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**HOUSE OF  
REPRESENTATIVES**

STANDING COMMITTEE ON TRANSPORT AND REGIONAL  
SERVICES

**Reference: Transport networks inquiry**

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SYDNEY

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**HOUSE OF REPRESENTATIVES**  
**STANDING COMMITTEE ON TRANSPORT AND REGIONAL SERVICES**

**Monday, 21 November 2005**

**Members:** Mr Neville (*Chair*), Mr Gibbons (*Deputy Chair*), Ms Bird, Mr Haase, Ms Hall, Dr Jensen, Mr McArthur, Mr Richardson, Mr Ripoll and Mr Schultz

**Members in attendance:** Ms Bird, Mr McArthur and Mr Neville

**Terms of reference for the inquiry:**

To inquire into and report on:

- the role of Australia's regional arterial road and rail network in the national freight transport task;
- the relationship and co-ordination between Australia's road and rail networks and their connectivity to ports;
- policies and measures required to assist in achieving greater efficiency in the Australian transport network, with particular reference to:
  - land transport access to ports;
  - capacity and operation of major ports;
  - movement of bulk export commodities, such as grain and coal;
  - the role of intermodal freight hubs in regional areas;
  - opportunities to achieve greater efficiency in the use of existing infrastructure; and
  - possible advantages from the use of intelligent tracking technology;
- the role of the three levels of Government and the private sector in providing and maintaining the regional transport network.

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**Committee met at 10.13 am**

**CHAIR (Mr Neville)**—I declare open this House of Representatives Standing Committee on Transport and Regional Services in its inquiry into the integration of regional rail and road networks in Australia and their interface with the ports. Before we commence today's proceedings, is it the wish of the committee that we accept into evidence and authorise for publication three submissions: submission No. 124 from the Australian Plantation Products and Paper Industry Council, submission No. 125 from International Container Terminals Ltd and submission No. 126 from King and Company? There being no objection, it is so ordered.

I welcome those who are participating in today's public hearing. This is the 12th public hearing of our inquiry. We have been to Mackay, Gladstone, Portland, Darwin and Melbourne twice. Today we are in Sydney, which is one of the most important transport hubs, if not the most important transport hub, in the nation. These outreaches are a vital part of an extensive program of public hearings and visits that are designed to gather information from people directly involved with the major issues of the inquiry. Not only have we taken evidence at these places but we have also carried out a series of quite intensive inspections.

Today the committee will hear from a number of witnesses involved either directly in the transport industry or indirectly in sectors of the industry that are heavily reliant on the transport network. In particular, we look forward to taking evidence from those connected with the ports in Sydney. Another important aspect of this inquiry is infrastructure. If, as we have been told, the freight task will double in the next 10 years and treble in the next 20 years, there is an urgent need to look at ways in which road and rail may play their appropriate parts.

[10.16 am]

**O'NEILL, Mr Dennis, Chief Executive Officer, Australian Council for Infrastructure Development**

**CHAIR**—Welcome. Although the committee does not require you to give evidence on oath, I have to advise you that these hearings are formal proceedings of the parliament; consequently, they warrant the same respect as proceedings of the House itself. It is customary to remind witnesses that the giving of false or misleading evidence is a serious matter and could be considered a contempt of the parliament. Having said that, you are most welcome here. Would you like to give a five- to seven-minute overview of your submission?

**Mr O'Neill**—Certainly. I do not think I will need that long. First, in summary form, I will introduce the council. You will have read some of its background. We do not have and do not represent planning interests per se, but we represent principal investment companies that take a stake in all aspects of Australia's infrastructure. Obviously that includes arterial roads, when they are released for investment through the form of privately financed toll roads, as well as some aspects of rail investment that have been taken up by existing or former members of the council. Clearly, there is an interest in opportunities that may present themselves through organic growth—as you have mentioned, there will be a doubling or trebling of the logistics task over the next 10 to 20 years—and with the structural changes occurring within Australia's land transport system as a function of, firstly, national competition policy and, secondly, the government's investment program under AusLink rolling out on a much more neutral basis between road and rail outcomes relating to freight.

We believe that our council has contributed very strongly to public debate and public understanding of the role of private investment in public infrastructure, again with an emphasis on land transport, by undertaking in recent years a range of studies, one of which looked at the top 10 or 12 land transport projects prior to our submission being completed on the AusLink white paper itself. In so doing, we identified that, in the land transport sector of the economy, quite a few projects had a most significant benefit-cost ratio. In fact, the most outstanding project, which already you may have heard of in evidence that others have put to you, is the need to deepen the channel access to the ports of Melbourne and Geelong in Port Phillip Bay. In our earlier assessments, which were provided by Dr Peter Brain of the economic consultancy NEIER, the benefit-cost ratio for that project alone was identified as five to one, because of its most significant impact on rail and road linkages through to the heartland of Australia's manufacturing industry and, indeed, on other network links through to the ability to export grains and other agricultural produce efficiently through Australia's southern ports.

In addition we have recently updated our macroeconomic assessment of the benefits to the Australian economy of timely and well-scoped infrastructure investment whereby, after some careful technical analysis, we estimated a conservative \$25 billion of underinvestment in key infrastructure. We asked the economic consultancy Econtech in Canberra to run the numbers through their macroeconomic model, deemed to be the most sophisticated model of the Australian economy, and found that there would be a perennial productivity gain of some 0.8 per cent of GDP each year were that shortfall to be made up, provided investment stayed ahead of



the game in relation to future infrastructure investment. Land transport and logistics projects played a key role in the inputs to that Econtech study.

In conclusion, I want to emphasise that, on behalf of private investors, we have contributed, through our own analysis and through submitting the results of that analysis not only to governments but also into the public domain through our media activities, quite effective work to demonstrate the importance of getting Australia's infrastructure investment equation to work more effectively. In so doing we have taken, and continue to take, to the Commonwealth government in particular, the need for a national strategy relating to national infrastructure and the need for improved coordination not only in cross-border projects but in understanding the priorities for the nation as a whole in having our key infrastructure work efficiently.

**CHAIR**—Does your organisation get involved with lobbying for individual projects or are you mainly concerned with the status of your organisation's members in the marketplace?

**Mr O'Neill**—We tend to lobby only at a precompetitive level, which means we do not generally get involved in individual projects. That said, there may at times be process issues or policy issues relating to individual projects that present generic public policy questions that apply to any projects.

**CHAIR**—Like whether there should be more tunnels in Brisbane or Sydney and, if so, where they should go.

**Mr O'Neill**—Indeed, that sort of thing, which is part of an overall planning activity for the better development of transport networks in Sydney. I just mentioned the deepening of Port Phillip. Obviously, as a specific project that is not yet in the marketplace; but, as a planning and strategic exercise, it is still being considered by government and therefore it gets project specific attention from us. We also commented on the regulatory processes under way in relation to the Dalrymple coal loader and the Dampier to Bunbury natural gas pipeline, because we identified in those processes some policy and process related issues that were generic to other port situations and other pipeline situations.

**CHAIR**—I am glad you raised Dalrymple Bay because, to some extent, that was one of the touchstones that triggered this inquiry. I would be interested to hear your view on the regulatory systems in Queensland, and more broadly the Commonwealth system, and where you think it may have failed Dalrymple Bay, and what you feel the processes might be for a more efficient and timely examination of these issues.

**Mr O'Neill**—That is an indeed an interesting series of questions. In the first instance, with hindsight obviously, the problems that arose in relation to Dalrymple might be attributed, firstly, to the way in which Dalrymple was privatised and the contractual arrangements that the Queensland government put in place for resolving commercial issues in that it identified the Queensland Competition Authority as the arbitrator of choice.

Our view as a council representing private sector interests is that the identification of public regulators as an arbitrator of choice is very much a poorer choice to be made in those circumstances, particularly when you have commercially sophisticated and capable operators on both sides of the negotiating table. In the case of Dalrymple you certainly do have that, with

global coal companies on the one hand and a global infrastructure investor on the other. I think both are equally capable of forging a satisfactory commercial outcome. Obviously, the regulator was called in because the commercial negotiations at that point were deemed to have broken down. But I dare say that different drafting of the sale agreement by the government in the first place could easily have nominated a process for a commercial arbitrator to be inserted. The use of commercial arbitrators would therefore assist in avoiding the excessively legalistic and drawn-out processes that public regulators tend to introduce, because they in turn are driven by legislative requirements, which are much more prescriptive and indeed consume time. That is my first comment.

In relation to the second order issue of why the QCA took as long as it did, I think I have partly answered that question already. It is because of the nature of those organisations in being derived from legislative requirements. It is important to register, however, that on the whole Australian ports are not regulated—not in the sense that the regulatory process that was visited by the Dalrymple situation is also a process that would necessarily apply to other Australian ports. My understanding is that that is not the case. There are several examples of ports which are effectively regulated by their owner—the state government in question. The minister in those state governments is the party which makes the necessary regulatory decisions about pricing and access, for example. In other cases, the ports are on a price monitoring regime; that is, I believe, the privatised ports of Adelaide and Portland. There are two examples there. Dalrymple is almost a standout as a unique example of regulatory intrusion at the level of ports in Australia. Consequently, our council, in making its representations to government around the Dalrymple case, argued that heading in the direction of a single national regulator for ports was a bit like jumping from the frying pan into the fire, because you would be wrapping up all Australian ports under such a regulator when indeed at the moment there is only one of them so wrapped up under the impacts of a state regulator.

**CHAIR**—Given that there is a resources boom in Asia, particularly in China, and that Australia has tremendous depth in the resources that it can supply, our country is constrained if we cannot export product. To what extent then should government intervene? And how does it intervene when most of the ports are now corporatised?

**Mr O'Neill**—Again, if you look more closely at Dalrymple, and let's not lose sight of the Port Waratah facility in the mouth of the Hunter, both have had queues of ships. I should also add, by the way, that the private ports in the Pilbara, which are serviced by private railway lines for iron ore, have also had queues of ships. So, when we strip away some of the rhetoric that has been flying fairly thickly around this issue of Dalrymple, it is fair to say that the principal issue that we are dealing with here is the fact that China caught everybody unawares. It is a bit like looking at the problem of peaking power in our grid whereby, as a result of everybody buying lots of airconditioners, we suddenly see the power supply stretched on very hot summer days or nights. Similarly, our resource export capacity was stretched because China suddenly surged. The time required to upgrade the necessary supporting infrastructure is measured in several years. Therefore, while in the Pilbara the resource companies were already making decisions to upgrade their supporting infrastructure and were getting on with the game, it is still going to be 18 months to two years before they would have capacity to meet that surge in demand. Again, the problem is whether that surge in demand is going to be with us forever and a day or is merely an economic blip that might only last a year or two. These are part and parcel of the day-to-day investment decisions that the private companies need to make.

If we turn, however, to Queensland and New South Wales in particular, although the ownership dimensions of the Port Waratah coal loader are different from that at Dalrymple, you have a logistical chain whereby, at one level, you have coalmines privately owned and, in both Queensland and New South Wales, railway lines that are publicly owned and publicly invested in—in one case, by Queensland Rail, and, in the other case, now, under a long-term lease, the ARTC. Aligning the decision-making and investment capability of coalmines and their own loading capability at the mine, rail and its need to invest in track, signalling and rolling stock and port, owned by yet a third entity, is actually quite a big challenge. It is a different challenge, obviously, from those similar facilities in the Pilbara where you have vertical integration of ownership within the one company structure and where there are only two big company structures that are in operation at the moment there—although you will be aware that a recent decision of the Australian Competition Tribunal has declared, for third-party access, one of the iron ore railways in the Pilbara, and that will lead potentially to—

**Mr McARTHUR**—Has that decision been made?

**Mr O'Neill**—It was announced about a week or 10 days ago, yes. I think it is subject to being challenged in the courts.

**CHAIR**—Which one of the tracks?

**Mr O'Neill**—The BHP iron ore one.

**Ms BIRD**—I want to pursue a few of the points in your submission. This is a little bit off the direct responsibility of this committee and the inquiry, but I am interested that you make the point that, if we are going to look at significant infrastructure development, one of the challenges will be the skill shortage and the fact that there is already pressure on current major building projects to get staff. Could you expand on your understanding of the size of that problem at the moment?

**Mr O'Neill**—We have not quantified that directly. I have had anecdotal exchanges with a number of our construction member companies. They have indicated that they are satisfactorily meeting their engineering requirements but that they are dipping into the UK and European markets to find quality engineering staff to bring to Australia for their projects. That said, that is a largely short- to medium-term fix for this challenge. Therefore, it remains up to the Australian education system and the tertiary training system to not only provide more engineers but also more skilled tradespeople to satisfy the high level of sophistication now required in construction projects.

**Ms BIRD**—So you would characterise it at the moment as treading water, that there is not a major problem there but, if we undergo significant increase in infrastructure development, there will be problems. Is that what they are saying?

**Mr O'Neill**—They have not quite said that to me, no. They have said that they are able to go into global markets and find people. That said, there are other constraints in terms of their ability to take on more projects when they are fairly fully occupied at the moment. One of the key issues there, though, is not so much a skills shortage; it relates more to an emerging concern that, at the top end of the market—that is, say, projects \$500 million and upwards—governments see

the risk that there is insufficient competition in the Australian construction market. There are only two major groups, although one of those groups has three quite independent subsidiaries that compete against each other. I have heard from various Treasury personnel at state level that they are concerned that they are not getting sufficient competition introduced into the tendering process at that level. In the smaller range of projects, there are companies now emerging in the construction sector which are better placed to tackle those projects. But, in the middle ground—between, say, \$150 million and \$500 million—there is also a problem.

**Ms BIRD**—I want to go to another point that you make about urban infrastructure and amenity of cities—it is a recurring theme before the committee. We have an increasingly mobile population in seeking work. The interface between the commuter and freight movement on both road and rail, particularly around our major cities, is a real challenge, and no doubt contributes in many ways to some of the challenges for government in working out how to invest and separate as best they can the flow of those two different groups. Could you expand on the comments you make about how your organisation contributes to that debate?

**Mr O'Neill**—Certainly. In recent years, perhaps the last 18 months, our council has increasingly adopted the view that the provision of freight related infrastructure should be something that needs to be prioritised separately from dealing with commuter infrastructure. The reason we have evolved our policy position in that direction is simply that the political emphasis has been on prioritising in favour of commuter infrastructure—public transport and arterial roads more for the use of commuter cars—over the last, say, 20 to 25 years. Since there has been major arterial road development in our cities, we feel it has misplaced the use of what have been fairly limited resources. Our transport specialists within our council have come to the view that if logistical investment is made, the commuters will get a benefit anyway because, by separating freight from commuter traffic, you are easing up a lot of other roads, which the commuters themselves would get the benefit from.

You would get safety benefits by separating out heavy vehicles. More particularly with the advent of the AusLink program, the shifting of longer distance heavy freight from road onto rail will further provide not only a safety dividend but also clearly a wider dividend in environmental terms because of reduced emissions and the like, as well as of course the economic benefit of supposedly being more cost-effective. However, I would like to flag here that there are some significant issues still around cost neutrality between road and rail as a consequence of some wrinkles in our fuel excise policy and some wrinkles in how we can get adequate third party access pricing for the use of rail. Consequently, when we look at a large urban area like Sydney, Melbourne or Brisbane, we certainly believe there are many project opportunities for direct private investment of freight-oriented infrastructure which are inherently attractive simply because the cost savings and the productivity gains to be achieved by commercial users will lend themselves to a tolling regime or a third party pricing regime which will more readily service the private capital that goes into those projects.

**Ms BIRD**—Can you explain why that happens so rarely? We see a lot of private investment into commuter movement, obviously, but not so much into freight. What is your perspective on why that is less common?

**Mr O'Neill**—There is one word: politics. Trucks do not vote. Railway carriages do not vote, unless there are people on them going to work in the morning. I think it is as simple as that. If

we can turn around the public policy conceptual thinking at the sort of strategic planning level to recognising, first and foremost, that if we can get our freight and logistics to work smartly, more efficiently and more safely, the punters are going to get a benefit anyway. Therefore, that is, if you like, the political dividend that the planners should be seeking for their ministers. But it is a story that needs endless retelling and explanation and it is one that is not easily going to find traction in any Australian jurisdiction. I think AusLink does offer some hope because finally we have a transport policy strategy that is based on corridor definition and a prioritising of the flow of goods and services in those corridors. Supposedly, it is agnostic as to whether it should be road or rail; it is getting the best overall outcome. I think that is desirable.

**Ms BIRD**—To follow on from that: you make the point about national coordination and you flag the idea of an independent national infrastructure planning council. I acknowledge that the paper gives quite a lot of good information—in particular the discussion of a peak level discussion paper of some sort—but I would be interested to know your view on how that sort of council would operate. What would you see it being, in fact?

**Mr O'Neill**—We are very open-minded; there are a number of models that could be workable—but the model that we currently lean toward and see as workable is very similar to the Reserve Bank model. It has been raised with us a number of times by government and by senior officials that you have got an inherent difficulty in having such a body whereby individual projects may be discussed and there might be conflict-of-interest issues. I believe that the Reserve Bank model can help deal with those potential conflict-of-interest issues. The key benefit that we are looking to achieve through advocating this sort of model is simply that we now exist in an economic environment in this country where infrastructure, unlike only as recently as 12 or 13 years ago, is no longer 100 per cent owned, invested or delivered by governments. We are now in a mixed economy. We have a fully private pipeline system, we have fully private major city airports and we have a mixture of ports that are corporatised or private. We have some toll roads in the system and the rail system is a mixture of private and public.

In that environment we are advocating to governments that it is no longer appropriate to try to draft new policies affecting those different infrastructure sectors unless you have got, at least as a guide for broad drafting instructions, people at the table who represent the interests of those investors who either are intending to invest in new capacity in those systems or actually own and operate those systems. The risk is that if you get the policy wrong their chequebooks will close to further investment, and that will be an inhibitor to the very outcomes that you, Mr Chair, were articulating on behalf of the resources sector. We believe that such a national consultative council offers, as the model already does for the Reserve Bank, an ability to bring together disparate sectors of the Australian economy and society to offer informed views on how the country as a whole can function better in its infrastructure space.

**Ms BIRD**—You just called it a consultative body. Would you see it as providing advice to government or as actually having determination powers of its own?

**Mr O'Neill**—Our model at the moment is that it is a consultative body providing advice. Once you get into the area of having determinative powers then you are right, that is probably an element of the Reserve Bank model that we were not aspiring to. But, given the constitutional basis of the country, whereby the states have the bulk of the infrastructure powers under the

Constitution and the Commonwealth has only very limited powers, I suspect that might be too hard an ask at this stage.

**Ms BIRD**—And you feel that that sort of council would address some of the problems you highlight about dealing with three levels of government in Australia?

**Mr O'Neill**—I think it would. We are already seeing rolling out in the electricity market—that is shortly to become the energy market once gas issues are folded into it—a model whereby, with properly funded expertise, the supply and demand side in that sector can be measured. There can be consultative processes with industry and governments at large and a regular reporting structure is now in place in the energy sector in which we have what is called a statement of opportunities. That statement of opportunities is really the equivalent of running the flag up the flagpole to say, 'Supply and demand are about right or they are not about right and here are the opportunities that are open for investment in various parts of the country.'

What we have lacked to date may be remedied by AusLink in land transport but it is certainly not there for water, and the ability to run the flag up the pole is not there in telecommunications in any formal sense. I think a consultative council would be an ideal body to prepare statements of opportunity or consolidate them on a sector by sector basis, run the flag up the pole and allow the market or governments, as the case may be, to respond with investments.

**Ms BIRD**—It is an interesting point because one of the things raised with us about Dalrymple was the fact that Japan had suddenly changed its policy, which caused a massive pressure of stockpiling in Japan. There was actually no body to monitor that sort of thing and report it to industry. It was purely driven by the individual companies and their capacity to be aware of those things. Are you saying you see a role for that sort of monitoring, reporting and so forth for this council?

**Mr O'Neill**—Indeed, on a pre-competitive basis there could well be a role to monitor, report and aggregate information which is in the national interest rather than in the interest of any particular company or sector.

**Mr McARTHUR**—I have a number of issues. Can I just say for the record that this committee has been very anxious that the freight corridors be improved. We have been advocating that for the last 10 years, so you have a friend in this committee. I would like to pursue this argument about the public regulator and the mix of private and public infrastructure in power generation in Victoria. It seemed to me, from afar, that the experience in California was that the public regulator screwed down the prices so much that the energy companies were not able to invest for the future. I raise the issue of the public regulator playing to the political short term rather than the longer-term investment. Would you care to comment on that?

**Mr O'Neill**—This is certainly a vexed issue in terms of the conceptual structuring of regulation in Australia. It is evolving only very slowly. Back in 1996-97, when the large-scale privatisations occurred in the vanguard of national competition policy, we in the private industry were promised so-called 'light-handed regulation'. Instead, we got intrusive, heavy-handed regulation which meant that the regulator basically went in and second-guessed how companies should be running their regulated businesses. It caused us to spend some five or six years advocating to governments and to the regulators directly why this was costly and time

consuming. To the extent that sometimes the regulators got it wrong and delivered a pricing outcome which did not leave enough incentive in place for incremental investment, the consequence was that you were delivering lower prices to the big and small consumers—great result!—but that was a very short-term outcome.

The real interest of consumers is going to be satisfied by getting an appropriate balance between short- to medium-term pricing outcomes and sustained future investment. What the consumption part of industry has woken up to, in terms of infrastructure services, is that shortages are more damaging to them than paying a little bit more on a sustainable basis for their prices.

**Mr McARTHUR**—Do you think you are winning that philosophic debate?

**Mr O'Neill**—I believe we are winning the debate with industry. As an organisation that represents producer interests we are having very productive discussions with the Business Council of Australia, the Australian Industry Group and other similar business organisations who have come to realise that the interests of their members in terms of infrastructure services is about adequacy of supply with an adequate balance of pricing. It is not just about screwing down prices endlessly.

That said, the legislative framework which guides the regulators has been much slower to change, but it is changing. The government has put in place price monitoring for airports. Minister Truss only, I think, a week or so ago endorsed the continuation of that price monitoring policy, and we applaud that. I think that is the way to go. There is finally some talk about price monitoring being introduced on transmission gas pipelines to replace the intrusive price setting type of regulation, and that is again a step in the right direction.

So, Mr McArthur, change is under way. It is sometimes a bit glacial in pace, but we are very encouraging of the fact that, through the Productivity Commission having done some very good work and reported its findings back to government, the message is finally getting through that you cannot just have a low price outcome in favour of consumers as the one and only way to deliver value for money in the regulated infrastructure space. You have to keep investment going.

**Mr McARTHUR**—We had an inspection of the Melbourne Port Authority, and we got the impression that they were a pretty efficient, forward-thinking outfit handling a lot of containers. Two things emerge. One is: what is the competitive arrangement or regulator arrangement there, in your view, or is it just competition with other ports around Australia? You might also make a comment on the state government's decision this morning to postpone the channel deepening. I do not know whether you have caught up with that. We had a look at that whole argument as well on one of our visits. Would you comment on those two issues?

