



**TRANSCRIPT
OF PROCEEDINGS**

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PRODUCTIVITY COMMISSION

INQUIRY INTO PROGRESS IN RAIL REFORM

**MRS H. OWENS, Presiding Commissioner
PROF D. SCRAFTON, Associate Commissioner**

TRANSCRIPT OF PROCEEDINGS

AT MELBOURNE ON TUESDAY, 10 NOVEMBER 1998, AT 9.34 AM

Continued from 4/11/98 in Brisbane

MRS OWENS: Good morning and welcome to this public hearing of the Productivity Commission public inquiry on progress in rail reform. This public hearing in Melbourne is the last of five sets of hearings. We've already held hearings in Adelaide, Perth, Sydney and Brisbane over the past 3 weeks. The hearings are designed for people to raise issues they feel affect this industry. They give people the opportunity to provide input into the draft report which is due to be released early in April next year. These hearings are in addition to the extensive round of visits already undertaken by the commission and the 70 or so submissions to the inquiry which have been received already.

While people who provide information are protected in this inquiry as if they were giving evidence to a court, this is not a court of law. We shall try to make the hearings as relaxed as possible. However, there are some formalities which we try to follow each time we conduct a public hearing. First, for the benefit of the transcript we ask participants to introduce themselves and to indicate in which capacity they appear so I'll come back to that in a moment. Secondly, information provided at these hearings is often used in our reports. We therefore ask participants to be as accurate as possible with their comments and their answers to any questions. If there's any doubt about the accuracy of anything that you may say, then would you please tell us that you're not absolutely certain and then we'll try to come back and get it verified one way or the other.

Finally, transcripts from today's proceedings will be provided to all participants at the hearings. Anyone else who wants to obtain a copy should contact the staff, many of whom are present here today. Let me introduce my colleague on my left, Prof Derek Scrafton who is the associate commissioner on the inquiry. I think probably we should get started and so I wonder if you could introduce yourselves for the benefit of the transcript and your affiliation.

MR KIRK: Thank you. My name is John Kirk. I'm the executive director of the Australasian Railway Association which is the peak industry body representing 120 companies in the rail industry.

MR HILL: My name is David Hill, research officer with the Australasian Railway Association.

MRS OWENS: Good, thank you very much for coming today and thank you very much for both of the submissions and all the other material you've supplied to us. We have quite a few things that the ARA has produced and we've found it all particularly useful information to have. We've both read the submissions and I'd now like to ask you if you'd like to speak to one or both of the submissions and then we might come back and ask you some questions.

MR KIRK: Indeed, thanks. Yes, we thought we'd make just a few comments regarding the current submission which we put in specifically for this inquiry but can I just say at the outset that I thank you for the opportunity to appear here and also - there are two ways of looking at this inquiry from our point of view. Firstly, it's an

opportunity for us to tell a good news story and that is to outline just how the rail industry has reformed itself and how it has become considerably more productive since the inquiry in 1991. There is another view that this is just another inquiry, and one in a long line of inquiries and that we are hoping, like we hope out of every inquiry, that whatever recommendations are made are acted upon.

Certainly, to look at what has happened since the inquiry in 1991, we did a little check list and we include that in the beginning of our submission and we looked at what recommendations were made in the 1991 report. What recommendations were made for the rail industry to improve itself and what recommendations were made for government and it was quite an interesting exercise. We looked at all the key issues and for the rail industry we received a complete check list. In other words, we got ticks for everything and I'll just run through those. The first one was that railways be fully corporatised within 3 years. That has been achieved. Westrail are still a commission but that's soon to be privatised but all the other government-owned authorities are now either corporatised or privatised. Open access to rail lines - that has been achieved. All states in the Commonwealth have open access regimes in place. Each rail authority must operate its infrastructure network as a separate business centre with accounting separation - that has now been achieved.

Outsourced to maximise efficiency - that has also been achieved with considerable track construction, maintenance, locomotive and wagon construction and a whole raft of other functions that have been outsourced. Increased load of productivity through more efficient work practices - that has been achieved and I think quite spectacularly with the information, our statistics showing that in Australian government rail employee productivity has increased 200per cent over the last 10 years and at the same time government rail employment has halved over the same period and there are a whole range of reasons why that has occurred - multiskilling, wider shift splits and a range of other initiatives that have been implemented to achieve this improvement.

Remove royalties from rail freight rates - that has also been achieved. Reduce the cost of urban rail services to world best practice within 5 years. That has been achieved and interestingly enough, at a recent seminar that we held on urban and light rail issues, this has been achieved with a lot less investment than we've seen in the comparable cities. In other words, the cities that we have been benchmarked against in terms of the performance of our urban systems spend a lot more money on their systems than we do. So we think it's a fairly remarkable achievement over the past 5 years. Only retain less than container load traffic if it covers marginal costs and contributes to fixed costs - that has now been achieved although to a degree there are one or two - just Queensland Rail I think is the only government rail authority that is still handling LCL traffic and that has transparent CSOs attached to that.

Avoid seniority-based promotion and introduce merit-based promotion - that has been achieved and introduce salary structures that reflect skills, qualifications and experience - that has also been achieved. So that's pretty much a full set of ticks for the rail industry. We might point out that to a large degree these have been I think

overlooked by probably politicians and the media and the community in general and so hence we're very pleased for the opportunity to reinforce the gains that have been made by the rail industry. On the other side, recommendations that were made to government - rail to receive a rebate of diesel fuel excise used for freight, that has not been achieved. In fact, even with the latest proposed tax package the rail industry is still expected to pay 18 cents a litre fuel excise which is in effect a road user charge and an impost on rail and we might like to explore some of those implications a little further.

Introduce road user charges that more accurately reflect road damage - clearly that has not yet been achieved and although the national road transport commission has attempted to do so, they have not been introduced. In fact, there has been no increase in the current registration charges since 1992 and there's more information about that in our submission. Looking at the next one, states and territories enable local governments to impose road cost recovery and externality charges on heavy vehicles - that has also not been achieved and there's still considerable evidence that heavy vehicles are causing significant damage to roads in local areas as well as urban areas and on our highways and what is interesting at the present time is that there has been much said about road friendly suspensions and how they don't damage roads but reading some recent reports by the professor or the doctor who invented or has been promoting the system, is that there are now considerable doubts about the performance of these suspensions. So that's still a fairly major issue in terms of the competitiveness - a competitive neutrality issue with rail.

Local governments to contribute to capital and operating costs of new rail public transport schemes - that hasn't been achieved and in fact we don't believe it's even on the agenda but it's something that has been used to great effect in countries like New Zealand and the UK. Community service obligations charged against appropriate government budget category - that also has not been fully achieved and we certainly support that the cost of operating CSOs should be transparent. In fact, we believe they should be transparent for all the transport sectors, not just for rail. A national accreditation scheme to recognise rail skills has not been achieved and this was a recommendation of Tracking Australia and also I understand that there will be some national competencies for rail released soon by the appropriate ITAB. I think it's probably being released sometime this month. I'm not sure about that.

Explicit CSOs - that has to a degree been achieved with rail authorities putting in place accounting structures that identify government procurement of non-commercial services for social and environmental reasons. Remove subsidies to bulk freight within 3 years - that has been achieved. The Trade Practices Act to apply to rail authorities and have the power to settle disputes concerning monopoly pricing and track access. Certainly the Trade Practices Act does do that and the NCC and the ACCC are mechanisms for resolving those disputes although there is some feeling by our industry that the processes that are in place may take too long and opportunities may be lost while going through the process of settling any disputes that might arise, particularly over access issues - or actually over monopoly pricing and access issues.

The last one was eliminate regulation of traffics to rail and simultaneously introduce appropriate road user charges to cover payment, damage and externalities and that in part has been achieved as there are no longer any regulations requiring particular traffics to be moved by rail but as we indicated already the appropriate road user charges to cover payment, damage and externalities have not yet been introduced and looking at the political climate at the moment, I guess there has to be some doubt as to whether they ever will be and there may be ways to look at how else we might determine - level the playing field between road and rail on these issues. So we believe that that is a very clear message that the rail industry has been reforming itself and successfully, and in fact wherever the industry has had the power to do something on its own initiative it has actually done so. Quite clearly where it has relied on government, we believe that those reforms have not been quite so readily forthcoming, although we are very supportive of the reforms that have taken place in most states and the Commonwealth.

We believe that there is still a lot more to be done. As you can see from their report from 1991, on the government's side, both state and federal, there is still lots to be achieved as yet and I guess it's disappointing that we're actually at this inquiry in 1998 and looking at important initiatives by government that still are outstanding. I think that's all I'd like to say in the opening remarks and maybe we can discuss some of the other issues in our presentation.

MRS OWENS: Good. Thank you very much for that and we actually found the check list quite useful. I mean, we're doing our own check list and I think it's useful to have your interpretation of what actually has happened over the last 7 or so years. I think it might be a good place to start. I think we'd probably like to go through each of those and just have a little bit of a discussion on some of them. You've made it quite black and white in terms of some things are achieved and some things are not achieved and you might say some of the things that you think are achieved, you know, it's a matter of interpretation about how well they have been achieved.

MR KIRK: It is.

MRS OWENS: So perhaps we should just go back to your submission on page 4 and start with your check list of the things that have happened - the recommendations for rail. You mention that railways have been fully corporatised within 3 years. I don't know whether the 3 years was strictly achieved but are you reasonably happy with the extent to which the corporatisation and privatisation process - how quickly it has happened, how effective it has been? Has the direction been the right one - would you prefer to see more corporatisation? Just about everything is corporatised but would you prefer to see things moving to greater privatisation?

MR KIRK: I should point out at the outset that our association represents a very diverse group of organisations and there's probably as many opinions on this as we have members. So from that point of view I have to be circumspect in my comments in that there are clearly some of our members who believe that privatisation is not the way to go as well as others who believe that it is. From an association's point of view,

we very much see ourselves a private sector based organisation and we therefore support the fact that all rail operators, all rail industry organisations would actually be out there working to commercial objectives. We think that's very, very important and I guess we see the corporatisation process and the privatisation process as a way of achieving that and certainly we also believe that it's making the industry much more transparent and we also welcome that. I mean, the removing of any hidden subsidies and so on, it's all up-front. That's important. Corporatisation and privatisation is certainly doing that.

From our point of view we also - from an association point of view we do welcome the privatisation process to the extent that it provides us with new investors, new operators, and certainly it has given us a much greater voice in terms of our ability to speak out on these issues. So from that point of view we do welcome that particular process. But I think the over-arching principle is that that process has enabled us to move, to operate towards commercial objectives and we get away from the attitude that, you know, the railways of Australia are sort of a bloated - fat sort of bureaucracies that lose a lot of money.

In fact that hasn't been the case now for a number of years and we'd also like to discuss that at the moment, explain just how much the productivity gains have meant to the bottom line of both state and federal governments through the reforms that the industry largely has introduced by itself. So yes, that's probably a long-winded way of saying that there are many ways of looking at this but certainly working to commercial objectives is very important and also I guess increasing rail's market share is also a fundamental objective. You know, we're talking about growing business rather than looking for hand-outs and I think that's an important change that takes place with corporatisation and privatisation.

PROF SCRAFTON: If I could just make a couple of comments on that. One of the important things about the corporatisation process to the extent that it has taken place is that it did require the cooperation of government. I mean, I'd reinforce Helen's view about how useful we found this list and this approach. But the railways could not have done that unless the governments had cooperated in the corporatisation process.

MR KIRK: Indeed, yes.

PROF SCRAFTON: So I just want to acknowledge that. But equally I guess the important thing - - -

MR KIRK: I would also acknowledge that.

PROF SCRAFTON: Yes. I guess the other side of it is that the governments did, however, keep a certain measure of control they didn't all corporatise under the Corporations Law. They did it under state corporatisation, often separate laws for the corporatisation of the organisation, and that kept a measure of government control and you yourself mentioned that when you said, you know, that the current trends are

in fact allowing the government managements to be more free in an organisation like yours and in their own capacities. But I think that it's quite important to recognise that.

The other thing I think that is worth saying is, you mentioned that Westrail is still a commission. But in fact as much as any of the corporative organisations, it has in fact performed as equally as effectively, if not more effectively, than some of the others in bringing about reforms. I just think those things - and again I don't want to detract from the merit of what you've done here, I think it's super. But I think we do need to acknowledge, you know, that there are variations. When we put the word "achieve" down there are variations in the extent of that achievement. It's a comment really rather than a question.

MR KIRK: Indeed. No, we'd accept that and certainly Westrail is quite a substantial success story in the turnaround of that business, what they've managed to achieve.

MRS OWENS: I was just going to say that, you know, one of the objectives has been I think to get more players into the game and part of that has been the privatisation process and I think that elsewhere in your submission - and we'll come to it later - we talk about barriers to entry and I'm just concerned that there may be a gloss being put on this. On the one hand you're saying, "Oh, well, there has been this corporatisation and privatisation." On the other hand it's saying, "Well, there has been barriers to entry so we haven't - the privatisation process maybe hasn't gone fast enough." There's not as many entrants into the market as you would expect if for example we had competitive neutrality - we'll come back to competitive neutrality later. So there is an element of, "Yes, things have moved," but have they moved far enough and vast enough?

MR KIRK: In terms of the productivity gains I think they are quite substantial and I think unrecognised. For example the government-owned freight operators have moved from a position of some - what, 5 years ago, a deficit of something like - an operating deficit of \$600,000,000 and now there is no net cost to taxpayers for the freight operations and to a degree the urban systems have done the same in terms of the reducing of their deficits. So things have moved quite quickly. I think there are a significant - there is another range of issues that are significant in terms of prohibiting further productivity gains.

I think they are the issues that we should be sort of discussing rather than I guess the speed of corporatisation and privatisation, because as you've rightly indicated a lot of that relies on government and the speed at which they wish to corporatise and privatise their operations. But I believe that there are other issues, particularly competitive neutrality issues but also the investment issue, that really are substantial in terms of sort of holding us back to further productivity gains.

MRS OWENS: Yes. I think there's all sorts of issues relating to uncertainty and access regimes and a whole lot of factors.

MR KIRK: Indeed.

MRS OWENS: That are coming together in terms of creating problems for potential investors and possibly just the fact that there may not be a buck in it for some of them, I don't know.

MR KIRK: It's always the case.

MRS OWENS: Anyway that was the first one. We can probably come back to that issue as we're moving through some of the other discussion. Open access to rail lines, you say that has been achieved because we have open access regimes. But I'm wondering whether it has actually been achieved in practice. There's still a lot of uncertainty about some of the open access regimes and we've got the ARTC going through a process at the moment of getting access to the systems in WA and NSW etcetera. So I wonder to what extent you think that that has actually been achieved in practice?

MR KIRK: If we look at the establishment of the open access regime that has certainly been established. How effective it has been again is not really up to us to say. If we adopt the position of open access and let the marketplace determine outcomes - and in fact that's what ought to happen, and I think there are good reasons why the marketplace hasn't seen more operators and that has got to do with traffic flows and investment issues and a whole raft of other things. So again to a degree - what's the point I'm trying to make here - like anything there's an over-arching principle that we should be looking at and that is, do these reforms like open access regimes actually enable rail to improve its market share? We probably should use that as the benchmark to determine how successful some of these regimes have been and I think the evidence for that sort of speaks for itself. It's pretty clear that even though we've seen enormous gains in productivity and new operators and a whole range of reforms, that in fact rail is not increasing its market share.

MRS OWENS: That's an interesting perspective on it. I'd like to come back a bit later and just talk to you about these access regimes a bit more because I'd like to just extract from you your views on which ones are working better than others, but we might - - -

MR KIRK: I'm not too sure I'd be able to actually answer that.

MRS OWENS: Okay. Well, maybe I won't come back to that one.

MR KIRK: Because all the access - the infrastructure of it are members and I don't think they'd really appreciate me making a reflection on their performance.

MRS OWENS: I understand the difficulty.

PROF SCRAFTON: Maybe we should say that we're not sort of putting you on the spot here as an association. I think in many ways what we're looking for is just your experience in dealing with all these people and, you know, what view that brings you to. But, you know, we appreciate it when you - as you say, you have a difficult task there. You've built up a very big organisation with a wide range of members. But in some ways our questions are as we ask other participants, you know, how do they feel about the way some of these things are going. So it's not really to put you on the spot in that sense but to pick your brains and experience.

MR KIRK: Thanks. No, I understand that and I guess what we've done in our association is always tried to move from commercial issues to sort of higher level of issues and I'm quite happy to address those - and I guess there is a preoccupation to a degree with open access and I don't think that's always - I think that's a diverting issue. Some governments have decided - well, the federal government and some state governments have decided to really promote this. Others have decided to sort of keep it a bit more under control, if you like, and really I guess the point I'm trying to make there is the industry is concerned that we're developing very complex regimes with lots of rules and operating guidelines and parameters and probably making it - in terms of the complexity making it very difficult, I mean pricing regimes and so on, and there is a view that we should simply adopt a model that has been widely successful in Australia, which is one used for the road access regime which is very simple, a very simple regime and been very successful, rather than developing an extremely complex set of regimes for rail. I'm happy to explore that concept a little later if you wish.

MRS OWENS: The next one you've got is that each rail authority operates its infrastructure network as a separate business centre and I suppose that has been achieved. I don't think we're doing it in different ways.

PROF SCRAFTON: That's right. I guess it's much the same as the access in the previous question, that it's the degree to which this has happened and the extent to which the transparency is there.

MR KIRK: Yes.

MRS OWENS: And I think with outsourcing there has been an obvious shift in that direction but there has been a couple of shift-backs for example in New South Wales with maintenance there.

MR KIRK: That's right, indeed.

MRS OWENS: But I gather that's just a short-term redirection of effort.

MR KIRK: We would hope so.

MRS OWENS: So again, you see, it's not black and white in some of these, but I think you're right and that it has moved in that direction.

MR KIRK: I guess what we're trying to show though is that where - New South Wales is a good example. I mean, the four business units in New South Wales certainly embraced outsourcing. To a degree it wasn't them that moved it backwards. It was moved backwards for political considerations. So what we're trying to point out is - in our black and whiteness, if you like, we're trying to show what the rail authorities have done when they've had the opportunity and separate that from the political action or government action.

MRS OWENS: So this is the government pulling it back the other way.

MR KIRK: Indeed. It was not the rail bodies that did that. It was the government making political decisions. I think that's an important differentiation to make.

MRS OWENS: I think the next one's interesting, labour productivity increasing through more efficient work practices, and you say that has been achieved and you point to what has happened with government rail employment as being halved and so on. But I think when we're looking at labour productivity we need to look at all the total employment in the sector, not just government employment, and we need to look at, you know, what's happening with the private operators as well and bring all the data together. So I think we can't judge it just on government rail employment.

