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**TRANSCRIPT
OF PROCEEDINGS**

PRODUCTIVITY COMMISSION

INQUIRY INTO PROGRESS IN RAIL REFORM

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

TRANSCRIPT OF PROCEEDINGS

AT SYDNEY ON TUESDAY, 27 OCTOBER 1998, AT 9.40 AM

Continued from 23/10/98 in Perth

MRS OWENS: Good morning and welcome to this public hearing of the Productivity Commission public inquiry on progress in rail reform. This public hearing in Sydney is the third of five sets of hearings. We've already held hearings in Adelaide and Perth last week. The others are scheduled over the next 2 weeks in Brisbane and Melbourne. The hearings are a design for people to raise issues they feel affect this industry. They give people the opportunity to provide input into the draft report, which is due to be released early in April next year. These hearings are in addition to the extensive round of visits already undertaken by the commission and the 60 or so submissions to the inquiry which have been received already.

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

Finally, transcripts from today's proceedings will be provided to all participants at the hearings. Anyone else wishing to obtain a copy should contact the staff, some of whom are present here and they will only be too pleased to assist you. They're wearing name tags to identify them. Let me introduce my colleague on my left, Prof Derek Scrafton, who is the associate commissioner on this inquiry. I think probably now we will get started and I wonder if you would like to introduce yourself, Prof Laird, and your organisation so the court reporter can identify your voice on the tape.

PROF LAIRD: Thank you. My name is Philip Glencoe Laird. I'm appearing here in a personal professional capacity, not purporting to represent the University of Wollongong, but I have drawn heavily on the university's resources in order to prepare this submission and the research it is citing. My position at the university is associate professor in the school of mathematics and applied statistics.

MRS OWENS: Good, thank you very much, Prof Laird, for coming today and thank you for your submission which we've both read. It is a very detailed and useful submission for this inquiry. I understand that later we will come back and discuss another submission - you will be discussing that on behalf of Healthy Cities Illawarra - so what we will do at this stage is concentrate on your personal submission, so if you would like to make some opening remarks and then we will get on with some discussion. Thank you.

PROF LAIRD: Firstly I consider that the Industries Commission 1991 report and inquiry was a helpful one and I think that it set a benchmark in reports and analyses, and that will pose a challenge; it contained a lot of useful data and I feel the recommendations were balanced. Secondly, I hope that this inquiry will examine very carefully the 16 recommendations of the so-called Neville committee, that is the House of Representatives Standing Committee into Communication, Transport and Micro-Economic Reform. I personally would find it very hard to argue against any one of those recommendations.

As I saw the report, it found that if we did not upgrade the main-line track joining Australia's three largest cities of Melbourne, Sydney and Brisbane, then we might as well think about closing it down, particularly after the year 2005 when the Pacific Highway will be largely a four-lane highway as a result of a \$3 billion investment. The Neville committee also echoed findings of the national transport planning task force in two ways: firstly, recommending a more balanced approach to road and rail investment; and secondly, as to the quantum of rail investment required for our intercity main line upgrade, and that was in the order of \$3 billion.

So it was found by the NTPT - and might I add that if you go back to 1991 the National Rail freight initiative had three funding options for interstate rail and the benchmark one was about 2.7 billion. So here we have three reports already this decade that says that you're looking in the order of \$3 billion for the required upgrade. To keep that in perspective, the amount of money that the federal government has spent on the national highway system from when it was established by the Whitlam government in 1974 to 1999 in today's terms is approximately \$18 billion.

I hope that your inquiry, however, can go a little bit further than the Neville committee did in a number of areas which are cited in the main submission. The first one is the need for better data, better transportation data - I'll address that later - secondly, competitive neutrality; thirdly, fuel excise; fourthly, the positive contribution rail can make to gross domestic product, international competitiveness and reducing greenhouse emissions; and fifthly, advancing the process of selection of a Melbourne-Brisbane route that's capable of double-stack container carrying.

The submission has detail but I think the big picture ones are firstly that government rail freight - we should no longer be talking about deficits as did the 1991 report on rail, observing then that rail freight was responsible for about one-quarter of the overall rail deficit in the late eighties. We have now got to the position of an aggregate government rail freight surplus, and you might ask how do I arrive at that. If I look at three 1996-97 annual reports, for Queensland Rail I see a profit of 277,000,000, the New South Wales FreightCorp of 83,000,000 and the Westrail of 42,000,000 and I expect that those figures will be matched in the crop of annual reports due over the next month or two and already Westrail has posted a bit higher - an extra 3,000,000.

There we have over \$400,000,000 in profits which are mainly derived from freight operations and these are far in excess of CSOs - as I recall, about 20,000,000

in the Westrail annual report. I am not sure whether it was 60 or 80,000,000 for New South Wales and we know that they are operating losses in National Rail and I'm not quite sure about V/Line. So there we have a situation where something has changed since the 1991 report; that government rail freight would now appear in the black.

The second big picture item is that in 1994 a parliamentary research paper was published, and I will cite it - Rail and Urban Public Transport, Commonwealth Funding and Policy Issues - and in that report, which I had a hand in writing with the help of the parliamentary research service, it was considered unlikely that National Rail would meet its main 5-year goal of making a profit. Regretfully that prediction would appear to be true and so we can ask ourselves why did it fail. With the best of intentions, it appears to have failed.

For guidance in that we may go back to the 1981 report on rail by the Australian Railway Research and Development Organisation known as ARRDO and that had four prescriptions to rail reform. The first one was the need for government to allow their rail systems to act in a commercial manner. The second one was reduce staff numbers. The third one was raise road and rail cost recovery and land transport, and the fourth one was Commonwealth funding, if need be by way of loans, for main line interstate rail upgrading.

I think it's fair to say over the last 17 years the rail systems have done their part to try and meet those objectives, but I think it's equally fair to say that the government has not done as much as it could in areas to allow rail systems to operate commercially, particularly in the area of urban passenger transport, and road pricing is another question. I think also if we look at the 1991 recommendations of the Industry Commission into rail transport, as indeed the major rail industry group has done, the track record on the rail systems in meeting those recommendations is quite different from the track record of government in meeting those quite balanced recommendations.

If you look at the ARRDO prescription, certainly we've seen progress in reducing staff numbers. Since 1980 they have more than halved, not only in passengers but in freight and so if you look at the freight output in terms of net tonne kilometres per freight employee, it has gone from below one in the late eighties, as measured by the steering committee into national performance monitoring, up to about three and Westrail's annual report, as is Queensland Rail's, is pointing up towards five.

If we look at the wagon fleet, in the late eighties it was an old chunky wagon fleet with the exception of a few five-pack wagons owned by Australian National. Today we see a smaller wagon fleet stripped of some of the excessives and a lot more orientated, fit for purpose. If we look at the number of locomotives, this steering committee into national performance monitoring observes that in the late eighties we had, I think, about 1800 locos; now we have about 1100 and they are much more modern.

