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**TRANSCRIPT  
OF PROCEEDINGS**

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**PRODUCTIVITY COMMISSION**

**DRAFT REPORT ON PROGRESS IN RAIL REFORM**

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

**TRANSCRIPT OF PROCEEDINGS**

**AT MELBOURNE ON WEDNESDAY, 26 MAY 1999, AT 9 AM**

**Continued from 25/5/99**

**MRS OWEN:** Good morning, and welcome to the public hearing for the Productivity Commission's inquiry on progress in rail reform. This public hearing in Melbourne is the second day of the Melbourne hearings and it is the last of four sets of hearings. We have already held hearings in Sydney, Perth and Adelaide over the last couple of weeks. The hearings are designed to give people the opportunity to raise issues in relation to our draft report, Progress in Rail Reform, which was issued in March. On my left I would like to introduce my colleague, Prof Derek Scrafton, who is the associate commissioner on this inquiry. I think we will now get started. The first participant this morning is representing the Victorian government. You may wish to clarify that - whether you are representing the government or the Department of Infrastructure. Could you please give your names and your positions for the transcript?

**DR PATERSON:** I am John Paterson and I'm the secretary of the Department of Infrastructure.

**MR HARRIS:** Peter Harris, senior economist, strategic planning, Department of Infrastructure.

**MRS OWENS:** Thank you. Are you here representing the department or the government? We have a Victorian government submission.

**DR PATERSON:** I am certainly here to speak to the Victorian government's submission but I won't insult you by reading from it. There are things I want to say which are about the broader context but which you will find wholly consistent with what is in our submission.

**MRS OWENS:** Thank you. We have both read your submission and we may actually later, when we are asking questions - I have just got a couple of things I want to clarify in that submission.

**DR PATERSON:** Sure.

**MRS OWENS:** Would you like to go ahead? You have got a few opening comments?

**DR PATERSON:** Yes. I want to make one or two contextual remarks about the draft report of the commission on the rail issue and then speak to some of the broader issues behind what we have put in our submission. I read the draft report with interest. There is a lot of interesting factual material and some opinion in it. I did think it was rather cautious in its interpretation of some of the factual material and I also thought that there was a danger which I think has been emphasised by some of the more recent responses you have had, and I have read the Rail Access Corporation's submission and transcript, which is germane and, you could say, almost the alternative view to the one which we would want to put.

I haven't read anything else that has come your way since the report but I have read that and I am not going to address that - I wouldn't dignify it with that much attention - but I think it is important to put the much higher level view on the significance of what the commission is doing in this inquiry and to put this in the context of a broader Australian transport strategy and, in passing, that, I think, also puts context around things that you may be hearing from parts of the industry and I know that you have heard from the New South Wales Rail Access Corporation.

I want to make the point that rail is a technology which is good for some things and bad at other things, just like air and just like sea and just like private motor vehicles and coaches and road transport - all have slots within the overall logistic envelope which they fill well and, in some cases, very well, relative to all other modes; in some areas they overlap and can be seen as substitutes, around the margins, at least, of their individual service envelopes and, at other points, they are dominant and have no peer amongst the technologies available to us.

To give you immediately the burden of my submission, it is that Australia has, from accidents of history and some misdeeds and misperceptions of a political environment over the past hundred years or so, deprived itself of the services of two key modes - rail and sea - for the task which they do well, and have a very distorted infrastructure system which is overwhelmingly dependent on passenger car, on road freight and on air transport, all of which are quite expensive modes, all of which are crucial in the overall scheme of things and will always have large roles just because of the incapacity of the maritime and the rail transport mode and, if you think I am going too widely or too far into background and causality in what I am going to say, do stop me - I know your time is precious - but I think to understand where we stand in Australia in 1999, it is very important to remind ourselves of some history and I am going to delve into ancient history, which will seem esoteric and, perhaps, remote from the immediate purpose, but gives context then to history which is far from esoteric and is very germane; that is, what happened in Australia in the 50s, 60s and 70s, which has allowed a very distorted and unbalanced balance of modal missions to prevail into the 80s and 90s in a way which has not, to my knowledge, prevailed in any comparable country.

**MRS OWENS:** John, it will be a refreshing change from some of the other things we that we have had to talk through the last couple of weeks.

**PROF SCRAFTON:** We did have a submission yesterday that highlighted, particularly in relation to - specifically to railways - - -

**DR PATERSON:** Who was that from?

**PROF SCRAFTON:** Some consultant from New South Wales who concentrates on regional development issues. A bit surprising, you know, that you're certainly not going to be alone.

**DR PATERSON:** Good. I also think context is important - - -

**PROF SCRAFTON:** Yes.

**DR PATERSON:** - - - and I do think, I might say, the reason for drilling you in this ancient history is, in part, because I hope that the final report on this subject will actually take a much more global and strategic view rather than the ins and outs of minutiae of industry structure and special pleading by interest groups and those sorts of people and I have wanted to certainly place on record our view that it needs to be looked at as a major part of national strategic thinking and not as a question of party-and-party debate about who is favoured by this and who is favoured by that.

**MRS OWENS:** Although we do have to, at the same time, address our terms of reference, which are fairly explicit.

**DR PATERSON:** You know your duty better than I do, so I am not here to instruct you in that.

**MRS OWENS:** Yes.

**DR PATERSON:** I am just helping you with the things which I have views about and which I believe - my views are certainly, while this formal submission doesn't go into ancient history - governments don't usually do that kind of thing - but I don't think there will be anything inconsistent in what I say here with what the Victorian government is putting. Let me just, for the record, say that what we have today is a product of history and a product of what would fashionably be called "past dependence". That is, the sequence in which events happened leads to the outcome which one sees and one cannot, in past dependent processes, argue that what one sees is in any way remotely related to an optimal position in its transport configuration or anything else where you have got a past dependent process going. The traditional ideas that economists like to fall back on of equilibrium are defeated by systems where a series of irrevocable steps create or narrow the options for the next steps or, at least, focus towards a local optimal rather than a global one, and that is the background to this.

The rail mode rose to great importance in Australia between the 1850s - later 1850s rather than earlier - and 1960, and has had a difficult time since then and there have been some major maladaptive episodes along the way, a complex interrelationship with supports nominally as part of a system - in fact as a competitor in a significant way - but rail was used by the colonial governments to prop up an increasingly obsolete port configuration as land transport improves largely due to rail, and there was a very sick co-evolution with the maritime industry due to the intervention of government in trying to protect past rent-seeking or rent-earning opportunities when the time had passed.

Road competition appeared late in Australia compared with North America and Europe and that has been decisive in the way in which, when the balance was restored when road did become a competitive mode - there has been a big overshoot

in that

because the state rail was in by that time and maritime was in by that time - and there has been, throughout, a reflexive regulatory mentality which Australia has a great tradition of; hopefully, one that is being overcome at least in some parts of Australia now, but one where, if it moved, regulated was the general mode and, if anyone doesn't like something new happening, regulated into oblivion, and we had a tradition of that and rail, in particular, was inextricably intertwined with agricultural marketing boards which were, themselves, a regulatory arrangement for distribution for rigging of markets in the agricultural sector, commodified and held back the development of Australian agriculture over many decades, and there was a pattern of restrictions on road competition with rail in the interests of a set-up where you had rail and the farmers and the agricultural marketing boards all hand-in-glove, none doing anything very well or in the national interest, as one might now perceive it, but that was the postwar history of rail until the last decade or so.

The early competitors to rail, you could say, were blown away - the bullock team - rail certainly had a technological advantage there and I think it would be the dream of the Rail Access Corporation that the bullock team was restored to its role as primary competitor, and they are equipped to deal well with that competition. The river trade on the Murray-Darling system emerged, oddly enough, at much the same time - almost precisely the same time - as rail and, because the up-front capital requirements were much less, that you paid for the vehicles but you didn't have to buy the river; you just had to clear the snags - so the up-front capital was less. It was a privately-developed industry rather than a public one but obviously it was a technology that had its limits but those limits - it flourished briefly and spectacularly and 1853 saw the beginning of the Murray-Darling trade.

tern-wheelers reached amazing places, which I think of as the middle of nowhere, but they paddled up there and brought back large loads of wool bales from places like Bourke and Brewarrina, where it is hard to imagine any water, let alone a river trade; even Deniliquin via the Wakool River - I wouldn't take a dinghy up the Wakool to Deniliquin, but that's what they did with paddle wheelers. That trade peaked in the 70s and collapsed in the 80s, almost entirely because it was replaced by rail, and rail was penetrating the areas it could serve and also it was very vulnerable to drought and flood and, as I said, rail competition.

But it is worth making that - it is not just an arcane point, this is a mode that filled a niche for a very brief period of time, flourished and did an important task and, for 20 years, was indispensable in getting the wool export framework working from the arid zone - rainsland country - and then when its time was past - when it had a superior or dominant competitor - it simply folded because government had not been in the business. Rail, on the other hand, had government support from the beginning and was not allowed to adapt as time passed, which rail people would think was a great blessing but the rest of us might think had its drawbacks.

Coastal shipping was also an interesting history and was established in a significant way on the New South Wales coast in the second decade. Sydney was trading by steamer with Melbourne - by steamer and sail, indeed, by Melbourne, in

the

1830s, with Brisbane in the 1830s and, by 1839, there was regular steamer or sail - both were operating by that time; trade between Moreton Bay-Adelaide, in other words - and Adelaide, stopping at various points in between. There were all sorts of short trading runs along the coast. Melbourne had steam - regular steamers - to Gippsland, for example, and so one had again a mode that filled a hugely important niche when the competitor was the bullock dray up to the 1860s and there were shipping lines trading just a hundred kilometres of the Australian coast at that time but, as rail started to become extended then there was a lot of confusion about modal roles and modal interrelationships and we're going to trace that in a moment, but the Australian government, during the enthusiasm for buying and nationalising airlines and shipping lines in the second half of the 40s, ASL, Australian Shipping Line, was created and of course, not surprisingly, the trade collapsed in the following decade. It wasn't the only reason, I might say.

Rail transport - an interesting history here - Melbourne first of all extended a rail to Geelong, theoretically to improve transport between the two, but one could argue that there were nefarious purposes - as the Geelong people did - in that and the next out-of-Melbourne railway line went to the main steamer port on the Murray, which is Echuca, with the explicit purpose of stealing trade from the Riverina and so there was seen to be a complementarity there, whereby the wool was brought down from Bourke and all those sorts of places and grabbed by Melbourne, and Victoria actually offered a bounty to bring the stuff to Melbourne, rather than allow it to go where the market might say.

As New South Wales rail reached southern New South Wales the competition was really on. Rail was, however, becoming an effective long-term mode around the country, so you had Melbourne-Sydney express, so-called, by 1883. 1887 Melbourne-Adelaide rail met at Serviceton and passenger services followed; Brisbane, Adelaide were connected, not a great connection, but it was better than the Trans-Siberian. By 1989 Port Augusta to Kalgoorlie hooked Perth in, so land transport was now feasible by the beginning of the First World War, was feasible from Perth to Brisbane, and obviously that changed the complexion of business for the maritime industry and we're going to come back to some aspects of what happened, but you could say the national disaster really followed from that time. Up till that time, we were not committed to a maladaptive path, but from that time on we were.

Victorian rail network development - I'm going to just sketch one state, you'll be relieved to hear. It's typical of what happened in most other states, but instructive in terms of how we lost our way in the use of these modes. In 1857 Melbourne and Geelong were connected by rail. Echuca was connected by 64, Port Albury, another important port, was the next major line reached in 73 and, again, the connection with the port is obvious. A big decade of rail building in Victoria's boom decade of the 1880s and by that time, we'd extended major rail services to Portland, Port Fairy and Orbost, so that all the significant ports, Melbourne, Geelong and all the others circled there were by that time served by maritime trade and by rail and it was no accident that those things were brought together.



It was a matter for great complaint, of course, from Geelong and those other places, that they were connected only after Melbourne was connected, so the line through Horsham and so on served Melbourne before it served Geelong and Portland, so basically the centralisation of the trade on the port of Melbourne was established from an early time and that was probably, in retrospect, a good idea, except they couldn't make up their mind or didn't have the heart to tell them at Portland and Port Fairy - or indeed, at Echuca and Albury - and so they continued to foster both increasingly with restrictive practices that led to developments at a very unhealthy time in the port trade and then, finally, Mildura - I didn't show Mildura, I've got Swan Hill there, but Mildura and Swan Hill were in the build-up, a later period, of rail and, of course, you had the passenger lines that reached Sydney and Adelaide in 1883 and 1887, so the die was cast before the 1890s, before the depression of the 1890s, where we had the full shooting match.

We had a complete system of coastal steamer trade and ports, large and small, and intercity rail at that time, so just as riding tide lifts all boats, so government rail theoretically propped up all ports. What the real purpose was, who knows? But certainly the railway succeeded in bringing money from the capital cities to those ports and featherbedding the ports as well as a rail system, so the two competitors were roped into a basically government supported system which unions were happy to batten onto from the 90s and captured the rent which government was already pouring in and further elaborated the work processes there, so the two and only long-distance modes which Australia had were already disabled by the first decade of this century and, of course, we also had restrictive trade around the coast increasingly by artificial means of which cabotage survives to this day and continues those rent-seeking opportunities.

Road came along much later in the business, although there were roads, of course, from the earliest time, but the CRB was the first state road authority. It was established in 1913 and the other states followed in the next five to 10 years, but still road was a pretty inferior mode of transport for long-distance travel. That should be 1925, I regret the mistake. By 1925, there were still 13 streams to be forded by ferry between Sydney and Tweed Heads, so you didn't embark with heavy transport to Brisbane in a light-hearted way. The Hume, which is of course a major road was still described as an adventure in the 1920s, the jazz era - we think of it as modern in many senses. The contemporary - roughly the Camden-Picton link was opened in 29, which removed the mountain starters from the Hume, so it was theoretically negotiable by heavier vehicles when it was open.

Theoretically, it was an all-weather road only by 1840. It deteriorated during the war, and by the 1950s the condition was worse than it had been in the late 30s, two lanes, poor surface, poor alignments, and so again, the road competitor had no chance, even on the Hume, the main Melbourne link in the 50s, when road transport was becoming a huge force in Europe and, more particularly, North America, our major trading partners and competitors. It was only by 1980 that we had dual carriageway over a significant part - not all - of the Hume - and of course the autobahns had been dual carriageway - well, not all actually, but let's just say Europe

and North America had freeway-standard intercity roads two or three decades before we had partial dual carriageway on the Hume and, believe it or not, the Sydney-Brisbane connection by road was only fully sealed by 58 and the last river was bridged on the Pacific Highway in 1966, so again, you're not talking about long-distance road transport being in the race, while you have to basically line up at the ferry.

Of course, now the important link is the Newell, but that wasn't fully sealed until 72 and was still basically a back road and the Eyre Highway was only carrying 80 vehicles a day in 68, so it was still basically rail and steamers. It was only fully sealed in 76 and I won't elaborate this familiar story about the break of gauge, so rail up to that time had been able to get by without worrying about interconnection and standardisation, because there were no competing modes. Until the 70s, at least, there was not anything - leaving aside the National Highway Program - nothing like a competitive road freight mode, just because the infrastructure wasn't there and - this is for academic purposes - standardisation came a century later than it should. There are some key dates there, I'm not going to speak to those, but as a result of this history we wound up with a configuration of tiny ports, by world standards, and yet we're a trading nation for whom trade and ports are crucially important.

It leaves us with the situation in the contemporary era where we have 13 container ports operating in Australia, which is one container port for every 1.4 million people and, I might say, while five of those predominate, some of the next five are as big as, say, Adelaide and so on, so it's not as if the rest are insignificant. But Japan is 10 and a half million people per container port; USA is six and a half; Canada four; the UK, which has many obsolete transport elements in its system, 3.28, exactly twice ours. So we are a freak in this system and, of course, there are many other things wrong with our container ports, but the fact that we've preserved business where you wouldn't bother to tie up a coracle if you had any commonsense, is again a reflection of the deeply-entrenched rent-collecting tradition in our traditional transport modes, particularly rail and the maritime trades - maritime, of course, is port and the seafaring side of it.

And so that, basically, is the tragic tale of how we acquired, as a major trading nation, a system of land and sea transport which would be a disgrace to even a backward Third World country and - I'll try and race through this - we have many other seaports as well, many of them kept going with their harbourmasters and the whole rigmarole and the piping on and off board and all the drama, and states still subsidise most of these round the coast. Now, they're not container ports, of course, but they are jetties and maintain the seawalls and engineering works and all that kind of junk, so we've got a very bad record on burying our history or putting it in a museum at the right time. We keep our museums alive and well and use them to sabotage our economic performance in the present.

We have 17 per cent of world freight outlets in Australia and 2 per cent of world trade, it's got to be a competitive disadvantage. Let's just talk briefly - and some of these are actually from sources you've used and some may have been cribbed

from your report. I don't think so, but much of this came from BTCE and we've shared common sources. But I'm going to whip through this, just to make a couple of points about this strategic level stuff that, even measured in mass, where road transport is not intrinsically at a disadvantage, that is all the stuff that moves, the oil, the coal, the stuff that's carried on industrial railways and conveyor belts and God knows what, road is still the predominant means by which mass is moved in Australia. 40 per cent of all tonnage or ton kilometres is moved by road and that includes things that you never dream of carrying by road.

Any distortions or inefficiency of land-site operations confound this legacy, the tyranny of distance, the tragedy of our 20th century transport politics which is preserved, an outdoor museum of archaic industrial and government subsidy practices. The other modes are there for convenience and in terms of mass, of course, rail's significance seems reasonably significant. In terms of volume, the picture is quite different, we can't get good measures by volume, but let me say that Australia is entering an era where the post-Panamax sea freighters will cruise the world virtually without stopping, will stop at two or three ports in the world and sub-hubbing will be the main means of distribution, largely by sea, to the next tier of ports in the global hierarchy, and Australia is too small to have even one global hub.

We may have one, or at most two, in the next tier of the hierarchy, but that will be all. At the moment, of course, we have five metropolitan container ports served by all the whole shooting match and this shows the size. Melbourne is still significantly the biggest, Sydney not far behind, Brisbane a fair way back at this stage, but the picture is changing quickly and if we look at the recent era, then project forward - and these are BTCE projections - we've got the prospect, just according to current trends extrapolated out, of a relative decline in Melbourne and Sydney - more Melbourne than Sydney if you ask the BTCE, not if you ask me or Jeff Kennett, but still, if you ask BTCE, who don't understand these things, they would say that that would be the likely outcome. And Brisbane is the overwhelming winner, and Fremantle, certainly, and those by natural competitive attraction and the growth of industry in their hinterland are coming on very strongly. Adelaide, of course, is going nowhere and is being bypassed, I'm afraid to say, Derek, already. But even given the amount of junk in the transport set, the patterns are strong enough to oppose everything underlying it.

**PROF SCRAFTON:** Quite clear, John. Only the South Australians acknowledge it.

**DR PATERSON:** I would be saying to you - and here we're starting to get to the major messages in my talk - the articulation of east coast logistics in Australia is a major national micro-economic, macro-economic question. It's important at both the micro and the macro level and all the modes are involved and the answer, I have to say, is obscure, one cannot say how it should look in 20 years' time.

We certainly can't say whether it will look like that, how it will look. So there are questions of what normatively is where we should be heading and what positively

we are heading for, which is likely in terms of our past history to be quite different

unless we do something positive about it. I would be saying to you that some of the stuff you've been hearing in other submissions argues we should definitely do nothing about it, except what we have we hold, and I believe that was the burden of Rail Access Corporation, that they're seeing no further than what exists, what did exist, and a mission of trying to hang on to and maximise their little place in the overall dung pile, which is a dung pile that does us no - that is a disgrace to all of us as people with a view to the national interest.

So no bulky interstate freight of course is where the action is, and I don't have to spell out for you road is still killing them all. Rail is going nowhere, and sea is declining. Rail is increasing slightly, but sea is declining.

**MRS OWENS:** Just going back to that slightly, we've been told in the National Rail submission - and we're talking to National Rail later today - that that particular information is out of date.

**DR PATERSON:** It is.

**MRS OWENS:** Things have changed.

**DR PATERSON:** There's been some improvement. I'm not going to argue about that, but I would be saying that some of the people you have heard impassioned submissions from are actually the major obstacles to that change occurring as it should be and occurring even more rapidly, and again I won't dwell on this except to say that on the corridor which is pre-eminently a sea and rail corridor, which is Perth to Adelaide or Perth to Sydney, where road just should not be in the race, even there road is winning load share. They've stabilised rail now I think across the Nullarbor just because the New South Wales Rail Access Corporation isn't in a position to deny them freight train paths in favour of a rail motor that's had that run for 79 years.

So, you know, it's authorities such as that that give priority to totally subsidised junk on the rails instead of a one and a half kilometre train that are the enemies of national transport reform, and here is where they do have a bigger role, but still it's not nearly sufficient to do any good for rail. One would say that in fact if the Melbourne-Sydney corridor was properly organised, and many of those now putting containers on trains would say it can be properly organised if only we can get in and out of Sydney or can distribute from peripheral or satellite land ports in Sydney, it could do a much bigger task rather than the Hume doing it, and if it can do a bigger task for Sydney it can do a bigger task to Brisbane in due course, although one might use the Newell to a greater extent there.

So these are big questions. They are not just about party-and-party debates, you know, of small-time operators quibbling about roles at the margin and their glorious achievements in hanging onto the past and so forth. Australia's trade cannot afford to use transport services that are twice as costly as their competitors and our real international freight rates - I think this may well be from you, I've probably stolen it from you. I should give credit.

**MRS OWENS:** We're flattered.

**DR PATERSON:** But in a trading nation the idea that every ton that you put on trains is going to pay twice as much as it will if they're buying it from Canada or North America is an absolute deadweight burden that the economy does not - definitely does not - need. The present system, if it had any focus whatsoever, should be saying, "We should be killing them. We should be killing road and killing our international competitors at the thing that rail can do and that sea can do." Of course there is no sea competitor now, but it may change. Again, it just dwells on things everyone knows.

This is a bit of a junk argument, but it's the best we can do at the moment - just talks about this debate that you'll hear endlessly between road and rail lobbies, about who's subsidised. Now, here I'm confounding private motorists with freight and so on, and private contribute in a big way. But if you just look at road and rail from a government cash flow point of view, then as best we can get it - and this is again work from BTCE, somewhat bastardised by us because we like to get clear conclusions rather than to hedge things about, and we don't have academic careers to worry about after we retire from government.

I wouldn't want you to quote this directly in your report because it wouldn't be up to your standards for data integrity, but nevertheless broadly speaking overall government receipts from road vehicle operations - I think this is 95 or 96 - was about 14 billion, and it came from all categories. The debates about whether you call it licence registration, stamp duty, is a lot of junk. The fact is it's money in or money out, and those arguments are totally spurious. The mental arithmetic that makes fine distinctions between categories which the rail mode tends to get very subtle at - out-subtles itself and confuses itself.

All government outlays on road capital and maintenance, that is, direct government outlays on cash on roads in a year - about 6 and a half billion, so a cash surplus to road. You can say it's private motorists subsidising freight if you like. The evidence is that in fact light trucks are overcharged and heavy are over, and there probably is some cross-subsidy between road freight from private motorists, but without splitting hairs government does well out of roads. On the other hand, over half of all rail costs are covered by subsidies, concessions, depreciation without provision being made, and rail deficits. So, again, it's very common for rail operators to include concessions and so on in their revenue stream, but it is government money.

I had the joy of pinning Julie Stack down on the make-up of their revenue stream - with, I might say, assistance and barracking from Jock Murray in New South Wales - where basically they get \$800 million a year in revenue and over \$500 million of it comes directly or indirectly from government. So all this strutting around and posturing as a commercial operation is just a sickening piece of humbug. It's basically three-eighth user revenue and five-eighth government subsidy. The rail deficit is approximately, from the national point of view, \$4 billion. So the

take-home message

is this: let's not split hairs about what we call each dollar. Dollars don't have names. Cash flow has a dimension. And on road government gets a dollar every time you perform a tonne/kilometre, and on rail government loses a dollar - that's the bottom line - and all this other obfuscation is not to the point.

Now, these are some numbers that SCL produced a few years ago which they have used a number of times. They vouch for them. I can only say I take their word for it. I can't go to the source and check them, but I probably wouldn't anyhow. But this just compares the resource use of rail operators from the east coast to Perth, one train compared with 150 trucks which could perform the same task. Without dwelling on it, there is a ratio of 76 times the number of crew hours to drive trucks; the engine ratings, for what that's worth - fuel consumption, 11 times as much fuel used to take a fleet of trucks across and perform the same as one 3000 tonne train. So let's say, broadly speaking, an operating cost ratio - and this is operating rather than capital service - of 15 to one to do the longest line-haul road or rail operation in the country.

Then there is some survey evidence which rates performance of the two modes on that corridor on the criteria which customers use to evaluate their mode choice. Here they are: service availability - rail is about half the performance of road; on-time reliability - rail is about 75 per cent the performance of road; transit time - rail twice as much as road, and often that can be sitting in National Rail's yard trying to get things out. I have a friend who had their yacht brought over from Perth and it took two days to get from Perth and three days to get out of the yard after it arrived here, and that was National Rail's flash operation, so there's room for improvement there, one might say.

It's only on average charge per time that rail has an advantage, and there you might say road is about 60 per cent of rail. Given that the operating cost difference is 15 to one, one has to ask oneself who is guzzling what rent to make the difference? The real question is where the money goes in rail operations. Now, a fair bit goes into running Rail Access Corporations and other top-heavy, overstaffed outfits of that sort, where every time you flush the dunny it's called a CSO. There is no visible answer to that question except gross waste, inefficiency, and hoggish consumption of rent.

