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Official Committee Hansard

HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON TRANSPORT AND REGIONAL SERVICES

Reference: Transport networks inquiry

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HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON TRANSPORT AND REGIONAL SERVICES

Wednesday, 1 March 2006

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: Mr Gibbons, Mr Haase, Ms Hall, Dr Jensen, Mr McArthur, Mr Neville, Mr Richardson and Mr Schultz

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.

WITNESSES

Committee met at 9.22 am

CHAIR (Mr Neville)—I declare open this public hearing of the 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. This is the 16th public hearing of this inquiry and it is part of an extensive program of public hearings and visits designed to gather information from people directly involved with the main issues of the inquiry. We have been to Mackay, Gladstone, Melbourne twice, Portland, Darwin, Newcastle, Wollongong and Port Kembla and we are shortly to go to four cities in Western Australia to pursue our further inquiries.

Today we will hear from one of the most important witnesses, and that is the Australian Rail Track Corporation. The ARTC is an important participant in the rail freight network, having responsibility on the east-west freight lines and more recently on the north-south line from Melbourne to Brisbane. I am sure their evidence will be very important to this inquiry.

[9.24 am]

MARCHANT, Mr David, Chief Executive Officer, Australian Rail Track Corporation

CHAIR—Mr Marchant, we are not going to place you on oath but I have to remind you, as I remind other witnesses, that these are proceedings of the parliament and consequently warrant the same respect as would attend to the House of Representatives itself. It is customary to remind all 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. Would you give us an overview of your submission?

Mr Marchant—I have given out a paper, which I hope you have copies of, which essentially will give you an outline of ARTC. The first part is a map of the network that ARTC either manages, owns or leases. This will give some context to what our evidence relates to. You will notice that that includes the main lines of New South Wales, which ARTC leased from the New South Wales government on a 60-year lease, commencing in September 18 months ago. The next part is to give a bit of a history of ARTC—it started in 1998—and what our principle objectives are in trying to create an interstate network, getting seamless and efficient access etcetera.

Page 5 outlines our strategy for that, which is a blend of pricing, improved asset yield and investment around getting optimum outcomes for the industry rather than for the engineers—transit time, reliability, capacity and, most of all, yield to assist in lowering prices in the market to try and make rail more competitive. It is an outline plan of all the ingredients around that. That is a very critical issue, and a very critical issue with regard to the road-rail interface on both regional and interstate levels because there is a difficulty in getting pricing frameworks correct between the road and rail sector which distort the market.

Page 6 gives an update on what has happened on the east-west network. The green lines on the graph indicate the levels, average lengths, prior to ATRC starting, on our first year, and the red lines outline the capacity that is now available on that network. This is on page 6 of that framework, on the right-hand side graph. The red lines are the existing limits. Essentially what that demonstrates is that effectively ARTC has provided increased capacity for trains to run more efficiently, and rail operators are progressively taking that capacity up and have not reached their limits.

In addition to that there has been, obviously, a reduction in transit time for Melbourne-Perth; the average speed now is above 80 kilometres an hour. At the same time there has been a real cost reduction in access to the network since we started, both in nominal and in real terms. On page 7 we have outlined what that meant. There is a graph there on the access revenue yield and the access cost, demonstrating the basis of real reductions. The right-hand side is a map or a graphic of the land transport market east-west where effectively you will see that rail has peaked out at about 81, 82 per cent a year. So we are dropping down at the moment to about 80 per cent, and the total land freight market includes road east-west. That is the only area where we do have a very accurate road record because effectively every road truck going in and out of Western Australia goes through a toll gate and we are able to get records monthly on exactly what has gone through and what the configuration is.

There has been a slight drop-off at the end of the last financial year, although it is still above 80 per cent. That mainly relates to the fact that, while the east coast of Australia was having fires, the centre of Australia was having floods. Effectively we had some flood events that knocked out the line for a couple of days, and there were some industrial issues with one customer whilst they were dealing with their EBA framework—our biggest customer. That did create some disturbance during that period.

Page 8 gives the committee a picture of what the market is for rail in its present land transport share. East-west is carrying at above 80-odd per cent, which Deutsche Bank has reported in its international review of rail as the largest, most competitive rail market share in the world.

CHAIR—You show Sydney-Perth and Melbourne-Perth as both being 81. Is that the consolidated figure, or do they just happen to coincide at 81?

Mr Marchant—They coincide. The Deutsche Bank a year and a bit ago in their world review of rail indicated that the east-west corridor in Australia was the most competitive intermodal rail corridor in the world.

CHAIR—Which one?

Mr Marchant—The east-west corridor.

CHAIR—And you have the coastal one up to 21 per cent now?

Mr Marchant—Yes; Melbourne to Brisbane. We have had a slight increase since we have taken up but we have a long way to go. The north-south corridor is obviously the big opportunity. Its rail has lost market share over 40 years, from around 50 per cent of the market share north-south, Melbourne-Sydney, Sydney-Brisbane and Melbourne-Brisbane. There are a lot of reasons for that, and I will not take up your time with them.

The reality is that there is a real opportunity to enhance that corridor in its performance—and its performance concentrates on transit time, reliability and capacity, and that is the availability of trains—and to focus around those objectives with yield. The price rates for road and rail are very close, so we have to get the other benefits because rail is not as flexible as road and therefore it needs to be more attractive. Our objective, from our strategy which we released last year, is to get up to 30-odd per cent of the market share on land transport between Melbourne and Brisbane, and all of our strategy on the north-south corridor is focused around achieving that.

On the next page there is an outline of what we have been doing in the last 18 months. One is a solid review of the investment strategy north-south, taking into account the AusLink announcements which added to that strategy. That included a range of iteration with our customers, and we eventually released in June last year a new north-south strategy, which was a significant improvement on the strategy for the New South Wales lease. Under our new strategy the transit time between Melbourne and Brisbane, which we had targeted to bring down from 39 hours to 32 hours, will come down to 27 hours. Under the new strategy the transit time from Sydney to Brisbane, which under the previous strategy was 19 hours, will come down to 15 hours. So effectively, taking a few months to look at it, the investment has yielded a much better outcome for the dollars, and it is much better for our customers as well, who have strongly supported it.

We still have a large charter to get a single currency base in rail. Although we have progressively been moving from the South Australian base, the Victorian base and New South Wales, the reality is that they still operate under different safety rules in each state. We still have different signalling practices in each state, so a train driver driving from Junee to Melbourne goes into two different areas in which the signal system tells him different things. So we have a way to go to get all that 110 years of history and individual development into a coherent and single framework. Having said that, a lot of good work has been done in cooperation with each of the parties—the Victorian government Department of Infrastructure, the New South Wales government and other states. Compared to a year ago, I think we are in a better position now to break through on a huge range of those areas in the next 12 months with the cooperation of each of the states and their agencies. We are in a much better position, I think, moving forward.

Improving intermodal interfaces is obviously a critical issue. In the take-up of New South Wales, we have worked to develop a southern Sydney freight line. On completion of that, we will take up the freight lines from Chullora, in the centre of Sydney, to the port. The New South Wales government have asked whether we could do the take-up earlier, and we are currently in discussions with them for us to take up the management of the internal freight lines in Sydney earlier than when we complete the development of the southern Sydney freight line.

As part of that, we have sat down with Patrick and P&O and worked through a strategy of jointly managing the logistics in and out of Sydney port. So, when we take up, rather than having rail sitting here and each of the stevedores sitting there and everybody fighting about who is going to get the benefit in and out—and ending up with a suboptimal outcome—we now have an arrangement, which we will sign off in the course of the next month, to do a collective management plan and a collective operational plan, day to day through that area, to maximise the benefit and efficiency of the movements in and out of Sydney port. That is partly a recommendation from the Laurie Brereton report. However, we have moved on that recommendation already, and P&O and Patrick now have a memorandum of understanding with us to do a cooperative planning program to optimise the efficiencies in and out of Sydney port.