So we have seen progress in staff levels and we have seen progress in above-rail operations - you know, the locos and the rolling stock - and we have seen new management structures. But despite the limited One Nation program of about \$430,000,000 that included Adelaide-Melbourne gauge standardisation, our main-line interstate track linking Adelaide to our three main cities is - choose your adjective - grossly deficient, a national disgrace, whatever. Those adjectives and nouns well describe it.

Now, what is the cost to Australia of failing to upgrade this track throughout the 1990s and to introduce some competitive neutrality? Not the severe New Zealand mass distance charging for trucks but simply the limited mass distance pricing for the longer heavier distance trucks advocated by the interstate commission in its 1990 report. I would suggest that there's a heck of a lot more freight on roads and in the inter-capital city area and it's one of the reasons why National Rail is not making a profit. The other of course is the rail-rail competition.

The second thing is because road is two or three or perhaps even four times more energy intensive than rail for line-haul freight, we are using in the order, as observed by the 1991 Industry Commission report on costs and benefits of reducing greenhouse gas emissions, of 100,000,000 litres a year. By the end of the next decade that will blow out to 200,000,000 litres of diesel a year extra if we don't do something about it. That's about half a million tons of extra CO₂.

Partly as a consequence of the failure to develop the main-line rail system - and it's not just interstate, but there are some export links as well that could be enhanced, and I'm not talking about Alice Springs-Darwin - and partly because of the road pricing, Australia now has the highest road freight in the world per capita. That means the amount of tonne kilometres per person in Australia as observed by the Business Council of Australia and then Austroad as the highest in the world. Is this really the message we want to send to the rest of the world as to how we move around 1500 tonnes of goods each year? I don't think so.

So picking up on a few specifics, firstly data: what we have on the public record at present is simply not good enough, particularly if governments are trying to make informed decisions on investment. I suggest the Australian Bureau of Statistics was struggling in the eighties and is struggling even more so in the nineties to put out timely and accurate road or rail freight data. There were some good agencies like the Inter-State Commission that would mull over data, then the Bureau of Industry Economics, and they have gone. The Energy R and D Corporation supported data analysis. That's gone. Other agencies like the Bureau of Transport Economics have been downsized; the same with our universities.

Compare this situation in Australia with 18,000,000 people with that in the United States, where the Australasian Transport Research Forum last month was told that the United States Bureau of Transportation Statistics is up and running and doing a really good job. The Bureau of Transportation Statistics was mandated by the

United States Intermodal Surface Transportation Efficiency Act of 1991. When it came up for review it was given ongoing funding under the Transportation Equity Act that was signed into law this year by President Clinton.

The second thing that was overlooked by the Neville committee in its excellent report - but it couldn't do everything - is the question of Melbourne-Brisbane. The Maunsell report commissioned by the Australian Transport Council have recommendations for action this year, because it said, "Over the next 12 months as a matter of urgency we should look at where we can make the most cost-effective investments to improve speed-weight performance of our interstate main lines." They had to do something about Sydney freight-passenger separation, and thirdly, they said we really need to identify a long-term Melbourne-Brisbane route capable of double-stacked containers.

I'm not arguing that it has to be the inland route through Parkes, but I think that, whilst that possibility is about, one is not sure whether you should really follow the NTPT recommendation of putting a billion dollars into the existing Sydney-Brisbane coastal route. Having said that, though, I think there's a very strong case for Newcastle-Sydney to be upgraded, but what you do between Maitland and Brisbane is another question which I think needs detailed economic analysis. The third thing the submission raises is road pricing. I think this is an issue that we can't afford to walk away from, because it's not only affecting rail freight's modal share but also rail freight profitability, and I think it's also skewing both public and private investment, not only into rail lines but also private investment into conveyors or pipelines in eastern Australia.

Fourthly, I haven't said much in the paper about urban public transport because it's not my area of closest expertise, but I do hope that your inquiry can look at it, and I would like to observe that the United States Transportation Equity Act that was signed this year provides over 200 billion over 6 years, of which about 18 per cent is designated for urban mass transit, and that's a lot more than what we've seen in the last 20 years in Australia, and that in turn is a lot more than the present zero. So with that, somehow I'd be happy to try and answer any detailed questions.

MRS OWENS: Thank you very much, Prof Laird. I think that's a really excellent start, and you have raised a number of important issues in your opening comments, which I think we'd like to both return to. You have also raised some other issues of detail in the submission which we'd also like to talk to you about. One of the very interesting issues that you have just mentioned is this issue of the north-south corridor and the need to address that issue. There are a number of proposals around at the moment, and I suppose you can starkly identify the options as being options which require a totally new track, investment in a new track, a new inland corridor, or in trying to maintain the existing corridor and upgrade it.

We have been getting a lot of submissions that have been talking about the necessity to generally maintain and improve the existing tracks, and the question is whether the proposals that are currently being looked at at the moment for new tracks

- say between Melbourne and Darwin or between Alice Springs and Darwin and so on
- are they going to possibly jeopardise something that may be more realistic?

PROF LAIRD: Certainly in the media an inordinate amount of attention is given to three rail mega-projects, the least expensive of which is Alice Springs-Darwin, the second is the Sydney-Canberra very fast train, now concentrating on the speed rail option at about 4 billion, and the third one is 8, 10 billion dollars Melbourne-Darwin high speed. I would suggest we would do much better to concentrate on upgrading the existing main lines. When I say "upgrading", that may include some gauge standardisation and reconstruction in south Queensland.

Can I also bring to your attention that on Friday week Queensland Rail will commence its Brisbane-Rockhampton tilt-train service. I've tried to count up the cost of the track upgrade and the trains with the level crossing protection, and I'm hard-pressed to find \$400,000,000 for the 630 kilometres. Now, I should allow extra for the cost of the electrification, but it didn't have to be electrified for those traffic densities, but there you see Queensland Rail, by upgrading the track where there was an economic case for a main-line upgrade to support freight, are then able to put the tilt train on top, and they will have the Southern Hemisphere's first tilt train service on a regular basis.

One may ask how come this state with half the population of New South Wales can have the southern hemisphere's fastest train, albeit on narrow gauge.

MRS OWENS: Would you say that Queensland has had a stronger focus on investing in its rails than other states?

PROF LAIRD: Yes.

MRS OWENS: This is very much a Queensland phenomenon.

PROF LAIRD: Yes. If you look at the Australian Transport Research Forum and the paper by Hicks and others, they make a case that New South Wales' funding on rail is better than that of the national average, and elsewhere one could find, by going through say the state budget papers over the last 15 years of New South Wales and Queensland, the ratio of capital funding for road to rail in Queensland has varied from about 1 to 1½, whereas in New South Wales the road to rail ratio is about 2 to 1. It varies over time. So putting the two together - that the New South Wales is better than the national average and Queensland is better than New South Wales - then Queensland arguably has a much more balanced approach to road and rail investment than do the other states or does the Commonwealth.

