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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, 14 June 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, 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

FULLERTON, Mr John William, Chief Executive Officer, Freight Link Pty Ltd (FreightLink) 1

Committee met at 9.31 am**FULLERTON, Mr John William, Chief Executive Officer, Freight Link Pty Ltd (FreightLink)**

CHAIR (Mr Neville)—I declare open this public hearing of the House of Representatives Standing Committee on Transport and Regional Services and its inquiry into the integration of regional rail and road networks and their interface with the ports. This is the 24th public hearing of the 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. Today the committee will hear from Freight Link Pty Ltd. FreightLink operates the transcontinental rail freight corridor from Tarcoola in South Australia to Darwin, including the new 1,420-kilometre line from Alice Springs to Darwin which, I might add, the committee inspected during its construction.

Welcome, Mr Fullerton. The committee will not require you to give evidence on oath but I have to remind you that these are proceedings of the parliament and they warrant the same respect as proceedings of the House itself. It is customary to remind all witnesses that the giving of false or misleading evidence is a serious matter and can be regarded as a contempt of the parliament. Having said that, would you like to give us a five- to seven-minute overview of your submission?

Mr Fullerton—First of all, thank you for permitting me to appear before you today. I have been chief executive of FreightLink since October 2004. I joined the company after six months of operation. The business commenced operations in January 2004, when the new line between Alice Springs and Darwin was opened, with five trains per week operating between Alice Springs and Darwin. The whole business has gone through two phases. When we commenced operation we were successful in converting around about 80 to 85 per cent of the freight operating between Adelaide and Darwin to rail. I might add that FreightLink also operates the track between Tarcoola and Alice Springs. That was built in 1980 by the federal government and it was included in the 50-year concession for the whole corridor between Tarcoola and Darwin.

We have been able to convert a large share of the freight business between Adelaide and Darwin because of the services that we operate and our pricing regime. Certainly, for the first six months, we saw a significant ramp-up of the business and then it probably levelled out for about an 18-month period as we were pursuing other initiatives. I think it is pleasing in the last two months that we have begun to see what I call a second ramp-up phase where we have now commenced haulage of bulk minerals for a company called OM Holdings, which is a mine just north of Tennant Creek. We commenced operations there on 11 April this year and aim to carry around 600,000 tonnes per year of manganese ore through to Darwin for export to China. That is a five-year contract, but the prospects for that mine are very bright in outlook.

We are also well advanced in the contract to haul iron ore from a mine at Frances Creek—which, interestingly enough, was operated under the old narrow gauge operation between Larrimah and Darwin back in the early sixties and seventies. It was closed as a result of Cyclone Tracy and the economic downturn. That mine is now viable because of iron ore pricing. The railway is only 20 kilometres from the mine, so we are in the latter stages of finalising a contract with Territory Iron for commencement in February next year. They expect that will ramp up to

about 1.5 million tonnes of iron ore in that corridor. We have begun to see the value of the rail infrastructure on that corridor as it relates to mining developments, given that there is some gestation period to establish these mines once that line was opened. That has been a very pleasing result.

I think the other element of our ramp-up has been the conversion, since January this year, of fuel products operating on the corridor between Darwin and Alice Springs. We have now converted a lot of the fuel that comes down from Darwin to Alice Springs onto rail. I have some photographs that I might share with you. They are quite impressive. They were taken only about a month ago. We load road trains—these are road trains that were normally operating on the road between Darwin and Alice Springs—and put them in piggyback format onto rail, and we operate those on each of our return services coming out of Darwin on those five services. They are unloaded at Alice Springs on a ramp. Much of the fuel is taken out to the Tanami Desert to service the Newmont goldmine, plus it is also used for domestic consumption and fuel for the airline industry. So there is Jet A fuel and avgas that goes down in piggyback. It is a very good example of how road and rail can work together to get the best use of the modes.

We have also seen more recently further conversions of the general freight business onto rail. We now probably enjoy a high 85 per cent market share of that corridor. Finally, there has been a lot of talk about the Alice Springs-Darwin line but if you ever wanted an example whereby, if you provide the quality infrastructure over the long distance in both rail and the terminal facilities that were built at the same time, you can convert a substantial proportion of freight onto rail very quickly then this is one. We went from zero between Alice Springs and Darwin prior to construction to now enjoying 85 per cent plus of the corridor. It is about providing quality infrastructure and then you will get that market share very quickly. That example could be applied in other parts of the rail network, particularly on the east coast, which does not enjoy those market shares, probably fundamentally due to the poor state of infrastructure and the inability for customers to use rail efficiently. It is a very good example of what can be done when providing that level of infrastructure.

CHAIR—I suppose one of the great focal points of Australian transport was the construction of that line. It was the first major line of that type built in the world for some time. You have 85 per cent of the task—what do you attribute that to? What proportion of it is bulk freight, what proportion is general freight and what proportion is the trucks-on-rail component? Can you give me a breakdown of that 85 per cent?

Mr Fullerton—We can. Up until January this year, 90 per cent of our freight business was what we call containerised intermodal, which is large 40- or 45-foot containers that are taken and loaded onto rail design containers. That made up 90 per cent. We had 85 per cent of that market, but 90 per cent of our business up until January was that type of business. We have introduced bulk fuel; that would make up about five per cent of the business. It will always be a small part because there is a limit to how much fuel is consumed in the Territory. But what we are beginning to see now with the conversion of minerals means we can expect that, within two to three years, the minerals business will make up 30 per cent of our task on the corridor. So, whilst the general freight business is a high proportion now, that will change as we commence the minerals operations. That is because it takes time to get minerals operations started. But the fuel products, which is the photograph you see there, will only be about five per cent to seven per cent of our business.

CHAIR—Did I hear you say that they come up one way and go back the other?

Mr Fullerton—They come loaded from Darwin to Alice Springs and go back empty on rail.

CHAIR—They come down loaded?

Mr Fullerton—Loaded.

CHAIR—On the train?

Mr Fullerton—On the train.

CHAIR—So at various points on the way you have prime movers that just take this off. Is that the idea?