We have now arranged to manage the interaction in and out of Melbourne port, including the internal rail operations within Melbourne port, as an agent of Melbourne Port Corporation. So there are exercises taking place which will start to improve the logistics and the chain management between each of the players so that they can get an optimal outcome.

In the next few months we are in discussion with the New South Wales government, at their request, for them to surrender some of the passenger line services at Port Kembla so that we can manage an integrated service into and including the port itself as part of an extension of our existing lease arrangements. Action is taking place to try and improve the efficiencies around those areas. The regional freight transfer and the port share come down, in the end, to logistics management and planning by a whole range of different players to optimise the outcomes in very constrained markets.

On page 10 I have tried to outline where the major bulk areas are on the network that we manage and operate. I expect the committee, from all the evidence it has taken, would be aware of most of them. The map I have here basically gives you a picture of where those points are and puts them in a form which is easily understood.

The regional grain networks and export grain, which I know is of particular interest, have made a number of submissions to the committee. The committee would be aware that regional rail networks in South Australia, Victoria and Western Australia are integrated and privatised. In Queensland they are integrated but not privatised. There is a vertical separation of regional grain infrastructure in rail operations in New South Wales. Effectively, we are acting as the agent at the request of the New South Wales government and managing the New South Wales branch lines for them. I emphasise that we are managing them for them. No ARTC capital, equity or money is at risk on those lines. We are just the agent of the state government, which determines the price and what needs to be done. We give advice about what needs to be done. So, to explain especially for a House of Representatives committee, that arrangement is just a management agency arrangement with the state and there are no Commonwealth or ARTC funds at risk on those branch lines.

In most states, branch line infrastructure is in poor condition and deteriorating further. I must point out that this is not a new event. They have been deteriorating for 20 to 25 years. And I say that to cover every political suasion by the states; it covers every election in every state. There are a number of historical reasons for that deterioration over 25 years. There has been an underinvestment in the networks. One of the reasons for that is that there has been too much network. Many of the grain lines in each of the states were built for the horse and buggy days. Although many grain farmers would still like to keep the silos at 100 kilometres apart, the technology of movement of grain in the eastern states has significantly improved since then and, at some point, there needs to be some rationalisation of the handling facilities because they are both uneconomic and overduplicated. The difficulty has been the hard decisions of which ones to close, which ones to rationalise and which ones to consolidate the silos in.

Part of that has been overtaken by events in the sense that AWB, in the last two years, have developed super silos in Victoria and New South Wales which are at the critical points in the chain. Most of them are connected to or are right beside the main line, which is in reasonable condition. The difficulty is that the number of lines still being maintained against the effort is well out of proportion. So part of it is that there are too many railway lines and some of them need to be rationalised to fit into a much more efficient logistics chain.

The other part is that there was never enough money to keep those railway lines in good condition, and that underinvestment has taken a long time. It takes a good 10 to 15 years to really bugger up a railway line. We have been operating for five and have not achieved it yet. But the reality is that it takes a good 10 to 15 years to knock over a sunken infrastructure. That comes to a head very quickly, because when it deteriorates over 15 years it then comes to a real crunch point. So there has been underinvestment.

It is very difficult for privatised entities, private sector entities et cetera to look at sustained economic investment in grain lines because they have low and seasonal volumes. That is not normally enough to sustain an economic return. So there is some balance in there between what private investment should be and what any government investment should be and what the users should pay.

If I can mention it, it would be fair to say that in New South Wales the grain users pay less than 10 per cent of the maintenance cost of any line they use—that is, 90 per cent of it is paid for by the state. There would be very few industries in which users contribute so little to the maintenance costs—not the return on capital—of what they use, so there are some economic realities that are hard but that need to be dealt with. Because of the low and seasonal fluctuation, you therefore find it very difficult to get an economic return on a large sunken investment.

The same issue goes for —rolling stock. It is very difficult for an operator to invest in a lot of grain wagons unless there is some underwriting involved by the client over some period of time. For a large number of months of the year the wagons will not be utilised—the capital will be sitting there, sunk, but not earning anything.

The next issue is the traditional Australian problem—not all the lines in each state are the same gauge. If you have a lot of standard gauge rolling stock it is unfortunate but you cannot use it in a lot of the Victorian network et cetera.

There is a lack of road and rail infrastructure pricing transparency and equity. I am sure you have heard this from 50,000 people but the reality is that the substitution of driving a B-double 150 or 200 kilometres to a silo, driving past the rail silo, is both efficient and rational. The B-double is quite an efficient operation. I am not decrying that; I actually think it is quite smart. It goes to my earlier point about having to look at where the silos are placed and how they fit with large bulk movements. But the pricing for that B-double and the rail line options is not in a form that enables the user to see what the pricing differences are.

There is a historic balance of economic regulation which tends to have been tested towards efficiency rather than sustainability and therefore in a regulatory framework there has been a disincentive for people to invest and get a return under the regulatory regimes.

As I mention on page 12, there is an inherited maintenance deficit across the nation. I am not referring just to ARTC's lines; I am referring across the board. It is less of a problem in Western Australia and partly Queensland than it is in South Australia, Victoria and New South Wales. The rationale for that is that they had more money in Western Australia than in Queensland, New South Wales, Victoria and South Australia. There is no rationality to it; it is just an issue of historical fact. The rehabilitation costs therefore create a catch-22. It is not viable for the private investors to do the rehabilitation and get a return. Therefore, I am suggesting there is a need for a one-off capital injection in that framework. Who that should come from I do not know, but the reality is that there is some need for a capital injection. The governments in many states were of the view that in privatising some of these lines the private sector would pick up that investment. It just missed the one equation: they will only invest if they get a return. If you have a maintenance deficit of some substance it is hard for them to overcome it.

Obviously, there is a need to deal with the seasonal fluctuations. There are generally unsustainable economic returns in a large number of sunken investments and that, as you are aware from evidence you have about Dalrymple and the rest, comes down to the heart of when choices are made about investment. I have mentioned the pricing transparency and equity.

On page 13 I have touched on the economic regulation framework. The bottom line of all that comment is that there has to be in a regulatory framework a recognition that someone sinking infrastructure needs to get some risk return on that. I was reminded that in our last review of coal in the Hunter Valley with IPART NSW—they did a very good job—some mining companies were, on the one hand, arguing with me to invest $270 million to operate the mines in the Hunter Valley and, on the other, were involved in putting in a submission that my return should be 4.3 per cent. That is, having put $270 million on the table at risk, the return should be 4.3 per cent, including the weighted average cost of capital—the net equity ratio.

When I rang the CEOs of the mining companies and said, ‘Would you invest at 4.3 per cent?’ they unanimously agreed they would not go near it. I said to them: ‘I am after 7.1 to 7.5 per cent, which is about half the rate of return you get every day. Let’s go to the regulator and sort it out.’ To their credit, they all walked into the regulator, we had a half-day hearing and we walked out with 7.3 per cent. But it is insane to bargain 4.3 per cent. Some of these things are insane; you cannot be a user of some asset and find that you would not invest in the asset at that discounted rate. A bit of rebalancing needs to be done to get the economic regulation of infrastructure in a commonsense form.

It is not generally a regulator problem; it is a problem of the users coming to a realistic level. They should not expect governments or government agencies to make investments at such a suboptimal rate that they would not do it themselves. There is no-one in this country who would invest in infrastructure at 4.3 per cent—excluding, I expect, government. So there does need to be some rebalance to recognise infrastructure returns. I am not suggesting returns of 12, 15 or 20 per cent, but arguing 4.3 per cent against 7.5 when many of these people are making 15 to 19 per cent return on their investments is a nonsense. There needs to be some commonsense in this.