**Mr O'Neill**—I am not a port specialist, by the way, but my understanding is that Melbourne Port is basically free to set its prices in a very broad regulatory regime. It is not subject to price setting per se by a regulator. Of course it has Geelong nearby, which is a private port. So there are elements of competition but there are also elements of specialisation. I am advised that if, for example, the channel deepening in the longer term does not go ahead, the most likely competitor

to Melbourne Port will be Brisbane, provided, of course, there is a fairly efficient rail link between the two. But there will be a cost to the end users.

**Mr McARTHUR**—From your perspective, though, do you think there is sufficient competition to keep the Melbourne Port Authority honest in their price setting, coming from Australian ports and international trade? That was their argument to us.

**Mr O'Neill**—My information is that there is sufficient competition to keep Melbourne Port honest, yes.

**Mr McARTHUR**—And the channel deepening?

**Mr O'Neill**—Again, I would just use one word—politics. It will happen, I am sure. If it does not happen, Melbourne, as a vibrant industrial centre or node, if you like, for the industrial heartland of Australia, will start to decline, and I cannot see any government of either colour in its right mind allowing that to happen.

**Mr McARTHUR**—In raising the issue of the infrastructure being fundamentally under the state jurisdiction, those of us at the federal level who want to make some improvements have always got this impediment in the ports and railways and even in urban transport. What is your long-term solution to this fundamental difficulty?

**Mr O'Neill**—In some recent presentations that I have made at conferences I throw up a slide that says, 'COAG is the only game in town.' It may not be the most satisfactory game, but it is the only game and I think we have little choice—again, give our constitutional constraints—but to negotiate outcomes under the aegis of a body like COAG and then to follow up those negotiated outcomes, probably with a series of intergovernmental agreements. I think AusLink has set the pace in that area. I think we are seeing similar evolution in relation to the National Water Initiative and the use of the funds that are at the disposal of the National Water Commission.

I think the further device, if you like, that is available to the Commonwealth and that arguably gives the Commonwealth some strength would be the carrot and stick approach which was used under the competition payments system in the national competition policy for the last 10 years. If that were renewed in a more thoughtful and focused way then I am sure the Commonwealth, given its fiscal strength, would be in a position to negotiate changes and make payments to states that were prepared to undertake those changes according to a Commonwealth-led agenda.

**Mr McARTHUR**—On the issue of public-private partnerships, if you read the headlines of the financial pages it would appear that Macquarie Bank do pretty well out of some of the infrastructure projects, both in Australia and internationally. I wonder what your view is about where the direction will be over the next 20 or 30 years in some of these infrastructure projects. Will the private sector, with players like Macquarie Bank, be more and more involved in developing some quite huge projects?

**Mr O'Neill**—If they are not, I will not have done my job, because the principal objective of my council is to obtain a bigger slice of the infrastructure pie for direct private investment. Public-private partnerships, however, are really just a niche procurement method, and they are



not for universal application. We are the first to acknowledge that. If you look at infrastructure investment in this country at the moment, we estimate that only six or seven per cent of total infrastructure investment is being procured via public-private partnerships. It is unlikely to exceed 10 per cent, even in a very optimistic scenario. When you look at the type of infrastructure that is delivered through public-private partnerships, it is evolving increasingly in the direction of social infrastructure—hospitals, judicial, schools, some sporting and general community amenities; I think Melbourne Showground is being redeveloped through a public private partnership.

The only economic infrastructure of significance has been arterial toll roads in Sydney and Melbourne and, shortly, a tunnel in Brisbane. That in itself is a very specialised use of PPPs, and the attraction is that there is an independent third party revenue stream through tolls. Maybe four or five smallish water projects have been done in regional Victoria through PPPs. Beyond that, the private sector's interest in investing in infrastructure derives from its ownership through the privatisations of the mid-nineties or greenfields investments that have been allowed directly to them. In New South Wales and Queensland, for example, the electricity sector is still substantially owned by government, but in both cases the governments have publicly announced that they would like all incremental investment to occur through private investment. So that latter category of direct private investment is more than 30, 32 or 33 per cent of total infrastructure investment at the moment. That is the big one, and that is the one which is impacted more by regulators and that is why we are very active in pursuing policy outcomes that are light-handed, not heavy-handed, because it keeps those investors' chequebooks open. But, frankly, even the UK has not exceeded 15 per cent of its capex in the infrastructure space through PPPs, and they are the most progressive in this area. Australia is six to seven at the moment; our most optimistic assessment is, maybe, 10. So it is important in terms of the headlines and the financial press, because that is the deal flow that everybody is seeing and hearing about but, in terms of the total infrastructure investment task in the country, it is modest.

**CHAIR**—I have two concerns and I would like to hear your comments on them. One spins off Mr McArthur's comments. You talked about the whole rationale of competition policy and what it was meant to achieve, but the one factor you did not speak about was the tendency of some governments to use competition policy or the shareholding status of ministers to milk a particular business. For example, the Queensland government had to put \$100 million back into electricity, having taken it out of the industry in special dividends. The suggestion has been made that some of the ports are suffering the same problem. That is the first question: how do we keep some integrity? You say that you think it is well and good to have low costs for the consumer but you have to recognise the overall cost of projects. On the other hand, there is not much point having a competition policy if it is skewed by things like special dividends taken by governments so that you distort the real price of a commodity—be it electricity or access to ports or whatever it might be. That was my first question.

My second question is this. You are in the business of infrastructure. My observation, based purely on my own electorate of Hinkler and on my adjoining electorates, is that we come to a point sometimes requiring state, federal and local involvement in a particular project, but before we can get to the starting line, there is a long list of things to consider like Indigenous land rights, environmental issues, whether or not appropriate planning has been done. In fact, one developer said to me the other day that he believed you are looking at a lead time of four years to do any sort of reasonable project. How can governments, state and federal, streamline the

processes, whether they are for government funded infrastructure development or private government infrastructure? I will give you an example. There is a water scheme in my area that has been known about for 30 years. It is part of the Bundaberg irrigation scheme. In the new water initiative it was announced that a ground water scheme to remove salt from a particular area of the scheme would receive high priority. And like all members of parliament who get a mention like that in these sorts of documents, I got quite excited—until I found out that the very first thing that had to happen, after 30 years of knowing that that particular project had to be done, was that a request had to be made to the federal government for \$375,000 for another study.

This, of course, leads on to road and rail, which is the ultimate purpose of my question. How do we get a more proactive and streamlined approach going through the various processes of Indigenous land rights, water rights, development responsibilities of state and federal governments, the involvement of the private sector and so on? How do we turn that into an efficient machine rather than an albatross around the neck of the project?

**Mr O'Neill**—Addressing your question on dividends first, I sense that we have not seen the question of GBE—government business enterprise; I think they are called GOCs or government owned companies or corporations elsewhere—dividend payments to governments necessarily skewing prices. Rather, anecdotally and perhaps on the basis of the evidence of the brown-outs in Queensland a year or so ago, the argument has gone that maybe they have skimmed a bit on maintenance. Pricing, by and large, has been set by regulators, and therefore they, like even the privately owned monopoly businesses, do not have the right to up their prices willy-nilly in response to what their shareholder is telling them in terms of dividends.

Arguably, whether it is a Sydney water corporation or a Queensland energy distributor, the view has developed in the market that there has been undermaintenance. To some extent this is due also to the China factor for resources. I mentioned earlier the air conditioner factor for energy. In the case of water in the Sydney region, possibly insufficient funding has been allocated to long-term maintenance to address, for example, leakage in the older pipes. It has been estimated that in the last couple of years major gains have been made through timely maintenance to reduce water losses through seepage.

I guess that is an example of investment avoided in terms of new supply because you have just stemmed the losses that you are getting out of the existing system. As to whether the dividends are being stripped, so to speak—as some of the media have suggested—from these businesses, I suspect is a moot point. Possibly more telling has been the need to look at cases where these GBEs have had a lot more debt put on to their balance sheet. Are we therefore seeing state governments borrowing through the non-budget sector and having some of those borrowings flow back to the budget sector via dividends from these businesses? That is a telling question. Are these entities borrowing to supplement the budget, or are they borrowing to allow them to get on with maintenance and reinvestment in their networks? The jury is out to some extent on that, although media headlines suggest very much the former.

There is scope for a lot more government borrowing in favour of infrastructure investment, both by the Commonwealth and by the states. Australia has a very healthy fiscal position. I think all entities in Australia now have a AAA rating, or close to it. Therefore, the ability to borrow is as good as it has ever been. The key issue, if we are not to return to the heady days of the

eighties, however, would be for Australia to take up something akin to what is called the UK's golden rule, which is that governments should borrow only to invest and not to expend and, secondly, the UK's prudent borrowing rule, which says you borrow only as much as you can service. Some checks and balances in the system next time around when governments choose to borrow might be required before we go down that path.

You mentioned also in your second point the complexity of getting project approvals, and the wide range of issues—environmental, process, various native title issues, land rights issues et cetera—that might impact on the ability to get projects together, and to do them in a timely way. You certainly have identified a key and growing concern for project developers in the infrastructure area. The New South Wales government recently amended its Environmental Planning and Assessment Act by inserting a critical infrastructure section. In that section it identified a range of processes which would shorten—not short cut—the assessments and interactions with stakeholders that would need to be put in place for critical infrastructure, and it has the appropriate definitions.

That critical infrastructure subsection of the New South Wales legislation, I believe, will be tested for the first time with the process to deliver the proposed desalination plant for Sydney. I suspect we will all benefit from looking at how successfully that process operates. If it does operate successfully then other jurisdictions could look more closely at whether a critical infrastructure provision is required more universally in other relevant legislation around the country. It may not deal with the overarching question of the overlay between the Commonwealth's own legislative procedures and states, but I sense that Senator Campbell, as environment minister, is working hard to merge the Commonwealth's own requirements with those of individual states and to prequalify a particular state so that its processes for environmental assessment are acceptable to the Commonwealth under its own legislation. There is an example, if you like, whereby duplication is avoided. We certainly need a lot more interaction between governments in the country to smooth out the project approval processes.

The last point I would make is related to that. I recently visited Singapore and had lengthy discussions with their Land Transport Authority, which as you may know actually has both rail and road under the one policy umbrella. When I asked them how they identified which projects they should proceed with and how they gave them priority, I was told very simply that, provided a project had a benefit-cost ratio of one or more, it was funded, put in place and built into the forward plan for delivery. While that sounds simple, it really would behove us as a nation to look at some simple economic analysis and planning mechanisms. Once we identified projects as having the ability to deliver those outcomes we would have an easier Treasury related process so that either the public sector could invest in it or there would be a decision to put it out to the private sector and let private financing play its role. We seem not to have that in this country, maybe because we are really nine different jurisdictions and we do not have in place that national strategic planning and coordination. Again, I would hope that AusLink can evolve further in that direction.

**CHAIR**—Thank you, Mr O'Neill. It has been interesting to have you here. You have put a new dimension on some of the things we have been doing up until now. Infrastructure is an important part of achieving a lot of the ends of this inquiry. We thank you for your attendance. You will receive a copy of the *Hansard* draft for editorial corrections, and we trust we can come back to you if we have any other issues.

**Proceedings suspended from 11.12 am to 11.31 am**

**HIRST, Mr John Kenrick, Executive Director, Association of Australian Ports and Marine Authorities Inc.**

**CHAIR**—Mr Hirst, although we will not require you to give evidence under oath, I should advise you that these hearings are formal proceedings of the parliament and consequently they warrant the same respect as proceedings of the House itself. It is customary to remind witnesses that the giving of false or misleading evidence is a serious matter and could be regarded as a contempt of the parliament. Having said that, I welcome you here today. I wonder whether you could give us an overview of your submission and then we might break into questions.

**Mr Hirst**—There are four key points I would like make. Firstly, there is a need by all governments to recognise the importance of ports and the transport chain as critical infrastructure necessary for national, state and regional economic and social growth and adopt a long-term planning approach to freight transport. Secondly, progress has been made by governments in considering the overall transport chain rather than individual modes. However, we now need an effective whole-of-government approach that addresses the required outcomes and how to achieve them rather than maintaining a compartmentalised approach with individual government agencies narrowly focusing on their own ends and means without considering or even understanding the overall outcome.

Regulatory impacts are often uncoordinated and excessive when related to the overall outcomes required. In the environmental area in particular there are often conflicts between the Australian and state and territory regulations. Prescriptiveness is interpreted in an excessively precautionary manner without the expertise or knowledge to back up interpretations and decisions. The bar changes too frequently, which leads to slow and costly approvals processes and uncertainty. There is a need for a greater level of certainty from governments to enable effective planning and implementation of transport projects in a least-cost, timely, effective and efficient manner.

**CHAIR**—In your submission you talk about a whole-of-government approach to port planning and the transport chain in general. Would you like to give us a thumbnail sketch of how you would see that working in practical terms?

**Mr Hirst**—Firstly, I think that there has to be an acceptance by governments that transport is critical for the economy and that it must be looked at by an overarching body to bring together all the conflicting responsibilities within an overall government body. For example, you have land use planning, urban development issues and environmental issues, as well as the individual issues faced by the various modes. They have to be brought together by some overall coordinating body that has a clear objective of what is to be achieved and will work with the various agencies to meet that objective.

**CHAIR**—Who should be the driver of that? Should it be the directors of that particular port? Should it be the shareholding ministers, if it is a corporation? You say it should be, but what is the triggering mechanism? Should there be regional infrastructure councils, perhaps somewhat in line with the evidence of the last witness? I do not want to talk about theory; I want to know, if we took an atypical port, how we would get a project up in the minimum time.

**Mr Hirst**—Do you want to limit it just to a port or do you want to look at it from the overall transport chain?

**CHAIR**—The overall transport chain, bearing in mind where you come from. I would like to think that we talk in terms of the focus of the ports.

**Mr Hirst**—As you mentioned, we do have shareholding ministers for ports. The status of the shareholding ministers in terms of the policy development input varies by degree from state to state. A port development will inevitably cover more than just the port because the port is simply an area. You have to look at all the environmental issues that may well go beyond the port, as well as the connections from the port back into the land and out to sea. So you need one body, possibly a super planning type body, that will look at the landside issues, the waterside issues—I do not mean waterside in terms of industrial relations but water issues—as well as the overall coordination of what the port is doing in terms of an overall structure within either a city or a region. This can be at state government level but it also can be done at a regional level if the port is drawing on a lot of material coming from regions or distributing product to a whole range of regions.

**CHAIR**—You put some emphasis on what you call high priority projects. Can you give us an example of one of those?

**Mr Hirst**—At the risk of being very provocative, the channel in Melbourne, the development of more facilities at the port of Botany, the development of more coal loading and iron ore facilities and the development of channels. All of these are high profile tasks because, if you fail to deliver those, you are basically failing the whole transport chain, economic growth and social growth in regions. Then you can take it right up to the national level.

**CHAIR**—Do you think there has been enough planning in the transport chain to allow for the resources boom in Asia or have we just drifted along with a bit of spare capacity in the hope that we would never have to ratchet it up—in the case of some ports, by as much as 100 per cent? What is your general view on that? How could we have become so lackadaisical, to the point where we are now missing opportunities?

**Mr Hirst**—I do not believe there has been adequate planning for freight in any state, historically and right up to now. The traditional answer is that freight does not give votes. When people have talked about transport there has been more of a focus on urban transport needs—moving people and meeting the needs of a large urban area. Freight is put on the backburner. It is too hard and, as I said, it does not give votes. So there has been no coordination. Also, there has been a series of battles, almost, between the various modes of transport—road versus rail—and until recently governments have not sat down and looked at the freight task as an overall task. Roads have put their needs in and rail have put their needs in, but there has never been a meeting of minds as to what is the best. Then you have the issue of land planning. That has never been looked at in terms of what the freight task is, or only very peripherally. Expanding freight movements requires more land and more buffer zones. You run into environmental issues. So it is a very complex area.

But look at the recent Asian boom. I do not think anybody ever envisaged the Chinese take-off—certainly not the mineral producing companies; certainly not governments. It caught us all

with a great deal of surprise. This leads to another issue: industry will always forecast likely demand. However, when government money is needed, there is always a tendency for treasuries to say, 'Prove to me the demand is there.' But often it is too late when you prove it, and we have seen this with this very sudden emergence of the Chinese boom. There are long lead times required to develop ports and port infrastructure. You do not do it overnight. It is not necessarily always adding another conveyor belt to something or adding on a little bit more infrastructure. Most port projects are fairly big and require a certain amount of planning. And, of course, you have the necessary regulatory approvals. So we believe that there has to be a better understanding by treasuries—and, in fact, all of government—that you have to look to the future, work on your best estimates and hope that you do not overcapitalise within a certain time frame.

**CHAIR**—Without going into a particular issue, we looked at one rail link where there was resistance from a particular coal company to that rail link—I suspect on the grounds that they did not want to give third-party access to their port. In yet another instance, when we were talking about a new coal line, one company were saying that they were not ready yet, notwithstanding the fact that perhaps four or five other coal mines along that line would be ready. Who takes responsibility for driving that? Someone has to step in and say, 'Well, you might not be quite ready,' or 'You might be itching to go, but the right time to do this railway line is X, Y and Z.' Who should be making that decision? Should it be a federal initiative, a state initiative, an infrastructure council, or some body to which state, federal and local governments have referred powers? How do you trigger these things? We can talk theory until the cows come home, but how do we get a mechanism that triggers this—that makes it happen?

**Mr Hirst**—Firstly, I think industry itself has to agree, and if there are any conflicts between members of industry as to the timing of a project, I think agreement should be reached amongst industry on that. But then the structure of government in Australia really makes all of these projects state responsibilities, and states will argue that that the federal government does not have the jurisdiction over them. So you have an immediate disconnect there. If a state does not want to get on with it because it does not have the funds and says, 'The Commonwealth won't give me sufficient money; I can't get on with it,' you are bringing the Commonwealth into it, but it does not have the jurisdiction, and generally there is a hand out for money, and that is not workable in the Australian scene.

I think this is where AusLink has broken very valuable new ground. Whether we go beyond AusLink into an overall infrastructure council, I really do not know. But what I would like to see is all governments getting a greater understanding of the need for infrastructure for Australia, asking, 'What are the impediments?' and then trying to work out between them how to get over these impediments.

**Ms BIRD**—I want to explore a few of the points that you have made today and in your submission. You make an interesting point about the resistance to addressing freight as a priority. As you were talking, it struck me that it is a bit like when you put a new housing subdivision in—if you do not have the public transport, everybody buys a car, and then it is very difficult to get them to come back to public transport. Partly what we hear in all the submissions is that the users, those who want to move their freight, have become quite reliant on and used to the idea of truck movement rather than train. Is that a perfectly legitimate position that does not need to be

addressed or should we be pushing to make it more viable for them to move to train freight rather than road freight?

**Mr Hirst**—There are certain products, if I can call them that, that can really only go by rail, such as the bulk mineral products and bulk goods generally. So what you are looking at with truck versus rail is containerised cargo and smaller volumes of product. The railways in Australia have not been known for their efficiency over many years. Matters are changing now. But, as you have said, people are so used to truck movements that road is seen as far more efficient and reliable than rail. It is going to be a process of education to wean people away from trucks onto rail. But there are enormous environmental benefits by putting more cargo on rail. We should be focusing more on that rather than just trying to use a bit of moral suasion. It is a very important issue. In Sydney, for example, the benefits of rail in moving containers to and from Botany have been enormous. But there is only so far you can go, because rail has to go somewhere. You need terminals for rail. This is where you have to look at the whole transport chain holistically, whereas with trucks you do not have that imperative, because it is more door to door.

**Ms BIRD**—And then if you have to transpose from one to the other you have to make that viable economically as well.

**Mr Hirst**—That is right. And, once you take rail, say, from Botany to a terminal somewhere, then it is going to be distributed by road. But it is over shorter distances, which is far more effective anyway.

**Ms BIRD**—I am interested in what you are saying. My hometown is Wollongong. Very little coal is moved by train into the port of Kembla. It is largely done by truck movement, partly due to the geography of the area, and I understand that. But there is a resistance to pursuing rail options. We have heard a great deal of positive commentary on the Hunter logistics chain and the efficiency gains that have been achieved through a very coordinated approach. From the port's point of view, I would be interested in your reflections on that process and whether that is a model that could be encouraged elsewhere.

**Mr Hirst**—It certainly is a model that has demonstrated its effectiveness when everybody is pulling together to achieve the same outcome. It certainly used not to be the case; it was a dog-eat-dog situation. But it is working well, and I think that Newcastle as a port is far better for it. There certainly still is capacity in the port to export more coal, which is great. The limitation is on land, and from our perspective it is nice to say, 'There is your problem.' But it is an excellent example and it is one that I have used internationally to show what can be done in terms of working together.

**Ms BIRD**—You talk about the conflict with urban development. We discussed with previous witnesses the much more mobile population, that people tend to travel into cities a lot more to access work. In New South Wales, in recognising the new three ports policy and the dedication to moving some stuff out of Sydney and into Newcastle and Port Kembla, what I am hearing is that there is resistance by the users. I am thinking particularly, for example, of moving the cars to Port Kembla. Is that issue only addressed by directive decision making by governments around what ports will do what, or are there other mechanisms that could be used to encourage that sort of view? It seems to me that users would tend to automatically preference going into a major city port and leaving the land problem to somebody else.



**Mr Hirst**—I think you have to look at where the market is, and the volume market for cars is in the Sydney metropolitan area. I have not been involved in this issue in a detailed way, but from what I can understand there really has been a major lack of consultation by the state government in developing the solution that they wanted. I think that is a great shame.

**Ms BIRD**—Do you think it is just a case of more consultation with users? It seems to me that users will automatically want to go into major city ports. Why would they go anywhere else?

**Mr Hirst**—Ships go where the trade is. Trade does not necessarily attract a ship, except where there is a dedicated product and then they become one and the same thing. The market is in Sydney, so ships and the users of the product look at the delivered cost. If they believe the delivered cost is the lowest by coming through Sydney, that is where they will want to go.

**Ms BIRD**—The delivered cost is driven by what happens on land post landing, though, isn't it?

**Mr Hirst**—That is right—and also the ship cost, because each ship call is a cost to a ship. Ships really only make money when they are not in port, when they are moving the product, so they want to limit the number of stops that they have to make.

**Mr McARTHUR**—You talk about land use in your submission. Could you comment on the land surrounding the ports of Melbourne and Botany that is now being utilised for urban redevelopment and whether that land might be better used for future port facilities?