Now let's just look at the motor car and the use of transport for movement in Australia. The passenger vehicle is absolutely predominant as the mode of transport, so if I was talking about urban environment and so on I would say get vehicle fuel consumption down in passenger cars and you knock off a big part of the problem. The other modes are nowhere, relatively speaking, of course - but in terms of the actual number of movements, the motor vehicles do it. So they're very important, the way they work, from a national point of view.

If we now look at modal share of travel Sydney-Melbourne 1995, the car is practically nowhere. People own cars. The capital costs of running the car to Sydney is only maintenance depreciation. But use of air mode is overwhelming. Coach and

rail are distinctly underwhelming. Now, one would have to ask oneself if there isn't a

big opportunity for rail to be doing a bigger share of that, and I'm going to just mention later on that I think for the long term, if we had a more promising history or a more prospective history with rail, we'd already be seeing much faster rail travel intercity, and a predisposition to look at faster trains still. But that is a very expensive way to move flesh between Melbourne and Sydney. For much of the time it's not time-dependent, particularly if rail could do a job, which even non-high speed trains in Europe do - let's say 120, 150 kilometres - where you're not talking about exotic technology, you're just talking about a well-run traditional railway system there. Even then, Melbourne-Sydney is only five or six hours, if you could organise yourself to do it properly, and that's without the capital costs of very fast trains.

Now, that is an absolute indictment of the performance of the rail system, that you see us flying people - lifting them 30,000 feet into the air, accelerating them to subsonic speed and carrying them - to Sydney, just to attend a meeting. In terms of movement of mass, that's a very expensive thing to do, and yet that's what we do, because our competing modes simply don't perform. There's a big national burden in that. We are overdependent on air for many purposes, and on road freight for many other purposes, just because of the disgraceful lack of productivity of the maritime trades and of the rail industry. So we have a sparse continent, the tyranny of distance, de-dah, de-dah, in which our two most prospective long-term modes are disabled by history and incompetence, stupidity and greed and industrial practices. If I haven't covered everything there, I apologise!

Road and air are capable, they operate well in Australia by any standards, but they are overused relative to an efficient configuration. This seriously inflates national costs and energy use, not just for freight transport but for people transport, for people movement. So we're talking about a larger issue than just freight.

Sydney is a hot spot for all of these. It is the crucible of Australia's transport disaster. There are many bad things happening outside Sydney, but they're all happening in spades in Sydney. Whether it's the worst container port, the least reformed container port, an airport that's the least accessible in Australia and is a national disgrace, the site of perhaps one of our major national failures of leadership, the second Sydney airport question, because it is going to be the major port of entry for air travel, and again we're seeing all these skinny routes into other places largely because you can't fly in and out of Sydney easily and efficiently, so air transport, which we over-rely on anyhow - the pinch point is Sydney.

National sea and land transport systems: movement through Sydney is a problem. Moving freight in and out of Sydney by sea and rail is a big problem, and you'll hear Judi Stack of course giving you good reasons why a one and a half kilometre train can't get into Sydney, because a passenger train is more important. Well, you can organise yourself to provide slots if you're serious, but, of course, you don't need to provide time-slots if someone has got a rail motor run that stops you getting a one and a half kilometre train through southern New South Wales anyhow, because the local towns are served by a run that's been there since 1920. So, you know, these things are interconnected, but you've got to look at it top-down and say,

"Let's get rid of the rubbish and just do the whole job properly."

The east coast rail system is still a thing of rags and tatters, with many slow stretches. Some, to my shame, I must confess, are in Victoria, although slowly we're doing things about that, but none of us can hold our head high that the traditional rail system operates very badly. But I might say until recently, until we started to see commercial freight operators and freight forwarders on it, no-one particularly cared, because that was just the time it took, and we ran trains at 40 kph, and that was it. If you didn't like it, put it on a truck, and then we'll whinge about subsidised trucks, so that's been the national culture in this.

So New South Wales is also the choke point for road transport, and if you really want an unedifying spectacle you can hear Carl Scully, the New South Wales minister, arguing why they shouldn't rebuild bridges in New South Wales because that favours the trucks, and so higher mass limits are largely limited by the difficulty of truck access through New South Wales, and you'll hear the minister argue that it is inequitable to rail to improve performance of the road mode. Now, I've never seen a national social welfare function in which an intermediate good or an input to the production process was considered from an equity point of view. That is a truly unusual phenomenon, but of course in a union-dominated mind-set, it does have a place because consumers don't have any role in a national welfare function and producers do, particularly well-organised, industrialised people that assemble and jump around down at Sussex Street from time to time and also pre-select members to the New South Wales parliament.

So we've got the national catastrophe. While it has ramifications everywhere, it's particularly serious in New South Wales, and I know it's difficult stuff for this commission to deal with but to the extent you can sidle up to that point and make the point that all roads lead to Sydney, and if they can't get in and out of Sydney the whole national pays for that. It's a national problem needing national leadership, and we're seeing precious little of it at the present time.

Intervention points: I believe that the cultural sickness is the prevailing difficulty and obstacle to rail improvement, and it's for that reason that I have said and annoyed some people in the rail sector that I do not know of one government, one body with a history in government ownership where there is a healthy culture that understands competition. They understand competition in the 1950 modes of way of regulating or otherwise disabling competing providers, and that mind-set is deep-seated. I cop a letter from Vince Graeme every time I make this general point. I usen't to even mention National Rail when I made this general point, but Vince kept volunteering as the prime case, so I now give him the courtesy of a personal mention.

Port and maritime: that's not today's issue, I don't need to dwell on it, but if the maritime industry is ever to have a share of the break-bulk trade that arrives from sub-hubbing, which is crucial from a national point of view, we've got to be able to get stuff in and out of our ports and in and out of international to coastal sea transport, and in Sydney that could be particularly crucial if they didn't have the worst

container port, because it's so hard to get stuff through Sydney. If you could get it onto a boat into Brisbane or Melbourne, they might stay in the race. So there's big strategic choice things, and, as I said, the outcome is hard to predict, but the culture and competition issues are killers there.

Then there are technical problems with modal interfacing, which basically all the modes didn't like in the past, so nobody put much emphasis on it. But I believe that the natural forces are allowing us to see the traces of where our subglobal hubs should be, although I would say this, that if either Melbourne or Sydney could really get its act together on land, sea, and on the interfaces, then I don't know that the issue is totally closed because the size of the metropolitan market is a significant advantage in a port. So I still think there is a chance for Melbourne if the land-side stuff improves and the port-side stuff improves, and that would be the way in which we would pursue a local vision in Victoria. It's not a chimerical thing. It can have substance if it's done well.

The second Sydney airport is a national issue, and I believe within the next 10 to 20 years at least, looking at exotic modes for high-speed ground transport on the east coast, will be a sensible thing to be doing. But we might as well get the best we can out of our traditional technologies before we go for the exotics. And I haven't even mentioned regional logistics, but many of these practices have their origins in regional transport, and much of what you heard from the Rail Access Corporation was propping up an obsolescent system of regional and subregional to capital transport. We've got to make sure we don't repeat the disasters of the last hundred years, the maladaptive interventions of governments.

Public rail bodies: most elements of the port and the maritime transport system are sick beyond remedy, and they need a revolution, not reform; land transport commission of the kind embraced by Carl Scully and Judi Stack, and their resistance to improved mass limits are designed in the shortsighted view of leaders of New South Wales to punish rail's main competitor, but all it succeeds in doing in reality is to punish the Australian economy, since road is the predominant mode for everything that matters, that moves. And there you go. I'm sorry I went on so long.

**MRS OWENS:** Thank you, John. No, I think it was very valuable for us to have our little history lesson, and I think you've raised some pretty important points. I suppose from where we're sitting now, the question is, where do we go from here? You've highlighted all the problems and there's not a huge number of answers in all of that. I know you've only got a very short time with us now, but I think what I'd like to explore with you is, what do we do, who does it, and how do we do it? Is there a mechanism by which you can address what you're saying are some pretty significant problems? It's very difficult to address things like cultural issues. There's a lot of resistance to change.

Others have been saying to us, "Well, there has already been a huge amount of change." We've seen significant improvements in productivity, some of which has been reflected in our report. Others in Sydney might say, "Well, it's all right for you

down in Melbourne to be saying there's problems going through Sydney, but look at Melbourne. It can take you a couple of hours on an NR train to get out of Melbourne going to Adelaide." I know that because I actually went on one a few weeks ago, so should we be so negative about Sydney when other states may be also facing similar problems but not maybe of the same scale.

Are you talking, John, about having some sort of national land transport strategy which is a proposal that Judi Stack has been supporting in various public forums.

**DR PATERSON:** Well, if Judi Stack was at the same time saying, "Let's make the best of every mode we've got," I would say then she is in a position to start talking national transport strategy. I have heard Judi Stack and certainly the minister for transport in New South Wales argue quite differently, that is, "Let's penalise road in favour of rail," and that is a quite different issue. To disable one of our two capable modes because the others are incapable is an absolute counsel of despair. Let me try and address your point, Helen, in not quite the order you've made them. You say, all right, people are telling you we've already made huge improvements.

I remember John Button used to like to say, "Self-referential standards are no standards." The standards are how it can be done and how it should be done, not how it was done. So I give no weight whatsoever to that. I also say - I've addressed the point of culture as a major barrier, but culture is not easy to change. I could refer you to a - forgive the vanity, but a publication that I think I published in the mid-eighties called, "Bureaucratic Reform by Cultural Revolution," and anyone interested in changing the culture of an organisation only needs to xerox that from the Canberra Journal of Public Administration and go through the steps, and, hey presto, within 18 months' time you've changed the culture.

You do it by some mass executions of those that are unreconstructable and then by calling for volunteers that want to join the forces of enlightenment. It works. It works every time, and many of the privatised government bodies have changed overnight and, indeed, in government some bodies have changed overnight where you've had ruthless leadership with a dedication to a cause. In fact you could look at industries which were truly sick industries, like the water industry, which is one I was in at that time, where the staffing - even before they went into the private sector - sorry, none have - but even before they were corporatised - and the number of people operating major water utilities dropped to a quarter of what it was overnight and dropped further with corporatisation and so on.

You can do these things with determination, but at the moment when you've leadership of some of these organisations who are the problem rather than the solution, there's no chance. You've got people who would not understand. So I am saying privatisation has a huge advantage that usually results in removal of the existing leadership which is a first step towards the next step, which is to remove all the others that can't see it.

I could cite a story. In Victoria when I took over in infrastructure I discovered that a couple of private rail operations, one in particular, West Coast Rail, that this government had fostered in its first term - people at the PTC were systematically destroying spares to deny them to West Coast Rail and thought they were doing the right thing. Now, that kind of sickness is deep-seated, and if there's a leadership that will even be tolerant of that sort of view there's no hope, and denial certainly has been the policy of a number of bodies, including, in my opinion, National Rail. Now, some would dispute that, and certainly Vince Graeme will definitely dispute that, but I believe it's easy to defend that proposition.

So I am saying here, if all that is standing between you in running a decent rail system is the mind of the people leading it, then change those people. We've done it in many other fields, and it's very quick. It works very quickly. So I believe that firstly we dismiss the self-referential thing and just say world best standards are the only standards to refer to, not the lousy standards of our past, and secondly any organisation can be changed if there's a determination to change it, and can be changed quickly, and often a change of ownership is a way to do it.

Now, it will also be commonplace to both of you that an efficient system is made up entirely of efficient subsystems, that is, you can't have weak components and a globally competitive road freight system, and we've got a soft spot in our road network through the backblocks or through New South Wales. We've got an intercity rail system which is absolutely a disgrace, and Victoria shares as much blame as any other place for that. We've still got 40-kilometre elements of track here, and so on. I'm not here to say, "Well, we shouldn't do anything in Victoria because they're just as bad in New South Wales." As Jeff Kennett likes to say, "We're Australians first and Victorians second." We try and do what's right, and then worry about party and party for a drink after the game, you know. We try and win the international game first.

Now, there is no excuse. I don't believe for a moment that anyone would argue we've got everything right in Victoria. We're trying to do our best now and we're doing some things much better than we've done them in the past, but I'm not here to defend a record. I'm here to say where we've got 40-kilometre tracks it's a disgrace to us and something we've got to do something about, assuming the tracks should be kept open, which is another issue of course, but I'm talking about the intercity mainline system now, and we've still got links like that. So I just think it's an irrelevant argument and extraneous. I mean it's a disgrace. I hate to admit we've got soft spots in our system, we are doing something about it, and I'm not interested in someone up north saying, "Oh, well, the reason we're okay being lousy is because they're lousy south of the border." It's just an absolute counsel of despair.

Finally I would be saying this, that one has to attack each element of this from a competition viewpoint, so I do think the competition framework is very important here and I think it could be exercised more aggressively. So, you know, what was done for container movements in the port by Patricks last year was in my view an unambiguous gain for the nation, for all parts of the nation basically except Sydney, but of course having a duopoly in each of the ports, or less, a monopoly, is in itself

not a long-term recipe for aggressive competition, so I think that the Patricks dispute took us a long way forward last year, but until there are other serious competitors in the ports then we cannot be sure our port system is working.

I think that the freight forwarding and integrated logistics movement is having a huge amount of effect on even the traditional structures because they create an embarrassment for those that say, "No, we've got a rail motor on that track. We can't put your kilometre-long train through." The integrated logistics people are not interested in modes. They're interested in A to B and collection and distribution at the ends, and an approach which makes the final use the determining factor rather than the modal input in the transport mix is the only way to go, and I think government has to listen to every squeak from that industry and then deal aggressively with everything they see - get the facts straight. They sometimes overstate their position but still the fact is when they say, "We can't get a train pass in and out of Sydney," then one should reassure oneself that that's nonsense, and in many cases of course it's not nonsense.

So I just think one attacks all the bits and pieces. There's 700 bridges in New South Wales if you take Carl Scully's word for it. We think it's probably far less than that, if that matters, but still that's how many they want the Commonwealth to pay for before they will let the trucks through. So, you know, you've got to look at each part of it. What are the weak links in the road system, what are the weak links in the rail system, what are the absent links on the maritime system, what are the poor interfaces? We can start off with ports and then port land and so on, but you've got to look at each of those and then - that is before - so you're just really still thinking locally, but there is no reason to not think locally until everything is working well, but before it is working well we will probably also be thinking globally - that is, where do we want to wind up? - and it will be much easier to see that when we're doing better locally in each of the systems.

**PROF SCRAFTON:** John, I think that last comment sort of helps one issue that I wanted to raise with you. I think it was almost the penultimate slide. You had a little thing at the bottom that talked about regional issues, and one of the things that scares me, in fact which makes me persona non grata in my home state, is that down the bottom of one of them it had "regional issues" or "regional" - don't worry about it - there we are, "regional logistics". When one believes that we're making progress in certain areas somebody will come along and say, "Ah, but, you know, we need to do this," or, "We need to put a lot of money into that because this is a sort of regional equity issue here," or something - "We need some regional balance" - and it relates to another issue that you raised of this leadership.

Lots of people have come to us and said, "If only we had some national leadership," and I mean nobody can disagree with that in one way but it's very, very difficult. It seems to me in my career, and it has been the same for you, that people have talked about this for years but nobody seems to want to pick it up and really do anything. Every time you think there is a sort of move in Canberra for the federal government to think nationally and for the states to work in some sort of cooperative

way for some reason or another it falls. It can be a very parochial or regional thing that causes it to fall apart. It can be something as elementary as having a labour government in Canberra and a majority of liberal governments, or vice versa, and I wonder what it takes for Australia to realise that an unless you do get this national leadership into these issues you're back where we were with what happened in the 18th century, and worse still I think were the things you raised in the middle of the 19th century - anything from sort of the mid-30s onward when protectionism became enormous.

**DR PATERSON:** 20th century, yes.

**PROF SCRAFTON:** We are still picking up all that baggage, as you pointed out, but nobody wants to say to 2020 - we looked at one or two of your slides - you quickly went over there - with the growth, the changes that would take place if you simply had trend planning. They're just not going to work, as you pointed out, but it's very difficult to get that sort of leadership, so if you don't want an academic career when you retire there's a leadership career there.

**MRS OWENS:** I think he's offering you a job somewhere.

**PROF SCRAFTON:** But he doesn't know where.

**MRS OWENS:** I'm not sure where it is though, John.

**PROF SCRAFTON:** That's the dilemma. How is this to be done?

**DR PATERSON:** Let me start off by saying, Derek, I agree that there are often windows of opportunity and some things charge through at the right time and others miss the boat, so electricity reform, even though it's incomplete, there have been major advances. There will be a competitive interstate system, which eventually will even include Queensland, in spite of all their kicking and struggling. So you've got to say that there was leadership at the crucial time. I think it was actually Keating and Kennett that really kicked that over, which was one of those occasions where Kennett said - - -

**PROF SCRAFTON:** It can work, yes.

**DR PATERSON:** You know, where this went straight in first. "We've got to open this up, it's a national market" - de-dah, de-dah - whether or not it suits our local electricity generators. So, yes, you get those opportunities and they're to be seized of course but it does not require a national crusade to speed up railway tracks. There are lots of things that could be done locally just by having organisations that are mostly competent and focused on doing their own job better. So the longest journey begins with the first step and there are many first steps which are so obvious that even without a global scheme one can do them piecemeal and everyone will pay in its own right. That's not a bad structure. It's not like that, I think, on the global hub and which port.

So those big picture top-down issues won't emerge in small steps and you know we could get esoteric about why but there is technically a reason that there are local improvements where there are no negatives, that is they are paid commercially and, incidentally, contribute to the whole and clarify the relative competitive strengths and capabilities of the modes so there's unambiguous reason for just doing that, and often the obstacles to that are small and local and walk around in power suits and then you can put names to them. I think you should, in some cases, if they can't be reconstructed, change - - -

**PROF SCRAFTON:** Blow them away.

**DR PATERSON:** Blow them away. So it doesn't require a great national purpose to get rid of 40-kilometre links in the track. Part of the reason in Australia we preserve these things is because we seek refuge in this party-and-party thing, "Oh, well, we're not going to upgrade our intercity lines until the feds come to the party." That could be seen as a displacement activity by people who have no vision and no larger national commitment, and I personally would always wish to tell them that it does not enhance my respect for them if they're arguing, "Oh, we won't improve Victoria because they're not improving New South Wales."

**PROF SCRAFTON:** Yes.

**DR PATERSON:** It's just like the international trade thing where they say, "Oh, we are not going to free our own economy because they're not free in Indonesia." I don't give a bugger about Indonesia. I care about Australia, you know.

**PROF SCRAFTON:** Yes.

**DR PATERSON:** So I think we've got to avoid those gambits and I'll bet you've heard a lot of them in submissions to this inquiry.

**PROF SCRAFTON:** My comment was going to be it's a pity you didn't give us this little lecture first, before we started.

**DR PATERSON:** I wouldn't have done it with the same passion if I hadn't wasted half of yesterday reading Judi Stack's transcript.

**PROF SCRAFTON:** Reading this stuff.

**DR PATERSON:** That's what got me going, you see. So I knocked this up yesterday afternoon.

**MRS OWENS:** She is coming back to talk to us again tomorrow.

**DR PATERSON:** So I think, Derek, a lot can be done. I have had a debate with my Commonwealth colleagues who from time to time have said, "Well, we want to work

on a national transport strategy," and I've said, "Well, when I see the Commonwealth minister for roads spending road money in terms of an economic strategy rather than a pork barrel strategy then I will say the Commonwealth has an important role," but while we're seeing roads carrying 60 or 80 vehicles a day being described as roads of national importance I say, "I'm not interested in talking strategy to you. Your kind of strategy we've had a hundred years of and that's more than enough, thank you very much."

So it's hard to be polite on these topics but I would say if a state or a jurisdiction, or even an organisation - the roads jurisdictions aren't bad, I think they're by far the best - but NASRA and so on are kind of fairly modern compared with most of the other public elements. You know, the things they say are sensible. I would much rather have them running rail - they would sort it out quick smart - than have a National Land Transport Commission dedicated to holding road back in the interest of equity for rail unions. I don't believe you have to have a great national purpose or a war situation to get focus. Small steps eventually take you to big goals.

**PROF SCRAFTON:** Thanks.

**MRS OWENS:** Except small steps might not take you to big goals in Sydney.

**DR PATERSON:** FreightCorp are talking sensibly about peripheral freight hubs in Sydney and that kind of stuff. I'm not sure how well they've got the road-rail logistics together for distribution. I don't know whether these days rail talks to road or not. They usen't to in New South Wales when I worked there but it may have changed - I hope so - but there are things that can be done I think, and I think it has to be an arguable case that beefing up the Newell and improving parts of that, regarding that as the primary route, Melbourne-Brisbane, with a spur line to Sydney, could be worth considering, and I'm not sure about the feasibility. I have not got the slightest idea of what the cost of improving a Sydney connection would be because it would be through the Blue Mountains, but, you know, I'm just saying we're not looking at those top-down strategic choice issues which we should be.

**PROF SCRAFTON:** Yes.

**DR PATERSON:** Because I'm not sure that everyone wants the national freight artery to be the Pacific Highway really. It has got other important purposes which are probably more valuable than carrying freight.

**MRS OWENS:** I think there's a whole range of issues we could talk to you about and I think we've run out of time because we've kept you 10 minutes over. You said you were available till 10 o'clock, so I'm sorry about that, John, but there are, as I said, a range of things in your submission. There seems to be an implication that we were strongly supporting corporatisation and we had sort of gone to great pains over three pages to explain what was wrong with corporatisation, so I was a bit puzzled by that, but there are issues in relation to what is the role of the private sector in all of this, including in terms of investing in infrastructure.

I think one of the other areas where we've been strongly criticised is we haven't come down strongly in favour of spending 2.3 billion dollars of Commonwealth money on rail. We haven't got a recommendation that follows the parliamentary inquiry's recommendation on that issue and we have basically been saying we're taking a different view and we're looking at how do you bring some incentives into the system to get a more commercial focus and getting the environment right. I think it's probably too late to discuss these issues at this stage.

**DR PATERSON:** I have to be out by half past, but I'm all right if you've got the time.

**MRS OWENS:** We have got other participants waiting but I think it might be worth just pursuing this maybe for another five minutes.

**DR PATERSON:** Okay, that's fine. I avoided the bottom feeding issues about vertical and horizontal segregation. There is no organisational prescription that makes any sense except in attendance with the competition arrangements and the pricing and everything else. It is no accident, in my opinion, that air transport is pretty flash in Australia and it's now predominantly a private mode - it is a private mode - and road transport is pretty flash in Australia and it's a private mode, and the best public sector operators in the transport field are the state road authorities. They are public but they have the most modern approach and they look at regulation in terms of serving their customers, both the safety and security of the passenger vehicle customers and the safety and efficiency of the roads for their freight customers.

That is a pretty health line-up. Since air was deregulated it has gone ahead in leaps and bounds. The modes where there is still a big government presence or else strongly entrenched industrial and private sector monopolistic, duopolistic interests are the worst elements of our system and my own view is getting rail as close to a privately owned system as possible is highly desirable. Victoria is well on the way to doing that, as you know. There is still then a regulatory environment and all sorts of things governments can do to corrupt a mode but I believe that the heart is in the right place in this state and I believe it's not in the right place - I think it's also probably in the right place in New South Wales and maybe South Australia. I'm not at all sure it's in the right place in the two states to our north.

In fact there's material in your report that strongly supports my prejudice to the effect that it's not, but I think the sooner that that can be subject to the heat of national competition policy - and I would be saying this, that if I was seeing Judi Stack again, which is not something I'm actively seeking to do but you're going to have that pleasure, then I would be saying this, "We will believe you're running a commercial operation when you make train paths available to the carriage that pays the most." That is. "If you can get \$5000 for putting a kilometre-long freight train through and a negative 500 for running a rail motor up the same track at the same time, the day that the train path goes to the user that pays for it then you're acting" - in spite of being corporatised rather than privatised - "basically like a private profit

maximiser."

That would be a rudimentary test and there are many other things that would need to be fixed before even that criteria means very much. There's no use offering train paths through the backblocks if you can't get into Sydney except at the wrong time of day anyhow - except a day later after, you know, running your diesel motors on the fringe for 24 hours, 12 hours, or whatever it is - so I'm not saying that that is enough in itself but the time at which rail starts to be serious about the things it does well, and less serious about propping up rural electorates and serving its historic constituencies, the sooner we can start to see rail striking out for that crucial role within the national set that it should have.

**MRS OWENS:** To be fair to the RAC I think they would say that they are somewhat constrained on what they can let through when through political constraints.

**DR PATERSON:** Yes, and political constraints are very real, but I saw their point about statutory priority for passenger trains. Certainly in this state a statutory priority can be changed within two weeks of the government forming an intention to change it, literally go through executive council into regulation in that time. I know it's not as quick in New South Wales, although the government now has control of both houses up there. So I regard that as a phoney excuse. If an outfit says we favour competition but there's a statutory obstacle to it, then you would want to know what government is doing about it, because I don't believe that passenger train priority on all lines at all times of day is necessarily an efficient way to run a metropolitan or a state economy, in particular one which is the pinch point of the national economy.

So to say they have priority, but we can do just as well with buses, and if we had any sense we would by and large do just as well with buses after the evening peak, which means you could despatch a freight train from Melbourne in the early hours of the morning, get it into Sydney after business hours the same day. You've then got a rail mode that's competitive, and what sort of priority does rail passenger mode need at 9 o'clock at night?

**MRS OWENS:** Or in Newcastle.

**DR PATERSON:** Or in Newcastle. I've heard that sort of stuff and I'm totally impatient of it. It's usually just a smokescreen for the desire to retain the status quo.