A number of submissions to the inquiry have somehow come across this view that national competition policy has led to the deterioration of branch lines and the world has come to an end because of national competition policy. I can understand that many self-interested parties are doing that. My only problem is that it does not bear with the facts. Many of these lines have been run down for over 25 years. National competition policy is a thing of the last 14 years. Secondly, there has hardly been any competition. I have not seen any competitors running around Western Australian branch lines, South Australian branch lines or, for that matter, Victorian branch lines. The small amount of competition that took place in the southern part of New South Wales in the last few years was when Freight Australia and ATN Access took up some grain in southern New South Wales down to Melbourne port. I think they picked up maybe 10 per cent of the southern market. Each of those has been bought out by their main competitor since then, so it is all consolidated again.

It is really difficult to say that competition policy and competition have brought this to a head. There has not been any serious competition on those lines and the only time there has is when some of the grain companies have teased some of the providers by threatening to run their own operations, which is generally a way of bargaining price—unless they actually put the gun to your head and say, ‘We will run them.’ There has not really been any serious competition. The argument is that the threat of it somehow brings everything to a halt. I have not seen it. The issue is a structural issue; it is not brought about by some competitive policy framework. I am happy to go through that in further detail.

The New South Wales regional branch lines, as I indicated, are managed by ARTC on behalf of the New South Wales government. I point out that the New South Wales government has committed to us over a period of four years the highest level of funding in branch lines in New South Wales history. It is over $110 million a year for the next few years, which is a very high figure compared with the historical figure. There is money going in—whether it is enough is another issue. What there is not is decisions by industry on how to rationalise. They have set up a grain council with AWB, GrainCorp, PNL and everyone else on it, and industry has not been able to come to a view about where it should rationalise or otherwise. To a large degree they are all sitting there hoping that government will bail them out from the hard decisions. Therefore, we have a bit of a play-off taking place.

There are 15 restricted lines in New South Wales. They are lightly used, they are in poor condition and they will effectively come to a head over the course of the next three years. The current level of funding support may not itself be sufficient for doing all the lines, but if rational decisions were made by industry to consolidate some of their silo frameworks et cetera then the amount of money from the New South Wales government could make a significant difference once industry has made that decision. Therefore, I have suggested that the most critical issue for the grain industry is to help make some decisions to rationalise the framework. The silos are too close together. Many of them are within 100 to 150 kilometres of delivery frameworks, and with the B-doubles available now that were not available in the 1940s and the 1950s it is a very efficient exercise to truck to those points and redistribute.

On export grain: I mentioned the rebalancing of the regulatory framework, transparency and the need to get some rationalisation. I will touch on export coal because I know that is an issue that has been raised with you. Firstly, everybody assures us of the industry’s ability to pay—either at 4.3 or seven per cent, but they have the ability to pay. There has been a greater integration of the coal supply chain. I think the Hunter Valley coal chain study group has by any standard been a success. There is a lot more to do but it has been a success. In fact, we are replicating that by the very thing we are trying to do between Chullora and Sydney ports—outside the coal chain; just in the terminal frameworks. We are doing a very similar exercise in South Australia. So there has been a greater effort to integrate the supply chain, but more needs to be done. It is a network that has very high throughput; therefore, it has an economic base quite distinct from grain lines and the rest. There has been a lack of competitive transport alternatives so obviously it is a good regulated area.

In our case, our prices are very severely regulated in the Hunter Valley. When I use the word ‘severely’, I do not mean it in a negative sense. They are toughly regulated, as they should be, because there are not many other alternatives. The past three to five years have seen throughput increase from 60 million tonnes to 85 million tonnes on the rail line. Although there have been some suggestions otherwise, the reality is that, by any objective observation, the rail line in the Hunter Valley is not the bottleneck for export capacity in the Hunter. The maximum port capacity is 90 million. It is not 91 million; it is 90 million. As members would be aware, the New South Wales government put out for tender a new port facility and they have chosen BHP to develop a third coal terminal at Newcastle.

ARTC will be ensuring that the rail lines in the Hunter Valley do not ever become a bottleneck to the export chain. They are not a bottleneck now and they will not be in the future. Our strategy, which was released a year ago and which has the support of the industry—I mean all of the coal industry framework—is that we use their numbers with regard to what they wish to export—I think that might have scared them a bit—and build a program around that. The best thing about the strategy is that we review it annually and we can move some projects forward or slightly slow them down depending on how the market is going.

The Sandgate project is under construction. The Sandgate project is going to be the biggest single capacity increase. It will separate the coal lines from the passenger lines and it will overpass and overcome any congestion there. Work is progressing on the CTC upgrades to increase the speed to 80 kilometres an hour. Signal works have been designed and they are working along that path now. In fact, brake testing has been done with a number of coal trains to ensure that they can stop at the signalling frameworks and that they are safe. Those works are under way. I expect in the next few months to announce the beginning of construction for the Muswellbrook loop and junction. Obviously, people would be aware of the study on the Ardglen tunnel and the issues around that. But, at this point in time, the rail part of the network is not a capacity constraint for export of coal, and it will not be.

The investment in port capacity is the most critical issue and the most critical constraint. That is being addressed by the New South Wales government announcement of the BHP framework, but that will take three to four years to bring online. Obviously, one of the impacts is the regulatory environment. A key impediment, obviously, is ensuring a regular return to asset owners such as us so that there is not an impediment to us investing. I must say that has been reasonably successful in our relationship with the coal industry. As I mentioned, the regulatory hearing in New South Wales on the Hunter Valley coal thing took half a day—not six months and not 12 months but half a day. It was solved that day. I am actually quite happy with the relationships there, although I was a bit surprised by the rates people asked for. But the reality is that it was solved in half a day.

The regulated network is constrained to the major coal area. I have given you a map on page 19. There are some regulatory problems in that which we will address with the ACCC with our new regulatory framework because, effectively, it constrains the regulatory base to the peak area and does not deal with the outer areas. Therefore, you end up having an insane proposition where there may be works done outside that constrained area which have a benefit for the constrained area, especially in areas such as Ulan coming down and Werris Creek coming down. We will address those with the ACCC in our next regulatory framework. However, we have negotiated with some of the new coal companies coming on at The Gap and Gunnedah on a take or pay basis. Based on that take or pay framework, in the interim we will be building additional loops on the line to Werris Creek to take up the new coal supplies from the Gunnedah basin later this year. So there are ways in which we are working through those issues.

I will not touch on the standalone test and the permitted rates of return, because I would not want to bore you silly. You can ask questions about it later. As to the access to intermodal terminals and ports, I have indicated that we are working on more cohesive arrangements at Sydney port, in the Hunter Valley and in Melbourne. We are in negotiations with New South Wales at their request to take up the lines to Port Kembla port and the internal operations of Port Kembla port, which I expect that we will negotiate over the next four to five months and take that up from 1 January next year, subject to everybody being happy with that.

Land use planning is one of the biggest long-term issues for us, not that we are a land use planner. Effectively, the growth of Brisbane, Sydney, Melbourne and the port precincts and around require corridor planning and excising of land corridors if there are not going to be major urban problems in future land use, especially given the doubling of the freight markets et cetera. I have put on page 22 some of the advanced technology issues which we are working on at the moment with Lockheed Martin and the rest. These could lead to much improved supply chains management by having automated signalling frameworks using computer systems and our braking systems. You can also use that same computer base to go inside the containers and predict exactly what volume of coal there is and exactly what is inside each terminal and go back to the freight forwarder electronically and track every piece on the train using the system back from it. So the technology is not only about getting a safer and more efficient rail system but it actually leads to more potential in the supply chain. In summary, that was the submission, although I think the summary took a bit longer than it should have.

ACTING CHAIR (Mr Gibbons)—Thank you very much, Mr Marchant, for your very comprehensive submission. We have taken evidence in Port Kembla about a curfew arrangement that stops the coal terminal receiving coal at night. This brings coal trains into competition with commuter traffic. Will this be addressed when the Australian Rail Track Corporation takes over management of the passenger services?

