what that was and what the Commonwealth's response was?

Mr Wharton—It was a funding proposal that we agreed with our own Treasury whereby we would essentially bring forward the future program of upgrading on the Barkly Highway between Cloncurry and Mount Isa to a very much shorter time frame on the basis that Ernest Henry were going to haul type 1 road trains over that route, hauling concentrate to Mount Isa.

CHAIR—For the *Hansard* record, what is a type 1 road train?

Mr Wharton—A type 1 road train is basically a semitrailer with one dog trailer attached to it. A type 2 road train has a second dog trailer attached to it. The longer term proposal that we had was to upgrade the Barkly Highway to take type 2 road trains. What we were looking to do was to even accelerate that process. That would then allow Ernest Henry to use more freight efficient vehicles to haul their concentrate to Mount Isa, so they would achieve a commercial benefit from it. The package based on that was that the Queensland government would borrow the funds, using its borrowing abilities at best rates, and carry out the work, with the agreement of the federal government.

It was agreed that Ernest Henry would meet some or all of the interest costs associated with the loan raising. That side of it was never totally negotiated, but that was the proposition. The Commonwealth would then make payments of about the amount that might have been expected to be programmed over that period of time. We did not get down to a specific time frame because no agreement was ever reached, but that was basically the proposition. The state funded it; the private sector paid for the interest cost; the state took the risk; and the Commonwealth guaranteed the revenue stream.

We had agreement in principle with our Treasury and agreement in principle, I believe, with Ernest Henry, although the specific details had not been finalised. Unfortunately, it was not possible for the Commonwealth to come to the party—I believe because of concerns over commitment to the funding stream so far ahead of time.

CHAIR—The private developer in that case was happy to contribute in that fashion to expedite the upgrading of that piece of road?

Mr Wharton—Yes, provided he could use freight efficient vehicles on the road.

Mr PETER MORRIS—I wrote down against page 9 of your submission, against the top dot points, 'Just give us more money to spend where we think fit and protect us from our state colleagues.' Mr Willis asked you something about that. Is that a fair assessment of what you are asking for there?

Mr Wharton—Which dot points?

Mr PETER MORRIS—The ones that say: give us more money; be tied to roads and administered simply; and, further down, we bail out of it—project selection, approval and administration not duplicated by the Commonwealth, and so on.

I thought that was like a wish list coming from the states. Why don't you make a simpler proposal? Would the Queensland Department of Main Roads go along with the proposition that the federal government withdraw from direct road funding altogether and just have it absorbed into financial grants? That would give you total freedom. You are on the ground. You have got a strategy for the state. You have got the linkages now with the states. Is there a case for the federal government to withdraw altogether and just add it in to the general financial assistance grant?

Mr Wharton—There are two reasons why I do not think we could support that total view. One is that I believe the Commonwealth does have a role in terms of a strategic view for the nation's road and transport networks. If it is going to have any chance of having that view acted on, it needs to be prepared to fund some of that. I believe it still needs to have some control in that regard.

Mr PETER MORRIS—You are the supremo in roads in this state. It has got one of the greatest road tasks in the nation. Wouldn't it be simpler to save a lot of administrative effort and just get the feds right out of it, give the money to the state and let the state determine its own priorities?

Mr Wharton—I am happy to put in a reasonable amount of administrative effort provided we can see that there is some benefit from it and provided we get some money.

The other point that you raised about having road funds absorbed, if you like, into FAGs I think would be a mistake. Currently, road funds are reducing anyway, but they would reduce even more because the funds we are talking about would not be related to a road task, they would be related to something else which had nothing to do with roads—populations or some such.

Mr PETER MORRIS—In earlier answers to the Chair, you mentioned the revenue that comes from registration charges and so on. Just to give us a bit of a handle on it, what proportion of state road expenditure in Queensland is derived from those registrations and state collected charges? Is there a figure on that? If you haven't got it, I would appreciate getting it later.

Mr Wharton—We can certainly provide you with those figures.

Mr Doyle—It is of the order of about 75 to 80 per cent for this year. We get funds from any number of other sources, but we clearly do get more money than is collected in registration and we get money out of tobacco taxes and gambling taxes. I will stop saying what Dick would normally say, but we get it from any number of taxation sources, as well as registration.

Mr PETER MORRIS—That portion of funds that you get is subjected to the same competition across the state budget scene as all other forms of expenditure, is it not?

Mr Doyle—That is correct.

Mr PETER MORRIS—You have to run the gauntlet of what you can get.

Mr Doyle—Yes.

Mr PETER MORRIS—That is what I am trying to get at; it is the same as happens with our budget.

Mr Wharton—We are happy to do that because we believe we have a very strong argument for reasonable investment of the state's resources in the road network. So far, that faith has been rewarded in terms of a significant increase over recent years in state funding.

Mr PETER MORRIS—What I am trying to draw is a comparison between what happens at federal level—their process of determining how much goes into roads—and what each of the states is doing, where it has control of the purse completely.

Mr Wharton, can you point to us in your submission which area of road expenditure you see there is the greatest opportunity for efficiency and productivity improvement: local government level, state level, classes of state roads, urban areas or what? You are the experts. All the federal information comes from you anyway.

Mr Wharton—We are trying to get efficiencies at all three levels of road.

Mr PETER MORRIS—Where should we look more closely? I am looking for a guide from you.

Mr Wharton—For efficiency?

Mr PETER MORRIS—Yes. You have told us about the National Highway, but in the other areas where should we zero in?

Mr Wharton—If we are talking about efficiency in spending the road dollar, I believe that in all three areas there is a lot of opportunity to improve efficiencies, and I think we are well on the track to doing that. It is imbuing in the roads industry a culture of getting maximum value for the dollar. I think the processes we have put in place to try to get greater competition across-the-board are helping to do that.

Maybe the area where you can get the biggest gains, if you really wanted to pick one, would probably be the maintenance area, where it is not so much introduction of competition as a matter of having very good programming systems and very good systems supporting the maintenance to know when to spend the maintenance dollar and where to spend it to get maximum value for the dollar.

Mr PETER MORRIS—So programming of maintenance is a better approach, a more efficient approach, than as-needs maintenance.

Mr Wharton—A systems approach to that, I believe, does have significant potential for benefit.

Mr Doyle—One of the limits to pursuing efficiency is the relatively small work forces that local government has got doing maintenance. There has to be a balance in how hard you push the question of radical change and the effect that it has on a lot of small country towns. The test that Dick and others have to go through in many ways is a good one, because there is more work to be done than we can afford to do, so the way in which productivity is being achieved is by doing more and more maintenance each year without any increase in resources, rather than some slash and burn approach that says, ‘We are going to sack the people in the small country towns.’

Mr PETER MORRIS—You are running this competitive approach—open competition, substantial competition and inviting tenderers.

Mr Wharton—That is correct.

Mr PETER MORRIS—What has been your experience across those three areas? Is it working as well as you expected?

Mr Wharton—I think by and large it is working fairly well, although I would have to say there are some teething troubles because it is a whole new business for quite a number of local governments to move into this competitive arena. There are skills to be gained in such simple things as preparing tenders, understanding contract documents and operating in a contractual environment as opposed to the previous environment.

The same thing applies to our own commercial units, which have had to have the apron strings cut and to operate in a commercial way and as a contractor would. In fact, we are reviewing that three-zonal policy at present to see where those problem areas are and to sit down and discuss with local government the best ways around solving those problems for those that do have them.

Having said that, a lot of local governments have also said that this competition is giving them a far more responsive work force and they are probably getting better value for their dollar on their own works as a result of it, and they welcome it. We have actually had one local government which has suggested that they wanted to move from zone 2, which is the semi-competitive zone, to zone 1, which is fully competitive. There are certainly advantages there.

On the maintenance side of things, all of our maintenance is now done on a contractual arrangement with local government, not on a day labour arrangement, through the RMPC—road maintenance performance contracts—process. They have got built into them a sustained four to five per cent per annum efficiency gain which we asked them to give us and, so far, local governments are meeting that challenge and doing it.

CHAIR—Has that been achieved?

Mr Wharton—Not in every local government, but by and large, yes.

Mr PETER MORRIS—This area is very important and maybe the Queensland Department of Main Roads can help us with more advice later, because what they are doing in Queensland is unique in Australia. I think it would be very useful.

Given the upgrading of the rail system between Brisbane and the far north, what impact is that having upon, or is likely to have upon, the road task? Would you need fewer roads, not as big roads, not as many trucks?

Mr Wharton—We have not measured it and I would not like to hazard a guess at this stage as to the outcome. Certainly, Queensland Rail expects to capture a bigger slice of that longer distance market, which effectively would mean fewer trucks.

Mr PETER MORRIS—Strategically, if you are going to have a national strategy on this, you need to be looking at the impact of that. What about the likely impact if you open up the coast to foreign flag vessels? Would that ease the task on roads as well, or is that something you should look at in the future?

Mr Wharton—I would have to take that question on notice. It may well be, although I suspect that most of what is travelling on coastal vessels is probably travelling on rail as an alternative rather than road, but I am getting out of my area of expertise there.

Mr PETER MORRIS—I need to be in that area because of road investment. My last question is in relation to the question from Mr McDougall on private sector investment in infrastructure. In the preamble to item 8, issue 5, of your submission, you say:

> The Federal Government could promote a long term infrastructure investment market through appropriate taxation incentives . . .

Isn't there a risk that revenue forgone through taxation incentives is going to be seen as actually Commonwealth investment in roads supplementing the direct Commonwealth expenditure on roads? Has the department given some thought to that or does it have any concerns about that?

Mr Wharton—That certainly would be a risk I would see. To put it simply, you could say that the Commonwealth would be meeting part of the cost of that road through forgoing revenue rather than providing a grant to the states. Essentially, if you consider the government as being the state and the Commonwealth together, the net impact would be that the private sector would make a big profit and we would be no better off than if we had just got our heads together and worked it out between us.

Mr PETER MORRIS—I rather like the sound of that, Mr Chairman. That also comes back to a point you made earlier in your evidence that, where the toll roads are involved—if I understood you correctly—the Department of Main Roads sees that as a task for government in that area rather than for the private sector.

Mr Wharton—That is probably because we have not had one put before us which does not involve the government taking some risk and not getting a commensurate reward. The Bells Creek arterial project that I mentioned would be—if it goes ahead—a project where private sector involvement would be very appropriate because they are getting value from a different source than the road user or the government. They are getting their value from improvement in their investment in land.

Mr McARTHUR—I have two issues. Firstly, could you identify in some detail where the administrative arrangement by the Commonwealth in allocating funds has upset your program? Secondly, I would like to pursue the point that Mr Morris raised in terms of long haul cartage in Queensland. If the Commonwealth had an outcome based proposition, why would they not upgrade the rail network in Queensland to allow for some of the long haul activity related to the mining industry? What if the Commonwealth said, 'We will give you less money for the road network, but we will give you more money to upgrade the rail operations, with special reference to some of the mining exports through Townsville'? I note that the port has put in an interesting submission on the amount of material that is exported and imported. What would your reaction be to getting less money, but having more given to rail?

Mr Wharton—I will deal with the first question first.

An overhead transparency was then shown—

Mr Wharton—This graphic - slide 26 - is a representation of the process of obtaining approval for a particular project in the state and federal arena. There are a whole series of approvals required and a whole series of delays that you can have built into this process to get a national highway project approved through the Commonwealth government, whereas a state project can proceed very much faster. The delay varies between two and 11 months, and the average delay is probably something like four months. That can be critical. There is also a lack of certainty about the time frame. We can be pretty certain how long it will take us from the time we proceed to call tenders for a project to when we will have action on the ground. We could be out by six to nine months with Commonwealth projects. It is a whole series of unnecessary administrative arrangements, I believe.

Mr WILLIS—Why does it take from two to six months for stage 2 approval?

Mr Wharton—I cannot answer that question.

Mr WILLIS—But it is not necessarily so: that is the point of my question.

Mr Wharton—I do not know whether it is a resourcing issue or a prioritisation issue, or whether there are other factors.

Mrs Peut—Largely, it is in relation to the funding situation. Stage 2 approval usually requires some dollars to be attached to it. It needs to be assessed by the federal officers, who go into some detail, and then we can get the approval to go on to the next phase of the planning. It takes that long, sometimes.

Mr PETER MORRIS—Is it because they have not got expertise? They have not got any engineers and they do not understand it: isn't it as simple as that?

Mrs Peut—It is very difficult to assess some of the planning issues or some of the projects, when you are remote.

Mr PETER MORRIS—You can tell us; you can say it quite bluntly: they have not got the skills, have they?

Mrs Peut—Sometimes people are a bit remote from the situation.

Mr PETER MORRIS—Yes, a bit remote.

Mrs Peut—And we have very highly competent people in Queensland.

Mr PETER MORRIS—I know; that is why I am saying that.

Mr McARTHUR—Now we are getting down to it!

Mrs Peut—Particularly our engineers, I would have to say!

Mr McARTHUR—What about the second part of my question, about the railways?

Mr Wharton—In Queensland, when new developments are occurring, we try very hard to convince new developers to use rail if it is a feasible option in that circumstance. I do not want to keep going back to the mines all the time, but they do provide some appropriate examples. In the case of the Cannington mine, they have to build a bitumen road from McKinlay to their project just to get to the project. If, at the same time, they had to build a railway line from there through to, say, Gilliat or somewhere near Julia Creek in order to haul their ore, that would be pretty uneconomical. So, in that case, rail would not really be an option.

But there are other circumstances, and I have quoted the production of sugar on the Atherton

Tableland. There are other places around where we have more or less intervened to assist in getting rail as the chosen option, by saying to the developer, ‘If you want this road upgrade done, you can either pay for the road upgrade or use rail.’ In certain circumstances, it suits the developer to then go to rail.

Mr McARTHUR—Have you won some of those arguments in trying to protect your roads from excessive traffic and getting a rail operation upgraded?

Mr Wharton—Essentially, we adopt that role to try to do that.

Mr McARTHUR—Have you won an argument on that basis, though?

Mr Wharton—Yes, we have.

Mr Doyle—QCL in Gladstone was a classic case where the original proposal was to haul limestone, sand and coal by road, working from the simple commercial point of view that it was a pretty attractive deal for them to do that. The arrangement that we put in place was to apply a range of developer contributions or infrastructure charges because of the extra capacity and damage to the road system that would be caused. From memory, the additional costs were about $22 million, which then made rail a reasonably attractive proposition. So an agreement was eventually made that saw nearly all of the material hauled by rail.

Mr McARTHUR—And did you demonstrate that cost benefit to the public, or just to yourselves?

Mr Doyle—We certainly did to the company; and it was a fairly open process.

Mr Muir—The companies were involved in the whole process, because they were concerned about the road safety aspects; and they were very happy with the reaction. There was a lot of favourable public reaction when the decision was made to go by rail and the rail construction has actually started.

Mr McARTHUR—I note that the Victorian government did a similar thing in terms of upgrading a section of line to shift the wheat crop. They did exactly the same deal: the cost benefit in the maintenance of the road was so much that they were prepared to invest a considerable amount of money in extra upgrading of the rail facility. It just seems to me that there is a fair bit of scope for that, rather than for saying to the Commonwealth, ‘You need to be outcome based,’ on the one hand and ‘We need more money’ on the other hand.

Mr Wharton—I suppose what we are really saying is that the Commonwealth should choose the transport outcomes it really wants to achieve, and they may well be achieved through coastal shipping or through rail, as well as through roads. But, having decided what it wants to achieve and what the strategy is, if you like, it might then have to fund the individual parts of that strategy, one at the expense of the other.

Mr McARTHUR—Have you got an open mind on this whole approach?

Mr Wharton—Yes. My rail colleagues would be pleased to hear me say that.

Mr LINDSAY—Mr Wharton, could I take you back to some comments Mr Morris was making about competitiveness? You would be aware of some community disquiet in relation to Main Roads tendering to itself for jobs. Do you have any kind of transparency mechanism which allows unsuccessful tenderers to satisfy themselves that the bid that you accepted from yourself in fact was a realistic bid?

Mr Wharton—Yes, we do. We do not do it for every bid, but the process basically involves—and perhaps I might ask Mr Muir to add to this—the tender selection group containing someone who is not from Main Roads, so that there is a certain amount of transparency there. And, on a number of occasions, we have called for an independent audit of both the process of tendering—what costs are included in the Main Roads tender—and of tender selection. So far, in those audits we have received a clean bill of health on every occasion. We are happy to submit to audits; but, from a commercial point of view, the commercial arm—the RTCS units—would be very concerned if their tenders were going to be laid out in detail before everybody, unless everybody else's tender were going to be treated in the same way.