Mr Fullerton—Yes. What happened previously was that the prime movers operated the road trains and they were quads, four trailers, operating from Darwin through to Alice and then out to the Tanami. What happens now is that quads are delivered to the Berrimah terminal—that photograph is taken at the terminal in Darwin—and they are loaded by backing the trailers onto wagons using a ramp. Then, when they arrive in Alice Springs, a prime mover—you only need one, compared to having a whole fleet of them previously operating on the road corridor—picks them up and takes them out to the Tanami, where the fuel needs to go to the Tanami, or they will be used for road deliveries in the Alice Springs area to the airport, to local fuel stations and to other local consumers.

Mr McARTHUR—Saving in freight?

Mr Fullerton—We believe it offers about a 10 to 15 per cent discount to road.

Mr McARTHUR—Not more than that?

Mr Fullerton—No, it is about 15 per cent to road. We intend eventually to go to what we call rail tank cars. These are rail vehicles with a large fuel tank. They are more efficient because you are not carrying around as much mass compared to that operation. But rail tank cars require rail accessible storage facilities where they can be loaded and unloaded.

CHAIR—On a fuel farm?

Mr Fullerton—On a fuel farm.

Mr SCHULTZ—When you say a 10 per cent to 15 per cent discount, is that just on the freight cost? Is that what you are talking about?

Mr Fullerton—Basically, on the line haul component, which I will call the part from Darwin—given that you need trucks for the pick-up and delivery, to take it from the fuel farm to the terminal, the local delivery—I am talking about the discount from Darwin into Alice Springs. Our customers will pick up a financial benefit by putting it onto rail. They will not convert unless there is some incentive. The other non-tangible type benefits—and this is particularly

from the fuel companies' point of view—is that they would much rather see this on rail than on road.

Mr SCHULTZ—I asked the question because I would be interested to know, although you probably will not know, how much of that discount the fuel companies have passed on to the consumer.

Mr Fullerton—There are a number of players in the chain here. There is the end customer at Tanami, there is the fuel company and then there is the transport company. We have a contract with the transport company, which is Scott Corporation, to move that product.

Dr JENSEN—You are talking about having taken 85 per cent of the freight task. How are you defining the freight task? For instance, one of the areas, I guess you could say, that was touted originally as the *raison d'être* for the rail was shipping cattle to Darwin, and yet the evidence that we took in Darwin was that you have managed to get very little if any of that task. How are you defining the 85 per cent? Is it 85 per cent by mass of what goes on road between, say, Alice Springs and Darwin? How are you defining it?

Mr Fullerton—We define the market, what we call the contestable market, as the business that is suitable to go onto rail compared to road. There are some parts of the business, for example—I will come back to the cattle issue in a minute—freight. Road transport will leave Adelaide and it will drop freight off at Coober Pedy, Uluru and all these places along the way. We say that is not rail contestable because we do not service those markets. So we define the market as the markets that we compete in, which is freight that is delivered into Alice Springs, Tennant Creek where we have facilities, into Katherine and into Darwin. That is the market we define as the contestable market. We enjoy 85 per cent of that; our plan is to get to 90 per cent. So there are parts of the business where we know we cannot compete. It is no different to the Melbourne to Perth corridor. Rail transport enjoys around about 80 per cent, but there are some parts of the business that rail just cannot compete with and it would not intend to compete with because it just cannot provide that flexibility. That is how we define that contestable market.

In terms of the cattle industry, we certainly had a hard look at that prior to the commencement of operations. It is just difficult to make it work. The road does provide better ways of handling that business and we still do not see that there is any opportunity at this point.

Dr JENSEN—There is a follow-on to that as well. You are talking about a 10 per cent to 15 per cent discount, but between where you pick up your freight task and where you drop it off, the question is: what is the actual discount, if any, door to door? The problem is, obviously, that you have to load and unload your train, whereas with a truck you can effectively get closer to door-to-door delivery.

Mr Fullerton—If we look at the general freight, which is the containerised freight, it is around a 10 per cent discount to road. There are a whole range of different road costs, which I will talk about shortly. But we have a lot of information on the road models, on what the road costing is, and we have actually been able to determine that by working with our customers who use road. Most of our customers also have road assets on the corridor and they have shared with us what their road costs are. When we actually look at the road costs, we factor in or deduct from that the pick-up and delivery component. So, when we do compare rail to road, we only look at

the line haul from terminal to terminal and we factor in the pick-up and delivery. So you are comparing apples with apples.

Dr JENSEN—So, after factoring that in, what is the discount?

Mr Fullerton—Ten per cent. You have to remember that some of our big customers can put very efficient road operations on the corridor. Toll and Scott Corporation can put triple road trailers on the corridor and, because of their economies of scale, they generate very efficient road operations. I am talking about our intent to offer at least a 10 per cent discount to that because we feel that, from the two years we have been operating, it has to be at that level to be attractive to people to use rail compared with road. Road has some other flexibility benefits in terms of being able to depart every few hours compared with trains where you have to wait to build the train and then depart. So we have pitched it at around 10 per cent. However, if I were to send a box of furniture up and I wanted to hire my own road truck to do it, the cost would be horrendous. I would not be able to deploy an efficient road unit.

Dr JENSEN—Another question there in terms of the economics is the time from door to door, because a lot of businesses now use the just-in-time philosophy. Basically, the time that it is on the road or on the rail is time that is costing them money rather than making them money.

Mr Fullerton—Yes, and I think that is where road in some parts of the business will have it over rail. I think Adelaide to Alice Springs is an example: because it is a shorter distance, we do not depart Adelaide until late at night. A truck can load up some freight early in the morning and can be in Alice Springs first thing the following morning. There are some customers that wish to have that service and they will pay a premium for it. But the bulk of the freight is not as time sensitive and, if customers can have the advantage of delivering all that freight to rail for a late departure for arrival the next day, that meets their requirements for the bulk of the business.

Mr SCHULTZ—You are obviously in the freight business to make money. I would assume that the biggest return for you is in weight freight—heavy materials such as mining materials et cetera.