Mr Marchant—Firstly, the curfew in the metropolitan area put on by the state government and National Rail Corp is outside my jurisdiction. The curfew was brought in to stop trains interfering with the passenger services in New South Wales during peak hours. The reason we are building the Southern Sydney freight line is to separate the freight from the passenger urban system and therefore it will not have a curfew on it because we will not put a curfew on it. But the passenger lines and the lines going directly from Sydney to Port Kembla are part of the urban network and are not under our control.

ACTING CHAIR—Will you be having any input into that once you take control in the interim? Will you be arguing for a reduction or lifting of the curfew?

Mr Marchant—No. With regard to the small area that we are taking up, which is Unanderra—you come down the range from Mittagong to Unanderra and at Unanderra you turn right to Port Kembla—we already go down to Unanderra and there is no curfew on the Unanderra line. Unanderra to Port Kembla, which is a few kilometres then into the port, will not be affected by a curfew after we take it up because we do not run curfews. But the line from Unanderra up to Sydney along the coast, which is part of the metropolitan network, will always be part of the curfew, brought on by RailCorp, I expect. However, by taking on Unanderra to Port Kembla we provide an option for people to go left at Unanderra around our network through the Southern Sydney freight line and back into Sydney that way. Although I mention that that is an option, it is not a very economic option. A short haul rail—150 kilometres—will never compete well against road.

ACTING CHAIR—The committee has had considerable discussions on the costing basis for comparing road and rail transport. Your submission supports the introduction of mass distance charging for infrastructure use. Sectors such as the trucking industry argue that the present system is the fairest arrangement. Could you outline for us the case for adopting mass distance as the basis for assessing infrastructure use and why you consider it to be the best system?

Mr Marchant—I am not suggesting mass distance charging for everybody. I am suggesting it for the four per cent of trucks that compete on the interstate network. The great bulk of trucks do not. The smaller trucks are short distance—90 to 100 kilometres. At the present time the reality is that the small trucks and cars are subsidising the large trucks and continue to subsidise them. It is insane that the everyday car user and the small business trucks around the city are in fact cross-subsidising the use of the big intermodals and the B-triples. I know that that is a debatable issue for a number of people but the reality is that the economics reflect that. Of the trucking charges and the car charges in this country only 70 per cent of road costs are distributed as a charge for users. Thirty per cent are not.

Dr JENSEN—On the other hand, you were saying that railway users contribute only 10 per cent to the maintenance of rail. Isn't that the same sort of argument that you are using about the interstate truckers?

Mr Marchant—And it is the very argument that I am using about why that needs to change. But I would not get excited. Grain lines represent less than one per cent of all rail freight.

Dr JENSEN—So it was just grain you were talking about there?

Mr Marchant—On the intermodal network my customers are paying the full operation costs, capital sunk costs, the historic costs of moving port, and the company is taking risk on that framework. There is a big difference between a 70-30 per cent split. Let me just point out: the total road agency expenditure on the second price determination was $6.42 billion. On the eve of the third determination the total road agency expenditure is $10.39 billion. Just out of interest, that is a 23 per cent increase in road expenditure. It is a good thing and I am not disputing that. To give you some context: on the second determination for heavy vehicles $1.28 billion was the contribution at the time of the determination in 1998. Escalated by CPI to today, that is equivalent to $1.69 billion. The revenue collected from heavy vehicles is $1.42 million in the second determination. Updated by CPI, that amounts to $1.88 million—just by CPI, in real terms.

The third determination that is about to be dealt with is a real price reduction, yet the media and the road industry keep on saying that it is an increase. Let me tell you why. Although there has been a 23 per cent increase in road expenditure, which I think is a good thing, the actual determination for expenditure for heavy vehicles, if it were CPI, would be $1.69 billion. The determination is $1.62 billion. In real terms it is a reduction. It is down by four per cent. The share of the revenue collected from heavy vehicles, in real terms, if it were CPI, is $1.88 billion. The new determination is $1.78 billion, a reduction of five per cent. Out there a debate is taking place that these increases are out of all proportion. In real terms they are a reduction. If the second determination had been just escalated by CPI, they would have been paying more.

In the end the argument is that four per cent of the trucking industry is affected by mass distance charging concepts. Most of the charging is done on a non-trackable basis. The whole road expenditure is done on sampling exercises. In many cases those samples may be wrong for trucks. It may be that money is going into roads that are not the ones principally used. So a live tracking of trucking systems actually provides a better input about where roads funding should go. It can be done very easily.

Secondly, you can discriminate on the price. In the areas where they are competing with other transport modes such as rail both should pay their equivalent. In those areas, for social policy reasons and for good citizenship reasons, where there is no competition they should pay a lower amount because they are providing a service which cannot be substituted in any other form. So you can now differentiate prices and you can differentiate them live. Firstly, you can actually see where they are using the roads and where the road money should be for B-doubles and B-triples et cetera, because in many parts of Australia the funding is not going to the roads that they are actually using. Secondly, you can actually sample that population on an ongoing basis. Thirdly, you can then discriminate your pricing basis to better reflect what you want as an outcome rather than just have a blunt instrument that covers everybody. Fourthly, you can then bring in safety procedures which safeguard the population. By live tracking you can make sure drivers are not driving more than the legislated hours. You can make sure that many of the occupational health and safety issues, which both the unions and good employers are worried about, are policed by the computer system live. You get a huge range of benefits by just updating the technology and you get a much better tool for public policy instruments than you can presently.

I am not advocating mass distance charges for your car and my car; it would not be worth it. But for that area where we are going to double the amount of freight and where you want to get a good balance between road and rail and where you want in country areas to make sure that you are spending the right money for the right roads to deal with the right trucks, including grain, a live tracking system will get you a much better outcome than these sampling techniques, which means in many cases that the money is not going to the right place anyway.

Mr McARTHUR—Firstly, I commend you on your presentation. It was a fantastic expose of ARTC. I would like to go back to the issue of the coal chain in the Hunter Valley. When the committee were in Newcastle—

Mr Marchant—Was that 30 January?

Mr McARTHUR—Yes—the coal loaders and the witnesses were very complimentary about the way you had made the changes in logistics and improved the operation. Could you expand on how you managed to convince traditional rail operators, the coal people and the people involved to make quite significant changes without any investment in capital. Do you see that example being transferred to other areas of operation, say, in the ports or east-west, or wherever, so that by just getting the sheer logistics improved we can argue the case for rail?

Mr Marchant—There are two parts to that answer. Effectively the Hunter Valley had a huge range of reasons why it needed to get its act improved: a lot of money was not likely to come out of the woodwork pretty quickly; our investment is going to take a good four years to roll through; and coal prices were going gangbusters. So the coal industry, to put it politely, was desperate to try to get more coal out the door. The port was running into problems with bids for coal capacity and the coal company not delivering so there was no coal going out, so the bidding process was not working. You would reserve a bit of capacity if your coal did not turn up; you had to make sure that the other bugger’s did not turn up either—you had already booked it out.

So you had a whole range of elements, part of which were being gamed by the various players for good reason. If you have rules there, someone will act to their best economic advantage. So there were very good reasons for everybody coming together and saying, ‘This is insane. We’re not maximising this.’ The port had some problems—that is, they had lost capacity over the last four years. They had closed down one loader, and the market then changed and became a boomer and they could not bring it back on. So everybody had a keen interest in trying to get the best out of what they had for the moment. That led to the operators, us and the port. We actually employ four people sitting in the coal chain logistics' team, helping to plan the daily movements et cetera with the operators and the port framework.