Mr LINDSAY—Thank you. I understand.

Mr Muir—For any large variations, Mr Lindsay, we have an independent panel that assesses them. The whole commercial operation is run out of a trust fund, and we have a board of management that reviews the overall financial performance and sets rates of returns et cetera. We certainly do not monitor individual jobs, but we set rates of returns and we look at the performance of the whole business.

Mr ROSS CAMERON—Mr Wharton, your submission talks a lot about a desire for a more rational, global, long-term planning process by the Commonwealth, which really would involve a kind of national federalist partnership on road funding, if you like. There is a view that such a partnership would never be possible because the temptation for the states to cash in on, in their own constituency, the funding level by the Commonwealth, whatever it is, the desire to blame the Commonwealth for whatever problems that arise and the internal competition between roads ministers and other ministers in each state government means that there would be too much of an incentive among the states to spike the partnership, and that the benefits of a more long-term planned approach are never as immediate as the political benefits that can accrue from, if you like, cashing in or whatever on political sentiment in the community. Do you think, realistically, that it is possible with six states, two territories and a Commonwealth for us to sit around and hammer out an approach which every state could accept?

Mr Wharton—I would not say it would be easy, and I am pretty sure that one of the difficulties would be that there is a fair degree of turnover that goes on, and you do not quite realise how much it is until you sit down at one of these transport ministers conferences and realise that someone who has been in the chair for three years is the oldest serving minister on the committee. So it would be something that would require a great deal of goodwill to put in place in the first place, and then it would need hard work to keep it going. It is so with any of these national uniformity agreements. Even the National Road Transport Commission, which has been pretty successful in terms of putting in place a lot of national uniformity issues right across the board—transport and traffic—finds it difficult to broker the agreements through that process. But just because it is hard does not mean we should not try it, and it certainly would not preclude having some sort of long-term strategic view of what we want to achieve with the nation's road system and how important we think they are.

That sort of view, I think, would give ministers more ammunition to use with our own treasuries—if they say, 'We are a part of this and we have got to fund it'—and it would also give the industry a greater degree of certainty about what we are actually going to be doing with our dollars in terms of supporting them in their economic developments, and the road building industry itself would have a better degree of certainty as to the sort of level of work that they could expect in the future and that they could invest in.

An overhead transparency was then shown—

Mr Wharton—If I could just show, briefly, Mr Chairman, this slide - slide 17 - the bottom line there is Commonwealth expenditure in 1995-96 prices, over a period of time, based on our best estimates. The red line there is Queensland state government expenditure on roads, and the black line represents the growth in vehicle kilometres of travel. As you can see, the state expenditure, after a bit of a hiccup, is actually tending to keep pace with that growth in vehicle kilometres of travel, whereas the Commonwealth expenditure is not. That means that several state ministers over a period of years have been able to convince their colleagues that that kind of investment is important, and I believe the Commonwealth needs to adopt the same kind of approach.

Mr McARTHUR—Are you sure that those figures are right, though? If the Commonwealth had not given the states an allocation in untied grants that might not be reflecting a true picture, that the state had more money from the Commonwealth which they spend on roads?

Mr Wharton—Those grants, as far as we are aware, are in there.

Mrs Peut—Yes, they are.

Mr Doyle—And the state government spending is probably understated because it does not include the toll roads.

CHAIR—In your own submission you identified other imperatives as well as the yardstick you use of vehicle kilometres travelled.

Mr Wharton—It is just one yardstick, or just an example.

Mr McDOUGALL—In the submission you had a letter from the minister, and the minister referred to the Queensland government recently committing an additional investment in roads of $1.5 billion over the next 10 years. What is that increase on an annual basis and is the $1.5 billion a guaranteed amount? Is it in the forward estimates? How fixed is the $1.5 billion? How committed is it?

Mr Wharton—It is an election commitment over 10 years and thus far it is being met. The first stage is the Pacific Motorway upgrade, together with a number of other projects which include the Cairns-Cooktown road, the Hughenden-Winton road and the regional roads development program. They are slightly ahead of the run rate at this stage. But it is not factored into forward estimates beyond the normal forward estimates. There are no forward estimates out for 10 years so we take that on faith, but so far it is being met.

CHAIR—Thank you very much. I would just like to thank the representatives from Queensland Main

Roads for making their time available this morning, and for their submission. I think there were one or two questions taken on notice. Was there one with regard to the percentage of the funding you were going to get back to us about from registration? We would appreciate that information if you could. If the committee has any further questions, we will provide those in writing to you.

Could Queensland Main Roads provide a copy of the slides on the approval process and the Queensland expenditure—those last couple that were not included in the earlier slides? If there is no objection from the committee, the slides that we have seen this morning, that is, one to nine, plus those couple that I have asked for copies of, will be incorporated as evidence. There being no objection, it is so ordered.

The slides were as follows—

[10.08 a.m.]

KIRKPATRICK, Mrs Antonia Barbara, Councillor, Townsville City Council, PO Box 1268 Townsville, Queensland 4810

MOONEY, Mr Anthony John, Mayor, Townsville City Council, PO Box 1268, Townsville, Queensland 4810

STANTON, Mr Barry Dennis, Director, Engineering Services, Townsville City Council, PO Box 1268, Townsville, Queensland 4810

WILKIE, Mr Dawson McPhail, Manager, Roads and Drainage, Townsville City Council, PO Box 1268, Townsville, Queensland 4810

CHAIR—Welcome. Councillor Mooney, we have received your submission. Would you like to make a brief opening statement?

Mr Mooney—Thank you, Mr Chairman. Thank you for the opportunity to be here to put some additional comments to you, and welcome to Townsville. I would just like to give a brief overview, perhaps putting our submission in the context of where Townsville is in the North Queensland economy, and let you know that our history has been one of a strategic location, being the major port for North Queensland. The future of that port and the future of our city are linked in a symbiotic relationship.

Townsville has grown very dramatically over the last couple of decades. Our major urban areas of Townsville and Thuringowa represent approximately 140,000 people. We have experienced an average growth of GRP over the last 10 years of about 11.4 per cent, which is above the state average. We have a total employment of over 95,000 people with a GRP of $5 billion.

We are also a major centre for minerals processing and the export port for a very rich minerals and agricultural hinterland. We are one of the few cities in this country which boast a nickel refinery which not only processes a mineral but in fact imports mineral raw material, adds value to it and re-exports it. With that and the copper refinery and the other things that we are doing, together with the zinc refinery by Korea Zinc, which has been proposed and to which the state government is now committed, Townsville is very much a centre for industrial expansion here in North Queensland.

However, as our submission puts to you, we cannot grow and develop and provide jobs for North Queenslanders without the support of other levels of government, particularly the Commonwealth government. In fact, the point that I would like to make very strongly to you today is that, in terms of economic development and the strategic importance of this city in the region, we depend very much on Commonwealth funding, especially for transportation infrastructure. That particularly relates to road funding.

The northern highway in and out of Townsville is crucial to our future but particularly important for us in the future will be a new link road to the port of Townsville. I know that you have been presented with a briefing paper from the port authority chair. I have spoken to David Carmichael this morning on that and he is speaking here this afternoon. We have also made comments to you in other submissions.

The future of our port is vital not only for the future of Townsville but for the future of North Queensland. It is vitally important, Mr Chairman, that we get that support from your government. We have presented, through the port authority, some information to your committee. I would add to that that the city council and the port authority are working on a major study—the economic gateway study for the city—which is being funded in part by the Commonwealth and the state governments and has a major component from the port authority and the city council. That is looking at the feasibility of the port access road which would service a big industrial area and which would guarantee the future of the port.

I make the point that without the Commonwealth underwriting the port access road and being supportive of it I do not believe that our future can be assured. It is as important to us as that and I would like to make that a very key issue today in our discussions.

I would like also to mention to you that one of the other major projects in our region to service all of North Queensland, not only from the point of view of industrial development but also from that of the growing tourism industry of the North Queensland coast, is the upgrade of the national highway. It is clear that we have not had appropriate funding levels maintained over the years. If you drive on the highway from Cairns down to Bowen or Mackay you will see ample evidence of the fact that the highway is in need of upgrading. That road is very important in terms of our northern tourism industry. Through Townsville we are keen to do a ring road in the future which would see traffic going over a new Upper Ross River Road bridge. That project is in the planning stage at this point in time.

I am happy to answer any questions and I am sure the committee will have some of the city council. I do not intend to go into all of the detail contained in the ALGA submission to you. I am sure the QLGA has already made comments to you. Suffice it to say that the issue of the overall size of the funding cake is still very important for local government. We fundamentally believe that levels of funding are at risk and we are concerned about that for the future. In North Queensland we are concerned about regional development. We are concerned about the important role that we play in terms of the national economy. We would like your committee to consider supporting projects in the national interest which improve competitiveness by improving the operation of our port.

CHAIR—Thank you, Councillor Mooney. With regard to the current arrangements for the equation which works out the distribution of Commonwealth road funding to local government, as local government practitioners do you believe that is an equitable share of the road funding dollar that comes to local government?

Mr Mooney—We are not unhappy with the arrangements. We have concerns that the forecast is that there will be a decreasing allocation of road funding in the future. We are also particularly keen to ensure that new programs, for example, a black spot program, are not introduced at the expense of existing road funding. That is a position that has been put to you, I am sure, by the ALGA and many councils around the country. We are happy about the FAGS arrangement and how road funding is identified in that. In the longer term, we are concerned about maintaining the real level of road funding and improving on that.

CHAIR—Going by the comments in your opening statement, you obviously support the Commonwealth's involvement in the national highway system, albeit that it needs a greater allocation of funding. I presume you were talking about the Bruce Highway?

Mr Mooney—Yes.

CHAIR—More importantly, rather than looking at that differentiation between federal roads, state roads and local roads, you focused pretty well on the Commonwealth identifying key pieces of infrastructure for the national economic good. That is what you are talking about—the road to the port in Townsville?

Mr Mooney—Yes. We see the Commonwealth, like local government, if you like, as having an important role to play in identifying the national interest. We fundamentally believe, though, that the states should have the role of strategic planning for the national highway network. Overarching that should be Commonwealth involvement in looking at roads of national significance. Roads to ports, roads that are going to add to regional development, are very important issues for us in outlying parts of this country. I believe the Commonwealth has a very important role to play.

Mr LINDSAY—Councillor Mooney, in your submission you refer to short- and long-term inequities in road funding between regions at this end of the state. For the purposes of the committee's evidence, would you be able to provide a copy of that information?

Mr Mooney—Yes. We commissioned the James Cook University to look at road funding inequities within this northern region. That is now a couple of years old, but I am more than happy to make that available.

Mr LINDSAY—Later on in the day, the committee will be taking evidence on suggestions that the existing port access road impedes economic activity in this region. Just to help fill in that picture, could you explain to us the social consequences of not moving to a new port access road?

Mr Mooney—This goes to our submission in terms of talking about environmental values and environmental amenity for the suburbs on the southern side of Townsville. I refer in particular to the suburbs of Oonoonba, Railway Estate and South Townsville, which currently bear the brunt of port traffic. That traffic is forecast to expand dramatically over the next decade as more industrial development occurs in Townsville, especially as we get the expansion in the sugar industry in the Burdekin and as we get the expansion of the Western Minerals Province, with all the servicing of the mines to the west. We have major concerns that, as this port develops as it is expected to do and forecast to do, the environmental amenity of the people living in those suburbs will be greatly impacted upon.

Councillor Kirkpatrick represents the majority of that area. She could talk in more detail about the complaints that she is already getting. We want to ensure the viability of the port. We want to do it in a situation where the amenity of the people who live in proximity to it is also protected. The port access road, as proposed, will take a new alignment which will not go through any suburban location in the city. We think it is so important for the future competitiveness of our port and for the economic development of the whole region.

Mr LINDSAY—Do you think industries that are likely to benefit from upgraded port access should be asked to contribute to its funding?

Mr Mooney—I think that there is opportunity for that to occur. In discussions I have had with a number of companies and a number of industries, they have indicated that they are not opposed to making a contribution in some way to that arrangement. I know, for example, in the case of Korea Zinc that they will save money by a shortened road access to the port. If eventually we go to a rail access along that corridor, they will certainly be saving large sums of money. They have a different mix, as you know—some road, some rail. They will save, maybe, up to a dollar a tonne—they have not been able to quantify it yet—on a new shortened road into the port. They are happy to enter into commercial arrangements. They are not interested in a levy, but they are interested in some arrangement where that contribution can be made. That would have to be explored.

Mr LINDSAY—Yes, we wish that would happen with water processing too.

CHAIR—I have got a bit of a background in local government in New South Wales. In some other areas of development in local government in New South Wales, local government can levy section 94 contributions. Do you have that ability in Queensland at all?

Mr Mooney—I might just refer to Barry on that. I am not aware that we have been involved in that.

Mr Stanton—No, there is no provision in our legislation for those contributions.

CHAIR—Thank you.

Mr LINDSAY—In relation to the national road funding task, how do you, as a local authority, see the Queensland Department of Main Roads undertaking their particular role? I am looking for positive suggestions. Is there some way that you could suggest that Queensland Main roads could better handle the distribution of the federal road dollar?

Mr Mooney—Yes. This is an issue on which the Local Government Association of Queensland is placing some major priority in this next term of local government. We believe that there is room for improvement. We fundamentally believe, though, that the arrangement where the state does the strategic planning and there is a close relationship between the state and local authorities should be maintained. Generally it is a cooperative and good relationship, but we have identified some inefficiencies. We, as the executive of the Queensland Local Government Association—I sit on that executive—are taking that matter up directly with the minister, Mr Johnson. There are a number of councils across the state who feed into us constantly about their concerns. Those issues range from improving the distribution process to competitiveness and how jobs are called. You had some of that discussion earlier today. But generally they are issues which especially relate to the smaller councils in the state.

Mr McDOUGALL—Mr Chairman, I will follow this line a bit more. I realise that we are not supposed to be dealing with specific projects, but I think this project in itself in relation to port access highlights the need that we talked about earlier—strategic planning. I think it is a good example. Mr Lindsay asked the question that I was going to start off with in regard to the potential of private sector contributions in whatever form that could happen. You mentioned, Mr Mooney, that there is some potential that Korea Zinc, as one operator, could in the future be interested in rail access down the same corridor, which could bring benefits. If that is the case, why isn't that being put in as a proposal now in a strategic sense to say: what is the percentage of tonnages now in regard to what goes in and out of the port by road and rail; what changes are going to take place over the next 10 years in regard to that percentage movement; and why would we be looking at a port access road rather than the combined access transport system that would address the total problem in a planning sense, rather than just trying to pick it off one at a time?

Mr Mooney—That strategic planning is under way at the moment via the Townsville economic gateway study. Just to go back to clarify any misunderstanding about the Korea Zinc development, they have made it clear that they can use a current network of road and rail, and they have approval to do so and their development will be proceeding on that basis. However, we have identified as a community—the Townsville Port Authority included and other stakeholders—that we could have a far more efficient access to the port and preserve the port far more effectively by having this new corridor.

Korea Zinc have said that they are prepared to make a contribution alongside any other user of the port. They do not expect to be singled out because they might be the latest contributor or the latest developer in the Townsville region. But we have identified that possibility. It is included in much of the work that is currently proceeding on the Townsville economic gateway study. The Commonwealth is represented on that committee looking at the progress on that.

A scoping study has been completed. Another major work was recently completed by Maunsels, and they have identified that potential as well. There are several options included in it. We are currently also completing a subregional planning exercise involving the two local authorities in this region, looking at the entire Townsville region and our immediate hinterland and examining all of those issues. We are sitting down with the Department of Transport and Main Roads and NQR, looking at northern access into the port, southern access into the port, and how we can do that strategically for the next 25 years to guarantee our future city development.

We have a unique problem here: our CBD is alongside our port. We have limited industrial land identified and there is a separate bit of work going on to identify that industrial land. We have a lot of people who could be impacted upon adversely if we do not get it right. We are investing a lot of time and effort to look at that framework to get it right for the future. If we do that, and if other cities in regional Australia do that, I believe the Commonwealth should recognise that in its funding priorities.

Mr McDOUGALL—On that basis, within that strategic study would you be looking at private access to the rail, not only for Korea Zinc, but obviously for your Western Mining areas.

Mr Mooney—Under those arrangements, that is really a state decision, but I understand that is one of the options that must be considered by them under national competition policy.

Mr WILLIS—I might have missed this because I missed the start of your presentation, for which I apologise, but tell us a bit more about this port access road. How long is it? What is the cost of it?