MRS OWENS: Why do you think that's so? Is it because of the way the rail system in Queensland is structured, or Queensland's rail is still there very much as a vertically-integrated corporatised entity, or is it something else that's happening in Queensland?

PROF LAIRD: I think it's longer term. Comments are often made that, "Look, with all that revenue from coal royalties or with the better deal they got with the Commonwealth Grants Commission, of course they could afford to do these upgrades." That includes the main-line electrification of the eighties, started by Sir Joh Bjelke-Petersen, into the main-line upgrade of the nineties that I associate mostly with the Goss government but also supported by Borbidge. So I think they have had a bipartisan approach to it. It is possible that they are always conscious of the need to try and integrate northern Queensland and central Queensland with Brisbane, and they saw a rail line historically as the best way of doing that this century. I think it's more vision.

It wasn't so much that they were rolling with money, but they looked at their narrow gauge line winding up from Brisbane to Rockhampton and they said, "Look, this is built to old standards" - like light axle load I think - was it 15 or 16¾ tonnes? They said, "Look, we've got to get this up to 20 or 25. We've got to get rid of the worst of the steep grades," and in the process of the upgrades in the late eighties and now the nineties, the weight of a load behind a freight locomotive has doubled from 760 tonnes up to 1500 tonnes, and if you went by train from Brisbane to Rockhampton in the mid-eighties, you were looking at a 14-hour journey.

On 6 November they will start their 7-hour service. So in the last 12 years they have doubled the loads for their freight trains and they've halved their fastest passenger train times; plus, it's a lot more efficient to operate. One of the factors that QR shows a profit is because they have made the investment into the track, as well as the locos and the wagons and the people.

MRS OWENS: So if it's obvious in Queensland that this sort of investment is beneficial, why isn't it so obvious in some other states? Why does the Commonwealth government need to get involved?

PROF LAIRD: Well, as I've said elsewhere in New South Wales one gets the impression that the state looks to the Commonwealth to do the upgrading, in the same way that - the interstate main line upgrading - that the Commonwealth has quite cheerfully accepted the responsibility for building and maintaining the national highway system. But then the federal government looks to the New South Wales government or the Victorian government to do it, and between the two of them you've got a national disgrace.

Between the three governments you've got track which, reasonably well aligned in Victoria, is in very poor condition when you look at formation, ballast, sleepers and weight of rail in certain sections, and then you come to New South Wales and there's generally good formation, ballast, sleepers and a good weight of rail, but look at the alignment. It's a steam age alignment, a lot of which goes back to circa 1920 and it was never designed for fast-running interstate trains, it was going south to Albury to simply to tap the wheat and wool out of the Riverina, to stop it going to Victoria or to South Australia. And going north from Sydney to Brisbane it was never designed to be the through-running line; that went through Armidale and Wallangarra. It was

only in 1930, after some Commonwealth funding, that the branch lines which had then been joined were extended over to South Brisbane.

Can I just come back to one other thing. You asked about an inland route. Firstly, I've commented on the Sydney-Canberra one, that it's 10 times the price of something that's not only affordable but actually being delivered in Queensland next week. Secondly, Alice Springs-Darwin, maybe it will get up, maybe it won't or it may need another hundred million of government money to tip it over the line. Thirdly, when we talk of an inland route I think we should differentiate between two very extreme proposals. On the first one there's the 8B and plus one with trains doing 300 kilometres an hour going all the way to Darwin, and I don't want to speak in support of that.

The second one is one I do support further investigation of, and that is use of existing secondary lines in New South Wales from Cootamundra, through Parkes, Dubbo, near Werris Creek and Moree and up towards Goondiwindi in Queensland. There you have 1024 kilometres of track; some of it is light rail but some of it is also class 1 rail, like going through Gunnedah. When you look at the alignment of that track and you stack it up against the Queensland rail main line upgrade standards but no grade steeper than 1 in 90 and no curve tighter than 2200 metres to allow for fast running of heavy trains, no less than 77 per cent of those New South Wales lines meets those modern Queensland rail main line upgrade standards.

The corresponding percentage on the existing main lines from Cootamundra through Sydney, Maitland, Grafton - I'd hazard a guess, and I could supply it if you wish but we'd be lucky if half of it or a third of it met that standard. As in the submission, so much of that track from Cootamundra to Sydney, Maitland, Grafton - about 36 per cent of it - fails to meet the very basic fast freight train standards of no grade steeper than 1 in 66 and no curve tighter than 800 metres.

MRS OWENS: So how much would it cost to upgrade all those secondary lines?

PROF LAIRD: Well, here is a job for detailed analysis. All I can say is that as part of a package, examined by the Bureau of Transport Economics and reported on in 1996, the package included some minor work in New South Wales, possibly with a 90-kilometre length but not possibly not, but the main job was in Queensland. First of all, you have to have a river crossing over the McIntyre River; then you'd get onto a narrow gauge track. A lot of it is good from Goondiwindi to Inglewood, it's nice and straight. Then it curves through Warwick, a bit of a detour, and then winds it way up to Toowoomba to cross the Great Dividing Range, then down and up over the Liverpool Range again through its switch. It takes grain trains at the moment about 11 hours to get from Goondiwindi to say Brisbane.

A man called Ken Davidson in an interesting 1994 paper had a basic low-cost route from Melbourne to Brisbane. That involved firstly a new tunnel under the Toowoomba Range; secondly a new route from Inglewood to Millmerran towards Toowoomba. That was further examined by Max Michell, and a research assistant,

Gabriella Adorni-Braccesi and myself for a paper, which I would be happy to supply to the commission. It was tabled subsequent to writing the report. But it does show there is another option. We're not saying it's the sure fire one but what we are saying is it is worth a closer look at.

PROF SCRAFTON: Could I ask, Prof Laird, you mentioned earlier about the way in which the research organisations had been declining; they had either been wiped out, as in the case of ARRDO or downsized as in the case of BTE. Who should be doing these evaluations?

PROF LAIRD: Given their ability to generate long-term growth in Australia and to effect total transport cost reductions plus greenhouse gas reductions, I think it falls on government's shoulders, particularly the federal government.

PROF SCRAFTON: I'm interested in that in relation to a comment you made in your written paper about how we've had a lot of inquiries and very little action, but perhaps one of the reasons that that's the case is that we have not had the same intensity of economic evaluation of these projects that has been given to road projects. You mentioned yourself the work that the BTCE had done for the NTPT for example. It was always the NTPT's wish that that work would continue in the BTE or the BTCE, as it was then.