From that, there has been a good 20 per cent or 25 per cent productivity improvement in the delivery framework, and there is more to come through. It has lessons for Sydney with regard to our port framework from Chullora and the issue of maximising the benefit of the use of empty containers. There are 100,000 empty containers sitting around Sydney that are taking up space that could be used for other activities. It has major interest for Melbourne, and we are starting to think about how we can try to do that in a positive way. It obviously has significant interest in Queensland. QR and others have been coming down and looking at the method of approach. But it requires all the parties to be motivated, and the only way you motivate them in all respects—

Mr McARTHUR—Why did you become the catalyst though?

Mr Marchant—We were the most dangerous at that point in time. They were the ones that could pull it on and pull it off. We had the investment framework, and we were not able to utilise the investment unless we could demonstrate to everybody that they had to pull their bit. Why ask me for $100 million capital when you still have a 20 per cent failure in your own productivity? There was a need to rebalance the issues. It was just a matter of rebalancing. You had everybody at their weakest point. The coal companies were losing a lot of revenue. Coal companies are like investment bankers: do not get between them and a bucket of money. The port had some real problems with its capacity management and the rail was being attacked by the coal companies and the port. They were attacking New South Wales for not investing when in fact there were issues that could be made more productive than the present outcomes. So it was just the events. Most of this started before we took up a lease. Our first raising of the coal chain was three years before we took a lease up. We sat down with the coal companies as part of our bid to New South Wales and said, 'We want to set up a coal chain.' We were actually working on that before we even took it up. We thought there were greater efficiencies to be made, and so did everybody else.

CHAIR—So the idea actually came from you?

Mr Marchant—Yes, about four years ago. The interesting thing is that it has ticked off pretty well. I would point out that there is a lot more work to go, and I will point out why. In the calendar year we have just gone through, four or five million tonnes of coal was not exported because of breakdowns in the system—breakdown at the port, coal not being loaded fast enough at the terminal, trains not turning up or when they did turn up the coal was not ready. So five million out of 90 million tonnes means a lot of missed opportunities. There is more to go in trying to make this thing work better.

The good thing about the Hunter is that there is on everybody's part a genuine desire to actually get on and do it better. One of the other reasons is that everybody shares the same railway line. It is unlike Port Hedland and the rest where they were stand-alone single investments. Everybody shares it and therefore it is in everybody's interest to try and optimise what happens. The third issue is that everybody has the problem at the port. The port has limited capacity and all of them want to get their coal to market. They cannot afford to lose out because someone had made a mistake and another coal company put an order in and could not deliver it on time and therefore they lost maybe a million or two million tonnes that day that someone else could have used. So there was a genuine desire by people to optimise. That is not always shared in every location, so it all comes down to people's motivations.

Mr HAASE—The committee has heard some discussion about the value of the proposed Maldon to Dumbarton link in the Hunter region. Are you involved in the discussions on that proposal? What are the arguments for and against, and how do you assess its potential for increasing the flow of coal to Kembla?

Mr Marchant—Firstly, that link is still part of the state of New South Wales. We did not pick it up as part of the lease and we are not involved in the assessment of it.

Mr HAASE—Fair enough. And because it is not part of your arrangements you do not have an opinion on it?

Mr Marchant—I may have an opinion on it but because it is not part of an arrangement I am probably not likely to express it.

Mr HAASE—It is not worth nominating. Fair enough.

CHAIR—Let me put the question the other way: should a line like that be part of ARTC?

Mr HAASE—That is a good question.

Mr Marchant—Only if someone were prepared to finance me. It is like the bypass that was raised in the committee at Newcastle—$100 million to do a bypass around part of Newcastle. It is all very interesting, but there is no money. It is very hard to get $100 million back on 30 kilometres of track. Dumbarton is another example. It may have very good beneficial interest, but somehow there has to be a blend of financing because if I had to finance upgrading it—and it is big money—I do not really think my users would pay the full freight on that.

CHAIR—It is interesting—as we have been going around, we have seen about four or five of these where an investment of about $70 million or $80 million would make a huge difference. One is the North Goonyella link in the Central Queensland coalfields. This Hunter one we were talking about, were we?

Mr Marchant—No, that was the Port Kembla one.

CHAIR—Port Kembla, yes. There was another one in the Hunter, up through the Murrurundi range.

Mr Marchant—We are doing assessments—

CHAIR—That one was dearer than $80 million, as I remember it.

Mr Marchant—Yes, it is more like—

CHAIR—And this one that my colleague has just spoken about I think was about $80 million. It seems to me that for about half a billion dollars a lot of strategic placements could get huge efficiency gains.

Mr Marchant—Yes. That could be said for a range of options that flow around. I agree with that. I will just point out we are doing a study on the Ardglen tunnel, and it is probably one which, depending on the events of BHP’s exploration licence which has just been granted by the state, could come into the zone in the next five or six years as a goer and one which will be financed by the beneficial users. I do not think any government money would need to go near that. I am not suggesting a lot of people will not ask for government money; I am just suggesting they do not need it.

The Port Kembla option is one that the New South Wales government looked at over 15 years ago. In fact, it started to be developed—it was stopped in the late eighties or early nineties—and it does have some benefits. The issue, though, is who is likely to use it and what is the likely volume against other issues. It has been suggested in some places that, if that were done, many of the car carriers that are going to go to Port Kembla will use rail to go up through there to Sydney. That is not likely. I know people will say that, but I will tell you why: it is actually cheaper to put it on a truck to go 150 kilometres. Rather than pack it onto a train to go 150 to 200 kilometres into Sydney, then unpack it and put it on a whole lot of trucks to go out to the car yards, you would do better to put it on trucks and distribute it from that framework.

It is more likely that the interstate car traffic from Port Kembla will go on the rail line, because it is hundreds of kilometres. A lot have the impression that people will use that for what are in fact more economically transported dispatching systems. Anything under 200 kilometres that is not bulk is likely to be dispatched otherwise. The only other users are in fact the coal framework in Port Kembla, and there is a range of debates about—

Mr HAASE—You have been speaking about the inefficiencies of short distances. In relation to long distances, do you support the construction of the inland freight line from Melbourne to Queensland? If you do, where do you think it should terminate—Brisbane or Gladstone?

CHAIR—Or Toowoomba.

Mr Marchant—We are a 50 per cent owner of the AIRE development proposal. We have been one of the principal investors in AIRE since four years ago. We did the original evaluations with ATEC.

CHAIR—AIRE is an ARTC and ATEC proposal?

Mr Marchant—Yes. We are not only a supporter of it; we have been one of the largest financiers of the studies. As you know, the minister for transport and DOTARS have a north-south corridor study. We are on the steering committee of that with Pacific National, QR, the ARA and a range of players. That study is evaluating all the inland options and all the coastal options to bring a comprehensive report to government about all the long-term north-south options. My greatest interest is in a Melbourne to Brisbane connection. A lot suggest that going through to Gladstone may provide a lot of benefits. I have not done enough study on that. I definitely know there are benefits in going to Brisbane.

Mr HAASE—In that vein, I have been looking very closely at intermodal hubs. On this particular occasion would you like to express a point of view about an intermodal hub being constructed at Parkeston, not to be confused with New South Wales's Parkes.

Mr Marchant—I know the area you are referring to.

CHAIR—This has been around for 30 years, hasn't it?

Mr Marchant—Yes. If I were doing a prioritisation of intermodal hubs on a national basis, I would say we have a major crisis in Brisbane, Sydney and Melbourne. If I were to put Parkeston into a level of intermodal hub crises, I would put it at about 110 in order. I do not think people realise the catastrophic framework of intermodal hub problems for Sydney, Brisbane and Melbourne that they are going to come across in the next 10 years. One of the biggest critical issues to do with the road-rail framework is our freight network. Freight is going to double and yet our interfaces in urban areas between road and rail are of the 1940s and 1950s and lack strategic locations.

CHAIR—Have you highlighted that in your submission?