Mr Mooney—I will have to take on notice those particular issues in terms of how long it is. The cost is approximately $26 million. There are three options which have been put forward for the port access. The one that is favoured by both the city council and the Townsville Port Authority takes the new access from the copper refinery turn-off on the Bruce Highway and it runs through degraded land over a bridge on the mouth of the Ross River into the port. Just how long it is—

Mr LINDSAY—It is seven kilometres long. Then there is the question of connecting from the Bruce Highway over to the Flinders Highway as well.

Mr Mooney—Yes—which the Department of Transport is looking at. It is a proposal that has developed over the two to three years and it is primarily designed to improve the viability of the port.

A briefing paper has been prepared by the Townsville Port Authority, which I understand has been tabled for you to look at. The Townsville Port Authority will have all of that technical information for your this afternoon.

Mr WILLIS—Why do you see this road as being one that the Commonwealth particularly should be funding rather than the state?

Mr Mooney—I believe the Commonwealth should be looking at roads of genuine national importance from a social and also an economic perspective. The port access road will greatly improve our national economic competitiveness by improving the operation of our port, which will be the export port for copper, lead and zinc, and which is the export port for nickel from QNI. It adds dramatically to our national economy and it is those projects, just as much as anything in metropolitan Australia, which should be given Commonwealth support.

Mr WILLIS—I guess you could argue that if it so important then it should be pretty high in the priorities of the Department of Main Roads as well.

Mr Mooney—We are talking about that as well. We have spoken to the state government about that and we recognise the role of the private sector in potentially contributing to this as well. There have been various schemes over the years in terms of identifying and supporting new roads of national importance. If ever one came into that new category for an economic outcome, this would have to be it, because it actually completes an important link, not only within the Townsville region but to all the western hinterland. That is important.

Mr PETER MORRIS—Going through the connections here, this is taking in Woolcock Street as well as the ports road and the options. I had a look through all of those options and the connections, so you are looking at a total matrix of connections down into the port and out along the bridge to the north.

Mr Mooney—Yes, indeed, because we cannot forget that the northern access to the port through Woolcock Street takes much of the export nickel to the port. Woolcock Street is a very important project. I did not want to understate that. We are very keen to have that completed in the next couple of years.

CHAIR—We might wind up this session of the hearing and thank the representatives from the Townsville—

Mr Stanton—May I add a little bit first? I gave you a very terse response to your question on section 94, as I understand.

CHAIR—Yes.

Mr Stanton—What I said was correct, but it does not necessarily stand up to practice in the sense that, under developmental approval processes in the past, we have negotiated with developers for contributions to roads, but primarily during the construction period, where the abnormal loading is placed upon those structures. We have not been able to carry that to a long-term contribution for the use of the road in a toll sense. We have used that as a vehicle to gain some support but not on an ongoing operational basis.

CHAIR—So in the past you have been able to get financial support for the capital establishment of the infrastructure to start with?

Mr Stanton—In most cases it has been because of the accelerated degeneration of the road due to the construction loads that we have calculated across contribution—and that has been made. But that is the only vehicle we have had. Otherwise, we have relied on the state government transportation act, which the Department of Main Roads in Queensland administers.

CHAIR—Thank you very much, Mr Stanton. We would like to thank the representatives from the Townsville City Council for coming along and giving evidence. I think there was one question that was taken on notice with regard to some detail on that road linkage. Also, Mr Lindsay referred to some papers on strategies that the council had done. If you could make those available to the committee it would be much appreciated. If the committee has any further questions, we will put them in writing to you. Thank you very much for making your time available.

[10.34 a.m.]

QUIGGIN, Professor John Charles, c/- Economics Department, James Cook University, Townsville, Queensland 4811

CHAIR—Welcome, Professor Quiggin. Could you please state the capacity in which you appear before the committee.

Prof. Quiggin—I am appearing in order to state my own views, but in my capacity as an economist.

CHAIR—Thank you. We have received your submission to the inquiry. Would you like to make a brief opening statement?

Prof. Quiggin—Road funding raises quite a lot of issues and I have addressed some, but by no means all, of them in this submission, which I have tried to summarise in terms of a set of conclusions.

The first one relates to the general issue of how road use in general should be funded. In general, it should be funded in a way in which users meet the costs—social and economic—of the road. The two choices primarily have been through taxation, through petrol taxes, or, more recently, through toll roads. In the submission I argue that, except in certain very special circumstances, tolls are an inefficient method of financing roads, whether those roads are publicly or privately owned.

I then look at the question of whether road users in general are charged too much or too little. I emphasise there that, rather than comparing revenue with current capital expenditure, we need to look in an economic sense both at a return on the capital involved in the road network and at external costs arising primarily from road crashes and from pollution.

My conclusion, therefore, is that there is a significant case for differential charges, with a higher charge being paid in urban areas, where both the cost of the required capital in terms of land tied up in roads is greater and also where the costs of accidents and, certainly at a local level, of pollution are greater. A corollary coming out of that is that, in terms of the strategic planning of the road network, we are not spending enough on reducing road deaths. The costs of road deaths are underweighted in road planning quite substantially, and that should be an area of increased priority.

The next issue I look at is the question of the balance between the private and public sectors. There I conclude, broadly speaking, that what you might call the modern status quo is desirable—namely, that major road projects should be put out to tender, and the tenders should be such that the risks involved in the actual construction of the road are borne primarily by the tenderer. If there are cost overruns or the road is late, the costs should be borne by the contractor. Conversely, there should be benefits if the road is completed ahead of time and, obviously, cost savings.

That can be extended by, for example, requiring the contract to include some period of subsequent maintenance to deal with the problem that that gives more flexibility in terms of avoiding detailed specification of the exact quality of the road at the time of completion. That is certainly preferable to situations where ownership of the road network is packaged with construction in, for example, so-called BOOT schemes.

Within that category, I observe that, if we are going to have full private ownership with no spurious ultimate hand-back to the public, it is preferable to the so-called BOOT version of the scheme where the public appears to get something for nothing in terms of getting the road back at the end of some accountant-specified period. I can explain that, if desired. It follows from that that there is no case for revival of the various subsidies for private infrastructure—the infrastructure bonds and so forth. Economists of virtually all persuasions who have examined this have come to that conclusion.

Finally, an issue which I think has not received sufficient attention but which is increasingly a matter of concern in terms of private involvement in the road network is the issue of the conflict between freedom of information principles and claims of commercial confidentiality. I express the view that it should be a condition of entering into any contract that claims of commercial confidentiality should be waived, to the extent that they conflict with the principles of freedom of information that would apply if the project were undertaken in the public sector. I would be happy to take questions on those points or any other issues if members would like to raise them.

CHAIR—Professor Quiggin, I am interested in your comment that it would be preferable, if there is going to be private participation, say, in construction of tollways and motorways, that the ownership be entirely vested in the private sector and not the BOOT scheme where it is, say, after a concessional period of 45 years, transferred back to the public sector. Could you expand on that notion?

Prof. Quiggin—There are some cases where private ownership is preferable. If so, it is unlikely that that is going to change at the end of a period that is determined solely by accounting and packaging considerations. Basically, the public could get a lower annual cost by saying, ‘We will not have this hand-back at the end of 40 years; we will hand over permanently.’ In fact what we typically get is the exact reverse of what is desirable.

Typically, toll road financing is most harmful on a brand new urban road because that is when the road is least underused and therefore we would most like to get traffic onto it. Since the removal of the BOOT scheme typically also implies the removal of the toll, you get the exact reverse of what would be a sensible allocation. In general what we would like is to have tolls on roads we do not want people to use, which are typically residential streets and so forth, and no tolls on the kind of projects which are typically newly constructed road projects.

CHAIR—So your view of tolls is as a control on usage and traffic flows rather than a revenue mechanism?

Prof. Quiggin—They are highly inappropriate revenue mechanisms because they tax precisely the traffic flows that you would least like to tax. In principle, of course, if we could price every road with the kind of electronic road pricing mechanisms that people talk about, then it would be a very good system. But in practice, if we arbitrarily pick certain roads which happen to be newly constructed and physically laid out in such a way that the imposition of a toll is feasible, what we get is a distortion of traffic patterns and charges for the use of roads which typically we would most like to encourage.

CHAIR—With the BOOT system, at the end of the concessional period, do you believe that the state or the Commonwealth would be taking back a piece of infrastructure that is probably worn out and needs upgrading?

Prof. Quiggin—That is frequently the case. The critical point is that the BOOT scheme pretends to give you something for nothing; there is no such thing because that hand back is priced back into the contract so that we pay more over the life of the contract in terms of a hand back. As I say, if the hand back was desirable it should have been at the time of the completion of the project. If it is undesirable it should not happen at all.

Mr ROSS CAMERON—The M2 motorway has a maintenance sinking fund built into the contract so that the asset is handed back at the end with a very substantial maintenance provision for the ongoing life of the road. What is the difficulty there?

Prof. Quiggin—The difficulty is that what we should be doing in terms of strategic planning is allocating the ownership of the road to the party who can best handle it. In most cases I have argued that would be the public sector which implies the road should be handed over at the time of completion. In most cases the risks associated with the ownership of a road will be entirely unrelated to the skill with which the toll booths are managed and so forth. It will be related to public decisions and to the construction of the rest of the transport network which will not be in the hands of the individual operator. In most cases the allocation should be to the public sector straight off.

There are, however, exceptions. The port road project which you have just heard described is one which potentially might be suitably owned by the private sector. If so, there is no reason to create some accounting number which says the project has now been paid for and it is going to be given back to the public sector. It would be best, in those cases, to keep it in private ownership indefinitely.

Mr ROSS CAMERON—If we want to talk about management of risks, from a community standpoint the biggest risk is that the road will never get built at all. The principal political risk is that it will not get built.

Prof. Quiggin—That is a risk which is entirely in the hands of the government.

Mr ROSS CAMERON—That is right. That is where by creating a regulatory environment—if you like by creating a business—we put into the total global decision making environment a powerful pressure to actually deliver a road.

Prof. Quiggin—That is so if the community has a spurious objection to debt or the government has a spurious objection to debt and thinks it can get around it by creating a pseudo private ownership package. What you are saying is that the government is highly irrational and only by crazy methods can roads be constructed; that is essentially it seems to me what is being said to you. The question I am attempting to address is how roads should best be built. If there is a religious objection to public debt, then obviously we have to construct the structure of the package in such a way that the words ‘public debt’ are not mentioned. But the public will still have an obligation, regardless of whether we call it public debt or not.

Mr ROSS CAMERON—If you set up a benchmark, a situation which you could price and toll access to every road—the reality is we are talking about a fantasy.

Prof. Quiggin—I know that.

Mr ROSS CAMERON—Therefore, you say putting a toll on a specific road because of the impact of traffic diversion and other things is inefficient. But that presupposes the fact that you have a road to put a toll on. We had the Queensland Department of Main Roads in. They say that any time that the Commonwealth is involved in funding a road, it takes two to six months just to go through one phase of the project. One of my colleagues asked why it took so long and they just say that is how long it takes the Commonwealth to make decisions.

If you want to talk about benefits, your argument is that we should be trying to discourage local road use, whereas, if you take for example the M2 motorway, the reality is that it will be the greatest thing for alleviating traffic congestion and inappropriate use of local roads because it will give people an alternative which they would not otherwise have had.

In that sense, it seems to me you are constructing a sort of straw man fantasy and saying, ‘That’s the ideal but, because we can’t achieve that, putting tolls on one particular piece of road is inappropriate.’ The reality is a tolled motorway, even though it is a brand spanking new piece of infrastructure, will be the greatest thing for preservation of the amenity of many local communities who are at the moment being overrun by arterial style traffic.

Prof. Quiggin—I am not saying that because it is not the ideal we should abandon it. I am saying it is inferior to the available practical alternative, which is financing new roads out of taxes on petrol. Speaking specifically of the M2, the point that the benefits of the M2 were drastically reduced by the imposition of the toll was made by the councils in western Sydney entirely correctly. It is made by the New South Wales Auditor-General in the paper I cite pointing out that access to these roads has to be restricted because the construction of appropriate access would inhibit capacity to collect tolls.

It may be that if there is a dogmatic objection to financing roads efficiently through petrol taxes then, in some cases, a badly financed road is better than no road, but there is no evidence that financing new roads through petrol taxes is impossible. I point to the 3X3 levy, for example, where it is entirely successful.

I simply do not see the supposed impossibility of financing roads in the traditional way, that is, building them, issuing debt to finance them and then using taxes, and specifically petrol taxes—

Mr PETER MORRIS—I will put my foot in it and say road tolls are another tax on motorists.

Prof. Quiggin—Certainly. It is obvious that they are another tax. They are a delegation of the public’s power to tax to the owner of the road whether that is the public, in some cases, or the private sector. I entirely agree.

Mr WILLIS—I think what is driving the states to move down this path is the desire not to accumulate more debt. In the case of Victoria, where I come from, I presume that you are well aware that there are a lot of debts, something in the order of $32 billion worth of debt a few years ago, so what they would say is that, 'we face a situation where we want to have this big new City Link development. It is going to cost the best part of $2 billion. To be built in the normal way means a big increase in government debt. We do not want that to happen. We are trying to reduce debt to get back our AAA rating and improve the economic status of the state. Therefore, it is better to conduct this by way of a private sector package,' which then has, I agree, various downsides which you have been alluding to.

Similarly, in New South Wales, where there have been all these private sector developments, even though they have AAA rating, they are basically saying, 'We don't want to do this on a government debt basis because we don't want to have increased government debt.'

What do you say about the rationality of the state government in pursuing these private sector projects on the basis that they do not want to increase government debt?

Prof. Quiggin—It is unclear at various times whether it is the state government or the operations of the Loan Council and their success at imposing those sort of constraints. But, be that as it may, the overall structure is highly irrational. What matters is state net worth not state debt. A state requires a road and ensures that the associated stream of tax revenue is generated, either by imposing a toll or, more generally, by raising the appropriate amount of revenue through road user charges such as petrol taxes. Essentially, the state's position is not improved by forgoing that project if the result is that it is substantially more expensive to finance. The estimates I have seen for City Link suggest it is about twice as expensive in present value terms being financed the way it is compared to traditional finance and, further, the benefits of the project are reduced by the fact that tolls mean reduced access.

Mr WILLIS—It might be more expensive overall, but it is not more expensive for the state.

Prof. Quiggin—It is not at all clear that financial markets are silly enough to ignore the asset side of the picture when they evaluate a state's financial position. If they are so crazy then we have a problem. However, it seems to me that all the evidence is that it is the state governments themselves, and the federal government, that have made a big noise about debt per se and that what matters is net worth. Net worth will be improved by constructing economically sound projects.

Mr WILLIS—I take your point, which is made well in the submission, about net worth but, to get back to Mr Cameron's point, if the states are preoccupied with the need to reduce debt—and it might not be just the states but the Commonwealth as well—then it becomes a choice of either having the project done in this way or not doing it at all. Do you think in that situation, if that is the choice, that building projects in this way is a bad decision?

Prof. Quiggin—It certainly means that far fewer projects will be economically desirable because they are a great deal more costly. There will be some projects which are so desirable that they will be good even at twice the cost and there are other projects that will not be.

I have pointed out that there are other methods available if it is solely an objection to debt. Various governments have already sold off their gambling taxes. They could if they wanted to create a petrol tax and then sell that to the private sector and use that to finance projects. They could use that and in that way no debt would ever appear on the books. If we are simply speaking dogmatic objections, I would be happy to suggest various ways in which the appropriate categories could be found to finance these projects sensibly.

Mr WILLIS—One proposal was put to us by the Commonwealth Bank, a bank that has been very much involved, as you would be aware, in some of these road BOOT projects. They were suggesting that that probably has outlasted its usefulness, that it was a sort of a staging post and that now it would be more sensible to move on to a system where there was a state tolling corporation which conducted the tolling on various roads which were financed by the private sector through non-recourse financing revenue bonds, as is fairly commonly done in the United States. This would then be an off balance sheet item, so to speak, and it would not involve the state in increased debt but would retain ownership with the state. Presumably it would not have the same network risk deficiencies that you and others have alluded to with private ownership of these roads. Do you see any value in that sort of approach?

Prof. Quiggin—I think it would be preferable to create a corporation but allocate to it a petrol tax rather than a set of tolls. Except in the very rare cases where tolls are desirable, why not sell off the state's franchise fees? It is exactly the same thing except with a more suitable tax.