MR KIRK: We've focused on government rail employment because that's the area where the most attacks occur. I mean, you know, the comments about government rail authorities being income distribution agencies and these kind of - what we've tried to do is indicate that the area that has been most under attack has in fact achieved some considerable reforms and huge productivity gains. So that's why we focused on that. But certainly you're absolutely right. When you look at the private sector there have been huge gains and I was recently in the Pilbara looking at the iron ore railways - and again they've been faced with the same kind of cost pressures and the same kind of need for efficiency gains and productivity increases that any other rail system or rail authority has been faced with, given the current economic situation, and they've certainly also been undertaking quite considerable work in terms of improving their efficiencies and productivities. Interestingly enough they largely do that through investment and that's the major difference.

PROF SCRAFTON: The other area that's worth mentioning is the outsourcing itself, that with the same task some of the outsource organisations and companies have been able to produce enormous gains.

MR KIRK: Indeed.

PROF SCRAFTON: You see that in the privatised railways where they've moved in with a partner, let's say a civil engineer or a contractor or a mechanical engineering firm or whatever.

MRS OWENS: But I think when you're actually measuring productivity you need to bring all of those factors into the measurement including the labour that's in the organisation to which the work has been outsourced.

PROF SCRAFTON: Well, it's quite clear in the government system that outsourcing has saved millions of dollars in productivity.

MR HILL: If I could just add to that, that the measurement we used there was NTK per employee which is a fairly well recognised measure and that's the one that has gone up 200 per cent, so whether you include outsourcing or not the actual freight task per government rail freight employee, that's the one that has doubled, and that's a significant improvement in 10 years.

PROF SCRAFTON: For sure.

MRS OWENS: Okay. "Remove royalties." You say that's been achieved. It hasn't quite been achieved. I think it's happening by 2000, isn't it? It's happening.

PROF SCRAFTON: Yes, the decisions have been taken, haven't they, but the royalties themselves are still in existence and decline by 2000. I think one of the two railways has completed removing the royalties but the other one hasn't. Nevertheless, the policy has been achieved and that was the point you were trying to make.

MRS OWENS: Or maybe you were talking about something else.

MR HILL: No. Certainly FreightCorp has removed theirs and maybe QR is the one that had to remove them by 2000, but certainly they've been told to remove them, and we were under the impression that they had removed them.

MR KIRK: To a large degree. We're certainly conscious that they are doing it.

PROF SCRAFTON: And there will be none by the time, by the end of the century.

MRS OWENS: Then we've got, "Reduce the cost of urban rail services."

PROF SCRAFTON: I guess one comment that I'd like to make there is that the cost recovery average of 40 per cent must cover a wide range of actual - - -

MR HILL: Yes, that's certainly true. I mean, within Australia I'm not sure of the exact figures but for each city it's probably something between 35 and 50 per cent on a sort of city-wide basis, but people go on about these huge urban rail deficits and inefficiencies and everything else, and that's why we aggregated, to say that on balance Australian urban rail systems perform quite well compared to a range of other cities. But if you like we can provide more information on particular cities. That wouldn't be too difficult.

PROF SCRAFTON: If it's acceptable to you we might ask you for that.

MR HILL: Yes, that's all right.

PROF SCRAFTON: We might be able to find it from other sources but if we need to get back to you we would appreciate that.

MR KIRK: We would like to highlight urban and light rail. This is an area that often gets forgotten. It's not seen as a federal responsibility. It's certainly a state responsibility but it's something that, with all the reforms that have been taking place, particularly in the interstate freight arena, urban and light rail or the urban transit has been largely neglected. So we would like to highlight there have been also some significant gains made in those areas by the various organisations.

PROF SCRAFTON: That is part of our terms of reference and we will be taking that into account.

MRS OWENS: I think the last three there - I don't have any problems with those. Have you got any problems with any of those ones, Derek?

PROF SCRAFTON: No, not a problem. I think John mentioned that in fact Queensland is the only one that still does carry LCL and it does it through a CSO contract.

MR KIRK: I think some of the private rail operators are carrying LCL, but we were specifically government so we only know what Queensland Rail was doing.

MRS OWENS: Then we've got all the things that government was meant to do, and some of these probably we should talk about in more detail in a minute. I just had a couple of questions. I think we'll come back to the diesel fuel excise because I think that's an important issue that we need to discuss. Road user charges I think again we need to discuss in more detail. Local government - we haven't really had a lot of input from local governments or a lot of discussion on that particular recommendation from last time. It hasn't been something that's cropped up in this inquiry, the role of local government, which is quite interesting. At our first lot of hearings we asked about it and it just seems to have died away. I'm not even sure whether the Neville report really gets into the role of local government or the possible role of local government in any detail.

MR KIRK: I think that's because there is such an enormous amount to be done by the state and federal governments that really if you can get that achieved the local government in a sense is less significant. But it was interesting to us when we went through this that the 1991 commission did make these recommendations, and they do reflect practice in other countries which has been quite successful. I mean, New Zealand is a good example where local governments have decided to invest, for example, in upgrading a rail station or actually paying the rail operators to stop trains or improve schedules at particular stations within their community in order to attract

more people off road, on to rail. I mean, they were able to make those kinds of initiatives, whereas in Australia it hasn't seemed to be something that a lot of governments have taken to.

I guess to a degree our industry hasn't really pushed these issues with local government, I guess because we've been pretty busy working with, trying to develop partnerships with, federal or state governments to achieve the other policy changes that haven't yet been achieved. To a degree, we've also been remiss in not following up these things with local government, but we've certainly got that on our agenda - to be a bit more proactive in working with local government to see what might be achieved in this area. To a degree I think it's caused by the way funding is tied to local governments with regard to grants for roads in particular, which may not be able to be used for rail projects. I'm not sure about that. We haven't gone into that in great detail, but it's certainly an area I think we could explore.

PROF SCRAFTON: It is an issue for the future, I think. As local governments get stronger and more competent and state governments do seek to reduce their involvement in certain areas, then I think local government needs to be aware of it. In fact, the House of Reps received quite a few submissions from local governments; however, none of them were volunteering necessarily to contribute. But at least they express an interest and an understanding that as part of their growing responsibilities they might well get involved. As you've said, John, there's a lot of experience around the world and a lot of evidence that, by local governments taking a greater interest, the service has actually improved. I mean, I think that in some of the British metropolitan areas, British conurbations where services were declining before, governments have started initially just with seed money and then, with an arrangement with the central government, got a funding arrangement which ultimately gives them totally funding responsibility rather in the way that the states pay now, but with a much clearer funder-provider arrangement than was the case before.

I think maybe it will be a few years before that recommendation applies in Australia, but it is something I think that we and organisations like yours should keep your eye on. Certainly in the urban transport inquiry in the mid-nineties we supported that recommendation and I think it still holds. It's just a matter of the local government reform process and the role of the states in the future of Australia.

MR KIRK: Indeed, and to a degree also - just a few months ago we undertook some polling about public opinion on certain issues, and one thing we came up with quite clearly is that people do not understand the true costs of transport options, and I guess to a degree, until we're able to remove those distortions and make the transport economy much more transparent so people do understand the true costs of their transport options - that maybe when that happens we will see greater involvement by local governments in these issues, because it would be in their ratepayers' interests to make good economic decisions about transport. That doesn't happen at the moment because the waters are still far too muddied with regard to road funding and rail funding issues.

MRS OWENS: I think a general impression I've had through this inquiry is that there's been a lot of emphasis on what the Commonwealth government should be doing, and I think it partly flows from the Neville inquiry, because the focus of that inquiry was the national transport network. So a lot of people and participants in this inquiry have talked about, "We need more investment. We need the Commonwealth government to be doing this or doing that and putting money in here," and much less emphasis on what states should be doing, which I think is quite interesting. I don't know whether it's because we've followed on from the House of Reps inquiry or whether that's just the way people see it; there's a mind-set about what the Commonwealth should be doing.

MR KIRK: Yes, I think even though the football season has finished we're still playing handball. If you can pass the buck, if you can get someone else to pick up the bill, that's the way you'd do it. So we see local government will handball to the state government; state government will handball to the federal government; and of course the federal government are now saying, "Gee, well, it's not really our responsibility. We'll handball it to the private investors."

MRS OWENS: And the private investors are handballing it back by saying, "We'll get involved, we'll invest, once everything is up to a certain standard."

MR KIRK: Exactly. They are saying, "When the system, or the infrastructure in particular, is at a particular standard where we can get a decent rate of return, we'll invest," but really there's a responsibility to invest to get it up to that standard. So somewhere the handballing has got to stop, and certainly state governments do have a responsibility. In fact, looking at the way the ARTC has been established, there are still clear responsibilities of states who still retain some level of ownership over their infrastructure, particularly their part of the interest state standard gauge network. There's a partnership with the ARTC, or there ought to be in place, to fund some of those investments. Western Australia, for example, have clearly indicated they are prepared to kick in for half the cost of some resleepering projects in Western Australia along with the federal government.

I think those kinds of partnerships are going to be important, where states do recognise that it's in their best economic interests, it's in the interests of their constituents, to actually make those investments, because in the long term social, economic and I guess environmental effects are going to be in there people's favour. But at the moment if you can focus all the attention on somebody else, another government, put them under the scrutiny, why wouldn't you? I mean, that's the nature of politics, probably the nature of human beings.

MRS OWENS: In all the areas, not just this area.

MR KIRK: Indeed.

PROF SCRAFTON: But one worry about that when you look at your summary chart is that you do end up with a lot of "not achieved" in the right-hand column.

MR KIRK: Indeed so.

PROF SCRAFTON: Because the buck passing goes on forever, nothing happens.

MR KIRK: Yes, and because what tends to happen also, Derek, is that everybody blames the railways. Governments are consistently turning it back. I mean, we are hearing to this day from politicians, "We will support you" - and not only politicians but also departmental decision-makers, policy makers. They say, "We'll support you when you get your act together and actually follow the reform process. So what we do is try to take them step by step through this particular kind of chart and explain just exactly what's been going on. Again in a sense they're handballing it back to the rail industry and saying, "Well, it's your problem." To a large degree it is our problem but also we do need to have a policy environment in which we can actually grow business, and that's still a problem for us. So there are responsibilities on all sides.

MRS OWENS: We will see what we can do in our report. We'll try not to muddy the waters any further.

MR KIRK: We hope you're going to clear them up completely.

MRS OWENS: We'll try. CSOs - one of the recommendations was that CSOs be charged the appropriate government budget category and another one was that there should be explicit CSOs. One of them you say is "not have been achieved". So what you're saying is there are explicit CSOs but they're not actually being charged to the government. What are we actually saying? One has been achieved, one has not been achieved.

MR HILL: What we're saying is that rail authorities are receiving explicit CSOs to run certain non-commercial services. In a sense the government is buying those as they would be a school service or hospital or education or any other public facility. So they're being explicitly funded for those services, ie, urban passenger rail services and non-urban, country rail passenger services and some rail freight services. So they're explicit CSOs. So that's where the explicit CSOs comes from. Where the not-achieved category comes from is, for example, where you're looking at subsidised fares for welfare recipients, pensioners or those sorts of things. They're not being charged against the appropriate department of welfare or whatever it happens to be called. That's the difference. So you've got a lump sum CSO going to the rail authority but in turn that's not being funded by those relevant departments. It's coming out of Treasury rather than those particular departments for whom they fund services for those people in a lot of others ways - aged people's care and all sorts of things, whatever it happens to be.

PROF SCRAFTON: It's a form of internal buck-passing, isn't it? You can imagine that the Department of Education and the Department of Social Security doesn't pay now and it doesn't pay.

MR HILL: Absolutely. That's right.

PROF SCRAFTON: But you're quite right, that to get it in place properly you require that agreement and the nomination by the organisation concerned, the beneficiaries. The other problem is that all those organisations will have been involved in the decision to allow the concession in the first place. I think particularly there of one that affects me personally, which is seniors. I'm sure that the office of the ageing, or whatever it's called in a particular state, was not asked by the government whether they thought that was necessarily a good idea before it was actually done. I think it was probably studied way back as a political decision in one state and it simply snowballed and suddenly there are bills there for people who could afford to pay but who are travelling on concessions.

MR HILL: That's right, and the point about all this is that those costs should not be held against the rail authority and they are providing the service and, you know, their CSOs are there in subsidies and all sorts of things but in some cases they're widely inflated because of decisions that are beyond their control and as you said, decisions that weren't even made by perhaps the department for whom those people would normally be beneficiaries of.

PROF SCRAFTON: The other thing I think is worth saying about CSOs, that there's still a lot of work to do in charging them by raft or by service so that at present you can still hide a great deal by saying in a particular city, "Here's 150,000,000 for urban railways," but it might well hide the fact that some of those rafts are pretty good performers and others are not and might well, within the real agency, reduce the incentive to look for improvements as long as somebody else is funding it in a rather generalised way, if I can put it like that. I wonder if you have any thoughts on that?

MR KIRK: The comment I was going to make is there is a high level nervousness still between the government operators and I guess the providers of the CSOs. There's still a bit of work to be done in terms of how these things are accounted for and so on to remove that nervousness, and to a degree I suppose, that certainly does hamper development. I mean, from our point of view, we believe that as governments are purchasing rail services from a rail operator, that the CSO should be seen as income to the railway rather than as a deficit or as a cost, a debit. That's certainly some way to go before we achieve that.

PROF SCRAFTON: You mentioned earlier the New Zealand example of the metropolitan contracting between local government and the Tranz Rail, I guess. Is that an improvement on what we have in Australia in your experience, to your knowledge? Is it worth us pursuing that?

MR HILL: They're all options. Just going back to an earlier part of your question about accountability between lines, I mean that's underlying the Victorian government's philosophy behind privatising the metropolitan rail network so that their costs of actually operating a different service by franchisee will become more transparent. In terms of the New Zealand model, that's an option. I mean, anything

that makes the costs of these service transparent is fine. If local government in New Zealand feels that it can procure services from Tranz Rail and provide an efficient community benefit from doing that, then that's - I mean, it's really up to the higher level government to start initiating those sorts of things.

PROF SCRAFTON: We were also given an example by FreightCorp, that they do receive their - I think lightly used services by route or by service and so there are examples around that demonstrate that the process is still going on and that there are improvements that can be made to the CSO process.

MR KIRK: To a degree, I mean, again the waters are muddied by the situation where - in New Zealand there is greater understanding of true transport costs, particularly the way they approach their road pricing, whereas here to a degree we are still unable - governments are still unable to make decisions based on the true cost of transport. So in a sense you cannot make a good economic judgment or a cost benefit judgment because we still have one sector where all these - the road sector where all these costs are still sunk - buried, well and truly non-transparent. So that certainly makes it difficult for a local government in Australia to make a decision, "It's better to invest in rail rather than road because these are the trade-offs." To a degree you can do that but it would be easier if everything was transparent and all the subsidies were obvious. That's a huge political leap for us to make yet.

PROF SCRAFTON: It's a slightly different topic. We moved there on to investment but we have heard that in Tasmania they're beginning to think along those lines, where the government road agency is working with the rail operator to look at what I might call sensible investment decisions about a freight test as distinct from sort of thinking about investing in road or in rail. They are looking at both together. We don't know to what extent yet that that would be successful but again it seems a move in the right direction.

MR KIRK: It certainly is. That's something that we support in our industry. I mean, we don't wish to appear to be anti-road because we rely on the trucking industry and the road transport industry just to free our rail. Really, the only sensible way is to create alliances between the two. But to a degree in Tasmania the issue has been forced on the trucking companies because of public concern of having large B-doubles running on a number of the routes in Tasmania where the roads are very narrow and winding and it would be a huge road investment required to remove that. To a degree commonsense prevails because of community interest rather than good economics. We'd like to see it based on good economics.

MRS OWENS: Maybe they will use good economics because of the public interest.

MR KIRK: Indeed. Yes, that's right.

MR HILL: Just before you sort of move on to the CSO area, the other issue that concerns us is that you've got non-urban rail passenger services which have an operating cost and that's the cost of actually operating each train and it's becoming

increasingly a concern that because they seem to become more efficient, governments are now lumbering other costs on them and all the sunk costs, for example - depreciation, interest, capital costs and a whole raft of things which apply to a whole range of other industries but aren't necessarily considered in their costs. So, for example, I mean, the cost of running the PTC for the last financial year was around \$180,000,000 and that was the cash operating subsidy and yet somehow now that's being reported at \$800,000,000 because that's including all the sunk costs.

I mean, this government, to its credit, reduced that deficit from \$500,000,000 to 180 in 5 years and that has been a tremendous improvement but now it looks like it's going backwards in accounting terms because of all those other costs being imposed upon. So I guess in terms of CSOs we'd like to see those - if those sorts of sunk costs are going to be included in public transport costs they need to become much more transparent, far more explicit to say, "Here's your operating cost and here's your cost of all this other stuff," which, you know, you don't count those when you look at your schools budget or your hospitals budget or everything else. Those buildings are there. You look at what it costs to fund your teachers each year and that's the way you should look at funding public transport because putting all their sunk costs into it, to us artificially to us inflates the actual cost of operating it and makes it look quite inefficient, whereas in fact the reverse is true.

MRS OWENS: You're not going towards accrual accounting?

MR HILL: You can do that if you like but if you do that for all industries and all government authorities and benchmark, if that's the way you're going to go and then do that for all government authorities and make it quite clear that that part of it is separate from the actual operating costs.

MR KIRK: Yes, as we move towards trying to achieve uniformity in a whole range of operational issues and technical issues, it would be great to have some uniformity in the - - -

MR HILL: And for the roads budget as well. I mean, let's look at accrual accounting for road costs, depreciation of the road and all that kind of stuff as well. I mean, let's not just put those sorts of accrual accounting mechanisms onto public transport, freight or whatever and then suddenly not do that for road where the costs would be enormous.

MRS OWENS: Coming back to the CSOs again, I think we had quite a good example when we went to Perth and we were having a look at the Westrail accounts in the annual report and it's actually quite difficult to bring together all the information to get a total picture of what the CSOs are in Westrail because they're used for different purposes and they come from different sources. Some comes from the Department of Transport and - - -

PROF SCRAFTON: And some from Treasury direct.

MRS OWENS: Yes, and they're all sort of called different things in the account. You can sort of cobble it together with a bit of ingenuity.

MR HILL: Yes, basically they're non-urban - they can split the CSO to run their non-urban rail passenger service about 20,000,000 and their urban side of things, recoup it from government, it's about 80,000,000.

MRS OWENS: Yes.

MR HILL: That's the only distinction. I mean, is one a subsidy and one a CSO or are they both CSOs or whatever? I mean, that's an accounting difference I suppose but nevertheless, I mean, yes, they're recouping from Treasury for their urban passenger services about 80,000,000.