**Mr Hirst**—I think the damage has been done, so to speak. Once land has become urbanised it is not going to be returned to industrial use. You have very vocal people sitting there and saying: 'There is noise, there is dust. Do something about it.' So, effectively, ports in urban areas are being neutralised by the effect of urbanisation and you have to look at other areas where you can expand the port. Luckily in Botany, for example, there is really no urbanisation around that area. The effect of urbanisation is one of the reasons why we have seen the demise of the Balmain wharves in Sydney—similarly in Darling Harbour, to an extent, where blocks of apartments have been built on wharves and people complain about ships. Probably you have to accept that over years and years there will be this urbanisation: people want water views, they want to be closer to the city, and we have to learn to live with it. But it should be done in a more orderly process and as part of an overall plan, not just changed almost overnight.

**Mr McARTHUR**—Do you have a view on the ability of rail to move some of the containers from, say, Port Botany out even 30 kilometres to connect with road so that you make better access to the port?

**Mr Hirst**—Yes. If it means taking trucks off the roads and the roads are inadequate to take the trucking volumes, it is a better solution. Rail versus road will vary from port to port—the need for it will vary.

**Mr McARTHUR**—That is not the argument. The argument is that you put the railway into the port and take it out a short distance to give better access to the trucks so you do not get the congestion you get around some of the ports around Australia. What is your view on that, particularly in respect of Port Botany?

**Mr Hirst**—That is the best outcome we can expect.

**Mr McARTHUR**—Have you been advocating that position?

**Mr Hirst**—Yes.

**Mr McARTHUR**—On the grounds of more investment into a rail link?

**Mr Hirst**—Expanding rail linkages into ports means more investment in rail, but there are benefits, because you have enormous congestion on roads in most ports and you have the environmental hazards of increased truck usage. Rail gets rid of most of that.

**Mr McARTHUR**—Do you think you are winning the argument or do you still have a fair way to go?

**Mr Hirst**—There is a long way to go, but we are making a lot of progress.

**CHAIR**—Would you extend that view to the idea, assuming that this north-south railway from Melbourne to Brisbane or Gladstone goes ahead, of having hubs at places like Shepparton, Parkes, Moree and Toowoomba to take the freight right out to where the distribution hubs are?

**Mr Hirst**—Yes, I think that is inevitable. When you have the rail facility there, there will be hubs built along it.

**CHAIR**—And that would be just as acceptable as taking it out 30 or 40 kilometres?

**Mr Hirst**—Yes.

**Mr McARTHUR**—The counter argument seems to be that 70 or 80 per cent of the containers in the case of Melbourne are distributed in a 35-kilometre area from the port, so that is a bit of a contradiction there.

**Mr Hirst**—You have the port in a particular place—that is almost immovable. The market is in an area beyond the port. It might be 10 kilometres, 20 kilometres, 30 kilometres or 100 kilometres. If you are going to rail, you have got a lot of flexibility to rail to a number of hub areas within the metropolitan area and right out into the country. However, you have got to look, again, at the total cost. Rail will not necessarily mean that you can take containers from one particular port and put them through another port, because the volumes may not be there in the second port to justify ships going there. You have always got to look at the cost of distribution—it becomes an equation. Terminals along an inland rail line, for example, are imperative because you have great efficiencies by bringing short-haul distances to a terminal and then putting it on rail to distribute it to other places. I have in mind that it will be mainly road transport bringing it to these terminals.

**CHAIR**—I think it was you or Mr O'Neill who made the reference to the port of Brisbane having to take a greater load, but it was premised on getting access to that port. What is your view on the inland railway then from Melbourne to Toowoomba, and where do you think it

should go from that point? Should it go to Brisbane or should it go to Gladstone? Do you have a view on that from the port's point of view?

**Mr Hirst**—I would like to see it going to both places. Brisbane is a major metropolitan area. There have been a number of propositions that I have heard that basically say that containers destined for or originating in Brisbane could go to Gladstone. There is a lot of cost involved in transporting them, even by rail, up to Gladstone. Brisbane is a natural port area and rail transport into Brisbane should be upgraded to allow the Brisbane metropolitan market to be serviced at the least possible cost. I do not think that will be the case if you are looking at Gladstone, for example, as being a major alternate container port to Brisbane.

**CHAIR**—For the same reason, Mr McArthur mentioned that a high proportion of the containers have to go into the Brisbane Basin.

**Mr Hirst**—That is right, exactly.

**CHAIR**—We have received a lot of evidence on the Toowoomba range as being an impediment to the development of the port of Brisbane, especially in respect of an inland railway. What is your view on that? Has your organisation done any studies on that?

**Mr Hirst**—No, I am not knowledgeable on that matter at all. I have simply heard of it and that is all.

**CHAIR**—Just changing the subject slightly, in your submission you make a lot of comments about environmental matters and you talk about environmental buffer zones around port activities and transport corridors. Can you give us a thumbnail sketch of what you envisage there?

**Mr Hirst**—For example, you do not want housing butting up against a railway line because the people living there will complain about the frequency of trains, noise and potential pollution. So you really do need some buffer zone between urbanisation and a rail line. That buffer zone can be quite adaptive. It does not have to be just land. You could well have factories and distribution centres along there, as long as you do not have residential areas. In some cases it will be better to have a nature strip type of thing. That is around rail. Around a port, as well, to stop the creep of urbanisation you really do need a buffer zone so that the port can continue its normal operations without any constraints imposed on it by the effects of urbanisation.

**Mr McARTHUR**—You talk about an overarching authority. We have raised with other witnesses the problem of state controlled ports, railways and road construction. What sort of infrastructure oversight would you envisage? What sort of a group or body would you envisage?

**Mr Hirst**—With the current structure of government in Australia, the main responsibility lies at the state level. So within state government you need an overall coordinator of critical infrastructure that can bring together all the various departments that have an input into the decision-making process. This covers, as I said earlier, planning, the environment, ports and transport—all these matters—so that any difficulties are overcome and people from the various jurisdictions talk to each other and try and work out how to get to the outcome that is seen as the most desirable.

**Mr McARTHUR**—What about the role of the Commonwealth?

**Mr Hirst**—I think the Commonwealth can have some role, as it has with AusLink. Traditionally the Commonwealth has, in relation to ports, said: ‘They are state responsibilities; we cannot get involved. If we do there will be a request for money.’

**Mr McARTHUR**—When things go wrong, the Commonwealth tends to get blamed for it—whether it is roads, railways or ports. The Commonwealth has got to pick up the tab at some stage.

**Mr Hirst**—From a ports perspective, the ultimate impediment is the impediment of reducing our trade and trade is really a Commonwealth responsibility. So it does come back there but it is not necessarily the Commonwealth’s responsibility. Because of the structure of government it is more of a state implementation responsibility.

**Mr McARTHUR**—The Dalrymple argument certainly attracts a lot of commentary by the Treasurer and Commonwealth ministers, so inevitably these things get back to Commonwealth comment or money.

**Mr Hirst**—Yes, they do.

**CHAIR**—Thank you for your evidence. We will contact you if we require any further information.

[12.06 pm]

**BARRETT, Mr Sean Seosam, Commercial Director, P&O Ports, Australia and New Zealand**

**BLOOD, Mr Timothy, Managing Director, P&O Ports, Australia and New Zealand; and Chief Executive Officer, P&O Australia Ltd**

**DAVIS, Mr Andrew Spencer, Development Director, P&O Ports, Australia and New Zealand**

**CHAIR**—I welcome our next witnesses. Although the committee does not require you to give evidence on oath, I remind you that these are formal proceedings of the parliament and consequently they warrant the same respect as proceedings of the House itself. It is customary to remind witnesses that the giving of false or misleading evidence is a serious matter and could be considered a contempt of the parliament. Having said that, you are most welcome. I invite you to make an opening statement.

**Mr Blood**—I would like to commend the government and particularly this committee on attaching such significance to the development of such vital infrastructure as our ports and their transport links. P&O Ports is a division of the Peninsula and Oriental Steam Navigation Co. and is a leading global port operator. We have a presence in 18 countries, with 27 container terminals and logistics operations in over 100 ports. P&O have operated in Australia since 1852, and we have been involved in the Australian waterfront since that time. Our primary business is the development, management and operation of container terminals. We operate such terminals in the four principal city ports of Brisbane, Sydney, Melbourne and Fremantle. We also operate a landside logistics operation which has been primarily involved in port precinct container transport and related services. More recently, recognising the importance of rail, we have been seeking to become active in the development and operation of intermodal terminals, establishing our first such terminal at Somerton in Melbourne earlier this year. We have for many years been involved in rail between Adelaide and our terminal at West Swanson in Melbourne. P&O Ports has an automotive and general stevedoring operation in over 30 ports in Australia. However, our involvement in bulk stevedoring is relatively limited.

This committee has been asked to examine the capacity and operation of major ports. We wish to make clear that the issues of congestion that have been reported at certain bulk ports should not be taken as representative of the situation in the container ports where we operate. Our submission details this, indicating that, in our view, there is sufficient potential capacity to enable us to stay ahead of demand for the next decade and well beyond. We would also add that additional capacity will primarily be delivered incrementally, simply through providing more quay cranes and yard handling equipment. Such incremental delivery of additional capacity is far more cost-effective than delivering capacity through new and separate facilities, simply reflecting the economies of scale. Indeed, we contend that the principal capacity limitations at the container ports will be in road and rail rather than the terminals themselves, as general traffic levels increase and communities become less tolerant of trucks, and rail seeks to overcome the significant challenges in order to provide a viable alternative to road.

The committee has rightly been asked to focus on the question of efficiency. This aligns with our position regarding the incremental development of existing facilities through new equipment and every greater use of technology, including automation. Regarding truck access, the same issue of efficiency is equally true. In addition to supporting the increased focus on rail, we believe there remains the need to focus on improving truck efficiency where back-loading is generally less than 10 per cent and the TEU to truck ratio is about 1.3, also low; therefore, unnecessarily increasing truck trips through the community. It is disappointing that little has changed from the Morris report of 1993.

We have for many years operated a vehicle booking system at our container terminals which we introduced after extensive consultation with the transport industry and their representative bodies Australia wide. That recognised that a VBS is the best way to avoid random entry peaks and resultant queuing. Typically, our container terminals provide access to over 200 carriers, each often seeking access at the same time. This is compounded by the fact that, despite our terminals operating 24/7, the majority of carriers still wish to do their business between 7 am and 4 pm, Monday to Friday. The alternative of a random queue is simply unworkable at today's volumes. Traffic congestion would be unacceptable to the local communities and the carriers themselves would face higher costs resulting from the uncertainty and delays.

Increasing rail mode share is an objective we support. We reintroduced rail to our Melbourne terminal in 2003 and are planning to extend our current rail sidings in Sydney to 600 metres within two years. These investments are not driven by current capacity issues, but with a view to the future to encourage rail. Rail infrastructure and operational issues are perhaps best left to others more expert in this field, but we believe it is important to recognise the commercial obstacles that need to be overcome in order to make rail commercially viable over road. I thank the community for this opportunity to present our views and look forward to your questions.

**CHAIR**—Do you wish to add anything, Mr Barrett?

**Mr Barrett**—No, I do not.

**CHAIR**—Mr Davis.

**Mr Davis**—No.

**CHAIR**—You make the point both in your submission and you touched on it in your opening remarks that you do not consider that there are any bottlenecks in respect of access for your company to the non-bulk ports.

**Mr Blood**—The working capacity at the container terminals is far from being exceeded and we do not believe, even if we had no new investment, that there is inadequate capacity to go forward for a few years. We are at a point where reinvestment is needed to plan for the five- to 10-year horizon. There are a lot of investment plans being worked on with the various port corporations as we speak but, as it stands today, there is adequate capacity there. On occasions the picture gets confused by the issue of the arrival pattern of vessels. In 2004 when a lot of these issues were reaching a fairly high intensity in the community, it was a period of time when there was an extraordinary proportion of vessels arriving late, not on their agreed contractual berthing window. So you get the impression of there being congestion when there is not. It is

akin to all the jumbo jets for the week at Sydney airport arriving at seven o'clock on Monday morning. You have congestion, but it is not a capacity issue. So if 60 per cent of the vessels arrive late, as occurred for most of 2004, you are going to have unforeseen peak demands and occasional delays in vessels berthing. So far this year, there have been much less and everything is working much better.

**CHAIR**—What is the reason for that? Is that an Australian phenomenon? Is it our geographic position?

**Mr Blood**—It is made a little worse by Australia's distance from other ports. Weather can play a greater part in it, but it has been very much a worldwide problem over the past 18 months for two reasons. Consortiums have got larger and the need to operate timely services from a marketing point of view has increased. So schedules have become much tighter than they have ever been before and there was very little slack within the global schedule to cope with unforeseen things happening—and, of course, unforeseen things do happen.

In 2004, there were a number of ports around the world that had not planned properly for the expansion in global trade that had occurred, and significant delays were created in the United States and in some European ports that had a flow-on effect to vessels calling at Australian ports. So, to be fair to the shipping lines, many of the reasons they were late were beyond their control. It was not what we would call a normal period of vessel operation. That is why, in 2005, despite the problems with some of the customs issues, vessels are not being delayed; we are coping with even greater volumes than in 2004, with basically the same resources. But that is because the off-window factor for vessels this year is probably closer to 25 per cent than 60 per cent.

**CHAIR**—The committee found in evidence that channels to nearly all the ports, both bulk and container, are becoming a greater problem. Have you a comment to make on that?

**Mr Blood**—We think there has been too much focus on the capacity of the container terminals themselves; it is not the limiting factor. The container terminals have sufficient land allocated to them to continue developing and extending the capacity of the facilities through more equipment—that is a progression driven by demand. The limiting factor in almost all ports is ultimately the road-rail interface. If there is not a significant change in the way in which, for example, the road transport sector works, I believe the communities around the ports are going to reach the point of not accepting the level of truck movements—and that becomes the limiting factor.

**Mr McARTHUR**—What is your solution to this key problem? Are you suggesting that we put more on rail?

**Mr Blood**—There are two or three solutions. First, it is correct to emphasise the potential of rail. Strategically located intermodal rail facilities off-wharf, such as you were commenting on earlier, are definitely the way to go. Our company believes that, which is why we have opened our first facility—

**Mr McARTHUR**—How far would you take this rail? Would you take it to an urban centre?

**Mr Blood**—You take the potential congestion away from the port area to a location that can better cope with those truck movements and get the efficiency gains.

**Mr McARTHUR**—How far would that be in, say, Sydney or Melbourne? Would that be 25 kilometres?

**Mr Blood**—It is more about being in a location that has the right rail connection. Whether it is 10 kilometres or 40 kilometres is not the critical issue. You must have the rail paths through to the port, as long as you are out of the major urban areas where congestion is a problem. The other way that tends to get a little forgotten that I want to emphasise is that much can be done to improve the efficiency in the road sector. Those back-loading rates and box-to-truck ratios that I mentioned early are very low. They have hardly changed for the past 10 years. We have to find ways of encouraging a better use of trucks. In fact, most people in the community prefer a truck laden with containers to one that is empty going past their door because the noise made by an empty truck is greater.

That brings me to a key point. In order to deal with that, you need to create a collaborative atmosphere within a port. One of our frustrations is that we are constantly subject to criticism because we are part of a duopoly. There are some that do not like the duopoly. The ACCC has just put out a report that is very negative about the duopoly, and in our view very unfairly so. If we are going to deal with these issues in a manner that is acceptable to the whole community, it is sensible and wise to have a level of collaboration. Yet, increasingly, we feel that any collaboration between stevedores is going to be viewed by the ACCC and others as a very bad and negative thing.

We are mightily concerned about this, because there is this fundamental contradiction between those that are determined to pursue additional competition and those that want to see community issues, like trucks going past their doors, dealt with. I suggest to you that it is not necessarily in the interests of the community as a whole to ignore the benefits of scale that the duopoly has delivered over the past 10 years through lower prices and better services.

**Ms BIRD**—You raise some very interesting points and touch on something that we have discussed with previous people before the committee—the competing demands between commuter and freight movements, particularly around our major cities. I take your point about the efficiencies for truck movements. I am pondering the fact that if you have a hub outside the area and then truck back into the city you are still going to have empty back loads, aren't you? It would just reverse the problem, wouldn't it?

**Mr Blood**—Not necessarily. I think what you would not do is maintain the completely open access regime that exists today. The reality is that there are over 200 trucking companies seeking access in the ports of Sydney and Melbourne. It is out of control. For every trucking company that fails, another one buys the truck and does it all again. There has to be a determination to actively encourage back loading. That can be achieved by better coordination of all of the activities and, frankly, probably fewer trucking companies. But, because we have this obsession with doing anything that might impede or alter competition between trucking companies, nothing changes.



The New South Wales government have announced the idea of introducing a surcharge system, which they say they are going to deliberately bias towards forcing trucking companies to operate 24/7. There is a lot of merit in that. I think there are better ways to achieve the same outcome, but we are pleased to see that the government acknowledge that we should have a strategy that is driven around 24/7 activity and by efficiency in the road transport sector. If that means doing some things that might be seen by some to be anti competition, then so be it, because we must act in the best interests of the whole community, not just that sector.

**Ms BIRD**—I would like to explore your capacity a bit further. I acknowledge that you say that there is the capacity to deal with future growth, so you do not see bottlenecks as being an issue, but obviously productivity gains would be an issue for you. Are you saying that the container handling changes that you would look at putting in place will increase productivity? Could this better planning by government and investment in the way that freight moves also contribute to that?

**Mr Blood**—Productivity is a vexed issue. As far as crane productivity is concerned, Australia's crane productivity for the mix of vessels that we currently handle is commendable by any standards.

**Ms BIRD**—Is that because we do not have the same bulk as other places for a single type of movement, so you have to be more flexible?

**Mr Blood**—It is because we have developed over the years a reasonably flexible arrangement with our work force. Whilst the cost of labour is high, these days the actual efficiency and effectiveness of the labour is commendable by any valid international standard. That is not, though, what is of real interest to the shipping lines. For the shipping lines, it is the time we take to service their vessels. That is a function of the individual productivity of each crane, but it is much more a function of how many cranes you put on the ship. In recent years the size of vessels has been increasing, so the ability to put three or four cranes to a ship has been increasing also. That has a much greater effect on the effective working vessel productivity and capacity of the container terminal. That is going up.

**Ms BIRD**—I am thinking more of the other end. Are you saying that your yards are not a bottleneck in that moving the stuff out in order to keep the ships coming in and being unloaded is not a problem?

**Mr Blood**—When you talk about the capacity of the container terminal, it is invariably the length of quay line that is the limiting factor on the capacity potential of that facility, because, on the road and rail side, the yard side of the facility, within the terminal itself there are multiple solutions to enable you to increase stacking densities and hold more containers within the terminal. You will typically stack a straddle facility, for example, two high and carry one box over. In an RTG facility you might stack five high, and you can literally contain so many more boxes.

So when you are talking about the capacity of the container terminal itself it is invariably about the quay line. Here in Australia I do not believe either the quay line capacity or the yard capacity is going to be the limiting factor going forward. I think the limiting factor going

forward, if nothing changes, will be the road and rail interfaces. If they do not change, the latent capacity of the container terminals will not be able to be realised.

We have a facility in India that handles 2,200 TEUs per metre of quay line. That is something like three or four times what is being achieved in Sydney at the moment. But in actual fact we got into a lot of strife last year because the Indian rail system collapsed and could not cope with it. It was nothing to do with the container terminal. So now is the time to be addressing the long-term future. In that regard, when it comes to Port Botany, for example, one of the things that we have been frustrated by is a relatively modest view put forward by Sydney Ports Corporation and the government on the potential of Port Botany, because the potential of Port Botany, taking the expansion as currently announced by the minister, in our view is far greater than the 3.2 million TEU figure that has been used. Therefore the infrastructure solutions on the road and rail side in our view need to be developed with that bigger target in mind. We would be selling the port short if we limited it to 3.2 million.

**Ms BIRD**—It has also been presented to us that some of those decisions are particularly problematic because of, I think a former witness said, political issues. Would you see a role for, as has been outlined in many of the submissions, a national infrastructure council that would look at the economic impacts of these sorts of lost opportunities? Being from a region, I am always conscious that we build to what is needed and sometimes these sorts of infrastructures can cause a boom in a region. It is a lost opportunity in that sense. I am interested in your view on some sort of national body like that.

**Mr Blood**—We think that there is a role for a national body to play, not necessarily to have the power to interfere with the state planning laws but to correctly bring focus to those things that ports are doing or not doing that are of national significance so that informed debate about the right issues is stimulated. I have to say that I would not describe a lot of the debate in this industry over the last few years as very well informed. These issues are not as simple as they might seem to some people. So there is a role for a national body that genuinely endeavours to understand the issues, recognising that we are in a national marketplace, where shipping lines want a national contract and a coastal commitment. They want to arrive at their first port and leave their last port within a defined period of time. If we do not do that, we are exposed to very significant financial penalties.

Issues like the channel deepening in Melbourne are plainly of great national significance. In my view, the debate that is going on now should have been occurring five years ago instead of now, when we are finding that the whole process is taking a lot longer than anybody in the industry would want. I do not say that as any criticism of the Melbourne port corporation. I think they have been unfairly criticised. But the reality is that it is a major project that is absolutely essential for this country. So some weight from a national body that keeps that focus on, which would in turn create a level of political pressure, is appropriate. But I would not go the next step of steaming in and overriding the states on their own planning requirements, because I think that would be fraught with difficulty.

Some of the criticisms, for example, of the Port Botany inquiry were, in my view, unfair. That was due process occurring where the commissioners delivered an outcome within a reasonably timely manner and gave everyone a fair go. The fact that the government has decided not to follow the commission's recommendations is a great disappointment to us, but the process itself

was a constructive one. It is the first time that I can recall there being a proper public debate about such critical issues of capacity and competition. This was the comment we, again, made recently about the ACCC report. They make glib generalisations that are not, in my view, supported by careful, clear, informed analysis of the issues. So a national body that focuses on a proper understanding of the critical issues to the shipping lines of the national ports of Australia, in my view, could play a very useful role, but the committee would need to spend the time to genuinely understand the issues. Then you can influence the federal and state political debate that invariably tends to occur on these issues.

**Mr McARTHUR**—Can I raise three issues. It was put to me when I was in Denmark recently that the container traffic around the world is increasing by 11 per cent per annum. Would you like to confirm that or give us a view?

**Mr Blood**—Over the last five years it has probably averaged around 11 per cent. It has been extraordinarily high, particularly in the last three years. There is a tendency for people to get a little carried away as though that is the norm. There have been a number of studies done by port corporations in recent years where various consulting bodies that monitor this sort of stuff globally have expressed views on what high, medium and low growth rates are. Generally speaking, there seems to be a reasonably consistent view that eight per cent would be a high growth rate, six per cent is probably a fairly aggressive growth rate and three per cent or four per cent would be low. So, for planning purposes, which figure do you use? Six per cent tends to be the figure that most people use. I think that is a reasonably responsible number for a long-term growth rate. So the fact that the last three years have been high—I think the last year was 12 per cent and it was 13 per cent the year before—is not at all typical. Dramatic statements about volumes doubling in five years are just not true.