Mr LINDSAY—I note that your submission is opposed to the use of infrastructure bonds for financing. This inquiry has received evidence in relation to the M2 freeway project that without the use of infrastructure bonds that project may never have gotten off the ground. Is there a component here of what you are suggesting to the committee could be theoretically correct but in practice it is not going to be the reality of the situation?

Prof. Quiggin—The realities are dominated by, as I say, the purely dogmatic concern to get things into appropriate categories. The reason the M2 is vastly more expensive, constructed as it is, is that the private sector operator is expected to take on a great deal of risk totally unrelated to their skill in building the road. That creates a great cost, and an unnecessary cost. If that unnecessary cost is to be met then there has to be a subsidy and the subsidy has to take the form of an infrastructure bond.

However, if the project had been financed in the traditional way by an extension of the 3X3 taxes with the contractor being paid on completion, I have no doubt that there would be no difficulty, firstly, about finding somebody willing to construct the road and, secondly, about the political support for what is obviously a vital part of Sydney's transport network.

Mr McARTHUR—Why is it vastly more expensive?

Prof. Quiggin—Basically, the rate of return demanded by the constructors of the road is higher both because of the issue of the rate of return to private equity, which I have discussed in the past, but also because of an extra premium associated with the fact that is a highly risky enterprise for the constructor even though there is no essential risk for the state as a whole. The constructor has to worry about whether, for example, the railway will be upgraded, whether suburban development will take the pattern that has been suggested—a whole range of things which, taken over the transport network as a whole, will net out, but which will mean that the returns to ownership of any particular bit of road are highly risky. The state has to compensate them for that risk, perhaps by tying its planning hands 20 years in advance, which has been done in Victoria to a significant extent, with guarantees that public transport will not be developed to compete with the M2. I point out, related to the issue of commercial confidentiality, that I think this is close to an unconstitutional binding of future governments.

Mr ROSS CAMERON—Which project are you talking about?

Prof. Quiggin—The City Link project.

Mr ROSS CAMERON—Not the M2?

Prof. Quiggin—No, the City Link project in Victoria. I think the notion that these contracts can be used to bind what had previously been regarded as decisions in the hands of future governments is a very dangerous side cost to this thing, but to the extent that governments are not bound substantial compensation has to be paid.

Mr RANDALL—Did you say you think it could be unconstitutional?

Prof. Quiggin—I think it is clearly against the spirit of the constitution—the notion that governments can contractually bind the hands of future governments in this way. It is certainly the kind of thing which—

Mr ROSS CAMERON—So the best practice is not to bind the hands of future governments but to negotiate a commercial outcome?

Prof. Quiggin—If the commercial outcome involves a contractual commitment about public policy decades in advance—

Mr ROSS CAMERON—If the commitment is not to build a railroad or not to put in a housing development, but if the commitment is a decision by the state or Commonwealth government—in an area over which the state government can manage the risk—which has an adverse impact on the business, then there will be financial compensation.

Prof. Quiggin—I agree. You can either comprehensively compensate or you can bind your hands; one is extremely costly and the other is extremely politically undesirable. I point out, again quoting the New South Wales Auditor-General, that the compensation in some of these contracts appears to go well beyond issues within the control of the state government. On a literal reading, as he observes, even the actions of a foreign government would require compensation from the state government.

Mr McARTHUR—What about the factor of maintaining, constructing and being responsible for the 36 or 45 years of the road, so there is an extra responsibility about the type of construction, the maintenance and the longevity of the road, which has not always been a factor in a lot of other road construction?

Prof. Quiggin—I agree that that is significant. As I have said, recent contracts on more or less the standard pattern have included some responsibility for maintenance after completion. I do not know that 40 years is necessary; I suspect that most of the relevant risk could be internalised within five or 10 years, but that is a technical issue. Certainly, that can be handled perfectly adequately without the kind of financing arrangements that we are discussing.

Mr McARTHUR—But that extension of the cost of the road to a 40- or 50-year period is something that I suspect road construction authorities have not taken into account historically. That is part of the problem we are facing in Australia—the road infrastructure is running down.

Prof. Quiggin—I could not comment on whether they have or not. Obviously, best practice would be that they should. I am sure that on occasions they have fallen short of that. But I think the issue certainly can be resolved within the framework of competitive tendering for construction combined with payment on completion.

Mr McDOUGALL—We have talked mainly about toll roads and your arguments in relation to the impact of the private sector on toll roads. If we look, say, at the private sector in regard to mining, major freight routes—either to a port or intercity—where we are not really talking about a toll road, if you agree that the private sector should make a contribution to the construction, maintenance and running of those because of the economic benefits they will get from them, is it possible to allocate risk to the private sector? How do you believe that that risk would vary over the life of the project?

Prof. Quiggin—It is obviously a project by project decision. What I am arguing for is that the allocation should be based on those sorts of issues rather than on the question of the apparent impact on balance sheets and things like that of the financing option chosen. With projects that are specifically allocated to a small group of private sector users, usually large businesses, obviously the case for public ownership is a lot weaker. Going to the extreme case where there is only a single private user, in general one would suppose that there is a pretty strong case for the private ownership and construction of that facility.

In these cases, we can look at capital contributions; we can look simply at financing them through user charges over the life of the project. It largely varies as to how that risk is going to be determined. For example, in the case of a mine, the risk about the use of the network relates primarily to the output of the mine, and that is obviously going to be best internalised by having that risk borne by the owner of the mine who is also the main user of the road. Where you have multiple users, the issues get more complicated.

Mr McDOUGALL—That is really the point I am getting at. Let’s take a project in your own backyard, which no doubt you have looked at it, with regard to the port access road and the possibility that there should be rail access there as well. One would assume that if that goes ahead—one or the other, or both of those—and there can be private sector investment in it, then that private sector investment is going to come at different stages and there will be different users and volume users over a long period of time. How do you then distribute that risk and who owns the capital infrastructure at the time of construction?

Prof. Quiggin—I should make it clear that I have not examined that project. I believe our Centre for Applied Economic Research and Analysis did some work on it, but I was not involved in that work so I am not speaking with any expert knowledge of that particular project. My general view would be, as I have said, that if there is one single dominant user, then in most cases it will be appropriate for that user to build and own the railroad; if there are a great many, it will be appropriate for the public. There is then obviously a case in between, where we have got a small number of users.

Without having studied that particular project in detail, I could not give you a specific answer as to what the optimal package is. I have merely observed that, provided that we pay appropriate attention to the allocation of risk in designing the thing and as little as possible attention to apparent impacts on balance sheets, we will achieve a rational allocation and a more appropriate portfolio of infrastructure.

Mr McDOUGALL—In simple terms, do you believe there should be private sector funding in infrastructure or not?

Prof. Quiggin—All infrastructure is privately funded. We pay for all the roads we use through petrol taxes—

Mr McDOUGALL—No, don't skirt around it again.

Prof. Quiggin—I am not skirting around. This is an important point. The private sector—we—pay for all roads. In almost all cases, as road users we pay through road charges—and I certainly believe that that is appropriate. There should not be a net subsidy from general revenue to the road network. It should all be recovered, either through user charges or direct capital contributions.

If we then come to the question of whether there should be private ownership of infrastructure assets, I believe, as I have said, that there are appropriate cases. Those cases are where the risk associated with that piece of infrastructure can basically be allocated to a single user; and, in that case, that user should have ownership of the asset.

The ski tube in southern New South Wales is an ideal example that works very well. It is essentially an isolated piece of infrastructure, and the risk was basically a commercial judgment made by the constructors—that lots of people wanted to use it and that their construction techniques would prove feasible. So it was an ideal case for private ownership and it appears to have worked quite well.

Mr McDOUGALL—You missed my point.

Mr ROSS CAMERON—Except it is not—

Prof. Quiggin—I am sorry, I was under the impression that it had been successful. But it is certainly an ideal case that the risk should have been borne by the private sector; it was up to them, not the public, to back their judgment.

Mr McDOUGALL—Maybe I was not clear enough. And your interpretation and my interpretation of 'private' are obviously two different things. Leave aside the single operator who has a private investment, a mine, and a single line; you have explained that point. What is your problem with having the corporate sector or the private sector invest in what is then eventually a public asset which is for open public use? You seem to be telling me that you do not believe that the private sector, the corporate sector, has any involvement in investment or operation of public infrastructures.

Prof. Quiggin—Just to clarify this, you mean basically the urban road network?

Mr McDOUGALL—The urban road network is one. It could be a railway line, it could be—

Prof. Quiggin—I have indicated that there is a range of different cases. In relation to the urban road network, my reason is that the risk associated with the network is associated with both the transport network as a whole and, more generally, the planning of the urban area. Those are issues over which, in my view, individual corporations should have no control. Therefore the only way they can be involved is, as was suggested, to compensate them lavishly for every possible loss arising from planning decisions.

Mr ROSS CAMERON—Commensurately would be—

Prof. Quiggin—But very expensively, because that compensation would be entirely unnecessary if the project had not been handed over to separate ownership in the first place.

Mr ROSS CAMERON—Except that it would not have been built but for separate ownership.

Mr RANDALL—Professor Quiggin, I would like to come back to a couple of points you touched on. Regarding your proposal that petrol taxes are probably currently the best possible way of funding new roads, et cetera, in my state—Western Australia—4c a litre was placed on the price a couple of years ago and another 3c a litre are going to be proposed shortly. The tax was for one specific project, the Northbridge Tunnel, which is a very large city infrastructure project. My question is: where does it stop? We are talking about 7c in a couple of years. Is there any justification that it continues to bring forward new works? How do you sell it to the people?

The second point is that this committee is visiting remote and regional Australia for a specific reason—to look at roads of sometimes low volume. How do you sell it to the people of Sydney, for example, who have a great need for upgrading their roads and freeways? We are looking at strategic roads, like the central Australian highway proposals, et cetera, where there are low volumes of traffic but they are strategic in terms of mining or opening the country up for tourism. How do you sell it or justify it, given that a large proportion of it is going to be funded by Australian cities one way or another?

Prof. Quiggin—As I have argued, it is appropriate that the charges should be different in urban and rural areas, because we are looking at different sets of costs. But I guess the issue must ultimately be that these things must be publicly justified. If the public does not want these roads, then they should not be built. The public has been willing to pay in the past.

Mr RANDALL—Even in the national interest, though?

Prof. Quiggin—The judge of the national interest ultimately is the public. The public will pay for the roads one way or the other. If the public is unwilling to pay for them, that reflects the public judgment that they are not in the national interest—and people who think they are should argue for them. Looking at the success, for example, of the 3x3 levy I would judge that there would be substantial public acceptance of increased taxation for road expenditure. But if there is not, then so be it; that would be my conclusion. The public has to make that decision. There is no way in which we can get around the fact that the public must pay in the end, so we simply have to leave that essentially up to the judgment of the public.

Mr RANDALL—This inquiry is about the government's role in road funding. Where the public interest is self-interest, for example in the cities, we are saying that we are looking at something in the national interest, such as a remote infrastructure highway linking up something for the future. Isn't it the role of the government to make these decisions, not necessarily the public?

Prof. Quiggin—My view would be that the government is ultimately dependent on the consent of the public, but I guess we are getting outside my area of expertise. I have made the point that, if the justification for a road is primarily development of particular industries, obviously the case for a direct contribution from those industries is very strong. If a road is primarily to develop mines, it seems pretty clear that we should be looking for capital contributions from the mines to finance construction.

Mr RANDALL—Okay. To go back to my taxing issue, where does the federal tax finish?

Prof. Quiggin—It finishes at the point where people judge that they would rather have the money in their pockets or have it spent on public purposes other than the provision of roads; and that is true of all services provided by the public.

Mr ROSS CAMERON—I am trying to understand some of your assumptions.

Mr PETER MORRIS—Different religions, I feel!

Mr ROSS CAMERON—That is an interesting question. Professor Quiggin describes objection to debt as being a religious one. My hunch is that, when Victoria was downgraded from AAA to AA—which meant that the Victorian people were all having to pay more for access to public funds and also suffering a terrible international embarrassment—they would not have regarded it as a purely irrational or religious objection to increased indebtedness. Your response would be that, as long as net worth is increasing commensurately, then it is not a problem. But surely the point is that for a piece of road infrastructure—in the Arcadian Quiggin view of the world under which the government does not levy tolls anyway—the value of that infrastructure in the hands of the government is vastly different from the value of that infrastructure in the hands of the private sector which is running a going concern as a business: all the government has is a book asset.

CHAIR—Mr Cameron, can I draw you to the point of your question?

Mr ROSS CAMERON—Yes. Surely the reason it is a problem is that, when you put down a book value, Standard and Poor are going to look at it and say, 'That piece of infrastructure is actually worth nothing in money terms in the hands of the government whereas, in the hands of the private sector, it is worth a huge amount.'

Prof. Quiggin—Okay. I will take the points one by one. Victoria, at the time it got into trouble, had substantial problems with net worth. It was not the case that it had followed the mistaken prescriptions of Professor Quiggin by spending too much on capital. In an attempt to maintain current spending, it had both run up substantial amounts of debt and slashed capital expenditure; and that in turn reflected reductions in income from the federal government, which was unwilling to make it up through increased taxes. So it is obvious that that route was not indefinitely sustainable, and the downgrading of Victoria's state debt reflected that.

Mr ROSS CAMERON—We are in agreement on something, then.

Prof. Quiggin—The reason Victoria's debt was downgraded was that its net public worth was declining. If a state like Queensland—which, with a growing population, obviously needs more capital investment—were to finance that capital investment by debt and to raise and allocate sufficient road user charges to ensure that the state got an appropriate return on the assets invested—and that is the critical point in response to the second part of your question—there is no reason, in my view, to believe that the citizens of Queensland would suffer either financially or to the extent that they are internationally embarrassed by having to go abroad and say that they come from a state where they have a AA debt rating.

Mr ROSS CAMERON—What if you just respond to the question? A road in the hands of the government is worth nothing. In the hands of the private sector, it is worth a huge amount.

Prof. Quiggin—What is worth something is the flow of income that is associated with it, and it is certainly true—

Mr ROSS CAMERON—That is right; and so, if you say you cannot levy tolls, then you have got nothing that is worth anything.

Prof. Quiggin—What you have is a petrol tax. You obviously have to pay for the road through road user charges. The question is: should those charges be tolls which can be fictitiously nominated to particular assets? I point out that there is no sense in which tolls arising from a particular road in any sense correspond to the benefits associated with that road. They can be larger or they can be smaller; it is an entirely fictitious bookkeeping allocation. Or you can have a petrol tax. The only thing that Moody or Standard and Poor are concerned about is whether the debts are going to be paid; and, for that purpose, whether they are paid out of a petrol tax or paid out of a toll is entirely irrelevant.

Mr ROSS CAMERON—But your point about net worth is spurious because, if there is no revenue, there is no net worth.

Prof. Quiggin—I am sorry. Can I explain? There are two issues about net worth, in terms of public expenditure. One is the question of what happens to the net worth of the country as a whole; and, in that context, a road is a road is a road. The second issue is what happens to the net worth of the public sector;

and it is clear that, if the public builds assets and then gives them away—which is essentially the case of a road which is built but not financed in any way—the net worth of the public sector declines. But it is an entirely indifferent matter whether the cost of that road is recovered in road user charges in the form of tolls or in road user charges in the form of registration fees or petrol taxes.

Mr WILLIS—It just seems to me that the point that you are making about net worth is theoretical correctness, but the reality is that there is no accounting, that I am aware of, of net worth at this stage by the public sector. If we move to accrual accounting, of course this would no longer be the case. There would be a clear publication by governments of a balance sheet, we would see a net worth and so debts would be clearly offset by assets. At the moment, that is not the case and so governments are focused on one side of the balance sheet, so to speak; that is, the debts, and the credit rating agencies and investors in general are focused on the creditworthiness of the state by the level of the debt, ignoring the assets side of the equation. Do you think things would be changed in the perception of governments by the move to accrual accounting—which I think is the general direction in which things are going?

Prof. Quiggin—Yes, I think that would be a significant improvement. Of course, as the previous discussion showed, it is important, when dealing with governments, to remember that the ultimate asset of governments is taxable capacity. In this case, though, taxable capacity simply means the ability to use systems which are basically pricing systems but which are not accessible without the use of state power. I think the move to accrual accounting would be desirable and would show—as the Commission of Audit report said, even though its discussion did not—that the financial position of the Australian public sector is exceptionally strong.