MRS OWENS: But you really need to bring those two things together.

MR HILL: Yes.

MRS OWENS: CSOs - it's just a term.

MR HILL: That's absolutely right.

MRS OWENS: What we're interested in is what are the government subsidies and what are they called?

MR HILL: That's right and the operating costs of those services is about 120,000,000 as indeed the total cost in this report we were looking at before, of improvements in efficiency, the total costs of operating - just the operating costs without the accrual accounting side of things of urban and non-urban passenger services is about \$800,000,000 per year and that has come down about \$800,000,000 from 10 years ago so that's a significant improvement in that time and similarly for freight, which was losing, as we've indicated, something like, you know, in the order of \$500,000,000 sort of 5 to 10 years ago, is now profitable and that's by any measure. So there have been significant improvements in that time and over that 10-year time-frame government rail authorities on an incremental basis per year have saved governments around about 2 billion dollars by improvements.

MR KIRK: Which is a very different story from the one that you - you ask anybody about the rail system and they'll tell you they're losing a billion dollars a year but in fact that might have been the case 5 or 6 years ago but it's very dangerous, we believe, to hold on to statistics and figures that are even 2 years out of date at the moment because things are changing that rapidly.

PROF SCRAFTON: I think it's worth mentioning to you, too - I mean, that is, you might think, not under inquiry but one of the advantages about the Productivity Commission's reviews, is that they do make provision for these stocktakes and that's what this is, as we've said, and you've responded pretty well to that and I think we can

guarantee that in the draft report there will be a section where we report the progress made, the very thing that you talked about. I mean, that is a term of reference.

MRS OWENS: That's why we're asking you these questions about just these few pages.

PROF SCRAFTON: Just because we want to draw them out.

MR KIRK: And for us, again, we see this as an opportunity from the terms of reference of the commission and the inquiry to indicate that these changes have taken place, and again, that goes against the trend of opinion by politicians in our community. People just have not caught up with the fact that these changes have taken place. So we need to continually get this message out, that things have changed. The rail industry is now a different beast today than it was even 3 to 4 years ago.

MRS OWENS: I think you can see where we're coming from and what we're trying to do is paint a very balanced picture of what's happening and if we don't think it has been achieved totally we'll be qualifying it and saying more needs to be done and we'll be giving some indication about what else we think needs to happen. So that's where I think we can distinguish ourselves from the Neville inquiry. I mean, we'll be doing something somewhat broader but as we've been going around people are saying, "We've got another inquiry. Why do we need to?" But I think it is actually important to do exactly what you've done in the submission and what we will be doing in our draft report, which is basically saying these are the things that a few years ago we said needed to happen. This is what has been happening and this is what else has been happening and this is what hasn't been happening and this is what needs to happen. So I think there's a lot we can add to it.

MR HILL: I think one of the advantages of this inquiry is that it can dispel some of the nonsense that keeps being propagated from this which was a useful report at the time but based on data that was even earlier than the date of the report which still gets trotted out now and is completely, as John was indicating, out of date.

MRS OWENS: Would you like to just read that for the purposes of the transcript because it can't read that.

MR HILL: I'm sorry, Rail Freight 1995 International Benchmarking Report by the Bureau of Industry and Economics.

MRS OWENS: Okay. Derek says we need to get on to some issues now but we've covered a few issues as we've been going. I think a good place to start would be - if you don't mind, we might just go through your submission, the second submission you sent us, because I think that gives us a bit of structure in which we can have our discussion. On page 8, just before the heading on Community Service Obligations, there's a little para that says, "All these services" - and this is all the privatised services and so on - "indicate that there's no right model for rail industry structure.

Competition and open access to rail facilities can be provided within vertically integrated railways or through separate track access providers." I'm wondering whether the jury is still out on this particular issue about right structures and whether, you know, one is better than another or one is more appropriate for one state than another. I wonder whether we can say that there's no right model.

MR KIRK: I think you're absolutely right. The jury is out on the evidence. In Australia it's quite clear New South Wales went one particular way, the Commonwealth decided to go the same way. Victoria headed down the same direction as did Western Australia and what we've seen quite clearly is that Victoria have pulled back, particularly with regard to the intrastate network and have decided rather than to create a separate regime, they've actually decided to lease the track to the freight operator for 15 years which in effect is creating a vertically integrated operator but with provisos that allow open access and certainly to safeguard the passenger operations.

Of course, Western Australia is still struggling with whether or not to sell Westrail as a vertically integrated railway or to separate it. I was over there just a week ago and that debate is still raging. They still haven't seemed to have made that decision. So, yes, I think it's very clear the jury is out. Evidence around the world suggests that it's still a topic of great debate. It's a big debate in America and of course we have in the Pilbara - the debate is starting to open up there now as well. So look, yes, I think that statement is pretty right - there is no right model. There are weaknesses of all models and to a degree it depends on the legislative base of the legislation that either protects or encourages, or whatever, access and competition, that they are probably more important than the actual industry structure.

For example, in the United States there is legislation which makes certain that if one rail operator wants to use the track of another, there's a process that the marketplace provides. If they can't negotiate a price then there are courses to sort that out and I think interestingly enough they're much more effective than probably what we've got with ACCC and the NCC, so I've been told.

I think to a degree it's the way we legislate, if you like, or regulate competition and access. It's probably more important than the actual structure because I think there are weaknesses whichever way you go and I think the evidence has borne out that worldwide it indicates the same, apart from our own struggle and debate occurring in Australia where I guess - I mean, Queensland is probably the only state which has been consistently saying that a vertically integrated railway is the way to go but the same token providing an access regime where we might see in the future private operators in the coal operations particularly.

MRS OWENS: Up in Queensland - and I think to some extent Western Australia - in advocating vertical integration and in pointing out some of the quite significant advantages too of vertical integration, you can have integrated services and maintenance and you can run it all as one business and you can get responsiveness from different parts of the business. You can get economies of scope and so on. I

think those are fairly convincing sort of arguments that way but then the argument against that - a key one - is that you really need to then, as you said, have a very strong access regime to ensure that you can get enough competition into the system.

MR KIRK: I think there are very good arguments for keeping a rail vertically integrated and to keep going back to the theme really of investments, as a vertically integrated operation the owner is able to make investment decisions based on, I guess, commercial imperatives that affect the business, whereas with separation there are a whole range of other factors come into that and we're seeing already dealings being done, for example, between National Rail and New South Wales Rail Access Corporation, prepaying access charges in order to see crossing loops extended to enable much more efficient and competitive operations on the north coast area. I've been told by one of National Rail's competitors who also are looking at that corridor that that's great for them but unless they do the same there are no train paths left to operate.

So in a sense there are problems whichever you go and I don't think there's an easy solution. But certainly the people who have vertically integrated railways tell us that it's probably the most efficient way of operating and being cost competitive as a transport entity. In fact a consultant from the United States, Chuck Hoppy, came down and gave evidence at the rail inquiry. I don't think he told the inquiry this but what he did say to a conference within days was that the trouble with a lot of the decisions that had been made regarding separation is based on economic theory and the trouble with economic theory is that it's just that.

MRS OWENS: Should we comment on that, Derek?

MR KIRK: Sorry, Derek.

PROF SCRAFTON: It is an important observation though because the vertical integration, particularly if we could use the expression "for regional railways", if we break down what we are looking at here into national, to regional, to urban railways, if you look at the regional - and probably the urban if it comes to that - the investment certainty is so much greater that a potential investor can see exactly the scope of the business, whereas the interface is, every time you have an extra interface in there, the potential investor just seems so far away from what might actually happen on the ground, the performance of the operation. That certainly seems to me to be very clear. I think in your submission you quote the freight example in Britain. The interesting thing there is it's in a separated regime but at least the freight operation itself is integrated, which was not the original proposal.

MR KIRK: The owner of those freight businesses says quite clearly that if he could get his hands on Rail Track shares and buy what he needs, that's what he would do. So with the marketplace I don't know if he can actually do that, nor to improve those efficiencies. But I think the Pilbara railways, the iron ore and heavy ore rails, is another very good example of how it's important, investment decisions are important to the overall productivity of those railways. I mean, the railways provide the mines

with the competitive edge over international markets and it's the way they invest in rolling stock, locomotives, maintenance, the whole thing. The total integration, the total package is what gives them that cost competitiveness and I think that's something that's probably been a little overlooked in the need to achieve open access as an objective. I think it's important that we should also add that - I'm not saying we don't support open access. Competition has been absolutely essential in our industry in terms of really driving some of the reforms that were necessary and we've seen that occur particularly on the east-west corridor, but the debate is still raging. The jury is still out.

MRS OWENS: I think the Pilbara example is a really interesting one because it's a question of whether one sees that rail service as being part of an integrated production process or whether you see that as being somehow different and hence open to other competitors to come in. We did speak to Hamersley in Perth at the hearings there and I think it's quite an interesting issue that the answer is not as clear cut as one would think. I think that does raise the question of access - coming back to access regimes - and that you've got on page 10A a section on that. You talk about the ARTC as being a significant step forward for the railway industry. I think there are many positive arguments for setting up something like an ARTC.

I wonder though - we have an ARTC which has responsibility for the interstate network but part of that responsibility can only be achieved through actually being able to tap into other access regimes like the Western Australian regime and so on, which they're still going through that process. I wonder just how satisfactory that is all going to be. It's like a two-stage process. You can only get this one stop shop working properly if they get access to those other regimes - lines - on a favourable basis.

MR KIRK: Yes, the statement we've made there is that the ARTC is a significant step forward. To us though it is only the first step. There's a whole raft of other issues that need to be determined and I guess to a degree it's a matter of seeing how it all works over time as to how close we'll get to the ultimate goal of the industry which was the truly one owner of that infrastructure - owner-manager. There were a couple of pushes that the industry was pushing towards and one was a true one stop shop with an owner-manager for the entire interstate standard gauge network and also one regulatory regime because, I mean, we haven't really got on to that yet. But certainly one of the other barriers to productivity is the fact that we've got state-based regulatory regimes which are becoming much more - they are a growth industry themselves at the moment and are applying extra cost burdens to our industry.

But certainly the ARTC had to happen. It had to happen in the way it did happen because of all the constraints upon it and I guess the jury is still out on that one as well but the industry is behind it and supporting it because it is an essential first step to resolving this issue of how to manage that interstate network.

MRS OWENS: Yes, I suppose from the point of view of the operators they may get to have a one stop shop for interstate operations but they're still going to have to face each of the individual regimes if they want to work on an intrastate basis.

MR KIRK: Indeed.

MRS OWENS: So they still face a number of steps if they want to do both, don't they?

MR KIRK: Yes. We tend to focus largely on the problems of companies who want to operate interstate but certainly those who want to operate intrastate also have issues of access and we have a very active group within our organisation, within the association, who require regional and short haul operators. These are the small operators, the boutique operators, if you like, who are very concerned, particularly here in Victoria - to a degree also in other states - as to how they can maintain their right of access in, I guess, vertically integrated network that's occurring within the states. So, yes, there are still all those issues. I guess to an extent that's why the Victorian government looked at a 15-year lease in order to safeguard the access of the passenger providers and also the small rail freight operators.

MRS OWENS: So there's still a way to go. I don't know what the answers are, why you do have different state access regimes and an ARTC providing a national focus where there are going to always be operators wanting to go interstate and intrastate. Unless you eventually move towards some sort of harmonisation of the access regimes - and I suppose that's what the NCC is there to try and achieve some sort of uniformity across systems.

MR KIRK: Yes. The state borders are a nuisance. There is no question about that. Our forebears have got a lot to answer for, particularly in railway terms.

MRS OWENS: You've raised that as an issue in relation to regulation and safety regulation and so on.

MR KIRK: Indeed.

MRS OWENS: Do you still see that as a problem?

MR KIRK: To a degree we're now sorting out a lot of the issues with the regulators but the industry has put together a number of very clear submissions to the regulators regarding the fact that mutual recognition was not working between state regimes and those issues are currently being addressed. I don't have any evidence to see whether the situation has improved greatly, except that industry and the regulators are talking together to try and resolve the issues through a committee called the Rail Safety Committee of Australia. The issue of access fees is something that's going to go on for a while yet while state governments and state treasuries apply a regime of cost recovery to railways but don't apply them to road and other like bodies. For some reason they've seen the rail industry with its privatisation as a sort of a milch

cow and therefore can get out of them what they can or if they're a government-owned body, it's simply a transfer of funds from one government agency to another.

So the issue of accreditation fees and how they are structured is a cost impost on the industry which we're not at all happy about for what we get. I mean, the fact that you can be accredited in one state and then have to pay a fee in another state - when mutual recognition should cover all that - is just absolute nonsense. Interestingly enough, we've been very critical of this issue and the Rail Safety Committee of Australia actually handballed this back to us and said, "You were complaining about it, you fix it." The answer is very simple, don't have them.

MRS OWENS: Don't have what?

MR KIRK: Accreditation fees.

MRS OWENS: At all?

MR KIRK: Well, you're not providing a service; why have them?

MRS OWENS: What about the initial state that does the initial accreditation? Suppose you have mutual recognition; you have to go to one state. Would they charge a fee for the work they do?

MR KIRK: If they charge it for the work they did that would be fine but they don't do it that way. They charge it on the size. It's a very complex formula, to do with the operation of the operator. So in a sense - - -

MRS OWENS: It's not cost-based then on terms that their costs that are actually doing the regulation?

MR KIRK: No. It's like a de facto access fee because it has a very similar base for determining what those fees ought to be.

MRS OWENS: Do you have details of how those fees are calculated? Where would we get those?

MR KIRK: They have similarities but they differ. But I think we can provide that information to you.

MRS OWENS: That would be useful.

PROF SCRAFTON: The other aspect of that that I think is worth commenting on is, you mentioned just a couple of minutes ago how irrelevant the state boundaries were becoming in terms of railway operations. One of the big reforms since the 1991 report is the way that the state railways which traditionally sort of protected their own empires within the state boundary are in fact now, as a result of the national

competition policy, a major beneficiary of the opportunity to work wherever they want. They're no longer constrained in that way as long as the government and the neighbouring governments would allow them to do so.

So we have this opportunity for an efficient operator to come in from another state and provide a service elsewhere. I think that is a reform which in the nineties and perhaps in the 1991 inquiry was not foreseen at all; that it was also imagined, you know, that it would all be privatised or international operators would come in, but suddenly we have this great opportunity. At the same time as we had that operational reform, we have state governments building the walls again in terms of the regulatory regimes.

MR KIRK: Indeed.

PROF SCRAFTON: Do you think there's a role here for the federal government to step in and say, "Enough's enough. Why don't we treat this like the aviation business. We'll look after the accreditation and the safety and you guys just bow out"?

MR KIRK: The aviation model, Derek, is something that we've been actively promoting, not only for regulation but also for using a model for accident investigation and reporting and distribution of information. So we see the aviation model as a good model. Originally I've been told that was state-based up until about the thirties and the federal government brought that all together. We would see that as an excellent model in our industry. It's actually changed its position. When I first joined the ARA nearly, it's almost 3 years now, I was told, "Look, make sure you keep regulations state-based. We don't want the federal government the Commonwealth to get involved."

That position now is entirely changed because of the way the bureaucracies have grown and tied up the industry in knots with regulation. They have now changed their opinion completely. They said, "Listen, we're talking now about a national body." They're still not talking about Commonwealth, to keep the Commonwealth a little bit at bay, but certainly looking at a national body and using the aviation model as a way of doing it. That's become a fairly clear platform for our entire industry to work towards. Interestingly enough, I would say that a couple of the states are already supporting it, not publicly but certainly some of the regulators feel that duplication - particularly as you see the operators moving interstate - is a cost impost and there are other ways of dealing with it we should be looking at.

MRS OWENS: A number of people have suggested to us that there be a National Land Transport Commission. I think there have been some steps to look at that quite seriously and I think in your submission you mentioned, possibly as a first step having a rail commission. Would you see such a national safety body, that sort of body picking up the safety issues or would its responsibility be somewhat different?

MR KIRK: That's also a matter of debate. I think it's fair to say that we started off looking at this in terms of developing a rail commission like the National Road

Transport Commission because we saw the reforms that were achieved in the road industry by the NRTC as being an important model for the rail industry. To achieve the sort of uniformity and through that, I guess the productivity and the competitiveness of the road industry, we thought that was a good model to achieve. But then we also believe there is something else that's required in this body that's not currently handled by the NRTC which are investment decisions. We see it as very important that we stopped making decisions on infrastructure investment by a modal basis.

We need to make them on an integrated basis and that's something that we believe is absolutely essential to, I guess, the economic future of our country, that we stop making decisions on what we call "margin seat analysis", particularly with road funding and we start to look at our investment decisions on a much more integrated basis and how we can get the modes to work together. I'm not just talking about road and rail but road, sea, rail and air. There's a lot of concern regarding the interfaces between sea and rail at the moment, as well, and we think that if you approve some of the rail and sea interfaces there are going to be huge spin-offs for road. We're seeing that in New South Wales. There's not enough focus on the benefits of looking at how the modes interact together and how strategic investments might sort out some of those problems. Instead of putting in another freeway, another access road, maybe it's better to spend the money on rail because, in effect, it will be a good road project because you will relieve congestion and all those kinds of things.

So we believe that the only way that can be achieved is to have a National Land Transport Commission or some such body that looks after not only regulation and safety issues but also - - -

MRS OWENS: So it would look after the safety and regulation and it would look after the investment - making these broader investment sort of decisions and what else would it do?

PROF SCRAFTON: Charging?

MRS OWENS: Charging?

MR KIRK: Well, I guess it would recommend on charging issues, but that is a very contentious issue. The access regimes are very protective of how to keep the charging issues very much under their control, so that would be a very interesting one. Some people suggest that in fact you're asking for trouble by putting regulation and investment together in the one body and maybe we should look at having a national regulatory body, maybe road and rail separate, but having a single body just looking at, say, infrastructure investment. So that's still a very fluid debate at the moment. But we certainly believe in terms of investment, it's essential to have one body looking at infrastructure investments and the sooner we can take the politics out of that and look at much more, as we say, true economic rationalism in transport investment decisions we would be very happy.

MRS OWENS: You mean rational decisions?

MR KIRK: Yes.

PROF SCRAFTON: There was a body many years ago called the Commonwealth Bureau of Roads which used to do that for all investment and in fact of course it was destroyed simply because of the very success it achieved in trying to depoliticise the investment process, that people didn't like its findings. The other thing of course that an investment body might do also is take some of the heat out of the way in which - we have a problem at present between investing in and improving the existing network and these high profile projects that extend the network, even in our case, are not part of our specific terms of reference and there is a separate inquiry which no doubt you will be asked to appear before by the Smorgon committee.