**Mr McARTHUR**—So you are using the figure of six per cent in your projections for the way you operate?

**Mr Blood**—We have just done our budget for 2006 and we are looking at three per cent to four per cent. But, for planning purposes and for the allocation of land and key equipment, I think that six per cent is a reasonably responsible figure. I distinguish between that and actual capacity growth, which I think will be less. But, for planning purposes, I think six per cent is a reasonable number.

**Mr McARTHUR**—Can we continue the discussion on the waterfront productivity improvements. Obviously, there is a lot of public comment and debate on the 1998 changes to the waterfront work practices and that whole saga. It seems to me that productivity and reliability on the waterfront have improved quite remarkably. Would you confirm that to be the position in that area of activity?

**Mr Blood**—It has improved very significantly. As I said earlier, the actual working productivity of the cranes is commendable by any standards. As well as that, you can count on one hand the number of industrial disputes we have had. We had a dispute the other day, of course, when people downed tools to go to that march, but otherwise I struggle to remember when there was last an unlawful stoppage. It is a very different climate, and in the new arrangements we have achieved attractive flexibilities relative to many ports around the world. As I said, we operate in 19 countries, and compared to the United States, Japan and even the UK

I can tell you that the flexibilities that we have with our work force and the productivity that we are achieving is very commendable. Australia is no longer regarded as the basket case. We are seen to be a reliable provider of port services, which is of great benefit to Australia.

**Mr McARTHUR**—I just want to get this on the record. There is this famous argument of being able to move 27 or 25 containers per hour. Are you saying that, compared with Singapore or the bigger ports, Australia can move the containers respectably well, given the type of ship and the type of container?

**Mr Blood**—Yes. You need to take into account many factors. It is the ship rate that matters. We have a graph which I will provide to this committee that shows the ship working rate over the past 10 or 15 years and the unit tariffs over the same period. Now they are being monitored by the ACCC, but prior to that they were monitored by the Prices Surveillance Authority and others. The ship rate has done that and the price has done that. It is a great outcome. The ship rate we are achieving is in the order of 40 to 50 containers per hour—that is what really matters from the ship owner's point of view.

**Mr McARTHUR**—Getting it off the ship.

**Mr Blood**—That is the actual working rate of the ship.

**Mr McARTHUR**—Getting it off the ship onto the port.

**Mr Blood**—Yes. We might be putting two or three cranes on the ship to do it and each crane might be working at a rate of 25 containers an hour. But it is the ship rate that matters—the ship rate for the size and type of vessels that Australia handles—and the complexity of the cargoes. We have a lot of vessels that have multiple discharge ports. A ship is made up of a whole series of different parts of the vessel. There are many ships where we are accessing 80 or 90 per cent of the different parts of the vessel because of the multiple discharge ports and the separation of cargoes.

**Mr McARTHUR**—That is relative to, say, Singapore, where you shift a whole lot on to the port side—

**Mr Blood**—Much easier—a very high transshipment port.

**Mr McARTHUR**—So we have a bit of trouble in the public debate; is that right? You cannot win that public argument?

**Mr Blood**—And we get immensely frustrated by that. That is why I emphasise it.

**Mr McARTHUR**—Some of us are on your side. Given those two scenarios, what is your blueprint for the future in this very issue that the committee is looking at? If you were fully in charge—if we made you the Prime Minister—with an ability to foreshadow what might happen in 15 years time, what would your scenario be?

**Mr Blood**—Firstly, I would have a new vision and clear statement as to what is the primary goal here. The primary goal, in my view, at the moment is totally confused. The primary goal

should be how to achieve the lowest cost of import and export in the most timely manner. That is what the goal should be. If it were the goal, there would be a much greater focus on efficiency and cost-effective use of infrastructure and assets and less concern about competition dogma. A collaborative approach, making the optimum use of resources, would yield a far better outcome than continuing with the present model of everything being separate sectors, each fighting with each other, with no overall proper collaboration as to what could be achieved. I question whether or not that is actually the goal. It should be the goal—lowest costs of import and export—but invariably it is not. We get immensely frustrated with the shallow analysis of this.

**Mr McARTHUR**—Taking a utopian vision of this, what would you do?

**Mr Blood**—I would certainly have an absolute determination to dramatically increase the level of back-loading on trucks and to increase the TEU to box ratio. I would give an absolute priority to establishing rail paths for strategically located intermodal rail facilities to take the congestion away from the cities. They would have to have the rail paths and be given priority, if necessary, over some of the passenger services. Then you could take existing infrastructure and make it work much, much better than it works today.

**Mr McARTHUR**—Have you put that sort of argument forward on a number of occasions or expanded on that?

**Mr Blood**—Yes, but people think we are saying this because we have a vested interest, that we happen to be part of the existing duopoly, which is of course true. But I also believe that it happens to be a sound argument. Unfortunately, people cannot separate the two. They look at us and say, ‘You are just trying to protect your position as part of a duopoly.’ Therefore the logic of our argument gets ignored because of the obsession with saying: ‘We want more operators. There have to be more operators—that will fix everything.’ There were five stevedores in Australia in the late eighties, early nineties. The performance was atrocious. Investment had long since ceased. Equipment was decrepit. The port corporations themselves, with a degree of intervention, effectively forced a rationalisation, down to two stevedores. Here we are 10 years later: ship rates have done that; tariffs have done that. We should be heralding this as a great success story, but instead we are subject to carping criticism. That is the current atmosphere.

**Ms BIRD**—Following on from that: it would appear that no matter how many stevedores you have unloading ships what you are saying is that the best point for productivity improvement is the rail yards.

**Mr Blood**—Road and rail—

**Ms BIRD**—Yes.

**Mr Blood**—Stevedores have a role to play in that process, through a collaborative approach to dealing with these issues and a preparedness to do some things that might be unpopular with some sectors of the road transport area.

**Ms BIRD**—You mentioned the intermodal terminal at Somerton. Could you describe to me what you have invested in there—what is operating?

**Mr Blood**—A company by the name of Austrak developed a business park, and it has a rail siding. We have taken a long-term lease over that rail siding in order to run a port shuttle service from Somerton backwards and forwards, not just to our facility but to the Patrick facility as well.

**Ms BIRD**—This shows part of my ignorance, being a Sydney not a Melbourne person. What is the distance between Melbourne port and Somerton?

**Mr Barrett**—It is about 20 kilometres north of the port.

**Mr Blood**—It is within a natural catchment area for probably of the order of 200,000 TEUs. There are a number of major exporters and importers in the area. It is a very good example—and I doubt you will get a better one—of an intermodal facility that is guaranteed to succeed. That is why we have done it. A number of decisions have been made since then that assist that. The fruit and vegetable markets are moving to Epping, near Somerton. Coles Myer have decided to put one of their largest distribution centres at Somerton. It is a very good example of what can be done. In that instance, Austrak took the initiative, put their money where their mouth was and started this business park. It has taken many, probably eight, years to get to this stage.

**Mr Barrett**—In total it has taken probably about eight years.

**Mr Blood**—Here in Sydney there are similar opportunities and we are looking at them, as are others. It is undoubtedly the way to go on the rail side and it is important to pick the right locations. You do need to have some natural catchment.

**Ms BIRD**—I would like to explore something from a purely parochial point of view. I do not know if you know that my seat is Cunningham, which is the Wollongong area. What are the opportunities for rail connection—and I note that you move cars—from Port Kembla into Western Sydney? I drive up past Campbelltown all the time and there are huge holding yards of cars up there.

**Mr Blood**—There is a definite possibility of a rail connection for cars back into metropolitan Sydney.

**Ms BIRD**—As a stevedore you would see that as supporting the move to move cars down to Port Kembla? You would see that as a positive contribution?

**Mr Blood**—It is on the list of issues to look at. As you are aware, AAT—which is a joint venture facility company between us and Patrick; we simply share a facility as a piece of commonsense—has the lease over Port Kembla. That was recently announced. Rail is absolutely on the list of issues to be explored very vigorously. I would say about that, from some comments earlier, that the centre of cargo distribution in greater Sydney is moving towards Port Kembla.

**Ms BIRD**—Exactly.

**Mr Blood**—I think some of the current complaints about Port Kembla, in my view, are a little unfair. I think there is a lot of politics caught up in it. The government first gave a hint that it was considering doing this some 18 months ago when the Premier announced the premature closure of Glebe Island. Whilst in the pure sense of consultation there have not been the open

committees and debates, there have been 18 months of people beating a path to the door of government. To say there has been no consultation I think is actually a bit unfair. The fact that some people have not got the outcome that they wanted means that they put that slant on it. But in the end it became entirely a decision for the New South Wales government and, yes, there is a lot of politics caught up in that. Glebe Island, White Bay and Darling Harbour are on borrowed time. We operated the facility at White Bay for many years, and it became impossible to work there. The level of complaints was getting greater. The least time a person had lived next to the terminal, the more they complained. Of course, they became more and more well heeled as time moved on and therefore more able to avail themselves of things that really do make life difficult. So White Bay was closed. It just became unworkable.

Inevitably, the same thing is going to happen at Darling Harbour and Glebe Island, so the government has taken a pre-emptive step, which is unpopular with some. That is when I say that a lot of research has been done by the Port Kembla Port Corporation which shows that the centre of cargo distribution is moving their way. If it was not for the fact that there is a huge hill in between, there would probably be a lot fewer complaints, but there is some logic to it.

**Ms BIRD**—There is an identified rail line that heads up towards Menangle and into Western Sydney.

**Mr Blood**—Yes, there is.

**Ms BIRD**—So you would see that that would be a worthwhile thing to pursue.

**Mr Blood**—It should be thoroughly explored.

**Ms BIRD**—Thank you.

**Mr McARTHUR**—Have you got a couple of international examples of the Somerton type projects that have worked well and have shifted it away by rail out to an outlying hub?

**Mr Blood**—I struggle to give you precise examples, because elsewhere in the world we tend to confine ourselves to the port activities. Australia is a bit of a new step for us, but it has been commonplace in Europe for many years. Not only do you have container terminals in Europe, you have rivers, barging and myriad different modes of transport to shift containers out of ports. The optimum use of rail and road transport in Europe is much more part of the daily fabric of life than it has been here. I struggle to think of examples.

**Mr Barrett**—There are two examples that we know of: one in Europe and one in the United States. In Europe, Duisburg in Germany is a trimodal terminal that moves containers by rail, road and barge from the ports of Rotterdam circular. That is then used as a distribution hub for cargo movement to eastern Europe.

**Mr McARTHUR**—How far is the rail track?

**Mr Barrett**—From Duisburg to the port?

**Mr McARTHUR**—Yes.

**Mr Barrett**—It is from the Rhine Valley in Germany to Holland, so it would probably be 300 or 400 kilometres. Then the rail service from Duisburg goes as far as the Czech Republic and to Yugoslavia.

**Mr McARTHUR**—But that is a longer haul. In this example here in Melbourne, we are talking of a shorter haul to get it outside the port and urban infrastructure, aren't we?

**Mr Barrett**—Yes, and there is another example of that within Rotterdam itself. ECT is an inland container terminal about 20 kilometres from the port.

**Mr McARTHUR**—Is that working?

**Mr Barrett**—Yes, it is working very well.

**Mr McARTHUR**—Is that a model this committee should be aware of?

**Mr Barrett**—Certainly. It is run between two shipping lines: Maersk and P&O Nedlloyd. Of course, Maersk recently purchased P&O Nedlloyd, so we could say it is now run by one shipping line. It is predominantly for their own volume. I am not sure if they handle third-party volume there as well, but I believe they do. Another example is the Alameda corridor in Los Angeles where a rail corridor was put in to run a distance of some 40 kilometres from the port to an inland hub where it then links in with main intercontinental rail services across the United States.

**Mr McARTHUR**—Just help us a bit. Does the movement of the containers onto and off the rail not make it cost prohibitive?

**Mr Barrett**—No; but, having said that, the Alameda corridor in the United States was developed at an astronomical cost. The infrastructure cost was in the billions so, in terms of a return on an investment, I do not know that it is necessarily very efficient but, in terms of moving trucks off the road, it has been very effective.

**Mr Blood**—One of the things that I think gets a bit lost in some of the debate here in New South Wales in particular is that road transport costs in Sydney are high. They are considerably higher than in Melbourne, for example. This is primarily because road congestion in Sydney is worse. There is also a lot of history. When Enfield was first announced by SPC, we were a strong supporter of it. In fact, it may even be possible for us to bear the cost of transferring the box by rail to Enfield because the overall savings in the road transport costs from Enfield—if that was done in a more efficient manner, maximising backloading and high box-to-truck ratios—would be greater than the cost of the rail transfer.

To add to that, if we could go the whole hog and have all imports that come into Botany immediately go out by rail, we would have no sorting process. We are sorting boxes in a container terminal where we have the highest labour rates of anybody in the transport chain, and probably always will. We have a 100 per cent premium for night shift and a 50 per cent premium for evening shift.



If you want to see a good example of the incredible inefficiency of all this, you only have to look to the recent problems with Customs. There were problems with the Customs system—no doubt about it. But there were immediately those in the freight forwarders, Customs brokers and transport operators who wanted to get that system taken out because they do not like the new disciplines it brings in. So you read all these dramatic statements about how terminals are going to close and ships are going to be delayed. Not one ship has been delayed. You hear people saying that kids will not have presents for Christmas. We have been open every weekend since this program started. We offered to open on a Sunday to all the carriers in New South Wales. There was not one taker. Nobody came in on the Sunday—yet, come Monday morning, they are all screaming blue murder, ‘I can’t get my box.’ On the Saturday, when we normally operate, we would typically have available 800 timeslots with only 200 to 300 used. This was during this whole period of so-called congestion and the Customs debacle. I think that Customs were very unfairly criticised by a lot of people. Yes, there were problems—that is not to be denied. But the problems need not have been as great as they were had there been a preparedness of the road transport sector to come and get those boxes that were cleared. But they would contend that they cannot do it because they have no-one to deliver the boxes to because the importers and exporters are not open 24 by seven. You have exactly the same problems today that Peter Morris identified in 1993. Not much has changed, and we ought to be ashamed of that. We ought to go back to that and say, ‘Let’s do a bit of an audit and a stocktake.’ That is what this report says. What has been achieved 12 years later? If it has not been achieved, why not?

**CHAIR**—Just recap his opinion. You would have been on the committee at the time.

**Mr McARTHUR**—The *Warehouse to wharf* report.

**Mr Blood**—There you go; that is it. That report is interesting reading. It talked then about the need for industry to go 24 by seven—the need for major importers and exporters to be open to receive and deliver boxes. There has been a very poor take-up of technology in the road transport sector, a very limited use of GPS tracking. Not much has changed.

**Ms BIRD**—Do you feel that part of that is a result of what you were saying before about the focus purely being on competition and multiple players in the market and not necessarily on encouraging people to maximise their performance as a business—it is all just in time, roll your profit as quickly as you can?

**Mr Blood**—Yes, I do believe that is one of the biggest problems. I do not want to be reported as someone who is constantly knocking trucking companies. They have a very difficult task because, for all the things that I say, if they have to cover the cost to drop the box themselves then no-one is going to pay them for it. So they do not come in and get the boxes, because they have nowhere to take the boxes to without them incurring a cost that no-one is going to pay them for. It has to change. There needs to be a greater pressure for people to do things that are in the best interests of the whole community, even though it may not be in their best interests. That is why I say ‘fair go’ about the stevedores. We have the most expensive labour in the transport chain, yet without hesitation we operate 24 by seven. If we have the most expensive labour and are prepared to do it, why isn’t everybody else prepared to do it?

**CHAIR**—So your three premises, so to speak, are: (1) the access to the ports, the channels, is important; (2) there needs to be a greater acceptance within the port confines of the efficient

movement of freight out of there on a seven-day-a-week basis; and (3) we have to get better linkages into our immediate, and perhaps distant, hinterlands. Are you talking about sprinter trains there?

**Mr Blood**—CRT—a nice idea. I think they always needed to be a train of greater capacity than originally, and I think that Colin Rees is now working on doubling the length. That idea of a constant shuttle between locations does have a lot of merit. You have to keep exploring whether it is economically viable compared to the road alternative.

**CHAIR**—I know we are dealing with different commodities in Darwin, but we found a tremendous resistance when our inquiry visited Darwin to double handling—in fact, to the point where the Central Australian railway line, which goes right through all the beef country, does not handle any cattle, or very little, not because it could not or should not, but because, to put cattle onto the train, take them off the train and put them onto the port, might require three different lots of handling. That is not a worry to you?

**Mr Blood**—I think the relative costs are changing. The paranoia that has driven everything in our industry for a long time has been that you handle the box the least number of times, even within your own facility, but there reaches a point where, even within your own facility, it can become viable to be prepared to lift the box more times to avoid lots of pieces of mobile equipment running all over the yard. So there is a point at which scale suggests that being prepared to tolerate a lift on and a lift off can give you a better overall outcome through the consolidation and efficient use of the actual mode of transport between two points. The cost of labour to lift on and off relative to the transport cost, I suggest, is probably getting less. So there is a point at which that old paranoia of, ‘Don’t handle the box more times than you have to,’ may not be a valid consideration when you consider the benefits of full trains and the efficiencies and savings that come from that.

**CHAIR**—If government were going to seed fund a revival in rail in respect of freight, where do you think the key points would be? Would they be at the point of wharf holding yard to the trunk rail system, in better trunk systems or in better corridors around Sydney? Where should the government be concentrating its effort?

**Mr Blood**—If you had a national body that developed genuine expertise as to how these things work, the role that the national government could play is ensuring that the focus is on efficiency, because anyone can set up these facilities, but will they deliver the efficient outcomes that people are expecting? As a case in point, a federally funded project 10 years ago was to build the Dock Link Road in Melbourne from the South Dynon rail yards through to the port. A lot of money was spent creating a special road. The train that came in there might have 60 or 70 boxes on it, all randomly placed, and trucks arriving at that rail terminal in a random manner. When that road was built, there was an opportunity for an efficient interchange between South Dynon and East and West Swanson container terminals. We steadfastly tried ourselves, and then National Rail, the Port Corporation and a working group, to encourage shipping lines to accept the movement of boxes between South Dynon and the terminal. Who did it was irrelevant but we failed. The movements between South Dynon and the terminal continue to be done by hundreds of trucking companies, when there was a golden opportunity for a consolidation and one or two carriers to run a permanent shuttle either way. After two or three years of steadfastly trying to get the parties to cooperate, we could not.

I had that experience personally. I was astonished that unless somebody is taking an overview and saying, 'You will do these things that are in the best interests of the whole community,' in the end the individual vested interests will override and undermine that goal. You can set up intermodal facilities, but whether they will provide the efficiencies we are talking about needs to be looked at very carefully. For example, our point about Enfield is that we would want to run our end of the railhead so that we are running both ends of the railhead, so we can work hard to ensure we get efficient movements between those two railheads. If we are running the railhead in our terminal but somebody else is running the railhead at Enfield, I do not think we will necessarily get the level of coordination and cooperation that we would need.

**CHAIR**—Do you have facilities at Enfield?

**Mr Blood**—No. We are hoping that if Enfield proceeds we would be given a dedicated facility for P&O and probably a dedicated facility for Patricks. That is the way that we would prefer to do it.

**CHAIR**—And Enfield then feeds into the trunk routes. Is that the idea?

**Mr Blood**—There would be a distribution from Enfield by road, a hub and spoke arrangement. We also see an opportunity, by having a national network of intermodal facilities, for some domestic freight gains. But initially, we are primarily driven by an efficient movement between the port and the intermodal facility.

**CHAIR**—You note that is one of our terms of reference, although I do not think that when the minister was crafting that term of reference he was thinking in terms of one so close to the coast. I think he was thinking in terms of ones that are inland. Nevertheless, it does not preclude us from investigating that. Would you like to develop a paper on that for us?

**Mr Blood**—The work that has been done by the review that Laurie Brereton—

**Ms BIRD**—It has only recently been released.

**Mr Blood**—Yes. I did not agree with all of the things in that, but generally speaking we think that report is absolutely heading in the right direction. He identified the need for about three or four of these intermodal facilities throughout greater Sydney. The further the distance, the more likely that rail will be a cheaper alternative than road, but you also need natural catchment areas to make it work. Of course with a port the size of Sydney, and looking for 50 per cent movement by rail as a sensible goal, you need four or five catchment areas, each with a potential of 100,000 or 200,000 TEUs. They are, by necessity, going to be in the greater Sydney area, but away from the port. I am not saying there is not the need in the future for Parkes and Albury and all those sorts of possibilities.

**CHAIR**—But could you give us a small paper on your vision for that?

**Mr Blood**—Sure, we would be pleased to do that.

**CHAIR**—Your evidence is the first we have received that really articulates a position on getting the product away from the wharf area into the system. You have challenged the

conventional wisdom with the idea that the number of times a box is handled may not necessarily be a negative thing if you achieve greater efficiencies at the end of the process.

**Mr Blood**—Somerton is a great opportunity for country carriers to not have to go into the metropolitan area. They can drop their box at Somerton. Okay, it means that it has been landed and it has got to be lifted back on, but in the overall scheme of things it will be a more effective use of their truck and a cost-effective solution to the importer or exporter. Yes, conventional wisdom does need to be challenged.

**CHAIR**—And do you think a sprinter train needs to be a similar idea but a longer model?

**Mr Blood**—The size of that was the original problem. The real difficulty that arises is that a ship arrives and it might have a discharge of 1,000 boxes, so it is very lumpy. You instantaneously need to get a large proportion of those boxes out and that is where that sort of train has its limitations, because it is not the steady feed that you would like it to be. Every couple of days, you have got 1,000 boxes to be discharged. The other problem that we have got that we have not touched on is the need to reduce the dwell time of containers within terminals. At the moment we give three free days of storage to the cargo owner via the trucking company. Our average dwell time is in excess of four days. Three free days and the average dwell time is in excess of four. Why don't they come and get the boxes? Again the trucking companies, the meat in the sandwich, generally do not get the import delivery order from their customers until day 3.

We have been criticised by the ACCC for having high import storage revenue. We do not want the import storage revenue. We prefer to have the space in our facilities, because the efficiency drops the more congested a terminal is. But no matter what we do with import storage, the dwell time has been just over four days. I have been in the industry for 13 years, and it has not changed. You could double the import storage fees tomorrow; it will still be above four days.

**Ms BIRD**—You could increase your three days to five. That would not improve the efficiency, but it would certainly cut your profits.

**Mr Blood**—That is right. The target should be to reduce that, to make optimum use of premium land in a port, yet we are being used as an incredibly cheap storage facility.

**CHAIR**—More to the point: getting your box to the customer quicker.

**Mr Blood**—All of those things.

**CHAIR**—And you say that that is in the supply chain and in paperwork?

**Mr Blood**—The primary problem is in the information flow and in the instruction to the trucking company to get the box. The first day or two of the three days are not used effectively.