Mr PETER MORRIS—Isn't it a fact also that each of the road authorities have conducted, or are conducting, inventories of their road systems? There are values attributed to their road systems. Local government, in the past three years, have established Australia wide an inventory of the value of their road systems. Whether it has got a market value, as Mr Cameron said, is a different issue altogether. He is talking about a commercial valuation, not about simply the replacement value in service value. But I do not want to comment on that. Going to questions raised in your submission about petrol taxes and revenue, you argue that the present method of fuel excise collecting is, all things considered, probably the most reasonable way of doing it. Isn't the issue that you are discussing here this morning little to do with fuel tax or petrol tax; it is to do with the priorities attributed to the use of the proceeds of it? That is really the issue here.

Prof. Quiggin—It should be the issue but, unfortunately, when we moved to systems of toll road financing—

Mr PETER MORRIS—Without going to toll roads, the amount that is being collected by federal government is vastly in excess of the amount being devoted to road construction and maintenance. So isn't it really a politicians argument—politicians at whatever level; I am not singling out governments? I am saying simply that the revenue is being collected from the public. You are saying here that petrol tax is being paid by road users and you think that is the most efficient way or fairest way, all things considered, of doing it. It then goes into the general pot and a small portion of it goes out to road expenditure and maintenance. It is really the politicians themselves who have to make a decision about how much they want to allocate.

Prof. Quiggin—I would point out that, yes, looking at urban roads, the social and economic costs generated by road users are considerably in excess of the expenditure on road construction. A very large cost generated by road users on non-road users is road accidents to pedestrians and other non-motorists. The economic costs of those in urban areas, in my view, is substantially in excess of the cash expenditure on building roads. And there are other costs of pollution and disamenity which I think are very—

Mr PETER MORRIS—In those circumstances, you need to reappraise what you have written here in respect of the revenue collected from motorists.

Prof. Quiggin—That is what I have written. What I have said here is a summary of—

Mr PETER MORRIS—Okay. But then you go on from that, the priority of how the money is collected from motorists—and this is how motorists see it—and how that money is then applied. The debate has been going on about some sectors of the road network that have sufficient traffic over them such that you can put a toll on them and put a new tax or additional tax on the use of that section of roadway or a new section of roadway. How do you take into account the value that is derived from the public investment in the existing road network? The tollway usually links portions of the existing public investment. How do you account for that?

Prof. Quiggin—As I pointed out, it cannot be accounted for. It means that a link between the toll revenue and the social value generated by the road is entirely spurious. In general, these projects are feasible only because a substantial existing section of road is handed over. The only reason that projects such as the M2 motorway, the Tullamarine expansion and, I suspect, City Link—although I have not had the time to go through it in detail to confirm this—are feasible is because substantial existing public assets are handed over as part of the deal.

Mr PETER MORRIS—The value of that existing network is handed over.

Prof. Quiggin—Yes.

Mr PETER MORRIS—As far as the committee is concerned, given the breadth of the terms of reference of this inquiry, isn't it really the case that only a very small proportion of Australia's construction and maintenance tasks can be addressed by toll roads?

Prof. Quiggin—Yes. And the entire priority of investment will be distorted by a selection of projects which happen to be convenient to the levying of tolls. There are a bunch of very specific requirements that you have to have. There cannot be too many access and exit points; you have to have either undesirable alternative routes or none at all; and, of course, it can only be used essentially for substantially new projects. What happens is that the people who have been at the back of the queue get pushed to the front, but at the price of having to pay charges which other people do not have to pay.

Mr PETER MORRIS—My last question goes to a related issue. Should the taxation incentives that are associated with these kinds of projects—infrastructure investments in roads—be seen as part of the Commonwealth investment in road construction and maintenance? It is a revenue forgone with the benefits given?

Prof. Quiggin—It seems to me that those incentives are essentially a subsidy which offsets the unnecessary costs of financing roads in an arbitrary and inefficient fashion.

Mr PETER MORRIS—Yes; it is just another way of skinning the cat.

Prof. Quiggin—It is a way to go: having a desire to do this, that cost has to be paid, and it can be paid either through increasing the generosity of the amount that is handed over in existing public assets as part of the project, or through cash subsidies.

Mr PETER MORRIS—I am sure that, if you were Treasury, you would be active. That is part of the total budget that is going to roads, isn't it?

Prof. Quiggin—It certainly is part of the project and, as I have said, if it costs us twice as much to build roads then obviously, in the long run, half as many roads will be built.

CHAIR—We have gone a little over time. I thank Professor Quiggin for his consideration in answering the questions. If there are any further questions that the committee has, Professor Quiggin will provide answers to those for us in writing. Is it the wish of the committee that the summary document be incorporated in the transcript of evidence? There being no objection, it is so ordered.

The document read as follows—

[11.38 a.m.]

CUMMINGS, Mr William Samuel, Secretary, Cairns Chamber of Commerce, 38 Grafton Street, Cairns, Queensland 4870

CHAIR—We have received a submission to the inquiry from the Cairns Chamber of Commerce. Would you like to make a brief opening statement?

Mr Cummings—Yes. I will run through some of the major points that we have made. We have argued that any national road funding, as opposed to state road funding, should apply on grounds of defence, social equity, international transport linkages, national transport network, and economic necessity and yield. The last two—national transport network and economic yield, particularly the export side—have probably led to most of the national road funding; specifically, the national roads.
In the past, one of the notable ones in this region was the beef roads scheme in the 1960s. A great deal of the development of the road network in the north was for the beef roads scheme with special Commonwealth funding.

As far as defence goes, I will address particularly the north-east side of the north—predominantly what is called Far North Queensland, centred on Cairns, including Cape York and extending to the Gulf. There is a large part of that region without bitumen roads or roads that are accessible year round and which is closed during the wet season for anything from four to six months. In relation to defence, it would be extremely difficult to move a lot of vehicles around it, particularly during the wet season. Defence vulnerability is relatively high in areas in the far north.

The other point we have made is about social equity. If you look around Australia, in terms of roads affecting social equity, the far northern areas, particularly Cape York, stand out. There are something like 20,000 people in Cape York and the Torres Strait Islands. They are not linked to the national road system by all-weather roads. It means those communities are made extremely remote through having to travel by air for very simple things, such as coming down to Cairns for health services, even for justice services, court appearances and that sort of thing. It is a very costly business and imposes a remoteness on people in those communities that is greater than their distance because they are not able to travel by car. There are no railway lines in the area either, which means that the road structure is absolutely vital.

The costs of living and operating businesses are high in that area. It militates against any economic development in the area. That includes people in Aboriginal communities. If they produce something for the outside world, they face some difficulties in getting it out.

I do not know whether you are aware that the Torres Strait Islanders built a lot of the railway lines around Australia, including in Western Australia. Some of them have suggested that one of the solutions is for the Torres Strait Island people to build a railway line up Cape York. Obviously, that is not practical these days, but it highlights the need for road development to take place.

In relation to international transport linkages—and I am not just referring to exports—the basic road structure in the north is absolutely essential. Something like 25 per cent of all of Australia's exports in terms of value come out of northern Australia. It is important to the continuing development of that export structure that road development occurs in the area.

More recently, we have had a change in the cattle industry. The beef roads were built to haul cattle southwards to fattening areas, meatworks, et cetera. The opening up of the live cattle trade to the immediate north has put a premium on taking the cattle northwards to the ports along the north Australian coast. At present, the further north you get, there is a tendency for the roads to dwindle, whereas we now need to take the cattle to ports like Karumba and Weipa. Some cattle are now starting to be shipped out of Weipa from Cape York. So there is a different situation there from what applied in the past.

The roads on the peninsula help to support the Weipa mines and also another mine which is proposed by Alcan, just north of Weipa. There is a proposal by the Venture Corporation for a kaolin mine north of Weipa. Century Zinc is coming into the Gulf. Over in the Arnhem Land area, Gove does not have road linkages.
These roads also play an important part. The prawn fisheries, or the fishers in the north, are worth about $200 million a year. They are primarily export fisheries. In fact it is one of the side spins from the old beef road scheme that put bitumen into the gulf that allowed bitumen access into Karumba and, within a number of years, there was a flowering prawn fishing industry based in the gulf.

Also, just at present, there is a proposal to bring a gas pipeline down from Papua New Guinea right through to Townsville here, and it will follow the Peninsula Development Road route essentially. There is an opportunity there. They have informed us that they need to build some temporary structures at least to get across creeks and that sort of thing. There is the possibility, if there is a combined effort, that more substantial structures can be put in place. I have also raised in the submission that the coaxial cable from Cairns to Port Moresby is now old technology and there is the possibility of putting a fibre optic cable up Cape York that would serve into Papua New Guinea and eastern Indonesia.

As far as national transport networking goes, of course, the current situation means that we have got a substantial community there that is not linked to the national road network for large times of the year. By building those northward links we are also developing the potential to strengthen the links up into Papua New Guinea and particularly into eastern Indonesia.

The other point that I would make as far as national transport networks is that the regions of north-eastern Australia, of North Queensland, are now economically much stronger than they were. It is a very substantial producing area of the Commonwealth, and I draw your attention to the fact that it just needs a few links in New South Wales and in Queensland to be sealed to provide bitumen access from Melbourne and Adelaide as well as from Brisbane and Sydney.

The other thing that I might say about economic necessity, going back in time I think a lot of the national road program has been based on economic necessity where there was an extremely big task in front of the nation. Certainly the beef roads fit into that category. There is no way in the world that in the 1960s and early 1970s that Queensland and the Northern Territory from their own resources would have built those roads. Obviously there was that need to connect the major capitals with roads. It was probably beyond the individual states at the time. I believe the situation is such in the north, with development occurring very strongly, that the fairly large expenditure that is needed justifies the Commonwealth coming in to some form of northern development road program that supplements the activities of the states.

CHAIR—Thank you. Do you think that the deficiencies that you have indicated with the road infrastructure in the north are actually hampering the mining and the live cattle industries in the north?

Mr Cummings—They would be developed better if the roads were in place as far as the live cattle exports go. A lot of them, of course, are carried during the dry season, and it means that there are substantial periods of the year when the roads are out that you cannot bring the cattle in. It would operate much more efficiently if better roads, all-weather roads, were in place. As far as mining in areas such as Weipa, where you have a big rich deposit, you can get a mine off the ground there willy-nilly, even though the transport costs into it are relatively high. But it is only those big rich deposits that can be exploited. Of course, you will end up with high costs of operation and high costs of living in those centres, brought on by that remoteness of no roads.

CHAIR—Most of the raw material is shipped out of Weipa, is it not? Does it come around to Gladstone?

Mr Cummings—Yes. It is either exported overseas or around to Gladstone. On the supply side—

CHAIR—You are talking about live export, cattle trade.

Mr Cummings—No. Weipa is exporting bauxite. The question of locating an alumina plant at Weipa has also been looked at but one of the problems of an alumina plant there is the sheer cost of operation.

CHAIR—Electricity?

Mr Cummings—Yes. There is the question of power and also the cost of building. It costs somewhere between $100 and $200 a tonne to get things in by road during the dry season. But most of the supplies are brought in by barge from Karumba up the west coast. The cost of that is $300 or $400 a tonne for all of the things that have to be brought in to a centre such as Weipa. With a project of any sort, there are extra costs for materials and so forth going in there. The other thing is the work force. You end up with the work force having to be flown in and flown out, rather than drive in themselves.

Mr McDOUGALL—You raised the tonnage cost. What role do you believe the beef and mining industry should be playing in relation to contribution towards this infrastructure upgrade?

Mr Cummings—First, I heard a bit of the previous discussion and I believe that the Commonwealth is collecting more than enough money in fuel taxes to cover the costs of any roads in Australia in terms of a user pays fee. The transport operators running up to Cape York wonder why they are paying fuel taxes when in fact there is so little money spent on the road.

Obviously, most of Australia does not pay a special additional levy on their transport. I believe that it would be most unfair to single out particular industries because they happen to be in remote areas and in particular to levy them. That is not to say that in some cases firms or mines may not make a contribution towards infrastructure. Of course, some of those big richer mines are able to do so. But, as far as the cattle industry goes, it is a much more marginal industry in its costings. There are enough mechanisms there to collect adequate funding for road development around Australia.

Mr McDOUGALL—You mentioned in your submission, and you have said it here today, that the development of the road infrastructure is essential for North Queensland in growing its exports. You also mentioned that 25 per cent of all of Australia's exports come out of northern Australia. How much of that 25 per cent is attributed to Cape York as opposed to the rest of northern Australia?

Mr Cummings—Some of that is going around to Gladstone but, as a regional export, the figure would be about $140 million a year of bauxite going out. The fishing industry is also mainly an export industry. I am not absolutely sure of the value of cattle going out. Of course, there is a degree of import replacement and export tourism in the region. I would have to check the actual value for those.

Mr McDOUGALL—Would it be possible to find out the current export value, the forward projection, say, 10 years, for those sectors, and the sorts of costs involved in upgrading infrastructure to be able to meet those demands? If you are going to look at economic equation, you have to have some facts in front of you.

Mr Cummings—Yes. I quite agree. Some earlier studies have been done but they are not comprehensive at this stage. There is a lot of data in the Cape York land use study that is just coming to a conclusion. It would be possible to provide you with that. However, one of the problems with a very remote area, where you have a very poor standard of road, is that you are looking at a long-term situation. Once you put in a road, things will come up that you cannot see now. For instance, Cape York is about the size of Victoria. The total far north region accounts for 26 per cent of Australia's rainfall. There are potential agricultural areas up there but the cost regime at present is such that they are not even prospective. But, once you put a road in, you will get the situation where those things will start to happen. But you could not say now that if you built the road they would definitely happen.

Mr McDOUGALL—You also talked about additional road links to better connect North Queensland with Melbourne and Adelaide. I refer to the map that you put in here. You show Cairns and running down to the Landsborough Highway near Winton. You then go off the Landsborough Highway at Warrego and go down through the back of western New South Wales. Obviously, they are fairly big projects at high cost. What are the main reasons that those roads are needed? One would assume that you have product that you need to transport from North Queensland to Adelaide and Melbourne to warrant those links.

Mr Cummings—It is the other way. Adelaide and Melbourne want to compete in the north for the supply of goods. A lot of our things are exported outside, exported overseas. There are certain products that are exported to the south. In terms of linking your major production areas, it is probably more important to Melbourne and Adelaide that they are able to get transport through to the north quicker and cheaper than they can at present.

I believe that one of those links, the Winton to Hughenden link, is being sealed now. That will leave the Hughenden to the Lynd in the north. I have just gone over maps and looked at what are shown on the maps as sealed roads and unsealed roads in order to identify some spots in New South Wales.

Mr McDOUGALL—But, for us to look at a question of national road funding, what is the strategic importance in economic terms that would warrant investment by the Commonwealth, in conjunction with the state, to do such major works? How much freight is running up and down there that really warrants that sort of capital investment?

Mr Cummings—Just as a very rough estimate, and this includes services, in the far north and northern regions—that is Townsville and Cairns regions—the value of imports into that region from southern Australia would probably rank up to about $4 billion a year. That would include services as well as goods. So you have very substantial traffic coming through. As far as economic benefit goes, it means that goods coming out of Adelaide and Melbourne can get into here cheaper than they would at present coming around the coastal route.

Mr ROSS CAMERON—Mr Cummings, you deal with this question of social equity in your submission. Some would say that there are costs and benefits associated with one's choice of location, whether in an urban, rural or remote area. For example, with access to housing in Winton as opposed to a median suburb of, say, Melbourne or Sydney, you can probably get into a home for $100,000 to $150,000 cheaper in Winton. You also avoid the congestion, pollution and noise associated with urban life. You get access to economic opportunities, for example, in agriculture and mining, opportunities which are not possible for those in urban centres. Do you think that the social equity argument you are running is really wanting to have your cake and eat it too?

Mr Cummings—No. In the areas I am talking about, for instance, you are probably looking at the average price of groceries in places like Thursday Island and up in Cape York, and so forth, being something like 20 per cent higher than Brisbane—I think for Thursday Island the last figure I saw was about 35 per cent higher—and the cost of building houses in those areas is substantially higher.

Mr ROSS CAMERON—We are not going to build a road to Thursday Island, are we?

Mr Cummings—You would build one to Bamaga. The trucks already go through there in the dry right up to Bamaga and, of course, there is Weipa on the way. At present, if somebody gets sick in those areas, they have to fly. The women having babies in Weipa have to fly to Cairns I think a month in advance because there are not facilities in some of those areas. These are tremendous social costs. If you have not got the facilities in those communities and you do not have a road which people can go over, you face tremendous social costs of people having to fly, and because they are low volume routes, the cost of an airfare from Thursday Island or Bamaga to Cairns, is as much as the cost of an airfare from Cairns to Brisbane, which would be like an airfare from Brisbane to Melbourne. So in these communities, because of the lack of roads—and it runs through to all sorts of things in terms of prisoners released to go back to their communities—there is an airfare involved to go back. If you want to come down to Cairns to visit people, there is an airfare involved.