**MRS OWENS:** Do you think that the Commonwealth should be spending \$2 billion on the national network?

**DR PATERSON:** Rail network? Definitely not. I think they should definitely be spending quarter to half a billion which pays unambiguously in the narrowest commercial terms, and in terms of an optimal pass being made of optimal subpaths, those are all parts of an optimal pass and they pay off just from a rail point of view. So there's unambiguous gains. They are paraded as optimal, if you like; no losses,

only gains by doing them.

**MRS OWENS:** Thanks very much, John, and thanks, Peter, for sitting there patiently. We'll now just break for five minutes while we try and get the technology sorted out.

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**MRS OWENS:** Our next participant today is Balance Research. Would you like to give your name and your position with Balance Research for the transcript?

**MR ISAACHSEN:** I'm Eric Michael Isaachsen, but known as Michael, and I'm the director of Balance Research, which is my own little private business name. What else do you want me to say?

**MRS OWENS:** I was wondering, do you want to make any opening comments or address anything that you've written in your submission?

**MR ISAACHSEN:** Yes, I'd like to make an opening statement. The commission's draft report provides little to indicate how governments might produce policies to change the unhealthy balance between road and rail transport. It is important to change the balance because road transport uses more resources than rail. Governments levy no direct charge on road usage, and the resulting false attractiveness of road transport naturally increases its share of the total task, leading to congestion and demands for more and more road space, demands which governments are unable to resist.

In its chapter on competitive neutrality the report recommends at 9.1 a more commercial approach to railways and a provision of road infrastructure. A commercial approach to the provision of road infrastructure: what does that mean in terms of the whole gamut of road-related costs? A range of costs have been evidenced by many participants and acknowledged in the report. It's not just a provision of maintenance of the infrastructure that needs to be made commercial. Not even the addition of a rate of return on the road capital stock would make it commercial.

Whichever way road user charges might be collected, if roads are to be commercial, the charges must reflect the total cost to governments at all levels, all departments, and the cost to the wider community. But, you might protest, the recommendation only says more commercial, not fully commercial. Yes, but look at rail, particularly intercapital freight. It's not far from commercial now. It even pays diesel tax, which arguably goes to road projects. The recommendation says rail should be more commercial. If it is any more commercial than now it would be just about fully commercial. So in the context of neutrality, road would have to be fully commercial too.

Can you really foresee governments introducing road-user charges that cover all costs on all kinds of user or even just on heavy goods vehicles? If it's only on heavy goods vehicles, does this mean that there will be no incentive for car and smaller truck owners to change to rail? The fact is that if substantial road-user charges ever come to be, it would be when there is a major political shift, perhaps when the people have come to a greater realisation of the never-ending growth of road traffic or when other road-related problems reach a crisis point.

What does the commission recommend in the intervening 10 or 20 years waiting

for these full road-user charges? It's obvious what the commission is not recommending. It's not recommending the Swedish model or anything like it. The Swedish model is seen as a means of reducing costs to rail operators as compensation for road subsidies. The model is repeatedly criticised in the report. First you say on page 203 that the data and analytical burden would be quite onerous. Even if it is, the alternative is even more onerous. To do nothing about the distorted market until the cows get back or until road-user charges come in, is to continue wasting government and community resources for years.

You expressed concern in footnote 6 that debate over differing estimates may leave scope for lobbying. So what's new? Is that a serious reason not to at least partially equalise the subsidy? Next you mention the unease in the Swedish case between the operator and the track owner, each wanting to set the priorities with some political input. That's hardly a condemnation of providing cheaper track access. There is almost a hundred per cent political input in this country right now in regard to road and rail investments. After that you say on page 204 that this approach may involve costs in budgetary terms. Well, yes, until its effects in reducing road-related outlays kick in it may take brave governments or far-sighted ones to make the move and spend some transport funds on rail, although in Australia with the federal system, the Commonwealth would not have to make all the payments.

The states and local government would make the greatest amount of savings from a long-term slower road growth. So they would possibly be glad to cover the costs of the track owners or other subsidy equalisation if the Commonwealth gave them the lead, and presumably some incentive. In the same paragraph you referred to likely resource misallocation resulting from setting prices below marginal costs, and attracting more activity in the transport sector. Of course, that's exactly what happens in road transport. Road access is well below marginal cost, and demand for road space is phenomenal. Just an aside here: on increased subsidies, that would reduce the cost of transport and increase demand.

The Commonwealth wants to lower the taxes on diesel fuel for road and rail. What will this do to allocative efficiency? Of course, it would always be open to governments when planning some kind of subsidy equalisation to increase taxes on the road system by a small amount - that is, not a full road-user charge - at the same time as improving rail services, so avoiding an increase in the total transport task. I would also take issue with the paragraph on page 205 about differences between the Swedish and commercial approaches. First you say that under the commercial approach private sector incentives and disciplines have greater scope to determine investment and pricing.

This is arguably not the case if it means that railway track owners and operators have to work with the traffic that they can attract with the present strongly flawed market. Unless and until the market can give correct, relative price signals to the end-users commercial discipline will equate to very limited role for railways. On the contrary, if rail track owners and operators receive subsidy equalisation to carry extra traffic on an agreed and transparent basis, they will then be able to determine

investment and pricing and make their own investments. Up to now, they cannot determine either.

The funding for subsidy would be based on money which will be saved by governments and the community. Sure, the statements you have about the commercial approach would be valid if full road-user charges are achieved. No subsidy goes to any player whether freight or passenger, country or urban or interstate, and in that case it would be good for the nation's total resource train, and full discipline would apply, but that's not going to happen. Secondly, where you say:

Rather than using one mode by investing or adjusting pricing to curb the externalities of another mode -

you're making an implication that by subsidising rail, rail would be curbing the externalities of road. The fact is that the excessive externalities due to road traffic are due to the unequal subsidy. They will not be fixed by rail. They will be fixed by either no subsidy or equal subsidies. It doesn't make much difference. Your conclusion, in italics on page 205, infers (a) that a commercial approach would promote competitive neutrality, and (b) that linking rail and road subsidies would not, or not so well.

I hesitate to say it but it flies in the face of commonsense. Commonsense says that fully commercial charging of road will never happen. You're not even suggesting that it would in regard to other than heavy goods traffic, and even then, we know what happened last time the truckies faced substantial charges. Commonsense says that although it would be desirable from a resource point of view, allocated efficiency, to decrease total demand, correcting the relative prices between the modes will begin to limit the rate of road growth.

The marginal cost of task transferred to rail is much lower than the marginal savings from that task, leaving the road system or the marginal costs of new tasks coming on and being handled by rail is much lower than those tasks coming on and having to be accommodated in the highways system. Continuing on the theme of your criticism of the Swedish approach or your use of the Swedish approach as a proxy for equalised subsidies, I come to the section starting on page 205 headed A Land Transport Commission. You say that under the Swedish approach governments directly have wide-ranging responsibilities for railways, including planning, investment and pricing.

I feel that this is not necessarily so. Once it has been decided by governments that they and the community don't want to see ever-growing levels of road traffic and its concomitant costs, they can offer the necessary equaliser to any operator who is willing to provide better services or better prices. It would then be up to that operator, whether government or private, to make the necessary investments to achieve that.

Leaving the Swedes alone now but sticking with the Land Transport

Commission question, your report sees problems with such a commission having responsibilities in planning, investment and pricing. Your reason is, as you put it, responsibility for road and rail provision rests with governments, primarily state governments. I would say that this has always been the problem. Governments decide on investment priorities partly on a political basis. If roads are popular, that's a reason to build more. A government at this stage is not going to upgrade a railway service to relieve a congested road. No, they want to widen the road and provide for faster flows. A suitable commission, Land Transport Commission, might take the longer term view: marginal increases in railway traffic once the line is there are cheap. Increases in road traffic costs dearly. A commission could look at this more evenhandedly. I'm not sure what the reference page is, but turning to the question of taxes and charges - - -

**MRS OWENS:** Page 207.

**MR ISAACHSEN:** It's my belief that until better defined road-user charges become available and politically achievable, fuel taxes are the nearest thing to it. They are in effect a proxy user charge and would be regarded by most road users as an input to their decision-making. Diesel tax on heavy goods vehicles is particularly deficient in its relationship to road-related costs.

So we hear from many commentators that it is deficient. If so, these vehicles should be charged a diesel surcharge, not a rebate. Railway users pay the diesel tax and don't like to see it used for road purposes. The government says it's not used for roads; just goes into general revenue. What Balance Research has been saying is that all the diesel tax should be treated as a land transport charge, apart from the sales tax equivalent and possibly a carbon tax equivalent. This land transport charge would then be available for outlay on road and rail projects, not in proportion to the road-rail split of taxes but on the best projects for the nation. Some of this could be the seed funding to states for introducing subsidy equalisation payments.

There is a view that the total taxes from road users, excepting normal business taxes, give governments a profit from road activity because the outlay on road construction and maintenance is less than the revenue by quite a margin. I believe that the total cost to all governments and all departments of government from road traffic would exceed the revenue. Adding in the non-cash use of resources would presumably show an even greater margin of road costs over revenues. Then you can add in the fair return on the capital value of the road system - the fair return forgone - then the unmet depreciation of roads, particularly local roads that don't get maintained.

Accordingly it would be feasible for the Commonwealth to hypothecate 100 per cent of the fuel taxes to road-related purposes, most of it through the states, without increasing road expenditure at all. It would only be an accounting move but it would show that the taxes are far from excessive. That is, some of this road tax would go to the hospitals, the Health Commission, the police and other things which use up money but aren't normally regarded as road expenses but are road related.

I was disappointed really with the fairly sparse dealing with the question of passenger services, and these are dealt with as far as I can see solely as the purchase of provider issue, with payments considered as social services and CSOs. Passenger service arrangements can be converted to a commercial model, with operators rewarded for improving the modal split. And I believe that if the correct valuation is placed on the cost to the community of motor traffic and this largely hidden subsidy is then paid to rail operators, they will be commercial. This of course is similar to the arrangements for franchising of passenger operations in Victoria and the UK.

The difference in the UK - and the Victorian details I don't think are known yet - the difference in the UK is that operators receive an agreed sum per annum and as far as I know cannot get more money even if they provide more and better service. If that more and better service does not make a profit they won't do it. It has to wash its face against the publicly-funded motorway system. So what I'm saying is that the passenger rail operators should be able to get more if they provide more service and get more cars off the road, and that's another form of this subsidy equalisation.

In regard to freight service, Bob McKillop who gave evidence yesterday - his model for a split-up of New South Wales was very interesting, with whole chunks of the less-used parts of the system being sold off, possibly to local interests. This would make those areas a bit like the USA, a short-line model. One aspect about the short-line model that hasn't been dealt with in this report or previous reports like the parliamentary one is the fact that when a class 1 railway sells off a line to a short-line operator they then have an obligation to provide what they call switching service.

The short line, like the one at Austrac at Junee, doesn't particularly seem to have that arrangement. If it picks up a load at Griffith it's got to then carry that whole load up to Sydney, even if it's only 20 wagons, and it's not efficient. It won't work that way in the long run. If there's going to be short lines the main line carrier must have an obligation to give them service, and this could be likened to the universal service obligation imposed on telecommunication carriers. At the moment it's only Telstra but other carriers could get into that. If they want to be the main carrier for an area they've got to do certain things in a certain way which mightn't always be economical but that goes with the territory.

If FreightCorp wanted to sell off the western region FreightCorp must guarantee that operator that they will take his goods down to Sydney or Newcastle or link it in with National Rail or something of that kind. Universal service obligation is one way of describing it. The operators are generally required to carry the other operators' traffic. Any operator, even another short line, would have to carry - say if I buy one and you buy one, you've got to carry my traffic when it gets to the breakover point, and we can either agree on rates or go to arbitration for rates. Otherwise the system breaks up and you can't send a load of stuff from Walgett to Dubbo.

I was of course disappointed that the report couldn't take up the point that Balance Research raised in its original submission, about urban freight going to rail.

Urban freight is growing like every other aspect of transport and it will continue to grow, continue to demand more and more road space, and it would be possible for rail to re-establish urban freight centres and carry quite a load around the metropolitan area, probably at night. And I believe that if governments don't ever do that they're making a rod for the community's back in regard to, say, a few decades down the track, and there'll be just demands for more and more freeway space for goods vehicles, many of which are carrying low priority materials, stuff that's regular shipments of goods that are not all that urgent.

Of course there's always going to be places that they ring up and they want it now. A train wouldn't be any good for that, but there's plenty of stuff on the urban - just the freeways, Westgate freeway and South Eastern freeway and just on the arterial roads, which easily could be moved overnight by rail, and I'm disappointed that you haven't found it possible to ask the government to look at that in any way.

A very interesting aspect has come to my understanding about the way in which the rail industry has improved its efficiency in the period under review, the last 10 years and probably before that. There's no doubt that the technical efficiency of freight services has improved - that is, the inputs versus the outputs - but quite a degree of this is due to selectively getting rid of tasks which aren't that profitable. Because the road system is - in my view and obviously some other people's view the road system is subsidised a bit unfairly as against rail, if rail didn't get rid of those tasks it would be running at a great loss, and it's not allowed to run at a loss, not a great loss, anyway. So they've had to get rid of a lot of the smaller and less efficient tasks, which brings them somewhere near commercial reality.

But those tasks now on road that were previously on rail are almost certainly using more resources, but it looks more efficient. And National Rail for example, and probably Freight Corp for that matter, V-Line Freight, don't want to handle it because they can't compete against the subsidised road. If they were given a subsidy equalisation payment, either for all that traffic or for certain traffic where it's pretty obvious that that traffic would otherwise go on the road, they could again handle this. It would pull down their efficiency in terms of technical efficiency but it would increase the efficiency of the total transport system.

Just a comment if I may on the benchmarking debate, which I've heard with great interest, but I really feel that it's a waste of effort trying to benchmark Australian - any particular operation against, say, the class 1 railroads. You've got to look for an example in America, Germany or anywhere else you like of a similar task, and you probably can't look at the aggregate of Australian tasks and look at the aggregate of any other area. It would be a really worthwhile exercise for someone to look at for example V-Line Freight handling of general cargo containers and that sort of thing and see where in the world there are efficient railways carrying that sort of volume and that sort of distance, and just see how it stacks up against that. I think if you can't do that benchmarking is really deceptive. Of course once you do start looking at individual areas like that you may find that the Australian operation, given the amount of market distortion that it's facing and given our distances and our thin

population, is

probably working pretty well.

I also raised in my original submission - or was it in my verbal evidence? - the possibility of the World Trade Organisation making objection to subsidies for freight on commodities that are exported from Australia, and I just wondered whether your commission would find it possible to deal with that particular area and get evidence from someone who knows about it, which I'm not claiming to. I'm just saying it's an issue. And Balance Research has changed the name of part of its project, which used to be Rail Based Futures. But thinking about it and getting involved a little bit in the tax debate and driving it a little further, what I'm calling for is resource-aware transport planning, and I think that pretty well describes the drive that I have in all these issues, is to see how transport can be conducted with less resources than it is at the moment.

There's been some interesting discussion on path auctions and I think a point that's sometimes missed when people talk about passenger trains perhaps getting a little more priority than they really deserve - I'm not saying that doesn't happen, but you'd really have to weigh up the effect on road traffic and road traffic growth if passenger trains were to become less reliable or perhaps substituted by buses in off-peak times. Would this mitigate against people deciding that they didn't need a car and that they could depend on rail at all times? It just may be counterproductive.

And as against that you've got a load of 5000 tons of coal and that's going to be delayed for half an hour because the cost of that money is held up. It may not be that the coal shipper is going to be particularly upset by half an hour's delay. Obviously that can be weighed up, and some very fast goods trains with general commodities, that may be more important. But really the conflict between the passenger and the goods traffic, be it in Sydney or out on the branch lines, is really one of the track owners not providing sufficient capacity for the traffic that is there and hopefully will expand. That's my opening statement completed.

**MRS OWENS:** Good. That was a very comprehensive run through both your submission - and I think you've raised quite a few additional points. And I remember you have raised the issue of the WTA before, and we did check with one of our colleagues on that particular issue and my recollection was he said that at least in the short term it wasn't something he felt would be picked up by the WTA. That may be - - -

**MR ISAACHSEN:** No, it probably won't in the short term, but I mean we've got to look ahead to a situation where we're not going to find that subsidising rail is picked up as an unfair subsidy to export trade, whereas subsidising the road, which has been going on forever, is deemed to be okay.

**MRS OWENS:** I think if they are going to look at one, they have to look at both, I presume.

**MR ISAACHSEN:** That's exactly the point, that I'm worried that they won't.

They'll say, "Well, every country in the world subsidises road, so that might be all right, but if you subsidise rail, watch out." I don't think you could rule it out in the long term, because other countries will do anything to make life difficult for the Australian export trade. I think we've seen that often enough.

**MRS OWENS:** We saw it with Howell Leather. We'll go through some of your points and Derek, I know, has probably got a few questions, but you did run through such a lot in such detail, I've only got a few questions. The issue relating to auctions and the fact that it might have the effect of putting people back into cars if passenger trains don't have priority - you actually argue the other way, that if some of the freight trains don't have priority, it could push some of that freight back onto roads, into trucks.

**MR ISAACHSEN:** You would have to balance it up on a case by case, but there seems to be a doctrinaire approach. For example, you've probably heard of the healthy train policy in dispatching trains, that if a train gets to be late - it doesn't matter why - it will stay late and other trains may proceed. If it happened, that would wreak total havoc with passengers and it may have a very obvious and immediate effect on passengers' confidence, whereas if a goods train is late - well, there are some cases, I grant that, where it's really high priority goods and if the train gets delayed more than once or twice a year, they might not be very forgiving, but that really comes down to a capacity issue if it's going to happen that often.

**MRS OWENS:** One of the other issues that you raised was this issue of urban freight and I guess, again, we've got this conflict with the use of those networks for passenger services and whether that would just compound that problem if you were to set up - - -

**MR ISAACHSEN:** Not if it's done in the off-peak and particularly overnight. I couldn't imagine that. I mean, it's worth looking into is what I'm saying and it hasn't been taken up as a point to be looked into.

**MRS OWENS:** I suppose, increasingly, there's the issue of logistics and what is the most appropriate way, most efficient way of getting things from A to B within cities.

**MR ISAACHSEN:** I'm glad you said "most efficient", because that's what I'm talking about. In other words, how much resources is it using to move 10 tons of bricks from A to B, which may not be that urgent, normally ordered well in advance? If they go three-quarters of the way by rail, will that reduce the resources required, even though it means it's an overnight journey instead of same-day journey?

**MRS OWENS:** I suppose with your bricks example, they need to go to the supplier, it would have to be picked up in a truck, it would then have to be delivered to the rail depot, it would then have to be loaded onto trains, it would have to get off at the other end and be loaded on trucks.

**MR ISAACHSEN:** With appropriate technology, for example, a containerised

brick-dispensing unit. In other words, the brick dispenser is a truck with particular fencing on it that carries the bricks and those bricks could leave the factory in a container with the fencing around it, be transported by rail and at the destination, as near as possible to the destination - I'm talking about in 10, 20, 50 years' time there could be, if governments wanted to go this way, a series of intermodal rail stations around metropolitan areas and those bricks could arrive at Heidelberg at 3 am and be loaded onto a vehicle which would then take them to the site and that vehicle has the crane to unload them and so the container just sits in a cradle on the vehicle.

That's just one example, but that's an example meant to be of low priority goods, where really logistics is not an issue. The other thing about logistics: the present situation is that rail transport is not available for a lot of moves, particularly around metropolitan areas, and even for interstate moves it's more or less the same price as road. That's because road is so cheap, so rail has to be cheap and can't give the service that it might otherwise give. If the prices were to change, relatively for the same service, road would become dearer and it may not be tax charges or road-user charges, it could within a few decades be energy which makes it dearer. Once there's a change in the relativity in rail and road of 10 or 20 per cent, which may come from any source, we may find that quite a lot of these people who say, "I want this just in time and I want it exactly at this time." "It's going to cost you 20 per cent more because now road is dearer." "Well, maybe I'll get it the day before."

**MRS OWENS:** But then there will be incentives for perhaps the private sector, if they see that there are opportunities on urban networks to deliver using trains, they will come into the market.

**MR ISAACHSEN:** I'm sure it will be done by private operators, but the governments have to be aware of it and have to make sure that they don't dispose of suitable land for these facilities. The land exists in many cases now, but it's gradually being sold off, converted to other uses. It's got to be planned for, and I'm not saying that they need to have it in by the year 2000.

**MRS OWENS:** Michael, one of the other things you said in your opening comments and you referred to in your submission is this possibility of - you talked about a 10 to 20-year gap before the road issues are addressed and I wasn't quite sure why it would take so long and you said, "What do we do in the meantime? Let's stick with the Swedish-type approach and subsidise rail."

**MR ISAACHSEN:** Yes.

**MRS OWENS:** However long it takes, aren't we going to run into problems if we go that way? Once you have put in subsidies, it's really hard. If you're saying it takes 10 to 20 years to actually deal with the issue of subsidising roads, it means you'll never ever get rid of any of the subsidies.

**MR ISAACHSEN:** If I just turn to my latest submission, the question of removing the subsidies is really a political one. It's not an economic issue. The question of the

two subsidies, if they exist, being equalised is really a question of allocative efficiency as between different modes and as one mode uses more resources than the other - so that's quite important economically - the question of whether there should be any subsidies at all is more political. Cheaper transport has benefit socially and industrially. For this reason, it would be unwise to rely on governments ever removing those subsidies.

**MRS OWENS:** I don't think we're suggesting that governments would not subsidise, say, urban transport systems. I think that there is probably every reason to believe that there would continue to be some community service obligation there.

**MR ISAACHSEN:** But that subsidy to urban rail is only because of the subsidy to urban road. You couldn't imagine that they would remove the subsidy to urban road and start charging for driving down the local street and even the arterials. You couldn't imagine that they will ever do that, and it's only because they do that, that there is a need to subsidise urban rail. If there were no roads or the roads were so poor and never got widened and never got upgraded and congestion became even more endemic, railways could charge a commercial fee and have a wonderful return, but because governments keep putting new roads and wider roads and will always do that, that's the only reason for subsidies. I would like to see the terminology go away from calling these "CSOs".

They're not CSOs, they're just matching the road subsidy - the direct and the indirect and the hidden subsidies of roads matched by these payments which are called "CSOs", but that's a confusing term; it just confuses the issue.

**PROF SCRAFTON:** I guess in one sense, Michael, they're called "CSOs" because people didn't like them being called subsidies.

**MR ISAACHSEN:** No, that's right, because they couldn't identify that road was getting a subsidy.

**PROF SCRAFTON:** Helen, I don't have any additional questions. You've covered the ones that I wanted to ask about. I think the key one is this issue of the gap, as you perceive it, of it taking many years and introducing compensating subsidies. I think that, out of your paper, that is something that we need to think on.

**MR ISAACHSEN:** I think that is absolutely my key issue, all the others are peripheral to that. I couldn't agree with the idea that just because rail gets a subsidy now, to match the road subsidy, that that means they would never be abolished. The need to abolish subsidies - or more likely to reduce them slightly - once they've been equalised, if governments decide that there is really too much activity in the transport industry because of it being subsidised, which is a point that you've made in your report, that's fine and they should reduce them. That is a matter of very macro-economic policy.

**PROF SCRAFTON:** You yourself argue that; that there is a challenge to avoid that

expansion. The one thing you don't want to do is to encourage unnecessary use of the network, an overall resource picture that you talk about.

**MR ISAACHSEN:** I'm really not in favour of any subsidies at all, but it just would be unrealistic to say that governments would ever do away with all subsidies and if you only do away with subsidies, for example to heavy goods vehicles, that means the uncontrolled growth of urban passenger and urban freight traffic on the road will never have anything done about it.

**MRS OWENS:** Is there anything else you'd like to - - -

**MR ISAACHSEN:** No. Thank you very much for the opportunity.

**MRS OWENS:** Thank you for coming and thank you for sitting in the audience yesterday and today.

**MR ISAACHSEN:** It's been very educational.

**MRS OWENS:** I was very pleased that you picked up the comments that Bob MacKillop made yesterday, and I think fleshed that out a little bit for us as well. I thought you made a very interesting point there, so thank you for coming, Michael. We'll now break for just five minutes.

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**MRS OWENS:** The next participant today is the Great Northern Rail Services. Would you like to give your name and position with the company for the transcript.

**MR WALTON:** I am Graham Walton, and I guess I can best be described as a senior adviser with Great Northern. How that translates generally is everything and anything that comes up at the time. I think that's the best way to describe it.

**MRS OWENS:** Graham, are you a rail consultant?

**MR WALTON:** I have a military background - a senior officer from a military background - who's been working for the last two years in the rail-related areas and safety accreditation area, and AS4292. It has become very diversified since that time. I have some involvement with the short-haul regional operators' group within the ARA.

**MRS OWENS:** Thank you for that background. I think safety has been one of those areas we've been spending quite a bit of time on this week, and we had the industry reference group come to see us yesterday, and tomorrow we have got another discussion on safety - well, a couple. We have got Safe Working Services coming to see us, and BHP has some safety issues. We are also talking today to the Department of Transport in Queensland about accreditation issues in relation to the safety committee - I can't remember the name of the committee because there are so many of them. So we have got an interest in trying to clarify some of the safety issues.

Thank you for your submission, which we've only just received, so understandably we haven't read it, but I believe you want to make some opening comments.