**CHAIR**—Whose responsibility is that?

**Mr Blood**—It is a collective responsibility—freight forwarders, customs brokers, shipping lines. This is where the real issues lie. Again, what is the ultimate goal? The ultimate goal should

be to reduce dwell time of containers in container terminals. We introduced an initiative—again, out of frustration to a large degree—with Patricks for a common e-commerce environment called One Stop to try to make it easier for everybody to have a seamless information flow. I think that is going to make a difference in the long run. But the process is not very efficient. If you want to increase the capacity of a container terminal, reduce the dwell time of containers, it makes a huge difference.

**CHAIR**—Should the committee be looking at this? One of our terms of reference is the efficiency of ports.

**Mr Blood**—We would like to turn around tomorrow and reduce the three days to two days. I think we would probably be beaten to death in the street if we tried to do it. Again, that is where a national body, recognising the importance of just-in-time planning, could set a framework that might encourage that type of behaviour—which is what I believe is necessary.

**Ms BIRD**—We need a planned economy.

**CHAIR**—Do you have a comment on the inland rail?

**Mr Blood**—I will ask Sean to deal with that one.

**Mr Barrett**—As we understand it, the key driver ultimately for the inland rail from Melbourne to Brisbane will be the bottleneck through the Sydney-Central Coast area which would be an impediment to freight movement between Brisbane and Melbourne. The cost, though, is one of getting over the mountain range, and I believe the Toowoomba range is the main obstacle, just as the Blue Mountains are for expanded rail services from western New South Wales into Sydney. However, we have had discussions with the ARTC and they believe it is inevitable, simply because of the population growth in the Sydney-Newcastle corridor which will effectively block the efficient growth of rail on that coastal route.

**CHAIR**—Is the time sensitivity of getting containers, in particular, but also product, between Melbourne and Brisbane an important aspect? Why would people go on rail rather than on road?

**Mr Barrett**—Currently rail is quite a bit longer than road for time-sensitive freight, and of course the just-in-time principle is a key driver in supply chains. The inland route, as I understand it, will take a considerable chunk of time out and certainly make the rail transit time more comparable with road.

**Mr McARTHUR**—What is your general view of the rail connection between Brisbane, Sydney, Melbourne and Adelaide—and maybe Darwin—and this whole argument that the container ports will need to develop scale and that the rail will take up? In the case of Adelaide to Melbourne, it seems to work quite well. Can you give us a general comment on that broad view?

**Mr Blood**—I must say that the Darwin to Adelaide rail link was a great piece of pioneering spirit for Australia, but I do question whether or not it was a great return for taxpayers because the likelihood of Darwin attracting cargo of significance away from other ports as a result of it is, in our opinion, low, remembering Fremantle has been connected by rail to Adelaide for a very

long time and it has had a huge problem—an imbalance—of rail volumes. Fremantle is just as good a stepping-off point for Asia as is Darwin. It has its place, and as an Australian I am pleased it has occurred, but I think it will be a long time before that will provide any viability other than for those natural catchment businesses along the route itself. It has been beneficial obviously for a lot of the mining ventures along the route itself.

There is even a question, for example, as to what the long-term prospects for Adelaide are. The same ships that currently call at Adelaide go to Melbourne or Fremantle. So why do they bother going to Adelaide when you have an efficient rail linkage between Adelaide and Melbourne? Time is becoming so important to the shipping lines that I question whether lines will, in the long run, continue to call at Adelaide. That would be an interesting change. One major service last year stopped calling at Adelaide, much to their disappointment, because we are running increasingly a quite cost-effective rail service between the two cities. As far as the importer or exporter is concerned, it is the same ship. In fact, we thought of painting a very large ship on the fence of our facility in Adelaide because people should start looking at this as though it is a virtual port. But a lot of parochialism tends to govern people's thinking and the Adelaide community are very strongly in support of maintaining their port. I am not sure the shipping lines see it that way.

**Mr McARTHUR**—What about the argument that, if Sydney does not get its act together, you would run the two major container ports out of Melbourne and Brisbane?

**Mr Blood**—I do not honestly believe that that is ever going to occur. Land bridging costs for a country of our size and population is surely always going to exceed the incremental cost of a ship going around the coast. So we have always believed that to be a little fanciful. In terms of Sydney getting its act together, even though the last couple of years have been a bit drawn out, Sydney is not a weak link in that national transport chain. If you were to ask me, 'What is the weak link in that national transport chain?' I would answer that it will become Melbourne if the channel is not deepened. That is the biggest port in Australia. If that does not occur, it will affect Sydney and Brisbane, not just Melbourne. But I do not honestly believe we will ever get to the stage of Brisbane and Melbourne, and no future for Sydney other than a tourist destination. I cannot see that.

**Mr McARTHUR**—The Melbourne channel deepening will inevitably happen, surely.

**Mr Blood**—I hope so. One would think so but, frankly, I was really astonished that the independent panel that reviewed it did not have the courage to say: 'This must proceed but here are some things that need to be checked further.' Instead they took the soft option and rejected it, and introduced another delay of one or two years. It has become so political, so overstated in Victoria, that anyone appearing on those panels is going to probably be somewhat hesitant about sticking their neck out. The debate has been hijacked by vested interests in the environmental side and it has lost balance from the real impact on the state of Victoria it would have if that did not proceed. Ships are already altering their whole cargo patterns because of the limitations in Melbourne. That has been happening for the last three or four years, and it is going to get worse. Shipping lines the world over are consolidating. There will be further consolidations. Vessel sizes are increasing. Ports must be capable of dealing with those deeper draft vessels. So, yes, it must be done but I am not so confident that I would put my house on it, and I bet you cannot tell me when it will be done.

**Mr McARTHUR**—Will 14 metres be okay for the foreseeable future?

**Mr Blood**—Yes.

**Mr McARTHUR**—One of the arguments is that, when you get to 14 metres, the ships will get so much bigger, then we will lose the volume anyway.

**Mr Blood**—The counterargument to that is that increasing size is not necessarily translated into deeper draft vessels over the years, and that has been looked at pretty thoroughly. Remember that now there are already 8,000—I think people are even talking about 12,000—TEU ships. So there is a lot of data around. It is a cascade issue. We get vessels today that were doing other routes 20 years ago. I believe 14 metres is a responsible figure. I think anything less would be unwise.

**CHAIR**—That is very challenging and very good evidence, Mr Blood, Mr Barrett and Mr Davis. We thank you for your commendable frankness because that is the sort of evidence we want. We do not want the namby-pamby stuff or the politically correct stuff; we want to know what makes the difference. We would be very grateful if you would develop a bit of a paper on the Sydney basin hub, and we may call you again before the end of the inquiry. Thank you once again for a very frank exchange.

**Mr Blood**—Thank you for the opportunity.

**Proceedings suspended from 1.16 pm to 2.24 pm**

**SETCHELL, Mr Andrew, Director, Anglo Ports Pty Ltd****SETCHELL, Captain Richard, Chief Executive Officer, Anglo Ports Pty Ltd**

**CHAIR**—I welcome the representatives of Anglo Ports Pty Ltd, who are also representing Australian International Container Terminals Ltd. As you are probably aware, these are proceedings of the parliament and warrant the same attention as would be given to activities of the parliament. Therefore, it is customary to remind witnesses that the giving of false or misleading evidence is a serious matter and may be regarded as a contempt of the parliament. You are most welcome. We would like you to give us an opening statement or an overview of your submission for about five or seven minutes and then we would like to break into questions.

**Capt. Setchell**—Previously I was CEO and Chairman of P&O Ports worldwide for about 12 years. I thank the committee for the opportunity to make a submission and to appear here to elaborate on its content if called to do so. Australian International Container Terminals Ltd is a joint venture between International Container Terminal Services Inc., which is a Philippines publicly listed company operating terminals in Brazil, Japan, Poland, Madagascar, the Philippines and Saudi Arabia, and Anglo Ports, which is a company providing container terminal expertise to a number of clients around the world. Australian International Container Terminals Ltd portends to be a potential competitive stevedore in Australia offering container terminal services in competition to Patricks and P&O.

The committee has a number of focuses in its inquiry. Ours is specifically related to regulatory and political issues for ports and the prevention of competition rather than the promotion of competition. I have outlined in our submission what we believe to be serious issues related to the protection of an ongoing mindset related to the duopoly and excluding competition. No possible opportunity exists other than by acquisition for a competitor to establish itself prior to 2010. This in itself could only be limited competition. Acquisition, as we both know, is a costly exercise and is demonstrated in the values being put on two acquisition processes now in play, one being for P&O for a value of about \$A10 billion and the other \$A4 billion for Patricks assets.

On conservative assumptions, the above environment will provide Patricks and P&O with \$2 billion in shared revenues, \$200 million in pre-tax profits each and, more importantly, continued domination of a market that has no protection or options for its current users. In the last 16 months I have experienced first-hand political resistance to even discussing the issue of competition. Today, 26 of 28 container berths are controlled by Patricks and P&O. If Dubai Ports is successful in its acquisition of P&O, then 28 of 28 container berths across Australia will be controlled by two parties. If Toll is successful with its takeover of Patricks assets, it will control, amongst other things, 75 per cent of all shipping berths for all cargoes in the state of Victoria.

I am here to answer any questions or queries you might have related to the submission that I gave to this inquiry. That is a summary of who we are and what our intentions are. The submission highlights the issues that we believe need careful consideration.

**CHAIR**—I suppose your basic premise is that if there were three operators we would have a much more vibrant and competitive market.



**Capt. Setchell**—My view is that, usually, most forms of competition provide that environment.

**CHAIR**—What are the practicalities of a third operator obtaining sufficient access to the ports, shipping channels, holding areas, wharves and so on? What is your vision for that?

**Capt. Setchell**—At this time all ports, as we know, are state owned. Let me refer mostly to major ports. Our focus is on the major ports of Fremantle, Melbourne, Sydney and Brisbane. Adelaide has already been sold; it is in the hands of Flinders Ports. They have a 10-year concession that Dubai Ports have, so I exclude Adelaide, although two of the 28 berths for container terminal traffic are actually in Adelaide. But the natural barrier to entry is access to land. There is no land. The perfect example I can give is in Sydney, where a pretender to competition, as in our case, needs to wait for the government through Sydney Ports Corporation to provide available land. There is none, other than by reclamation. It is no different in Melbourne, Brisbane or Fremantle. The earliest any competitor might have the opportunity to express an interest in being a competitor will, seemingly, come about in New South Wales, where the government have already decided to reclaim 51 hectares. They have indicated, publicly and to me, that they intend to open a window for a third competitor to compete for that land.

That is the only way that we can secure suitable land to build a container terminal. In any event, the port corporations are required under law to provide all the marine services that are required to operate a terminal—pilotage, towage, free access and exit from the ports and so forth. Highlighting the difficulty that we have had on this issue of land, I carried out a number of surveys with a civil engineer. We had numerous discussions with the Port of Hastings Corporation and made presentations to the board. They subsequently went to the state Treasurer and the Minister for Transport. Our intention was to buy half of the assets of the Port of Hastings. I have people willing to invest \$80 million to \$100 million immediately in port infrastructure—it was rejected.

**CHAIR**—Rejected by whom?

**Capt. Setchell**—The state government of Victoria. No particular reason was given. They are examples of the impediments that are placed before people such as us who want to establish a competitive business. One would realise that this is a very capital intensive business. I can elaborate more on the port of Melbourne if called to do so, but any initial investment would be in the order of \$250 million to establish one single first phase of a container terminal. To me a first phase would be 600 metres of quayline, probably 35 to 40 hectares of backup space, and the equipment to operate a reasonable service. So any argument put by the existing participants is difficult for would-be competitors to overcome. They have a mindset that is so entrenched in state governments and state port corporations that it is only through public processes like this that it can be exposed.

**CHAIR**—You play devil's advocate; you say it is so impossible to get land and that you cannot do this and you cannot do that. Why do you still persist? What is your alternative vision? Why would what you suggest be better for Australia? Give us a positive aspect of what you could do if you had access to the ports.

**Capt. Setchell**—I put in my submission that any third operator would put pressure on pricing and I have given you approximate figures that, year on year, the absence of added competition adds another \$200 million, in my view, to what users have to pay for the services that they are provided. It would be hard for me or, I would think, for your table, to put any argument that competition is bad. Competition provides added initiatives to best services and client retention.

**CHAIR**—I am just looking through your submission and trying to find those figures again. Can you give us a bit of an idea of what a typical comparison of costs would be for a vessel discharging 1,000 containers?

**Capt. Setchell**—I will break it down into terminal handling charges. All of our financial modelling for proposals that we have put in the state of Victoria to build a container terminal in Melbourne were based on rates that were 20 per cent less than what is currently being charged. The average rate today is \$A200 from ship into stack onto road or rail—that is a typical terminal handling charge. Our modelling has been done on \$170. If you take \$30 or \$40 less than what is currently being charged through the introduction of competition times five million containers, that is \$200 million. Five million containers are what is estimated to be handled in the ports of Fremantle, Melbourne, Sydney and Brisbane this year. Given a rate of 10 per cent growth per annum—Fremantle has been growing at a rate of 11.1 per cent and other ports have been growing at a greater percentage than that; I think the last two years you will find that growth rates were over 25 per cent—then in seven years we will need to accommodate 10 million containers per year in our existing facilities.

**CHAIR**—You do not have to answer this question if you do not want to. What would you say to the claim that, in having a foreign partner, your only interest is to be a stalking horse for an international company to get a share of the Australian stevedoring activity?

**Capt. Setchell**—I just saw leaving the last person providing evidence here. They are from a foreign company—100 per cent owned by a foreign company. With the party that is about to take it over, maybe the Arabs would be talking here before lunch rather than an Englishman. Fifty per cent of all of the terminal assets and quite a number of secondary ports are owned by a foreign party, so the question really is a little bit unfair.

**CHAIR**—I said that you did not have to answer it. What I wanted to know was whether you yourself have a vision for an alternative service for Australia or you are presenting the case for somebody else.

**Capt. Setchell**—I have spent just about my entire life in shipping. I have spent 25 years of it on the Australian waterfront doing what I thought was an effort to improve the wellbeing not only of the workers but of the shareholders, having been through a WIRA process and the secondary reform process of 1998. So it is not some speculative ideal that I have. I am here because I see the need for a third party. Five or six years ago, when volumes were half of what they are today, there was difficulty in mounting an argument that a third party was required. Fifteen years ago there was consolidation. There used to be six stevedoring providers in the port of Melbourne. Today there are two—three if you want to count Tolls. So there was a case for consolidation. But today, where \$1½ billion is the shared revenue pot and the two existing players publish results of \$100 million each pre-tax, there can be no argument to perpetuate the duopolistic arrangement—none, in my view.

**Mr McARTHUR**—How come the five other smaller stevedores have gone off the map, so to speak?

**Capt. Setchell**—As I said, five or six years ago there may have been an argument—

**Mr McARTHUR**—What has changed? Are you just saying that the volumes have changed?

**Capt. Setchell**—Absolutely, it is the volumes. Instead of there being two million containers shared between three or four parties, there are now five million. Before my company could ever begin operations there will be 10 million containers and a revenue pot of over \$2 billion and the two players will be making \$200 million each. So it is not a question of undermining existing businesses. If this was George Street anybody who wanted to risk their capital would be able to set up shop. But we are trying to establish the business in an environment that has natural barriers to entry and is governed by state governments. In my cries I have had no support, yet, from the federal government, so one would think competition in this business is not important.

**Mr McARTHUR**—What is the argument of the state governments and port authorities when you make an application to provide a third player? What is their argument when they are suggesting you cannot participate?

**Capt. Setchell**—Let us take New South Wales. My representations have found fertile ground in that the state government of New South Wales has openly and publicly issued statements that it is encouraging competition. The new development of Port Botany will in fact accommodate a third operator. But, again, this will not be ready until 2010. In New South Wales there is support for a third player.

In Melbourne, four years ago they sought the introduction of a third operator, but again there were underlying requirements. I am talking about the third operator being encouraged to undertake its new operations without MUA labour. The government openly encouraged whoever was the successful party to do it without union labour. That is one issue. The other issue is that, when it was promoted, it was for 600 metres of quayline, very costly, on the Yarra River, with no possible opportunity to expand. Consequently, all of the participants disappeared. As I said, in four years we have had phenomenal container growth. I went back to the Melbourne Port Corporation last year and said, 'Is the West Gate site still on the table?' This was with the chief executive officer, who said: 'No, Richard. No longer on the table. Don't want to do it. We don't want to put it on the river; we want to deepen the river and we want to expand and widen the river channel, so no, and, therefore, it is not on the table.' I asked, 'Is anybody using the land?' The answer was, 'No, we don't want to spend what limited funds we have on any terminal facilities until 2020.' I got on the plane and flew back to Sydney.

Within a week, I got a call from the Chief Executive Officer of Melbourne Port Corporation. He is still there. He came to my office. I had a witness, my civil engineer, with me. The CEO said, 'Would you consider doing this proposition?' He laid out the maps of what is known as the West Gate precinct. It was dealing with the land that I had asked about but in a different way. I said, 'You need to give me a week.' We sensitised our financial modelling, and I went back and said we would do it. We signed a confidentiality agreement. I signed a letter undertaking that all costs—all \$250 million—would be ours, and we were prepared to do it.

A presentation went on 21 March to the Melbourne Port Corporation board. It went again, I believe, on 20 April. I heard nothing for six weeks. The political machinery started to turn—I am talking of the competitors—and I got a letter to say, ‘We no longer want to do this development.’ The facility will be required within about four years. They called for what they call expressions for interest for the same piece of land a month ago. Australian International Container Terminals Ltd expressed interest—a \$250 million development. I got word today that we were not short-listed, and that it did not want to build a container terminal there anymore.

These are the messages—actual meetings, with minutes, that have taken place this year in order to secure a satisfactory piece of property to build a container terminal. That is in the state of Victoria. Why would they cause me to expend so much money on a detailed, lengthy confidentiality agreement and bother making presentations to the board only to call it off after six or seven weeks?

Brisbane is another case. Berth 10 is already preallocated to Patricks or P&O. There is no process of public participation and no transparent process of allocation, other than the port corporation, after being challenged, saying that because Patricks have four berths they will give the next one to P&O. This is what I refer to in my submission as a contrived market—‘You buy a crane; I buy a crane.’ The business is shared fifty-fifty. They use exactly the same equipment. They have the same cost structure. They employ the same number of people, give or take three or four per cent. How can there be any differentiation in the service levels? Why would a client go from one side of the dock to the other side of the dock? They do not. It is a very comfortable ongoing arrangement which protects them against any would-be competitor.

We have been talking about Melbourne and, as it happens, in Melbourne I have to sign a letter that says all \$250 million, or whatever it costs—in actual fact, it is a \$500 million development in two phases—is ours. Yet I have a good picture here of Swanson Dock. It is an aerial view looking down at the container terminal facilities in Melbourne.

**CHAIR**—Can someone move that we take this into the record as an exhibit?

**Mr McARTHUR**—I so move.

**Capt. Setchell**—The intention is to dig out this area paying dollar for dollar—P&O and Patricks put in a dollar; the government puts in a dollar. Yet, in the government’s proposal to me, we have to put up the entire development cost. There is a selective approach to the allocation of state funds, in our view. That is the experience that we have had in the state of Victoria.

Going back to berth 10 in Brisbane, the explanation given to me by the chief executive of Brisbane is that, because Patricks has three berths, P&O needs to have three. We were told: ‘Come back in 2010 and we might consider the issue of competition for berth 11,’ by which time both parties will enjoy 1½ kilometres of quay line each, and 400 metres would be allocated to Australian International Container Terminals. You would hardly say that is encouragement to support the introduction of competition.

**CHAIR**—How do we compare internationally on stevedoring charges?

**Capt. Setchell**—Let me give you an idea. In Europe, they cost less than £100—that is \$250. I would think we are at the upper end. On a scale of 10, we are probably looking at seven. Manila, for example, charges \$40. Argentina charges \$US200. Santos in Brazil charges nearly \$US600. But, in Asia generally, we would be termed expensive. I think that that is evidenced by the level of profit. There is no price control here. It is said: ‘What the market can bear.’ The market can bear what two participants want to charge. There is not a third participant. I use the airlines as a parallel; it is a duopoly. It is not shared fifty-fifty. In fact, competition is highly intense. I guess that is because all the customers are Australian, they are domestic—it happens here. The shipping lines are in the UK, Germany—they are not here. There is no exposure in the fact that there is a lack of competition, so I use the airlines as a parallel. There is no fifty-fifty sharing of the market.

**Ms BIRD**—You talked about the \$200 handling costs. Pardon my cynicism, but if you have a duopoly who have come to an informally agreed costing regime, why would three players be any different? I will tell you my parallel: the oil and petrol industry. Why would a third player change that rather than just adjust to the existing circumstances?

**Capt. Setchell**—I would have thought that a third player would be likely to secure business away from the existing players, merely to survive. I would have thought there was likely to be a differential in pricing to do that.

**Ms BIRD**—I am asking about beyond initially.

**Capt. Setchell**—Any market will find its own level ultimately. I cannot speculate on the situation 10 years from now, which is about the time when we are likely to be in business. They will have me in a wheelchair by that time. Certainly there will be pressure on pricing downwards initially. It would end up where the market wants it to end up, but I would put to you that it is most likely to be lower than what it is today.

**Ms BIRD**— I was just jotting down a range of the other figures that you were quoting. When you say the figure for Manila is \$40, is that compared to the figure of \$200 for Australia?

**Capt. Setchell**—Yes, exactly the same service level—off ship, into stack, onto a railway. That is the terminal handling charge everywhere in the world.

**Ms BIRD**—How much is that driven by wages?

**Capt. Setchell**—In this country, 60 per cent.

**Ms BIRD**—So the wage differential between Manila and Australia is a significant contributor to the cost difference, is it not?

**Capt. Setchell**—No, I would think in comparison they would probably be the same. But in Manila wages are far lower and fuel is more expensive. So there are balancing elements there. But the whole socioeconomic structure within the Philippines or within Thailand or within Singapore is different to what it is here. Each market charges what it can bear.

**Ms BIRD**—But you are suggesting there is capacity in our market to take cuts, to actually offer a cheaper handling option?

**Capt. Setchell**—Without doubt.

**Ms BIRD**—I would like to get your reflections on some of the broader aspects of the inquiry, I hope that is fair, given that you are obviously not operating yet. Part of the evidence we have had is that a lot of the challenges for future growth are also about the movement from the port off into the target delivery areas for goods. We have had some discussion about the movement of that from road to rail, particularly given the pressure on cities. Some of your experience, from what you were describing, was very much with countries where the big population bases are also in coastal cities. Do you have any reflections on other examples or models where you are aware of that sort of thing happening that might be informative for us here?