Mr ROSS CAMERON—I would not labour the point, but I do not think that anyone would dispute there are additional costs associated with the decision to live in a remote community. But if we are talking about equity, presumably it is by reference to urban and other centres that are well serviced road wise. The cost of servicing a mortgage in, say, Parramatta, for the same quality house, is probably $1,000 a month more for many people in my electorate than it is for someone living in a similar house. So you may pay 20 per cent more for your groceries, you may have one or two airfares a year, but on a social equity argument, it does not really get me.

CHAIR—We do not want Australia's population living in Parramatta though, do we?

Mr ROSS CAMERON—That is right, but if we are talking about equity, no-one would dispute there are additional costs, but there are also additional benefits.

Mr Cummings—As far as Winton goes, Winton has a railway and a road which you can drive on to Rockhampton. I am talking about communities that are right out there. If they want to take a trip, they have to go by air. It is a tremendous social cost. Of course, there are not too many people that will live there.

Mr ROSS CAMERON—Which is why it is hard to justify building a road out there. Australia is 75 per cent desert. You have got large concentrations of people around the coastal areas. Should we, on social equity grounds, build a tarred and sealed road to every community with more than 2,000 people in it?

Mr Cummings—I am talking about the gap being 400 kilometres, not just 100 kilometres or 50 kilometres, from the bitumen. We are talking about communities that have to come over dirt roads or that are cut off at certain times of the year for up to 400 or 500 kilometres.

CHAIR—We might wrap it up there. Thank you very much for making the effort to come down to the hearing today. We appreciate your input and also the submission that you have put in. There was a question on notice where you undertook to provide a bit of data on road usage and costs. We will provide you with a copy of the question. If the committee has any further questions we will put them in writing to you.

Mr PETER MORRIS—Just one last question: I travelled the peninsula road from Coen on. What is the access time? Is it generally out for several months a year? How many months of the year is it out?

Mr Cummings—It varies depending upon the strength of the wet season. It is out for anything from four to six months. From Coen north, in topography terms of ease of running, is probably the better part of it. The bitumen is up to Lakeland now. The state government has undertaken to seal into Cooktown on a 10-year time frame. It is probably from Lakeland through to Coen where the worst spots on the road are.

Mr PETER MORRIS—You made no mention in your submission or in the discussion this morning about the linkages to Cooktown.

Mr Cummings—No. In fact the state government has got that under control. I would think that, generally, there are a lot of roads that the state governments are already addressing.

Mr PETER MORRIS—Mr Chairman, the point that Mr Cummings makes here about the development of roads is a pretty good example. It is undeveloped Australia. You can never justify it at this moment on cost-benefit grounds, but it has to be a development component. I recommend that you travel it some time. They might probably even arrange for you to do it with your four-wheel drive.

CHAIR—We are going to suspend the hearing until one o'clock, at which time we are going to conduct an inspection for an hour and come back for some more evidence.

Luncheon adjournment

[2.14 p.m.]

LOVETT, Mr Raymond Barrie, Manager, Economic Development Division, Townsville Enterprise Ltd, PO Box 1043, Townsville, Queensland 4810

POWER, Mr Richard Thomas, Chief Executive Officer, Townsville Enterprise Ltd, PO Box 1043, Townsville, Queensland 4810

CHAIR—Welcome. We have received your submission. Would you like to make a brief opening statement to the committee?

Mr Power—We would like to thank the committee for the opportunity to comment on this extremely important issue. It is our view, from a national perspective, that we, as an organisation, have been concerned that there appears to be no long-term apolitical strategic planning in place for transport systems. It is our understanding that funding for major road infrastructure is on a bidding system and that there are multiple levels of approval for every project, which is both expensive and can take an inordinate amount of time. The northern approaches to this city, for instance, have taken some decade or more to reach a stage where work will begin in about a year's time.

There are, to our knowledge, no specific plans for upgrading or improving the highway linking major urban areas in North Queensland. Examples of this are the sections of highway between Townsville and Ingham and Townsville and Ayr, where existing road conditions are not what one would expect from a national highway. As this region moves forward, with specific and significant economic growth in the order of about $1.2 billion in capital works committed and in excess of $2 billion in the north-west Queensland region—and I should add that more than 70 per cent of that is from the private sector—it is essential that key transport infrastructure be in place.

A prime example of that is the Townsville port, which is in urgent need of a transport and services access corridor. To facilitate this may require designation as a road of national importance. It is predicted that trade will more than double to 14 million tonnes by the year 2005. To accommodate this expansion, planning and construction for transport linkages to the Bruce Highway must commence now.

Public pressure from residents living along the existing roads and railway lines could conceivably curtail some of these wealth generating and job creating developments if nothing is done. Your consideration of these comments and concerns is appreciated.

CHAIR—Just by way of an opening question: what is the structure of Townsville Enterprise Ltd? Is it publicly funded? Is it funded by the local ratepayers?

Mr Power—Yes both. It is funded by the two city councils—statutory authorities—and through some specific grants and schemes through the state government, but it also has just over 500 private members and those private members contribute something like 50 per cent of the funds.

CHAIR—So it is a regional economic development organisation.

Mr Power—Yes, it is.

CHAIR—We have just had the opportunity to have a look at a couple of the proposals for the new corridor coming into the port. I presume that you have a view on which one of those proposals you support?

Mr Power—When you say the two proposals—there were a number.

CHAIR—We were looking at one that goes straight across the river and out through those wetlands.

Mr Power—The eastern transport corridor, as it is known, is the one that we would have a preference for.

CHAIR—With regard to local roads within the region and the structure under which the funding flows from the Commonwealth to local government and to state government—but more particularly to local government—do you feel that under the current arrangements there is the opportunity for local government in the area to get enough funding to apply to local roads?

Mr Power—It has been our view that that has not been the case. Indeed, when an exercise was done about two years ago we felt that this area was quite significantly disadvantaged. With some pressure at that time, the entrances to the city went back onto the agenda. I believe that $57 million has been allocated to that. If you have seen the northern entrances to the city, you would understand our concern, because the road conditions and the access to the city are pretty ordinary.

CHAIR—Do you feel that the national highway system that is in place now is adequate in terms of what the strategy has been for the upgrading of the Bruce Highway? Should more funding be applied to that, or should the national highway system be expanded in the area—just bearing in mind that the new access corridors to the port should be considered in the RONIs program.

Mr Power—That needs to be also linked to the Bruce Highway, the main highway. As development proceeds in this region, from the north-west of the state there is minerals based development, and there is also tourism and there is also agriculture. The highway, particularly from Cairns down to Townsville and then Townsville south to particularly Ayr and Bowen, is of interest to us because the Townsville port is the main export centre and the increasing traffic obviously will impact on that road. For instance, 80 per cent of tourists visiting this part of the world arrive by road out of just under 900,000. It is pretty important for us to have roads that are in a reasonable condition. There are sections of the road between here and Ingham and here and Ayr that are quite ordinary in terms of their undulations and roughness.

CHAIR—Out of interest, which is the largest in capacity throughput terms of the regional ports in Queensland: is it Cairns, Townsville or Gladstone?

Mr Power—That is a good question to put to us. I think in terms of general cargo it would be Townsville. It is a deepwater port that will take panamax-size vessels, so 65,000-tonne vessels. But at Gladstone you have got a lot of base metal material coming in there, bulk carriers, and those carriers are 150,000 tonnes. I think you would have to add to that Hay Point and Dalrymple Bay, which are coal exporting areas, and again those ships are 200,000 tonnes. But in general cargo terms this would be one of Queensland's largest deepwater ports.

CHAIR—You may not be able to answer this, but what is the capacity in tonnage terms of the ships that carry the live cattle exports out of Townsville?

Mr Power—I cannot answer that question.

CHAIR—We can leave it for witnesses later on.

Mr Power—The port authority people will be here later this afternoon and they would certainly be able to address that for you.

Mr McDOUGALL—I noticed in your submission that you are obviously a great supporter of the eastern transport corridor, but everybody seems to be referring to it as a road. In your position have you given any thought to it being a dual corridor of road and rail, and in both cases do you see it as a private infrastructure project which it would appear is predominantly for the benefit of a few major exporters? If you do not see it as a private one, why should the taxpayer pay for its general funding?

Mr Power—We see it as dual. Indeed, we see it as road, rail and services, not just one or the other, so the three things we need. We think if that corridor is developed it could carry fuel, oil, other commodities as well as those travelling by road and rail. In terms of its funding, yes, there certainly may be an opportunity for negotiations with private enterprise to assist and that could be done through royalties; there is a whole range of areas that maybe need to be explored. But it is also our view that, unless government takes the lead and invests in that particular corridor, it may not eventuate. If that is the case, it could certainly in the longer term restrict the exports through the port of Townsville because at the moment a lot of the produce goes through urban areas to actually get to the port.

One of the comments that we made earlier on is that it is our view, and has been for some time, that there has not been enough long-term planning to allow for this kind of expansion in this port.

Mr McDOUGALL—I note that in your submission you said:

> We have for some time held the view that one of the difficulties developing this Nation, this State and more particularly this region, is the lack of long term, apolitical, strategic planning.

But you are quite specific that you think it should be three levels of government funding the eastern corridor. So there has been no approach to the private sector; you have not had any discussions with them so you don't know where the ballpark would lie?

Mr Power—Not that we are aware of at this time.

CHAIR—Just following on from that, would you have a view about the private sector completely funding and building that road?

Mr Power—That would be up to the port to negotiate with the private sector. I do not think we have a view against that. Possibly that could even be the case. Indeed, the comment that any planning or development needs to cover three levels of government is important. The private sector has a role to play as well.

Mr ROSS CAMERON—I have a slightly tangential question. What did Townsville get under the better cities program?

Mr Power—It was of the order of $20 million.

Mr ROSS CAMERON—How were the funds spent? How were they split up?

Mr Power—The Townsville City Council would be in a better position to answer that in detail. Most of the funds went to urban redevelopment in South Townsville across the other side of the Ross River. It was a streetscape strategy that involved Palmer Street and that area there. Barry has just reminded me that there was also some redirection to the Townsville port involved in that.

There is another planning scheme under way at present reviewing that whole port city precinct and the way it should be developed in the future. That is also funded under the better cities program and involves both the Townsville City Council and the Townsville Port Authority.

Mr TANNER—How valuable has that urban redevelopment been?

Mr Power—It has certainly tidied up an area that was rather run down and directionless but in all that it did it was peripheral to the real problem of access to the port itself, which still remains a problem. That is because the urban development has encroached on the port area. At the moment all that produce drives past houses in South Townsville and Railway Estate.

Mr TANNER—Did the better cities program actually exacerbate that problem? Or has it had no impact on it?

Mr Power—I do not think it had a tremendous impact. It probably helped or alleviated the problem a little but, again, it is a now alleviation to a now problem and has not looked very much to the future. Our view is towards 2005, 2010, 2015. Where are we going to be then? There is some major planning at the moment under way in the twin cities of Townsville and Thuringowa trying to identify what the cities will look like in 15 to 20 years. We think that planning has been long overdue.

Mr ROSS CAMERON—What is the attitude of the Queensland Department of Main Roads to the eastern road you are talking about?

Mr Power—At this stage there is support for the option. I was not aware that the second option was still on the agenda. That option runs through the existing urban area. Certainly, we have had nothing but support from them in the eastern transport corridor as well.

CHAIR—Can I go on from that point? In taking evidence in different states we keep getting the notion, and we have had it here today in Townsville, that this is a very important piece of economic infrastructure for the nation as well as locally and for the region and therefore the Commonwealth should pay for it. It is not an attitude that just prevails here. We have had evidence today that it has happened in other areas. What priority has the Queensland government placed on that eastern corridor in getting that corridor developed?

Mr Power—It is reasonably high on the Queensland government's priority list but that question would also perhaps be better directed to the Townsville Port Authority and the Queensland Department of Main Roads.

Mr TANNER—It does actually raise a question that is very much at the nub of these things, and I would be interested in your view on this. Assuming that the given amount of money that, at the moment, is coming from the Commonwealth to the state without ties—other than perhaps a roads tag on it—is not going to change, is it your view that Townsville would get a better deal out of that money being specifically allocated by the Commonwealth rather than handed over by the Commonwealth to the state and then being specifically allocated for a roads purpose or vice versa?

Mr Power—It is an interesting question. Not knowing the exact detail of the funding and the way it is allocated to the states particularly for transport, I would not be in a position to comment either way. However, one thing that has been on our agenda and has concerned us in our negotiations with Korea Zinc which will impact quite significantly on this transport corridor and this port is that, during the negotiations with Korea Zinc to get them to build their refinery in Australia, then to build it in Queensland, then to build it in Townsville, all of the money and energy to do that came from local government, our organisation and the state. Yet, when they get here, most of the revenue that will be generated from that will flow to federal coffers. That was always a bit of a contentious issue in the allocation.

CHAIR—It would still have a fair financial impact on the local economy, though.

Mr Power—Absolutely, but it will certainly also have a fair flowing through of dollars to the federal coffers, which will no doubt flow back in the manner which you describe.

Mr NEVILLE—Just leading on from the previous question and the comments that you have made, you are known to be one of the better development boards in Australia. Have you helped, assisted or cajoled council to apply for part of that corridor or some specific aspect of that corridor under the roads of national importance program?

Mr Power—We have certainly spoken to the Townsville City Council about that. Indeed, the Mayor of Townsville City sits on the board of Townsville Enterprise, as does the Mayor of Thuringowa City. So they are across what we are saying here today.

Mr NEVILLE—No; I mean specifically the new government program—the black spots program and roads of national importance.

Mr Power—Yes, there has been some discussion but not specifically on that corridor.

Mr NEVILLE—I raise the point—and I am not now specifically referring to Townsville and Thuringowa—through your experience of councils in North Queensland, are they being strategic enough in applications for funding? In relation to the better cities program, you seem to be saying to us that it was very helpful, but it was not spent very strategically. Is that a fair comment?

Mr Power—Yes, in a broad sense. It was specifically designed for the way in which it was spent. Whether that was by the council or by the design of the program, I cannot comment. It resolved some minor issues in terms of access to the port but it did not resolve the major issue which still is a dedicated corridor. So your comments would be fair.

CHAIR—As there are no further questions, I thank you both, firstly, for putting the submission into the inquiry and, secondly, for your participation in the hearing this afternoon. It has been quite helpful. If there are any questions that may arise from the committee later on that we wish to put to you, we will put them in writing to your organisation.

Mr Lovett—I was asked to make a closing comment, if I may, on behalf of our group. It is very brief and it touches on some of the issues that some of your members have brought up as questions. I would simply like to take the opportunity of reminding the committee of the broad significance of northern Australia to the nation's export performance. You probably do not need this reminder, but northern Australia, north of the Tropic of Capricorn, represents at least 46 per cent of Australia's landmass. The area contains 5.4 per cent of the nation's population and contributes 6.2 per cent of GDP—I am sure you would recall, Mr Willis. Probably most importantly, the area accounts for some 28 per cent of overseas merchandise exports.

It should be pointed out that the information I have just read out predates the Sun Metals Corporation (Korea Zinc) refinery, the BHP Cannington development, the Western Mining Corporation Duchess phosphate mine, Ernest Henry mine, George Fisher mine and the Mount Isa gas pipeline. So, of the 28 per cent of the overseas merchandise, some 52 per cent comes from North Queensland. As a sparsely populated but significant wealth producing region, mining and agricultural efficiencies are heavily dependent on efficient transport systems. We strongly request that transport infrastructure tied to major export related developments receive Commonwealth priority, and I suggest that the eastern corridor is one of those priorities. Thank you.

CHAIR—Once again, thank you, gentlemen, for appearing this afternoon.

[2.36 p.m.]

CARMICHAEL, Mr David Frederick, Chairman, Townsville Port Authority, PO Box 1031, Townsville, Queensland 4810

KENNY, Mr Richard Edward, Chief Executive Officer, Townsville Port Authority, PO Box 1031, Townsville, Queensland 4810

CHAIR—Mr Carmichael, would you like to make an opening statement?

Mr Carmichael—I would. Firstly, Mr Chairman, I would like to thank you for giving us the opportunity to state our case, and we hope to do so. We know we have 10 or 15 minutes and we will intend to do it that way. With your indulgence, I would like Richard to run though the information and then I will summarise at the end.