PROF LAIRD: I think for road projects you have to differentiate between the very detailed environmental impact assessment process and the detailed design as opposed to a decision by a state or a federal government that, "We'll build this road." I'm not convinced that heaps and heaps of economic evaluation goes in prior to a decision of a state or federal government saying, "We'll have that one." I defy anyone to show me documentation that thick, for example, that would show you that the \$130 million giant tunnel in the Adelaide Hills was an economic win.

PROF SCRAFTON: I think that's a good example because my view would be that in the case of road analysis there is a good analysis undertaken for what we might call the necessary - the projects which are proved to be necessary - but still in the road arena you get the one-off projects. The danger - and Commissioner Owens alluded to this - is that the same things could happen in rail; that the needed projects, the sort of things you've described to us, might still be starved of funding but money will be made available for major one-off, as you call them, political decisions by state and federal governments, or by both of them together in many cases.

Just changing tack slightly, do you think we maybe need to look at the possibility of diverting what are now considered to be road funds into these rail projects?

PROF LAIRD: Two questions.

MRS OWENS: Or should we try and get some private money in? The proposal is that these be substantially privately funded.

PROF LAIRD: Three questions.

MRS OWENS: Three questions.

PROF LAIRD: Yes. Firstly, one would have to wonder at some of the urban rail projects or the light rail projects that are proposed from time to time. For example, Bondi Junction out to Bondi Beach, a hundred million dollars. Look what you could do with a hundred million dollars between Sydney and Brisbane. You could break the back of a Picton bypass. And 20 years ago the road-builders who were fully federally funded were bypassing Razorback Mountain and Picton, and they built a nice new alignment which we all take for granted now. But there is one project that would improve freight flow between our two large cities and make Canberra more accessible by say a lower price tilt train. So within rail some projects are proposed - for example Parramatta-Chatswood - and this is not to say we shouldn't be building a new southern railway. I mean the airport is very important and I welcome that. So in urban rail you see some of the political drivers at work that you also see with road projects.

The second question was should we be diverting some road funds. I would say that we should at the first cut be increasing land transport investment in Australia, as did the Neville committee, but with a rider that there should be improved road pricing, including congestion toll in the major cities. But at the second cut, if that's all you get is say \$800 million of tied road funding for the national highway system, then I think there is a very good case for 10 per cent of that instead going to rail.

PROF SCRAFTON: That would be similar to the US model that you described.

PROF LAIRD: Yes, or even 20 per cent. Again, 138 million gets 10 minutes off the Adelaide Hills with albeit some safety improvements which might be offset by people driving faster, but you think you could have done with 130 million between Adelaide and Melbourne on the railway. You could have lifted the clearances from near Dynan out to Adelaide and you could have regraded the section from Murray Bridge up to Mount Lofty. Okay, it might be fairer to say you might need more like 200 million but even with 138 million, which was allocated for that road in the Adelaide Hills, you would have got far more out of it you had put that into rail.

The second one is the Bookham bypass. The initial EIS for that said the benefit cost ratio was 0.08 and yet it has been built south of Yass on the Hume Highway. I think since then someone has been told to go out and work out a new benefit-cost ratio, but I do have in my library the original EIS and I can supply you with a copy of the page that says, "Here is the BCR of about 0.8."

MRS OWENS: So you are saying that these are largely political-type decisions?

PROF LAIRD: I don't want to say that road safety is political but you have to ask - as did a distinguished railway man ask the Neville committee - you sometimes wonder

when you see the amount of money spent to bypass dying country towns on the national highway system, like Goulburn bypass. Lovely to have - perhaps, fair enough - but why did we need a full bypass of Yass instead of just a half one? By all means divert the Sydney-Melbourne but surely you could have let the Canberra traffic filter through there for the benefit of the local traders.

MRS OWENS: The proposal for a National Land Transport Commission that is floating around at the moment, do you think such a commission would be able to make these sorts of trade-offs and think about road and rail as an integrated land transport system? Do you need something like that to address this sort of problem?

PROF LAIRD: No. I think the buck stops with the government. I mean, the federal government is supposed to have experts within the Department of Transport ; if they couldn't work out that some of these rail investments would have been a better bet than some of these road ones - - -

MRS OWENS: But you're saying that they haven't done this so there is something wrong somewhere.

PROF LAIRD: I think it goes back to them. At the end of the day you have to be careful about how commissions work; for example, a National Road Transport Commission was set up under federal-state agreements and one of the charters included setting charges for full cost recovery for the trucks. Well, by the former chairman's own admission when he introduced the new charges, he said, "Look, it's the recession.

It would be unreasonable to expect full cost recovery," so I think you are asking a lot for a commission to make those sorts of judgments just as the federal government in the eighties was asking a lot of the states to say, "Look, if you like, you can divert urban arterial road funding into urban public transport" or, "You can divert intercity road funding into interstate rail lines given the strength of the road lobby." Now, whether you can insulate the decision-making from the strength of a particular lobby by the setting up of a commission - - -

MRS OWENS: I think it depends on its independence.

PROF LAIRD: I think you are right, Commissioner Owens, and I think this is where the procedures used by your commission here, where we have a court of record, that all the evidence, except for agreed confidential material is available for all who want to see as opposed to a system adopted by a certain other commission that, "Well, we're going to propose some new road charges. Would you like to send us your views?" If you ask as a participant later on, "Can I have a look at X's submission?" "Oh, no, no, no. It is up to them if they want to show you" or, "Who said what at your various stakeholder meetings?" "Oh, we didn't bother with microphones or a transcript."

So I think to preserve the independence you do need a court of record but you also need more because - but having mentioned a land transport commission there is a lot, even if you set aside investment questions, that a land transport commission could do and I think the NRTC has done very well for the road transport industry, and that is advance harmonisation of regulations between states and I think this is an area that rail needs attention.

The second thing that needs doing is, for example, allowing a private operator, as dealt with in evidence before the Neville committee, in the Northern Rivers of New South Wales to move produce from northern New South Wales to Brisbane's main port. I mean, the obstacles that they face dealing with two different jurisdictions and those impediments are not placed before a road operator and I think a National Rail Transport Commission or a National Land Transport Commission would have a valuable role here, plus a research role.

PROF SCRAFTON: Just to summarise that: we might form a commission, whether it was a rail commission or a transport commission, re-establish that research role that concerns you in your paper and we might also solve some of the technical and administrative bugs that exist in the system - that's right - and I think the experience of NRTC probably demonstrates that on the road side because the area of their terms of reference which they were slowest off the mark with has been in that charging area. Nevertheless I would just defend them a little bit there. I think they are more transparent than you give them credit for.

I agree your comment is that they don't take evidence in hearings of this sort and on transcript but they do have public meetings and, these days - maybe it was not true in the early days, but I think these days they are fairly open. Part of the reason for that, of course, is that their process also demonstrates the politicisation that occurs. Only recently they announced their second round of charges and immediately the Victorian government said it would not implement them because it hadn't been consulted but my understanding was that the paper was supposed to be a consultation paper. It must be very difficult, as you say, for an organisation to distance itself from its political masters in a case like that.