**MR WALTON:** Thank you. Yes, look, the purpose for our additional comments was to really just update some of the areas from our original submission which we still support. I mean, that was put in in October 1998 and there have been a number of changes that have occurred in that seven or eight months from a regional short-haul operator's point of view which we've felt that in earlier discussions might be of value and perhaps help clarify it. We're only going to look at it from the Great Northern point of view, although we have got a couple of other comments as well. So we'll keep it to that. There are mutual recognition issues, access and agreements and some experiences we've had with ARTC in the ensuing couple of months, and the effect of the environment in Victoria on our operation and business direction which might give some balance to the situation. Generally I'd like to think that it's fairly positive. So it's really an information brief to add to our original submission.

**MRS OWENS:** Good, thank you.

**MR WALTON:** With the environment here, since we submitted in 1988 [sic] we've seen V/Line Freight sold off to Freight Victoria, and that came into being with

effect

on 1 May, and we've seen that Freight Victoria have taken, via a lease agreement, the control of third party access to the system in Victoria, the intrastate system. We've seen Australian Transport Network indicate that they will be competing for intrastate work in Victoria, and thus become a fairly serious competitor for Freight Victoria, and that has an influence on Great Northern.

We see that final bids have just closed for the five passenger franchises, and a decision on the successful bidders can be expected in the next few months, and indicative bids have already closed for many of the support and workshop areas, including mechanised plant maintenance and track audit functions, and it's expected that short-listed bidders can expect to be notified in the next couple of weeks. That is of importance to us because we have been active in two of those support areas, one on our own behalf and another in conjunction with a major company involved in one segment of the rail industry.

Our business direction has not changed since the original submission - our core business functions, which you would have there. We think we've established ourselves as a niche market operator. We tend to provide a flexible, cost-effective and value-added service which enhances our customers' business, and we have found that that approach has been a particularly successful strategy over the last few months. We have kept with it because, as you would realise, Great Northern has developed over the years from a time when only the government operators had access to the system, and it started off as a supplier of locomotives and maintenance services to the major operators.

That has grown and we believe that we are pretty innovative in some of our approaches. In particular, we have multiskilling down to a fine art at this stage to survive. One of the areas which we have worked on in the last few months is as the provider of flexible and value-added services to interstate operators. To that end, we currently provide locomotive and crew support services to both Australian Southern and FreightCorp for their operations in Victoria, which has been a big boon for us. We have also been providing some work on the western line upgrade program, and we have recently gone into the intermodal terminal. We have a terminal in Melbourne, in Dynon, dual gauge, dual trackage, and we have recently commissioned an on-line bulk grain handling facility for FreightCorp within that terminal.

We have also established some well-equipped and strategically placed maintenance facilities in Adelaide and we have established a number of working relationships and alliances with people such as Goninan, Transfield and John Holland. Wagon and locomotive maintenance is an ongoing capability that is expanding, as is our locomotive rebuilding process. We have enclosed a copy of the company profile there for your purposes, so I won't go into any further details on our operations. It's all there for you to have a look at.

With the access issues, we have currently got track access agreements with both Hillside and Bayside Trains as well as Freight Victoria, and they were signed very recently. We were the first private operator to have an access agreement with the

VicTrack organisation, and since that time we now have the three access agreements and we are currently in negotiation with ARTC and we have an interim agreement with them which I will discuss a bit later. As part of that privatisation process with the TRU in Victoria, the new agreements were negotiated on our behalf - that went for all existing operators - by the TRU.

Unfortunately, the details are commercial-in-confidence and are covered by confidentiality clauses, which was a requirement laid down by the TRU. However, the new agreements are more flexible from our point of view and easier to work with than our previous arrangements, which is an interesting observation. It would indicate that, given the confidentiality of each operator's agreement, we'd suggest that there are variations between individual agreements, particularly in the access charges area, and from Great Northern's point of view we support that.

We don't have a great problem with that, and I don't think that we would be able to operate well in an area where a proscriptive and all-encompassing set of charges was placed on us which didn't take into account our unique area of operation. I think that would apply to a number of other small operators as well. I guess of course that's contrary to the ARTC approach where transparency of access charges is quite clear and the process of the TRU negotiating agreements on behalf of operators only went as far as the existing operators. Any new operators wanting access will be required to negotiate directly with the new access provider, which is Freight Victoria.

As I said, we have an interim access agreement with ARTC with a permanent one presently under negotiation, and we ran into a few problems here. It's not a negative thing. From our company perspective we haven't had any major problems dealing with the ARTC - it's been quite transparent - and in fact their attitude has assisted the smooth flow of the negotiation process. We are very much still, I'd suggest, in the transition period, and we will be for a while, but it's interesting to note that even in that seven or eight months there's been a change of attitude in negotiation processes. I guess we seek that as a very positive move for us, and it has certainly kept our costs to a minimum.

In ourselves, we have minimal interaction with ARTC, certainly on our own behalf, other than the occasional engine test run or transfer to position locomotive power. Most of our operations are normally on behalf of a third party where it's covered by the customer's own access agreements, and similar arrangements apply to our terminal shunt and transfer operations. However, we have run into some problems in the cost of terminal shunts, and this is something that I guess is part of the evolving process. ARTC have proposed a nominal fee for each shunt movement within the Melbourne railyards precinct, and we'd classify that as the area within the freight area up to the Bunbury Street signal and the Bunbury Street crossover or bridge.

While we don't question the amount of the fee or the requirement to charge the fee, it's the administration process to monitor such movements which is a real issue

for

us, because we do a lot of movements at the moment from one end of Dynon and the Melbourne rail precinct to the other, which means that we go outside the designated area which is classified for these shunt movements, and we possibly could do this two or three times for the one movement, given the restrictive nature and the intensive use of facilities. I think John mentioned before about trying to get something out of the Melbourne freight terminal - you know, there is an infrastructure problem there - but it would become an administrative nightmare for us. The thing is that we are accounting for every move, which is going to be an administrative headache for us.

We believe a more appropriate and cost-effective method would be to incorporate terminal operations like shunts such as this as a component of the line-haul cost. It's not a major issue but for us it has the potential to offer significant savings in the admin processes, and in fact for any operator where frequent terminal shunt movements are a large part of the business, in that case - it is in our case. I mean, I was saying before that our dealings with ARTC have generally been quite positive, and as yet we haven't come to a final agreement. They're prepared to listen and take on board our concerns and talk about them but, as I said before, I guess that's because - well, it's heartening to see that the operators can negotiate with an access provider to gain a mutually acceptable solution to what could be a unique operating scenario. We have found that to be a positive, a plus, at this time.

With mutual recognition we have had a need to investigate mutual recognition requirements for possible operations in both South Australia and New South Wales. Initially all our inquiries were directed through the Victorian Public Transport Safety Directorate, and full support was given to us by that organisation. I guess as we said in our original submission, our experience with the PTSD had not always been positive, however it's changed for the better over recent times. We've always been involved with the PTSD from the time of its inception, and as the process is evolving and reform is gathering momentum, it's always going to be expected that there's going to be some problems. But from our point of view, it's growth; it's improving, and there are positive things happening from our point of view.

I guess a lot of it has to do with the people in charge these days and the personalities that have passed through the organisation. In any transit situation it's always hard to get rid of some old thinking and perhaps bring in some new, but it's pretty positive at this stage. As I said, there's no doubt that it's a result of a maturing of the organisation since its formation, and a clearer understanding of the roles, and much improved customer relations brought about by, as I said, a change in directorship.

Subsequent to that, we found that we didn't need the mutual recognition in New South Wales, although the issue is still being pursued by us for South Australia for a future business opportunity. As I said, the cooperation with the PTSD had been very positive and beneficial in expediting the negotiating process. We didn't pursue to completion the New South Wales application, but it became obvious to us that the potential cost was quite high, and that's a comment that was in the report about costs,

and we fully support that. We mentioned it in our previous submission, although it

would be something that apparently is questioned by the Land Transport and Safety Division submission from Queensland, which I'd like to mention at the end of this, if I could.

It became evident to us, we felt, that the costs of perhaps gaining mutual recognition in New South Wales were going to differ significantly from those in South Australia. I can't give you exact figures at this stage, but that was the evidence that was coming to us at that time. So there are some differences, and that's to be expected. That's quite contrary to what the Queensland submission says. However, just on the Queensland submission, we'd like to take that on board and get back to you on that one. Unfortunately, time has prevented us from properly analysing that and how that affects - - -

**MRS OWENS:** But you have got a copy?

**MR WALTON:** Yes, we have, thank you.

**MRS OWENS:** And you've had a quick look at it, have you?

**MR WALTON:** Yes, we have gone through it but I need to discuss it, and work arrangements at the moment are such that we're having difficulty getting together because we've got people all over the state at the moment. So if you would like, we would be pleased to put in a written reply.

**MRS OWENS:** Even if it was just a short letter, that would be very useful. Thank you.

**MR WALTON:** Thank you. We'll do that. I guess overall some very positive initiatives have been achieved in the mutual recognition area but I still think we have got a long way to go and I think to achieve the full benefits across all jurisdictions it is going to be a while before that's - but it's all positive and it's going in the right way, from our point of view anyway. I guess I have got some general comments here in which you may be interested and which give some indication of the situation in which we find ourselves and they have some relevance to some of the recommendations in the draft report.

With Freight Victoria coming on stream on 1 May, I guess we would - initially in our discussions we saw that Freight Victoria as a potential competitor to us and no doubt Freight Victoria would see Great Northern in the same light, so we had to make a decision as to whether we looked at some areas and competed head-on with Freight Victoria or did we sit down with them and negotiate formal or informal agreements that complement each other's operations and, together, provide synergies which significantly enhance rail's competitive edge over road in Victoria. We reckon the answer was pretty obvious and we believe we stand to gain a great deal out of our good relationship with Freight Victoria and, I think, vice versa, rather than having a full-on competitive one. That was never our intention.

However, it has had a significant effect on our business direction, for obvious reasons. Those negotiations are continuing and we believe that both organisations can work together and work together very well because, as stated in your report, it is a fragile system, I don't think it can benefit greatly from too much aggressive full-on competition, particularly with ATN, as is stated, involved in intrastate - for some intrastate work as well. It is not a big - by the standards of the report it is not a high-volume operator in that most of the intrastate network is low volume. However, there are opportunities there and that's what we're looking at.

We feel from some of our comments in our original report that it is still - we still are not really happy with the - we argued against the fact of having an operator as the access provider. However, the government have made that decision and we have got to work within it. There is no point in complaining too much about it. We have got to work within it and hence the reason for the approach that we have. I guess that illustrates markedly how market forces determine how we are going to operate and I guess that is the same with any business.

We have some problem with the - we still believe, too, that the litigation process or the dispute process, by its nature, has some problems. We don't see any way around it, and I guess that it is yet to be trialled - yet to be tried. I guess the one thing we do know is that if we can avoid the dispute process and solve our problems other ways then it is going to be of benefit to both organisations, and that is fairly obvious, I would believe.

With a cooperative environment rather than a competitive one I think we will provide far more positive outcomes as far as the company is concerned. We also agree, too, that - there is comment in the report that this demand - it is suggested that a logical way ahead for low-volume regional freight networks - that the logical way ahead was for access to be negotiated between both parties to form a suitable agreement, and this would keep costs of both parties to a minimum and, obviously, our efforts and our actions would strongly support that approach, particularly in Victoria.

We see that the lifeline of our business for all of us is our customers. One of the things we have found is that meeting and exceeding our customer requirements is the operational challenge we face daily, and I don't mean that flippantly. I think the reason we are successful is that we are flexible and things change on an hourly basis and we have got to meet those requirements. A couple of other observations: as an operator providing crews and crewing trains on behalf of ASR, particularly on the western line to Dimboola, there are still obviously some problems in gaining train paths, and I think there was a comment made of that by a couple of the previous speakers.

I mean, the western line is being upgraded and that is going to have some positive effects but I still think that the issue for ARTC for access to the interstate - getting train paths out of Melbourne is still rather difficult. It does have a major impact on how we operate. We can supply a number of horror stories as, I am sure,

National Rail can, and the other operators, on that area that create real problems, and we crew and look after the Patricks train and that one is very time critical, so they have got problems. I am sure you have received a submission from Patricks.

**MRS OWENS:** We have.

**MR WALTON:** But an observation by us is that Dimboola corridor - the corridor to Adelaide - at the present moment is a real problem and it is not just the western line that is the issue - I am sure that it's train paths and access - but obviously the upgrading processes that are in place at the moment - it is not something that is going to happen overnight but it is happening and it needs to happen because - the problem isn't as big an issue for us on the Albury corridor, where we provide crews and other support services, it isn't such a big issue, but getting into Melbourne is, and shunting around Melbourne is a big problem for us. They're the things that affect our operations. That's all I really have and you have that written submission at this stage.

**MRS OWENS:** Thank you very much. I think you have given us a few very valuable insights, so I am particularly pleased to get the information you have got on your dealings with the ARTC. I think that is one of the areas where it is good to actually get it from the other perspective. We have spoken to the ARTC. I suppose they would be pleased to know that the negotiations are going reasonably well and that you're saying their costs are transparent. I was a bit puzzled though in terms of what the ARTC covers. They do cover both access to the track and to terminals, do they?

**MR WALTON:** They have got control in Victoria of the interstate network and that includes the line that runs past our particular depot into - and they're responsible for train control.

**MRS OWENS:** But not into the actual depot itself?

**MR WALTON:** No.

**MRS OWENS:** It's just the line that goes past - - -

**MR WALTON:** The access line to go past it.

**MRS OWENS:** I see, right. Have you found that you have needed to spend a lot of time actually in that negotiation? Is that a costly process for you?

**MR WALTON:** I guess from a small operator's point of view - and that is what we are - they are significant costs to us - any time is significant - but I guess that is the cost of doing business at the present moment and I guess any delays in fact do cost us but, I mean, the fact is that, on the other side of the coin, we are able to talk to them and, ultimately, at the end of this we may be able to come out with a satisfactory agreement which is far better in the long run than perhaps having something that is not satisfactory and having to prolong the agony. I think it is better that we sit down

and negotiate at the moment. It is starting to stretch out a little bit but we're able to work, but we would like to get that particular agreement in place because it does have some effect on our costings and the quotations and the other systems, of course, that impact significantly on those.

**MRS OWENS:** Yes. You talk about "a costly administrative headache" that doesn't sort of quite work out the way you want it and, at the moment, I presume, you have got to - there is a separate arrangement for the - you talk about the terminal operation costs and the line-haul costs and so you are saying it would be better to incorporate those into one - - -

**MR WALTON:** We believe it would be better that there is a component in there to take care of shunting-type operations and the transfer situation - transfer runs. I mean, we also run occasional trains out to Somerton and to CRT in Altona and that becomes a transfer run rather than a shunting run.

**MRS OWENS:** Yes.

**MR WALTON:** That's classified as a transfer run and there are no real problems there. Where the issue comes is once you go past the dwarf signal on the Melbourne rail precincts side of the Bunbury Street bridge, you are effectively doing another move and you have got to go out there to gain an access because we need to get access to West Dynon, one of our customers - or two of our customers, sorry.

**MRS OWENS:** Are you in a fairly unique position in terms of negotiating this agreement because you are doing something - you are a niche player with probably different requirements to other players?

**MR WALTON:** I think we are. I mean, the fact is we were the first but I think we were the first because the rail privatisation issue really started to take off in Victoria and I guess it's further advanced than any other state in Australia, and it was because of that that I guess Great Northern came into being in 93 and has spent a lot of time and effort over a period, for example, in gaining accreditation. You know, we had three or four goes in a period where the PTSD was setting up and, one of the reasons we took - or eventually went to an integrated mass system - we spent a lot of money on it - was the fact that the other PTSD at the time was developing itself, was maturing, and didn't know what the requirement was.

We had the ludicrous situation not that long ago - and this is history - of having an audit conducted on us and we were prepared and we knew the audit was going to be in accordance with AS4292, and it ended up being initially conducted under the guise of the stance of the Rail Safety Act of 1994, and that created quite an interesting period for us in negotiation but a lot of good came out of it in the end. I mean, we were a pioneer in those areas - it would be far different - and I guess that shows that things have improved and I think that one thing that people don't remember and I think that is fairly evident in this Queensland submission. I think they tend to forget that it's the Patricks, the CRTs, the SCTs who are driving these

changes. If we didn't

have those changes I doubt whether we would be where we are now. I think they tend to forget that.

**PROF SCRAFTON:** I just want to say that I think the submission is an excellent illustration of where GNRS has got to and there are some positive messages both in terms of access and the mutual recognition and I endorse Helen's comments. I mean, it is a very useful submission to have from an organisation like yours, but I just want to ask you about the mutual recognition example that you gave of New South Wales and South Australia and just get it clear in my own mind. Having got approval from the PTSD in Victoria you then go for the mutual recognition and you mentioned that - the words you used are that "the potential costs were still quite high and could have been a significant issue". Why are the costs of mutual recognition so high when you have already done all the work?

**MR WALTON:** I think probably there the PTSD do the negotiations on your behalf and I think that is the agreement that was made with each state. If you are in South Australia and you want to operate somewhere else then you would do it through the relevant public safety directorate. Contrary to the Queensland submission there is still - generally you're being assessed against a set of - depending on what you want to operate - criteria, that being AS4292. Each state still has - interprets or implements the - sees it quite differently. The cost of the annual fee, for example, at this stage varies in some states, the provision of paperwork still - there is still a need to - and I think it is only fair that what you have in Victoria generally may be fine but there is differing - the operation that you may want to have and depending where you want to operate might determine that your safety plan or your emergency plan has to change to reflect the change - the area that you can operate, and that is quite reasonable and fair.

**PROF SCRAFTON:** Yes.

**MR WALTON:** But also that takes time, you have got to negotiate it. It is done through the PTSD but it is no different from putting - you're putting effectively in another plan. It may be that instead of putting in the whole documentation you only have to put in a part of that documentation but it still takes time and it still costs money and to a smaller operator such as ourselves it becomes a significant decision whether you go for that particular job or that particular task or whether you let it go and you go in a different business direction. In South Australia, for example, I know the costs are different and I can't give you exact costs at the moment, but it would be cheaper for us to gain recognition in South Australia than perhaps it would in New South Wales, and I would suggest that the set-up costs would be different and I would suggest that the annual fee would be different.

**PROF SCRAFTON:** That's very interesting because there is a parallel there with road transport, where - and New South Wales used to complain for years that some of their road operators used to license their trailers in South Australia because it was cheaper and there was a big interstate row and it went on for years about it, but it is interesting that they are pricing their services on what they determine is a

cost-recovery basis and you are getting these different things emerging. One other question that I still am not clear in my mind about - and I appreciate you having first-hand knowledge of this - is the fee that you would pay in New South Wales, or South Australia, for that matter, as high as the initial fee that you paid in Victoria or, because it's mutual recognition, is there some sort of discount or whatever?

**MR WALTON:** My understanding - and I will take this on notice and check this out fully - I didn't do the initial negotiations and I haven't had the time to research it fully, but I can do that and I am happy to do that for you. There are a number of costs. There's your annual fee, which we all have to pay. There is the cost of setting up your systems - and that has been discussed.

Now, depending on what you have got to do extra - I mean, obviously you haven't got the set-up of your fees, such as the Victorians have it and they're negotiating on your behalf in our case, but you still have an annual fee in the states that you pay, so that's an additional cost and, I mean, that's fine; that's business. Obviously you are not going to have to supply - you may have to supply some documentation which is the minimal, but you may then have to spend some time modifying parts of that documentation - as I said, the operational plan, the emergency response plan, that type of thing - to satisfy the requirements of the state and I think that is probably, as much as some operators might complain about it, the realities of business. That's going to continue to happen, so obviously you are not going to have that same - I mean, if you spend \$100,000, for example - I just use that as a round figure - setting up your system in Victoria, then you're not going to be spending that sort of money necessarily starting off interstate.

To put that in context, I guess when we first looked at that we were looking at a number of business opportunities. However, our business philosophy was, as a niche operator, perhaps that we would operate - we didn't discount that we wouldn't operate interstate. I don't think any business is silly enough to do that. However, what we were saying is that we would probably do it as an alliance in conjunction with one of the interstate operators, and that is how we have done it so far. However, we are looking into the future for a number of things and in alliances with other industry people where we would be the operator, so therefore that is what started us off looking at that mutual recognition process, and I would like to think that if we came back here in two years' time that the mutual recognition process would be that much more mature and I think that we can't complain - yes, it is a complaint and Great Northern has every reason to - has been there right from the beginning and it has cost them money and it has affected their business direction and those sorts of things but we've seen the other things as positives for us and built on them, and that is what we will continue to do.

**PROF SCRAFTON:** I think the point you made earlier is very important, isn't it? That as one of these early new operators into the business you have been part of the developmental process of making the system work, both from your side as an operator but from their side in the bureaucracy, setting up these safety organisations and honing out their procedures.

**MRS OWENS:** Can I just clarify something, too, which I have been wondering about? You mentioned that sometimes you have to give some additional paperwork in different states - different operational plans, emergency plans or whatever. Are there good reasons for those differences between states? Why should an emergency plan be different?

**MR WALTON:** I guess we put that in context. I mean, every operation invariably needs a safety plan or an operational plan. The need for it is constant throughout; it is the circumstances that change, so therefore it would be really no different if we had an operational plan for, let's say, the transfer of - I don't know - transfer run from say CRT to Geelong, for example, and then perhaps running a transfer train or something similar - say a wheat train - from Ouyen to Dunolly, or something like that. There would be lots of similarities in that case because there are a lot of operational - I guess where the change comes is the operational factors; you know, the safe working systems, the regulations that apply for operation in that particular state or jurisdiction.

**MRS OWENS:** We will have to ask our next participants but I still can't understand why some of those requirements should be so different between jurisdictions. It somewhat escapes me.

**MR WALTON:** If you looked at South Australia, Victoria and New South Wales and Queensland one of the requirements of AS4292 is that you provide, for example, a relevant, say, operational plan; in this case let's say it's the emergency response plan. Now, the requirement is the same throughout every state; however, the emergency response plan that might apply to our operation in Victoria would be, just because of locality and environment, etcetera, the same document but written slightly differently to take into account local conditions. The system says it's needed but because there are different operational regulations still in different states and locality, operational requirements, track - there is a whole plethora of requirements which could see it change. The need for it is still there and that is constant throughout every jurisdiction. It is just that it is change of circumstances that you have to - so there may be a lot of similarities; it is just that you have to change - dot the i's and cross the t's to perform.

**MRS OWENS:** You can't ever sort of totally get over that requirement then?

**MR WALTON:** I don't think so, no. I don't think you're ever going to. I think you have got to be very careful if you take that to the next level because there has been some comment in the draft report about whether you have a prescriptive system or whether you have a system that can blend to the local conditions. I think it would be just as counterproductive to have a system - I guess harmonisation is going to - it is an objective that we need to strive for, and we can do a lot of work in that area, and that will then reduce some of the extra requirements but I don't think you're ever going to get away from the need to do some extra paperwork or change things to suit the local environment. I think it is an operational necessity at this stage and I don't see that being changed in the short term.



**MRS OWENS:** It is just with other areas of regulation you often find that there is mutual recognition which involves you going to one jurisdiction, get your accreditation or whatever it is, and then that applies in any jurisdiction. We were just talking yesterday about road - you know, if you get a car licence you can drive your car in Victoria but you can also go and drive it in Perth; the licence goes with you. You don't have to then go and apply in Perth to fulfil extra requirements.

**MR WALTON:** I guess there is another parallel there with the Australian coach licence for driving buses; you know, that is an Australian licence now which I hold, but that came in a number of years ago. I think probably there is the accreditation - I guess it is alluded to in the Queensland submission. There are the accreditation requirements and there are the regulatory requirements; that's a fair comment. We know about the changes in those and I think that is where - the accreditation processes are fine but, I mean, for example, if we were to operate in New South Wales presently, by mutual recognition we may get accreditation to operate in New South Wales but, until such time as we satisfied the regulations regarding radios and communications, then we may as well not have it because we wouldn't be able to use it. We would have to conform to those operational regulations rather than the accreditation. They do tend to overlap each other but there is a difference between the two.

**MRS OWENS:** Right.

**MR WALTON:** Accreditation can be fine and I think you could get that down to a reasonable level of commonality but there is a long way to go yet before we can get the regulation and that's being handled elsewhere in that report and other reports.

**MRS OWENS:** Yes, okay. I think that has probably seen us out. We have got the Queensland department who are actually going to come on-line on a telephone conference and I think they are waiting now so we might close off this session. Is there anything else you would like to tell us, Graham?

**MR WALTON:** No, not at all - not at this stage.

**MRS OWENS:** Thank you very much for coming and for the submission. I enjoyed the discussion. I think there are a few things you have raised with us that we haven't actually heard from others, including your discussion about the role in Victoria in trying to get access under the new regime. I think you are the first that's been able to tell us about what that is going to be like in terms of dealing with Freight Victoria and trying to develop an approach which is not a competitive approach.

**MR WALTON:** Perhaps you should ask us in six months' time.

**MRS OWENS:** We'll be finished the inquiry in six months' time, I am sorry. Thanks very much.

**MS STEHBENS:** Everybody gather around the phone. Helen Stehbens, director, rail and ports.

**MR FORD:** Greg Ford, manager, rail safety accreditation for Queensland Transport.

**MR WHITEMAN:** Terry Whiteman, acting director, transport, economics and strategy branch, Queensland Transport.

**MR NASH:** Chris Nash, manager, rail policy, Queensland Transport.

**MRS OWENS:** Thank you very much for that. None of the others want to make any opening remarks? If you don't, we'll just go straight into asking you a few questions.

**MS STEHBENS:** Okay, that would be great, thanks.

**MRS OWENS:** Thank you for that and thank you for the submission. We've got that and we've got some attachments that you sent a little later to us, and we've got a few questions relating to the submission and just to the attachments as well. I think one of the issues that we are very pleased to be getting submissions on is this issue of safety and I'm assuming that our discussion today will be largely relating to the submission and the safety issues, rather than other broader Queensland Rail issues. Is that your understanding?