CHAIR—I am sorry, there is a division in the House and we will have to suspend the hearing.

Mr Fullerton—I will think about that question and answer when you come back.

Mr SCHULTZ—I was going to ask you about your containers.

Mr Fullerton—I can talk about that when you come back.

Proceedings suspended from 9.50 am to 9.59 am

CHAIR—I declare the hearing resumed.

Mr SCHULTZ—The second part of my question was to do with containers. What do you actually carry in containers? Do you have any plans for or are you involved in refrigerated containers for foodstuffs?

Mr Fullerton—On that first question: obviously, from a rail productivity point of view, the greater the train density in terms of the mass per metre, the more efficient the operation is, because it saves on fuel—you get better relative fuel consumption, and you only need one set of locomotives and one set of drivers. So the aim is to try and make the train as dense as we can. And, obviously, bulk freight lends itself to rail because of the tonnages. It is always our objective to try and load the train up to the axle load limit and to the space limit—the envelope above the train. From that point of view it is no different from road. From a container perspective, we have an incentive for customers to load up the containers to 26 tonnes. They are charged for 26 tonnes whether they load it to that level or not, but that is an incentive.

We are beginning to see some new containers which have what are called mezzanine floors. They are new technology containers. They can put heavy material on the bottom and load it up with lighter material at the top, aiming to get up to the 26 tonnes. So that is an incentive there. It is good for us because we can then put more freight per given length of train, and therefore have a bigger, heavier train, rather than running additional services. And that is of benefit to everyone.

We are also about to take delivery of 25 well wagons, which will allow double stacking on the corridor, which is already operational between Adelaide and Perth on the ARTC network.

Mr HAASE—Could I have a further explanation about that new wagon?

Mr Fullerton—It is called a well wagon. It is a low deck-height wagon. With a standard wagon, one of which you can see in that photograph, you cannot put two standard containers on top, otherwise it infringes the gauge envelope—it hits bridges and whatever. So you buy wagons that have a low deck height. They are not very far off the rail and you can put two containers on top.

Mr HAASE—Simple. Thank you.

CHAIR—I think we saw those new ones in a previous inquiry.

Mr Fullerton—Pacific National operate with them and have done for years. We probably should have bought them prior to commencement of operations, but we have now taken the decision to buy 25. It is all aimed at trying to take full advantage of the axle loads that we are allowed to run. It is no different from trucks on the road getting longer and bigger.

CHAIR—Can you combine wagons of both types in the one train?

Mr Fullerton—Yes. They are all standard. Our trains can run up to about 1.8 kilometres long—about the same as those that operate between Adelaide and Perth—and we can double stack them. Typically, our trains will get up to around about 4½ thousand tonnes. That is our plan. Our average trains are probably operating at a bit over 3,000 tonnes. So we still have capacity on those five services to grow the business, to make them a bit longer, and also now to do what we call double stacking—putting two containers on top.

CHAIR—Does the axle load thing start at Tarcoola or does it start at Adelaide? What is your axle load rating through to Darwin?

Mr Fullerton—On the Alice Springs to Darwin section we can operate at 23 tonnes at 115 kilometres an hour. I think on the ARTC network it is only 21 tonnes. I think that is limited by the 47 kilogram rail that they have on the corridor. When the line was constructed it was built pretty much to the interstate standard. You can operate locomotives and wagons from Brisbane to Darwin, from Perth to Darwin and from Adelaide to Darwin, across the corridor.

Mr HAASE—I want to do some infill work, if I may. We talked about the stock and the suitability for rail. Are you including that stock potential as part of your freight potential? In other words, are they in your 85 per cent calculation?

Mr Fullerton—No. We exclude stock.

Mr HAASE—On the capacity of the existing rail for the carriage of ore: in your submission you talk about the new iron ore mine—I am looking for the name of it—

Mr Fullerton—Territory Iron.

Mr HAASE—How far is that from your rail?

Mr Fullerton—Twenty kilometres.

Mr HAASE—Will they be using road freight to get it to there?

Mr Fullerton—We have actually looked at using the old narrow gauge formation but, at this stage, because there is an initial contract for 3½ million tonnes of ore, the plan is to bring it down by road to a loading area on the rail line. Again, whilst I have answered that question, there are a few—

CHAIR—And this is the 20 kilometre distance?

Mr Fullerton—Yes; there are 20 kilometres of road to the rail.

CHAIR—And the old permanent way from the previous train line is still there, is it?

Mr Fullerton—The old permanent way is still there. It is a narrow gauge formation. This is a photograph of Bootu mine, which produces manganese. It is about a 60-kilometre haul from the mine and it is a dedicated road that was built by OM Holdings to service the mine. Our train pulls up at a loading loop and it is loaded with a front-end loader. It would be a similar operation for Territory Iron. Trucks will take it to the railhead—the loading point—and it will be loaded onto hopper wagons for dispatch to Darwin.

Mr HAASE—Is it seen by the mine as an economic process? I am talking about the capacity. You have a 26-tonne maximum axle capacity, haven't you?

Mr Fullerton—No, 23 tonne.

Mr HAASE—Sorry, 26 tonne was the capacity loading of a—

Mr Fullerton—A container.

Mr HAASE—At 23 tonne per axle, is it seen to be economic? We have had discussions in this committee as to whether or not the rail was suitable and whether it had the capacity.

Mr Fullerton—That has been raised with me on a number of occasions. It is a bit of a ludicrous argument from the point of view of the axle load. It is often said, ‘They move iron ore in the Pilbara.’ The Pilbara is built to a 35-tonne axle load, but they handle 120 million tonnes of iron ore a year. Building a line at that level on that corridor at those axle loads for those tonnages would not stack up economically. But I would add that our line is built to the interstate standard. On the interstate network there is considerable tonnage of minerals that are moved already. For example, I think Koolyanobbing—which is the old BHP mine operated by Portman Mining 200 kilometres west of Kalgoorlie—plan to haul up to about eight million tonnes. They already handle about four million. It is a 21-tonne axle load. It operates from Koolyanobbing through Kalgoorlie to Esperance and is exported. That is no different to the Port Kembla coal operation in New South Wales. That is all 21-tonne axle load. It is not heavy axle load as in the Hunter Valley.