Overhead transparencies were then shown—

Mr Kenny—I will just put up, for the purpose of the record, the overhead showing trade growth through the port of Townsville from 1988 to 1996. You will see that the growth of trade through the port of Townsville has been phenomenal during the last decade and our consultants have advised us that we can aim for a target of 14 million tonnes—that is to say that we will double our trade in the next eight years through the port of Townsville—by 2005. We will achieve 7.5 million tonnes this year, just over eight million tonnes next year, 14 million tonnes by 2005 and the growth goes on from that point. So we are a rapidly developing port and we have the runs on the board as far as trade growth goes.

The Townsville Port Authority has undergone unprecedented growth in the 1990s. Since 1991, when we opened stage 1A of the eastern port development, there has been some $200 million worth of capital investment in the port. I will now put up overheads showing an outline of the port area. That investment has led to unprecedented development in this area of the port here, bearing in mind that the original line of the port here went back to the residential areas of Townsville at the turn of the century. The port has developed by reclamation north and east away from the city.

The Carpentaria-Mount Isa minerals province is the undertaking most likely to impact upon the future growth of the port during the next decade. Indeed, we are already seeing that through the BHP Cannington project and the development of No. 1 tanker berth. To give you some idea of the magnitude of the Carpentaria-Mount Isa minerals province, this overhead shows the schedule of projects. You can see there that projects completed and committed to the end of 1996 in North West Queensland Minerals Province are worth just over $4 billion.

If you add in those which are not yet costed but are on the drawing boards, there are close to $5 billion worth of projects which will impact on this part of Australia and, at the same time, provide additional trade to the port of Townsville. I think you are probably aware of some of the major mines out there—Eloise, Mount Elliott, Osborne, Sun Metals, Korea Zinc—which you heard from the previous speakers. There is also BHP's Cannington mine, which is being developed now, Enterprise, Ernest Henry, the gas pipeline, Century, Dugald River, George Fisher and Lady Loretta.

They are fairly big mining developments and they are all going to impact on the port of Townsville and its development potential. Townsville Port Authority already has established trading links with Japan, Korea, South-East Asia, the European Union, North America and the South Pacific. Townsville Port Authority has chosen an eastern transport corridor route to give the port of Townsville the best possible opportunity into the 21st century to continue its development.

In this drawing, we have shown our preferred route for the eastern transport corridor, coming from the copper refineries across lands under the control of Townsville Port Authority and others held in freehold title, crossing the mouth of the Ross River and directly entering into the port. This area over here is the lands which have been set aside for Korea Zinc and this is the area to be developed by Korea Zinc.

In choosing the eastern transport corridor route, Townsville Port Authority has taken into account the environmental issues that would attend the route of the corridor, and we have chosen the route through lands which are already generally debased from prior industry or being used for cattle grazing, for example. Nevertheless, the authority recognises that the environment has a strong place in the formation of the eastern transport corridor and we will cooperate with other agencies in the development of an environmental management plan. I now hand over the authority's submission to my chairman to pick up some additional points in terms of our reasons for that corridor.

Mr Carmichael—While I am talking, we will hand out what we see as a photographic version of the eastern transport corridor. You heard Richard talk about the port itself, the trade growth and the growth in the North West Queensland Minerals Province. You have that in front of you. There is also growth in the port investment itself. I think all of us are aware of the importance to Australia, Queensland and Townsville of the North West Queensland Minerals Province. You have a copy of our submission and a briefing paper regarding the eastern transport corridor.

Townsville needs this corridor to secure a long-term transport corridor for the port while we have the opportunity. There have been many cases overseas where the opportunity has been lost as the years have gone by. Los Angeles is a perfect example. To fully realise the industrial potential of the Townsville region, we need this to further improve the separation between the local residential areas and a growing port. We, like a lot of industries, have old river ports where they were situated on the mouth of the river. As time has gone by, they were also ideal residential spots. What has happened is that we are spending our time and our efforts in building the port away from the city to minimise that impact.

We needed to assist in the financial feasibilities for future projects—for example, the Korea Zinc project. On personal discussions with the ambassador for Korea, he informed me that there are other Korean industries that are interested in looking at this part of the world as a base for their operations. As you are all aware, Korea is fairly landlocked in terms of industrial development. Korea Zinc's land occupation is about a quarter of the land that they have acquired. They now have water, power, phone and rail and it now gives them an ideal opportunity to further develop Korean industries.

We needed to assist TPA's ongoing commitment to best world practice, which is necessary today, as you are all aware, particularly regarding cargo transfer and local industry development. We also needed to vastly improve the safe handling of dangerous goods. It has become relatively evident that Townsville will be a mining city in many areas and we have to carry such things as mining explosives, acid, petroleum, et cetera. This road corridor also allows future use by rail, gas, power, water, conveyors and whatever else if necessary.

The total cost of the project of the eastern transport corridor is $26.32 million. That is a figure given to us by independent consultants. It is a vital project for both Queensland and Australia. It is a unique opportunity that is now available to give this part of Australia every opportunity to develop and to meet the opportunities for future trade growth driven now by the proven potential of the North West Queensland Minerals Province.

All the port users who have been involved in our project see the eastern transport corridor as the most significant infrastructure project of this decade. They also believe that it is important to realise the potential of exports from this region. I am happy to answer any questions you may have, Mr Chairman.

CHAIR—Thank you, Mr Carmichael. Firstly, just out of interest, what is the corporate structure of the Townsville Port Authority?

Mr Carmichael—It is corporatised by the state government. It has two shareholding ministers—the Queensland Treasurer and the Minister for Transport. I hold an appointed position as does the rest of the board, and the CEO down are employees.

CHAIR—So it is basically a government business enterprise.

Mr Carmichael—It is.

Mr McARTHUR—Is there any potential for privatising it? Is there any thought about that?

Mr Carmichael—It is one of the things on the government's agenda, but I do not believe it is imminent on their agenda.

CHAIR—We have heard today from a number of different organisations from Townsville about the importance of the corridor. It was interesting to note that the costing you had on this corridor was from an independent authority. That costing was not done by Queensland Main Roads?

Mr Carmichael—No. It was done by us and by an independent authority.

CHAIR—The local government body has an interest in this road and so does the Port Authority. The developers in the North West Queensland Minerals Province have an interest in this corridor to get into the port, and the state and Commonwealth governments also have an interest. How do you see the sharing of the cost burden of that development?

Mr Carmichael—One of the questions you asked before—if you do not mind me referring to it—

when you were talking to Richard Power was: where does the Queensland government stand in relation to this? They have already asked us to proceed. We are proceeding with an initial advice statement in relation to the project. It is under way right now.

CHAIR—An initial?

Mr Carmichael—An initial advice statement is being prepared right now and that will lead—

CHAIR—Is that an impact study?

Mr Carmichael—It is.

Mr Kenny—Under what is called Queensland's green book, you do an initial advice statement, develop your terms of reference and then do an impact assessment study.

CHAIR—That is the first step?

Mr Carmichael—Yes. We have reached the bottom of the ladder, in other words.

Mr ROSS CAMERON—You have the Department of Transport on that committee but you do not have Queensland Main Roads on it.

Mr Carmichael—DMR is on that committee.

Mr ROSS CAMERON—Are they?

Mr Carmichael—Yes.

Mr ROSS CAMERON—They are just not listed in the submission.

CHAIR—So you have got to the stage where there is a definite commitment. You may have been here when I was asking the question before: in different areas around Australia there is a tendency to narrowly focus on local infrastructure—but not overly narrowly. We are just trying to find out what commitment is coming out of the state government, the Port Authority and from local government to contribute to building this corridor. Or is there an expectation that the Commonwealth should pay for the lot?

Mr Carmichael—I think, like any organisation, it would be lovely if the Commonwealth would pay for the lot, but the reality is that I do not think the Queensland government expects you to pay for the lot. That would be my personal opinion. I cannot speak on behalf of the state government, but I do not think they expect you to pay for the lot.

CHAIR—It is interesting that this morning Queensland Main Roads indicated that, when the Commonwealth is involved in a project, the time line is extended by months in that process. From the point you are up to now, where you are doing that initial advice statement, what would you expect would be the time line from this point through, if the funding were available, to a point where you could start construction?

Mr Carmichael—From now?

CHAIR—Roughly.

Mr Carmichael—Eighteen months.

CHAIR—We are focusing fairly narrowly on this particular corridor, albeit a very integral part of the infrastructure into the port, going back up the chain from the port over that corridor and back out to these areas where the economic development is taking place. In terms of the enormous developmental potential of this part of Australia, what do you think of the infrastructure that is there now, with regard to state highways and national highways? Is there a need for massive improvement to accommodate that development?

Mr Carmichael—There is a commitment by Queensland Rail to spend $150 million upgrading all the track to Mount Isa. It is going through now, replacing all the track with concrete sleepers and continuous rail line. They are upgrading to the new 18-metre wagons at a cost I believe of something like $40 million to allow the maximum efficiency. They are like everyone else; they are moving towards world best practice. They have to. Many of the projects out there are far from the coast and marginal; therefore the transport infrastructure costs are a major consideration.

CHAIR—Will Queensland Rail have a monopoly on running that rail corridor?

Mr Carmichael—No, they will not. There will be third party access available. That is part of the national competition policy, which you would be aware of. I happen to be on the board of Queensland Rail as well but the reality is they know it is coming. It is not coming immediately, but they know it is part of the system.

There has been that spending. There has also been the upgrade of the pipeline taking gas to Mount Isa that has basically made the Western Mining project come alive. Peter will be aware that this project has been mooted for 10 years. It comes alive with the building of the pipeline; all that pipe has just come through the wharf now, some 1,800 kilometres of it.

CHAIR—Does that transport corridor coming into the port also accommodate rail?

Mr Carmichael—It is to be built to accommodate rail. The process is not to have rail there at the beginning, but it has to accommodate lots of other things in the long term. Korea Zinc will need a lot of sulfuric acid. When you have an industrial port, you have got to have as many of those things off the road as you possibly can.

CHAIR—So you are talking pipelines for that?

Mr Carmichael—Yes, we are, and the corridors to incorporate the capacity to do that in the future.

CHAIR—And the $26.2 million?

Mr Carmichael—That is just to build the road.

CHAIR—Just the road?

Mr Carmichael—Yes, and that does not allow for the land acquisition cost, but half of the land belongs to the Townsville Port Authority; the other half belongs to a grazing organisation.

CHAIR—Okay.

Mr Kenny—There is a dissection on page 8 of our submission in relation to how those costs would be established.

Mr LINDSAY—Mr Carmichael, considering the national scene where the government is looking at the order of importance of national highways and roads of national importance, do you see those of an equal priority? Evidence has been given to the committee that we should have a strategic plan for the next 10 years, which currently we do not have. Should we be considering roads of national importance on an equal basis to national highways?

Mr Carmichael—I believe so. I really believe the roads of national importance program will show a return for the Commonwealth in the long term. You have got to say the other one shows a return too, but it is in not in dollar value, is it? A balance between the two programs would be the most normal way to go, I would consider.

Mr LINDSAY—Who should determine what is a road of national importance? Should the mechanism be the federal government's strategic planning or should it be the responsible state department?

Mr Carmichael—I think any project of this size probably needs to be recommended by the state government first. If you cannot get it beyond the state government, you are not going to get into the federal sphere anyhow. Let them set the priorities with their local knowledge and then the federal government choose from there. One of the federal government's criteria obviously has to be, 'What will this return for the country? What will this do for Australia? What does this do for exports? What does it do for efficiency?'

Mr LINDSAY—Do you agree that the current national highway system does not link effectively with the ports?

Mr Carmichael—It certainly does not. Also, I do not think that is the problem with the road: the problem is that most of the roads are built in the same places they were 70 years ago. We make them wider and take a few curves out and leave them in the same place and coat them with 52 coats of bitumen. That is what happens over 70 years. But the reality is the ports are a moving, living thing. They are getting bigger and shifting. We made 50 hectares of land last year. That is the way our business operates.

Mr LINDSAY—Developing that, I am aware of your personal philosophy in this but the committee will not be aware of it: would you explain to the committee your philosophy of being proactive, having a vision, putting in the infrastructure and seeing that that is going to bring the development?

Mr Carmichael—Firstly, we understand that a lot of these projects are marginal. The thing we all have to understand is that a lot of these developments go ahead when a group of shareholders decide that there is some money in it for them to go ahead with. A lot of the projects being marginal, you need everything working for you. From our point of view, we need cheap energy for these projects to be developed—cheap electricity and gas. We need a good rail and road infrastructure in order to make them work. When you get to the port, it has to be efficient—operating at best world practice. The rail costs have to be comparable to best world practice—they are not there yet but they are heading in that direction.

My philosophy is that you need the infrastructure in order to get the business in a lot of cases. The reality is that you can go to many countries in the world where the infrastructure is already there and you simply start work. A lot of people make the decision based on that. For example, if Korea Zinc came to us right now and said they wanted to take 200,000 tonnes of zinc and decided to import that to their plant before Cannington opened, to do it, we would have a truck running through the streets of Townsville about every 30 seconds, 24 hours a day, seven days a week. You have to say that at some point the environment deserves some attention, because otherwise you end up with a lot of angry people. Most people are tolerant but they are not overtolerant.

This access road also has another big advantage in that, instead of going 11½ kilometres to the port around the long way and through about 11 sets of traffic lights, you can go straight through the port and do it in just over seven kilometres. So it is also 50 per cent quicker. And it has no curves in it. It is a straight road onto the port.

I do not think anyone will argue with what is out there—everyone agrees that this province of minerals is there—and our philosophy is that, if we are going to take the next step to expand it, we have to adopt best world practice very quickly in order to be competitive, because the problem with most mining companies is most of the money they sell their product for is predetermined. There is very little negotiation in it—we all see the price of minerals published every day—so the only way they make a dollar is to get more efficient. If they make a dollar, they employ more people and make more money and put more money into the infrastructure. It is a big vicious circle.

Mr LINDSAY—Your evidence to the committee is then that the government can see that other countries have already been proactive and they attract industry more easily as a result—we can do the same, and the federal government should be mindful of that?

Mr Carmichael—Yes.

Mr LINDSAY—Have you discussed the potential exports out of the Burdekin area?

Mr Carmichael—We have looked at that. We know that is there. We have a major announcement to make there in the next couple of months, but I cannot make that now because I am aware there are media in the room. But there is another announcement to come out of there shortly on a project that is—

Mr LINDSAY—Would that benefit from a new port access corridor?

Mr Carmichael—Yes, it would. It would come straight up that road, if it was there. We are also aware of the dramatic growth in sugar since the Burdekin Dam was built many years ago. All those areas have been sold off now. The restrictions on cane growth have gone. You can grow as much cane as you like, and it is all sold. The sugar running through the port has been increasing to such an extent that it looks like we will have a new sugar shed built here in the next 12 months: they cannot handle the volume going through the port now through the existing infrastructure.

Mr NEVILLE—I have two questions: with great respect, I think there is a bit of wish listing in this $26 million. For example, is it necessary to build the fishermen's marina as a strategic part of this plan?

Mr Carmichael—Unfortunately, it is. The problem is that we have to build a bridge across the port, and it will not allow small ships to go under the bridge.

Mr NEVILLE—The question I am leading to is that governments probably like to provide you—Mr Willis is a former Treasurer; he would know the reality of this—with $26 million but if, at the end of the day, the state and federal governments came to you under various programs and said, 'We will fund stage 1 if you can prove to us that this will generate a lot of revenue for us and for Townsville,' have you got a bottom line figure that you could come up with?

Mr Carmichael—Could you help me understand what you mean by 'stage 1'?

Mr NEVILLE—For you to get these new road and rail links, chemical facilities and various other things like the marina to a point where they were doing something over and above what you are doing now and generating that revenue you were talking about to the Commonwealth, do you need the whole $26 million? If the government said to you, 'Where's the bottom line on this?' are you prepared to go to a certain—

Mr Carmichael—It is like when you are asked what any other project will cost: you sit down and work out what it will cost, and that is what it will cost. If you do not spend the $26.4 million, then you have a point; but, if you do not spend the $26.4 million, you do not get the whole project. You could build the road and you could have the bridge built without rail access and, say, rebuild the bridge in six years time or whenever rail decide to move onto the bridge, so you could make some short-term savings. You may be right: I am not saying that I know it all. It is a problem when you guess into the future and you are not sure what is out there, but the reality is that we all know that there will be a corridor running down there that has sulfuric acid in it. Maybe it will have gas in it, and maybe it will have a conveyor belt, but we have to make provision for those sorts of things in order to do the job properly for the long term. Many times, you would have seen examples where people have cut the price in order to get things done and the reality is that, later, they spend double the amount of money to get back to where they were.