MR KIRK: We've done that already. But really if you're looking again at the productivity improvements to transport, not just rail, it really makes sense to have a strategy, a blueprint, from which private investors as well as government investors can actually say, "Look, okay, we know where the traffic flows are. We know where things have got to go. We're going to invest in this because we're going to make a buck on this." But the government is going to invest in something else because that's going to be in, say, the community interest or it's going to assist the development of private business or whatever. But at the moment the decisions are ad hoc. We do need to have one body, otherwise we could end up with these private projects with a break of gauge problem all over again because they could create corridors which don't interface officially with the existing network. So we do need to have somebody determining some overall land transport strategy but really it's got to be even broader than that to include, particularly sea and air in that.

MRS OWENS: So coming back to rail and what it would be doing in rail, it would actually be looking at the sorts of investment decisions relating to upgrading the existing infrastructure of the existing network and it would also have a broader responsibility for these new sort of large projects such as the Smorgon committee is looking at. It would be looking across the board at everything or is it just going to have responsibility for the existing network, in which case you're not getting total integration because you could then impose on that a high speed track from Melbourne to Darwin?

MR KIRK: That's a good point you've made. I guess we looked at in terms of drawing up the blueprint from which investors could mesh in with that. We hadn't actually considered it in terms of regulatory regimes and things but that's something that would probably need to be looked at further. I mean, there has been a discussion paper produced by the Scott Rail Modal Group which has looked at options for a Land Transport Commission and there are recommendations being made for the ministerial council that's being held sometime in December about which options to adopt. I don't think those issues have been fully thought through to that degree you're suggesting.

MRS OWENS: I was just sort of wondering where you draw the lines around this. I mean you can piecemeal committees that look at issues as they arise now but in another 10 years there will be another proposal or two will come up, and do we keep doing it in a piecemeal way or is it all brought together?

MR KIRK: We reckon it would be just great if we get some endorsement to have a Land Transport Commission and then we can work out what it's going to do but to actually have it conceptually agreed would be a good first step.

MRS OWENS: But it's very hard to get endorsement unless you're very clear about what its functions are going to be and I suppose that's what we're trying to pin down.

MR KIRK: I guess what we're saying is - the blue skies projects, as we call them are not really the major priority for our industry at the moment. Our main concern is the 3 billion dollars that Tracking Australia and before that NTPT - there's been a whole raft of reports - have come out and said, "This amount of money is required to be spent on this network to make it productive," if you like. What we're seeing is that very few of those recommendations have been picked up and we're seeing again paltry amounts of money being promised to spend on the network which is nowhere near enough. I guess for us it's quite bemusing to listen to people who say, "Look, investing in rail is an expensive business," when you're talking about 3 billion and when the upgrade of the Pacific Highway is going to cost 4 billion for significantly fewer kilometres - length of road.

So some sort of balance has got to be brought into that. From that point of view, I guess if we can get a body to look at how we can get the best beans for our buck on our current network, that's really what we see as an urgent priority. The ARTC to a degree is already doing that. It's identified areas where the best gains were made for what are very modest investments in transport terms and that's where we're putting our support.

MR HILL: If I can just put that in perspective. The upgrade of the Pacific Highway works out at about \$4,000,000 a kilometre but \$250,000,000 over the entire interstate rail network is about \$36,000 a kilometre.

MR KIRK: So what's expensive?

MRS OWENS: Thank you. We're not talking about spending 3 billion dollars all in one hit either, it was to be spread out over - - -

MR HILL: Well, 3 billion dollars on rail is only 2 years of federal road funding.

PROF SCRAFTON: You mentioned that it's not your association's wish to sort of antagonise the road industry. But as an association, would you be in favour of diverting current funds that are allocated to roads, to rail investments, given the point you've just made about the potential cost-effectiveness of doing that? I mean, does your association have a policy on that or is it something that's just a bit too sensitive?

MR KIRK: It is very sensitive. We put our case to government like the road industry put its case to government and really it's up to politicians to determine. That's why we're suggesting that maybe we need to change the way we determine our investments, rather than looking at them as political investments which is largely the case at the moment, to really look at them in terms of cost benefit to the community. By that, looking at the whole range of external costs, externalities, which are currently often not considered in these investments.

PROF SCRAFTON: I mean, I think people understand the magnitude of the externalities but it's the decision-making where the weakness occurs when the final decision-making is made. It doesn't matter whether it's economic or social or environmental or whatever, the fact is the decision is made to punch 150,000,000 into building a road tunnel through the Adelaide hills and, you know, nobody even attempts to justify it. I think that is the problem at present.

MR KIRK: Indeed.

PROF SCRAFTON: It's worth mentioning that you said the National Road Transport Commission does not have investment within its terms of reference. One of the reasons for that is that the NRTC is subject to a council of ministers in which they vote, so that decisions that the NRTC recommends are voted upon and the state can vote against it but if it's carried by the majority then it stands and that's one of the reasons that investment is not in there because a particular state is not anxious to give away that sort of sovereign right that it has got at present. But you pointed out that a lot of inquiries over the past 10 years pointed out that the decision-making at present is lousy and doesn't seem to get any better. We put the One Nation money in and we still have the problems between Adelaide and Melbourne and so on. So presumably the parity for something like that would seem to me to be very high and yet we struggle for the sake of a few million as distinct from billions, to pick up what - -

MR KIRK: It's the degree - this is because we're always told by our politicians that there are no votes in rail, all the votes are in road. The reason why that is, is because mums and dads can drive their cars on the roads and therefore they vote for more roads, and with regard to big trucks, they vote for bigger roads to keep the trucks further separated. But the information that we're receiving back from the public through our polling clearly indicates that the mums and dads are getting fed up with sharing their roads with bigger trucks; not only are they fed up, they actually are quite fearful of them.

Some of the information we have got is that 90 per cent of the population agree that there should be more government commitment to the rail industry. We have got something like 81 per cent suggesting that long-distance freight in Australia would be better for our society if it was moved by rail. We have got staggering amounts - 95 per cent of the people polled suggested that more money should be spent on maintaining existing lines in good condition. This is from people who also showed us very clearly that they didn't have a great understanding of true transport costs, but

they have a feeling that it's in their best interests for governments to commit more dollars to rail.

I guess one of our messages that we need to get across to these people, to our politicians, is that there are votes in rail and we're going to see I think more and more a shift in opinion to that extent and hopefully we will convince them that they need to redress that particular balance and we need to see a much greater commitment to the recommendations that have been made in all the reports from previous years and hopefully the sorts of things that you are going to say in your report as well.

MRS OWENS: John, could I just ask, is that information publicly available?

MR KIRK: Not as yet.

MRS OWENS: It will be?

MR KIRK: But it soon will be, yes.

PROF SCRAFTON: Was it a nationwide policy to include rural respondents as well as - - -

MR KIRK: Indeed.

PROF SCRAFTON: It does.

MR KIRK: There was a freight poll. We looked at freight issues. We didn't look at urban issues.

PROF SCRAFTON: Right.

MR KIRK: We have believed for a long time that the political paradigm operating in this country is wrong; that is, "You put money in roads because that's what the people want." We don't believe that is the case any more. There is overwhelming evidence now that the people don't want that. It's just a matter of convincing our politicians that there will be more support for them if they look at redressing the balance. Now, again I've got to be very careful that I don't antagonise the road industry with that kind of information. But certainly it's a matter of getting a balance and this is why we're advocating not a pro-rail stance to a degree, but an integrated approach.

PROF SCRAFTON: The other thing that I think your association should think about is arguing that road agencies should be corporatised. A lot of the reforms that we have seen in railways have been as a result of something like 15 years of reforms, as you have described very well in your submission. Maybe one of the problems is that unless you get the road agencies reformed, you will not get the right basis for this sort of rational decision-making and investments. I mean, I have never heard a road agency object to a useless road investment and yet there are plenty of them out there.

But you never hear the head of a road agency say, "I'm going to open this road. We don't really need it, but it looks good."

MR KIRK: Indeed, that's right. The cost of access to the transport network is something that we are very concerned about and we haven't talked much about access pricing and diesel fuel excise and so on. But certainly we believe again there is support for introducing a much more equitable road pricing regime - whether it leads to corporatisation of road bodies which is something the New Zealanders have looked at, which would certainly be a radical step - but just simply looking at road pricing issues. For example, we know that RAA is looking at that. They have made a number of public pronouncements, because let's face it, the motorists are still, in their view, in their eyes, subsidising the trucking industry. So there are a whole range of issues that I think ought to be addressed.

PROF SCRAFTON: I think the pendulum will swing in the direction that you're talking about. It's a matter of time. Again, just as we were talking about the reform process, these things take too long to get there. I'm sure that some participants that we have heard from already, and I would think even the next one that's going to appear before us, are going to argue very strongly that in the longer term, these things are not only desirable but absolutely essential.

MR KIRK: Indeed. A number of our major customers are keen to see these things introduced as well, particularly the reduction in diesel fuel excise. We have calculated that that will save our customers, particularly the coal industry and the grain industry, substantial amounts of money.

MRS OWENS: Can I just change the subject very quickly, because we're into our morning tea and we said, "How are we going to fill in an hour and a half?" and we could probably fill in 2 and a half hours because there is one very important issue that you highlight in a number of fora and that is the issue of competitive neutrality. I haven't spent a lot of time on this today, primarily because you have given us a fairly convincing and very useful description of your views on this issue, so I don't have actually a lot of questions to ask you about it. But I think I've basically boiled it down to about nine different arguments as to why road and rail are not being treated in, as you would call it, an equitable way, and one is in terms of the charges for use of infrastructure.

There's a fuel excise tax issue; there's the issue of investment, different degrees of investment; there's the evaluation criteria issue; the one-stop shop for access issue; the consistent access pricing and contracts as an issue; one has uniform standards and one doesn't. There are different accreditation arrangements between road and rail and there are different levels of onerousness - is there such a word, I don't think there is - in terms of safety regulations. So there's actually quite a number of points that you have made at different points, either here or in what you have said for the Neville inquiry.

MR KIRK: There are some other taxation issues in there as well that are non-diesel fuel related.

MRS OWENS: They're sales tax type issues for vehicles and so on, yes, which probably goes - if anything, that goes the other way.

MR KIRK: It does, but I mean, there are also some FBT issues as well.

MRS OWENS: And FBT issues, yes. So we have got 10 key points.

MR KIRK: That's fair enough.

MRS OWENS: And we can't obviously talk about all those now because it's morning tea time. But I think one of the interesting things that has cropped up since the Neville inquiry, there has been the impact of the GST proposal and the proposal to reduce the fuel excise back to 18 cents a litre and the impact that will have. I think you do talk about that somewhere here in your submission. I was wondering whether you have done any work on looking at - I'm just trying to find where it is - whether you have actually done any work to see what impact that would have in terms of the level of competition on particular routes.

MR KIRK: What we have done just in the last few days is commissioned a study that will take two case studies and look at National Rail as an interstate operator and the effect of the diesel fuel excise and particularly on modal shift. We're also looking at Q-Link, Queensland Rail's LCL distribution network through to rural areas, so we're looking at an intrastate operation that would be under considerable threat if this were to proceed. So that study has been commissioned and we expect it to be available in probably 2 or 3 weeks.

MRS OWENS: Again, will that be something that we would be able to get access to?

MR KIRK: Yes.

MRS OWENS: Because I think we would find that particularly useful.

MR KIRK: You raised the issue with National Rail, as I understand it.

MRS OWENS: We did.

MR KIRK: Subsequently to that, we had these things on the boil and we have gone ahead with that. That study has now been commissioned and we will certainly make the results available. We expect them to be very favourable just on that, for the moment.

MRS OWENS: I think the other issue that I'm interested in is the issue of mass distance charging and New Zealand has had mass distance charging but you note in your submission on page 18 that they're actually now looking at other options for the future including a time, weight, distance, location road user charging regime. I mean, I can't even get my brain around what that would look like at this stage. But I'm wondering why they're moving on from mass distance charging.

MR HILL: I think that's a sort of a compilation of a number of things which was from one of their reports which looks at - they're looking at urban congestion issues as well so the time sort of thing relates at more sort of urban road pricing. The long-distance road regime would still be a mass distance type regime but your time and location would relate more to the urban situation. So those sort of four things wouldn't be all together, I wouldn't imagine, in one hit, but it would apply differently to different sectors of road users.

MRS OWENS: I was just a bit worried because I thought it sounded terribly, terribly complex and they can do complex things in New Zealand because it's small.

MR HILL: Well, exactly, and with GTS technology - - -

MR KIRK: If you can do it with technology it's easy. The technology exists to actually achieve that.

MRS OWENS: Is this the technology they're trialling in Tasmania?

MR HILL: In Tasmania, absolutely. I mean, so theoretically there is a capacity to put all those together.

MR KIRK: But all you do is pay for what you use. I mean, it's pretty simple really - and just how you put on your characteristics. There's probably one other area that I'd like to raise if you - - -

MRS OWENS: Yes.

MR KIRK: That wasn't part of the 1991 check list to a degree, and that is the area of uniformity and what the industry has done to really address the issues of operating standards and safe working standards where there has been a lack of uniformity and that you'd be aware of the Maunsell report that made certain recommendations and the association and the industry generally have been very supportive of this process and in fact have invested quite substantial amounts of money, for us anyway, into some consultancies to resolve and report on the resolution of a number of those issues. So that's something again where we've been very proactive.

There has been what's called the industry reference, rail industry reference group, which is a group that reports to SCOT, the standing committee on transport, and this group of people who have been nominated by the ARA is now tackling what we see as some of the most pressing and complex problems, which is to do with train

operations, safe working, civil engineering and sort of rolling stock, inter-operability of systems and these kinds of things. I guess all we're trying to do is overcome 100 years of state-based operating practices and, as I said, the industry has been very proactive - in fact we've been working on it for a number of years pre-Maunsell but what Maunsell has done is given us a focus to actually speed up and accelerate the work we've been doing to achieve it in a much shorter time-frame. So those - -

MRS OWENS: What sort of time-frame are you talking about?

MR KIRK: Well, for train operations and safe working, the consultancy will be completed in June of next year and we're expecting a report that's -

The task was to complete the development of the code of practice for train operating systems which can apply nationally to all railways pursuant to the Australian Standard AS 4292 Part 5, with the addition of appropriate reporting and monitoring processes for the particular project.

So that's the overview. But there's a range of other objectives which I can provide to you, which clearly outline - again something that will in fact improve the productivity of our industry by resolving some of these historic anomalies.

MRS OWENS: Thank you very much for that. Derek has just reminded me we should say that we haven't really managed to cover all the issues that we need to, but a lot of them are dealt with very clearly in your submission. But at the time of the draft report we can come back and explore some of these issues further, or we might come back to you out of session. I think one of the interesting - things I would be interested in would be just your response to some of the Neville inquiry recommendations and what wasn't picked up in the Neville inquiry report. But maybe we could come back to you on that. Is there anything else that you'd like to say?

MR KIRK: That's fine. No, we're quite happy to provide any additional information that you need. I mean, we've done some subsequent work on the tax issues which we're quite happy to let you have and we're constantly revising and updating our work and we're quite happy to let you have copies of that work and particularly the commission report.

MRS OWENS: Well, we would appreciate that and I think at this stage we might have to break, so I'd like to thank Mr Kirk and Mr Hill for coming this morning and we'll now break for 7 minutes and we will resume at 25 past 11.

MRS OWENS: We will now resume. Our next participants this morning are the Bicycle Federation of Australia and People for Ecologically Sustainable Transport and we're also dealing with the Victorian Bicycle Coalition. Could you each give your names and your affiliation for the transcript.

MR PARKER: My name is Alan Parker. I'm secretary of People for Ecologically Sustainable Transport and from time to time I act as an honorary consultant to the Bicycle Federation and write submissions for them. That's my position at the moment.

MR HARLAND: I'm John Harland, president of the Victorian Bicycle Coalition. I've also been briefed on this by the Melbourne Bicycle Touring Club, which is not yet a member of the coalition, and the president of the Tandem Club of Australia.

MRS OWENS: Pardon, I missed - - -

MR HARLAND: The Tandem Club of Australia.

MRS OWENS: Tandem Club, thank you.

MR HEALY: I'm Ken Healy. I'm also president of PEST. I'm also a member of the People's Committee from Melbourne. We conduct, I think, the only radio program on community radio here every Wednesday here on urban and environment issues and we obviously deal with these issues pretty much. I was also, in transport terms, appointed to the Road Traffic Authority here in Victoria when it was first set up here by the government and I've always been sort of involved in the transport industry.

MRS OWENS: What time is the radio program on?

MR HEALY: 9 o'clock Wednesdays for an hour.

MRS OWENS: In the morning?

MR HEALY: Yes.

MRS OWENS: Thank you, I'll have a listen. I'm a Melburnian, you see. Thank you all for coming and thank you very much for the submissions that we've got. Derek and I have both read all of the submissions and there's a lot of very interesting and I think stimulating material in here that I know it would have taken a long time to put it all together and I understand that you will have other material you'll be tabling for us later.

MR PARKER: Yes, that's correct.

MRS OWENS: Would you like to make any opening comments, MrParker?

MR PARKER: Yes. Our main concern was the lack of sustainability in current trends. You'll note throughout our submission there's a lot of charts and diagrams and the trends in all of these charts and diagrams are not very favourable, particularly the graphs relating to Sydney and Melbourne. All of the Sydney data is in the Bicycle Federation's submission and you'll find that in the Peoples for Ecologically Sustainable Transport you've got the data for Melbourne and what I'd like to do is to table three pages with six graphs and this will provide you with some data on passenger car emissions in urban Australia and the Netherlands which have almost identically the same population.

The significance of that is that bicycles make a very major contribution to the efficient operation of the Dutch car fleet by eliminating a very large number of short car trips and bicycle dual mode, that is, bicycle access to rail, also eliminates quite a higher percentage of longer urban car trips. When you consider that in the per capita GDP in the Netherlands is almost identical with that of Australia, it's a very interesting comment. I might add that I spent a month in the Netherlands travelling around 10 Dutch cities using the bicycle and the train and they certainly have quite a wonderful system there. However, the other four graphs that I've got - I've got all of the trip to work data broken down, clearly showing the trends for metropolitan Adelaide, greater Hobart, metropolitan Perth and Brisbane and these are covered in this duty of care here which I'll pass over later.

MRS OWENS: Thank you very much.

MR PARKER: I note the concern about the need for a different national approach that's much more rational and more integrated in dealing with rail infrastructure funding and the provision for railways generally and you will note that in our submission we looked at two areas.

MRS OWENS: Which submission are we talking about at the moment - the PEST one or the Bicycle Federation?