Another example is the Broken Hill to Port Pirie concentrate train, all 21 tonnes. So it is economic. I think the economics of the Territory Iron operation, though, comes from a number of areas. First of all, it is only 200 kilometres to a port; therefore, the haulage distances are quite short, relatively speaking, whereas Koolyanobbing is about a 600-kilometre haul and that adds cost to get it to a port for export. Darwin is very close to the Asian markets. It is a very short boat trip across to China where most of it goes. It is an existing mine; therefore, a lot of the old internal road structures and a lot of the mining infrastructure is there. At the end of the day, it has to be a viable operation in terms of the cost of iron ore and the prices they receive. However, I think rail could be around about 30 per cent of the total cost, but they can still produce the iron ore and sell it and make profits.

Mr HAASE—So your opinion is that everyone is happy with that?

Mr Fullerton—Yes, and it is built to—

Mr HAASE—You are not offering a freight rate that is unsustainable?

Mr Fullerton—No. That freight rate is aimed at doing two things. First, it generates the returns we are seeking and, second, it is at a rate that makes the mine sustainable.

Mr HAASE—I do not profess to understand your financial arrangements regarding capital cost and consideration of return on capital cost. Are you able to share that information with us?

Mr Fullerton—You would probably be aware that, currently, we are going through an equity raising, a capital restructure, whereby a lot of the old project debt will be paid off through new equity. We will come up with a new debt facility, which is aimed at setting up the business on a more operational basis rather than on a project basis, which is a whole different debt structure. We are currently going through that capital restructuring process. The line was constructed for about \$1.3 billion. The Tarcoola-Alice section was included in our concession for 50 years, so the operators of FreightLink have 50 years to maintain and operate that line from Tarcoola to

Darwin. Of that \$1.3 billion construction, as you may recall, the federal government, the Northern Territory and South Australia contributed around \$475 million. They do not seek to get a return from that. That is not part of our balance sheet. Their return will come from that line in 50 years time. I am getting back to the point that we do have a balance sheet that is made up of debt and private equity that we need to seek a return on, and that is how we price the business.

Mr HAASE—Which is only about two-thirds of the total cost.

Mr Fullerton—Two thirds. We seek to get a return on that business.

Mr HAASE—This goes to my question about your organisation's concern with sustainable rates and return on the two-thirds of capital cost. That is what you are telling us you are achieving?

Mr Fullerton—That is right.

Mr HAASE—I am interested to know what percentage of your containers achieve their 26-tonne capacity. Perhaps you could explain what a typical achieving of capacity would contain.

Mr Fullerton—It differs from customer to customer because different customers have different mixes of freight. Some handle cement—

Mr HAASE—How many would get that economy?

Mr Fullerton—I think the best way to express it is that, on average, a 40-foot container weighs in at around 18 to 19 tonnes.

Mr HAASE—That is fair enough. To get to your 26-tonne capacity for a container, what would a customer typically fill it with?

Mr Fullerton—To get to 26 tonnes?

Mr HAASE—Yes.

Mr Fullerton—Heavy freight. You could have cement. You could have steel products. You could have, in particular, heavy products like beer, any liquids—all those sorts of things.

Mr HAASE—That is what makes us heavy, I am told!

Mr Fullerton—Yes, it is.

Mr McARTHUR—I have three issues. Could we just be clear on this 85 per cent freight task? Could you tell us what is the total freight task of, let us say, going from Alice Springs to Darwin, disregarding the container? I get the impression that it might be just a fraction misleading as to what the railways carry relative to the road operators.

Mr Fullerton—The contestable market, which I have defined previously—

Mr McARTHUR—Forget that. Let us talk about the total freight task. I just want to know what is being carried on the road and what is being carried on the rail.

Mr Fullerton—We do not have figures for some of the business that is picked up and dropped off along the way. We do not measure that. We do not have any information.

Mr McARTHUR—A ballpark figure?

Mr Fullerton—I will get to that answer shortly. We believe the contestable market is around 770,000 tonnes, of which we enjoy about 590,000, which is the 85 per cent of the contestable market. There is some work that the Northern Territory government have done through their regular reports that talks about freight consumed in Darwin; it comes into Darwin from all sources. Their view is that rail has about 70 per cent of that because Darwin is also serviced by sea from Brisbane. A lot of the beer going into Darwin comes out of Brisbane by sea. It is serviced by sea out of Perth, and there is also road that operates between Brisbane and Darwin, and Perth and Darwin. Of the freight consumed in Darwin, the estimates of the NT government's independent reports suggest that rail has about 70 per cent of that freight coming into the Darwin area, whereas on the Adelaide to Darwin corridor we would have about 85 per cent. If you take the total freight—we are not talking about a lot more freight than that, because Coober Pedy and Ayers Rock and those places along the way do not consume much freight—

Mr McARTHUR—Seventy per cent of the freight to Darwin is on rail. That will do me, if that is the figure.

CHAIR—From all sources?

Mr Fullerton—From all sources into Darwin. But on the corridor where we compete—it is difficult to compete on those other corridors—we have 85 per cent. I think the best example of the business that we carry is that we have four customers that carry between 70 and 75 per cent of the business. That is really Toll—there are two divisions of Toll Holdings—the Scott Corporation and a company called FCL, a private company. They make up about 70 per cent of our task on the train. Of those customers, FCL are 100 per cent rail. They do not operate any road trucks at all. A division of Toll called Toll NQX are probably in excess of 95 per cent. They have moved completely to rail, virtually. One other Toll division and the Scott division are probably around 85 to 90 per cent and they are in the process of converting across. I think, whatever way you look at it, rail is enjoying this 85 to 90 per cent of the freight market on the Adelaide to Darwin corridor. What it cannot get are those bits of freight that are delivered at places—

Mr McARTHUR—Can we go to the next question. Over the years we have heard the argument that, if we put the Darwin-Adelaide rail in, there would be a major movement of freight from the southern regions through the Darwin port to the Asian market. Can we get a comment on whether that has in fact happened. This committee had a look at the Darwin port and I must say that we were not very impressed with the facilities and the capacity to handle large numbers of containers. Is the basic theory that was used to convince government to put the money in and spend \$1.3 billion on the total project, coming to pass or is it still a bit of a myth?