**MS STEHBENS:** Hold on, Greg's just here. Sorry, we've had to do this with a whole lot of other things going on at the moment, so we're a tiny bit disorganised.

**MRS OWENS:** That's fine, don't worry. We have got a submission which has come to us from Queensland Transport which is basically about the accreditation processes and issues relating to safety regulation. We thought that the best way of dealing with today is just to focus on that particular issue but if there are other issues relating to Queensland Rail that you'd like to raise with us while we're here, that's fine too.

**MR FORD:** It's Greg Ford here.

**MRS OWENS:** Yes, Greg.

**MR FORD:** The submission you may be talking about, Helen, is one that I prepared. It was under the Queensland Transport heading but it was prepared on behalf of all the Australian rail safety accreditation authorities. Is that the one you're - - -

**MRS OWENS:** Yes, that's what I'm talking about. We think this phone hook-up is meant to be about that submission.



**MR FORD:** Okay, I wasn't aware of that.

**MS STEHBENS:** We didn't get that message, sorry.

**MRS OWENS:** Because I don't think we've had a Queensland government submission.

**MS STEHBENS:** There was an original Queensland government submission, yes.

**MRS OWENS:** No, in relation to our draft report. There are draft report hearings.

**MS STEHBENS:** We didn't get the message that it was the safety issue, sorry, so it might be appropriate for Greg, on behalf of that - which is basically an intergovernmental committee - to deal with that separately. I'm sorry to put you out and cause all this bother.

**MRS OWENS:** That's all right. We've got Greg there, so we could just ask him some questions while we've got him. That would be useful. Are you prepared to do that, Greg?

**MR FORD:** I could do my best but I wasn't prepared for this today, so I don't know whether I've got all the information with me that I might need to address that - - -

**MRS OWENS:** That's fine too, because you can take it on notice. If there are things you can't answer today, just take it on notice and you can get back to us or one of the team will ring you up and just clarify a few things later when you're back at your desk. It's obviously a bit difficult if you haven't got the material or you're not sitting at your desk where you can just get hold of things. But some of the questions are fairly straightforward ones and we don't want to actually get down into the technicalities of safety regulation and we don't necessarily - you know, we don't want to get right down to the detail; we just want to talk about some of the broader issues.

**MR FORD:** That's fine, Helen. The only other thing I would say, because it is a submission on behalf of all the accreditation authorities, some of my answers might need to be restricted until I talk to those other authorities.

**MRS OWENS:** That's fine too, really. That's not a problem. I think a lot of the questions we just wanted to ask you about were really points of clarification, if you like. But if you run into problems with any of those just say, "Sorry, I'll have to come back to you. We'll clarify that at a later date."

**MR FORD:** That's fine, Helen.

**MRS OWENS:** There's absolutely no problem with that. You've given us an attachment which I might just clarify the status of. You've given us an attachment which is National Guidelines for Rail Safety Accreditation Applications. Are they final guidelines? They're dated 9 April 1999.

**MR FORD:** Yes, they're final, Helen. They're now out in use and being published and handed out to industry.

**MRS OWENS:** And they're all being fully implemented in all the jurisdictions, as far as you know.

**MR FORD:** As far as I'm aware, yes.

**MRS OWENS:** Right. There was also attached some flow charts which were different processes relating to rail safety accreditation. I don't know if you know the document, Process 1 and Process 1A, relating to mutual recognition. The first one was rail safety accreditation, Process 2 was occurrence notification, and so on. There was a whole range of them.

**MR FORD:** Yes.

**MRS OWENS:** Are they part of the guidelines or is that something separate?

**MR FORD:** What we did, Helen, was the accreditation authorities, in conjunction with the Rail Safety Committee of Australia, said not only do we need to produce national guidelines to help industry know what the accreditation process is, but to make sure that we do things consistently in the various jurisdictions - that we actually have to have some processes for ourselves that we each follow so that there aren't differences and that there is consistency in the accreditation process. So we developed those flow charts for the major processes and we are actually developing further documents to supplement those flow charts which actually go into the detail of how we will accredit people or carry out audits or carry out investigations in each jurisdiction.

**MRS OWENS:** Are they part of the guidelines or are they just an administrative document?

**MR FORD:** Administrative documents.

**MRS OWENS:** So that's their status?

**MR FORD:** Yes.

**MRS OWENS:** Okay. Are those flow charts actually in use? Are they the exact processes that are now being used in all states or are they still just being implemented?

**MR FORD:** They're being implemented at the moment. I think most states use them but I couldn't say to you that every state is doing it exactly to that standard at this precise time. Western Australia have only just passed their legislation earlier this year and may still be developing some of their own processes.



**MRS OWENS:** In your submission you state that the problems that we raised in the draft report relating to safety accreditation and mutual recognition that have been put to us by some of the participants earlier in the inquiry - you're saying that they've mostly been resolved now, that these things have been worked on over the last few months and you've got close to resolution and it's no longer an issue. We're still getting participants that are saying that there are still some issues, that they feel that the mutual recognition process isn't working as well as it should. I don't know whether you'd like to comment on that or take it on notice.

**MR FORD:** It's interesting. The only thing I would say is that there was a Rail Safety Committee of Australia meeting held only last week.

**MRS OWENS:** Yes.

**MR FORD:** The industry representatives from ARA and from three other industry participants actually wanted a letter to go out explaining that they were totally happy with the mutual recognition process as they now stand. That was a suggestion from them because they felt that some people may have been saying that there were problems that didn't really - - -

**MRS OWENS:** We've had a submission - I don't suppose it would surprise you - from Patrick Stevedores in relation to this issue. They were referred to in our draft report and we put in a fairly lengthy box about their experiences at the time. I might refer you to the submission; you might want to take it and have a look at it later. They've written us a short letter as a formal submission, saying that there are still problems in relation to new entrants, and the needs of new entrants haven't been totally acknowledged. I don't know whether the Rail Safety Committee, when you talk about industry representation, has any new entrants on that committee. Would there be any on that representing industry?

**MR FORD:** There is an Australian Railways Association representative who certainly represents many, many new entrants. My understanding is that several of them would be members of that association.

**MRS OWENS:** Right, okay. I think it might be better for you to have a look at this submission, if you get time. We've also just had some discussions this morning with Great Northern Rail Services about the mutual recognition process. I think Mr Walton, who came before us, was saying that he feels that some of these issues - they're still there to some extent but I think he was expressing some degree of confidence that they would eventually be resolved; that things were moving in the right direction. He's sitting here in the audience.

So I think I've interpreted what you said correctly but you may wish to get hold of Great Northern's submission as well, where they do discuss mutual recognition. They spoke about their experiences in South Australia, Victoria and New South Wales and referred to the fact that the annual fees can vary between states and the paperwork varies between states, but when we talked further about that suggested

that some of the additional things that they were required to do in terms of emergency plans and so on are necessary in the context of the particular jurisdictions.

**MR FORD:** For a start I'd just like to say that I personally haven't had any dealings with Great Northern or Patricks, so it might be a better question to ask some of the other accreditation authorities to address those issues, but I would say that I'm talking about mutual recognition processes. I think the accreditation authorities acknowledge that there are some issues in relation to fees which we need to resolve but we don't think that's an issue that really is about the mutual recognition process.

**MRS OWENS:** I suppose there's the question as to whether - especially when there are these ongoing applications for accreditations, not the initial one - whether you need to have fees at all in the other states - why you need to have accreditation fees other than in the initial state in which accreditation was sought.

**MR FORD:** There are other issues besides the initial application that the other states deal with and that is, for example, even the monitoring of the railway's safety performance throughout the life of their operation in each of the jurisdictions.

**MRS OWENS:** Is it absolutely necessary for each jurisdiction to do this monitoring? Could you not say that the initial jurisdiction should take responsibility and the other jurisdictions accept that, or is the monitoring relating to specific circumstances in each jurisdiction?

**MR FORD:** It does relate to the circumstances in each jurisdiction but certainly the risks can vary in the different jurisdictions and also the legislation at the moment requires us to monitor them as to safety performance.

**MRS OWENS:** That's the legislation within each state?

**MR FORD:** Yes.

**MRS OWENS:** Yes, okay.

**PROF SCRAFTON:** Greg, it's Derek Scrafton calling. One of the things in your submission that seems to upset the accreditation people is the criticism about the time that it has taken to get some of the organisations accredited. One of the defences is that in many cases the laws were only passed in the very recent past but I don't understand the relevance of that. The operators themselves have wanted to get onto the tracks for a number of years and the fact that the process has been long in gestation is not of great relevance to them. It may not apply in Queensland and I understand one of the problems you've got here is that you're speaking to comments which must have been made in relation to other jurisdictions but I wonder if you have a comment on that.

I realise that until a law is passed then bureaucratically you can't actually do anything but that's no great consolation to the operator who wanted to get there

maybe three years ago or four years ago, as the case may be. More importantly, are all those things behind us now? Is it all smooth sailing from here on?

**MR FORD:** I wouldn't pretend that there won't be some issues that still need to be resolved but I believe that any issues would be of a minor nature and easily resolved. The issue about time taken - I would quote an example from Queensland where Queensland Rail sought mutual recognition of a service across Australia for the Great South Pacific Express, and they applied for mutual recognition in other states that didn't have their legislation in place, and that was South Australia and Western Australia at that time. The advice that they were given then was that there was no legislation which allowed them to get mutual recognition, however that didn't stop them operating their services because all they in fact needed was agreement with the access authorities. Track owners in each of those states didn't need accreditation in those states if they had agreement with the access authorities.

I think what the accreditation authorities are saying is, "It wasn't an issue for us that those states' accreditation authorities were stopping third parties operating on the tracks. It was the fact that there were just no accreditation requirements other than an access agreement."

**PROF SCRAFTON:** I think also you refer to this in other areas, too; that some of the criticisms that we have made in our report are not necessarily applicable to the accreditation authorities but relate to the track owners. One of the things I think we have taken note of in your submission - I think it's at the bottom of page 2 - where in our report we have not differentiated clearly enough between safety issues and what we're now calling operational standards. The wording in your letter is "operational standards".

We've had that discussion with other people and in our final report we intend to overcome that or to clarify that, to make sure that it's presented in such a way that confusion cannot occur, but it does raise the matter that some of the problems facing the industry are not within the purview of the accreditation authority and the track owners reserve the right, for whatever reason, to - and I use the term advisedly - duplicate the process as far as an operator or a potential operator is concerned. I know there is not a lot you can do about this, and you do acknowledge it in your report, but it is going to be a continuing problem, at least for a while. Is that right? Is that a fair conclusion?

**MR FORD:** I think there are some things we can do about it, and we're trying to address that. Our view is that access agreements shouldn't contain issues that are clearly matters for rail safety regulation. However, obviously there are access providers or track managers or owners, or whatever you want to call them, who obviously need to make sure that the interface arrangements are appropriate - for example, that the third party operator's rolling stock is going to be to the appropriate gauge, and clearances, etcetera. I mean, that is an issue that they have to obviously set some standards for. I appreciate you saying that you're going to clarify these issues in your final report, because that is an area of confusion that has come about

for a long time, as to what role the access providers have in setting standards compared to the accreditation authorities.

**PROF SCRAFTON:** Thank you.

**MRS OWENS:** Do you feel that in some instances the access providers go beyond those fairly limited responsibilities that you're suggesting and encroach into the territory of the accreditation authorities? We have had some complaints about the Rail Access Corporation in New South Wales perhaps overdoing it a bit, and I'm not sure whether that's the case. Has that been brought to your attention?

**MR FORD:** I have heard those issues raised, and I've raised it with any track access providers that we accredit where I've said to them there are certain areas which are our role, and that's clear. However, at the same time, it's not up to me, if an access provider or a third party operator decides to agree to put something into some commercial access agreement, that's really their decision, it's not mine.

**PROF SCRAFTON:** Yes. Well, there's certainly not a lot you can do about it - you're quite right - even if you acknowledge that it was a continuing problem. You're quite right, and we acknowledge that. I think in our discussions just in the last few weeks, in our hearings, we are beginning to get our views a little clearer about this, and we can understand how difficult it has been in setting up these organisations.

I would just like to go back to one issue also that has been raised with us about the cost recovery nature of the fees. I'm not sure if the submission actually refers to your organisation, but it's pointed out that not more than four individuals are involved in the process, so that it shouldn't be unnecessarily costly. I have a couple of questions. One is, Greg, is that a fair assessment of roughly what it takes in a state? Is it roughly a sort of four-person type of job? Or does it vary between one person and a dog show in one state and 10 or 20 in another? I ask you this because I have no feel for the size of the costs that are being incurred within the departments or within the appropriate safety authorities on the one hand, and what fees are being charged.

**MR FORD:** I'd say the people in Queensland are of a substantial quality, for a start, but - - -

**PROF SCRAFTON:** Yes, you're quite right, it's not just quantity. But, no, just give me a feel - is that four-person size the size of your Queensland organisation, or is that somebody else's comment? I think I read it somewhere that - - -

**MR FORD:** It is the size of our organisation at the moment. However, I think it's difficult to say. It depends on how much you are regulating, how many railways there are, and the size of them, etcetera. So I can't give you a definitive answer.

**PROF SCRAFTON:** Yes, but do you have a feel for it? Is it 20 people in New South Wales and two in South Australia? I mean, it would help explain why you've got a variation in fees. That's why I'm asking the question. If the fees are

based upon cost recovery and even if it's not a straightforward - I think in your submission you point out it's not just a straight matter of numbers of organisations that are being administered and so on, but the extent of the inquiry required in order to achieve accreditation and so on. I just wondered if there is, among your member or your contemporary organisations in the other states, a wide variation in the size of the organisation.

**MR FORD:** I think there'd be agreement that if we all followed these processes the numbers of people you'd need would fall out appropriately.

**PROF SCRAFTON:** Right.

**MR FORD:** I would probably refer you to the IPART report if you wanted to talk about New South Wales where they've spoken about a couple of things that they do that perhaps other states don't do at the moment.

**PROF SCRAFTON:** That's right. We have a copy of the IPART report. You actually extracted some of that in your paper for us.

**MR FORD:** Yes.

**PROF SCRAFTON:** Yes, thanks for that.

**MRS OWENS:** With the IPART report, Greg, do you support their approach to a move to a risk-based charging mechanism?

**MR FORD:** That's interesting. We've had some discussions amongst ourselves at accreditation authority meetings and, whilst we don't really have a problem with the principles behind it, I guess one issue that we're concerned about, that we would need to have some more discussion on, is the final recommendation where we actually charge fees - I think they're suggesting per number of accidents that you have. We do have some concerns about whether the industry is ready for that yet, and whether in fact we've got total compliance to reporting as it is, and whether we might in fact, with that sort of structure, drive some reporting underground.

**MRS OWENS:** Yes.

**PROF SCRAFTON:** Yes.

**MRS OWENS:** It may be difficult to implement, too.

**PROF SCRAFTON:** In your report, Greg, you mention that you wouldn't be very impressed with the idea of getting an extra level of regulation for interstate operations. I know it's very early days for you guys and a lot of you have been in business for a year or two years maybe at the most, but often in submissions we receive people talk about the desirability of having one national regulator, and presumably you talk about that in your organisation. What is the feeling about that?

Is the feeling that it's too early days or that you might get there in the long run, or is it desirable or not desirable?

**MR FORD:** We hear so many times - as you said - different people say, "We need a national body." Our feeling is that first of all we need to address why we need that national body. What are the issues that it will resolve that the current structure can't resolve, and why is that, and what impacts will that have on structures that are there, or the industry at the moment? Issues that are raised, whether it be fees or consistent processes across the states, I think we can show can be dealt with without a national body, so why do we want to move down that path?

The other real fear, I believe, is that if we're going to have a national body then if it's simply for the interstate network, we haven't even really defined the interstate network yet. I have not seen that defined yet.

**PROF SCRAFTON:** No, and we made that comment in our report. That proved a problem for us, too - you're quite right.

**MR FORD:** And there are a lot of people that operate in many jurisdictions and I don't know of any operator that only operates on what may be defined as the interstate track. So if you just had a national regulator of an interstate track, they may still have the same problems or even worse problems with different regulations, depending on whether they're on interstate or intrastate track.

**PROF SCRAFTON:** I think we would agree with that. The idea of having an additional regulator is not a sensible outcome. The question was whether - as you said earlier - the problems are such that you could get by with one national operator, or whether the problems that you create by that are different but still as numerous as those we have now with each state having one. I appreciate those comments.

**MR FORD:** We also need to consider the effect that that might have on the very many intrastate operators.

**PROF SCRAFTON:** That's right. I understand that.

**MRS OWENS:** I suppose we have had to look at it, Greg, from all angles, and one of the angles is to look at it from the point of view of the players in the system. When I started looking at this area I thought, golly, this is a really complicated system. At one stage I thought, "This has gone totally mad." You've got a process where you have to accredit track owners and operators, and the operator has to go to an accreditation body for accreditation and to the track owner to accept safe working rules. That could get worse if there are more track owners in the future, and that's the way it may be going if there's a sell-off of vertically integrated entities in the future. The operator has to go to an accreditation body in all jurisdictions that they operate in and put in an application, despite having mutual recognition - and I'll come back to that in a minute - and then there are different operating standards which can apply in different states, and different fees can apply in different states.

So when you put it all together, it does look like a fairly messy system. I think just listening to you, I can understand why the system has evolved in the way it has, but it's really a question of is there any way at all that this can be simplified.

**MR FORD:** Just on a couple of issues that you raise there, Helen: the first one was about the operators having to put in an application in each of the states. That's not correct. Under the new national guidelines for process, there's a form that an operator would fill which clearly shows which states they want to operate in and perhaps if their principal operations were in Queensland, they would send that to me, and I would then deal solely with all of the states that that operator wanted to operate in to facilitate mutual recognition of their accreditation. It is only one application.

**MRS OWENS:** Yes.

**MR FORD:** The other issue with them having to comply with different track managers - I think there was an attempt to recognise that some years ago with the establishment of ARTC. However, there are questions now being asked with respect to ARTC: if ARTC was meant to be a one-stop shop to determine safe working rules, ARTC does not own all the track that these interstate operators operate over, therefore what has it resolved? My concerns would be exactly the same if we were talking about a national regulator. We don't want to see the same issues come up, and just end up with an extra regulator.

**PROF SCRAFTON:** Yes.

**MRS OWENS:** Yes.

**PROF SCRAFTON:** Just going back to your initial point there, Greg, it is on the record, but I think it's worth repeating to you, that in your submission to us the Great Northern Rail Services described the processes in practical terms as you have set it out for us, and they make the comment that their experience with, in their case, the Victorian Public Transport Safety Directorate has been very positive in recent times, and the words they use are:

The cooperation of the directorate has been very positive and beneficial in expediting the negotiation process.

That was in terms of mutual recognition. So I wouldn't want you or your colleagues to think for one minute that everything everyone tells us is negative.

**MR FORD:** No.

**PROF SCRAFTON:** And there's no doubt that in the recent past, that is even since the draft report was written and released, obviously progress has been made. I just want to acknowledge that in two submissions, one following the other, we have heard the same message. So, you know, we would be happy for that to be fed back to your

colleagues.

**MR FORD:** Thanks for that, Derek. We don't want to pretend either that we haven't had our problems and there haven't been issues to address, and that there aren't still a few issues that need to be resolved, such as fees, for example, that you raised. But it is a fairly new system of regulation in this country. As I said, some states have only just put their legislation in place, so obviously it is going to take some time, and as you said, I think, between your draft and submission and the original submissions you had to your inquiry, to now, significant progress has been made on a number of them.

**MRS OWENS:** I'm just coming back to this issue of track owners and having a more complicated system in the future. I mean at the moment we've got the ARTC dealing with interstate networks, we've got the RAC looking after New South Wales, we now have Freight Victoria which will need to provide access to any operators within the Victorian network. We will have a privatised Westrail freight which will also be in a position of offering access within that state.

**MR FORD:** Yes.

**MRS OWENS:** So there's the issue not just of those operators that are going over interstate routes, but those operators who may wish to go and actually set up business in another state, for example FreightCorp, the New South Wales freight organisation, taking the contract for Leigh Creek. There's then the issue of them having to get access to the tracks in those other states and fulfil the safety requirements in different states. So it's a bit more complicated than just trying to get uniformity for the interstate operators, and it's just one of those other things that has been sort of occupying my mind trying to sort of work out how can you get this system simpler.

**MR FORD:** You are exactly right, and I think in fact talking about interstate versus intrastate and borders is really clouding the issue. It doesn't matter. You could operate only in Citytrain area in Brisbane, but also want to operate in the Citytrain area in Sydney and face the same issues as any interstate operator will face - so if we can get over that issue first. I think the crux of this issue is how do we deal with - industry has asked us and I think industry wants non-prescriptive regulation. Now, whilst we take that approach, and I support that approach, I think we need to ask ourselves, "Well, that then allows every track manager to determine the safe working systems that are most appropriate, or they feel are most appropriate for it."

That then in turn means that any operator has to obviously work to those safe working systems, not to all safety standards, because the ones that don't interface they can develop their own. But they have to comply with the safe working systems of the track manager. Now, whilst we have non-prescriptive regulation, and even though we talk about developing codes of practice over those systems, if they're not mandatory that problem potentially always exists for the managers to have different standards. That's something we've got to get a grip on. Now, either industry recognises they want totally non-prescriptive regulation as they've currently got or

they want total

uniformity in which case the only way out of that would be to have some prescriptive regulation.

**MRS OWENS:** Yes, it's a bit of a trade-off, isn't it, between prescriptiveness and consistency. I suppose it's a matter of how do you address that trade-off. As you say, there has been this view, and I think we expressed the view in our report, that you don't particularly want particularly prescriptive regulations. But if it means that you can have a whole lot of different approaches across different owners and different jurisdictions, then that causes some problems and lack of certainty for the industry. So there is a trade-off.

**MR FORD:** That's exactly right, and if we keep hearing - yours isn't the only report that has mentioned this issue, it has been mentioned many times and that's why we raised it. It needs to be clarified whether it's an accreditation issue or a track access issue. But if we're going to stop these issues from being raised, then we either need industry to accept that there will be these inconsistencies, or else somehow convince track managers that they should go down consistent and uniform safe working systems on their tracks, and without that we might end up being driven to prescriptive regulation. I notice that in your report, and I think I made mention of this, it said that these problems didn't seem to exist in the United States, and I think I noted that the United States is very prescriptive in their regulation and that's why they don't have the issues.

**MRS OWENS:** Is it so prescriptive for the class 2 and 3 railways?

**MR FORD:** I'm not sure, Helen.

**MRS OWENS:** I thought there was less prescription there and that was deemed as being fundamental to their viability.

**MR FORD:** I couldn't answer that question.

**PROF SCRAFTON:** To the viability of the small operators. Nevertheless, that's right. We would raise that question that whether that prescriptive regulation in the US only applied to class 1s or to class 1 and 2s and not to 3s and so on. But nevertheless, I mean we seem to be in agreement that the extent to which you have prescription is hopefully limited to one or two specific areas that are absolutely vital to railway operations or safety or whatever it might be. But I think there's broad agreement certainly among the people that have appeared before us and yesterday we met with the chairman, or the convener, of the technical working group that was dealing with these operational standards, and his attitude was much the same as yours. I think maybe the answer there lies in just working this through and hoping that the problems that we're now talking about, or the problems that we've been talking about in the very recent past, are being overcome. I hope that's the case.

**MR FORD:** So do I, Derek.

**MRS OWENS:** Can I clarify something else? In your submission on page 7 you corrected us on something. I don't know whether you've got the submission in front of you, but on page 7 you mentioned that we had mentioned that there were additional requirements and you then go and say:

There are none and never have been and this is one of the great myths that some railway operators continue to push despite the myth being exposed in 1997.

We've got the guidelines from 1997 that seem to have additional requirements in them and different additional requirements for different states. I couldn't quite understand the point being made in the submission.

**MR FORD:** Well, I think the point was that we were trying to say that in fact we were in error and that submission that we've put to you - the last couple of sentences there say that the accreditation authorities recognise that to provide a guide with the list with such a heading was very unfortunate, and the new national guidelines are attached.

**MRS OWENS:** Yes, and they don't have any attachments that look anything like that, do they?

**MR FORD:** No. When we went through those the states, I guess in their infancy, their accreditation authorities and those that were being established said, "Well, under the IGA we had to list any additional requirements we had." So each state listed certain things under the heading of Additional Requirements, but when the issue was raised by industry we went and had a look at those and said, "Well, in fact they're not additional requirements. All of these things are required under the Australian standards or under legislation anyway and they're the same in each state, so they're not additional requirements," and therefore we took them out of the new national guidelines. But yes, they were there and that did lead to quite a bit of angst for the industry when they saw all this great list of additional, or so-called additional, requirements.

**MRS OWENS:** There was something else I wanted to clarify with you and I just can't quite find it at the moment. But you said somewhere that you didn't believe that the statement - there was a statement in our draft report that said:

It is within the scope of the inquiry to examine some of the tools used, such as the safety accreditation process, insofar as they are part of the inconsistent regulations impeding the efficient operation of interstate rail.

You seem to think that that wasn't appropriate for us to be looking at that.

**MR FORD:** I just don't know where that was.

**MRS OWENS:** It was page 7 in the second paragraph. You said, "Given the explanations provided in this response I do not believe the statement" - and then you

go on to it - "is correct."

**PROF SCRAFTON:** I understand your point there, Greg. What you're saying is that given what is in this submission that you don't believe that that statement is correct.