Mr Marchant—Yes. I love the Kalgoorlie-Parkeston area, by the way. I am very attached to it, having been out there a few times and having donated to rail heritage frameworks and developments out there. But with respect, there is not a dramatic market for it. While I am looking at maybe 100 tonnes there, I am looking at a million tonnes in the other locations which may fall off.

Mr SCHULTZ—Dr Laird of Wollongong University claimed that upgrading the Mittagong to Menangle line is an important piece of infrastructure that was proposed but not developed 15 years ago. He suggested that it is now long overdue and urgently needed. To support his suggestion he listed several important advantages. Is that project on your planning list? If not, when will it be considered again? If it is, when will it be completed?

Mr Marchant—Firstly, our program for the north-south corridor for the next five years has been published and it is not changing. We assessed this project against all the other things we could do for $1.4 billion and on the net present value of the benefits it dropped off—it was not there. In the next five years we are focusing on fixing up the north-south corridor, getting the investment right, getting a 30 per cent market share and getting reliability. We are not distracting ourselves from those issues.

On the other side, I have people working on strategic directions for the next 20 years. We are putting submissions to the AusLink north-south corridor study, which DOTARS are running, and to the AusLink coastal corridor study which they are running and which is a road-rail study. I have no doubt that those proposals, those options, will form part of the options looked at by those studies. Certainly they will be put to those studies, but they will arise from some confirmation from the AusLink studies that that is a high level. But I want to reassure you that it is not in our next five-year plan, which we published and which we know we have to get on the ground running and built or we are going to lose more market share on that coastal corridor. But it is in options for future plans. There is an option for future plans which the AusLink studies are doing and which the Australian government will be looking at.

Mr SCHULTZ—In your submission and in your presentation great emphasis is placed on the efficiency of moving your freight from point A to point B. If I can refer you to the Sydney-Melbourne line, what difference does the steam era infrastructure, such as the loop at Bethungra, create for you in terms of cutting your times? Is that going to be addressed?

Mr Marchant—Firstly, we have issued a detailed report going through all the options north-south and what their costs are. We measured them against transit time improvement, reliability improvement, capacity improvement and yield, and then prioritised each of them and said, 'These ones for this value get the best kick for the buck.' Some of the deviations that we would have loved to have done were outside the values against some of the short-term issues that we need to do, such as improving the curve structure, getting a sleeper base in there etcetera. Our present plan reduces transit time Melbourne-Sydney from the present 14 to 15 hours down to 11½ hours for 80 and 100 kilometre an hour trains, not 50 kilometre an hour trains. Melbourne to Brisbane is down from 39 hours to 26 hours. So I think our plan more than breaks through—at a much lower cost than other people would have thought—some of the fundamental issues we have to do to get rail in the game.

The next stages, though, to get rail improvements similar to what the government is proposing on the Pacific Highway at different points would require deviations. Some of the loop frameworks etcetera we are better to deviate around, just as you have done with highways programs for the last 20 years. But in our first five-year program we did not have the money, resources or the time. Deviation requires land acquisitions and a lot of negotiations with people who own properties etcetera and we would not have been able to solve that for four or five years. So we have focused on those things which we can get done and those things we get the best net present value for. Each of the other options we are looking at in the longer term strategies and we are putting in proposals in each of the AusLink corridor studies for those sorts of options. The AusLink corridor studies are aimed by government at looking at the most optimised framework for intermodal movement, road and rail, and we are putting those things forward on that basis.

Mr SCHULTZ—You are probably aware that the rail infrastructure is very important to rural communities and, more specifically, infrastructure centred around workshops that performed exceptionally well in the past. I refer as an example to the rail workshop at Goulburn, which has a very good record with regard to building and repairing rolling stock etcetera. What contribution has the ARTC made to keeping that infrastructure open and operating, and to rural communities such as the Goulburn community?

Mr Marchant—Firstly, the workshop at Goulburn is owned by the state of New South Wales—it is not ours. It was not part of our lease take-up. Secondly, we run very little rolling stock. We are a below rail supplier, so we do not use that many workshops for stuff. Thirdly, we have sought to obtain quotes from the workshop to maintain some of our limited number of maintenance stuff, and subject to those quotes, they will be successful. If the quotes aren't good enough, they won't be. But the bottom line answer is that if they are good enough they will be.

I would also point out that we employ 60-odd people in Goulburn. We do contribute to the Goulburn community as an employer. We contribute by the daily throughput there, and we contribute through the north-south investment. We are going to put in some $700 million between Melbourne and Sydney, and Goulburn is going to be one of the beneficiaries of that. I am aware that the states are working through a process of privatising the workshop area, and I have organised for my people to get quotes et cetera for any above-rail stuff. We have only very limited above-rail stuff. If, as we move forward and we need that maintenance, they come in with a good quote, I can assure you that we will be more than happy to use them.

CHAIR—I do not want to harass you by asking some of these questions. When we ask you questions about infrastructure that may still be in the control of the New South Wales government, this committee recognises that the ARTC is probably the best thing that has happened to rail in Australia for a long time. When we ask you these questions, if you feel that the efficiency of ARTC would be enhanced by obtaining one of these lines, please tell us.

Mr Marchant—I am still trying to get the line from the Queensland border to Brisbane.

CHAIR—I know.

Mr Marchant—If I looked at my highest priority for an interstate standard gauge, 100 kilometres from the Queensland border to Brisbane would be my first priority.

CHAIR—You have talked—and I can understand how you did this—about having a huge task. You have to prioritise in terms of yield, efficiency, transit times and the like, and on your limited budget that is where most of the money is going to go. On the other hand, you say that at the other end there are lots of things you would like to do but they do not have the cost-benefit activity.

Mr Marchant—The reality is that we are doing some really fundamental long-term planning.

CHAIR—That is a question I am coming to. If you had some special funding, are there some projects, for example, between Melbourne and Brisbane where you would have done a project but it would have taken too much out of your $1.4 billion pool? Are there projects where some seed funding in particular areas could provoke an efficiency upgrade that is not otherwise possible within your existing budget? Do you know where I am coming from?

Mr Marchant—I do. I just want to point out two things. Apart from the $500 million one-off grant, the remainder of the $1.4 billion is debt raised by ARTC or ARTC's cash flow. We are still servicing our $1.4 billion. We are the biggest investor in the $1.4 billion as a company on our own, without government or anybody else. The Commonwealth's contribution is $500 million. On the issue of putting it into perspective, I still have to service that significant amount of debt and the framework, so I have to always be mindful and make sure that what I put in actually works, because my governance of the company would be under a lot of question if I sent it down the chute by putting our money into things that I could not turn around. Investments over 20 or 30 years are not short-term investments; we are not trying to take short gains at all. We are reworking a whole range of options for the north-south corridor study, the study that is presently going on that everybody calls the inland study. We are putting a range of options to the study about the coastal route, because the study should look at all the benefits versus investment and outcomes. We are putting into the study framework a range of deviations and variations to the framework so the independent analysts of the study can put them into the context of saying—

CHAIR—But you must have an idea even at this stage.

Mr Marchant—I have lots of them, but the difficulty is that I am putting them into the study.

CHAIR—If you had to pluck one out of the pack right now, if we ask you about your highest priority outside this prioritised budget, what would it be?

Mr Marchant—The highest priority right now?

CHAIR—Yes, outside the budget.

Mr Marchant—The first one would be concrete sleepering the north-south.

CHAIR—What would that cost?

Mr HAASE—That would be?

Mr Marchant—The whole north-south.

CHAIR—Would you be doing some curves as part of that?

Mr Marchant—Under our present $1.4 billion, we are concrete sleepering any curve under 800 metres diameter. We are bedding down all the curves from Melbourne through to Brisbane, because the whole thing keeps on moving. We are going to redo every curve.

CHAIR—We still have some straights that we have not done.

Mr McARTHUR—Does that include ballast as well?

Mr Marchant—Ballast top-up, not totally new ballast, because we do not like wasting—

CHAIR—You are not redoing them?