Mr Fullerton—I would not class it as a myth. Certainly, from my point of view, a lot of work still needs to be done to make it happen, because it is quite a complex set of issues you are dealing with to try to get Darwin to receive more freight both inwards and outwards. The bulk of the international boxes moving at the moment is uranium out of Olympic Dam, which is exported out of the port of Darwin. All our other exports are minerals. The international trade is now tending to be more in minerals.

Mr McARTHUR—No general freight?

Mr Fullerton—There is very little general freight. The reason for that is that there is not a sufficient number of shipping services that have chosen to call into Darwin to deliver the freight.

Mr McARTHUR—The big argument that was put to this committee time after time was that if we got the railway in then the ships would call into Darwin and we would make a big impact on the Asian market. That was the big debate.

Mr Fullerton—It is. Those words are easier said than done, but I think that the Darwin trade will eventually come. One of the key initiatives that we are participating in with freight forwarders, shipping companies and the NT government is to look at opportunities to introduce what we call shuttle services from Indonesia into Darwin. They are smaller ships, because you are not going to bring big ships into Darwin because you are just not going to be able to handle the freight that all has to come south. The idea is to bring products coming out of Indonesia, such as paper products, into Australia by having that freight delivered up into Singapore, where it is loaded onto large ships for arrival into Sydney, Brisbane and Melbourne. If we introduce those shuttle ships, that can provide improved transit times.

The other benefit in handling those sorts of volumes is that for a lot of the domestic freight that goes to Darwin the boxes come back empty. Part of the work we are doing with one of the Australian freight forwarders is to bring that product into Darwin and to take advantage of the empty space in the containers that come south. A number of trials have been conducted and everyone is confident that, as people trial it, become familiar with it and are prepared to make the shift from how they currently process their freight into Australia, it will come. But it is not going to happen in five minutes; it could take a number of years for that to happen. Similarly, there is a company called Hai Win Shipping that has introduced monthly services out of China. They are looking at developing freight opportunities into Adelaide and Melbourne. They have already conducted some trials.

There are also a whole lot of things happening in the global logistics chain. Where a number of the freight forwarders' major transport companies in Australia are tied up in that is where China can do some of the distribution. Rather than bringing a box of televisions into Melbourne and then distributing them through to different points in Australia, boxes will be packed in China with products targeted to go to regions, so that you will pack a box in China that needs to go to Perth and all the commodities in Perth will come out of that box assembly with Adelaide. Those are the changes that are occurring in the global logistics market. In the two years to date, a number of exports have developed but then diminished, but we are persevering with trying to get the mechanics right to get people to use those shuttle services.

CHAIR—How far off would you say that is?

Mr Fullerton—I do not like putting a time on it. There are a number of trials that are very close to getting off the ground now, but I still think it is two or three years away—it could be five. If you look at the total movements—and this comes out of the Port of Melbourne statistics—Darwin handles about 13,000 TEU of boxes coming in a year. Most of that is for domestic consumption, because we do not see much of it. Of the total volume of boxes coming into the ports in Australia, I think Darwin makes up one or two per cent, so it is a very small proportion. It is behind Hobart, Burnie and Devonport and those sorts of places. They are mature ports. As the Darwin Port matures and the proximity to Asia starts to be recognised and utilised, you will start to see greater volumes going through Darwin.

Mr McARTHUR—That is the big question.

Mr Fullerton—It is a question of when and how much.

Mr McARTHUR—How is the railway actually working in terms of signalling, passing loops, quality of rail, sleepers and all the other things a modern railway should have?

CHAIR—That was going to be my question. You might also factor into that the bulk commodities. How do the loops work in relation to your current mix of freight and will you have to build more loops?

Mr Fullerton—We will have to build more loops. When we commenced operations there were some service problems on the corridor for the first three or four months. That was more to do with bedding the new rail down, and there were some interface issues between the new rolling stock and the new rail in terms of the wheel-to-rail interface, which is a sensitive bit of technology. There was some vibration damage to goods in that first three or four months. We then had to slow the train down and therefore our delivery performance was not as good as it should have been. For the next six months into late 2004 we went through a correction program to grind the rail and reprofile the wheels to improve interface. That has all been completed.

Our corridor is now one of the best-performing corridors in terms of on-time performance on the interstate network. We achieve in excess of 90 per cent on-time delivery. Nowhere else would they be enjoying that level of performance. The damage issue has also gone away. We have no complaints from any customers about damage to goods. In fact, all the experience with produce and melons and other material that comes out of Katherine is that it is better than road in terms of damage. So from an operational point of view the rail line is performing extremely well and trains are running on time. It is high-quality infrastructure. That is an important part of getting market share, because if we were not performing we would not have 85-plus per cent of that market.

In terms of future investment, it was certainly the case that the line between Alice Springs and Darwin had only four crossing loops. But it was important that you did not overcapitalise on the line. As that business grows we intend to introduce new crossing loops. When Territory Iron starts next year, a loading loop will be built to two kilometres long, which will also allow trains to pass. We will be building a new set of holding roads in Berrimah to handle the additional volume of trains. So, as the trains increase, we will increase the number of crossing loops. All that will be paid for within the growth of the business. It is an optimum arrangement whereby you build a line to suit day-one operations and, as that business grows, you invest in new

infrastructure and the business pays for it as we increase the number of domestic freight trains. I would like to go back to the point that I made right at the beginning that, if you provide good infrastructure and the rail performs to the levels that we have achieved, you get a large share of the market.

CHAIR—It has been our experience everywhere that if people invest in good track—notably, the Pilbara tracks, the narrow gauge from Brisbane to Rockhampton, your own track—then they generate their own success, so to speak, because they are reliable in terms of time, the freight is not being knocked around and so on. I have a few more questions. To link up this mine, over the 20 kilometres, to the main line, what would that cost? What is the estimate?