**Capt. Setchell**—I can say that Australia's issues related to the movement of containers out of or into ports are no different to what is being faced in the major cities around the world. Nearly all ports, except the newer ones—and there are far fewer of those—are centred in or close to major cities. In Asia they do not have a strict regime, as we do, whereby all the movements are effectively from 7.30 in the morning through to 7 pm. You could go down to Friendship Drive at Port Botany at eight o'clock tonight and probably see four trucks. You could say that we have a three-lane highway into and out of the ports at the moment. We are only using one lane, because everybody wants to be there between the hours of 8 am to 5 pm. It is understandable. There is a whole mindset change that needs to be adopted here whereby even the commercial facilities would need to change to accommodate a 24-hour receipt-delivery. I believe that the promotion of inland distribution facilities is paramount.

**Ms BIRD**—Could you clarify this for us. We have had some discussion on both outer urban delivery points—for example, Western Sydney—and far western delivery points. What is your view on the viability of both of those options?

**Capt. Setchell**—Again, the viability is obviously subject to the bottom line and, providing somebody is going to pay for the transportation of the box in its non-received state by the consignee to an inland depot, then they will be viable. There are only two delivery points in Port Botany. One is the P&O terminal and the other is at Patrick. A third terminal would offer another gate, effectively a 30 per cent increase in receipt-delivery facilities. Again, that has all got to go on a road into and out of the Port Botany area and development needs to keep pace with that.

The use of rail also to an inland facility for further distribution is being considered everywhere. Australia is not alone in this dilemma; it is worldwide, particularly in the European ports. The United States do not have a problem like this; their terminals are enormous. They have adequate land space and when they build they reclaim a thousand acres. Here we are mucking around with 51 hectares, so the whole dynamics are different here. But certainly in Europe and South America it is no different, and Japan is a similar case.

For as long as we continue to put these terminals or keep them going within urban areas then the problem is going to continue. To solve the problem there is an increase in costs. Just to take a container off a truck, put it on the ground, and put it back on somebody else's truck in the morning, will cost you \$60. That is \$60 more than they currently have to pay now and that is

without getting it there in the first place. So there is a cost. Whether the cost is shared is another issue and I guess the solutions have not been arrived at yet.

**Ms BIRD**—Yet, using that sort of system, you could potentially increase the likelihood of 24-7 to some extent because some of the restriction is around trucks moving through highly urbanised areas.

**Capt. Setchell**—Absolutely. I agree. To get it from the point of discharge onto the container terminal to the point of delivery in Western Sydney or the Dandenong area in Melbourne must be a great advantage over the capacity limitations of roads.

**Mr McARTHUR**—Some of the other witnesses have suggested that the two operators provide economies of scale, given the relatively smaller operations of the Australian ports compared to those of the rest of the world. What is your observation on that?

**Capt. Setchell**—Economies of scale for whom—for them?

**Mr McARTHUR**—For them to provide a better price. That is the argument. I am not saying that I agree or disagree.

**Capt. Setchell**—I was going to say that economies of scale for them are that prices are ‘marginally decreasing’, but my information is that they are static. It is easier for a customer to resist a price increase. Economies of scale is a fallacious argument; it serves only the one that is putting it to you. What are the economies of scale? There are limitations shown in the slide I am holding here of a terminal. I defy the existing operators to tell me what scale they can now bring to this facility. You cannot expand the land area. As their business grows, they will be forced to provide more land-side equipment. There are no economies of scale.

**Mr McARTHUR**—Two operators instead of 20, for instance.

**Capt. Setchell**—I am not promoting 20 but rather a third or fourth operator. I do not see the situation continuing of 28 berths being owned by two people.

**Mr McARTHUR**—What are the examples from ports around the world of more than two or three port operators?

**Capt. Setchell**—Europe—I am trying to think of a country. Australia is unique.

**CHAIR**—You have made a pretty sweeping statement that what goes on here is inconsistent with global practice. Show us how that is. I think that is what Mr McArthur is asking you.

**Capt. Setchell**—At the end of a 30-year lease—and a 30-year lease is usual in container terminal activities—the facility is usually handed back to the government or to the state authority that owns it and it is put up for retender. That is not the case here. In countries where there is a larger population and a larger industrial base, there are greater opportunities for the introduction of other third- and fourth-party players. In Rotterdam, there are five stevedores. In Great Britain, there are probably nine container terminal operators. In the Philippines, there are four. In Laem Chabang in Thailand, there are eight—not just two. In Singapore, there is one; that is true. It is a

unique environment. But, again, there are generally tendering processes. In Brisbane, where berths that in my experience overseas would normally be put up for public process, they are not.

**Mr McARTHUR**—What sort of capital would a third operator require to become a player in stevedoring in Australia?

**Capt. Setchell**—For a 600-metre quay line, with five cranes, it would be \$250 million.

**Mr McARTHUR**—Would you get a return on that? Would you be a genuine competitor?

**Capt. Setchell**—Yes. From our calculations, we would be; otherwise I would not be here and nor would the people who want to be part of an active stevedore in Australia be promoting that kind of investment.

**Mr McARTHUR**—Why have you been rejected by the port authorities, by the state governments and by almost everyone?

**Capt. Setchell**—Their view is obviously different from mine in that they apparently do not think, except in New South Wales, that competition is good.

**Mr McARTHUR**—But there is a changing ethos in Australia where competition is being encouraged in a number of sectors—in the government sector, in the private sector, in tariff reduction et cetera. Mr Samuel of ACCC has been making statements of recent times, yet you cannot break through.

**Capt. Setchell**—You are right—again, though, if there was available land. There is not land being made available in any port other than in New South Wales. If the same development was being promoted or undertaken in any of the major ports, I think the opportunity for competition would be encouraged, but nobody is saying that at the moment. In Fremantle, the next berths available are in 2017; in Melbourne, they are saying in 2015; and we have already canvassed the situation in Brisbane. If there was readily available land and a party like us was willing to develop it then quite possibly there would be more encouragement for competition.

**Mr McARTHUR**—What would be your reaction if P&O, for instance, was subject to a takeover by a bigger world monopoly and took over the spot?

**Capt. Setchell**—It would make no difference to our situation here, where all 28 berths would still be owned by two players. Dubai Ports are only going to replace P&O. They already have the two berths in Adelaide. But it would make no difference to the equation that we have where there are two players only—and the same goes for Toll. If Toll and Dubai are successful, we have two different entities here. I think—maybe I am wrong; it is only a judgment that one makes—the attitude to competition will change. I do not think there are the historical allegiances to the two new potential owners that there are to the existing owners.

**Mr McARTHUR**—What would you say to the observation that Patricks might have been the precipitators of change on the waterfront in 1998, that they were part of quite a dramatic change in productivity, attitude and reliability—a whole gamut of things—and have reaped the benefit



of participating in that activity? What would you say to the observation that seven years later, having helped bring about those changes, they want to be there as a bigger player?

**Capt. Setchell**—I would say that observation was very accurate. I think they did a magnificent job in 1998. I do not want to downplay in any way the efforts that Patricks displayed in 1998. We did not have it easy in 1991 either, but in 1998 they certainly changed things. But you have to understand why they did. The big change took place in the WIRA process, the Waterfront Industry Reform Authority process, when we moved from industry employment to enterprise based employment. That is why a number of players at the time did not put up their hands to commit to permanent labour. Prior to that, they could give it back to the Association of Employers of Waterside Labour, and they would be paid for any time that a worker did not work. Levies were put on shipowners to fund labour that we had sitting in a port, and they were distributed to a number of stevedores quarter by quarter.

In 1991 we changed that by going to enterprise based employment. Patricks undertook 1998 because they were going broke. In the 1991 process, P&O ended up with about 200 employees fewer than Patricks. They could not sustain the high cost of labour, and in the course of their negotiations they certainly won great concessions. But, again, they were funded. There was a \$10 levy that the shipowners paid to pay them back. He did not put his hand in his pocket to pay out the 100-odd labour that he got rid of. It was funded by the shipowners and the government. You have to understand the motives that were behind that change. It was not for the benefit of just changing work practices. He did a great job, but his return and his reward come through the bottom line. There should not be a continuing attitude of 'We've got to give you more'. I would think that Patricks have been given an awful lot by somebody funding their redundancies.

**CHAIR**—On that note, we need to wind up this session. I would like to thank you, Captain Setchell and Mr Setchell, for your participation today. We will be sending you a copy of the *Hansard* draft for editorial corrections. We hope we can come back to you if we require further information. We thank you for your evidence before us today.

**Proceedings suspended from 3.17 pm to 3.35 pm**

[3.35 pm]

**RUSSELL, Mr Llewellyn Charles, Chief Executive Officer, Shipping Australia Ltd**

**CHAIR**—I welcome the representative from Shipping Australia. Mr Russell, the committee does not require you to give evidence on oath, but we ask you to remember that these are proceedings of the parliament and, consequently, they warrant the same respect as proceedings of the House itself. It is customary to remind witnesses that the giving of false or misleading evidence is a serious matter and may be regarded as a contempt of the parliament. Having said that, you are most welcome and we would like you to make an opening statement or give an overview of your submission. As part of that, I would like you to flush out this issue of container size, as a bit of a benchmark for us to consider. It is one of the key issues in your submission.

**Mr Russell**—Thank you. Shipping Australia is an industry association of 41-member shipping lines and shipping agents, which would account for the carriage of about 80 per cent of Australia's container trade, a little over 80 per cent of the motor vehicle trade and about 50 per cent of Australia's bulk trade. We cater for all types of shipping such as container, break, break bulk and cruise vessels, pure car carriers, and so on.

I will take as read the executive summary of the submission, and I am quite happy, as you have mentioned, to answer any particular questions you have on the submission. I did write to the secretary in respect of the terms of reference. I understand, Mr Chair, that you are agreeable that they do cover coastal shipping. Of course, we see that as quite separate, and it is something that the AusLink proposal, in our view, does not adequately take into account. I appreciate it is a land transport policy, but coastal shipping can provide much-needed competition to long-range road and rail in this country.

I want to briefly update the committee on a few issues that have changed since we wrote this submission. I was a member of the New South Wales Freight Infrastructure Advisory Board. That has now reported to the New South Wales government. That report has been referred to Professor David Richmond, who will shortly call, I believe, for comments on the report, and Shipping Australia will be commenting on that report. As mentioned in the submission, that report covers the establishment of intermodal terminals and ways and means of increasing freight in New South Wales carried by rail—that is, to and from Port Botany essentially.

Also, you will be aware that the New South Wales government has recently made a decision that motor vehicles will be transferred from Glebe Island to Port Kembla by 2008. This will place, we understand, 110,000 truck movements per year on the main Wollongong-Sydney road, and this is around 10 per cent of existing truck movements. We will be appealing to the New South Wales government to reconsider that decision, at least until the lease is initially finalised in 2012, to give more time to consider the impact of this substantial change, and particularly the commercial arrangements associated with that change.

In addition, AusLink initially did not address connections to and from ports and infrastructure in ports. Following a COAG meeting this was changed, and AusLink can now cover infrastructure development in ports and to and from ports, and we would hope that the

Commonwealth government will consider contributing to channel deepening in Melbourne if it is the decision of the Victorian government to proceed.

I made a comment about rail in Australia and the different signalling systems. I am advised by the Australasian Railway Association that that is being addressed now, and hopefully that will improve the carriage of freight by rail in Australia. Those are my brief opening comments. I am very happy to answer questions the committee may have in relation to this submission.

**CHAIR**—I would like you to spell out in a bit more detail your views on the increase in the size of containers.

**Mr Russell**—On Friday the Australian Competition and Consumer Commission released its stevedoring report. I think that had in it some very interesting figures in relation to the growth in Australia, and in fact worldwide, of 40-foot containers compared to 20-foot containers—which to some extent supports the figures we have put in our submission. Just as a side issue: in our submission we referred to gross limits in New South Wales being 42½ tonnes, and that remains the situation today, compared to the gross limits in other Australian states of 45 tonnes. That is a concern which is heightened by the growth in numbers of 40-foot containers and the increasing weight, particularly of our export containers, travelling over New South Wales roads. Refrigerated containers, too, are continually being upgraded to what we call 40-foot high cube units. That means nine-foot high, rather than eight-foot or eight-foot-six high. We do see an increasing trend towards a greater use or high utilisation of refrigerated containers. The Australian Meat Industry Council, as mentioned in our submission, has supported that trend as well.

**Mr McARTHUR**—A number of the containers you see moving around the city areas are not in the configuration of 20 or 40 feet. Would you care to comment on that and on how you guys allow that to happen?

**Mr Russell**—I am not sure we can stop it. That is my quick answer.

**Mr McARTHUR**—You have got to blame somebody.

**Mr Russell**—The International Standards Organisation set out the standards for containers, and the vast majority in the world are what we call 20-foot or 40-foot ISO containers. Some countries, in particular the United States, do have outsize containers of up to 54 feet. They are what we call non-ISO. There is the high cube, so you will see taller containers, but those are within the ISO configuration. The majority of containers you see on the roads are either the 40- or 20-foot containers.

**Mr McARTHUR**—I am really talking about the off-size ones that I have seen moving around. I challenged somebody about that and they said, ‘Well, that sort of happens.’ I just wonder why we allow even two per cent of them to be off size, to be other than 20 or 40 foot.

**Mr Russell**—As far as our member lines are concerned, it is something they would much prefer to standardise. Their view would be to in fact restrict the movement of overdimension sized containers—that is, containers of sizes over and above those specified by the International Standards Organisation. It does happen that consignees or consignors prefer or use for a

particular use larger containers—in other words, when a commodity fits larger containers—but I would have thought that was a very small number.

**Mr McARTHUR**—Are we winning the battle to get rid of those?

**Mr Russell**—I think that is an area on which it would be very interesting for the committee to receive information from Standards Australia. Those sorts of issues are discussed in the International Standards Organisation, of which the Australian standards organisation is a member. I think they could provide the committee with some very useful information in that respect.

**Mr McARTHUR**—The weight in the containers interests me. The 40-foot container is a bit longer and you are talking about the 45-tonne limit. Are you telling the committee that the containers actually have greater weight in them than they have had historically or that they are just a bit bigger?

**Mr Russell**—They are just a bit bigger. Weight restrictions on the road, not only in Australia but overseas, control the weight you can put in a container, and in fact Australian exports tend to be heavier than our imports. So Australian exporters do actually prefer 20-foot containers because they cannot utilise the weight of a 40-foot. If you had carcasses in a 40-foot refrigerated container, you probably would not exceed the weight, but sometimes you will not be able to fill the volume of a container before you reach the weight restrictions. There are commodities, increasingly, for which we are encouraging people to use 40-foot containers because it suits that particular commodity. We are very conscious of the weight, as are the shippers—that is the importers and exporters—to avoid containers being overweight if we can.

Recently a number of states, under model legislation developed by the NTC—previously the NRTC—established a chain of responsibility which extends along the chain penalties for those who deliberately use containers that are overweight. Not only that but it is not in our interests for containers to be overweight, and that is an issue that Shipping Australia has perceived for many years.

**Mr McARTHUR**—What about the issue of the road-user charge that is currently being debated by both sides—the trucking industry, the government and road construction authorities. What is your view on that? You are advocating heavier containers on one hand and on the other hand there are some people who want to charge you more money to put them on the roads. Have you got an assessment of that argument?

**Mr Russell**—Not really, no. We come at it from the perspective of encouraging more freight onto rail. You need to get the pricing correct between road and rail. Each mode believes it is being overcharged or is not being charged correctly or accurately. I hasten to add we are not advocating more weight in containers. Where you can use a 40-foot container then we urge you to do so where it does not exceed the weight limits. We would never, ever suggest to anyone that the containers are getting heavier. What we are trying to do is standardise 40-foot containers worldwide. There are a number of reasons. One is that a lot of our imports come in 40-foot containers and we have 20-foot containers going out, so we have a surplus of empty containers that we have to shift out empty, which is very expensive for us all. If we can standardise increasingly on the 40-foot configuration, we will reduce that imbalance.

**CHAIR**—Having said that, we have a lot of small exporters in Australia. How do they get on with their niche marketing if you are going to put a restriction on the 20-foot containers?

**Mr Russell**—We will not put a restriction on 20-foot containers. If an exporter insists and has good reason—in other words, he simply cannot utilise or it would be too expensive for him to utilise the 40-foot container—then he will have access to 20-foot containers. We do not see the 20-foot containers ever being phased out completely, but we do see the trend increasing towards a higher percentage of 40-footers.

**CHAIR**—What is the proportion at present in international use?

**Mr Russell**—I cannot answer internationally. In Australia, I would say that about 58 per cent of our containers are 40 foot, if you look at the total number of containers exchanged in Australia.

**CHAIR**—Let us say for argument's sake that you had 15 tonnes of freight in a 20-foot or 30 tonnes of freight in a 40-foot, would the cost be exactly double or is there a concession for the larger container?

**Mr Russell**—The freight generally tends not to be double for a 40-foot. Three bales of compacted wool in a 20-foot container weighs 21 tonnes. That is the amount of actual cargo weight of wool in the 20-foot container. Clearly, the wool exporters, for example, would not use a 40-foot because 27 tonnes is about the maximum you can get in weight in a 40-foot and not exceed the road limits. Where you can use a 40-foot, it is often a percentage above the rate for a 20-foot, but usually quite a bit less than double.

**Mr McARTHUR**—How do you know what is in the container? Where do you find the figure, as a matter of practicality?

**Mr Russell**—Whoever packs the container gives us the description. Particularly for import containers, it is usually quite difficult to know precisely what is in the container. We can only go on what is provided at the time of booking or the forwarding order.

**Mr McARTHUR**—Is that weighed somewhere along the chain?

**Mr Russell**—No. Containers are not really weighed.

**Mr McARTHUR**—How do you run this argument if you do not know how much is in the container?

**Mr Russell**—When they give us the booking order, they make an estimate of the weight, usually based on carton weight and cargo weight that they are used to in packing the container. We basically have to rely on that. Clearly, if there was a concern the container might be overweight then we have the right to refer it to a weighbridge to check it. We do not want overweight containers at all, certainly not travelling on our roads.

**CHAIR**—Stripping away all the rhetoric from it, if as you say there is a trend internationally towards a 50-tonne capacity, Australia just cannot sit back and say, 'No, we are limiting ours to

42½.’ To be a serious player in exports, we are just going to have to meet the international standard eventually or be treated like some sort of Third World country. So what is the answer for the government on this? Is it all tied up with this problem of bridges in western New South Wales and western Queensland? What is the driving imperative that limits us to 42½ tonnes?

**Mr Russell**—I hasten to add that that is only New South Wales.

**CHAIR**—I realise that.

**Mr Russell**—The rest of Australia is 45.

**CHAIR**—But just about everything has to go through New South Wales. I do not know what the percentage is, but I would imagine that 75 per cent plus of all freight moves through New South Wales at some time or another.

**Mr Russell**—About 65 per cent of our containers trade in Sydney or Melbourne. I am not sure about that figure in terms of total freight, if you like, moving to Victoria or Queensland and passing through New South Wales. On the Newell Highway and parts of the Hume you are allowed to use 45 tonnes gross. As you say, the majority is still 42½. But my view is that the New South Wales government will progressively move towards the 45 tonnes gross. I believe part of the AusLink agreement that the New South Wales government has signed with the Commonwealth indicates they will move towards that higher weight limit.

**CHAIR**—By when do we have to move to 50 tonnes if we are going to meet an international standard?

**Mr Russell**—I do not think that the international standard is 50 tonnes. It is hard to find out what the international standard is. Every country has quite different road limits. Korea, which had a bridge collapse some years ago, for example, reduced their limits. American states have very strict road limits—lower in some cases than in Australia. A number of the heavier containers are unpacked on the wharves in America, I believe, and then transhipped, if you like, from there at a lower weight limit. So it does vary enormously between countries. There really is no international standard.

**CHAIR**—What is the driving imperative for 50 tonnes then?

**Mr Russell**—You have the concept of B-doubles and road trains. With B-doubles—you would have a 20-foot and a 40-foot, for example—that is when you are heading for higher limits. They are very restricted at the moment in their movement, but I think the force for higher weight limits clearly comes from greater utilisation. We are also seeing much better suspensions on more modern trucks, in other words, less damage to the roads from higher weight limits, and I think that augurs well for an increase in those weight limits in the years to come.

**CHAIR**—Applying that to this idea of arterial road and rail systems, would it pose any problems for rail under current weight restrictions?

**Mr Russell**—Yes, certainly, depending on the pulling power of the engine obviously. There are weight restrictions on rail, but clearly they are nowhere near as restrictive as on road. The

problem with rail, as we see it, is that the rail renaissance in Australia is not only losing momentum but also slipping backwards.

**CHAIR**—That is a pretty strong statement.

**Mr Russell**—In Sydney only a few years ago 23 per cent of freight came into Port Botany on rail. Today it is about 19 per cent.

**CHAIR**—That is containerised freight?

**Mr Russell**—Yes, containerised freight. Sorry, I was referring there to only containerised freight. Certainly, they have done well on the east-west movement between Melbourne and Western Australia, but we see an urgent need to relook at rail and to give it the impetus it requires in a whole range of areas. It is not a matter of simply building more infrastructure but rather a matter of maintaining the rail itself and upgrading it where necessary. The regulatory, licensing and signalling systems that relate to rail have all been so differently developed in each individual state that we would urge all governments—Commonwealth, state and territory—to refocus on ways and means of increasing freight on rail.

**Ms BIRD**—There are two things I want to explore. I should tell you that my seat is Wollongong, and so I am a great supporter of moving cars to Port Kembla. I would like to explore the point you make a few times in your submission about that. I note that you have said that it now looks like it is 110,000 truck movements. What is Shipping's problem with that? You were talking about extending the time frame. What are the problems that that creates for Shipping?

**Mr Russell**—There are a number of problems. I think first and foremost is that the car importers themselves are opposed to an early move to Port Kembla because they, and ourselves, are concerned that the facilities will not be ready or large enough to incorporate the rail along with a lot of break bulk and some containers. We do not think the container volume is going to be that high, but with the closure of Darling Harbour probably in early 2007 it is proposed to move a lot of break bulk of cargo down to Port Kembla. They have developed about 400 metres of quay line and are seeking an agreement to extend that another 200 metres—so you have 600 metres—but that is replacing 2,100 metres of berth space in Port Jackson. If you take Darling Harbour, Glebe Island and White Bay, our concern is congestion. If you move too early, before the facilities are ready and efficient, our concern is that ships will be waiting off Port Kembla to get in with cars, which is basically a just-in-time concept.

**Ms BIRD**—Is that taking into consideration that it did handle cars during the Olympics period without problem?

**Mr Russell**—I believe they were very slowly handled and that there were concerns about that. There is also the question of the trucks coming in. Clearly, the vast percentage of cars are coming back up to Sydney and the trucks are going to have to dead leg whereas in Sydney they basically do not. For example, they will either go from Glebe Island direct to dealers, because the predelivery inspection and work on the cars has been done on the wharf, or go to areas around Ingleburn where they are basically put into long-term storage.