MR PARKER: Both of them have got this common concern with world best practice, strategic planning and coordination. Both submissions actually deal with that particular area and we cite two examples. The first example is what we call the Netherlands experience. That's their national environment plan, which they're now into their third revision. The American system, the US Intermodal Surface Transportation Efficiency Act, ISTEA it was called, 1991 to 1996, and it has now been revised and that continues as T21 and that will be continuing right the way through to the year 2003. Both the Dutch experience, dealing with local provincial governments, and the American experience of funding the states and taking environment considerations into account, I think are both useful models.

The US Intermodal Surface Transportation Efficiency Act and the new T21 legislation is extremely interesting insofar as the previous practice of let us say the Federal Highway Commission holding the gun at the head of state administrations and saying, "You build these freeways or else," which is the situation out from about 1975

to about 1992. That has gone completely by the board and what they have done is they're tying the overall provision of all transport funds to the American EPAs provision to achieve clean air objectives. That's on page 12, actually. Unless you can virtually prove with an environmental impact statement that you're actually going to reduce smog levels with road building, you just don't get to build roads any more. The Americans seem to be proceeding very well with this act.

The revision after 6 years took place and the general feeling in the states was that this was an extremely good way, a very sound way of dealing with funding from Commonwealth to a large number of states and at the same time honouring long-term environmental objectives and probably integrating planning for pedestrians and cyclists. From T21 we expect bicycle and pedestrian funding to go well over a billion a year within the next 18 months in the USA. America of course hasn't been very successful in making any provision for walking and cycling. In fact, it's probably the worst example one could pick in the entire world.

In marked contrast to that in the Netherlands you're in the situation where approximately 28 per cent of all trips are made by bicycle. They have managed to maintain walking trips at roughly the same level as what they were 10 years ago and you'll note that in the supplementary document here and in the PEST submission there is a graph in which I've taken data from 78 to 96 of the Netherlands as a whole country and the Melbourne MSD, using data and you can see the completely negative trends.

MRS OWENS: Page 5.

PROF SCRAFTON: Could I just make a comment, Alan, that I found that draft to be very useful. I mean, a lot of this material is excellent data for us but because the journey to work is increasingly less significant in the total movement, that particular graph, comparing Melbourne with the Netherlands, is very good. Do you have a similar graph per cent of all trips for all purposes for the other cities?

MR PARKER: No.

PROF SCRAFTON: No. In that case I would just make the comment that, you know, that I think is a particularly useful graph and if you were able to do the per cent of all trips for all purposes for other states, we would be happy to receive that if you have that in among the data that you've got.

MR PARKER: The problem is that data originates because of the work of Prof Tony Richardson first at Melbourne Uni and then the RMIT, the transport research centre. The data is very good from the point of view of non-motorised transport, because compared with the previous home interview surveys, Australia was very bad. I mean, all trips of less than 400 yards didn't exist. If it was less than a quarter of a mile you forgot about it.

PROF SCRAFTON: So the long trips were total - - -

MR PARKER: Yes, that's right. If you want more data from that source you would have to get it really from VicRoads because they have done a deal. They have bought the information or alternatively the Department of Infrastructure and when their people front up to you I should ask them for a little bit more information.

PROF SCRAFTON: Thanks for that.

MR PARKER: Because they have got it. It's on file. The database is - you know, it really is immaculate information. I believe that there is some data like that available in Sydney and they're trying to get data like that for Perth and for Adelaide but it hasn't happened yet.

PROF SCRAFTON: Thanks. Sorry to interrupt you there.

MR PARKER: No problems. The Dutch situation is extremely interesting actually. I've got in English the Dutch National Environment Plan. This is the third version. It was only published in February this year. It's in English. It has been done specifically for the benefit of the rest of the EU and I think a lot of the problems that we've got with funding, administration, the way we run the railways even, has got a lot to do with the fact that there's no long-term overall plan and what I've actually done with this duty of care is I've photocopied the introduction and the rationale and the entire transport section and I think you will find when you read it some very valuable insights as to the way they proceed. I think the most important thing about the Dutch National Environment Plan is the way the Dutch do their national planning.

When you actually see it and you see the documents, you think, "My God, this country is a basket case, you know, Australia. It really doesn't work. It's not the way to go." Like, on the very first page you'll find before the environment policy - which is an all-embracing overall policy - goes to the parliament for approval. It goes through every major government department and it's complete approval. The other thing that I've found out about it is that the Dutch bureaucracy tells the government what has to be done. In fact, the Mark I version of this in 1988 brought the Dutch government down because the minor parties would not go along with the key recommendation which was to eliminate their equivalent of the company car. In the Netherlands you could claim your car for commuting, as a commuting expense. The first thing they proposed was, "Get rid of that."

You can understand, if you want to reduce greenhouse gas emissions and you want to do it you've got to get rid of subsidies like that and they did it in the first National Environment Plan. It went into the parliament. The parliament didn't pass it. It brought the government down and they went back to square one. They're still trying to get the equivalent - abolishing the Dutch equivalent of the company car but they still haven't got around to doing it. There were quite a lot of other successful demand management measures that they did get into and one of them - you only get a couple of sentences in here about it but we have some familiarity with the detail of it.

That is the Dutch National Environment Plan. The subset of that is the transport plan and the subset of that is the Dutch Bicycle Masterplan. They did spend \$1.5 billion on implementing that over a 6-year period and part of that funding was national and part of it was from local and state governments, but it was extremely effective. One of their key policies was actually to increase rail patronage by 15 per cent. In the Dutch National Environment Plan, the idea was to increase rail patronage by 30 and 50 per cent but the 15 per cent increase would be from improved bicycle access to Dutch railway stations. I've got a document here in English where there's different photographs - you can see the whole procedure there. That might be getting into too much detail.

However, I can assure you, having spent months travelling around Dutch cities by rail and hiring bikes at railway stations and occasionally putting my bike on the train that their rail system, when you get down to the detail and the improvement of it, the detail matches the quality of the planning report. It's so impressive, it's unbelievably impressive.

MRS OWENS: We've seen some photos at one of the other hearings of some of the special carriages that they have for carrying bikes too which is interesting. I think it was your submission - one of the submissions that I read the last day mentioned that they only use those carriages at certain times of the year, in the spring and summer.

MR PARKER: That's right. I took the photographs.

MRS OWENS: You took the photos?

MR PARKER: Yes. I was quite amazed. The standard of morale on the railways as well is remarkably high. I mean, the people who sell you the tickets all speak four languages. The inspectors on the train have all got a degree and they speak four languages.

MRS OWENS: And they do have people selling tickets, not machines.

MR PARKER: Yes. They've got a computer - - -

MRS OWENS: They've got both.

MR PARKER: Yes, you've got a mixture. But it's really wonderful when you're on a train and the following day you're going to go somewhere right at the other end of the country and this guy pulls out a pocket computer and he can give you advice on the best link, because their rail system is not like the British one where everything comes down to London, like a radial thing. It's like a network and there are different ways of getting there. Like, you don't have to go through Amsterdam to get where you want, you can go around the other way. This guy can just in a few seconds give you the information that you want. It's extremely impressive. Then under each major railway station there's an area for the storage of about a thousand bicycles. It costs

roughly a dollar day to park a bike but you've got total security, you've got bicycle maintenance, you've got proper services. Like, you can actually buy repairs and stuff.

Dependent on which city station it is, you'd have between, say, 2 and 5 thousand bicycles on the top. A city like Geelong, it's got about the same population as Groningen or Leeuwarden in the north. You're looking at 3 or 4 thousand bikes at the railway station at the top. These are usually old heaps, you know, I mean, they really are old bikes. Then the good ones are tucked away underneath, a properly set up thing. Then you've got the lines of buses that relate. So the whole thing is integrated and they've got this overall planning policy which they call ABC planning. You locate buildings on the basis of the labour intensity of the activity. Like, you would never have a university like Latrobe built where it is, or Monash. It wouldn't be on. Or if they did there would be a railway running through the middle of it with a separate railway station. It's done very consciously. As I say, those 28 per cent of trips to work by bicycle generally, it's about 28 per cent of all trips as well. There's not much difference. This is the very interesting thing about it.

But the other thing that's really quite wonderful is more women cycle than men and the reason for that is basically the infrastructure is extremely friendly, especially in the smaller towns between 90,000, say, 150,000 population. Based on all of those experiences and the 20 years we've had in negotiating with the railways, we're quite convinced that we need a national approach to the encouragement of bicycle access to rail. We believe that it really can be made to work. But it's going to take a lot more than just providing a few bike racks or lockers. I think perhaps John could make some comments now about Melbourne and the problems there.

MRS OWENS: Fine. Yes, would you like to do that and then we'll ask you some questions.

MR HARLAND: I'd like to start with several of Alan's comments. He's used the Netherlands extensively. There's an example and it's generally discredited as an example in Australia because of a lack of understanding of it. Although Australia is such a huge continent and the Netherlands is so small that it would fit into two-thirds of Tasmania, 90 per cent of the Australian population is urbanised and so the density at which people live is approximately the same, near enough to the same, as the Netherlands where people are dispersed very evenly throughout the country. When I was living there in the second half of 1996, my partner and I were riding to the university which was 5 kilometres distant from Amsterdam. It took us half an hour. In Melbourne we ride 10 kilometres to the university and it takes us less than half an hour; twice the distance. There are two river valleys to cross in that period, where it's flat in Amsterdam and yet we cover twice that distance easily. Melbourne is an easier place to cycle around in many ways. It's not as relaxing - we need to do a lot about that - but it is actually easier to cover distance.

MRS OWENS: Using bike paths or a combination?

MR HARLAND: We use a lot of them in Melbourne. In the Netherlands you use bike paths. But also the climate is more suitable. So using the Netherlands as an example, it's a very valid one. What I want to concentrate on in my talk is the complementarity of rail and bicycle travel. The rail network is a very coarse one and it needs a complementary fine network to function effectively. For passenger rail the best complements are cycling and walking, not motor cars. While walking and cycling are at their best over short distances, cars are at their worst. Once a car is started it might as well be driven on a long trip, replacing a train trip as a short one, serving the train system.

Unfortunately in Victoria the emphasis has been on accommodating cars to the neglect of accommodating bicycles at railway stations. If bicycles are to complement the rail system, the rail system must accommodate bicycles and this lies in two main areas: secure accommodation of commuter bikes at railway stations and this needs to be secure. It needs to be stressed that we can't just have lean-to rails at railway stations because people have to leave their bikes for hours at a time, totally unattended. So it needs to be secure. The other aspect is carriage of bicycles for recreational journeys, off peak and on weekends. It doesn't take much stressing - Alan has dealt at some length with the suitability of bicycles for covering short distances to serve suburban railway stations and in fact he has a very nice graph which is included in there which shows the coverage of Melbourne within 7 and a half minutes cycling at railway stations.

It's worth stressing that the same kind of complementarity actually applies to country rail journeys for recreational purposes. I belong to a couple of touring clubs and we use trains extensively as a complement to bicycle touring because that's a way of getting us out of town quickly and allowing us to enjoy the countryside. But it's more than just a convenience. Rail travel is a delightful complement to bicycle touring. The train journey becomes part of the touring experience. It is quality time spent together with the group for final planning or recapitulation and reflection on that journey you've done. Neither cars nor buses offer this experience to any real degree. Train travel thus makes much more efficient use of recreational time than that wasted in motor transport. If you're driving somewhere it's a stressful experience. If you can catch the train and then cycle, the whole experience is recreational.

Unfortunately, as with parking at railway stations, the railways have not really been able to see this complementarity in urban journeys and there are several very negative things that have happened in recent times in that respect. Firstly, there has been the closure of lines and a circularity system needs all its links, not just its arteries. When the peripheral circulation of a body closes down, you get gangrene, you don't get more efficient circulation. But particular concern to cyclists have been the closure of some of the longer lines - the line to Bairnsdale which accesses most of eastern Victoria for cyclists; the line to Ararat which accesses the Grampians and the Avoca district wineries and the whole Strathbogie Ranges area and the lines to Swan Hill and Mildura which access the Murray Valley.

There have also been several changes in hardware - rolling stock - where the railways seem to have looked at what is cheapest and also what is average demand rather than peak demand. They have removed luggage vans from all trains - V/Line have removed luggage vans from all trains, except where they are specifically requested. Melbourne Bicycle Touring Club has an arrangement where if we get six or more cyclists we can pre-book the luggage van.

MRS OWENS: Do they charge for that?

MR HARLAND: No, they don't. Well, they charge \$3 per bicycle.

MRS OWENS: But not for the van.

MR HARLAND: Not for the van, no. But it is a semi-formal arrangement and it's threatened by the next point which is that V/Line no longer book people onto specific services. They just sell you a ticket but they won't book you onto a specific service. So actually having six people booked onto a service now is a theoretical rather than a real situation. Another major problem has been the conversion of many services to sprinter operation and whilst the operation of small light-weight trains is a very useful economy, the failure to adapt overseas models to the needs of local passengers has been a grave oversight. The vehicles are said to be designed locally but are in fact identical in that respect to the English sprinters on which they were loosely modelled. So in the provision of bicycles, wheelchairs, surfboards and bulky luggage, they are no different from the English models. They have narrow doors and accommodation for a maximum of two bicycles or a wheelchair or a large pusher and that may be the average loading but it's far from the peak loading.

As a bicycle touring group we'd like to be able to carry at least six people and their bicycles at a time and as a tandem club we're particularly concerned that you cannot get a tandem on a sprinter at all without blocking a great deal of the access at one end of the coach or the other. Another point is a very strange omission, and that is that the guards compartments, into which we do put bicycles on a normal train when there is no luggage van, will accommodate up to about 10 bicycles but there is no way of strapping them to the walls. There are no hooks to attach bungee cords or ropes to the walls, and this is a very puzzling oversight.

MRS OWENS: Do the guards compartments actually have guards in them still?

MR HARLAND: I think they call them conductors now because they don't actually watch for signals and the things that a guard traditionally watches for but they run up and down the train and do provide - - -

MRS OWENS: So they're not necessarily in that compartment anyway.

MR HARLAND: No, but they do provide a valuable service.

MRS OWENS: Yes, but you could actually set up the guards compartments quite easily with these hooks or whatever you need to keep the bikes - - -

MR HARLAND: Yes, the bikes are already accommodated there. It's just a matter of having something to which you can attach - it only needs to be a small hook - a rope or a bungee cord. Just a few of those screwed onto the wall would make a very big difference.

MR PARKER: From 1890 through to about 1985 there always used to be hooks in the ceiling and straps on the walls. It goes back to the time when the shearers travelled around Australia and they used to use a pushbike to get to the farms. They used to hang the bikes off the ceiling by the two wheels and then the straps would stop the bikes from bashing into one another. About 1985 the unions decided that bicycles were too heavy to do that, despite the fact that the average bicycle by that time was 10 kilograms lighter than what it was in 1890.

The other point that John is making here is - I made a trip to Adelaide and I had to pay \$60 to transport my bicycle to Adelaide. If I'd have got a car I could have put it on the back of a special wagon at the back of the train and I could have moved the entire car for \$85. It's so ludicrous. We had negotiations with people who were organising the Ghan train and the new train, the tourist train, to Western Australia, and we were just treated like idiots. Their attitude was, "Who'd want to have a bicycle to accompany them on a trip like that?" When you consider the Japanese tourists, who are used to excellent rail systems, and a very high percentage of people who access the railway by bicycle in Japan, I thought that was rather short-sighted on their part. What we'd really need out of this is an overall national approach. People should be able to come, bicycle tourists, internationally to Australia, and what we really need is national guidelines that all the rail authorities take note of. You were going to say something on that, weren't you, John?

MR HARLAND: Alan has raised the first two points I was going to raise there, which is the costs of transporting a bicycle to Adelaide, and the other half of it is that if you were to box the bicycle and label it "Sporting goods", pretend there was no bicycle in there, it would travel free; if you were to take it by air or by road coach it would travel free. But as soon as the rail people know there's a bicycle in there they slap a half-fare on it for the South Australian section of the trip. This inconsistency between states is a major concern. We're quite happy with the \$3 per trip charge levied in Victoria, but the half-fare - it's basically \$28 I think for the Bordertown to Adelaide section of the trip, whereas it's \$3 for the longer distance from Melbourne to Bordertown. One of the things I've raised in the submission is we would like to see the best conditions - - -

PROF SCRAFTON: Can I just make a comment about that just before you move on. There's something curious about that because when we were talking with the RA, who were with us earlier, we mentioned the fact that the border was irrelevant. In relation to the Overland, according to Adelaide the border is irrelevant because it's

operated by GSR. So the border should have no influence on the pricing policy at all, should it?

MR HARLAND: That's right.

PROF SCRAFTON: It's an interesting observation. It certainly supports your contention that you might not like the standards that were set but at least if there was a national standard you know what it was.

MR HARLAND: Yes. What we would like to see is the best conditions, which so far as we can see are the Victorian conditions, made national rather than some average of the conditions, that are rather bad, in other states. I should mention as well as sprinter trains there is the problem with XPT trains, the same problem, that you can only get two bicycles per train, and the problem is more likely to spread than reduce unless something is done to address - - -

PROF SCRAFTON: If I could interrupt again; it is spreading. We received two faxes this morning, one from Murray Owen, who I think is in Adelaide, is he?

MR HARLAND: Yes, he's the president of the - - -

PROF SCRAFTON: And one from Bronwyn Lang, whom we'd already met in New South Wales, telling us that bikes are no longer permitted on the new tilt train in Queensland, so the regular daily trip from Brisbane to Rockhampton, which presumably before was accessible on the normal trains, is no longer accessible. So your point is valid. It is spreading as we speak, as the media would say.

MRS OWENS: With the two bikes maximum on the sprinter trains, is that actually policed? Does somebody actually come along and tell you to get off?

MR HARLAND: Some conductors do police it, yes.

MR PARKER: They just won't let you get on the train. They do the same in England. They've got all these different private systems. Some of those private systems are very flexible in accommodating bikes. Some are quite arrogant and ignorant. It's unbelievable. The cycle touring club of Great Britain, which has got about 120,000 members, the tales they tell - and this goes back a long, long time. The nice thing about the Dutch situation and in other parts of Europe is you've always got competent designers in the rolling stock area and they actually produce the designs that people need and you've got flexibility. To my knowledge there were eight different types of train that I went on in the Netherlands with different types of guard vans, but they were always out of the peak hour and an opportunity to carry your bike.