PROF LAIRD: Yes, or the industry which it is regulating or serving.

PROF SCRAFTON: Certainly I agree with that and one thing that we do not want is so-called independent commissions that are in fact are subject to regulatory capture almost before they start work. I think that is a good point.

PROF LAIRD: Can I just follow that on?

PROF SCRAFTON: Yes.

PROF LAIRD: I think the decision taken by ATC to have a National Land Transport Commission appears to have been supported by the rail industry, despite the risks, but not the road freight industry, if the reported comments of the chair of

the Road Transport Forum are any guide. One would hope that ATC, if it wasn't in a position to form a National Land Transport Commission as recommended by the Neville report, would have the fall-back position as recommended by Queensland; that we have a rail transport commission operating in the interim and say give it 3 years and then - with a view to merging it with the road one in 3 years.

MRS OWENS: So that rail transport commission could in the meantime look at some of the - there is a task force looking at these big icon-type projects at the moment but it could look at all the sorts of proposals that you have just been mentioning today and that you have listed in here to try and work out what the priorities are, could do the research, could look at the broader environmental and other - taxation aspects. I mean, there is a whole range of things, as you say, that the land transport commission could do more generally, but it could be doing just for rail.

PROF LAIRD: Yes. My hope is that the setting up of a new commission or, indeed, with respect, this inquiry process we are now participating in, will not be used by the federal treasury as another reason for another low rail budget. I think the Neville committee made the issues very clear; that this main line interstate track linking our three largest cities has got to the stage where if we don't start fixing it up soon, we should be thinking about - you know, because of the relatively light traffic densities by international standards - giving it away. I think investment decisions of public money properly reside with the government.

MRS OWENS: But governments need information to make those decisions and, at the moment, what you are really imply is that some of that information is really not forthcoming in terms of having appropriately researched cases for some of these projects. It needs more. It needs something out there to be giving it to it, and if the research capacity of the universities is diminished because of cutbacks and we don't have a BIE and so on - all the things you mentioned before - we need some way of trying to get those things onto the agenda and properly researched.

PROF LAIRD: No. I think two things: I think the value of a rail transport commission in the absence of a land transport commission will be assisting the harmonisation of regulations affecting interstate rail traffic. To make ease of access to tracks and to try and break down these very costly state barriers; you know, road has succeeded in that with the work of the Inter-State Commission in the eighties and now the NRTC, but where it comes to double-stacked containers between Adelaide and Melbourne, I think the work for the national transport planning task force clearly indicated that this would have a very high benefit-cost ratio, so it is like the road project - like the decision to - for example, an Albury bypass.

Okay, we have finally agreed on the route, we know we need the thing; let's go ahead and build it, and then you come through the detailed work of environmental impact assessment, land acquisition and so on, so I feel that some of the investments on the rail system - no matter whether we have an inland route or a coastal route to get rail freight between Melbourne and Brisbane, we will always need a Melbourne-

Sydney railway route, linking our two major cities. Did my paper give you the studies that have been done on that?

MRS OWENS: You have given us a very extensive - - -

PROF LAIRD: How much more do we need? 1977 internal New South Wales study and, at that time, who was the - the French company, Soft Rail, through Commonwealth funding, was giving advice on the proposal to electrify Sydney-Melbourne, which was put up by Prime Minister Fraser in 1980 and withdrawn the next year by its treasurer. 1981, bicentennial high-speed rail proposal. For \$200,000,000 they proposed a track rebuild between Goulburn and Yass with a spur line to North Canberra, and that 200,000,000 included the purchase price of XPTs, and that would have allowed you a 3-hour Sydney-Canberra XPT service - for \$200,000,000 in 81, and here we are today - 17 years later; we're talking, we're dreaming, we're studying to death a "you beaut", \$4 billion project.

But it didn't stop there. In 1981 an engineering student for his honours project found conclusively that main south gradings in between Goulburn and Junee was a lot cheaper than buying a heap of new locomotives. Guess what we did?

MRS OWENS: Bought the locomotives?

PROF LAIRD: Yes. State Rail study re main south line; reduce transit times; as the Inter-State Commission found in 1987 in its study on intermodal freight, we had to do two things; we had to get decent management structure for interstate rail freight - well, I think we have got that now; perhaps not in the form envisaged then but we have got one who is trying very hard in a tough market. The second thing, they said, "You should reduce the transit times to make the service more attractive," so State Rail 10 years ago put on a senior engineer and he came with some very practical solutions and some of them were easily adopted; like, get rid of the loco crew change at Goulburn.

So National Rail could easily do that and change the crew at Junee instead. And then they said, "Look at the Moss Vale yard. You've got the station there which gets in the way of the freight trains. All you've got to do is to shave off the south end of that yard and re-divert your freight tracks to the west side of it" and, sure enough you save 5 minutes per train plus about 90 litres for the shorter trains; probably 120 litres of fuel for every train that goes through. A modest quarter of a million dollar investment, if you are lucky, but 10 years later after his report it's still sitting there.

So his report was vetted by outside consultants, high speed rail engineers who said, "Sure, you can't put up with 1 in 40 grades or curves as tight as 320 metres. You will have to ease the grades to 1 in 66 and ease the curves to 800 metres." They told an internal engineer to look. "Here is 60 million. What could you do for the most cost-effective thing." So he went right from Sydney to Albury and he found that

Goulburn to Yass was the most effective payback. That was only 8 years ago, and on it goes. TTC looked at it.

MRS OWENS: You have got a lot of the detail here but doesn't that indicate to you that you need some way of breaking this cycle. There has been work done but how do you balance all these projects; who should be balancing it? How much of this is a Commonwealth responsibility; how much should be thought about it at the state level? When we were in WA last week we were told that the key issue is not so much interstate rail lines, as you could imagine, but it's intrastate.

PROF LAIRD: Yes, I was told that yesterday by Wayne James at another function in this town.

MRS OWENS: Yes, and so there are other perspectives. So it's a matter of how do you bring all these perspectives together? How do you bring all these ideas together and work out what are the priorities in this country and think of these things in terms of the broader economic benefit to the community?

PROF LAIRD: I would have said, say 6 years ago or even 3 years ago, when NTPT finally reported we had the luxury of taking a bit of time to really finetune the benefit cost ratios or the detailed analysis, but I think what the Neville committee did, and showed us very clearly, if we don't do something fairly quickly then we might as well start giving away some of the system, and by that we're talking about the tracks; linking Australia's three largest cities. For Western Australia, I mean they've put an offer on the table. They said, "Look, for our intrastate traffic we're quite happy with wooden sleepers but for your interstate traffic, which you want to be a bit faster, concrete sleepers would be better. You pay the difference." I mean that's a pretty good offer and I'm surprised to hear from Acting Commissioner James that the Commonwealth is yet to take it up.