Mr Fullerton—We put the figure at between \$10 million and \$15 million, and that is as much to do with the fact that there is some formation and some culverts there and there is an old narrow-gauge formation. Certainly in that territory you are looking at about \$1 million a kilometre. If you recall, for the line between Alice and Darwin, which is about 1,400 kilometres, the cost was about \$1.3 million. Given that some of that was terminals, that works out at around \$1 million a kilometre. It is easy terrain, I might add—it is pretty flat. But it was around \$1 million a kilometre.

CHAIR—Do you operate your own trains or just an access regime, or a bit of each? I notice in your submission you talk about this new connection to Melbourne which you hope to duplicate to Sydney and to Perth. How does that work—are they your trains coming out of Melbourne and going right through to Darwin? When we first saw the line, when we first inspected it, a lot of us thought that it would not work without that connection, especially to Melbourne—that, if you wanted to get the volumes up, you would have to go to Melbourne. Can you explain how that works—first from Tarcoola to Darwin and then from Melbourne to Darwin.

Mr Fullerton—From Tarcoola to Darwin we own and operate the trains on the track, so we are basically vertically integrated.

CHAIR—Do you allow third-party access?

Mr Fullerton—We provide third-party access to passenger trains, and there is an access regime that applies for others who wish to operate on the corridor, but the access regime is different to the ARTC regime. That has much to do with the fact that FreightLink had invested all these sums of money that they needed to generate a return on, so the access regime was approved that recognised that investment up the front, but it does actually provide for third-party access. There is a process that access providers can go through to seek access.

CHAIR—What is the nature of the trains from Melbourne to Tarcoola and on to Darwin? How does that work?

Mr Fullerton—We operate the trains from Adelaide to Darwin ourselves. We do have a contract with another rail company to provide the train crewing, but they are our locomotives and our wagons. We have an access agreement with ARTC between Adelaide and Tarcoola, so they provide a path for us and we pay their rates to operate our trains on that corridor. So it is very much a FreightLink badged, FreightLink operated train from Adelaide to Darwin.

When I joined the company I quickly came to the conclusion that we really had to provide linkages into Melbourne, that there was some business that was going from Melbourne to the Territory on road and, if we could provide a regular connection to Melbourne, we could generate more volume onto our rail business. We introduced that on 4 July last year. But we did not have enough business to run our own trains—we would have lost money, given that we have to pay for ARTC access fees, for putting up drivers and whatever. So we reached an agreement and we had what was really a code share arrangement, like in the airline industry, whereby we bought capacity—

CHAIR—On their train?

Mr Fullerton—Yes, on their train. We deploy two five-pack wagons, which are capable of handling 10 forty-foot containers each. So that is 20 containers we can send each day. We place that onto their train, it runs between Melbourne and Adelaide six days a week. The other major customer on that train is P&O. The company operating the train is ARG, now it is owned by QR, and QR now operate that service. We buy capacity on the train by deploying our wagons. Similarly, we intend to roll that out between Sydney and Perth because there is still some business—

CHAIR—You are saying that your optimum load from Tarcoola to Darwin is 4,500 tonnes, but you are averaging 3,000 to 3,500 tonnes at present. What proportion of that 3,000 to 3,500 tonnes would be coming out of Melbourne, on average?

Mr Fullerton—I would probably say, in terms of boxes, about five or 10 per cent.

CHAIR—So, if you could pick up another five or 10 per cent from Perth and Sydney, those five or 10 per cent would start to rack up to 15 to 30 per cent, and if you built them you could almost put another 50 per cent on your rail.

Mr Fullerton—It could. That is the thing about Perth. Perth supplies Darwin now by road. Customs are saying that if you had capacity from Perth back to Adelaide then you would pick up some more business. There are not huge volumes, because there is a limit to what the Northern Territory consumes, but there is some business you can pick up.

CHAIR—But when you get to that, don't you come back to Mr McArthur's question: where do you go past then, if you do not have some sort of freight link out of Darwin to the South Pacific? That pretty well caps it then, doesn't it?

Mr Fullerton—We have gone through an exercise now with our equity raising. We have revised the whole business plan. Given the outlook for minerals—we already have two projects started, and we think there is probably a third minerals project within the next few years—

CHAIR—I see.

Mr Fullerton—even taking a very pessimistic view of international business, the rail is still viable. It is still a viable operation.

Mr McARTHUR—With minerals?

Mr Fullerton—With the minerals and the expansion of—

Mr McARTHUR—Not with freight that was originally—

Mr Fullerton—If we can build that international business, it is all upside to the business.

Mr McARTHUR—The minerals were not part of the original plan?

Mr Fullerton—The minerals were not a part.

Mr McARTHUR—So the minerals are going to save you?

Mr Fullerton—Minerals would be an important part of our business.

Mr McARTHUR—Save you?

Mr Fullerton—I would not use those words.

CHAIR—He tends to be provocative like that sometimes!

Mr HAASE—How do you see the future of the organisation, and what products will you shift? What does your crystal ball say?

Mr Fullerton—I think it is a good time to be in rail in Australia, to start with. There are probably only four rail companies of substance, now that QR have bought ARG. QR and PN are the big two. FreightLink are an emerging operator. We have only been operating for two years. We have established business on the corridor. Our plan is to provide services off the corridor, not just feeding Darwin. We believe that we can ultimately operate services between Melbourne and Perth. That is where we see our growth—also, operating services elsewhere.

CHAIR—Will you run your own trains to Melbourne and Perth as well?

Mr Fullerton—The plan is that, if we believe we have a customer base that will support us, we will operate trains between Melbourne and Perth. It is no different to the plans that QR had to operate east-west. So, given the outlook for rail and the fact that there are only a few players—and SCT, Specialised Container Transport, are probably the other one; they probably have about 15 to 20 per cent of the business, Melbourne to Perth—

Mr McARTHUR—And Toll? What do they have?

Mr Fullerton—Toll, through PN, must have 80 per cent of their rail business, I would have thought. There are only two operators from Melbourne to Perth.