One of the problems we've found in the past with dealing with the railways is the absolute sheer incompetence in the sense that when you're dealing with suburban railways stations the Standards Association of Australia has got a standard for

long-term parking, security requirements. For 5 years after that no rail authority would build - they put these stupid little rabbits ears racks in that locked the front wheel and were located in the wrong position, and you got an Australian standard to cover it. I don't know how many areas of engineering and construction, where if you've got an Australian standard, even if it's not mandatory, the professionals in that area usually abide by it, because you don't have to make everything mandatory. That's the whole purpose of having the Australian Standards Association there. About 15 years go we put in a lot of work to persuade the Standards Association to establish standards for short, medium and long-term bicycle parking. Anyway, the rail authorities by and large, with the exception of Queensland, totally ignore that requirement.

The other problem that we've got in Melbourne here is that the provision for bicycles is not part of the major ongoing program. Over the last 10 or 15 years there's been a study done about providing for bicycles at railways stations. What actually happens is the minister implements it one year. He gets \$200,000 - that was the last time he did it, and built about 50 bike lockers and a few racks and it goes in as a program. But if you go the chief engineer's office - and I worked as a consultant in there for about 3 months, so I know what actually goes on in there - their main ongoing program is just for carparking.

In fact, I think - I don't know whether you were the presiding commissioner at the time - one of your fellow commissioners asked some VicRail people, "If I've got my petrol heads hat on and I'm driving to the railway station, you'll spend 3 or 4 thousand dollars on a carparking space, you'll provide tarmac, the whole thing, provide the drainage etcetera, but if I decide I'm going to come down on my bike you're going to charge me for a bicycle locker. Why?" I remember the transcript that somebody sent me of that, and it turned out that the two people from VicRail, old members of the staff, couldn't even answer the question because they didn't even take it seriously.

To a large extent we've still got that. We're still not part of the main program. You can go down to the chief engineer's office in the PTC at the moment - I know it's broken up now; you've got the two private companies, but if you go to the ongoing program for the refitting of the stations you'll find long-term provisions for carparking but nothing for bicycle parking. That only ever gets done when the Melbourne Age kicks up a fuss and the minister gets a load of flak and you get the Labor Party to table a few letters in parliament and the like and that kind of stuff. You know, you stir it up and then the minister throws a bit of money at it, but it's not part of the mainline program.

MRS OWENS: What happens when the franchising goes through? Do you think the situation will improve or get any worse?

MR PARKER: I don't think it will make any difference because, if you look at the documents that these private contractors are now signing to operate the system, there's nothing in there about bicycle security. John and I, we've just written a letter

to the minister about this and we've said we want certain standards to be adhered to. What we said in the letter here is:

Before you hand over responsibility to the new operators will you please ensure that the following happens:

- (1) Bicycle parking provision is on an equal footing with carparking provision in future station upgrading programs;
- (2) Make long-term bicycle parking facilities to AS289.3 1993 a mandatory requirement at all stations;
- (3) That all trains have adequate facilities for the carriage of bicycles and that these facilities are provided in all new rolling stock;
- (4) Ensure that all rail operators have the same high standard of bicycle facilities and that the carriage of bicycles is seamlessly integrated across all operators.

That's really what we want for the whole of Australia. We want it seamlessly integrated so if a foreign tourist comes in as a cyclist you know you can move through the system. What we'd also really like in the long-term, like you've got at major tourist stations in Europe and major tourist stations in Japan, is a bicycle hire facility, because in a lot of Australia's smaller cities like Hobart and even Adelaide and parts of Perth, it would be very nice not to have to go out and hire a car but to really appreciate the quality urban environment because, as John said, compared with the Netherlands, we've got a fantastic climate.

PROF SCRAFTON: Could I ask you a question about that. I have one other comment too, but first the question. I would have thought that it was comparatively easy to hire a bike in Australia these days. My experience is that you can look in the Yellow Pages - but it's not?

MR PARKER: If you look in the Yellow Pages, right. But you ask the local Japanese tourist. He'll say, "What the hell is the Yellow Pages?" You know what I mean?

PROF SCRAFTON: I take your point.

MR HARLAND: There is another point about that, and that is that the hire companies that advertise in the Yellow Pages have bicycles of the quality you see down on the Yarra bank, and they're suitable only for cycling very short distances.

PROF SCRAFTON: Knocking about, say, the CBD or something?

MR HARLAND: If you want a quality bicycle, there's a particular bike shop in Melbourne that does actually hire out quality bicycles, but only when they have them

in stock. When they've got them for sale they will lease them out, and you have to know who it is.

PROF SCRAFTON: Right. Rather like something we were talking about I think last week in our hearings - somewhere I was last week. Anyway, the point was made that there's a sort of magic knowledge base that you have to have in order to be able to achieve the sort of objectives that you're talking about. I think actually - sorry about that - it wasn't in our hearings; it was on a radio program that I talked on last week. Somebody said, "You know, I've tried to educate my kids to ride the bus and so on but I came down and there was no information on the bus stop," and the compere of the program made the point, so I guess it's the same for bikes.

MR HARLAND: There is one point I'd like to enlarge on in the Netherlands experience, and that is that the reason that bicycling is such a practical means of transport in the Netherlands is that there is a system throughout the country. You have paths, you have signage, you have lanes. You don't ride a lane and then find it disappears. You don't get to the railway station and find there's no parking. You know it will be there and you know that at the workplace there will be parking, because again it's a legal stipulation.

PROF SCRAFTON: Or come to the roundabout and have to compete with everybody.

MR HARLAND: That's right. There is a regulatory infrastructure there, and if the and if the private companies are to provide bicycle parking on any meaningful basis it has to come from a governmental level of setting standards. It's not good enough for any one company to provide good bicycle parking because it's still not a system. It's not something - people can't use it nearly as well as if everyone provides it.

PROF SCRAFTON: That relates really to the comment that I was going to make. It was my impression, certainly in the urban transport inquiry, that the commissioners were very sympathetic to the arguments that were put forward and I think we tried to give support to the argument of cyclists. The point I was going to make though is that in general I thought that was - my view is that that was happening around the community. If you take organisations like the - whatever it is now, the Roads Board or whatever it's called, the councils and so on, if you look at their plans there is a broad sort of support out there for the needs of cyclists. Now, I understand in relation to our inquiry there are specific problems - and you raised them - but is that not a true assumption on my part? I mean - - -

MR HARLAND: It's a lot of political point scoring by putting in specific facilities but there's very little system level plan.

MR PARKER: Let me put it this way: our cities are growing, they're expanding. You've still got urban sprawl. Unsustainable transport trends are all there. Whatever they're doing is not going to reverse the situation. Let me put it this way: the Dutch went through this whole business and the only reason they changed their attitude was

way back in 74 with the oil embargo, the factories closed. The greatest port in the world at the time, Rotterdam, was closed. There was no diesel oil for the trucks. There was no bunker fuel for the ships. The people were reduced to riding - the bicycles then came out of the garages and the mopeds came out of the garages and society functioned. They were like that for 2 months. It cost them billions.

It didn't happen here because the oil embargo kind of finished, unfortunately 2 weeks before - our ships were all locked up in the ports. We'd already got to the point where the Australian shipping was drawing off bunker fuel, like military emergency supplies, and if it had gone on for another 2 weeks we'd have been in the same thing. Anyway following that in the Netherlands the Dutch looked at the whole transport scene and they said - just like the Japanese did who had a similar experience - and they said, "We're never, ever going to be in this situation again," and from that point on about 8 per cent of the road funding was actually spent on bicycle facilities.

Now, I'll give you some figures. From 1950 right the way through to 1975 you had a decline in bicycle trips from 21 billion kilometres down to 8.9 billion kilometres. It's now up to 13 billion kilometres and it has been increasing since 75. But when they got to 1989, when the greenhouse thing really took off, the other thing that happens in the Netherlands, they looked at transport and they said, "Look, we're going the wrong way. This is not working. We're not getting anywhere. We've got all these unsustainable trends and we're going to have a massive increase in motorisation." So they had a whole series of programs and the one that interests us is the Dutch bicycle master plan and if in a country with the same population, urban population which is the comparable bit, you know, in 6 years they spent 1 and a half billion dollars on bicycle infrastructure and it is seen as a national government responsibility.

If they need to do that to maintain those high levels of bicycle use for transport, imagine how much more difficult it is here. What I'm saying is that what is being spent really is just not keeping up with population growth and the spread of urban sprawl. I mean, what you're going to have is a society in which you will provide for petrol heads to recreate by bicycle. You will not provide for bicycle transportation and if you look at the figures for the trips to work, women okay, there's a four to one difference in this city between the number of women who choose to commute to work by bike than men. In Sydney it's seven to one. In Adelaide it's about three to one and I think in Perth it's a bit more favourable. The reason for that is women's perceptions of the convenience and safety of cycling.

I mean, I know what my wife's reaction was and John's partner's reaction in the Netherlands to that whole scene, you know. It is very friendly and to put it bluntly, when you see as many 80-year-old women happily riding a bike to do all their shopping and everything, as I used to come across every day in the Netherlands for that month, you know you've got an inherently bicycle-friendly system and we don't have a bicycle-friendly system. It is not interconnected in the way that it ought to be.

MRS OWENS: Actually you've just mentioned about the women cyclists but you have a chart in the PEST submission, chart C on page 4, which actually shows also a very large increase in female drivers since 1976.

MR PARKER: Yes, that's right.

MRS OWENS: I've been pondering as to what on earth's going on in Melbourne. At the same time you talk about, "Melbourne lost 6300 female rail commuters and Sydney gained 21,000 female users." What's happening, what's going on?

MR PARKER: It is all connected. Firstly, as more cars go on the road people become afraid to let their children ride to school or catch the bus or whatever else, not only because there's more traffic on the roads but because there are fewer people on the footpaths. So there's less actual people presence and so the whole place becomes more hostile. As trains are used less again you have a reduced people presence and particularly as staff are removed from trains you get less of a presence of people and so it becomes more forbidding, particularly after-hours. But the point is, if people can't travel after-hours on the train they're less likely to travel during hours as well. They get into habits after-hours that they will carry into their future hours.

MR HEALY: That could become more prevalent now with trams as well of course, because without staff at night particularly - - -

MRS OWENS: At least there is a driver fairly accessible in a tram whereas in a train if you're in one of those carriages you really are very susceptible.

MR HEALY: Yes, there's nothing; that's right.

MRS OWENS: So what you're saying is, it is a real security issue.

MR HARLAND: I believe so, yes.

MRS OWENS: Was it a graffiti issue as well? I mean, there was that period at the end of the 1980s when the trains and the stations all looked pretty terrible and uncared for and they were taking the people off the stations. The stationmasters were going and so they were quite empty, forbidding sort of places too.

MS HARLAND: I think graffiti is a very powerful symbol of the presence of loutish people on a station or on a train, so it does discourage people from - - -

MR PARKER: The other thing that impacts differently on men and women - and you've got criminology studies that show this - is if you're an old woman and somebody steals your bike you've got a different psychological reaction to both the station environment and to the act of theft itself - or vandalises your bike.

MRS OWENS: Yes, you won't go back.

MR PARKER: Than if you're a young male adult. The second point that I'd raise here is if you look at the station environments - as we all know, in the Netherlands they went in for developing woonerfs(?) to traffic manage the areas. They found that too costly and what they've done there is what they've done in a lot of the Northern European countries. You've now got a blanket 30-kilometre an hour speed limit on residential streets. Now, I mean, it's quite common here, you know, 60, 70 K on residential streets, and then we wonder why there has been a massive increase in motoring for the trip to work. But if you look at the data that they've got here in Melbourne from the Transport Research Centre, you look at the short trips by car and you look at the decline in the number of kids cycling to and from school, it is a massive decline and that's completely unproductive and totally unsustainable in the long term and there's two factors adhere. One is you're in the Catch-22 situation. First of all they say, "Okay, it's unsafe. There are speeding cars. We can't find a safe route for the kid to ride to school." That clears even more people off the streets so the streets are empty, so that then increases the perception of uncertainty or fear and it's a wicked cycle.

PROF SCRAFTON: Yes, that is a very sad comment, that that is happening in cycling, because that's exactly what happened in public transport. It was the same sequence of events that - more women driving, the point that Helen just raised, fewer people on public transport, the sort of loneliness element, the perception of danger even if there was no danger, just that discomfort of being alone and so on.

MR HEALY: Yes. The department here about 3 or 4 years ago came out with figures that showed travelling on trains was much safer than sitting in your living room or something, but - - -

PROF SCRAFTON: Sure.

MR HEALY: But nonetheless there's still a perception and people have - particularly on stations at night which are all unstaffed now. But there is that perception that it's really dangerous and people are just simply afraid to go there.

MRS OWENS: Well, there was the case of the young woman down on the station, one of the stations just before Frankston, who was murdered when she got off the train in this area and was murdered and I think that becomes very- - -

PROF SCRAFTON: The impact is - - -

MRS OWENS: The impact sticks in your mind and you say, "Well, I'm not going to" - you know, she was coming home from work I think.

MR HARLAND: Yes. But the impact of 300 deaths a year on the road doesn't seem to have anything like a similar- - -

PROF SCRAFTON: Well, that is an interesting comment because there it's the extension of the living room syndrome. You know, "I'm quite safe because I'm sitting

in my car." It's a very sad indictment when you think about the longterm trends that we really need if we are going to run into - if sustainability means anything in 50 years' time, then in the next 10 years, 20 years, a lot of these trends are going to have to be reversed and the environment in which they're reversed will have to accommodate some of the things that your members and - or the wheelchair representatives and so on.

It's interesting that a lot of the things that have happened there have happened because they've got the law on their side; it's amazing. While you were talking a lot of the things that occurred to me - you could substitute the word "wheelchair" for cyclist and roll them together at one point. But they've got the law on their side and suddenly people have to do things whether they like it or not and whatever the cost is and whatever - - -

MR HEALY: Because they need rail so much more because they can't access other vehicles so they've got to- - -

PROF SCRAFTON: That's right. There are no options for them. But I think the important thing that you've brought out to us is this very serious comment that people don't take you and your organisation seriously enough. One of the things that I suggested to your Adelaide representative is to get on the Trans Adelaide Advisory - they have a user advisory group. But you're already on one of those, have been on the board even of one of these organisations. So what does one have to do to influence- - -

MR HEALY: There was a point I was going to make. I won't have time now, but one of the points I wanted to make was the frustration after years of being to these sort of inquiries of how do you get it from the step - I mean, I've read your material and it's clearly an acknowledgment of many of the problems and the imbalance between spending on the various forms etcetera. Yet how do you take that the next step so you actually get from acknowledgment to a genuine commitment by government to do something about it, because in fact in government, governments need - for the sort of redress that I believe is now necessary, governments need something like a 10 or 15 years' spending program which getting out of governments that never think much beyond the end of the week is very difficult indeed.

PROF SCRAFTON: That's right, and a crisis to initiate it. I think one of the interesting examples that was given about the 1970s - and we talked about this with your counterparts in Western Australia, that there is no doubt that to get the magnitude of change that you're looking for requires some sort of crisis, which of itself is a very dangerous scenario to contemplate. So I mean, I wouldn't for one minute discourage you and I should apologise because you didn't get a chance to- - -

MR HEALY: I'd like to have something in writing and- - -

PROF SCRAFTON: Yes, that's right. I guess that's what we ought to say.

MR HARLAND: Could I tie it all together. We have sort of wandered a fair bit into cycling infrastructure. But the key point is the complementarity we see between the rail system and the bicycle system; they're each very, very important to each other.

PROF SCRAFTON: And I guess to complete my comment I just hope that we can present your case as well as we finally feel is appropriate, but that whatever we say and whatever any other inquiry says, that you don't give up because the evidence - you heard the ARA freight people and if you look back 25 years railways were on the skids. Whether they actually achieve the sort of goals that they're looking for remains to be seen, but there is certainly a far greater opportunity for railways to play a key role and perhaps your needs will be fulfilled in the future.

The other thing, I mean, I really appreciate your comments about the Netherlands. I'd just like to make one other comment. Last week I was looking at the design of some new rail cars in suburban Copenhagen and they in a regular train - not one that just runs weekends, this is a regular train. If I could read the plan properly there were in every forecast said - or whatever it was, had space for about eight bikes in a sort of little bike rack arrangement.

MRS OWENS: That's something else for you to look at.

MR HARLAND: There is one thing in the Netherlands, if we could mention, every train has seats back to back and if you have a folding bike you can carry it free because it fits in between the seats.

MR PARKER: This is why I think a national rail commission could be really good, which had the staff that could coordinate design studies on this so that it's raised to a high degree of professionalism.

MRS OWENS: We'll be looking at that issue. I think we'll have to actually close now. I think one of the issues you did raise, which we didn't come back to, was the issue of rail line closures and I think there has been one positive thing that has come out in Victoria this week and that is the line that was closed between - I think it's Lilydale and Warburton, has been reopened as a bypass. So some clouds do have a silver lining.

MR HEALY: I was taken the other week by the fact that the premier at a meeting at Ararat said to the people, "You have every right to complain about your line being closed," and I thought, "Well, that's wonderful, isn't it, but are you doing anything about it?"

MR HARLAND: If I could just put one point in there. It does seem that the closures have been more for administrative convenience. They're very shortsighted. They're to cut costs, not to improve the service or they have no service basis at all.

MR HEALY: They haven't closed too many roads in the same period, John.

MR HARLAND: They have closed minor roads where bridges are concerned and bridges are the problem on the railways as well, I believe, in many cases.

MRS OWENS: Thank you very much for all coming today and we will now close and we will resume at 1 o'clock.

(Luncheon adjournment)

MRS OWENS: The next participant this afternoon is the Australian Wheat Board. Would you please give your names and your affiliation with the Wheat Board for the purposes of the transcript.

MR LASKIE: My name is Ted Laskie. I'm the general manager of AWB International Ltd, with the AWB.

MR FEHLBERG: My name is Ray Fehlberg. I am manager global supply chain strategy with AWB Ltd.

MR O'DONNELL: My name is Roger O'Donnell. I'm the senior transport analyst for AWB and I'm part of Ray Fehlberg's operation.

MRS OWENS: Well, thank you very much and thank you for coming this afternoon and for the submission which Derek and I have both read. If you would be so kind, if you would give us a few opening comments and then we'll ask you some questions.

MR LASKIE: Yes, I'm happy to do that. We've of course provided our submission and that's covered with an executive summary. Through our executive summary we have recommendations broken into two parts and it's train operating issues and rail access issues. We've further supported it with some background on the AWB, and the AWB of course representing around about 45,000 wheat growers throughout the country and trading between 4 and 5 billion dollars annually. With a 22, 23 million tonne crop coming in, in the coming season we expect that the rail transport component of moving the crop to port will be somewhere around about \$300,000,000. So the report is relatively brief and we're happy to go through any aspect of that, thank you.