As I said, if we're back during the times of the One Nation program and we had a capital works program under way we could have given more time but I think we've got to the stage now we know that there's at least a billion dollars worth of work needed and so I think the Neville committee has crystallised the issues, that if we don't do something about this track it's not going to be worth very much to anyone and if the arguments of lower transport costs or reducing the articulated road crash fatalities from over 200 a year, or reducing greenhouse gas emissions don't appeal, then you would think surely boosting the sale price of National Rail would appeal.

MRS OWENS: I see that that's going to press ahead now that they've resolved their problems with Victoria.

PROF LAIRD: Yes, but I mean honestly here's something which in the last 2 years its sale price has probably gone down and I think to restore it you're going to have to look at some big policy questions, and one of them is if you look at New Zealand, how they successfully privatised their railways. I mean in the decade before the sale they had been reducing staff numbers but they had also been upgrading the North

Island main trunk and they also had reasonably neutral road pricing with mass distance charges.

PROF SCRAFTON: I just wanted to ask you about that New Zealand example that you quoted. Presumably the debt incurred, if there was any debt - there may have been a grant payment by the New Zealand government - that was carried by the government and retained by the government, was it? You mention it in your paper in relation to electrification of the corridor.

PROF LAIRD: Someone once called that the least unsuccessful or the former Prime Minister Muldoon's Think Big projects. When oil was pushing \$US45 a barrel it seemed like a very good idea and that indeed was one of the motivations for the proposal for Sydney-Melbourne electrification, but what was not such a good idea was to complete the job when oil prices went low. But having said that, the civil works that went hand in hand with the main line electrification in New Zealand, just as they went hand in hand with the Brisbane-Rockhampton or Gladstone electrification, were very beneficial to improving the weight of loads behind locomotives, allowing for bigger containers; not double-stacked but just bigger ones.

PROF SCRAFTON: That's a very interesting point, isn't it, that the civil engineering work in fact would have itself produced benefits but it required the electrification to provide the stimulus, or the spark, I guess, I should say, for that project to take place.

PROF LAIRD: In both countries, Australia and New Zealand, yes.

MRS OWENS: I might just go through the submission now.

PROF SCRAFTON: I think we've covered a lot of it.

MRS OWENS: We've covered a lot of the ground in your submission just through our discussions but we might just quickly go through. I've just got a few things I would like to clarify, and the first point I've got is on page 2. You talk about the rail efficiency of the Western Australian iron ore in the Pilbara and I was wondering if you've got any views on the Access Regime and the issue that has now arisen, and which has been raised with us by Hamersley Iron about Robe River trying to get access to the Hamersley track?

PROF LAIRD: Commissioner Owens, I would have to refrain from commenting on that one.

MRS OWENS: That's fine. You can refrain.

PROF LAIRD: Thank you.

MRS OWENS: I just wondered if you had taken an interest in that issue and whether your interest had extended to Access Regime.

PROF LAIRD: It did with a submission to the National Competition Council in respect to other applications for access but this one is so special. It's also interesting that it's not private versus government but it's private versus private. So I think we're in unchartered waters there.

MRS OWENS: I agree and we're having to be quite careful about how we deal with it obviously because we don't want to be crossing paths with the NCC on this particular issue.

PROF LAIRD: You could argue convincingly either way on that one.

MRS OWENS: Thank you for that.

PROF SCRAFTON: I just had one minor point on page 2 that I would like to comment on. It was your item 10 and you mentioned earlier in your introductory statement about those railways paying dividends to the government, but at least two of them do also still receive CSOs of one sort and another, don't they, so it is a matter there of trying to improve the corporatisation of the entity itself by making these funding arrangements more transparent. I just wanted that on the record, that they in addition to paying those dividends you described at least two of them receive CSOs for freight.

PROF LAIRD: As I mentioned, they do receive CSOs for freight but my point was it appears that an aggregate - - -

PROF SCRAFTON: Rate, sure.

PROF LAIRD: But I think it highlights another very important point, and that is the necessity in analysis to regard rail freight and rail passengers as operating in two very different businesses and, yes, I hope, like your report in 1991, would tend to keep them separate, whereas I think the report from - is it the steering committee that came out this month on all government trading enterprises - the section on rail tended to lump the two together a bit.

PROF SCRAFTON: Good point. Yes, it has been drawn to our attention increasingly, just in the same way that interstate and intrastate businesses are quite distinct these days so are passenger and freight. Probably always have been but the financing arrangements were such that there was no way of dealing with that.

MRS OWENS: On page 7 you mention, right at the bottom of page 7, about an upgraded rail system for freight and urban passengers would make a useful contribution to reducing Australian transport-related greenhouse gas emissions and I was wondering, have you got any data or information from other countries on the link between the upgrading of rail systems and greenhouse gas? Are you aware of any literature?

PROF LAIRD: No, but I could try and take it on notice. I would mention that it has to go hand in hand with road price.

MRS OWENS: Yes.

PROF LAIRD: Including congestion price and tolls, to make it work properly.

MRS OWENS: But I'm particularly interested in this question of upgrading the rail system and then having those other environmental effects. It's just a slightly different sort of angle on greenhouse gas.

PROF LAIRD: Yes, I will see what I can do.

MRS OWENS: Thank you. I know it might be difficult but somebody else might be able to answer that question for us at some stage. A lot of these questions we've touched on I think as we've been going. Can I just clarify your table 4 on page 14? This is the rail corridor upgrading options. When you say, "NR bid", NR bid when? What is that?

PROF LAIRD: Commissioner Scafton could perhaps know better than myself but it was, as I recall, in the work for the national transport planning task force. National Rail came up with a proposal, about \$700 million on work, that in its view could usefully be done to maximum the efficiency of the investment under the One Nation.

PROF SCRAFTON: Which in the end was basically, what, the One Nation? It was the follow-up to the first round of One Nation moneys.

PROF LAIRD: That's right. Instead of One Nation I think that - - -

MRS OWENS: Okay.

PROF SCRAFTON: But for our own research we need to look at the BTCs section of the NTPT report there.

MRS OWENS: That's fine. Some of this is new to me, so I'm still learning. On page 17 you raise the issue of public or private funding and you talk about the \$3 billion in investment and then you say, "Now there is an increasing expectation encouraged by the present federal government that it's more up to the private sector to fund such track upgrading." Do you think that is the inevitable result of the current structural changes that are taking place in individual states, that the private sector will get increasingly involved in upgrading track?

PROF LAIRD: Only when the traffic densities warrant the financial risk, and that would appear to be more than - say interstate main lines were only carrying, say, 3, 4, 5 million tonnes a year. It could be made as a stand-alone investment, but not when you have the government outlaying 800 million a year on the national highway system, with very low road track access policy.