Mr NEVILLE—I am not suggesting that you cut any individual item of works; but, in the staging of this project, you obviously do not want a cheque for $26 million in your hand on day one.

Mr Carmichael—No, we do not.

Mr NEVILLE—At what point does this start to generate some of the benefits you are talking about? If the state and federal governments came to you tomorrow and said, 'Under the roads of national importance and various other programs, we are prepared to look at, say, a $15 million project to see how this goes. We recognise that these things are necessary, but perhaps some of the others are a bit indulgent at this stage, until you can prove that it is going to do all these things,' what would your reaction be?

Mr Carmichael—My reaction would be one of disappointment, obviously, but the reality is that we would take 18 months to get approval to get it done. It would be a project that would take six months to do, and so it would be two years before we were actually at the point of saying that the project was on the way.

Mr NEVILLE—Have you integrated all this into a $26 million package?

Mr Carmichael—We have.

Mr McARTHUR—Why can't you raise the money yourselves, if you are a corporation?

Mr Carmichael—At this stage we cannot, because we are going through a massive expansion program. Our capital expense program this year is double what it was last year. The problem is that this is not our only growth. We know we need this, but the problem is that we cannot fund it. The profitability is not a private figure, and I am sure it is available to you. It does not allow us to fund it; it is as simple as that. The profitability has been climbing substantially over the past two or three years but it does not allow us to fund that sort of money.

Mr McARTHUR—You are suggesting that this project is good and that there is a lot of potential out there in terms of the mining projects. Why is it not possible to raise the capital on these expectations?

Mr Carmichael—We have immediate requirements that are a priority right now. We are under expansion and we are building and moving, and we have offices that are full of people we cannot move. The problem is that we are getting—

Mr McARTHUR—Why should the federal government undertake the risk of all this, if it is so good?

Mr Carmichael—I do not see it as a risk. To us, it is a question of priorities. If you elect not to make any contribution towards this at all, we will ultimately have to do it. The question is: how, and how long will it take? I am worried that that risk may put many of the projects into jeopardy if they are left to sit for five years. It is a question of feasibility from the point of view of a lot of mining companies. They are not required to develop; they can develop mines, as we have seen. Most of our major mining companies are earning one-third or 40 per cent of their money offshore. They are not even doing it in Australia.

Mr NEVILLE—Are you saying something like Gladstone said to the state and federal governments 20 years ago: 'We have reached a brick wall in our development. If you want us to notch up to the next level, we are going to need some infrastructure support.' Is that what you are saying to us?

Mr Carmichael—I think it is.

Mr NEVILLE—I would like to ask one more question from a slightly different angle. Mr Chairman, it actually follows your last question. We read in the media—in Brisbane in particular, and sometimes even in the national media—that there is a certain amount of ambivalence in the major companies in using rail between Mount Isa and the coast. Some argue the case that upgrading funds would be better spent on the highways, the roads.

Why is it that there is this ambivalence with the link from Mount Isa to Townsville? Is it because the rail line has not been upgraded sufficiently? What is your view as a port? What is the most efficient way for you to receive all these raw products to Townsville? What is the most efficient way for you to receive them?

Mr Carmichael—I am not quite sure how to answer this, but I will answer it honestly in the best way I can.

Mr NEVILLE—Please do, because I think we need to hear it from you.

Mr Carmichael—I understand. Firstly, a road as good as rail to the same standard would certainly be great for the mining companies because it would give them a choice. They have lacked a choice for many years. They basically only had rail, because the roads have not been good enough to Mount Isa to allow you to use the large trucks that have to be used in order to be competitive with rail.

This access that we have allows you to run B triples, which are triple dogs that you can run straight onto the port that way. You cannot run them into the city. You could technically run triples out of Mount Isa, straight through onto the port if the road structure was there. It has not been there before, and I guess a lot of people have reservations about an organisation that is seen to have a monopoly.

For many years rail has had a very strong monopoly in this area and it goes without saying that most people realise that rail has always done very well out of this part of the world because it has been a monopoly. The roads, compared with rail, have not been of the same standard. Peter knows what I am talking about. Anyone who has ever driven to Mount Isa will understand that. They are not of the same standard and when you are moving large amounts of goods, over long distances, rail usually wins.

So I can understand what you say. To put it in a few words, the answer is simply that rail seemed to have a monopoly. Road has never had a real opportunity to compete. Where they get into trouble is that, to be competitive, you need to run doubles and triples, which is the way it is. For example, the Northern Territory now loads quads; they can put four trailers together and they are nearly half a train. The reality is that that has allowed road to be competitive.

If we are serious about competition in this country, in order to build the competitive spirit you need them both and you need them both standing big and tall, able to go out and do battle with each other in order to maximise our competitiveness internationally. The trouble with the mining industry is that they are selling their goods at a set price, and that is a big problem for anyone, because the price you sell your goods at is locked in. You cannot sell it for any more—that is the price. So the only way they can get a dollar is to save everywhere they possibly can.

Mr NEVILLE—Would you upgrade the rail as well?

Mr Carmichael—Almost $150 million is being spent on this exact route right now.

Mr PETER MORRIS—Can I just ask Mr Carmichael, because of the importance of this: if those projects are all marginal, as you have been repeating over and over again, on what exchange rate are they predicated?

Mr Carmichael—I am sorry, I did not mean to give you the appearance that they are—

Mr PETER MORRIS—You made the very strong impression on me that these are very marginal projects.

Mr Carmichael—I will redefine that so you understand. Some of those projects have been there for 50 years; some for 30 years. The point I am trying to make is that they were not just discovered in the last 12 months. It has taken all this time—

Mr PETER MORRIS—But, if they are marginal, what exchange rate are they predicated upon?

Mr Carmichael—It is 75c that most of them use. That is the standard they do feasibilities on with most of them.

Mr McDOUGALL—I will just carry that on a bit further. When you talk about marginal, what you are really talking about is whether or not the commodity is needed on the world market and whether they can get a profit out of it.

Mr Carmichael—That is correct.

Mr McDOUGALL—And that is what you mean by that, on the basis that you are not going to mine it until you can get a price on the world market for the commodity.

Mr Carmichael—Or you say, 'Why do it in Australia? I will do it in Argentina.'

Mr McDOUGALL—I have a couple of questions, all revolving around funding, but maybe one of the best ways to solve the rail problem from Mount Isa to Townsville is for the government to look at freight rates. I would resolve the issue fairly quickly and allow third party access to the rail, and then the whole question would be answered.

CHAIR—That is about to happen.

Mr McDOUGALL—I have been trying to work out why rail is not a priority in a corridor which is predominantly carrying product that is best serviced by rail and why there is this insistence on a road. The evidence says there is a rail running from the port to the nickel and carries 80 per cent of your imports to that plant and out again. That is the information we were given. On the basis that rail is the heavier user, I am now learning that the bridge that you are proposing in this actually will carry the railway line as well as the road. It will not need a second bridge. Is that right?

Mr Carmichael—No. We have been told to do all of our feasibility work based on the bridge being able to carry road and rail. I should point out that our preferred position would be to have road and rail together at the same time.

Mr McDOUGALL—If you wanted road and rail together and you have got a project list there that talks about the potential of about $5 billion, of which you are going to get a very big slice of in relation to the port, and the biggest slice of that would most probably be better on rail than road, and it is such a big winner for everybody, what is the contribution by the companies towards the infrastructure that is going to help them develop that and make a profit?

Mr Carmichael—They put most of their infrastructure in their mine site and in the port site. For example, BHP right now is spending $50 million on the port. That is their money and they are putting it on government owned land.

Mr McDOUGALL—If a major land developer in a city or an urban area decides that he is going to open up a new tract of land for urban development and he needs major road infrastructure, sewerage infrastructure, water infrastructure in relation to trunk mains, he has to make a contribution towards that. That is obviously amortised into the price of the land that the person buys the block of land for at the end of the day. Why isn't this $26 million being amortised into their installation costs?

Mr Carmichael—I can give you a simple answer. If they did there would not be a mine opened in this country, they would all be in South America. You wouldn't bother.

Mr McDOUGALL—What you are saying is that marginal means they are not going to make enough money out of it.

Mr Carmichael—No, they can make more profit in other countries. What you have to understand is that no-one has a vested right to tell shareholders where to put their investment. That is what we all have to understand. I think we have to understand that if a mining company decides to open an operation in South America because they can make more money there, so be it. However, if we want to be in the business of developing this part of the country, if we want to be in the business of creating jobs and getting this part of the country moving and lifting exports, this is a project that is possible.

Mr McDOUGALL—But if you are a resident of this country and you want to buy a block of land to build to a house on, you have got to absorb the infrastructure costs when you are buying the block of land.

Mr Carmichael—I understand. That is because there is no benefit in that but the thing about exports is that there are benefits for everybody.

Mr TANNER—I have two questions. Firstly, given the views you have expressed about the road corridor between Mount Isa and Townsville and the importance of competition between modes, I presume that you would apply the same logic in reverse in that in other corridors where there is road freight and not rail you would suggest that maybe there should be a railway line there as well to compete with road. I would be interested in your comment on that.

Secondly, I would just like to softly query the philosophy that you expressed before in response to Mr Lindsay, which he seemed to be quite enthusiastic about, and maybe to clarify it a bit. You seemed to be suggesting that if you build the infrastructure then you will get the business. It seems to me that Townsville has a couple of good examples where that can go right and where it can go not so right, the port authority being the example with the One Nation investment where it has been very successful. Clearly, the investment has led or has helped to lead to substantial increase. However, the international terminal at the airport is the other example.

I would be interested for you to clarify your philosophical position as to how government goes about ensuring that if it is investing in infrastructure based on notional attraction of economic activity, how it can safeguard guard taxpayers money to make sure that you do not get white elephants and a waste of money.

Mr Carmichael—I understand what you are saying. In relation to answering the second question first, if you take the comparison between the port and the airport, I think the thing that is different in the port situation is that we know that we have customers out there. The airport did not know they had customers out there. We know we have projects out there which we have demonstrated and we believe that we will get that business. I will be very surprised if we do not get 100 per cent of it, but we at least know that no matter what happens we will get 80 or 85 per cent of it as those projects develop.

The problem with the airline traffic is that each case has to be looked at individually. I have lived in this city for 20 years and I am very much aware of the problem with the airport. The problem with the airport was that it was never really done properly and it also had a major problem with the airstrip which belongs to RAAF. It is still controlled by the RAAF. They say what planes land first. If there is a Qantas jumbo sitting up there, it waits for a jet fighter to land on their runway, and the air traffic control is run by them. So the airport never really got off to a good start. I agree with you completely that it is undoubtedly not a good project to look at because it was a problem.

I do not think you can say the locality is the reason for the problem; you cannot say that because it is Townsville it is a problem. It is like any other business enterprise—it is only as good as the person running it. If you get the right people running it and it is a relatively feasible project, with some known customers and a known track record of doing something, you have to say that you are a far cry in front of a brand new project, just like an airport out of nowhere. Would you agree?

Mr TANNER—Clearly, a lot of it depends, with respect to infrastructure, on the extent to which you have got existing demand there, as opposed to projected or potential demand. I think that is a critical distinction in terms of government investment. What is your view on the road-rail competition question?

Mr Carmichael—You could say that, yes, there could be rail running beside roads—and I think wherever there is a market for that to happen it has already happened. The only way that road survives on its own in any major areas is where there is not enough traffic to justify rail, because rail has very heavy infrastructure costs. With road traffic you basically put the road down and walk away, whereas the rolling stock is where all the money is in the business of trains.

Mr WILLIS—You said that you did not expect the Commonwealth to pay all the $26 million. Who do you expect to pay the rest?

Mr Carmichael—I said I do not believe the state government has an expectation for the Commonwealth government to pay it all. That is my thought, and I said I cannot speak on behalf of the state.

Mr WILLIS—Who do you think they expect to pay the rest?

Mr Carmichael—I would think the state government will help us and I guess ultimately we will spend, as we traditionally do on these sorts of projects, some of the money for all the preparatory costs and putting the project together. That is basically the way we have worked in the past.

Mr WILLIS—I was a bit surprised by your comment before that you thought that, if there was a requirement to make some sort of contribution by the companies who were going to be the major beneficiaries of this road, they would all walk away and go to South America. You said BHP are spending $50 million in the port. They have almost a half-billion dollar project in your list here. You would have thought a contribution of a couple of million to the road would not be all that significant in that context. A couple of million is not small change, but in the context of the whole project it is not a large additional amount, one would have thought.

Mr Carmichael—It has always been our experience that they will not contribute to what they see as public infrastructure. They are happy to build sheds on public land that they are going to use and they are happy to pay for mining sites that ultimately at some point they are going to walk away from, but I cannot give you any example of any mining company having been a contributor to what they see as public infrastructure.

Mr Kenny—I would like to make the comment that port authorities or port managers do not control the infrastructure which comes to their port. That is the fundamental problem for the Townsville Port Authority.

Mr WILLIS—I am not suggesting that they do.

Mr Kenny—No, but that is the fundamental problem. We can identify the need for better infrastructure to link to our port, but at the end of the day it has to go back to government, whether it is federal or state, to take that role. What we have done with this project is identify what we think is a required access to our port. Unfortunately, we cannot prosecute it beyond the bounds of our port.

Mr WILLIS—I think you are doing the obvious thing—you are proselytising a case which, certainly to me, is a very good one in terms of the value of the project. It seems to have great benefits for urban

Townsville, as well as for the mining companies. Then it becomes a question of how it is going to be financed. If it is that important a project for Queensland, one would have thought the Queensland Department of Main Roads would have an obligation to pay for it. And if it is such an economically important road, with good social and urban benefits as well, one would have thought it was a very high priority road. Also, when public infrastructure is starting to become something in which the private sector is getting more involved, maybe it is time to start looking at having mining companies making a bit of a contribution, particularly as it improves the economics of the project. It cuts their time of travel to the port, so it is going to improve the economics of the project for them.

Mr TANNER—Half the railways in Western Australia are run by mining companies.

Mr Carmichael—BHP are one of the biggest railroad operators. Ultimately, they may very well decide to get into the railway business themselves, as they have the right to do. I think there is a moratorium by the state government for another two years and then third-party access becomes available to whoever wants it. That is also going to play a part in driving the cost down too, because then you get competition on the lines as well as on the road. Mining companies traditionally see that they make a major contribution in terms of developing mines and spending money on ports, and in lots of ways where the money is written off. You may very well be right. I am not saying you are wrong; I am saying that, traditionally, they will not do that.

Mr PETER MORRIS—You referred a number of times to the rail monopoly of that traffic and the need to provide competition. Can you give us the rate of return on that? I assume from what you are saying that it has been a very profitable monopoly. Is there any indication of the rate of return that the railway has been earning from that line?

Mr Carmichael—No, I do not have that information available to me. I do not want what I said to be misinterpreted. What I said is that it has not been a loss making line. I do not think it has been extremely profitable. As you know, with QR there have been lots of lines—as there are in New South Wales, Victoria and all across Australia—that lose a lot of money. It has been one of the lines that has not lost money.

Mr PETER MORRIS—That was what I was reading from what you said; your enthusiasm in referring to the rail monopoly led me to believe that this was one of those gems where there was a lot of money being made by the railway and I wanted to hear about it.

Mr Carmichael—I am sorry if I gave you the wrong impression. What I meant was that it was one of the lines that has made money. I do not believe it has made a lot of money, but it has not lost a lot of money which is what has traditionally happened.

Mr RANDALL—Presumably the Townsville Port Authority makes a profit. What did you net last year?

Mr Carmichael—Is it okay for me to state it publicly? I am not quite sure. But, as I am asked the question, I will. We made about $2.5 million last year.

Mr RANDALL—Is that an improvement on the year before?

Mr Carmichael—Yes—about half a million. We are budgeted to make—

Mr RANDALL—Has that been the case over a period of time, that you have increased your net profit?

Mr Carmichael—Yes, we have. Because it is corporatised, we have to pay dividends to our shareholding ministers, so that profitability does not stay with us, you realise. It goes back to the state government.

CHAIR—I will close proceedings there. Thank you for your submission and the evidence you have given this afternoon. Would it be possible for you to provide us with copies of the first two overheads you put up, the trade growth bar chart and the schedule of projects?

Mr Carmichael—Yes, we can give you photocopies.

CHAIR—Thank you. We will incorporate them in the transcript of evidence.

The documents read as follows—

Resolved (on motion by Mr Lindsay):

That, pursuant to the power conferred by paragraph (o) of standing order 28B, this committee authorises publication of the evidence given before it at public hearing this day.

Committee adjourned at 3.24 p.m.