MRS OWENS: Thank you for that. We've had a number of discussions around the countryside with different groups with interests, major interests, in using the rail system and we've talked to the coal industry, we've talked to Hammersley Iron, and I think this is the first time we've actually in the hearings talked to people that have an interest in the carriage of grain. I think what I would find it interesting and useful to know is the extent to which grain carriage has to go by train vis-a-vis road. Is it something where rail has a distinct competitive advantage?

MR LASKIE: I think my colleagues can certainly help me out in this regard. But historically the receival centres for grain around the country have been supported by a traditional rail system and in fact in some parts of the report we point out that if we were to change from a rail system then there's very much a government responsibility on meeting the funding of roads in the area. In some areas of Australia there is a reasonable rail system without a road system to support that. So if the rail system was in decline I think we have to be careful when we point out that moving to the rail alternative would also mean additional funding and that should be watched fairly carefully.

MR FEHLBERG: On a national basis the national grain production crop is averaging around 28,000,000 tonnes. Of that, about 50 per cent is moved by rail on an annual basis. Our ratio for AWB is a lot higher than that. For our hauling operations we traditionally receive around 16,000,000 tonnes and around 10 to 11 million tonnes per annum is the rail movement component of our receival capacity. I guess a considerable component is moved by road because of the nature of the consumption and production cycles. There are a lot of demand areas close to grain production and that doesn't suit rail per se.

Where rail has its greatest competitive strength is where there is a substantial haul of grain, particularly to an export position, that ideally suits rail's inherent strengths and certainly that's where we like to focus and dominate our movement task. We've got major export movements. The capacity to move large quantities of grain quickly to port, rail provides us a very effective service in that regard, and it certainly suits our business. Roger, have you got any further points that - - -

MR O'DONNELL: Yes, I think the only other observation to make is, say, an average-size grain train to port might carry 2000 tonnes of wheat. If you were to try and move that by B-double truck in one - that would involve, what, about 50 B-double truck movements. So rail certainly has a big advantage when we have to move tonnage to meet a ship in short notice. Also the silo network which was established in many part of the country in the first half of this century was built around the rail network and so rail has a competitive advantage over road there because the facilities were established to load into rail wagons rather than road trucks.

MRS OWENS: Is there potential to use rail more?

MR FEHLBERG: Certainly in particular states. I mean, Victoria for example, we found that the rail has become increasingly competitive over the last half decade, that frequently the prices for rail movement to port are more favourable than the equivalent road movement to port task. A similar story but more extreme in New South Wales where there is a great dividing range, that the rail is significantly more cost competitive than road for port-based movement tasks in New South Wales. South Australia and Western Australia, road and rail are very directly competitive with each other. There isn't any real price difference for the services which we are seeking.

So for our business there has been some small trend back to rail usage. Certainly there is the potential for some further movement to rail, looking at the years ahead. It will depend critically on prices and service, but I guess it's the AWB's expectation that the privately owned railways which are now buying the exstate government railways are going to be perhaps more focused on making sure that they do capture the service requirements of customers and ensure that the prices are competitive. So I guess there will be further potential for a move to rail.

PROF SCRAFTON: Does the 50 per cent average across the country - does that vary much between states?

MR FEHLBERG: Yes, dramatically.

PROF SCRAFTON: Does it?

MR FEHLBERG: Western Australia is predominantly an export-based state. The domestic market in Western Australia is small, so the ratio of rail to road is reasonably high there. Kwinana, the major export terminal port doesn't have any road receivable facilities. It's solely a rail receivable based terminal port. So, yes, the ratio there is fairly high. South Australia, about 40 per cent of all grain production is received directly by road into the terminal ports at harvest time. So rail has got a fairly minor role in the significant but seems to be less than 50 per cent of the South Australian total movement task.

New South Wales, Roger, I guess there's a fairly major rail movement task for movements to port but there's such a large domestic market in New South Wales that in years of lower production we don't actually export much grain from New South Wales and therefore road dominates by far the total movement task in that state. So yes, there are major regional differences in the road-rail equation.

MR LASKIE: I think Ray's outline of the domestic market is important because the east coast has the big or the predominant domestic market operation whereas Western Australia is typical of export.

MRS OWENS: In terms of your experiences with the systems in the different states there has been a lot of change occurring over the last few years. I note in your submission you actually say the process of change has been slow and I'd like to come back to that comment in a minute. But there has been quite a lot of change in most of the states. New South Wales has divvied up the system into four units and there's changes going on in Victoria. Westrail is about to privatise. There has been the establishment of the ARTC and the changes in South Australia. To what extent has that had an effect on you? Has it had any marked impact in terms of the services you've received?

MR O'DONNELL: I think at this stage - firstly the comment about being relatively slow to change is probably put in a comparative sense between road and rail transport, that we find that changes within the road industry seem to occur at a much more rapid rate than they do within the rail industry. With your other point we have many longer-term type contracts, so consequently we're - yes, many of our contracts were set up when the railways were government-based bodies and we have those longer-term contracts to help facilitate capital investment within the railways. But yes, we are seeing some changes. Certainly from our point of view we're interested in the role of ARTC and the possibilities for us to maybe move grain over the interstate lines, using the open access policy.

MRS OWENS: You're not doing that now?

MR O'DONNELL: No, generally we don't.

MRS OWENS: So potentially you could do that. In terms of the logistics of what you're doing, does that make sense to do that?

MR O'DONNELL: In some states it does make sense. But again I emphasise that we've been evolving out of a structure where we had grain regulated to a state-based railway and a state-based grain bulk handler and our contracts are in transition, if you like. If you come and see us in a couple of years' time they will probably more accurately reflect the open competitive market which is developing in Australia now.

MR FEHLBERG: Certainly the main railway line, for example between Melbourne and Adelaide, would be quite a suitable component to have greater contestability of rail operation services along that line. The track access arrangements are there. We have operators keen to provide a service to us. So that would be a suitable test sort of area for AWB to see what advantages can be gained by having directly competing rail operators on a main line operation of that nature. Just going back to the comment about the pace of change, as Roger said, that's really in the context of perhaps road versus rail at a relative pace of change. The long-term driver of costs as we perceive them really relates to technology and the pace of uptake of newer technology.

Too much of our current infrastructure dates back to the earlier part of this century, the rail network and a lot of the physical silo systems date back to that period whereas the rapidly reducing road costs have made different combinations now far more viable. Rail, a lot of more ancient rolling stock is involved for movement of wheat whereas in the road sector there has been a far more rapid uptake of newer technology and it was really in that context - it's not that there haven't been a lot of changes happening in rail. There have been radical reductions in staff numbers, operating practices, and Western Australia rail operations have grown. They're already leading the pace, it seems, and certainly good productivity results come out of a state that has been very actively reforming. But yet we see this sort of under-performing track infrastructure and some of the rolling stock is certainly well behind what could be achieved for maximum gain in this present climate.

MR O'DONNELL: Yes. I think, to support Ray, for example the average grain wagon would hold about 50 tonnes of product. Now, 50-tonne grain wagons have been around Australia now for probably 30, 40 years, since the first ones were introduced. 30 to 40 years ago the average road truck probably held about 20 tonnes of product in it. So rail had about a 2 and a half to 1 advantage there. Now, you can find B-doubles which can hold 40 to 45 tonnes of product in them. Yet we're still kicking around with an average wagon weight of around 50 tonnes.

MRS OWENS: What's the potential with wagons in other countries?

MR O'DONNELL: In North America they have wagons which hold 100 tonnes in them.

MRS OWENS: Sort of doubling their capacity.

MR O'DONNELL: Yes, and it's just not a matter of purchasing a wagon and running it on the tracks, over your tracks.

MRS OWENS: You've got to have the right sort of tracks in place.

MR O'DONNELL: The tracks themselves must have the necessary strength and also the rules involved. It's another area where we think there has been slow change. For example in Victoria the axle loading is limited to 19 tonnes for grain wagons. There are some parts in the state where you can run to 20 tonnes but grain wagons are built to the 19-tonne axle loads, yet the locomotives in the state - there are locomotives running around on the same tracks which have axle loadings of 21 and a half tonnes. Now, that 2 and a half tonne difference, it doesn't sound much but it means an extra 10 tonnes of product could go in a wagon and we see anomalies such as that and we're puzzled why they aren't corrected.

PROF SCRAFTON: I guess you answered your own question in some ways earlier when you said that rail had some strategic advantages and obviously they must have felt in the past, if not at present, that because of those strategic advantages there was no real incentive for them to improve the quality of the technology in which they were delivering their service if they felt they could get a sizeable proportion of your business.

MR FEHLBERG: There was also a regulatory advantage, there was a monopoly.

PROF SCRAFTON: So that was even worse.

MR LASKIE: But I don't think there's any debate about whether we should be using road or rail. I think the rail for the shipping service suits us very nicely. I mean, you know, big bulk movements out of the country into a shipping position to meet the vessel and quick turnaround is really what we're after and I don't know that you can always achieve that with a road movement. One of the difficulties I suppose we've had - and we touched on it briefly on the gauge - when we look at say a least cost path to get grain out of the country quickly, I mean, one of the impediments for us is to get to the border position and find that you have to use road to get it over the border rather than just keep that traffic moving through and across that border position. So the least cost path access for us is going to be important and it's going to be important in a marketing sense to maximise the return to growers. So we'll always be looking for the least cost path if we can find it. You know, as we've said in the past, gauge is an impediment in some respects except perhaps in the South Australian and Victorian incidence, in our situation.

MR FEHLBERG: But still even the gauge issues are coming into the fore there because South Australia has got a standard gauge line now to the Mallee area of the border between Victoria and South Australia whereas it's broad gauge on the

Victorian side so some of the standardisation programs, where they're only half done, create further problems rather than mitigate against them.

MR O'DONNELL: And we also have other issues. Even though the gauge may be right, the actual loading outline of the wagons in different states varies so that in some states you can't run some wagons in other states. So there's not that flexibility to move wagons around as you would ideally have it. The wagons are either too large to fit under a bridge or to fit under a loading spout so they're no use in other states, despite them being the correct gauge.

MR FEHLBERG: Then there's the issue of safe working procedures and the differences between states and so forth which have an influence at times similar to the broken gauge.

MRS OWENS: We've heard a lot about that over the last 3 weeks or so but there seems to be some steps in place to actually address that issue. Whether it's going fast enough, I don't know. I think there is an effort to look at what the Maunsell report, the recommendations in that, and to address it.

MR O'DONNELL: Again, compare that to road transport. There is already a national licensing system in place for drivers.

MRS OWENS: For example, if we talk about Western Australia. The privatisation of Westrail, do you think that will have a major impact on you?

MR FEHLBERG: Yes, we anticipate that it will have a major impact on the AWB, not that we're anticipating any decline in service levels or any reduction in price competitiveness. In fact, we anticipate there will be further benefits in both of those areas but we would - generally we're seeing a significant improvement in customer focus following the privatisation process and a greater degree of perhaps innovative thinking. So we like very much the current Western Australian operation but you know, there might be further potential there which hasn't properly been explored to date. How would you see it, Roger?

MR O'DONNELL: I think without a doubt Western Australia, Westrail has been the leading rail operator for grain in the country. They have done a remarkably good job over the last 6 to 7 years in reforming work practices, upgrading their locomotive fleet and developing ways to drive costs out of their system but I think there is still room for improvement. For example, on their narrow gauge track - there are dual gauge networks, standard gauge and narrow gauge. On their narrow gauge network I think the wagons struggle to hold 45 tonnes of product in them so clearly there's some room for further improvement there but they have come a long way in a relatively short period of time and as I said, would be in my view the leading rail operator in the country.

PROF SCRAFTON: Have you noticed any differences in South Australia since the private company took over?

MR O'DONNELL: I think it's still reasonably early days yet. We're in the final stages of negotiating a new contract with ASR so I really don't want to discuss too many details there.

PROF SCRAFTON: Just by way of explanation, ASR said that they were quite keen to tie up contracts with their major shippers and given that they have a very limited number of products, obviously the AWB is probably the biggest of those clients for ASR.

MR O'DONNELL: We probably are close to one of their biggest customers, yes. As I said, we're in the final stages of our contract negotiation so, yes.

PROF SCRAFTON: Maybe if we could just put that on the record and as our inquiry is going to take a little while, if there is anything we can learn from that, you know, maybe we can come back to you at a later date.

MR O'DONNELL: Yes, sure.

PROF SCRAFTON: One of the comments that you make in your paper is about encouraging new operators, I think almost the first comment that you make. What do you feel is constraining new operators from entering the rail business at present, given that we now have a national competition policy and the potential is there for new operators to come in and I think you mentioned there - I think it was Ray that mentioned, you know, talking about new operators between Melbourne and Adelaide, the potential for new operators. On your experience, as a result of discussions with them, what constrains them?

MR O'DONNELL: As far as grain goes, there's a number of issues. Firstly, the seasonality of the product. Unfortunately, while we do have our 20,000,000 tonne years we also have our 8,000,000 years. Secondly, is the cost of acquisition of suitable wagons. Grain requires hopper wagons and not say container flats, which are probably far easier to acquire at the moment. Thirdly, would be the problems associated with becoming an accredited rail operator. You know, the safe working systems you have to have in place in your locomotives. If you were going to run between New South Wales and Victoria you're probably going to have a couple of different radio communication systems and also have drivers who have the route knowledge to run on two different networks. So there's a number of factors there.

MR FEHLBERG: Certainly the issue of access to appropriate wagons for haulages is a key one. In the USA many wagons are owned by customers. That's not the practice here in Australia for grain. The wagons are owned primarily by the current rail operators so that's a major impediment to offering a service. A similar issue, to a lesser degree, is with locomotives themselves. There does appear to be quite a surplus of perhaps older locomotive power, much of which isn't used at the moment but to the best of my understanding, those units are basically locked away and not accessible in the sale area so getting access to - if you want to buy a brand new

locomotive, fine, but it's a pretty expensive option so that will deter new entrants and the second-hand market is not really developed at this stage.

PROF SCRAFTON: If I could pursue it just a little bit. I mean, I would have thought that for a new operator though, given that you prefer long-term contracts, that would be attractive to a new operator in terms of the ability to pay for their equipment over a fairly long period of time, you know, it could tie up with you whereas I can understand that argument if it was somebody looking maybe for a short-term, shipping timbers let's say, and it was only going to last a year. I would have thought that a potential new operator would be quite encouraged by the grain business. However, maybe that's when Roger's comment about the seasonality of the crop comes in. If they invested all that and the next couple of years were not good then they're not off to a very good start in paying for their equipment.

MR FEHLBERG: No.

MR LASKIE: As Roger has said, it's very seasonal. If you look at 96-97, for example, we probably had a production of some 23,000,000 tonnes, 24,000,000 tonnes so I guess the export task was around about 16 to 18 which we probably did in 12 months. 2 years before that, 94-95, we probably had a national production of 8,000,000 tonnes and using say New South Wales as a comparison, 7,000,000-tonne production in 96-97 and maybe 250,000,000 in 94-95. So it's a difficult planning process and you've got to plan for that sort of seasonality.

PROF SCRAFTON: Given the way - this privatisation process in the railways and the grain handlers too and is it next year, did you say in your submission that the Wheat Board, the aim is to sell it in 99? So within sort of maybe 12 months or something all the parties will be private sector organisations. Do you think that will assist the process of contracting or again, I guess, given that it's only recently that you came out of a regulated environment I guess it's quite a change.

MR LASKIE: I think that one of the issues will be that while the Australian Wheat Board is privatised, the single desk position for export will be retained so I think that probably helps in some respects for the planning process but the retention of that position for the longer period I think will allow for perhaps a better planning process.

PROF SCRAFTON: In the transition.

MR FEHLBERG: We would see competition primarily coming from the purchasers of the rail systems that are being privatised at the moment. So in other words, if the successful bidder for the V/Line system is say different to the South Australian owner, we would see those two systems likely to compete with each other to quite a fair degree rather than smaller scale entrants perhaps operating for grain within Victoria as an example. When the National Rail Corporation is sold mid-next year we think there will be - whoever buys that, depending on who they are - quite a strong competitive interaction between that organisation and the other operators. So

that's where we foresee most of the operator competition to come from rather than new small scale operators.

PROF SCRAFTON: Operators moving into different markets, sort of thing, or different from the traditional market.

MR FEHLBERG: Yes, different geographic regions to what the home base traditionally was.

MRS OWENS: That does make sense, given the seasonality of what you're doing. I mean, it would be quite a difficult game to get into and say we're going to focus on purely grain. It would be just too up and down; you can't smooth it out.

MR FEHLBERG: There might be - I mean, the major case for some really small operators is perhaps where there is a section of task which doesn't suit a major rail operator. Let's say it's a branch line section which is costly to maintain in the normal circumstance. Certainly in the USA there are many "Ma and Pa" type of operators, short line, so that trend may eventually occur in Australia as well whereby it can provide a lower cost movement outcome on a particular line section than a normal operator who is looking for high volume movements and a fair degree of other efficiency sort of factors.

MR LASKIE: In fact some of the bulk handling companies themselves might like to get into that side of the business to maintain a service on a branch line linking into a main line.

MRS OWENS: I was just going to ask you that question. Do you think that the grain handlers would see this as being an attractive proposition? I suppose we can ask Vicgrain tomorrow. They're coming tomorrow morning.

MR LASKIE: Certainly. I think that's a fair comment and GrainCorp in New South Wales have got some interest in some of the branch lines certainly, the maintain the link.

PROF SCRAFTON: Yes, GrainCorp described the cooperative arrangements that they went into.

MRS OWENS: One of the things that Vicgrain raised in their submission, which we will talk to them about tomorrow, is this whole issue of logistics and how what you're doing, it's all part of a supply chain and there is a direct link between the AWB and the grain handlers and Vicgrain or whoever else it is, and there's a direct link between you and say V/Line Freight but there's no direct link between Vicgrain and V/Line Freight. So they've drawn a triangle and you've probably seen it a number of times before. But in terms of getting the system working properly, you need to have some degree of responsiveness right through the chain. Have you got any suggestions as to how you would deal with that issue?

MR O'DONNELL: Actually, in three out of the five states where we have rail agreements we allow tripartite agreements between all the bodies. It's just in Victoria, VicRoads have chosen not to join us to date.

MRS OWENS: So Victoria is an exception to the rule.

MR O'DONNELL: Yes.

MRS OWENS: Okay, so the three states are Western Australia, South Australia and New South Wales.

MR O'DONNELL: Western Australia, South Australia and Queensland.

MRS OWENS: Queensland?

MR O'DONNELL: Yes.