**MR FORD:** That's right, given - - -

**PROF SCRAFTON:** Right, I understand that.

**MR FORD:** I explained in this report, I don't believe that the safety accreditation process really is impeding the efficient operation of interstate rail.

**MRS OWENS:** So you weren't questioning whether we should be looking at it? Right, okay, I understand.

**MR FORD:** I was never questioning your right to look at it, Helen.

**MRS OWENS:** No, that's right.

**PROF SCRAFTON:** The same comment applied further down the same page in relation to interim accreditation. We made a comment about it but in a way it is now outdated by the progress that has been made. There is no need for interim - whether or not our statement was correct or not, and it certainly wasn't according to you, in terms of Queensland. But even if it had been it really isn't of consequence now.

**MR FORD:** That's right.

**PROF SCRAFTON:** There is no such thing because now we have all of the accreditation regimes in place.

**MR FORD:** That's right.

**PROF SCRAFTON:** All right, thanks for that.

**MRS OWENS:** I think the other thing you did say on page 11, and again I'm trying to find it: when you're talking about the IPART report you seem to be implying, and maybe I've misinterpreted what you were saying, that somehow we are questioning whether there should be safety regulation and safety accreditation. I just wanted to make it clear that we certainly didn't want to leave you with that impression.

**MR FORD:** I think what I was trying to say there is that rather than just the accreditation authorities get on their defensive all the time on these issues, and some people may be asking the question of whether safety accreditation provided any benefit to anyone other than government and the community, it comes back to some discussions, I think, even of whether fees should be paid by industry or whether

government should just pay them because they get the benefit that's perceived by some people. I just wanted to quote from the IPART, from an independent body who talked about safety regulation and the benefit that not only does it bring to society but the rail industry as a whole.

**MRS OWENS:** Yes. Now, I think we've both exhausted our questions on your submission - - -

**PROF SCRAFTON:** Greg, I have one comment though that I think Helen and I ought to put to you: the way this submission from you appears in our documentation is from Queensland Transport. But I need a reaction from you, I think it might be better if it was a submission from the Australian Accreditation Authority or the - I've forgotten the proper name of your group - rather than having this - simply because it came on Queensland Transport letterhead, making it look as if it's a Queensland Transport submission. How do you feel about that? We don't care one way or the other, but we would like it recorded properly, because it will appear in the - aside from any quotes that we take from it, any comments that we make on it, it will appear in the appendix as a submission from - the way it appears now is a submission from Queensland Transport and I'd like your views about how you'd like it recorded.

**MR FORD:** I would prefer if it was recorded as per - I appreciate that it was on Queensland Transport letterhead, but I signed that letter on that submission for and on behalf of the Australian Accreditation Authority, so that's how I'd prefer this - - -

**PROF SCRAFTON:** Right.

**MRS OWENS:** Yes, I think that would be the appropriate way to do it and it probably would have avoided some confusion with your colleagues today and they're probably sitting there wonder what on earth they're doing there.

**PROF SCRAFTON:** Or gone.

**MRS OWENS:** Have they gone?

**MR FORD:** Not all of them. They've remained by way of moral support.

**MRS OWENS:** That's very good. I don't know if we really want to get into Queensland issues today, because we haven't got our material in front of us and we don't have a submission on the draft report, so I think maybe we might get back to you on some issues relating to Queensland after the hearings are completed. Is that suitable to you, Helen?

**MR FORD:** Helen is one of those who left, but Chris Nash still remains and that sounds like an appropriate approach.

**MRS OWENS:** Good.

**PROF SCRAFTON:** Similarly, if you want to take the initiative to raise anything, well, simply let us know.

**MR FORD:** Thank you for that.

**MRS OWENS:** I'd like to thank you, Greg, for answering those questions so clearly and I'd like to thank you - the submission was actually very detailed getting down to the page numbers and the paragraphs and so on - and it's really terrific when people go to that much trouble to do that for us and if you can thank your colleagues on the Australian Accreditation Authority for taking all that trouble with that submission, that would be wonderful.

**MR FORD:** I'll do that and I would like to thank you and Derek as well for giving us the opportunity to comment today and for giving us such a good hearing.

**MRS OWENS:** Thanks very much. We'll now hang up.

**PROF SCRAFTON:** Thanks, bye.

**MRS OWENS:** We will now close. We're going to resume at 2 o'clock.

(Luncheon adjournment)

**MRS OWENS:** We will now resume. The next participant this afternoon is National Rail Corporation. Could you please give your name and your position with National Rail for the transcript.

**MR AFFLECK:** Yes, chairman. My name is Fred Affleck. I'm general manager, corporate affairs, with the National Rail Corporation.

**MRS OWENS:** Thank you and thanks for coming in to see us this morning to discuss some of the modelling issues and, I gather, other issues as well. We'd like to thank you for your supplementary submission to the first one you put in and all the other material you've supplied over the course of the inquiry, so thank you. I think you've picked up in your submission at one stage that we didn't actually pick something up in one of the things you did forward to us and I think it was an oversight, but we can come back to that. I understand you now have some opening comments you'd like to make.

**MR AFFLECK:** Yes, thank you, chairman. I'll keep them as brief as possible. Some of these come out of our discussion this morning, but I think they're probably worth reiterating for the record. There are about half a dozen points I'd like to make. First of all, I'd just like to draw attention to the comments I made in our supplementary document of the last day or two; what appear to me to be a number of inconsistencies between the content of the overview and the content of the remainder of the report. Now, I've pointed out a number of examples of that. This may seem a trivial point, but I think the difficulty that arises from this is that the reporting of the commission's findings tend, in the newspapers, to focus on the overview.

Journalists are lazy people and anything that is not sufficiently qualified or inconsistent in the overview tends to reflect badly on the total result and on we, the victims of the inquiry or the subjects of the inquiry. The second thing I think I'd just like to mention briefly is the sections of the report that dealt with the low-volume regional networks. I've said quite a lot in the comments that I've submitted about the low-volume regional networks and I think, to sum it up in a few words, it is our experience in New South Wales where the competition regime applies most effectively to these low-volume networks because of the vertical separation that exists in New South Wales, uniquely in New South Wales, that the opportunity for competition on these relatively low-volume networks is quite considerable.

There are a number of customers located on those networks who are really looking for that competition and a number of them are beginning to benefit considerably from that competition in terms of improved service and lower rates. I've given a number of examples in my comments of rail freight tasks which are either on the horizon or have already happened, where we have been able to secure new traffic by offering more advantageous terms to the shippers concerned, and there are a number of others in the pipeline. I think the fact is that, even on these very low-volume or relatively low-volume networks, there are opportunities to offer more economical service because the services provided are often very simple. A simple unit train operation which is pretty low-cost has no fixed resources on the spot to

Speak of

and therefore the opportunity to operate these in what appear to be fairly settled regional networks are quite large, where the traffic exists.

In some other states, there is not a lot of traffic to be had, but nevertheless, I think the opportunities to benefit from this competition should not be denied to shippers in those other states. I think the rest of my remarks in the written comments are fairly self-explanatory, but I do think that that is an important issue that should be addressed by the commission. The third area I'd like to raise is productivity and there are three areas that I'd like to mention briefly, the first of which we discussed this morning with officers of the commission, and that is the formulation of National Rail, which is this AN-NRC formulation, which I think is now pretty well recognised that that doesn't work terribly well. We will assist the commission to try and arrive at a better way of putting that together. It is difficult, I acknowledge that, because of the lack of data.

**MRS OWENS:** Thank you.

**MR AFFLECK:** The second area, which many have commented on - and I'll just say one or two words about - is the difficulty of getting any effective conclusions from a comparison between US class 1 railroads and Australian railroads, when the scale differences are so enormous. The analysis by the commission which separates scale effects from the technical efficiency, I understand, is not considered to be the full answer, because the answer seems to be a little unexpected when you take out the scale effects and I can acknowledge that, because what it seems to be saying is that we are on a par with the productivity of the United States and Canada, which I don't think is the case for a number of very good technical reasons, and I suppose this is just the limits of any methodology like this, where the data is imperfect, but once again, we will assist as far as we can to try and get that right.

The third area, which is the main one I want to just focus on for a moment or two, is what I've referred to in the comments as "an analysis of the limits of productivity of Australian railways", and I think this is an important concept, which could result in a number of important policy conclusions. I don't think there is much that one can deduce from a simple comparison of productivity here and somewhere else. I mean, you simply come to the conclusion that it is greater or lesser somewhere else and the question is, "So what?" I think the "so what" comes out with the concept that we should be looking rather more closely at what is creating the differences and what can be done about those differences. If I can just explore that for a moment, I think if you look at this whole productivity change phenomenon, you can probably decipher three separate stages or phases of productivity improvement.

First of all, there is a phase, which I think we have almost got all the way through, but for a few things like driver-only train operation, which is about the inefficient use of resources within the present production function. There is too much fuel consumed, there are too many wagons in use, too many locomotives, too many people and so forth, which is not in any way a reflection on the people; it's just that the resources are not being put together in an efficient manner. That's the first

area

and most of that has been done and it's reflected in the figures that you've generated. The second area of change is changes in the production function, which is what I've concentrated on in my comments - by changing things like axle load limits, train length limits, train height limits for double stacking and so on - and this is where the major difference lies between the North American case and the Australian case.

Their trains are longer, higher and heavier and the amount of productivity advantage that gives them is immense. The question then is what is the optimum for Australia in relation to each of those areas? And I don't think that can be determined without quite a lot of economic and technical analysis. Analysis of a very very similar kind has been done in the road transport industry, three times now, with the URVLS study in the late 1970s, the RORVLS study in the 1980s and, most recently, the NRTC's mass and dimensions studies and, by means of those exercises, it has been possible in the road transport industry to define very much more exactly what is the optimum mass and length and so forth for a truck and, as a result, they have got considerable productivity changes.

That analysis has never been done in the Australian industry and I think it badly needs to be done and I think the commission could do a great service to the transport industry in Australia by recommending that it be done and perhaps providing some comments on the framework for the analysis. Effectively, what Australia has got is we are caught in a productivity trap, if you like, because we have very very small volumes of freight to move, over very great distances, and therefore there is a limit to how much investment we can afford to pay for to expand the productivity of the system by increasing axle masses and train lengths and so on, because all of those things will cost money. But, conceptually, there must be some point at which the returns from improving on those things peak out and start to go back down again when we have spent too much. The question is, where is that?

The third stage of productivity improvement is where the railway system starts to integrate itself very much more thoroughly into the total logistics chain. I don't believe that that is possible without substantial privatisation, and the reason I say that is that in order to be integrated into the logistics chain, it is going to be necessary for mergers and alliances and associations to be built between corporate entities who are now responsible for and control parts of that logistics chain.

Under public ownership all of those sort of changes in the corporate boundaries and structures are extremely difficult. If, for example, one - as a company like ours - were to attempt to purchase a freight forwarder or enter into some tight alliance with a freight forwarder, that would require shareholder approval and that shareholder approval could take months to get. In the meantime, the moves that we wanted to take would be all over town and they would be effectively blocked by all those people whose interests were adversely affected by it.

Conversely, if another part of the chain wanted to take over us or go into an alliance with a company like National Rail or FreightCorp or many others you could think of, while we're in public ownership that is tantamount to privatisation and we

all

know how long that takes and how difficult it can be. So I think the only opportunity that there is for going into that third stage of productivity improvement, by expanding the boundaries of the rail system and integrating it with the rest of the logistics chain is after privatisation. I think that's one of the things that makes privatisation very important and urgent.

Just to finish up that bit, I would like to see the commission examine this area a little more closely and, if possible, make a recommendation to the industry and to governments who control the industry at the moment that analysis along the lines of URVLS, RORVLS and the mass and dimensions study is urgently necessary in the railway industry and it is now possible because of the much more broad national framework in which we're now operating, whereas I think seven or eight years ago it was definitely not possible.

The next area I'd like to address is access regimes, and those of us who have had to respond to quite a number of applications being made to the National Competition Council just recently on declarations or proposed declarations of access regimes will be pretty familiar with all of this material. I've elaborated upon this at some length in the comments but just, I think, to highlight some of that, it is very necessary in these access regimes to get the balance right between the parties who are agreeing on access. I don't think that is right at the moment. There is too much power being exercised by access providers, who are monopolies basically, and too little possible from the access users. An area that comes particularly to mind is the measures and standards for performance by the access providers and conversely by the access users in the provision and use of that access. At the moment you pay your money and you take what you get, and I don't think that is a proper balance in the commercial relationship which should exist.

Beyond that I think it is very important to get the objectives of the whole access regime process right. In the first place its primary objective is to promote contestability on the rail infrastructure network. That is its primary objective. It also must have an objective that, as far as possible, it should preserve the economics that come from economies of scale and economies of scope on that system. Getting the balance between those two things right I guess is the task of regulators in this area but if one leans too far on the side of preserving the economics that come from vertical integration - and there are undoubtedly some - any economic advantages coming from those scale economies can very quickly be absorbed by inefficiency by the rail operation, or by the rail operator who has a monopoly and will exploit that monopoly.

That is what lies behind the fact that in places where contestability has been opened up, in New South Wales for example, rates have gone down by 50 per cent in some places, simply because contestability is being exercised and the advantages of economies of scale and scope are not being lost and therefore the advantages to customers are pretty huge. I've highlighted what we think are essential features of access regimes that work and they're not couched in broad economic terms. They're couched in pragmatic practical everyday terms of what works.

Two more things I'd like to say: one is the chapter in the report on safety regulation I think is not a bad chapter but our comments on that will be largely fed in through a couple of the national committees that we're party to. I think that would be a more useful way to do it. I've also received a copy of a letter that you've received and has gone on the Web site, from Greg Ford, the manager of rail safety accreditation in Queensland, who says in his letter that he is speaking on behalf of the Australian rail safety accreditation authorities, and I think probably suffice to say that there are a number of things in his letter which we do not agree with and think are not factually correct or have really misinterpreted what has happened. I'll mention one - you may like to discuss others but I'll mention one, and that is that it is claimed in the letter that the problem which has existed in the past with multiple annual audits of safety in each of the rail systems has been overcome because the authorities have in effect put in place a system for a coordinated single audit process.

That's true, but the authorities had to be dragged kicking and screaming by National Rail and others into doing this, and the first one of these audits will take place on 14 July this year, largely at our instigation. We had to go through two or three stages to get them to the stage where they were prepared to do it properly on a genuinely national basis. So while it is happening, it didn't happen because they thought it was the right thing to do; it happened because of a lot of pressure from the operators. We could have a larger discussion of that later but I'll just set that aside until then.

The final thing I'd like to mention is competitive neutrality, and I think the sections in the report on competitive neutrality are largely on the mark. I was a little disappointed though, I must say, about the somewhat tentative conclusions about road user charges and the fuel excise particularly, and I'd just like to suggest to the commission that when the Australasian Railway Association appears here tomorrow, which I gather they're doing, there is a new report which the association has commissioned and just received from the Allan Consulting group on the question of the fuel excise, which I think could be quite valuable for the commission to see. It, I think, states the case particularly well.

**MRS OWENS:** Are we going to get access to that report?

**MR AFFLECK:** I've suggested to the ARA that they give you a copy and I believe that they will come along tomorrow with a copy to give you.

**MRS OWENS:** Good, that will be useful.

**MR AFFLECK:** That's all I'd like to say at this stage but I will answer your questions.

**MRS OWENS:** Thank you, Fred, for all of that. I think the best way we can handle this is to start at the beginning and work our way through and possibly end with a short discussion about the submission we discussed this morning with Greg Ford - talk about the safety at the end because there are a number of issues that we raised

with him this morning and if there are different views - we didn't discuss auditing at any length but we did talk about other issues and maybe we'll just clarify some of those with you as well from your perspective. I think what we might do is just start at the beginning.

You raised a question of the overview versus the remainder of the report and just from my reading of your submission I think your main concerns come down to probably two main ones. I think you see us as being overly negative about the state of the industry - you call them "sick railways". It was one issue and the other was in terms of not being sufficiently qualified in our discussion of the productivity comparisons between Australia and the United States. Is that correct? Are they the two main points?

**MR AFFLECK:** That's broadly correct but I should just clarify that this is not a critique of the report, it is just pointing out that no doubt when one writes a draft report it is a draft report and I'm just attempting to point out some places in which the main body of the report doesn't seem to be as accurately reflected in the overview as I think it probably ought to have been. The comment about "sick railways" was two words taken out of a newspaper headline which came from reading the overview. I think it's just symptomatic of what happen when the degree of qualification of the conclusions and so on isn't properly spelt out. It's not something I want to make a big issue; I was just trying to point out that there is some inconsistency.

**MRS OWENS:** I think it's useful to have that sort of feedback. With our overview it's always tricky. We always have a problem as to how long we should make it. We wanted the overview to be short enough that people would read it and the more we put in, the more it just starts to replicate the report and I think there were a number of overviews in the past from commission documents, some of which I've been involved with directly, where they've been so long that people just don't look at them at all. So it's always a bit of a balancing act but in terms of the "sick railways" media report, I suppose they got that from our comment in our key messages box where we talk about government-owned railways being barely viable, with increasing competition from other transport modes and inadequate investment. I think this probably is a point where we might sort of depart on that issue and I think it might be worth just trying to tease that out a bit. Do you think that that sort of comment is an inappropriate comment in 1999?

**MR AFFLECK:** No, I'm not saying it's inappropriate and I take your point about the length of these things. Obviously it's not an overview if it's just a repetition of the report at half the length. It's a difficult one but I think a great deal of care needs to be taken for the perceptions that other people, particularly the news media, will have of the report's findings when you write whatever words you write. I guess that's about all I could say. I think the "sick railway" comment came largely from the comment in the report that we were still only half as productive as the American railways. That's my perception of it anyway, and I think that comment in the overview could have been more accurately qualified.

**PROF SCRAFTON:** There are two messages really, Fred, that we wanted to give and you're quite right, it's our - and this has been apparent to us from - and certainly quite enlightening to me, in response to the draft, the way that people do read the things that you say, and evidence to us that we've got to be mighty careful in the sort of style and the wording that we use in our final report. But the two messages we wanted to give - well, there were three really. One is that a lot of progress has been made in the 90s. We wanted to give a big tick - and incidentally, we've been criticised for that by people because they say if you give too big a tick, everyone will become complacent and fall back into a hole. That's the first one.

The second one was "but you can't slow down", and this is where the "sick railway" thing has come from. What we've said is they've been running pretty fast but you've got to keep running to succeed or to - not to catch up - well, to catch up even with road - but at least to maintain potential competitive characteristics. The third one is to create an environment in which that can take place, that is to try to say to people, "But all this running is uphill." You know, you've got an environment, you're asking the railways to do things right - expecting things from the railways - but you're not clearing the way so that that can happen. Those are the sort of three things.

I think your comment about the overview is very helpful in a way. You make a comment and you compare it with chapter 11, for instance, which we find useful because again we don't want the overview and chapter 11 to be exactly the same but there's some balance there, there's some relationship there that we have to get right, and we take that on board. But while saying that railway is barely viable, for somebody else to translate that into "sick railways" - you know, it's very difficult.

**MRS OWENS:** We can't control the media.

**MR AFFLECK:** No, and I acknowledge that. It's just that it can make our job considerably more difficult because the findings of a report like this are used against us in the marketplace. It's as simple as that.

**MRS OWENS:** I think there is a balance, because we don't want people to go away feeling complacent saying, "It's all been fixed. We don't have to do anything else in rail now. Everything is going along well." We don't want to leave that impression. But on the other hand, we are the last to say we want to deter future investment in the rail market in Australia. We don't want to do that either. So I guess it is trying to achieve that balance.

**PROF SCRAFTON:** Yes, and - don't get me wrong - it's not a point I'm trying to belabour. I'm just sounding a cautionary note that one needs to be careful, that's all.

**MRS OWENS:** I think the other point you made relating to the overview was about the conclusions on comparative productivity, and you referred to the key messages box, but we also talked about, not just in the body of the report but in the overview itself, the productivity being half that of Australia but then we went on and said, in the overview on page 24:

Some of these differences are due to factors which inherently disadvantage Australia, such as scale of operations and traffic density.

So we qualified it there, and I don't know if we can be much clearer without getting into a whole lot more detail.

**MR AFFLECK:** No, I acknowledge that. I guess I would have liked to have seen half a dozen words to that effect in the messages in that box. As I say, I don't want to belabour the point, I just think next time around think of the headline that's going to be written.

**MRS OWENS:** Yes, we'll take that on board. I often get totally surprised when I see the headlines that come out of some of our reports. I say, "Did we say that?" Anyway, I think that is one of the issues that we will look at, and the overview probably will change because the report will change to some extent. They usually do.

**PROF SCRAFTON:** I think, Helen, it's also true of the comments that you make about using expressions like "commercial discipline" and "commercial focus" and "customer focus" without having any sort of consistency or definition there, and that is something we will also pick up from that.

**MR AFFLECK:** And I was pleasantly surprised when I got to chapter 11 that there seemed to be a more focused appreciation of what the real problem was.

**PROF SCRAFTON:** Yes.

**MRS OWENS:** Chapter 11 in this report we saw as quite an important chapter - - -

**MR AFFLECK:** Indeed.

**MRS OWENS:** - - - because we see that as the chapter that brings everything together, and I'd really like to be able to say to the general reader out there that hasn't got a lot of time, "Read our overview, but read chapter 11." It's the same with a number of our reports, and it just happens that chapter 11 tends to be at the back, but it's what pulls everything together.

**MR AFFLECK:** Yes.

**MRS OWENS:** So I'm sure that the person that was working on chapter 11 will be pleased that you thought that that was clearer. You talk about chapter 2, but unless Derek has got any points to raise there - - -

**PROF SCRAFTON:** No, we'll just pick those up and take them into account.

**MRS OWENS:** You do talk about the old data that we've used, and I suppose we're stuck with 94-95 data. I think the question is, is it better to have that in than nothing

at all? I think all we could do is perhaps say, "This is old." You have said that you have some statistics, but what we then don't have is the relevant statistic for road and coastal shipping. But we could point in the direction we think it's moving and say, "Things have changed."

**MR AFFLECK:** I think it might be worth a comment at that point, if you think it's appropriate, that the statistics that are available on the land transport system have got worse over this period. 1994-95 is almost the last year in which you can get reasonably comprehensive statistics.

**PROF SCRAFTON:** Yes.

**MR AFFLECK:** There is some argument as to whether the road statistics on origin-destination flows and whatnot were accurate, and the Bureau of Statistics has attempted to make them more accurate, but in the process I think the upshot of it all has been that they have given up because they just can't get the numbers.

**PROF SCRAFTON:** Yes.

**MRS OWENS:** Yes.

**MR AFFLECK:** So some of the series that was being published in 1994-95 are no longer published, and it is almost impossible to get numbers that are useful except by going out there and counting trucks.

**PROF SCRAFTON:** Yes.

**MRS OWENS:** It has been enormously frustrating, I think, for the team, because one of the issues obviously in this report is what's happening with market share in the north-south corridor, the east-west corridor, and just generally in Australia - you know, how is rail faring compared with these other modes of transport. To get a clear picture of that is almost impossible, and if we are relying on 94-95 data, it is a real indictment.

**MR AFFLECK:** A general point that could be made is that it will become increasingly difficult to formulate rational transport policy in this country as the data available to assess what's going on now and to assess the effects of possible changes becomes more and more scarce. Transport policy has been notorious for not using a lot of the data it has had in the past, but in the future it's going to have even less, which is going to make it increasingly difficult. Perhaps a recommendation should be made that this area needs to be examined more carefully because we are simply, under privatisation of both road and rail, going to find it almost impossible to assess the impact of future transport policy changes because there will be no data that's worth anything much.

**PROF SCRAFTON:** Yes. I just have one factual question I wanted to ask you, Fred, on chapter 2. You point out that on page 20 when we talk about characteristics

we are fairly cautious in defining the interstate network, but that's because in the submissions that we received nobody was willing to speak strongly enough about what should be in there. Now, in your submission to us you are fairly positive about the Broken Hill line, Whyalla, Western Port, and Port Kembla. I just want to ask you, if we were to add those, do you think now that there would be general agreement out there? Certainly we were quite surprised in the early days that people used to talk about it without being prepared to say this is in or out, as it were.

**MR AFFLECK:** In the early days - earlier than this inquiry - I think there was a fair bit of chopping and changing as the standard gauge between Melbourne and Adelaide settled in, and the network changes that that brought about settled in, and we were somewhat uncertain as to what constituted our long-term network, but it has emerged pretty clearly in the last six months or so that the routes that I have shown on that map are definitely the routes which constitute our national system, anyway. The predominant flow east-west out of Sydney goes via Cootamundra and Parkes, and you can see the numbers of train journeys there which clearly indicate that.

**PROF SCRAFTON:** Yes.

**MR AFFLECK:** The Broken Hill line is very much back on the map these days, because there's a great deal of steel traffic, particularly, and that is long term.

**PROF SCRAFTON:** Yes.

**MR AFFLECK:** There are passenger trains, there are intermodal trains in slightly larger numbers; we run our sprinter service that way because it's shorter, and that will continue and grow. I suppose the one which may come into some people's minds as being a little doubtful is the broad-gauge line to Western Port. But if you consider for a moment that Western Port steelworks is very much part of the BHP national configuration of steel production, and they rely on rail to move their semi-finished and feedstock products around, that would have to be considered part of the national network, just as much as Whyalla, Port Augusta, and just as much as the line down to Port Kembla.

**PROF SCRAFTON:** Yes. Thanks for that.

**MR AFFLECK:** There's a lot of trains on it, and it's essential. The thing that makes it different is that it's the wrong gauge.