Mr HAASE—What do you say to those detractors who say that once you put something on a vessel in Singapore and you are taking it to Australia there is no commercial advantage in dropping it off to Darwin; it is cheaper to leave it on and take it to Melbourne where your centre of consumption is?

Mr Fullerton—In some respects I do agree with that for a large part of the business, because rail cannot compete with ship on a tonne per kilometre basis. For the very reason that rail is cheaper than road over the long distance, sea is cheaper than rail over the distance, because there is no infrastructure to support.

CHAIR—But the boat has to go right around the circumference of Australia.

Mr Fullerton—They do, but if you drop it off—

CHAIR—You go across country.

Mr Fullerton—Yes, but it is not a lot. It is still a significant benefit. For example, the domestic shipping service between Melbourne and Perth and Sydney and Perth has been recently introduced with the *Boomerang* shipping service, and that will take business from rail. It will offer lower rates. It will take business that is less time sensitive—not all of it—because ships can compete over that distance. You are not going to be able to provide a competitive service on the basis of dropping off containers in Darwin to bring them all the way to Melbourne, where they get distributed back throughout Australia. We are targeting niche shipping services coming straight from Indonesia—from ports such as Surabaya—into Darwin. We can then backload that business in the domestic freight boxes—

Mr McARTHUR—So you are challenging the basic concept—

Mr Fullerton—We are coming up with a process that can work, a process that looks at the relative advantage—

Mr McARTHUR—The concept put to this committee and the government was that you would bring the boxes from Darwin down to southern Australia. That was the basic concept. Are you telling us there is a bit of doubt about that?

Mr Fullerton—In the short to medium term, you really have to be able to sow the seeds of an international business through niche opportunities in Indonesia and, for that matter, even China.

CHAIR—So you would like to make Darwin into a minihub for the southern Asia area?

Mr Fullerton—It would become a minihub and distribution centre. The freight would come into Darwin and be distributed. There is backloading of road into Brisbane and Perth and there is backloading of rail into Adelaide and Melbourne. So it is a small part of it.

Mr HAASE—You said you were trialling an arrangement whereby vessels coming in from Indonesia could solve the problem of empty boxes and their return south. What mode of freight would you have from Indonesia to Darwin that is not containerised?

Mr Fullerton—It is all containerised.

Mr HAASE—So how could you utilise the empty containers?

Mr Fullerton—If you are bringing in paper, for example, from Indonesia through the port of Surabaya, it comes into Darwin and needs to go to three or four destinations. It is unpacked from the international box and repacked into southbound domestic boxes that are used to take freight in a forward direction. It is packed into those empty boxes for dispatch to Brisbane, Perth, Adelaide and Melbourne.

Mr HAASE—So, in a very practical way, you can make that work and solve the problem of empty boxes?

Mr Fullerton—Yes.

Mr HAASE—You mentioned the upgrading of the track, the installation of loops and additional infrastructure et cetera. At the end of your 50-year lease, what is the agreement in relation to the returns to you for the value of those facilities?

Mr Fullerton—It is all handed back to the government, through the corporation.

Mr HAASE—At a reviewed remuneration for your upgrades?

Mr Fullerton—No. If we invest in infrastructure, it is depreciated over 50 years. As part of the concession deed, it is returned for no financial return. It is not a significant amount.

Mr HAASE—As a percentage of total investment, I am sure it is an insignificant amount. Under the contract, what are the requirements for maintenance and the condition in which you hand back the track in 50 years time?

Mr Fullerton—We are obligated to maintain the track to a certain standard and return the track in that standard.

Mr HAASE—Is that a good, solid contract?

Mr Fullerton—Yes.

Mr HAASE—There is a great deal of criticism of the situation in relation to the track in Western Australia—the nature of the contract and who is responsible for upgrades. But you see your document as watertight and clear?

Mr Fullerton—It is quite watertight and clear. It is a new document that was negotiated at the time of the construction, and I am sure the governments would have been looking after their interests.

Mr HAASE—One would always think so.

CHAIR—You know that the Southern Pacific, the Orient Express type train that QR put together, was mothballed after 9-11 because it could not get the well-heeled American tourists. If such a train were to be brought back onto the track, for high-class rail travel, would there be an access regime available from, say, Adelaide to Darwin?

Mr Fullerton—There would be, subject to paths being available, and that would depend on when they would like to run. We would deal with that no differently to how we currently deal with Great Southern Railway for the operation of the Ghan. They operate two services a week to Darwin. They pay an access charge and we negotiate within the paths that they require for their own marketing—

CHAIR—You do not have any other passenger trains running

Mr Fullerton—No.

CHAIR—I would like to revisit something that we were talking about before. When the case was being argued for this train line, I got a very distinct impression that it was going to revolutionise the cattle industry in the Northern Territory and we would see live freight out of Darwin, meatworks and all sorts of things. But, when we were taking evidence for this inquiry in Darwin, we were very surprised that the whole cattle and domestic freight industry up there was quite ambivalent to the use of rail on the basis of issues around double and triple handling, how you spell the cattle and all that sort of thing. Does that really rule out the use of the line for livestock for the time being?

Mr Fullerton—I think so. Obviously, we would move any product if we can move it and get a commercial return from it. With cattle transport, I think the problem from day one has been rail's ability to compete with road. There are issues about double handling and the health and welfare of the stock along the way that, until now, have ruled out rail as a viable alternative.

CHAIR—Coming back to the inquiry's term of reference about the utilisation of the ports, we also got the distinct impression in Darwin that the port was not that well equipped for live cattle exports. It was not so much that you could not do it but rather there were problems with the way the various freight links to the port interfaced with the port. Is that your experience? Have you handled any cattle at all?

Mr Fullerton—No, we have not heard anything. I am not too sure of the limitations and problems they have out there at the moment.

CHAIR—You have not done any studies on it?

Mr Fullerton—No studies, no.

CHAIR—It has also been suggested off and on to the committee over the years that, in time, this line might be complementary to a line from Cloncurry and Darwin to Alice Springs, both for mining and, it was argued in the early stages, for livestock. What is your comment on that? Have you had any negotiations with ATEC or Mr Compton? How far down the track do you see that link being developed, if ever?