**Ms BIRD**—I have seen the sites.

**Mr Russell**—When a truck goes to Ingleburn, for example, it will discharge those cars and often pick up cars to go to a dealer. When it goes to Port Kembla, it will basically go down empty. This is something that is put to us by the trucking industry as a concern. However, we do not see any of these problems as insurmountable and we are not opposed—

**Ms BIRD**—It is just time.

**Mr Russell**—It is just the timing. We are putting to the government to be very careful that they do not create a trading problem for New South Wales and they fully take into account all the practical issues associated with this move.

**Ms BIRD**—What would be your view—and we have discussed this with one of the earlier witnesses; I cannot remember whom—about an extension of the rail line up to Menangle and across into Ingleburn so that you could directly train the cars that are coming in at Port Kembla out to those holding bays and then have them delivered from there? Would that be a real option, do you think?

**Mr Russell**—We think that that should be explored a lot more. We are aware of that option. We have approached the Australian Railways Association—not only us but the Federal Chamber of Automotive Industries—to look at that in more detail. So we are very interested in that. That could be one way to increase—

**Ms BIRD**—You would also then connect into the major interstate rail lines for the cars, so it would have that added advantage.

**Mr Russell**—It would.

**Ms BIRD**—Thanks for that perspective. The only other thing—and the committee is very tolerant of me exploring my parochial interest—that I particularly wanted to explore with you is the problem with suitable land for the development of port facilities. Am I right in reading your submission that you are exploring the idea of new ports—greenfield site ports? Could you expand on that for me?

**Mr Russell**—We, of course, cover all types of shipping, so we have been involved, if you like, with the problems of coal in Newcastle and Dalrymple Bay and also with what we see as declining facilities for break bulk or common user berths. Increasingly ports—and I mean not just the main city ports but regional ports—are tending to lease all their berths to long-term leases. This is of concern to us. One option is to look at the development of new ports. Certainly in Victoria they have mentioned Hastings in the long term, if you like, as being an alternative deep sea container port. Newcastle in New South Wales has been nominated for some years time when the capacity at Port Botany has been exhausted as having a container port there.

The emphasis on containers is something that is dear to our hearts but, on the other hand, we are very concerned to ensure that there are adequate facilities for bulk and break bulk. New types of ports, of course, are extremely important. What has to be recognised is the need for links to those ports, and that is the problem with Hastings. As we just mentioned with Port Kembla, and



the same issue is going to arise with Newcastle, we have to get the road and rail links set up to support them, because a port is only really as good as the capacity to move the cargo to and through the port and to deliver it to those who require the cargo.

**Ms BIRD**—So you would be identifying here that, if there are new ports, they would be specifically targeted at the break bulk type freight and so forth to address that?

**Mr Russell**—They could be multiple use ports. Certainly we are seeing that even in Port Botany the bulk liquids berth is reaching capacity. We are seeing tanker reception facilities in ports reaching their capacity. These are very large infrastructure developments, but they need to be planned well in advance. We are not seeing new ports as being specific. In fact, what we would like to see in the development of new ports is the capacity for them to handle all types of cargo.

**Ms BIRD**—That is interesting; thank you.

**Mr McARTHUR**—Talking about these ports, it seems to me that the rule of thumb is that the infrastructure costs are so huge, say, into Melbourne or Botany Bay, that to set up a new port at Hastings or Port Kembla or Newcastle of a container type is just almost beyond comprehension. In fact, the trend is to make Brisbane and Melbourne the key container ports. What would you say to that observation?

**Mr Russell**—I think that eventually it will become an absolute necessity, because we will exhaust capacity in Melbourne and Sydney, particularly on containers. We need a long lead time to plan and develop these new facilities and the infrastructure associated with them. Looking internationally, most major cities have developed ports away from urban areas—for instance, Hong Kong. China has recently developed an enormous new container terminal which will service Shanghai within two years. They are building to meet that demand, and Australia has to be very careful. I know the costs are enormous, but I do not think we have an option. Whether in 2040 or 2050, there will come a time when we will simply require that additional capacity.

**Mr McARTHUR**—On the issue of empty containers, I heard you say that imports arrive in 40-foot containers and exports are sent in 20-foot containers. Which containers did you say there was an excess of?

**Mr Russell**—The 40-foot ones are shipped out empty. We have exports in 40-foot containers, but the imbalance is in 40-foot containers coming in full and going out empty.

**Mr McARTHUR**—Do you have an observation on that? Is that a major storage problem that is just a factor of our trading pattern? Is there any solution?

**Mr Russell**—It is a factor of containerisation. Right around the world, the repositioning of containers to the right place at the right time is a major problem that arose with containerisation in the late 1960s and remains with us to this day. A lot of attention is paid to reducing that imbalance, but, as I mentioned before, in my view there will also always be a requirement for different types of containers and, to some extent, a percentage of imbalance. It is not just the type of container but the volume. What we have had, particularly from China and East Asia generally, is a massive increase in containerised imports into Australia in the last few years,

which has exacerbated that trend, whereas five years ago we were having trouble finding sufficient equipment for exports—in other words, it was the other way around. The exchange rate has a bit to do with that, as do other factors, including demand. The imbalance in and shipment of empty containers does vary a lot, particularly due to shifting demand patterns. In Sydney, for example, half our container exports are empty containers.

**Mr McARTHUR**—Just help me with the 20-foot versus 40-foot export and import containers.

**Mr Russell**—We do get 20-foot import containers as well. I do not want to overemphasise it, but generally most imports, because they are lighter than our exports, can utilise the cubic capacity of a 40-foot container. So there are a lot more 40-foot containers coming in fully loaded than exporters willing to use them to export. In addition, our total container imports into Australia are exceeding our total filled container exports, and have done for the last few years.

**CHAIR**—What is your view on the idea of an inland rail network from Melbourne to Brisbane or Gladstone or both?

**Mr Russell**—We strongly support that development. Initially, we concentrated on upgrading the coast—in other words, the Sydney-Melbourne link—but we were advised by those more skilled in rail than we are that eventually there will be limits to how you will be able to do that. Therefore, we do need to look at a new system of moving containers interstate, particularly by rail. The view of people I have spoken to is that the inland route does offer that opportunity, as long as there are efficient connections to the capital cities—and, of course, Sydney is a prime example. It is a long-term project, but we see that as a priority.

**Ms BIRD**—I want to link into that the point that you made earlier about coastal shipping, which I had wanted to come back to. The amount of empty ship movements that happen around our coastline was also raised with us by somebody when we were in Melbourne. Would you see some of the movement of freight between Melbourne and Brisbane, for example, as being able to be handled by a coastal shipping service? Do you see it as an existing service or does it need the establishment of a specific dedicated service? What did you have in mind?

**Mr Russell**—The first route for a dedicated coastal service would probably be the Melbourne-Fremantle trade, perhaps with a call to Adelaide, because of the volume that goes by rail. It is really an issue of viability. On the east coast, a great deal of interstate freight is carried by road. It is very quick, and to consignees and consignors it seems the most efficient, if not necessarily the most cost-effective, way of long-distance transport. It is difficult to compete on the east coast. That does not mean a viable dedicated service could not be established eventually.

In the meantime, you have a number of foreign flag vessels which, through the use of coastal or continuous voyage permits, can offer space, and they do. There are quite a number of containers already carried between Melbourne and Fremantle under those sorts of arrangements. If that can increase, being more environmentally friendly and generally lower in cost than road and rail, it can provide a competitive alternative. This is very rough and, of course, it varies a lot with the commodity and so on, but freight can be carried by sea in a container from, say, Melbourne to Perth through these arrangements, on foreign flag vessels that are part of an international voyage, at rates that are generally about 65 per cent cheaper than road and about 30

per cent cheaper than rail. The reason is that they are not coming back—in other words, there is no return leg. Most of the trade is from east to west. That is one of the problems with establishing a dedicated service. There is not a large volume of cargo coming back from Western Australia to the east, so the viability of the round voyage is difficult.

**CHAIR**—On that note, thank you for your evidence today.

**Ms BIRD**—It was very interesting.

**CHAIR**—Very interesting indeed. We will be sending you a copy of the *Hansard* draft for editorial correction. We hope that we may come back to you if we require information on other matters.

**Mr Russell**—Yes.

**CHAIR**—Thank you very much.

[4.15 pm]

**CAPP, Mr Damian, Policy Manager, Grain Growers Association Ltd**

**EYRES, Mr Tony, Chief Executive Officer, Grain Growers Association**

**GORDON, Mr Dougal, Senior Policy Manager—Cropping, New South Wales Farmers Association**

**CHAIR**—Although the committee will not require you to give evidence on oath, I have to advise you that these are proceedings of the parliament and consequently warrant the same respect as proceedings of the House itself. It is customary to remind witnesses that the giving of false or misleading evidence is a serious matter and can be considered a contempt of the parliament. Having said that, you are most welcome. We do not have a written submission from you, so do you wish to give us a verbal submission?

**Mr Eyres**—I intend to give an opening statement from the Grain Growers Association. For the benefit of your committee it was a recommendation of my colleague Mr Capp that Mr Gordon from New South Wales Farmers Association also be invited to attend, given the commonality of the interests on these issues. Mr Gordon can speak to his written submission, which has been provided to the committee. Mr Gordon may want to make comments specific to his submission.

**CHAIR**—Please proceed.

**Mr Eyres**—By way of background, the Grain Growers Association has 17,000 grain-growing members across mainland eastern Australia, primarily in Queensland, New South Wales and Victoria. Our members clearly are in a bulk commodity business. They are very reliant on efficient road and rail networks for access to export ports and therefore world markets, being primarily exporters. The grains industry in this country has gone from a situation of being highly regulated some 10 to 15 years ago to one of having greatly increased deregulation now. The Grain Growers Association has some specific expertise and experience in the transition from government ownership to the market based governance structure that we now largely have. We currently hold a 21 per cent stake in GrainCorp, an ASX listed company. In fact the association underwrote the privatisation of the old New South Wales statutory storage and handling systems in this state and obviously oversaw the conversion of that business into a successful, vertically integrated agribusiness, now operating across three states.

As a withdrawal of government investment and direct involvement in the industry has created some adjustment problems for the Australian grains industry, heightened no better than on the east coast with the changing dynamics. We as grain producers rely on clear signals from the logistics network about the best entry point for grain. We are seeking a least-cost pathway to get our product to market both domestically, which is a growing market for us, and also, as mentioned, in the export market. A well-functioning logistics chain is the best way to deliver clear signals back to us as growers, as users of the system.

There are a number of large-scale domestic customers for the rail network here in eastern Australia and a number of those—amongst others, Manildra Grain—have certainly been able to successfully manage their logistics needs within the current service providers on the east coast. In New South Wales which is specifically part of our membership base—and my colleague Mr Gordon from the New South Wales Farmers Association may have some additional comments—the incumbent rail operator is primarily focused on commodities other than grains, largely coal out of the Hunter Valley. We understand that, relative to the business, grain is a small percentage; but obviously to our members it is very critical. Certainly it is important to emphasise the grains industry need not and should not be ignored in the discussions as to road and rail interfaces and, in particular, access to ports for export.

In some closing comments about work that the association has done on behalf of its membership in this area, we have commissioned a number of studies, including some specifically on targeted regional branch lines, which we can provide to the committee, and we have put that in the context of a wider study of efficiencies in this area.

**CHAIR**—I ask one of my colleagues to move that we accept that into the record as an exhibit.

**Ms BIRD**—I so move.

**CHAIR**—There being no objection, it is so ordered. Would it be possible to get 11 copies of that for the committee?

**Mr Eyres**—My colleague and I will make sure that happens. In terms of a broader perspective, we have commissioned a wider industry study looking at some wheat-marketing arrangements and dynamics specific to some of the challenges that faces. That is a broader, wider-ranging report and less specific.

**CHAIR**—Are you offering that too, Mr Eyres?

**Mr Eyres**—We can make that available also.

**CHAIR**—Would someone like to move that?

**Mr McARTHUR**—I move that.

**CHAIR**—There being no objection, it is so ordered. Could we have 11 copies of that as well?

**Mr Eyres**—That will also be arranged. In closing, we have a large membership base across eastern Australia. We see some specific issues here in New South Wales but also across our whole membership footprint. We are particularly interested in your deliberations and will make ourselves available for further discussion. With that, through you, Mr Chairman, I will defer to Mr Gordon.

**Mr Gordon**—I represent the New South Wales Farmers Association. We have had a long and strong interest in infrastructure, road and rail on a regional basis, for some time. What has initiated some of the media activity in recent times has been a lot of the work we have been involved in, particularly the rail branch line issue. There are 15 restricted rail branch lines in

New South Wales. They probably make up about 24 per cent of the rail network in the state, and basically 67 per cent of the wheat annual export task is freighted on these lines. They are a critical component of the logistical supply chain. We have a very strong interest from our membership, and we share that with the Grain Growers Association. Our immediate concern at the moment is the declining level of state government investment in those lines. We have seen a situation where even a recent report from GHD, which the government initiated and commissioned, recommended that \$168 million be invested in these lines, and we have recently seen the state government invest only \$58 million over the next three years. Obviously there is a huge shortfall there.

Our membership gets significant advantages in using rail over road freight; it is about \$10 per tonne. A lot of safety issues are associated with freight being converted to road as well. When state government Minister Watkins announced that \$58 million, it was actually \$69 million, if you do not take into account the old money. Basically, when he announced that \$69 million, four lines were also announced as closed. That means 200,000 tonnes of grain will be diverted to roads. We have a crumbling road network out in regional New South Wales and that is—

**CHAIR**—What were those lines?

**Mr Gordon**—There are four of them. There is the Gwabegar to Binnaway line, the West Wyalong to Burcher line, the Rankin Springs to Barmedman line and the Willbriggie to Yanco line, so basically 14,000 trucks will be required to freight that 200,000 tonnes. We are concerned about that, particularly given the fact that this year we will probably have the biggest harvest we have seen in about three or four years because of the drought. Also, that harvest will be during the Christmas holiday period and we will have the trucks going through local towns et cetera. That is an issue from our point of view.

What was also concerning about the recent announcement was that in 2001 Carl Scully made the announcement that \$170 million would be invested in passenger lines, such as the 15 restricted rail branch lines, every year until 2010, but that certainly has not been the case. We have seen only \$800 million allocated from the state government to those lines until the recent announcement of \$69 million. Also, when they suspended the four lines that I mentioned previously, it was done in complete isolation to the roads minister, Minister Tripodi. Therefore, no road funding has been allocated for the regional roads that will be affected by the so-called branch line suspensions, because it takes an act of parliament to close those lines and, from a notoriety point of view, no party wants to be seen to be closing the lines. So it is very concerning from our point of view—not only from a financial point of view but also from the viewpoint of safety. Rail has a significant advantage over road—for instance, the Australasian Railway Association states that there is a \$26 per thousand-tonne kilometre benefit of rail over road. Farmers obviously will get that benefit in terms of freight cost.

I briefly want to talk about the grain industry task. Basically the 15 branch lines freight about three million tonnes, and that will be about 4.7 million this year during harvest. As I said previously, it will need about 9,000 B-double trucks or about 14,000 six-axle semis to transport that.

Referring back to our submission again, looking into the future, another one of our concerns is that the \$69 million announcement was only made for the next three years. From everyone's

perspective, all the major stakeholders in the grain industry—that is, GrainCorp, AWB, growers themselves and Pacific National—certainly need to get some direction from the state government. At the moment, because of the lack of funding on a long-term basis by the state government, we do not have any certainty as to what will happen in the future. We have got a situation where Pacific National is the monopoly provider of above-rail freight until 2007. Once that 2007 lease expires, we do not know what is going to happen to those rail branch lines. It is certainly concerning from a farmer's point of view. Those stakeholders are looking to get some state government direction as to what should happen in the longer term, and at the moment we are not getting that.

We had an agreement about 12 months ago from the state government that they would work together with an industry working group, which we implemented with all of those stakeholders. That has not occurred, unfortunately. It seems to me the state government have washed their hands of their responsibilities for getting that working group together. They are relying on the fact that there are commercial interests at play, and that is the case, but the state government are the players that will broker any arrangement into the future and, unfortunately, that has not occurred. From our point of view we need some direction from the state government.

We have also got concerns about the international competitiveness of our grain producers as we have a situation where we have got a crumbling road and rail network. This certainly has an impact on our competitive advantage compared to our major trading partners, which include not only Asia but also South America. We really need to improve those particular areas if we want to get those supply chain efficiencies.

Our recommendations are very much in line with what I have been discussing in that we want a longer-term arrangement or operation for those lines. We also hoped getting some federal government funding through AusLink could have been one of the possibilities, which also could include public-private partnerships, but that is not going to occur. Our discussions with the federal government have shown that, whilst ever the state government does not put that long-term commitment in, AusLink is not interested, and from a public-private partnership point of view those lines need to be upgraded to a level that makes them commercially attractive. That just has not been the case. We are very much restrained in the options available to grain growers at the moment until we get some of that funding.

We are not necessarily saying that rail is the best option overall. In some areas of the state it is cheaper for the farmers to freight it by road. Those competitive forces will always remain, but there needs to be an option. Everyone acknowledges the benefits of rail. And, given the fact that it has got longstanding efficiency gains for growers to transport their grain to port, we believe those growers should at least have an option, given the benefits that rail provides. That is not just to the farmers, that is to the community as well. As I said previously, the cost-efficiency aspects are far better for rail than they are for road.

The only other point that I would like to raise is about the funding announcements that have been made that work will be undertaken by the Rail Infrastructure Corporation, RIC, which has got the lease arrangements to do that in this state. Currently that is 40 per cent more costly than what is undertaken by the Australian Rail Transport Corporation, the federal provider. We find it quite frustrating that we have got those inefficiencies, 40 per cent higher, to undertake those

maintenance costs for that restricted rail branch line network. We are looking at this particular forum to hopefully get ARTC involvement in upgrading those lines.

**Mr Capp**—I want to refer to a case study I completed last year with some other members. A bit of a prelude to that is that in the export grain market, particularly with reference to the branch line network we have referred to today, there is a lack of a good investment environment and a lack of, I guess, clear signals for producers and for some of the users of the system.

The case study I refer to is a domestic user—the Manildra flour milling group based at Manildra. They use somewhere between one million and 1.5 million tonnes of wheat every year at their mills. My chief executive, one or two farmers and I visited the general manager there last year to go through some of their operations and learn what we could about the principles of their logistics management. Essentially, there are three main stakeholders there.

They have a rail service provider, which is a company based in Western Australia, and they source virtually all of their grain out of the GrainCorp storage and handling system. The essence of it is communication and an understanding of what each party needs to do the job to the most efficient point and to deliver what is required by the other parties. Two train sets per day are being provided by that rail operator; it is a win for them if they have those train sets working 365 days a year. It is that throughput that you need as a rail operator to have the confidence to invest in the infrastructure.

The bulk handler has a major customer. Certainly, if I were running the business, I would devote a lot of resources to making sure that customer was happy and getting what they needed every day. Of course, one of the principles of flour milling is having the right grain at the right time. The Manildra Flour Mills do not have a lot of on-site storage so they rely on two trains in for every 24-hour period, and two trains out taking the milled product away. Essentially, the point is that when the commercial operators have the right incentives they can get it right, run successful businesses and provide what is needed by their other commercial partners.

So that is a success story of still working on the network. We do not see that reciprocated for export grain. Something like 67 per cent of the export wheat out of New South Wales is delivered to the 15 rail branch lines. There are competing interests, if you like, that are unable currently to resolve their differences to put in place a conducive investment environment to solve the problems of rail infrastructure.

**CHAIR**—The first thing that occurred to me, Mr Eyres, is that in your submission you speak as a national body. I think we really need to have a submission from you that says what the situation is in Queensland, New South Wales and Victoria. We have received evidence from Victoria. It is a different problem there from the one here, but essentially it is the same in infrastructure terms: the track is deteriorating and the broad gauge lines that were once used for general freight, passengers and various other things have now been reduced largely to use for grain, a bit of mineral sands and some timber. In Victoria the lines splay out mainly from Melbourne—there are a few from Geelong and Portland—but it is a very difficult problem to know which one should be upgraded.

You have obviously done a lot of work in New South Wales, and it would be interesting to know what the situation is in Queensland. If we are going to make a comprehensive



recommendation to the federal government about assistance for grain lines then we better have the full story. Even though you are a peak body, it seems to me that each state has its own little side issue. Someone needs to pull those together into a comprehensive picture of what Australia needs to do to protect its ongoing grain line infrastructure.

**Mr Eyres**—On that point, if we exclude South Australia and Western Australia—while I do have some background in that area—our membership, as I have mentioned, is the east coast and South Australia. My colleague Mr Gordon mentioned AusLink. In South Australia there is an example of federal government moneys working in partnership with the South Australian government to address issues specifically around the Eyre Peninsula, which I point to as an example. While the Grain Growers Association also has members in both Victoria and Queensland, you are right: our detail has been in New South Wales. However, we are acutely aware that some of the issues, while geographically specific, are remarkably similar between states, particularly in Victoria. Queensland, with its rail infrastructure on the back of its coking coal and so on, also is somewhat unique. But their overall grain task and the challenges of competing with other commodities is a major issue.

I would point out that competition for ports is becoming a major issue also. The neighbouring port of Geelong is competing now with the port of Wollongong, in picking up on the near or immediate electorates of two committee members. In terms of competition, an attempt is being made now to direct grain in central west and southern New South Wales to either the Port of Wollongong or the port of Melbourne more so than the Port of Geelong. We have competition within the one supply chain and we have New South Wales grain going out of a southern port in Victoria. Australia still exports that grain, but we have issues around jurisdictions and state governments. Grain grown in New South Wales should be exported out of a New South Wales port, and we have concerns with some of the resulting political issues.

**CHAIR**—I do not mind how you pull it together, even if you have to get some of your sister organisations in the grain industry to assist you. But it is no good coming to government piecemeal and expecting it to somehow craft a comprehensive picture of what is happening. It looks as though a lot of these grain lines are on the edge of the cliff. If they need to be preserved, we need to have a comprehensive case to put to the government as part of this report. For example, we need maps of the various states. If you cannot do them, your sister organisations in the other states possibly need to do them so that the committee can make a recommendation, if it so desires.

It seems that everyone is having a bit of a whinge about this but no-one is offering a comprehensive picture of where the federal government might get involved. I note that Mr Gordon made the point that the ARTC is the maintenance organisation for rail tractors and is 40 per cent cheaper than RIC. That, in itself, is a disturbing figure. On the other hand, if you want the federal government—or the federal government, through the ARTC—to take over branch lines, you had better craft a pretty good argument for it. The fact that one government instrumentality is less efficient than another of itself is not a case for the federal government taking it over.