**PROF SCRAFTON:** Yes. Thanks for that, that's good, and I think we will think about it but my personal view is that I would recommend that we come out a little more firmly with that sort of network in mind. I think there is one other line that still causes a bit of difficulty, and that is this alternative route in New South Wales that avoids Newcastle. There was quite a lot of talk at one time about somewhere you can sort of loop around through Werris Creek to avoid - but obviously just from the look on your face, I think you obviously don't think that's - - -

**MR AFFLECK:** Well, no, I wouldn't say that. I'm not terribly well-informed about that route, and it's a route I know which we use on occasions when there is a problem on the near north coast. For example if there's an accident or incident between Sydney and Newcastle we'll take that route around instead. But the standard of track and signalling and so on around that route is not good, and therefore it's not a route of choice.

**PROF SCRAFTON:** At one time there was this concern about the Broken Hill line, but in your view that should be now - - -

**MR AFFLECK:** That concern should be not a factor any more.

**PROF SCRAFTON:** Okay. Thanks. That was all.

**MRS OWENS:** I think we'll get on to low-volume regional networks. You I think have rejected our - assertion, I suppose you'd say it was - that there's little or no competition, either for the market or between rail operators on low-volume regional networks. You said in your opening comments that that may be the case - I may not have taken this down correctly - but you say that there are opportunities but maybe not in all states, and you refer to New South Wales. Your submission also refers to New South Wales. I just wanted to clarify what sort of competition we're talking about. You've given some examples on page 12, not just of New South Wales but in Western Australia and South Australia.

Are we talking about rail-on-rail competition in those examples? In some examples you talk about tender-based competition, which is what we have been calling competition for the market, but are some of those examples where there is a significant amount of rail-on-rail competition between different operators carrying the same sorts of products?

**MR AFFLECK:** All of the examples I've given are either actual or potential rail-on-rail competition, and almost all of the examples I have given are cases where road transport is not considered by any of the users or shippers to be a practical alternative, therefore they are really rail versus rail. I know one of the reasons why competition does not appear to be a particularly prominent feature across most of the system nationally is that New South Wales is still the only state in which competition is effectively possible. In all of the other states the rail operator is the owner of the track. There is no effective competition access code in any of the states other than New South Wales, and even there it's not officially or formally effective under the National Competition Council's guidelines, but nevertheless it functions and it operates because of vertical separation.

In every other place, whilst we have been approached in virtually every other state to compete, from a practical point of view it has simply not been possible to offer a price with any confidence that we would be able to operate. In Western Australia the opportunities are probably greatest because there is more traffic to be moved, and there are a number of large corporate entities like Western Mining and

Alcoa and Anaconda Copper and a number of others who are looking for competition on the network so that they can get a better price and a better service, but because the limitations until recently on our ability to carry intrastate freight, and our continued inability to work with an access regime that is in place, we simply cannot offer those people anything.

That means that they are effectively trapped with what they have got. For some of them, that's not a big problem. For others, it represents a considerable problem for them. In New South Wales that is not a difficulty we face, and we are approached every day of the week by potential customers wanting to talk to us about services and rates, and there are probably at the moment up to as many as a dozen either in place or at some stage in the pipeline of competitive commercial relationships.

**MRS OWENS:** And this is picking up business that is currently being carried, say by FreightCorp in New South Wales?

**MR AFFLECK:** Some of it is. Some of it is new.

**MRS OWENS:** Some of it is new? From road? You said that road wasn't necessarily the main competitor on some of these routes.

**MR AFFLECK:** Well, let me give you a couple of examples. I'll give you three examples. The Glencore mine in central western New South Wales, which was closed about a year and a half ago as a result of the bankruptcy of the previous company that owned it, is planning to reopen shortly. Its ore was carried previously by FreightCorp before the mine closed. When the new owners were planning the reopening of the mine they went to a number of possible rail carriers, including ourselves, and asked for prices and service descriptions. Eventually we were the favoured contender and we are now close to putting that in place at a freight rate which is very substantially less than the previous owners were getting for that traffic. So that is new, but old, if you see what I mean. Another example is - - -

**MRS OWENS:** That's competition for the market. You're not going to be running on that track with FreightCorp both carrying the same - - -

**MR AFFLECK:** No, because there's not enough for two. It is a single mine with a single job to do.

**MRS OWENS:** Yes.

**MR AFFLECK:** Another one which is very similar to that is the non-metallic minerals, crushed stone to be precise, from the south coast of New South Wales. That was on rail some years ago. It moved off rail onto road and the owners of the quarry concerned decided that they should look at alternatives a little more thoroughly recently and they have arrived at a position where they want us to carry that traffic, and there are many hundreds of thousands of tonnes per annum to come from around about the Nowra sort of direction into Sydney. So that is, I guess,

competition for

the market as well.

Another example is the carriage of coal for Macquarie Generation, which is new traffic to anyone, it's a new sourcing of coal for two power stations. But it's also a very innovative way of sourcing the coal for the power station. Instead of the traditional practice of making a contract with a particular colliery to supply coal to a power station, what Macquarie Generation has done is said that they will buy coal from whoever can supply it to them on the spot market from day to day, and they will simply ask us to, "Go to point X and get us a load of coal and tomorrow go to point Y and get us a load of coal." The spare capacity that we have when we are not running coal for them is available on hire for other people to do top-ups and power station stockpile replenishments and so forth. The marketplace has responded with a great deal of enthusiasm to that approach. But that's an entirely new market and that was competitively tendered as I recall.

I mean inevitably a lot of it is simply rail systems competing against each other. An owner of freight will come to us and say, "We want to see what you can do for us. Give us a rate, give us a service pattern." It most often emerges that the rate we give them and the service pattern we offer them are substantially better than what they're currently getting.

**PROF SCRAFTON:** Fred, could I just ask you a question? I don't want to intrude on the commerciality of it, but if that line - the last example you gave is not a very good one because they're over mainly sort of high density routes, but the earlier one that you gave, the mine one, if the track is receiving a CSO, does that reflect in the access rate that you have to pay for that track? You mentioned in your submission that there's a slight complication caused by the fact that you may have CSOs paid to an operator and you may have CSOs paid to the track owner too by the government. I was just interested in when two firms bid for that traffic, in setting up the rate or setting up the bid do you make an assumption or do you know the exact amount that you would have to pay for the access fee for the track?

**MR AFFLECK:** Well, before we can give the customer a rate and before we can enter into a contract we have to get an access rate from the Rail Access Corporation, and that requires negotiation as well. The basis upon which they set that rate they don't necessarily tell us all the deals, and whether or not they are getting a CSO which specifically applies to that line we wouldn't know. I guess our concern is that the railway that we are competing against is getting a CSO for some of its freight and therefore it has what you might describe as a fighting fund to try and pick that up. Whether that actually happens is another matter, but there is not sufficient information in the public domain to know whether it does happen.

**PROF SCRAFTON:** Okay, thanks.

**MRS OWENS:** And should there be?

**MR AFFLECK:** Well, I guess our more general point is that because the CSO is

essentially directed to supporting the infrastructure, the train operations for things of that nature really don't need subsidy, they should stand or fall on their own feet because there are operators who are prepared to operate without a CSO. The CSO should be given exclusively in all cases to the track infrastructure owner in order that that can subsidise, if necessary, the total haul. Then you will have competition on an equal footing between rail operators who would make use of any CSO if there was one below the track.

**MRS OWENS:** And the justification for that CSO below the track is that there is a community benefit in keeping some of this, whatever is being carried, on rail rather than on road. What's the justification - - -

**MR AFFLECK:** I presume so, but I think that is a matter of government policy. If the government wishes to have a railway to some mine somewhere, and without a CSO there would not be a railway, it makes a decision whether or not it wants to support that railway. Then the operators come along and contend to operate the service on an equal footing.

**MRS OWENS:** Coming back to the low volume, as far as I can see it a lot of this low-volume competition on these lines potentially is more likely to be competition for the market because, by definition, it's lower volume than high-volume loads. People have accused us of being a bit regimented in thinking about - you know, we've divided up the network into these four groups because it helped us with our thinking. We talk about the interstate network, urban network, low volume and high volume, and there's probably a bit of an artificial distinction between low and high volume that might not be quite sort of obvious where you draw the line.

But you also refer, on page 12, to needing to test the economics of each line and the potential benefits of competition, and I think we would probably agree with that. I'm not quite sure how you would do it, but there's probably within what we've called low-volume lines a sort of range of different circumstances where some lines will be potentially - it's low volume but still relatively high volume. So there could be potential competition for grain or whatever it is on that line, but there could be little branch lines that go off where you're only ever going to have one - you know, the chances of having more than one operator going along that line are remote.

**MR AFFLECK:** Well, I think even where there is only room for one operator, and I can think of many cases of that, the shipper, the owner of the freight on that line, needs to be given the opportunity to get the benefits of competition policy by being able to tender that work to whomever he can get the best price and conditions from. Now, that means you will either displace a trucking operator or you will displace another railway operator. At the end of the day there will be only one operator but it may be a different operator at a substantially lower price. The mere fact that there is room for only one doesn't seem to me to be a reason for protecting the one who is there now, which is effectively the argument at the moment, as I understand it anyway.

**PROF SCRAFTON:** No, we were not implying that.

**MRS OWENS:** Well, we talked about possibly selling off vertically integrated railways, you know, hiving them off from the network, and that was one of our arguments for possibly having vertically integrated low-volume railways.

**PROF SCRAFTON:** But if somebody else thought it was a good deal it wouldn't prevent somebody else coming in and buying them.

**MRS OWENS:** Yes, or you would have long-term leasing arrangements, 15-year leasing arrangements.

**MR AFFLECK:** I think all of those schemes don't give the shipper on that line, whether it be a mine or a quarry or a manufacturing plant or whatever it is, the opportunity to benefit from contestability or competition. For a period of time he is going to be stuck with whoever he has got and that is likely to be a fairly lengthy period of time. When we said that the economics of individual lines need to be tested, well, effectively that is an access code at work. Is it viable for an operator to go in there under proper conditions of competition and operate that service, perhaps at the price of displacing another operator? But that should be the shipper's decision, not the incumbent railway's decision. It's a simple point and I think that's all there is to it really.

**MRS OWENS:** I think though that one of the other assumptions we were making was that on some of these lines there is a lot of potential for competition from road. So it's not as if that particular mine owner or whatever is not going to have access to some other form of transport. So we were making the assumption that for a number of these low-volume lines there still would be potential for competition from elsewhere.

**MR AFFLECK:** I think in reality, for a lot of these bulk hauls even though they are relatively small, the opportunity for using road transport is pretty limited. Now, take some of these long hauls in New South Wales, the fact is that the shipper does not want to be exposed to the risks and public odium that goes with putting B-double trucks full of gravel or worse through countless town centres into the centre of Sydney to unload some bulk material at a cement-making plant in an inner suburb. Some of them have been doing that over the years and have decided that it is just simply not any longer environmentally an alternative that they want to pursue. So they have come to rail to say, "You can do it with virtually no community impact at possibly as low or lower a price and therefore we would like to do it by rail in future."

I can think of an example from my past on the Eyre Peninsula. I'm not pointing this one out as a case which is vulnerable to competition from anybody, least of all National Rail, but it's a case I think which illustrates the point. There's a gypsum quarry at Kevin on the upper Eyre Peninsula, and there is a short rail haul from Kevin through the town of Thevenard to the port. That has been carried by rail for many,

many years. The owners of the gypsum quarry have, for a number of years, thought

that the possibility of using B-triples might well be the way to go because they thought they could get a lower rate.

But it became very clear to the company that the town would not look favourably at all on having these B-triples go down its main street to the port. So after numerous attempts at that over a number of years at various times, they have never really come at that option, so they stick with rail. That is a case where I suppose there is potential for competition from another rail organisation who might be able to do it cheaper and better.

**PROF SCRAFTON:** The stone traffic in the Barossa Valley would be a similar example, wouldn't it?

**MR AFFLECK:** The same thing. There is no way you could bring truckloads of stone traffic from the Barossa Valley down through the Adelaide Hills, through the outer suburbs of Adelaide, up the Port Road and through Port Adelaide. It just wouldn't happen. So they are on rail for keeps.

**MRS OWENS:** While we were still talking about low volume, I was just going to ask you your views on the sale of the Tasmanian rail system as a vertically integrated system. I mean that was an example of a relatively low-volume network being sold off to one owner.

**MR AFFLECK:** Well, it's a little difficult for me to comment on a specific example like that, but the same principles apply, I have no doubt. Tasmania doesn't have any kind of access code whatsoever, and therefore the opportunities don't exist. I think in most instances in Tasmania the traffic is, from my recollection, road competitive. Certainly the log traffic is, most of it is carried by road already. The cement traffic probably is, the container traffic certainly is. I mean, that doesn't contradict the general principle though, that I think these things should be open to competition. The incumbent railways that are vertically integrated for very obvious reasons don't like that idea. But I think if the shippers of this country are to be given the advantages of the competition policy, the logic of it dictates that there be some form of open access.

**MRS OWENS:** We did labour the point, I think, in our report that you may not need a very strong access regime, it could be a light-handed access regime. Particularly if you're talking low volume, a lot of these railways aren't very busy. Even if you had a vertically integrated network, as in Tasmania, why wouldn't the owner of that let others on if there's excess capacity on that line?

**MR AFFLECK:** I guess the normal motive would be that the owner would like to have exclusive access to that business. I mean, who wouldn't?

**PROF SCRAFTON:** It's a very interesting case though, because the owner of the railway in Tasmania has indicated that it intends to compete on the Victorian tracks, so it should hardly complain if somebody was to go down there and seek some

business. Maybe it just feels reassured by the points we were making earlier, that the

volume of business is - - -

**MR AFFLECK:** The case in point is very similar to National Rail. I mean, National Rail has got intense competition in a number of parts of its network from organisations who do their level best to keep us out of their own territory.

**PROF SCRAFTON:** Yes.

**MR AFFLECK:** There's no logic in the system, in other words.

**PROF SCRAFTON:** Yes, good point.

**MRS OWENS:** I think we will probably - - -

**PROF SCRAFTON:** Yes, let's move on, otherwise we'll keep Fred here until his 4 o'clock plane.

**MRS OWENS:** So we've talked about low volume. The interstate issues, you say there has been a significant change in the competitive position of interstate rail freight since 1997. I presume implicit in that is you're saying there's a significant improvement, rather than change, even with data being out of date, and I presume by change, you're meaning improvement there. I just wanted to clarify that.

**MR AFFLECK:** What page are you on?

**MRS OWENS:** Sorry, this is on page 5, referring to our page 24.

**MR AFFLECK:** Yes.

**PROF SCRAFTON:** Sorry about that, Fred, we only know up to page 12, because the examples you gave on page 12 related to page 4.

**MRS OWENS:** You thought you were almost through.

**MR AFFLECK:** No. I guess the generalisation that I'm trying to make there is that now that the interstate rail freight system, at least that portion of it operated by National Rail, is starting to get its act together in terms of efficiency and service quality as a result of new assets brought into the system, particularly new locomotives, and the changes that we've been able to make to the freight service with longer trains, faster trains, better, more reliable timetables and so on, we are starting to see the benefit of that come to us in some corridors where we are getting substantial increases in freight, and I give one example there, where our Melbourne-Brisbane corridor - which is not the same as Sydney-Melbourne and Sydney-Brisbane, it is the long-haul traffic from Melbourne all the way through to Brisbane - that has grown by 40 per cent in about 20 months and that is a result of us being able to offer a service package which works and we're attracting traffic at a rapid rate to that and I don't think that it is over by any means.

Now, that suggests that once we get the package right, the potential for growth is quite considerable. In the east-west corridor, the potential for growth is nowhere near as great, because we've already got two-thirds of the market and getting that remaining third or quarter is very much more difficult.

**PROF SCRAFTON:** Capturing this Melbourne business, Melbourne-Brisbane traffic, is - we might say by getting your act together, you're getting this business back that should be on rail, so is most of that traffic that has come off road?

**MR AFFLECK:** Yes.

**PROF SCRAFTON:** It is. Because you related it to the comment about our generalisation that rail was losing market share to road and saying that if we look at more recent data, then we should be careful about it.

**MR AFFLECK:** It has been true that road has been taking the traffic from rail. I have no doubt about that and to that extent, the comment is a correct one, but I think in the last two years, that has started to be reversed.

**PROF SCRAFTON:** Okay, good.

**MRS OWENS:** And you're saying as a result of this that you're fairly confident that your commercial viability is improving all the time.

**MR AFFLECK:** We have got a fair way to go yet. We are not making a profit yet and we will not be recording a profit for 1998-99, but there is no doubt from our forward planning that profit will be generated on the revenue side of the business. In other words, we need to expand the base of the business, rather than seeing the profit from the business coming from the costs side. I mean certainly there are more cost reductions we can effect and there are a number of things going on for that purpose, but the long-term viability of the business lies in expanding the business by earning more revenue. We think, because we can see signs of that happening in a number of corridors, that that's where the future lies, in profitable larger business.

**MRS OWENS:** I don't know whether I should go into all these detailed comments, but you seem to - this is on page 5 still - you refer to the inferred contrast between NR and two private firms which would only remain in the market, we said, if they expected to earn a commercial return. We weren't trying to contrast you with them, we were only trying to make the point that the interstate route was looking reasonably promising. I think we were putting that in a positive light.

**PROF SCRAFTON:** Yes. We thought we'd given NRC a good rap and then we pointed out that these guys, while they might still be struggling to make it work, as corporate organisations, they were in the same boat. We obviously left the wrong impression.

**MR AFFLECK:** This is what comes from interpreting words on a page, I suppose. What I read from that is that because we were a public sector organisation, we didn't necessarily expect to earn a profit.

**MRS OWENS:** We weren't comparing, we were saying you were improving - I think we actually made the point somewhere that you had improved significantly and here we had these private operators who were expecting also to earn a commercial return, so wasn't the interstate business looking pretty promising? We were trying to be a bit up-beat and we got misinterpreted.

**MR AFFLECK:** I'm sorry for being unnecessarily defensive.

**PROF SCRAFTON:** But it did pick up the point which you remind us of somewhere else too, that in talking about the establishment of National Rail, and I think the RTC, we needed to point out that two organisations were established under the Corporations Law and at the time in our set-up that was a big improvement, a big sea change from anything that had ever gone before and I think we missed that point somehow.

**MR AFFLECK:** Being incorporated under the Corporations Law and effectively the protection it gives to the organisation from outside intervention, has been an immense benefit to us.

**PROF SCRAFTON:** Yes.

**MRS OWENS:** Yes. I'll come back to that when we're talking about privatisation in a minute, but another point of clarification. On page 6, in your reference to our page 39, you say that we only referred to the New South Wales access regime in those tables in chapter 3 and that we haven't looked at Queensland, the draft access undertaking. I think that went off after our draft report went to the printer.

**MR AFFLECK:** I subsequently discovered, too, that in a table in chapter 6, I think, it's probably all laid out there.

**MRS OWENS:** They're all laid out in table 3.8. There was a separate access table, but all that chapter has been rearranged anyway. You'll find that it looks a bit different. We've decided, rather than looking at the reforms by state, we'd look at the reforms by issue. I think it's probably a more sensible way to do it, so we've had a bit of a go at redrafting that chapter. Performance of rail - is there anything you wanted to raise before we got to that point?

**PROF SCRAFTON:** Fred, this is a procedural matter in a way, although for you it's a substantive issue, but on page 6, under the item referring to 51 you object to a statement made by GSR about National Rail and I think it was to do with locomotives?

**MRS OWENS:** It's ASR.

**PROF SCRAFTON:** Yes, a comment by ASR about you getting the GSR business, and you suggest that we should delete it. I think the commission has to assess the material that's given to it in submissions and whether we put it or don't put it in is for us to decide, but equally, we can - if we choose to leave it in and you wish to rebut that, we would take that into account too. In making the comment on page 51, we took into account - and I think there was more than one, my recollection was that there was more than one report there from different organisations, and it may well be that the other organisation might take offence at those too, but somehow or other we have to give a balance to the evidence that's given to us, but equally, we would take it into account if you want.

**MR AFFLECK:** I appreciate that. I guess I zeroed in on that particular one because we know that to be simply not factually correct and whether GSR would be prepared to verify that, I don't know, but it certainly doesn't line up with - and above all, our own business assessment of that contract situation shows that it is definitely profitable - no question about that - and we would not have done it any other way.

**MRS OWENS:** I think what we'll have to do, when participants do make comments like this, sometimes we can check them out, sometimes - like in this circumstance - there's no way we can actually get to the bottom of it, because a lot of it is commercial-in-confidence, so I think the best way we can deal with it is - we cannot ignore participants' comments, but we can couch them in terms of this was their perception and we haven't been able to test that. I think we'll have to be a bit more careful. Rather than just putting the comments in and letting them just sit there, I think we'll have to be a little bit more careful about what we do with them and if we cannot in some way underpin that comment with some evidence, I think we'll have to be careful about drawing any conclusions based on what they've said, unless there is real evidence there.

I think you start to, though, if you get a number of participants saying much the same thing and they're coming from disparate sources, then sometimes, even if you can't pin it down totally, if there is a perception that something is wrong, you can't ignore it, especially if that perception is coming from a range of organisations.

**MR AFFLECK:** The comment along the lines of what ASR mentioned has been said by a number of organisations on many different occasions about National Rail. The fact is they are relying upon their perceptions of what our cost levels must be and therefore we can't be doing this at a profit. What they don't know is what our real cost levels are and therefore their perceptions or the conclusions they draw from it are simply wrong. Now, how one treats that in the context of your report, I guess is up to your judgment., but certainly in that particular instance that I mentioned there, that was not correct.

**MRS OWENS:** I don't know how much detail we want to get into today on performance of rail, chapter 4, given that you have had a discussion with our staff this morning, and Dr Salerian in particular. You did raise at the beginning a number

of

concerns, particularly the lumping together of AN and NRC, and quite a few people have raised this with us and have expressed concern about that particular approach and I think that we were at pains to try and find a way of dealing with what is a fairly complicated period of change, so we acknowledge the problem, and I don't know whether you and John this morning actually came to a simple solution, but I have a sneaking suspicion there isn't one.

**MR AFFLECK:** No, I don't think there is a simple solution, simply because the data does not exist to arrive at that simple solution. We agreed that we would work through some of the data, to try and get it to be as good as possible. There may be some slightly different approaches taken to some of the analysis of that data, we'll just have to work through that and see how it comes out. I think it is now simply acknowledged that AN equals NRC in two different time periods is not correct. Everyone, I think, appreciates that now and we'll just have to do the best we can. One thing I would emphasise, though, these issues do not have any effect on the aggregate productivity of the rail system as a whole, they affect the differences between systems, to the extent that that's important.

**PROF SCRAFTON:** Whatever else we do, I think we will try to, in setting up this work, make sure that the qualification or the explanation picks up the concerns that have been expressed, whatever other improvements, and also I guess the other thing that we will try to do is to provide as much supplementary information as we possibly can, which will give - it's not necessarily something that came out of your comments, but the problem has arisen where organisations have taken - well, a good example is Freight Rail, where they have taken New South Wales to equal Freight Rail and of course it isn't that at all. It's the New South Wales railway system. They just happen to be the biggest state freight operator and there's a sort of immediate mental translation there and we'll try to stress that point, that we're talking here about - if I could use the expression - the old-fashioned state railway entities, and that for the duration of the period in the 1990s - 1991 to 1997 - that when they still did exist in some form, you know, it is possible to at least get that aggregate there. Your problem then becomes an additional one and we'll try to sort of cover that as best as possible.

**MRS OWENS:** I think another issue that you raise which again has been raised with us by a number of people is what a shame it was we cut it off at 96-97 and I think what we're trying to do at the moment - and John probably mentioned that this morning - is take it up until at least the next year. We did what we could with the data we had at the time we put the draft report to bed, and I think we had got some 97-98 data, but it wasn't complete, so we were just doing the best we could with the data we could get. Class 1 railways in the US - we used those largely because we were still waiting for the other international data to come in.

I think we tried very hard. You know, there are real problems with just comparing ourselves with the US and Canada. We are going to be getting information from Europe and so on, but it was a matter of, "Do we hold up the draft report while we wait for this data to come in, or do we put it out with all the

qualifications?" We, as you know, had a workshop later to explain what we were doing. It's always, again, a difficult call. I didn't want to hold up the whole report.

**MR AFFLECK:** No, it is difficult. I think there are a number of small bets around the country that when Australian railways - and I should preface this by saying I don't want this to sound complacent or self-congratulatory, but I think when Australian railways are compared with other railways around the world, of similar size, we will come out looking pretty good. From my knowledge of European railways we will come out looking very good.

**PROF SCRAFTON:** We had hoped that we might be able to make some comparisons, say, with South Africa, but we just couldn't get the data.

**MRS OWENS:** I would like to thank you, too, for the cost information you gave us. As John probably mentioned, we've been trying to focus less on costs and more on quantities.

**MR AFFLECK:** That's something I understand better now.

**MRS OWENS:** But I think we will have a look at that information as well, so thank you for that. Again, the figure that you've put in there relating to technical efficiency on page 9, that will change. As soon as you put all the other countries in you get a different picture. We are going to be looking at issues, I think, relating to axle-loads and double stacking and so on in the final report, and I think trying to look at some individual US railways. What I'm really interested in is - Derek might have something before this.

**PROF SCRAFTON:** No.

**MRS OWENS:** Your figure on page 10 - showing the optimal axle mass limits - and you mentioned at the outset the need to have analysis looking at the limits of productivity in Australia and I think it's an interesting idea, and we might again come back to you on that.