PROF SCRAFTON: So there's a bit of a chicken and egg about this, isn't there?

PROF LAIRD: Yes, and I think if for example that national highway system was not being so well funded by the federal government and if for example Sydney and Melbourne - suppose the Whitlam government had said, "This is a two-lane road. We'll leave it to the states," and the states then continued as they had for many years in the sixties - they didn't want to know about it outside Sydney and Melbourne, and so in the end it got so bad in the bits in between that the federal government felt obliged to start funding it.

There are some significant reports circa 1971 that have been commissioned by the outgoing - you know, the pre-Whitlam government, but it was Whitlam giving a report saying that these interstate highways are so bad that we really have to do something about it, and the report recommended that the Commonwealth put in 80 per cent of the funding. Whitlam said to his minister, Charlie Jones, "No, we don't want the argument with the states. We'll put up the lot," and so ever since then, even though roads are not mentioned in the Australian constitution at all, we've seen, as I said, in the 25 years of this full federal funding program in the order of \$18 billion in today's terms outlaid on these roads.

The net outlay on the interstate main lines - and I say net, not including fuel excise, but simply the loan repayments from previous gauge standardisation agreements - is a bit more than a billion. Given we've got a trucking industry at world's best practice in many sectors, having access to these ever better highways, with ever heavier trucks, B-doubles, road trains, if you wish - you know, it would really I think discourage the commercial sector. Presumably evidence to that parliamentary inquiry entertained suggestions that it was up to the states to invest in interstate main lines, or it was up to the private sector, and in the end I think it just cut through all that and said, "Look, we need an extra \$750 million of Commonwealth funding on top of the 250 million already committed in the next 3 years."

It didn't spell out the 2 billion from 2001. Hopefully by then the situation would be better for private investment, but I think what they said is, "As things stand at the moment, it's the Commonwealth," and as I try and argue in the paper, we've got really to the situation where we were in the early seventies when these interstate highways were so bad that the Commonwealth felt it should do something about it.

PROF SCRAFTON: There's a very interesting parallel there, too. You mentioned that when the program first began it was just construction firms. Within a very short time the states also managed to wheedle the maintenance money out of - and the NTPT found that maintenance funds are roughly equal to initial construction funds, and that might well happen with the railways too.

PROF LAIRD: It's a one-way track, isn't it?

MRS OWENS: So to speak.

PROF LAIRD: Yes. I mean, once you go down that route, I think the only way you can recover it is what they do in Europe with tolls.

PROF SCRAFTON: Yes, I think that's right. There is another parallel that we can learn from the rural industry too.

MRS OWENS: Yes.

PROF SCRAFTON: The only other question was to ask, Prof Laird, if you would just clarify that the table at the top of page 25, just the headings on the columns which were not that clear to us.

MRS OWENS: I understood what option C and option F were, because you mentioned those in your footnote, but option A for New Zealand - I wasn't really quite sure what that was. You might like to just take that on notice.

PROF LAIRD: Can you give me the page?

PROF SCRAFTON: It's at the top of page 25.

MRS OWENS: Table 8.

PROF LAIRD: Yes. The NRTC is the current National Road Transport Commission annual charges with 18¢ a litre allowed, plus 7¢ a litre for state fuel franchise, roughly. Old mass limits is what was pertaining in the mid-eighties with a gross vehicle mass of 38 tons for a six-axle semitrailer. Option A was as proposed by the review of road vehicle limits, and was sold as an intermediate extra mass permit by the New South Wales Roads and Traffic Authority until 30 June 1996. It was about an extra thousand a year, and that allowed you to go to 41 tons gross vehicle mass.

Option C was the 42½ tons gross vehicle mass, and that was the first heavy option, the federal and interstate registration scheme heavy option, and that's what you'd have to pay in New Zealand. As you see, the New Zealand charges are very sensitive to the declared gross vehicle mass. Option F, as I understand, is the proposal of the NRTC for six-axle semitrailers with air suspension or road-friendly suspension.

MRS OWENS: I think we should be able to work it out from that. Thank you very much. I was going to just ask you, just coming back to the issue we were talking about a minute ago, there's a proposal at the moment to privatise Westrail as a vertically integrated body. What do you think the impact of that would be on future maintenance expenditures on that section of the interstate track? It would no longer be seen to be a state government responsibility. What would the federal government do? Would it still put money into that part of the track if it was owned by a private entity?

PROF LAIRD: I think there's a case to be made out for an agreement that in return for some federal funding - certainly not all, but some - that for the new track owner to guarantee maintenance to a certain standard to allow most of the track to be capable of passage for fast and heavy trains and to guarantee access to third party operators, particularly those involved in interstate haulage. Then I think you could justify the federal funding, albeit into that private sector, simply on the road maintenance savings of the Eyre Highway.

MRS OWENS: We talked quite a lot with Westrail and with the Department of Transport when we were over there about these issues, but we were talking more in terms of access rather than what's going to happen with the maintenance of the track. I'm just interested in your views.

PROF SCRAFTON: At the very end of your paper, at the bottom of page 25, you have a question there, "Have the new arrangements assisted rail to win a larger share of the nation's land freight task?" and you conclude that the answer is probably negative. I'd just like to turn that around a little and say, do you think the new arrangements will assist rail to capture a larger proportion? Given all the things that you've said, are you optimistic or not?

PROF LAIRD: No. I think we've spent too much of the nineties in preoccupation with vertical disaggregation to the expense of the industry as a whole, and I think at the end it may well cost government in the sale price of the entities. Let me qualify that. At the very best it's like a giant experiment, a living laboratory, where you disaggregate the rail systems. Sure there's some advantages. You look at State Rail, how unwieldy it was before. But your main point is made by witnesses to the Neville inquiry. You've got enough competition for rail in your non-bulk area in Australia provided by the world's best road freight industry, so the main issue is not rail-rail competition where an inordinate amount of attention has been paid, but road-rail competition.

Now, apart from the transaction costs of splitting up - you know, at the end of the last decade we had, what, six systems or five systems involved in interstate freight, and look how many now are involved one way or another. I mean, how many government rail authorities have we got? I've lost count. Is it 12, is it 15, is it 16? Who knows, with the Victorian exercise. Let me give you three simple costs of National Rail not following up the originally stated agreement for it to acquire the interstate freight, apart from our friends such as Toll, TNT or SCT or Patricks, and the first one is if those sleepers that have been sitting by the side of the track near Maroona between Geelong and Ararat for 3 years - had it been a vertically integrated railway, they'd have gone in that year. They were brought under One Nation and they finished the gauge standardisation and they've been sitting there by the side of degraded track for 3 years.