The stronger argument, which is part of the terms of reference of this inquiry, is that we should report to the government on the efficiency of the ports. Part of the efficiency of the ports is the transport chain to the ports and part of that is the branch lines coming into the trunk lines. I think

that is the way the argument has to be crafted. I think you in your organisation have the capacity, if not to do it yourselves, to get the appropriate consultants to do it. You really need to do that. We really need to have a substantial submission from you outlining the future of grain.

If you are carrying two thirds of Australia's grain, you have a very good lever with government, providing that you craft a case, which I have not heard here today. I have heard commentary on what is wrong but I have not heard solutions. I have heard from farmers who want another \$10 a tonne but, again, that in itself is not a reason that the federal government should move out of a traditional area of responsibility into another. I urge all three of you to consider this and to come back to the committee—whether yourselves or through the NFF or others, I do not mind. We really need to have a very comprehensive picture of that and to hear the extent the federal government should be involved, if it were tempted.

You make the point that the New South Wales government is not enamoured with the idea of spending money on the lines. Realistically, the federal government, regardless of which party might be in power, would probably be of a mind to put up half of the money—or perhaps a bit less than half, I am not quite sure—on the basis that the state government acted promptly and matched the money. What I do not think the federal government would do under either this government or the opposition would be to pick up the responsibility of the states. I do not think that is going to happen.

**Mr Eyres**—I support those comments. I think the fact that today we have a representative of the New South Wales Farmers Federation here with us is a very positive step that we recognise that there are issues common to both our memberships. I certainly give an undertaking to your committee that we will engage in further dialogue with other sister organisations—the VFF and AgForce in Queensland—and, as the Grain Growers Association, seek to come back with a broader picture of the situation.

To pick up on your point, it is one thing to describe a problem, but it is another thing to come up with a solution. Mr Gordon has raised some issues around alternative ways of dealing with maintenance, and ARTC versus RIC is a good one in this state. But equally, as my colleague Mr Capp has said, we need to look at overall investment. While we have a number of thoughts on that and we have some alternative models as to how we may get the commercial players that currently operate in this business—AWB, GrainCorp, Pacific National have been named—we need to give some further thought to that. We will put in a formal submission to you picking up on your comments and those of the committee at large to look at some of these things. But we need to get an environment that is conducive for commercial players to want to participate in this marketplace and also to seek investment, whether that is from local, state or federal levels. I bring local government into this because there are many non-state roads that are impacted by this grain task. It is something that we are acutely aware of. It goes to all levels of government. Certainly we have done work at the local level. I believe the opportunity to extrapolate that out to the east coast is not major.

**CHAIR**—Let me put a proposition to you straight off the top of my head. The value of this crop to Australia is certainly a lever with government. If grain growers were to put a \$1 levy per tonne on the 34 million tonnes of grain for five consecutive years, it would be \$160-odd million. If that was matched by the federal and state governments, you are looking at close to half a billion dollars. If you come back to the state and federal governments with some sort of

scheme—some serious planned period of time and some memorandum of understanding with the state and federal governments—then I think a lot of this sort of thing could happen. Another issue you might fill me in on, Mr Gordon, is that you say that Manildra have a private rail contract.

**Mr Eyres**—Mr Capp raised that.

**Mr Capp**—It is actually the Australian Railroad Group, which is made up of the former Western Australian and South Australian state owned rail companies. They were sold off through the late 1990s and merged into the Australian Rail Group. They are based in Perth and they have some train sets here in New South Wales that service the Manildra contract.

**CHAIR**—Are they responsible for the lines they travel on or do they just seek third-party access?

**Mr Capp**—They seek access.

**CHAIR**—On New South Wales tracks?

**Mr Capp**—Yes.

**Mr Eyres**—They pay an access regime.

**CHAIR**—Are those tracks well maintained as a result of someone paying regular money?

**Mr Capp**—They would be variable because they would operate over the whole New South Wales network, drawing milling wheat stocks for Manildra.

**CHAIR**—It is not just in the immediate vicinity of Manildra?

**Mr Capp**—No. Within a 24-hour period, those train sets would usually do a long haul and a short haul—that kind of thing—to get two train loads per train into the mill. They can go long distances.

**Ms BIRD**—I do not have a question, but I want to endorse what the chair said. After listening to your evidence, I have to say that there is a vast difference between your presentation and what we hear from the minerals industry, where there seems to be a far greater tradition of industry investment in infrastructure. I commend the comments of the chair in terms of a similarly viable proposal. I think it would be well received. I do not know what your membership would feel about it. That approach is quite commonly brought to this committee by other industries utilising rail movement.

**Mr Gordon**—I think that is more a reflection of the financial advantages of being in the minerals industry.

**Ms BIRD**—I appreciate that.

**Mr Eyres**—To pick up on your and the chair's comments on a further levy on growers to pay for infrastructure, I have to say that grain farmers have been paying freight rates per tonne on grain delivered to regional branch lines, in effect, forever. Let us use some conservative figures of freight rates that growers have paid per tonne to get their product to market on these branch lines—and, sure, it is not a cost-recovery exercise by any means by the state government, but those access charges are payable to the New South Wales government—and compare those with the level of re-investment in the infrastructure, particularly the branch lines where we have seen zero re-investment.

To say that lines falling into disrepair is not attributable to this state government, the previous one or the previous one to that—to successive state governments—and that we as growers need to pay for their upgrade would, I think, cause a large number of growers to take some umbrage when you consider the total access charges in the form of deductions off the wheat cheque that they have been paying for the last 40 or 50 years.

**CHAIR**—You should quantify that in your submission.

**Mr Eyres**—That is our intention. To be able to do that for the whole network across New South Wales, Victoria and Queensland is a large task, but we will endeavour to do that on some key lines and extrapolate it across to other businesses. The fact is that, as users of the service—it is a user-pays system—we have not seen an upgrade of that infrastructure. A good example, which we will come back to, is a line to Coonamble. The line runs from north of Dubbo through the town of Gilgandra to Coonamble. We have seen a large drop-off in infrastructure between Coonamble and Gilgandra, heading south. Once you get to Gilgandra the infrastructure dramatically improves and on to Dubbo and then on to Melbourne or Kembla or wherever.

If you look at the freight charges to Coonamble, for example, paid by growers, you will see that they are some of the highest freight charges per tonne of any freight that is delivered anywhere in Australia. To say to a grower who seeks to deliver his grain to Coonamble that there will be a further levy would be problematic. In using that as an example, I take on board the challenge to extrapolate that to the whole business.

There is another point I would make about where growers are situated. Growers have invested a lot of money in the industry in capital improvements to their own properties. They are expanding into areas in the western regions of the agricultural belt, into more marginal lands. Infrastructure has not kept pace with that change. Invariably, whether it is Victoria, New South Wales or Queensland, some of the major challenges are on the western reaches of this infrastructure. There are challenges in how we deal with this. If we are being asked to continue to export wheat and other grains out of this country, a lot of that export grain comes from, using a general divide, west of the Newell Highway, and that is where the major infrastructure comes from. A lot of the grain that is produced—

**Mr McARTHUR**—Let us have a look at the guts of your argument. You have a seasonality problem. In Australia, a wheat crop of 24 million tonnes comes in over a three-month period. I put it to you: is the wheat industry prepared to pay over time for the infrastructure that is used for a very short time? It is my impression that some of the rail operators and some of the rail owners, ARTC and others, the New South Wales government, find it uneconomic to improve these branch lines. They just cannot see a return on the money. What do you guys say to that?

**Mr Eyres**—Certainly the capital cost of that infrastructure is large. We accept that it is difficult to drive an economic return for a direct dollar investment. Picking up on your point, to say also for rolling stock that the train operators have to keep a lot of wagons and locomotives sitting idle in the off chance—and I support the view of my colleague—that this harvest you may get a decent harvest and you can then gear up to deal with that grain task, we accept that there is a cost of capital involved in doing all of those sorts of things.

**Mr McARTHUR**—I think you ought to be running some of those arguments. You just cannot expect state governments or the private sector to provide a rail infrastructure network for one in four years of a record harvest without some real thought as to what might happen. It is my impression that in Western Australia they have gone to a lot of effort to make sure the system works, to make sure it is integrated. I get the impression that in Victoria and New South Wales they let the branch lines depreciate, that some of the outlying areas are not going to be serviced, and that there is no real argument to us as to how this might be solved.

**Mr Eyres**—In Western Australia—having grown up there, I am acutely aware of some of the specific issues—the grain logistics committee, where they got the major commercial players together, worked out what the overall grain task was. They also worked out the ramifications. I am not saying this is a perfect model, but it certainly is going a long way to getting the right players in the room. They also worked out the impact that closing one particular line would have on the roads—that is, damage to roads and all of those sorts of things. That holistic approach to road, rail and port interfacing infrastructure does not happen on the east coast because you have different state jurisdictions and you do not have a concerted point of view.

**Mr McARTHUR**—GrainCorp is a pretty powerful outlet now. You cannot run those arguments any more. You run the whole show in the eastern seaboard.

**Mr Eyres**—In terms of GrainCorp, the commercial business obviously is not represented here today. A 21 per cent stakeholder obviously would have an interest. GrainCorp still operates within, in part, a regulated environment in terms of obvious export wheat monopolies. It also operates in a competitive environment where other players have come into the storage and handling network. I agree that—and I pick up on my colleague's comment—where other players have come into the storage and handling network, we need to get those sorts of players in the room. I would point to a positive message for the committee as part of Single Vision, which was initiated through the Grains Council of Australia. A range of task forces was established. One of those is specifically looking at infrastructure. As I understand it, work is being done by AWB Ltd and GrainCorp Ltd and Pacific National, where possible, to look at some of these holistic problems. That precludes state and federal governments and ourselves as growers. I think we need to further that dialogue. There is a lot of work to be done.

**Mr McARTHUR**—Some people say that the AWB have been cherry-picking a couple of the depots in Victoria to get a cheaper price from the rail operators, just picking up the better lines and a couple of depots that are strategically placed. What is your response to that?

**Mr Eyres**—That is the competitive environment. There is no competitive impediment to a new entrant coming into that marketplace for storage and handling. We have seen it not only with AWB Ltd—

**Mr McARTHUR**—AWB is in a statutory monopoly position, so they are not too competitive in a lot of these areas.

**Mr Eyres**—That monopoly resides within the national pool through AWB International. AWB Ltd is a shareholder based company and it operates in the interests of shareholders, but AWB International is a national pool operator. This goes to some of these governance structures and some of the issues that will be in the submissions we make to the committee that we offered to table earlier. It does come back to looking at a whole of business and a whole of network. Another example that I will use specifically is that, if we were to put a balloon loop—commercial players, whoever that may be and it may be a new entrant—into Newcastle to gain the efficiency of a rail operator coming over the mountains into Newcastle and back out again does not get over the fact that the number of slot times for a grain train over those mountains is limited to one or two a day because of the sheer volume of coal coming out of Newcastle, out of the Hunter Valley. We need to look at the issues you deal with, with the terms of reference, the infrastructure interfaces and things. We also need to recognise that grain—certainly taking New South Wales as an example—is eight per cent of the freight task, it is probably five per cent of the revenues for the rail operators and it is probably about 95 per cent of the politics. We are acutely aware of that.

**Mr McARTHUR**—That is a good, positive statement. Now you are getting down to some really gutsy arguments that the committee need to address. We understand what you are saying, but you cannot spend most of your submission saying how crook it is; you have to say what you want done about it and make your recommendations.

**Mr Gordon**—I make the point that industry has spent a hell of a lot of time on this issue. Certainly I can only speak for the New South Wales Farmers Association, but I know, for instance, that our body wrote a green paper in 2002 which led to what was called the GIAC process, the Grain Industry Advisory Committee. That was basically a committee of the major stakeholders, and that had never been achieved before. There is a lot of commercial interest between AWB, GrainCorp, Pacific National and growers, and there is a lot of politics.

**Mr McARTHUR**—And the ports.

**Mr Gordon**—The ports were not involved in this process, because we are talking about the restricted branch lines. For better or worse, that process was only put into place because of work by industry. That led to a paper which provided a number of recommendations to government in order to progress the issue. The result of that paper was the GHD report, which the state government commissioned. Unfortunately, it was a confidential document which we did not have access to. Effectively, as a result of that document the process has been stalemated. This is the situation we are in now. I think that growers and industry itself have done as much as they possibly can collectively. Now it is up to either the state government or one of the major stakeholders to come to the fore and say, ‘This is a plan into the future.’

There is not going to be a panacea approach to how to resolve this issue, because there is not going to be one player like AWB or GrainCorp. How the infrastructure works at the moment is that GrainCorp effectively have the most interest in these lines. Most of their infrastructure is on these rail branch lines. AWB, as you said, have decided to put a lot of their infrastructure on the

man lines, not on the restricted branch lines, and competitive forces will always dictate that some farmers may choose, because of more competitive freight rates—

**Mr McARTHUR**—I make the observation that they are not helping their other wheat growers by being on the main lines and being in competition with GrainCorp.

**Mr Gordon**—Or the alternative argument is that, whilst ever the state government sits on their hands, they are looking into the future and probably consolidating their assets. I can understand why they would do that.

**Mr McARTHUR**—But they are not helping the feeder lines. That is the argument we have been having for the last three-quarters of an hour, and that is the real difficulty.

**Mr Gordon**—That is right.

**Mr McARTHUR**—AWB have used their monopoly position and the extra money they have to make a couple of cherry-picking, strategic investments on the basis they can better reduce the price that the railways might charge.

**Mr Gordon**—That may well be the case. Ultimately, growers will be the ones to determine where their grain goes, obviously based on freight rates. That may be towards rail branch lines, and it may be freighted by road to the next grain consolidation facility. From our perspective, we want to retain those lines, because they provide an option for growers and there are obviously freight benefits on the whole if it goes through those rail branch lines.

**CHAIR**—How much did you say you save per tonne?

**Mr Gordon**—About \$10 a tonne.

**CHAIR**—A bit more or a bit less?

**Mr Gordon**—It depends on where you are located compared with the silo.

**CHAIR**—What is the normal freight per tonne?

**Mr Gordon**—I am not exactly sure what it would be. For instance, supply chain costs on average are about 20 per cent of farm gate returns.

**Mr Eyres**—If you use Coonamble as an example, freight rates are in excess of \$40 a tonne, and then you have storage and handling charges on top of that. A lot of the specific detail on the breakdown on a state-by-state basis—including on WA and South Australia, where we do not have members—is actually provided in the grains industry review that we will table.

**Mr McARTHUR**—Is that from the header to the seaboard?

**Mr Eyres**—It does talk about that specifically and we provide a breakdown on a state-by-state basis. That report is now almost three years old, although the data is still very current; otherwise we would not table it. The other issue is that the specific Boree Creek case study that we will

table with you picks up on some of these predatory pricing aspects and some of the distortions that do come into the marketplace. Rather than talk to them here, we will provide that submission and refer them to you to keep the conversation on an even plane in terms of—

**Mr McARTHUR**—I remind you that the committee is very keen about getting the wheat into the port and into the ship. That is really what we are trying to make sure of. The problem you as an industry have got is that you are trying to do it all in a short period of time because of storage, unlike Canada, which takes six months to get it to the seaboard. Maybe you have to look at a slower transit problem and store it inland for a greater length of time. There are a whole lot of possibilities that might be out there with a 24-million tonne crop.

**Mr Eyres**—To address the specific example—and we will put some detail in a written submission to the committee in a timely manner for you to consider it—in Canada the time straight after harvest is followed by probably the coldest time of year; whereas in Australia the period straight after harvest is probably the warmest and most humid, which therefore creates a very unique storage and handling challenge in terms of pests and all of those sorts of things. So the challenge is to get the crop off as quickly and in as timely a manner as possible, subject to rainfall events, certainly on the east coast. That is something peculiar to us as distinct from Western Australia, which tends to have dry summers. We get it under storage and under fumigation as quickly as we can, then the storage people and handlers and the marketers manage that task of getting the product to market. The Canadian example is a good one in that they are a direct competitor of ours into the global markets, in particular with key grains. However, they have the relative natural advantage of seasonal conditions straight after harvest being a lot more conducive to that storage and handling task.

Recognising the need for large up-country storage and handling facilities in this country to take on the grain harvest task in the three-month period of harvest, as you have described, and then progressively over the next nine months getting that to port is something that is very important. We as growers recognise that. In talking about compromising the network and therefore the ability to have that up-country infrastructure and get that task down here, the solution clearly is not to put more wheat bins at Wollongong. It is to do with something similar to the domestic example my colleague Mr Capp has used. I overheard an earlier submission about just-in-time delivery of the grain—

**Mr McARTHUR**—Take it down to Geelong and Portland; that will solve your problem.

**Mr Eyres**—That may be an issue you take up with your colleague on the committee.

**CHAIR**—To go back to another point, I suppose we can all argue over time that various people have put various amounts of money by way of taxation and charges into a particular bucket. We have the road users argue that because of excise there should be much more spent on roads. All that governments have to do is to balance the budget. While people might like to hypothecate where money should have gone or might have gone, the practicalities are what we do in the current environment.

It seems to me that if you were saving \$10 a tonne, and let us say there were a \$1 a tonne levy, you would not be too badly off: you would still be \$9 a tonne in front. If you are forced onto road, you will lose the lot. You said your growers might not be enamoured of the idea. I think



you have to try to craft a program that is attractive to government—state and federal. As I was saying the other day to Everal Compton, wherever the inland track can duplicate a grain line, we should try to do it. I am not saying go way to blazers out to the west, but if there are two or three alternative corridors then pick the corridor where you do not follow the Albury line: for example, in Victoria, take the line up through Shepparton so you create another quality artery.

**Mr Eyres**—Just on that issue, the Coonamble site that I used in an earlier example is a good one. If the inland rail being proposed between Brisbane and Melbourne were to go from a more western route, which would pick up Coonamble—and there are some issues around some national parks and other issues—it would certainly make a huge difference in terms of upgrading that infrastructure, even with that Coonamble to Gilgandra section.

Equally, if we look at the grain freight task and we also look at containerised freight, rail can compete with road between Brisbane and Melbourne because of the time and truck turnaround. My understanding is that the ability of rail to compete on the task between Sydney and Melbourne or even Brisbane and Sydney is more problematic, but certainly a Brisbane to Melbourne route by rail would far exceed the costs and time associated with road freight. We are keeping abreast of the proposals—Everal’s proposal and others—but certainly, picking up on the challenge that I mentioned before, it is the western regions, west of the Newell, that have got the biggest infrastructure deficits—

**CHAIR**—Correct.

**Mr Eyres**—and that is something that we are supportive of.

**CHAIR**—I think we understand that. As part of your submission, I think you should talk to the NRMA and the AAA, the peak body, on what the implications are of that grain going on the roads. Regionally, if you can get it down to those figures, I am sure that there would be a huge cost involved, based on 34 million tonnes going onto roads—that being the ultimate negative case. I think you have to be able to show what the deficits are to Australia by not fixing the rail system.

I do not know if this is just interagency politics, or whether it is state and federal politics, or old attitudes at the border, but I noticed when we were doing our study of Victoria that the grain lines that have closed are the ones that straddle the border, especially in north-western Victoria and north-western Victoria into South Australia—not only New South Wales and South Australia. That says to me that, like boundary roads between two shires, neither authority wants to take responsibility for them and they are always in a parlous state. And I suspect that is what happened to those train lines: that they were not treated well by either state and, over time, they fell into a deteriorated state perhaps more quickly than ones that were wholly the responsibility of one state or another.

What leads from that is something I put to you as a challenge. I heard one of you in evidence say that there was always a problem of cross-border carriage. Looking at that north-south railway, why wouldn’t you also look at extending that line—I think it is from Moree to Inglewood in southern Queensland—and make that a standard gauge and a narrow gauge from Moree and take a lot of that northern wheat out through Brisbane? Because you are going to upgrade the train line it is not going to cost a hell of a lot more to put the extra rail on it. I think

you have to look at innovative things like that that may solve a problem further down. Or perhaps the line should go from Moree down to Narrabri—I do not know; you guys would have a better idea of what the limits are of those things. But I think we have got to get innovative. When you have something on the go into which the Commonwealth is probably going to put some seeding money anyhow, why not get on the bandwagon and link one of your grain lines, or a couple of your grain lines, to it?

**Mr Eyres**—That point, Chair, is exactly the issue we raised in our opening comments, of the least-cost path. As a grain growers association whose membership transcends three states, we are not caught up in state boundary issues. We are interested in getting our product to market, whether that is domestically or, primarily—which this committee is looking at—for export through ports. If that north-west New South Wales region—of Moree, Narrabri and west, which is a huge grain belt—is best serviced by exporting its product through the Port of Brisbane and Fisherman Islands, that is exactly the outcome that we want.

If there are infrastructure issues at state boundaries, we know they go back to the parochialism of the states at Federation in 1901. Ironically, that is something I talked about with two immigrants—one English and one French—at a function only yesterday. They asked me, ‘Why don’t people travel by rail in Australia like they do in Europe?’ I said it is because, amongst other reasons, there is not a culture of it, but that equally there are problems with standardisation of gauge and it has not been facilitated since we formed as a nation of states in 1901, which they found quite extraordinary given their background.

**Ms BIRD**—But we do not all speak different dialects when you move from region to region; they cannot even have a common language!

**Mr Eyres**—That is right. However, I think it highlighted the point about a lack of foresight of our forefathers around rail infrastructure, but those days are long gone. I support the point of view, Chairman, that we want a least-cost path. Yes, we need to be innovative but, picking up on comments I and my colleagues have made, there is a need for some leadership to be shown. We respect your request for further information. We are very keen to see a seamless relationship between the federal government and state agencies. I also reiterate my point about local government. Local government has been largely overlooked in this debate. I would point to some of the discussions of the likes of Coonamble shire and the people who have, in conjunction with us, done a lot of thinking about this rail task and how they can get the best value for these western regions of New South Wales.

**CHAIR**—Tell them to make a submission.

**Mr Eyres**—I will do that.

**CHAIR**—Mr Eyres, Mr Gordon and Mr Capp, thank you for coming in today. We very much appreciate your submissions and look forward to you following those up with written submissions. As I said before, we hope that you will come back to us; I think that is very important. You have a good case but you have not articulated it nearly clearly enough. Thank you to all those who cooperated today and to members of the media who have come and gone. To clarify one matter from the evidence given this afternoon, Mr Gordon mentioned that he was

giving confidential information. Mr Gordon, did you want that information removed from the *Hansard* record?

**Mr Gordon**—Yes, if that is okay, I would appreciate that, because that information was given to us in confidence.

**CHAIR**—Would someone like to move that the reference indicated by Mr Gordon be eliminated from the transcript and kept in a confidential record?

**Mr McARTHUR**—I so move.

**CHAIR**—There being no objection, it is so ordered. I declare this public hearing closed.

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

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

**Committee adjourned at 5.15 pm**