Mr Marchant—We are not redoing them. There would be some tamping involved. The reasons why that would be more important than deviations are firstly because we have huge heat restrictions on the eastern seaboard that actually limit the speed of trains. The heat restrictions are because the track expands. A concrete sleeper track beds down and does not expand. Secondly, it would materially lower the ongoing maintenance cost for a very difficult piece of track. It would therefore allow money to go into further capital improvements later. Thirdly, it would provide a more reliable transit time and speed for everybody and it would have a better framework. I would put that higher than the deviations because the gains are much faster.

Ms HALL—Are you installing concrete sleepers on all the upgrades that you are doing at the moment?

Mr Marchant—We will be announcing the outcome of our concrete sleeper tender in the next few weeks. It is our intention to—

Ms HALL—So you are not doing it yet?

Mr Marchant—No.

Ms HALL—So all of the work that you are undertaking at the moment—

Mr Marchant—I said we put out a tender for concrete sleepers. It was comparing them to timber. It was subject to that tender whether we would go ahead with concrete sleepers. My bottom answer would be that we would prefer to do concrete sleepers but it is subject to the tender. I am cautious because that tender has just been completed and I am not able to publicly say what the outcome is. But it will be known in the next two weeks.

CHAIR—Let us say that you did do more concrete sleepering. What sort of money are we looking at?

Mr Marchant—It is in the order of $200 million to $250 million. That will depend on the outcome of this tender that we are in. I have a feeling it is going to be cheaper in two weeks than it has been in the last five years.

CHAIR—What would the speed and efficiency gains be on that?

Mr Marchant—The efficiency gains would be significant. On somewhere near 30 per cent of summer days, there are major heat restrictions put on for the protection and safety of travellers and freight. That reduces the speed quite dramatically. XPT goes from 120 down to 80. If you take that into a total economic framework of time lost, it is actually quite significant. It is the same for freight. Secondly, it takes about five per cent to eight per cent off the ongoing maintenance cost of the framework. So, for somewhere between $200 million and $250 million, you get quite a large gain. That gain could actually be faster depending on the outcomes of our tender. We have finished going through the tender and it has been to the board, but we have a couple of things to do before we announce it. My bet is that the price will actually make it better than it has ever been before. Strangely enough, that has huge benefits very quickly because it takes a short time to do that framework. Then I would go on to deviations. What I am trying to do is get the best benefit out of a sunken investment now to build the market up so that it then makes it easier to do the deviations and the rest. It takes you a good four or five years to do a deviation framework.

CHAIR—You say you have Melbourne-Brisbane down to 26?

Mr Marchant—Yes, it is 26 or 27 under our five-year investment program.

CHAIR—So you are not there yet?

Mr Marchant—No, 18 months is a bit fast.

CHAIR—What would this total concreting of sleepers do? Would that bring it down further?

Mr Marchant—No, it would make it more reliable and more reliable on axle loads, and it would overcome deviation brought about by heat. It would significantly improve safety.

Mr McARTHUR—Can I ask the $64,000 question. ARTC came in in 1998. Do you think that the policy or conceptual argument of a single track owner for freight has worked out and is working out?

Mr Marchant—I think the east-west corridor, as Deutsche Bank reported, is now the most competitive intermodal corridor in the world. I think that is proof of it. We are now at 81 per cent market share in land transport on the east-west corridor. That is what led to Deutsche Bank's view. The north-south corridor may take three to four years—

Mr McARTHUR—But the concept that you—

Mr Marchant—The concept of major freight lines—not branch lines but major freight lines—having an independent track owner selling paths to hopefully strong competitors should provide a better outcome.

Mr McARTHUR—I know that you are biased, but do you think it is working out pretty well?

Mr Marchant—Personally, I think it is, yes. I think one of the difficulties is that the industry is still shaking through its competitive nature. You have the PNL debate on at the moment and other things. This industry has not really yet got through the competition reforms to really bite the dust. We have a few years to go. I can only tell you this: the Americans, the Europeans and the British are all approaching us to find out how and why the model works.

Mr McARTHUR—How this concept works?

Mr Marchant—Yes, and why it works.

Mr McARTHUR—So you are a world leader at the moment?

Mr Marchant—I would not put it that strongly.

Mr McARTHUR—You can give yourself a bunk-up!

Mr Marchant—I think, as a policy setting, government has got this one right, and it is recognised as being reasonably good world wide. Has it yet borne its fruit? With all respect, four or five years from now we will see. But it is in a better shape now than it was two years ago. Let's face it, in New South Wales, which we have just taken up, the New South Wales Auditor-General's report shows that there is a $300-plus million maintenance deficit we have picked up. The thing was running down and dying. In the next three to four years we have a chance to revitalise it. All that working well, the country will be in a better shape moving forward.

Ms HALL—Forgive me if this has been asked; I do not think it has. In relation to the Hunter Valley Coal Chain, a number of key time frames were in place that involved ARTC. I know the Sandgate—

Mr Marchant—Overpass?

Ms HALL—project is proceeding well and I know you reported on that, but there were other key—

Mr Marchant—We are on track on every one of the projects. The major constraint in the Hunter Valley is not rail.

Ms HALL—What is it?

Mr Marchant—Port capacity.

Ms HALL—I think that they would argue differently. From the presentation that we have had in the Hunter—

Mr Marchant—I had a read of that. I can only refer you to the Prime Minister's task force and the assessment of capacity that the Reserve Bank released. I do not think any objective observer would suggest that rail is a constraint in the Hunter Valley. I can tell you now that the port's capacity is 90 million tonnes—not 91 or 92 but 90. Rail can take 90 million tonnes any day of the week. That is not to say we should not build more so we can go to the next stage. But the next stage of port capacity is possibly 102 million tonnes at Port Waratah in December, and Sandgate is going to be finished before then.

Ms HALL—But it was the projects further up the valley that were identified as part of the—I wish I had the—

Mr Marchant—I can refer you to two things.

Ms HALL—I think it was the Port Waratah and the coal chain document.

Mr Marchant—I noted that.

Ms HALL—You know the document I am referring to.

Mr Marchant—I know what it said and I am reserved and a bit constrained to say what I really should say.

Ms HALL—I am listening to what you are saying very carefully.

Mr Marchant—It is very difficult to suggest we are a constraint. We have never gone to the ACCC and sought orders to reduce our customers' capacity. The port did. The port runs a managed capacity program. It reduces the capacity to the bidders. We have never done that. Regarding the constraints we have in the Upper Hunter Valley, we have entered into arrangements with Whitehaven and Idemitsu mines at Gunnedah to build some additional loops, which will get their capacity through, subject to a take or pay contract which they are finalising. We are doing a study on Ardglen tunnel. BHP has done an MOU with us and we will work together on some of the planning on that. There is no capacity constraint on the upper end brought about by rail at this point.

Ms HALL—You sound quite passionate about that.

Mr Marchant—It is a matter of objective fact. With the two new mines coming on at Gunnedah, Whitehaven and Idemitsu have entered into an arrangement with us to provide a take or pay framework to help underwrite the investment. I would point out that the Werris Creek line from just above Muswellbrook is not part of the regulated constrained network. So we need the coal company to help do a contract with us, otherwise we will spend $8 million or $10 million on the basis that they are going to supply something and they might not turn up. We have said to them, ‘If you’re going to say you’re going to do 1½ million tonnes a year then you contract to do that and we will underwrite the investment,’ and that is what we have done.

Ms HALL—What do you think about the awarding of the new coal loader? Do you think that may improve things with a different operator?