**MR AFFLECK:** Perhaps limits of productivity is the wrong way to express it. I mean, I would not want to leave anyone with the impression that some day there will be no more stones to overturn and there will be no more potential for improvement. That is certainly not the case. Therefore the expression "limits to productivity" is probably the wrong way around. The real significance of it is in identifying much more clearly what we can do in this next stage of productivity improvement where we are effectively changing the combinations, changing the production function, if you like, going beyond the stage when we were simply cleaning up the backyard, to how we can do this much better to getting closer to the optimum of axle-loads and lengths and heights and so forth. What stands out most prominently on that figure on page 10 is the question mark. The model is a useful one. We need to replace that question mark with a few numbers for axle-loads and for lengths and heights, and so on. To me, in a way, that is the most significant policy concept that comes out of this

whole

reform.

**PROF SCRAFTON:** I'm picking up your recommendation that we should get a sort of RORVLS for rail, if I could call it that. We will obviously think about that and make any recommendation if we feel it's appropriate, but my view about this grandly titled National Office of Rail Safety Administration - I've never actually heard it called that - but we were given the impression that it was just a handful of people going to sort of progress some or all of this bureaucratic safety stuff that had gone on for a long time. What you're suggesting about it here is it's a pretty big research-type job. I know they could probably contract it out - I don't know, say to an organisation or through an organisation like Austroads, for example, you know - but I didn't know they were going to have a budget or an organisation that would have that sort of - - -

**MR AFFLECK:** Everything you've said so far I agree with entirely. I have heard it called that, and I do believe that is what it is to be called. It doesn't exist yet.

**PROF SCRAFTON:** No.

**MR AFFLECK:** It simply came out of the last ATC meeting which is now only two weeks ago, three weeks ago perhaps. I acknowledge very readily that this would be a pretty challenging task for a small group of people inside the bureaucracy like that. The problem I have is that it is the only thing we've got.

**PROF SCRAFTON:** Right.

**MR AFFLECK:** Even though we haven't quite got it yet, if I can put it that way. There's no land transport commission, there is no railway transport commission, there is no policy body in Australia which could undertake this task - with the possible exception of the Bureau of Transport Economics, and I'm not quite sure they're the right body to do it either. This is one of the weaknesses that the industry has - it does not have the analytical capacity to address issues like this and it badly needs it.

**PROF SCRAFTON:** But we could maybe turn that around for, couldn't we, and have a positive spin on that? If they were to say, "This is the first big job this organisation is going to do," they might end up with some pretty good stuff. That would be quite a challenge to people who would figure they had a contribution to make, whether they were railway engineers or economists or whatever - you know, they could - - -

**MR AFFLECK:** I would like to see it as an expression of some confidence that an organisation like this NORSA could perhaps play a major role, rather than simply doing the, if you like, bureaucratic task of trying to get all these regulations to line up. That's a task which is almost in the too-easy basket, if you like. I mean, from a legal and political point of view it's not going to be easy at all, but conceptually it's a piece of cake. The work has all been done. But this is a new job that needs to be done by somebody. Whether that is the right group to do it, I don't know, but some national body certainly needs to do it, and it needs to be a body which has linkages into all of

the state railway administrations and state Department of Transport administrations, and is not simply a federal government body, because there will be no ownership at the state level if it's done that way.

**MRS OWENS:** It could be contracted out.

**MR AFFLECK:** Indeed, it would probably have to be. The URVLS and RORVLS studies were done by, if you like, the road authorities and consortium who set up a consulting team and brought in a lot of resources to do a specific job.

**PROF SCRAFTON:** Good, good idea.

**MRS OWENS:** I like the way that you divided up the three phases of productivity improvement. I thought that was a very useful - - -

**MR AFFLECK:** When I wrote the comments I hadn't thought of that yet, but it will be on the record.

**MRS OWENS:** Yes, it's on the record now, and I like that very much. You actually said in your comments related to that, the third stage is to integrate railway into the total logistics chain, and that's one of the things our report has been very remiss on, we haven't talked about logistics at all.

**MR AFFLECK:** I think it's the launch pad for privatisation.

**MRS OWENS:** Yes, and I noted that you said that. In your submission somewhere, and I don't quite know where it was, you did talk about yourself as a corporatised entity and the strengths of the Corporations Law and so on. But you're saying once you get thinking in terms of the overall logistics management you can't just rely on corporatised organisations to be able to fit into that sort of new system.

**MR AFFLECK:** If I can just elaborate a little bit, and this is a bit off the top of the head, but let me just talk about it: that is, the Corporations Law has the effect of imposing a discipline on the directors of the corporation and its officers to behave in certain ways and not behave in certain other ways. They have a fiduciary duty to the corporation to act in ways which further its interests as a corporation. That is fine as far as it goes, and it is a very great improvement on non-corporatised and non-incorporated bodies which don't have that discipline. That discipline is not only a discipline to the people within the organisation who must perform those fiduciary duties, it is also a discipline on people outside the organisation who cannot impose upon it in ways which the Corporations Law does not allow them to.

But when it comes to that third phase of productivity where you are trying to take that corporation and integrate its activities more thoroughly into the logistics chain, that involves, if you like, breaking down the boundaries of that corporate organisation's activities and creating linkages between what it does and what other people in the logistics chain do. That, in reality, requires things like acquisitions,

mergers, alliances, takeovers and so on, in order to make those linkages from that corporate body into other corporate bodies really effective and long lasting and binding.

A public organisation, because it needs the approval of its governing shareholders to do those kinds of things, and because it's also exposed to inevitable political pressures from people who don't like what the organisation is doing because it may be creating advantages for its competitors - those things like mergers, alliances, takeovers and so on are virtually impossible as long as you are in the public sector. I think I gave the example before that if you wanted to suddenly take over another organisation by doing a stock market raid, you would first of all have to get the permission of your shareholders to do that. Four or five months later, when the opportunity had long passed, you might or might not get that permission and in any case everybody around town would know about it by then and it would be a completely pointless exercise. So you can't do that sort of thing when you're a publicly owned corporation, regardless of having now the protection of the Corporations Law.

In private sector ownership, all that changes, and alliances, mergers, takeovers - any amount of, if you like, re-engineering the boundaries of that corporate body are possible. I think that is one of the major motives for privatisation. It's not simply to offload corporations from government ownership, it is an opportunity for those corporations to do larger and better things and increase their value.

**PROF SCRAFTON:** I guess, Fred, that the comment that you made that we missed off the Corporations Law - off the overview - we did in fact say on the body of the report that, aside from the NRC, no other government railway was corporatised or incorporated under the Corporations Law. So we mentioned it but we left it out. It's another one of these examples that you've quoted where if somebody read only the overview you don't get a fair deal.

**MR AFFLECK:** I guess, too, I might have been saying - without making too big a point about it - that it was what I perceived in 1991 to be a fairly important recommendation of the Industry Commission report, and except in our case and the ARTC it has not been implemented.

**PROF SCRAFTON:** Yes, and that was the context within which we mentioned it, that it was the only organisation within the time-frame that we were looking at that had been incorporated.

**MRS OWENS:** Although it's quite interesting when we've talked to some of the other organisations such as Westrail who aren't corporatised at all - I think they're a commercial entity - and there are corporatised entities in New South Wales and Queensland who have said to us, "Well, it hasn't been - not being subject to the Corporations Law hasn't really been a major issue," because they've worked under their own legislation which has been significantly strong to deal with those issues.

**MR AFFLECK:** I don't agree with that. I think if they were put under the Corporations Law they would notice some things were very different, and I think it would be of great benefit to them. Westrail, for example - without picking on Westrail - does not have a board of directors. They have a single chief executive who is board, chairman, chief executive and everything else all at once, and frankly I think that's a pretty unenviable position to be in when you're trying to run a business in a competitive market.

**MRS OWENS:** It raises the question in terms of coming back to the logistics and moving in that direction and privatisation. Are you inferring that those other bodies be privatised as part of this? Is this the end result of this thought process?

**MR AFFLECK:** Far be it from me to suggest to governments what they should do with their railways, but I think logically - - -

**MRS OWENS:** You can here.

**PROF SCRAFTON:** Somebody might read it.

**MR AFFLECK:** Logically, the answer is the same for everyone. These are organisations which in some other parts of the world where arguably they function best are in the private sector. That's one way you could look at it, compare it with overseas examples. The other way you can look at it is what are the opportunities which arise for a corporate organisation to do its best in the marketplace by taking whatever measures it sees fit to increase the value of the company. Inevitably, that involves some of the things I've been talking about, mergers, acquisitions, takeovers of associations and alliances and so forth. In public ownership that is extremely difficult to do with any degree of effectiveness - I think was the conclusion you would have to draw from that.

Some governments may not wish to go down that route, and that's fine, but I think for an organisation like ours, which is in the national marketplace in a very difficult market with very low margin business where the opportunities for being part of the larger logistics chain are large and obvious, the conclusion that our shareholders have drawn, that the company should be sold into the private sector, is undoubtedly the right decision.

**PROF SCRAFTON:** It's very interesting, Fred, though even if an organisation was at the present time geographically limited in its organisation to within let's say a traditional state boundary, the way that the railway future is, if they really want to thrive, the likelihood of being able to do that, unless they're in a very specialised business, is going to be strengthened a great deal if they can move outside of their borders. It will be continually constrained if governments continue to warn them because potential clients might well decide, as has already occurred, that they will not deal with government-owned entities, particularly if 80 per cent of the operators are in the private sector by then.

**MR AFFLECK:** That's right, and regardless of what one might say about what judgments one might make about the effectiveness of the public sector in various ways, it is a disadvantage operating in the marketplace to be a publicly-owned organisation. You are tarred with a brush which may or may not be the right one, but perceptions count for a lot, and there are many businesses who simply do not like dealing with publicly-owned bodies. Some deal with them without realising they do, because they deal through an intermediary and they have no difficulty with that because they don't know who they're dealing with, but when they are dealing directly with a public body they don't like it. It makes them uncomfortable, and we are disadvantaged by that. I've no doubt about that.

**MRS OWENS:** What about the current publicly-owned track owners, ARTC.

**MR AFFLECK:** Track owners?

**MRS OWENS:** Yes, and ARAC. Do they fit into this category as well or are you thinking more about the operators?

**MR AFFLECK:** They're in a little different position because they own what are essentially natural monopoly assets. Whether or not such things are capable of being privatised in an appropriate way I think is a little larger subject. Personally, and I'm not speaking for National Rail, I have no difficulty with the idea because I think they would be run more effectively, but whether that will happen, I think, is to some degree part of a much larger policy equation. The BOOT schemes and so on, which result in essentially temporarily turning an asset over to the private sector to build and manage, is probably the best halfway house, and that has worked quite effectively in the road sector and in other areas including recently a few rail projects. I guess all that's intended to do is expose these infrastructure projects to a degree of competition, which is good.

Whether in the long run assets like that should be owned outright by the private sector, I've got some doubts, and I don't think that has been done to any extent. In Australia the only exception to that, I guess, would be the ASR purchase of Australian National, the lines in South Australia which have been sold, but nowhere else has done that yet. I don't know. I think there would be some benefits in a much larger private sector participation below rail, but how that will happen I think is a little difficult to say at this stage. We're some way off that happening yet.

**MRS OWENS:** Have you got any comments about your dealings with ARTC vis-a-vis RAC in terms of the access arrangements and the difficulties of dealing with those organisations or is it relatively straightforward?

**MR AFFLECK:** If I can make an answer to that in several parts, first of all, the ARTC is a relatively new organisation and I think as we did back in the early nineties, they are still settling into their role in trying to understand how they should go about it and what they should be doing, and they have a very difficult job to do. The RAC is rather more advanced than that, and I think it would be safe to say that

the RAC has

become easier to deal with and more effective in the job that it does over the last few years, and I think in many instances they have visibly bent over backwards to try and do things for their, quote, "customers", unquote.

Nevertheless, I think they are in a difficult position of being a monopoly. That engenders certain attitudes within the organisations which are very difficult for their board and senior management to control, simply because it's a fact, and that has certain consequences in the marketplace. If we go to them and ask for a rate of a certain type in a certain area because we think we could generate some business on that line at a slightly lower access charge, they may make the judgment, "Fine, we'll be in that." They may make the judgment that, "This is our rate, take it or leave it. If you can run the service at that rate, so be it. If you can't, well, tough luck." I think they are going from that latter attitude to the former attitude, and they have put themselves out in a number of areas for us, which I think have been very good, and I think our relationship with the RAC as a consequence at the moment is better than it has ever been, and probably described as not bad.

We're negotiating another long-term access agreement with them at the moment, and that is going relatively well. It's not finished yet but it's going relatively well. I'd have to say that we at National Rail are not unhappy with the situation where we have effectively three access organisations to work with rather than a, quote, "one-stop shop," unquote, and I've made some comments in here about that. I think the problem of having three has been somewhat misconceived, and therefore the idea of having a one-stop shop, which in some parts of the country is actually in control of the system, the services of which it's selling, and in other places it's not in control. It is simply operating as a middleman, that is not a satisfactory outcome. We do not want to deal with the middleman. We will deal with the people who are supplying the service, so that when they supply it wrongly we can go to them and tell them to fix it.

**PROF SCRAFTON:** We alluded to that in our report. It was one of the things that was very clear to us, that one of the problems that the RTC has is this sort of dual role, and our feeling was that obviously something will change down the track after the five years and whether it will become part of an integrated organisation or whether there are further splits or further mergers or whatever remains to be seen, but that is a rather curious relationship in retrospect.

**MR AFFLECK:** I think if they are put into a position where they are acting as a middleman, let's say in parts of New South Wales, they will find that position unbearably uncomfortable, because they will have all sorts of pressures coming from their customers to fix them for them and they will be unable to do so.

**PROF SCRAFTON:** It's not unlike the situation at ..... when it was managing the One Nation money over other people's property.

**MR AFFLECK:** Not unlike the National Rail situation where we were selling a service to customers, and we had locomotives and wagons which were effectively

under the control of other people and the service quality was something we couldn't do anything about.

**MRS OWENS:** We did suggest to deal with this issue was, rather than having an ARTC set up as it is now - of setting up a manager of the interstate network, which could be the ARTC in a different guise, and that manager would not own any part of it, but basically manage on behalf of each part of the network on behalf of Queensland, New South Wales, Victoria, South Australia and WA, and we raised that as a model in the context of - we floated this idea of auctioning, which you rejected as a possibility.

**MR AFFLECK:** I just don't think it's a practical proposition, but as long as that manager has the ability to control the service that is being delivered by that infrastructure, then that's a good idea, but as long as that manager is simply a shop front, which is acting as an agent or a middleman, then I think it's unworkable. Every day of the week we have problems in getting trains through. It's just the way it works. We need the ability to go to the people who are actually controlling the trains and controlling the infrastructure and say, "Today we've got a problem at X, Y, Z. Let's work together over the next 15 minutes to fix the problem" or "Yesterday, you let a certain train through off its path and we had to stand aside and we were an hour late as a consequence of that and that was not part of your normal protocol for operating the train control system. What went wrong, let's fix it and can we have some guarantees it won't happen tomorrow?" If we had to deal through a middleman we couldn't do any of that, and we would just have to take our complaint to the middleman and hope that he realises how important it is to us and that he does something about it.

**PROF SCRAFTON:** In the case that you just described, is there financial compensation? You don't get any of your access money?

**MR AFFLECK:** At the moment there is no financial compensation. We pay our money and we take what we get, and that is one - as I've pointed out in a later section about the characteristics of a well-designed access system, that is one of the fundamental weaknesses of the system. It's not two ways, it is one way at the moment, in that respect, anyway.

**MRS OWENS:** I thought those characteristics were terrific.

**PROF SCRAFTON:** Yes, I liked that stuff.

**MRS OWENS:** Very well set out and very well thought through. We might pinch some of those ideas. We will cite you, of course. But going back to this idea of a manager, our proposal was that the manager would take over some control. It would really be a subcontractor. It would be like a BOOT scheme where the manager would be responsible for the whole network, and that the problem I think that has been raised with us, particularly in New South Wales, when we talked to the Rail Access Corporation, was that that network would be controlled by this manager, and

we also

talked about - when we were talking about auctioning, auctioning the interstate and intrastate movements - paths on that network, but then the question was, what happens with the interface with the rest of the intrastate network within each jurisdiction?

**MR AFFLECK:** The manager concept will work only if on any given part of the network there is one organisation which is undoubtedly fully in charge, is able to contract the service and guarantee a level of performance, without having to go to another layer, if you like, of the contractual arrangements to require that performance from somewhere else. It's got to be a one-to-one total control management situation, otherwise we're dealing with - once again we're dealing with a middleman who has no ability to affect the quality of the service that we get.

**MRS OWENS:** What about this issue that, I think it was Judi Stack, raised with us that you set up that sort of management system and then you pushed the problem elsewhere in trying to deal with the interface, intrastate, interstate networks? Do you see that as a major problem? I mean, we've got other areas where there's this sort of model, like we raised the model used in electricity, the NEMCO model, the National Electricity Market Management Organisation model where there are interfaces, and somehow they seem to be able to deal with that.

**MR AFFLECK:** I don't know a lot about electricity, but I dare say the product that's being sold is a little more homogeneous and not quite so subject to the need for day-to-day management of individual parcels of electricity, if you like. I know the argument of the RAC, and I think there is some truth in it. I'm not sure it matters whether the boundary is pushed out to Goulburn or to Albury or Campbelltown or Sefton Junction or wherever it is, as long as on one side of the boundary and on the other there is a single organisation which is unquestionably in charge of delivering the service.

**MRS OWENS:** So long as that's clear.

**MR AFFLECK:** Whether that be RAC or City Rail or ARTC I don't think matters a lot, as long as they are fully in charge, and if we have a problem we go to that organisation and they can fix it, and they can control the train paths on that bit of their network. The problem comes with that interface where you've got a train path which crosses that interface and you've got two organisations who have to coordinate those train paths, but that problem is going to exist in New South Wales wherever you go until there is a freight network that goes either through or around the city on its own exclusive track.

**MRS OWENS:** When you say that problem will exist in New South Wales, you mean under the one-stop shop model?

**MR AFFLECK:** No, I mean the necessity to share a track between various types of trains - intrastate freight, interstate freight, country passenger, metropolitan passenger, and so on - which is the fundamental difficulty in New South Wales. That

problem is going to exist because it's a fact, until there are separate tracks for some of those types of rail operations so that they don't interface with each other any more. But I come back to what I said before: as long as on any given part of the network there is one organisation which is undoubtedly in control, that's what matters.

**MRS OWENS:** But I think in New South Wales - I'm sorry to harp on New South Wales - the RAC would like to see that they actually are in control of the whole of that network in New South Wales, regardless of what's going on that network, whether it be interstate or intrastate.

**MR AFFLECK:** That comes partly back to this vertical integration argument. If you have an organisation like, say, CityRail or FreightCorp or Countrylink or any of those organisations, that is in charge of their own train service and the track they run on, the difficulty is that they will run that track to suit their own purposes first, and we will get what's left over. Now, that's perhaps a little unkind to CityRail, for example, but I think inevitably that's what happens; the political pressure on CityRail to operate the city trains in an effective way is immense. Now, if RAC controls all of that, they can get some balance between those various needs. Whether at the end of the day they strike the wrong or the right balance I guess is the question, and it's not a stable organisational situation, it's bound to change from time to time as somebody thinks the balance needs to be pushed the other way. But it is important that one organisation be in charge, whether that be CityRail, RAC, ARTC or whoever it is.

**PROF SCRAFTON:** I think we have dealt with most of the rest of it. On the safety area, yes, you will maybe give us some comments on that other paper in due time.

**MR AFFLECK:** I think the other paper from the rail regulators was overly defensive. I mean, we're all guilty of that from time to time, but - - -

**PROF SCRAFTON:** And they admit it in their submission.

**MR AFFLECK:** - - - I also think that some of the points they've made, for example on the distinction that needs to be made between the powers and responsibilities of regulators, on the one hand, and those who control civil and mechanical engineering standards is a very important one, and it does tend to get a little confused.

**PROF SCRAFTON:** We were certainly guilty of contributing a bit to that confusion and we're going to try to sort that out in our final report. But there's no doubt about that, and it could well be a residual problem that when each of these organisations or groups of organisations handling these functions sort their own act out, this interface problem could still remain. That's something that we're going to try to understand a little more about.

**MR AFFLECK:** I think really serious thought does need to be given to the idea of a national rail regulator. It's a difficult one, though, because there are intrastate systems which have no crossover from state to state - - -

**PROF SCRAFTON:** That's right.

**MR AFFLECK:** - - - and the argument is that they should not be regulated nationally. There are other countries in the world which we all know about where they are regulated nationally, and nobody thinks anything of it - - -

**PROF SCRAFTON:** That's right.

**MR AFFLECK:** - - - but that's not the culture of this country, and it's probably not going to work that way for that reason.

**PROF SCRAFTON:** That's right, yes.

**MR AFFLECK:** But for the national track it seems to me that some form of national regulation to a greater extent than we've now got, because mutual recognition is never going to work perfectly, would be a big advantage. Now, having said all that, dropping the barriers to entry to the national system is not something that's going to be an advantage to National Rail, we are already - nevertheless, I think it's a principle that should be established.

**MRS OWENS:** You said that mutual recognition would never really work perfectly. In the Australian Accreditation Authority's submission that you have now seen, they talk about - we made that point that there were still problems, and they said:

The information is in many cases outdated, for example issues raised three years ago by operators about mutual recognition of their accreditation have been long resolved by accreditation authorities.

**MR AFFLECK:** It depends on what issues you are talking about, I suppose, but the fact is that if we are accredited in four states and we want to be accredited finally in a fifth, and the Northern Territory is a case in point at the moment - I think on our National Rail safety manager's desk I saw a pile of paper about six or eight inches deep which he was about to send off to the Northern Territory.

**PROF SCRAFTON:** Yes.

**MR AFFLECK:** Now, a lot of it replicates documents that have been sent off to other places, but I guess from two points of view it seems to me that that's unnecessary. First of all, why do we have to repeat all of these things when the answer is going to be obvious? The second thing is, genuine mutual accreditation in which the other states just tick the box will put enormous pressure on all of those jurisdictions to adopt the same standards and force everybody into the same mould. Now, that may not be a particularly user-friendly way of expressing it, but I think by having a national process willy-nilly it drags everybody into conducting their business in the same way and adopting precisely the same standards. That will require some infrastructure change and some operational change, and so be it; that's

what we're also

looking for.

**MRS OWENS:** They seem to imply that there are specific characteristics in different jurisdictions that need to be catered for.

**MR AFFLECK:** What I'm saying is, that is certainly the case; get a genuinely effective mutual recognition and maybe some of those specific characteristics might disappear.

**PROF SCRAFTON:** It will force them to think seriously about it.

**MR AFFLECK:** And we will have a more uniform system, which is what we're all looking for.

**MRS OWENS:** One of the things that really worried me when I first started looking at this issue really seriously last weekend when I tried to look at the industry reference group's submission and this submission was the complexity and the layers. You've got the accreditation authorities and the track owners who can set their own standards and so on, and there are these different layers. The different track owners can have different requirements - - -

**MR AFFLECK:** And we've got standards and we've got codes of practice - - -

**MRS OWENS:** Yes, and it took me a while to work all that out.

**MR AFFLECK:** - - - and we've got regulations and we've got - - -

**MRS OWENS:** Operational procedures.

**MR AFFLECK:** And we've got committees you wouldn't be able to count.

**MRS OWENS:** Yes. At one stage you had task forces and now you don't have those, you've got the IRG and the safety committee, but it took us a while to work out that the task forces had all gone and - - -

**PROF SCRAFTON:** And nobody noticed!

**MRS OWENS:** But we think we're almost getting to the bottom of it. I said this yesterday, that I've looked at regulation in a range of inquiries now - and we actually have the Office of Regulation Review within the commission and we deal with regulatory issues a lot - and if I have trouble with this area - rail - I hate to think what the operators must feel.

**MR AFFLECK:** Yes, especially Patrick, for example - an operator in Mornington.

**PROF SCRAFTON:** A new entry.

**MR AFFLECK:** They have very, very small resources - admittedly a person in Gary Kemp who knows what he's doing - but I hate to think of the labours that he had to go through to understand everything. I, who have been in the industry for 15 years, and who keeps pretty close track of these things, could not stand up with a whiteboard now and explain all of that structure to you, because I don't understand it well enough to repeat it. Some people do. There are specialists in the area. It should not be necessary. It's a legacy I guess coming from another similar country many, many years ago I can say this - of our colonial past, and we haven't got all the way out of that yet, even a hundred years later. Some parts of this country still act like colonies. It's a feature of the federal system which we have got to somehow overcome.

**MRS OWENS:** I think we have probably exhausted the questions, and exhausted you, Fred. Have you got anything else you would like to say before we finish? I think if there are other questions we can come back to you out of session. I know you need to leave in a few minutes, so is there anything else you'd like to say before we close?

**MR AFFLECK:** No, I don't think so. I think we've covered it pretty well.

**MRS OWENS:** Thank you very much for coming and I'd like to take this opportunity to thank you for organising my recent rail trip from Melbourne to Dimboola and then on to Adelaide. I learnt an awful lot in those two days, so thank you for that.

**MR AFFLECK:** Good. I think Prof Scrafton has probably been on quite enough trains in his life and wouldn't see anything new from something like that.

**PROF SCRAFTON:** Yes, but it's still interesting. As you said, Fred, it doesn't matter how many years you've been involved, you take a trip like that and you see four signalling systems in 20 miles or whatever it is, and you're trying to write about progress and reform, and you feel that there's still a long way to go.

**MRS OWENS:** But I did see the track works going ahead, so that's something, isn't it.

**MR AFFLECK:** Not before time.

**MRS OWENS:** Okay. We will now adjourn until tomorrow, Thursday, 27 May at 9.30.

AT 3.56 PM THE INQUIRY WAS ADJOURNED UNTIL  
THURSDAY, 27 MAY 1999

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