MR LASKIE: Where we have an agreement, say, in New South Wales, we have a tripartite agreement between FreightCorp and GrainCorp and the AWB, there are actually some performance measures on each of the parties to lock into this agreement. So we think that works reasonably well. But the logistics chain of course is very important to the whole sort of marketing scheme. If you look at our ability to take grain out of 17 or 18 ports around Australia at any one time, say, over the harvest period and, say, early next year, I think it highlights the strength of our logistics in this country. Whilst we can always improve, if you look at the 96-97 season, when we had an export task of probably close to 20,000,000 tonnes for the year, it's probably fair to say that we exported 14 or 15 million tonnes by June of 97. That was a mammoth task. Of course, not only did we export that grain quickly but we also took the opportunity of selling it in the first half of 97.

So what we did was we actually beat the Canadians to the marketplace and we got the logistics right and we got the market right and it probably meant that we improved the grower return by, say, \$20 a tonne that year, and that could be conservative. But I think the tripartite arrangement worked very, very well that year, and we would work towards the same sort of agreement with VicRoads.

MRS OWENS: So these tripartite arrangements are sort of formal contractual agreements, are they, and you said they've got performance measures and - -

MR LASKIE: Yes.

MRS OWENS: What happens if one party doesn't meet their end of it?

MR LASKIE: You pay a penalty.

MRS OWENS: There is a penalty.

MR O'DONNELL: It does vary from state to state. There are penalty clauses in some states. In other states the parties chose to work together as a consultative process, where there's regular meetings and you just sit down without the threat of penalties and work out the problems and how they can best be resolved. I think in fairness to all three players in Victoria, the last 5 years you've had Vicgrain going through privatisation and then V/Line Freight was heading towards corporatisation and privatisation. So I think just at that time there just was too much going on within each of the three bodies for - to sit down and work out a tripartite agreement.

MRS OWENS: So it's a matter of time, you think.

MR O'DONNELL: Yes, I think it is. I also think you have to look at where should control logistics reside. Given that we're heading into an era where we expect there will be movements of grain across borders, you have, for example, the Queensland Bulk Handle and Grain Co coming into Victoria to set up a terminal in the port of Melbourne. The only consequence of all that is AWB and its grain and perhaps control of logistics should reside with us rather than one of the service providers to the industry.

MR FEHLBERG: I mean, it has to anyway because the entire logistics system in Australia revolves around the ships and the timing of ships. To the extent that the AWB is the single biggest player, whether a ship arrives or doesn't arrive or whether we allocate a ship to a port or state totally determines the performance of that system for the period. So by definition, where the market - we've got to service the overseas consumer requirements. So the Australian system has pretty well moved in many states to a "just in time" basis so the logistics system is really fired up to meet particular vessels that come through, remembering that we've got different grades, different qualities, to move to these vessels.

So it is at times quite a complex logistics task and how to keep the system running while still meeting the different shipments, quality demands etcetera, is the real challenge that faces us, but also the bulk handling organisations and the rail organisations in the various regions. So it is quite a complex task in total, and there's always room for improvement.

MRS OWENS: I can't see that the other parties really would be in a position to do the overall coordination because they're fragmented. The more competition you get into the rail system, the more fragmented it becomes, and the same with the handlers. I mean, I don't quite know how that's all set up but there's a number of them in different states, I presume. Is this right?

MR O'DONNELL: The bulk handling system was set up along similar lines to the rail system, effectively, up until about 5 years ago when each state bulk handler had storage control over that grain. But as we noted earlier, that has changed and you have new players coming into Victoria. So all of a sudden - - -

MRS OWENS: It's more fragmented.

MR O'DONNELL: Yes. So it is heading down that path but it's probably been a slower change than in rail industry, but it appears to be moving ahead at a good pace now.

PROF SCRAFTON: Presumably one would see sort of rationalisation in the grain handling side as well as in the railways, so that the number of silos in the country could well reduce, correct?

MR FEHLBERG: The number of these - what we describe as a smaller style of central silo - will certainly reduce. It's outdated infrastructure. The much larger regional centres of very major scale of operations are likely to come into play. Certainly we're seeing that in South Australia, where two major central facilities have been constructed in the last several years. One brand new one opened up for this harvest, a 200,000-tonne facility at Bowmans, which will be a major aggregation point in the lower point of South Australia on the mail rail line, will feed into Port Adelaide.

PROF SCRAFTON: That goes into the point earlier about - you're the one who knows where the ship is going to be at a certain time and if they've got that much greater quantity, hopefully the grades will be there that you require to- - -

MR FEHLBERG: Look, it's not quite as simple as that, because there are other major marketers and exporters of grain besides the AWB. So we also don't see the full picture. So you know, there is a role for another level of coordination again, but that can be achieved by further industry agreements between marketers and the handlers and movers, so there is a larger field of logistics coordination available again.

MR LASKIE: But I think you're right. We've already seen that rationalisation happening. We've seen it in Queensland in particular, and in New South Wales, when both companies have been privatised. So you're seeing that rationalisation take place, certainly over the last couple of years. We're seeing it consistently now, even in Victoria.

MRS OWENS: In your submission on page 5 you talk about performance of rail systems and you've got a number of interesting statistics relating to productivity movement improvements. But most of the statistics - you talk about the total staff on grain haulage, shunting staff, locomotives and wagons. Most of those are really input measures. Have you done any measurements which have related inputs to outputs?

MR FEHLBERG: Yes. The benchmarking study which we completed in 1994 had both inputs and outputs there, and there is a summary table. A copy of the report was previously provided. So there is a one-page summary which basically lists both inputs and outputs from the rail system as it related in the early 1990s. So that might provide a start base. Certainly if you're able to- - -

MRS OWENS: That's early data.

MR FEHLBERG: Well, it's data in the early nineties. There have been major staff reductions since that time. Probably the task size hasn't changed much from this data. Probably the number of wagons have gone down to a degree. So this was an attempt to update some of the information on the inputs. The outputs, as I said, on the table of tonnage moved has been substantially unchanged for grain in that period, aside from the record crop of 2 years ago. So look, we could do further work on the outputs but we don't have further up-to-date information on outputs.

MRS OWENS: It would be useful for us, just because what we have been asked to do as an important part of our inquiry was to do a bit of a stocktake on what was happening in rail reform since 1991 but we've also been asked to do some measurement of productivity and do some benchmarking. We're doing some international benchmarking. But I think it's useful for us to just try and get a picture overall about, you know, what's meant in different sectors.

MR O'DONNELL: We have asked those questions of the rail operators and they are somewhat guarded in their responses in more recent times than they were in 1994.

MRS OWENS: But I would have thought if there's a good story to tell, all of the operation are quite pleased to tell the story.

MR O'DONNELL: I would have thought so too.

MR FEHLBERG: So I mean, those figures basically relate to that 1991 period that you're talking about as well, and that summarised inputs and outputs for all tasks, as well as grain in that period.

MRS OWENS: This is a confidential- - -

MR FEHLBERG: No, it's not confidential any more. It was at that stage.

MRS OWENS: Okay. I just should mention for the transcript that we have had a summary table tabled, of core data, which is no longer confidential. So thank you for that. We'll have a look at that and if somebody needs to come back to you, if you wouldn't mind- - -

MR FEHLBERG: You might have greater capacity to get some of the output data than we do.

MRS OWENS: We certainly will try. But I guess we could understand in one sense why there might be a reluctance, just because things are changing and there's more private involvement and more commercially in-confidence sort of material that's being produced, so it makes our job a little bit more difficult than it would have been back in 1991.

MR FEHLBERG: Sure.

MRS OWENS: Track access was another issue that you raised on page 6. I think you've made a very interesting comment about you've still got problems, you say, even with the new National Track Access Authority, which I presume is the ARTC that you're talking about.

MR FEHLBERG: Yes.

MRS OWENS: Because if you want to go interstate and intrastate, you've still got to negotiate with all these other sort of access regimes. I think that's a very useful sort of comment that you've made there for us.

MR O'DONNELL: Quite simply, much of the grain is still grown where branch lines are, rather than where the main line is. So if we're to move grain to a port we generally have to go into a branch line to collect it, if we are to facilitate interstate movements, where they're somewhat limited if we have to go and speak to three different bodies to arrange that track access.

PROF SCRAFTON: On the top of page 7 you actually make a recommendation; that you feel that the RTC could assume control for interstate movements. Have you ever put that to the RTC? I know they're a new body and so on but I wondered if you - well, we might anyway. We're meeting them I think tomorrow. They might feel that even getting as far as they have got with the formation might be enough for now. But it seemed a very sensible and straightforward recommendation to introduce. What's the point of having a national body if a lot of the movements actually still require more than one negotiation. I mean, if one goes back to the example at the bottom of page 6, the National Track Authority would actually, the way I understand it, the ARTC would actually handle the RAC part of a track like that. But maybe only insofar it is the national - the track - the example you used was to Moss Vale. But one would have thought as the ARTC have to negotiate with RAC for the Albury to Moss Vale section that why wouldn't it be just as easy to do the negotiation down to Port Kembla as well, and that was the point you were making.

MR O'DONNELL: Yes, correct.

PROF SCRAFTON: I think that's a good point. Could you just enlighten us on one thing. You also talk about the Victorian Rail Track Corporation but my understanding is - does that still exist or it sort of seems to have gotten rolled up in - - -

MR O'DONNELL: I don't claim to understand how it's quite been rolled up in the sale process for V/Line Freight, but I believe that there's still an overall monitoring body to check on safety standards and ensure that the access requirements are still being met.

MRS OWENS: We can ask the Victorians on Thursday.

PROF SCRAFTON: Yes, we're going to talk to them.

MR O'DONNELL: We've been grateful to the Victorian government for letting us talk with them during the sale process but the track in the V/Line Freight sale was a very tough issue for them to work out and we've yet to see the final detail of that.

PROF SCRAFTON: I guess the situation is similar in South Australia, isn't it - although ASR has control of its own track for both operations and access. But when a grain train hits the main line, say, going to Port Adelaide then it becomes ARTC jurisdiction. It's almost as though barriers that quickly reform solve some problems, new barriers are being erected in their place.

MR O'DONNELL: Yes.

PROF SCRAFTON: So we appreciate you drawing that to our attention. There was one other point - I'm not sure what page it was on - but you were talking about reform reducing the costs. Maybe it was at page 4 - going back to where you were talking about the process of change. One of the things that it would seem to me that you would benefit from is the contracting out of maintenance on some of these lines. For instance, you take that South Australia example again, they have a contractual arrangement with Transfield to handle the maintenance and with the sort of things that have been reported to us, those costs were reduced. I mean, I don't expect you to respond to that because you still have your contract negotiations with ASR but you should begin to see the benefits of some of these reforms.

MR O'DONNELL: That's true. I think it gets down to the management philosophies of individual companies. For example, I understand ATN in Tasmania are vertically integrated and look after their own track maintenance and they've seen that there are cost reductions as a means to add further value to their business - cost reductions through maintenance. So I don't necessarily want to comment one way or the other whether contracting out is the right thing to do. It seems to be a horses for courses-type situation.

PROF SCRAFTON: Yes, but there's potential there to get the cost down, whether you ever see them in contract price or beyond is something for you.

MR FEHLBERG: I mean, there is a real opportunity for further partnership-type business arrangements to form between organisations, say, like the AWB and one or two key rail operators which will no doubt emerge as we go through this passage of privatisation and competition. There can be some real advantage to be gained out of that partnership style of operation. A component of that may involve the further out-sourcing of particular functions within that partnership structure.

PROF SCRAFTON: Could you see that partnership going as far as the AWB being a train operator at some time in the future?

MR FEHLBERG: At this stage we don't see train operations as a likely part of our future core business. We'd prefer to out-source that to parties to define that as being

their core business. It's not impossible down the track if there is to be a new direction, but at this stage we would foresee that those organisations who define rail operations as a core business are likely to - a more focused task than - we've got some major challenges in front of us.

PROF SCRAFTON: It's one you can do without.

MR FEHLBERG: The first point on the partnership is the philosophy that if we do get some savings then we're in a position to pass those savings back to our brothers through the pooling concept, so that's our first agenda.

MR O'DONNELL: I'm personally of the view that running trains should be left to railway operators because there's not only just the day-to-day logistics of running wagons and locomotives around the countryside, there's a whole raft of issues - how do you go about funding and properly setting up your contract so that you manage your risks, those types of issues which you just can't come in off the street and do overnight. I think there's a tremendous skill base required to run a railway well and AWB certainly doesn't have those skills and I don't think there are many non-rail operators around Australia who do have those skills. I think plenty of people dream about running trains but I think when they get into the day-to-day operation of trains they will understand that there's more to it than just hooking their loco onto the front of some wagons and going for it.

PROF SCRAFTON: It's interesting though, isn't it? If you look in the other big bulk business, the mining business, both models exist. For instance, in New South Wales coal it's what we might call the AWB type of mining - an export business. But in Western Australia in the iron ore business they regard it as a fundamental part of their production process. I guess one difference is there's a lot of history in the grain movement business, isn't there? It's not just a matter of setting up a new production line, if one could use that expression. A lot of that infrastructure and a lot of the operating procedures, as you pointed out, are all there and a lot of them are not as tidy as they might be.

MR FEHLBERG: I guess there was no pre-existing infrastructure with iron ore. I mean, to have an iron ore mine at all you had to build and operate a movement capability, so there was no choice. It was just part of the core business from day one, whereas the coal development in New South Wales, there was a rail network there already, so it was a case of tapping into what existed. Similarly with grain, I mean, grain was only one of many products which used to be hauled on rail in country areas but by and large often it would be the only product left.

PROF SCRAFTON: Yes, that's right. That's an interesting observation too. If you go back 50 years it was just another product on a country freight line. It might have been a big one but it still carried anything you could think about. But now the line is there for grain. So those are reformed gains, productivity gains, that have been made over a long period of time too that we tend to forget about.

MR O'DONNELL: I suppose also in comparing the coal operators in New South Wales, as I understand it there are a reasonable number of operators in New South Wales sharing many parts of the same track network. With grain, we source grain from many different branch lines across the country. As I understand it, the coal operators in Western Australia are largely one company, one line, and almost running from dedicated point-to-point trains from one loading point to an out-loading point. So that type of operation tends to lend itself to a vertically integrated operator, especially with the tonnage they deal with over there.

MRS OWENS: I was going to ask you about a comment you make in a couple of places in the context of managing the track network. You talk about engineering standards established in the early 1900s. Are you implying that the engineering standards are too low or too high? At one stage you say it's a non-commercial sort of focus. I don't know where it is now - yes, at the top of page 9 and at page 12 you also talk about engineering standards. I was just wondering - you're implying that there isn't enough maintenance done, that the tracks could be improved. So those standards, you're arguing, are too low, they're not appropriate standards?

MR O'DONNELL: First of all, AWB supports as a firm part of its policy that safety is paramount and should not be compromised. But I think within that context we gave an example earlier in this presentation of locomotives having heavier axle-loads than the wagons following the train. We also have many lengths of track throughout the country where they have very, very low running speeds, 20kilometres an hour or less. This impacts on the fuel efficiency of the locomotives because a loco has to reach a certain speed before it generates good fuel usage. So it really impacts on the operating costs not having track speeds up to certain levels.

MR FEHLBERG: I mean, the ultimate for the grain network is the low density of production of grain. It doesn't really suit rail operations in many areas of this country. There's not enough tonnage moved across the particular branch line sections to truly make it economic. I mean, rail is most suited to heavy haulage, large volumes over any given line section. That's not the case in many areas of branch network around Australia, so those sections always struggle in terms of overall economic viability. But by and large they're still retained because I guess a range of community expectations require that a bulk product be moved by rail even if it's uneconomic. There's a reluctance by the various level of governments to reallocate funds to road, even though there is perhaps total or aggregate cost recovery from road to cover the road maintenance tasks required.

But because quite often it doesn't get down to local council levels, therefore there is reluctance to see grain transported by road and in some cases there just aren't the roads there anyway. So there's these range of factors which means that you're stuck with track which can't economically be upgraded but yet which is very inefficient in its operation.

PROF SCRAFTON: In New South Wales they actually receive a CSO from the government only for several of those branch lines. But as you say, that isn't really a

long-term answer, is it? If you don't lift the performance of the line then it has no real future. You could pay for it for a few years and - - -

MR FEHLBERG: For many of the communities the choice is going to be between having a substandard road and a substandard rail or at least a good road. That ultimately is the choice.

MR LASKIE: I guess in some areas there isn't the choice of the road and rail, there's only the rail which is substandard anyway and doesn't do all the things that Roger is talking about.

PROF SCRAFTON: Yes, that's right.

MRS OWENS: I just had one other question. It was about international best practice. You've got some statistics on page 15 about Burlington North in the United States. You make a few comparisons and then you say - well, I think you imply that it's really probably not a good benchmark because of the greater competition between operators and the economics of scale and so on. A class 1 railway like that would probably - you know, we'd probably be a bit unfair on ourselves by comparing ourselves with them. But I was wondering, do you have any equivalent sort of information about any of the class 2 railways?

MR FEHLBERG: No, we don't.

MR O'DONNELL: Again it's a matter of where would you start. There are that many class 2 railways in North America that trying to benchmark all those - -

MRS OWENS: I wouldn't attempt to do them all but it's just a matter of getting a feel for how we stack up. You try and compare like with like. But that's probably our problem.

MR FEHLBERG: I mean, so far within Australia it's been - I mean, while international comparisons have been useful like, say, comparing class 1 with class 2 is ultimately perhaps not a fully fair comparison. So it's within Australia where Westrail is very clearly the benchmark for most grain operations. That's more served as the role model within Australia.

MRS OWENS: So maybe we should just look within Australia when we're looking at grain, just to use Westrail.

MR FEHLBERG: If you had access to one or two class 2 railway operators - and remembering that many of the bidders or private owners are class 2 rail operators. I mean, they should surely be in a position to provide some appropriate statistics from their parent organisations.

MRS OWENS: We'll see how we go. I haven't got any other questions. Have you got any other comments you'd like to make before we finish?

MR FEHLBERG: No. Happy to see the draft report when it's released.

MRS OWENS: That will be in early April 1999. Thank you for coming.

MR FEHLBERG: Good. Thank you for the opportunity.

MRS OWENS: This ends today's hearings and we resume tomorrow morning on 11 November at 9.30.

AT 2.20 PM THE INQUIRY WAS ADJOURNED UNTIL
WEDNESDAY, 11 NOVEMBER 1998

INDEX

	<u>Page</u>
AUSTRALASIAN RAILWAY ASSOCIATION: JOHN KIRK DAVID HILL	391-424
BICYCLE FEDERATION OF AUSTRALIA AND PEOPLE FOR ECOLOGICALLY SUSTAINABLE TRANSPORT: ALAN PARKER JOHN HARLAND KEN HEALY	425-442
AUSTRALIAN WHEAT BOARD: TED LASKIE RAY FEHLBERG ROGER O'DONNELL	443-461