Mr Fullerton—We have not had any discussions with the parties involved in that. I think it is a long way down the track. I would have thought there were other priorities that needed to be dealt with earlier. The inland route between Melbourne and Brisbane is an important priority, I would have thought, in the medium term. With construction of the line you mention, you would be dealing with narrow gauge. So it would be more than just a connection from Mount Isa to

Tennant Creek or wherever; you would really have to start talking about a connection right back down through to Brisbane built to standard gauge formation. We have had no discussions on it, but I would expect it to be some time distant before that would be a viable alternative.

CHAIR—Could a minerals boom in what they call the Queensland minerals province in that area accelerate the need for a link from Cloncurry and Mount Isa to Tennant Creek?

Mr Fullerton—One of the large deposits there is the iron ore deposit—I think at McArthur River in that precinct. That is about 400 kilometres from our rail line. I would have thought the viable alternative would be—

CHAIR—To go through Townsville.

Mr Fullerton—No, to build a connection 400 kilometres to our rail line and export through the port of Darwin.

CHAIR—I see what you mean.

Mr Fullerton—Such a line would be a lot shorter than a connection heading east. On the subject of the Mount Isa area, we have begun to see some products now coming into Darwin for delivery into the Tennant Creek-Mount Isa area, which we take off our train at Tennant Creek. It has peaked over the last three or four months. Mining flotation agents, sulphur, xanthates and so on are coming out of China. We have also just introduced a rail operation for one of our major customers in containerised mining products coming out of Adelaide. We move that by rail to Tennant Creek. It goes by road to Mount Isa.

CHAIR—Is the road component done by you?

Mr Fullerton—It is done by our freight forwarder. They book space on the train and take it off. We are beginning to see the Tennant Creek road-rail interface becoming important. We are beginning to see some products coming into Darwin that were otherwise coming into Townsville and being taken across from there.

CHAIR—I want to come back to one of the key areas of the inquiry that we have been probing—that is, the interface of road and rail—in this case the rail and the port. We found, in just about every port situation, some sort of linkage impediment, whether it is a ring-road around the port to stop port traffic mixing with the local suburban and urban traffic, whether it is a missing link or whether it is a better link from the port to the main line. Do you see any impediments of a rail, in the first instance—or, for that matter, a road interface to your rail—in the environs of the Port of Adelaide or, particularly, the port of Darwin?

Mr Fullerton—I think, overall, that Darwin's infrastructure is a good model that would be welcomed elsewhere in Australia because it has a rail connection to the port. It has a container terminal at the port and is establishing bulk products at the rail discharge facility that is in one of those photographs. I think we have been able to develop from day one a model that, if you had it elsewhere, would be of great benefit to the infrastructure around Australia. You have a business park and all that sort of infrastructure.

CHAIR—You do not see any problems in Mackay, Gladstone, Port Kembla, Bunbury and Albany? The magic figure is about \$80 million. Do you not see any of that sort of thing in Darwin?

Mr Fullerton—Not yet. There would be a problem that would require investment if our bulk products go beyond about three million tonnes per year, because that will be the limit of the new ship loader which the government is putting in place at the port. It is an automated ship loader. It has a capacity of three million tonnes. So, once you get beyond that, you start to run into capacity issues. Currently there are not any issues. Importantly, as demand grows we provide the incremental infrastructure. We are going to build the loops as the numbers of trains increase. Similarly, at the port, as the demand increases the infrastructure needs to keep pace.

CHAIR—Have you any comment on hubbing? That is the other thing we have been asked to look at.

Mr Fullerton—I do. The important issue for us—

CHAIR—I am talking about land based hubbing.

Mr Fullerton—The ports have deservedly received a lot of attention over direct rail connections and it has been important to have the Fisherman Island connection on the standard gauge rail, Kewdale, the Botany rail access issue being fixed and the new extension into the port in Melbourne. I think there are solutions rolling out. There are deficiencies in what I call the ‘land based intermodal terminals and hubs’. The ARTC—and I think David Marchant would say likewise—are putting a lot of money into providing better interstate track infrastructure. The interface with terminals that can handle efficient trains and providing terminals well located to interface with the road network is a glaring deficiency in Australia. In places like Chicago they have built terminals next to interstate freeways with cross-docking stations to make the marriage between road and rail more effective.

CHAIR—Are there any parts of Australia that think they need that treatment? We get mixed signals. For example, in Parkes people say that there is not enough local generation of freight for it to be significant. Others say that it is the junction of two rail systems and two road systems and is ideal from that point of view. Do you have any comment on that?

Mr Fullerton—I believe that hubs need to be developed. Parkes is important and certainly will be more important with the inland route. Hubs become more important when there is more volume on rail. That is pretty much how North America works. You use hubs not only to unload trains at terminals but also to cut off half the train and replace it with another half that is going to a different point.

I think the best example of how hubs can work is what we are doing at Tennant Creek. We built a terminal there that is small but nonetheless is a road-rail interface, and we are beginning to see some increased activity servicing Mount Isa. Having internal facilities that can handle bulk liquids is important to get road onto rail and vice versa and get products delivered. Therefore, I think we are, at this point, reasonably well equipped on our corridor. One of the problem areas that we have identified is places like Port Augusta. There is no intermodal

terminal there at the moment and it is an important location in terms of a rail hub; it is also an important road-rail interface.

CHAIR—We do not have the time to explore it now, but could you give us a short supplementary submission on your views on hubs?

Mr Fullerton—I can. They are important.

CHAIR—Do you have any objection to us putting these photos on the record as exhibits?

Mr Fullerton—No.

Mr McARTHUR—I move that the photos be accepted as evidence and authorised for publication.

CHAIR—Thank you again for your evidence. It has been very enlightening and frank. It helps fill the gap in reality in one sense and the gap in our perceptions in another sense. I have certainly come away with a vastly different view to that I had prior to this meeting, and I am sure that my colleagues are much the same.

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

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

Committee adjourned at 10.52 am