Mr Marchant—There was an absolute need in the Hunter for a significant increase in terminal capacity. The New South Wales government went to a bidding process and BHP won it. We were consulted in that process. We helped the New South Wales government review all the proposals against the framework and we did MOUs with each of the proponents with regard to doing a rail connection. I presume the New South Wales government evaluation of that process was correct. All I know is that there is an absolute need for investment to add to the capacity. They chose that investment, and that investment has a three-year lead time. As I understand it, any other investment from any other bidder had a three-year lead time, so I am not certain there is any difference. Port Waratah are proposing to increase the capacity from 100 million to 102 million tonnes. That proposal has been around for three years, and I am looking forward to it being implemented by December.

CHAIR—In the time remaining, I would like to probe two things. We have been to the Hunter, and you can see these incremental ones. I was out of the room for a while, as you know, but did we talk today about the Mittagong to Menangle line?

Mr Marchant—Yes, it came up.

CHAIR—As I said to you before, it seems to me that, strategically, whether they are under ARTC control—and I for one would like to see them under that control—you are looking at the big picture of Australia and justifying the immediacy of ARTC and you are doing it well. I am not taking anything from that. But don’t we have to be careful we are not blinded to the effects these other lines might have—again, whether they are under your control or someone else’s—in boosting regional economies?

Mr Marchant—I totally agree, if there is evidence that that is what they do.

CHAIR—Do you think there needs to be more rigorous examination?

Mr Marchant—Absolutely. All I see in the Mittagong-Menangle—

CHAIR—Maldon to Dumbarton, Menangle to Mittagong and North Goonyella to wherever it was.

Mr Marchant—All of these eventually need to be assessed against what the real outcomes will be. Many people have written to me, as well as obviously making submissions to you—and they all sound great. They say it will cost $80 million in some cases but, when you really evaluate it, it is around $160 million. When you go through it you have to really test what the wishful thinking versus the reality is. For example, the original proposals around that line, which were 15 years ago, involved a situation when there was quite a large structure in the coal industry and some changes taking place. Since then, there have been some structural changes in the southern coalfields relative to where they sit in the competitive mode.

CHAIR—They are much more efficient?

Mr Marchant—They are much more efficient. Effectively, it really needs a proper evaluation on what the likely economic benefits are and whether they will come through.

CHAIR—But surely Port Kembla should have a bigger capacity than 15 million tonnes?

Mr Marchant—It should, but the reality is that if it does who is likely to use it and in what form is it likely to take place?

CHAIR—Is there a chicken and an egg in this: until you get a link to the western side of the range you are not going to—

Mr Marchant—A link to the western side of the range exists now: Unanderra to Mittagong, and we own it and it is part of the lease. That is why I am fascinated to see what the economic benefits will be by having this slightly more efficient upgraded link—and I am not against that, but how will that be different from using the existing line?

CHAIR—You reckon you could get a bigger bang for the buck with $80 million spent elsewhere?

Mr Marchant—That is what I would like to progressively evaluate.

CHAIR—Who can the committee recommend to do that?

Mr Marchant—Effectively, that is what the AusLink studies are about: evaluating those very options against their likely benefit. It is like the Visyboard proposal. The proposal for upgrading the old line would be really great. But after eight months of saying to them: ‘Come to me with how much Visyboard is going to put in, with what the economic benefit will be,’ to this day, nobody has actually come back with an economic case. All I am getting at is that you see these things jumping out at you, they all sound good, but they really require a lot of research. Some of these regional ones do need research by the local economic development board to demonstrate the case, rather than just articulating it. You have another submission here which again sounds really great—the bypass at Fassifern to Hexham. That sounds really great. It will cost $100-odd million. But let’s say it doesn’t; let’s say it costs $80 million. What is the likely economic return for the $80 million? If you had the $80 million, are there other locations where you could get a better kick for the buck? On its own, it sounds good—and these people advocating it, great—but it has to be weighed up against $80 million and what the benefit of the $80 million will be elsewhere. That is what does not come through with some of those things.

CHAIR—So you think at this initial stage that if the government were looking at some additional seed funding then we would do better to get the existing lines much more efficient—like the total sleepering, concrete sleepering, of Melbourne to Brisbane.

Mr Marchant—I think that, when you are looking at 11 per cent market share—and it has been falling—and you are looking at double the freight task between the major capital cities, if you focus on what that game is before you get to a cliff or you have achieved nothing.

Mr McARTHUR—What years for the doubling of the freight task?

Mr Marchant—Over the next 20 years.

Mr McARTHUR—So by 2025.

Mr Marchant—Yes. So what you do in the early stage is to make sure you get your bases done right so that you can make the thing attractive, start to win market share because you made it attractive and then start to build on how you make it easier. But when you are down at 11 per cent market share on rail you really have to work hard to get the market share back up first.

CHAIR—That 11 per cent is the Melbourne-Sydney component, isn't it?

Mr Marchant—Yes.

CHAIR—And Sydney-Brisbane is 19 per cent.

Mr Marchant—Yes.

CHAIR—Is that a feature of its current inefficiency or is it because it is the shortest of the interstate distances?

Mr Marchant—It is the largest logistics freight market in this country. It is just on 980 kilometres, so it is on a borderline framework. Secondly, it has been unreliable on transit time et cetera. It is marginal on price against road. So you need to fix up its transit time and its productivity, and thus you can then lower its price and therefore make it more attractive. Unless you get those three elements together, if you fix up the transit time and the reliability and then charge twice the amount, you are not going to get the customers either. So you need to get the three elements together. All I am getting at is that you look at each one of the proposals relative to what likely benefit it has for the four things that make a change in the market.

CHAIR—You say that your target for the Melbourne-Brisbane line is 30 per cent. What is its ultimate capacity? Is there a cap somewhere—35 per cent, 37 per cent or something like that?

Mr Marchant—The major constraint on capacity is effectively North Sydney, from Strathfield through to Hornsby-Gosford. The biggest single challenge on a corridor framework is what is done about the northern Sydney entrance for freight, because effectively the Cowan Bank and the grades there have a big deleterious effect on the urban passenger system—and the Central Coast is a growing area—and also have a massively deleterious effect on freight, because freight trains are slow and take a long time. If I were going for the single biggest long-term bottleneck, both in urban transport and in freight transport, it is the Cowan Bank.

CHAIR—What would that take to eliminate?

Mr Marchant—You contribute to a $700 million tunnel to separate the urban system and increase its capacity—they get under the national park and out. That is about $700 million. You then liberate the existing urban line to use for your freight line and overcome the congestion framework—

Ms HALL—Just keep the freight line.

Mr Marchant—You actually use the existing passenger line for freight and you put a new urban line underground, which overcomes the grade and the passenger movements from the Central Coast. You solve three things in one go: you solve the biggest urban problem about moving people from the Central Coast into Sydney and vice versa, which is going to become bigger; secondly, you solve the biggest congestion point between freight and passengers in and out of northern Sydney; and, thirdly, you provide a long-term basis for more sustainable freight movements between Sydney and Newcastle and north. If you asked me for the single biggest breakthrough, it would be if the state, the Commonwealth and others could join together and work out how to leverage a $700 million package to liberate the Central Coast and also to liberate freight movements.

CHAIR—Would that have to be all seed funding or could it be seed funding and debt?

Mr Marchant—A mixture.

CHAIR—Is that in your submission?

Mr Marchant—It is in part of the submission we have put in to the north-south study. That is amongst many of them. It is not in the submission on this.

CHAIR—I wonder if you would like to give us a supplementary submission on those two things—sleepers and that area.

Mr Marchant—Sure. The honest answer is that that is the biggest long-term bottleneck, which nobody seems to have cottoned on to how to solve.

CHAIR—I do not want to wind this up but we have to, unfortunately. As ever, your submissions are excellent. We need to authorise this as a supplementary submission.

Mr McARTHUR—I move that the ARTC's opening statement be taken as a supplementary submission.

Ms HALL—I second the motion.

CHAIR—There being no objection, it is so ordered.

Resolved (on motion by **Ms Hall**):

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

Committee adjourned at 10.50 am