The second one is the Parkes triangle. About 3 years ago National Rail took a decision to send its east-west freight to Perth from Sydney not over the Blue Mountains with its rail congestion and steep grades, but to take it through

Cootamundra. I've been there, I've watched a train over a kilometre long, and when it comes up from Cootamundra to Parkes it wants to go west, but it can't turn to the west, it's got to turn to the east through Parkes station, and then because it's so long, an extra two FreightCorp locomotives have to appear from somewhere and haul it into the long Goobang junction, and the whole exercise takes an hour, and it is only now that that's been sorted out.

The third one is these great big long National Rail trains operating between Brisbane and Sydney. They take 20 minutes of stopping and starting between Casino and Acacia Ridge, Brisbane's freight terminal, simply because they're using turn-of-the-century staff and tickets for their safe working system. National Rail is doing everything it can to try and keep its head above water on that corridor, and you get things like that. Then if that's not enough, now we've got a government re-elected who want to lower the price of diesel for trucks, and you can imagine the impact of that. As the Bureau of Industry Economics observed, rail can survive, albeit with a low modal share of 20, 30 per cent on these east coast corridors because it can offer lower rates, but you go and lower diesel 25¢ a litre - - -

PROF SCRAFTON: That's a whole new issue.

PROF LAIRD: Well, I think it's one that would be pertinent to the inquiry. I think at the end of the day we've got to say, "Is there a place for rail in interstate operations?" I think it would be a very brave politician who said, "No, we'll do away with it." But by stealth this is what we're doing, as we build up these new four-lane highways. By the year 2005 you'll have a virtual four-lane highway from Melbourne to Brisbane. Why negate the benefits of that highway investment by diverting practically all of your intercity road freight onto that highway?

MRS OWENS: They'll just have to make it six lanes.

PROF LAIRD: Well, the pressure is on that already - as the NTPT report - and already from Hornsby up to Gosford late Friday afternoon it's described as a big long carpark.

MRS OWENS: I think at this stage we might actually just have a quick break for some morning tea and then we'll come back and we'll perhaps have about 10 minutes on the Healthy Cities Illawarra submission before we go on to the Institute of Engineers submission. So we'll break now and we'll resume at 20 past 11.

MRS OWENS: I think we'll resume at this stage. The next participant is again Associate Professor Philip Laird representing Healthy Cities Illawarra, and I don't think we need to, for the transcript, go through what we did before. Your voice is already registered. I would be very interested, before we have some discussion on this submission, just to find out what Healthy Cities Illawarra is and your relationship to the organisation.

PROF LAIRD: Thank you, Commissioner Owens. Healthy Cities Illawarra was established in 1987 as part of the worldwide network of Healthy Cities. It's currently funded by New South Wales government agencies concerned with health, both preventative medicine and health care. My relation with Healthy Cities Illawarra is that since 1992 I have been chairman of one of six task forces, this particular one being the transport and environment task force.

MRS OWENS: And would you like to make any comments on the submission that we have before us?

PROF LAIRD: Yes, thanks. The task force, which meets every 2 months, resolved at its last meeting to ask the director, Frank Warner, who sends his apologies, to bring forward to this commission the submission to the Neville committee. The basic thrust of this decision was that decisions made at a national level can have regional impacts. These include firstly the growth in road vehicle kilometres. It's doubled in a little more than 20 years on a national scale and we've certainly felt it in Wollongong, with more and more cars, more introduced traffic with freeway development, and we have a coal transport problem there.

Secondly, we feel that there's more and more pressure for people to go out and buy second cars, simply because the rail and the bus services - they have improved a little bit, but not commensurately with the roads. Thirdly, the task force looked at the national transport planning task force and agreed with the basic thrust that we do need a more balanced approach, and the evidence seems to be that putting more and more money into roads is not the best way to go.

Now, our task force includes representatives from state government agencies plus industry - both the coal industry and BHP Steel - plus community representatives. The people on the steel side come to the meetings and say, "Look, we do have to compete with cheap imports of steel landed in Brisbane or Melbourne," and so it's important that the rail freight services from Port Kembla, which is the Southern Hemisphere's largest steelworks, to these outlying state capital cities be made more efficient.

Also, moving steel just say from Port Kembla to Newcastle faces several difficulties. There's a very scenic railway line between Sydney and Wollongong - beautiful coastal views - but it's very curvy and it's a geotechnical minefield, and in 1990 it was proposed to build a new waterfall through-tunnel and surface route, but that was 1990 and we're still waiting for it and we don't expect it this side of the Olympics. Then that steel has to wind through Sydney. Fortunately it's got a

reasonable route through Enfield towards the northern line, but then it gets on the short north line between say Hornsby and Newcastle, and there's a line that needs realignment.

A particular concern to the task force, which also has local government representation, is the difficulty in getting a public transport interchange at Oak Flats. In 1981, the then New South Wales Minister for Transport, the Honourable Peter Cox, produced a Wollongong transport improvement program brochure and said, "We'll upgrade Wollongong City station and Oak Flats station." Then there was not much of a need for it at Oak Flats, but starting in the mid-nineties, Shellharbour Council is overseeing three massive residential subdivisions which when finished will have about 10,000 home sites. It's half filled up already, mostly around the Albion Park area.

One of the selling features of Albion Park by the land developer was, "Look, if you buy your house here at Centenary Estate, you're only a few minutes away from the freeway to Sydney," which is perhaps one reason why in Wollongong the arterial freeway, urban freeway, has been augmented from four to six lanes as we talk right now. Another reason was coal trucks, plus a third of Sydneysiders wanted to get to their weekend retreats on the south coast. We're lucky that there's a bit of funding in this year's state budget for a bit of preliminary design, but again you've got this huge residential area which really could do with a dedicated public transport interchange with a park and ride, plus a few bicycle paths, plus a bus bay, and it's been dragged out a lot.

The committee - the task force - has mixed views on road pricing. The industrial people, particularly in the coal exporting side of things, feel that the NRTC charges are not too bad after all in their present state and form, but the majority of the committee feels that this is an area that needs addressing. The task force produced, with the assistance of the university, some brochures called Sustainable Transport and if we could leave those for the record.

MRS OWENS: Thank you.

PROF SCRAFTON: Yes, Prof Laird, thanks for this submission. It is important to the commission because one of the terms of reference in the reference to the commission referred to regional impacts of decisions affecting railway reform, so the information that you've provided to us would be particularly useful. We've talked a lot with you earlier this morning about freight, but maybe this gives us an opportunity just to look at some of the urban transport aspects of rail. Could I just clarify that Oak Flats has been designated as a regional interchange and that work is going on. Is that right?

PROF LAIRD: Yes, it was designated a long time ago and only in this year's budget is there about a quarter of a million dollars worth of preliminary design. I might add that electric trains currently stop at Dapto, which is a couple of stations up from Oak Flats. Secondly, the state government as I understand it has made a

claim on the centennial or the federation funds, saying, "We'd like some of this funding to extend electrification to Kiama," but you'd probably not want to build the interchange without at least extending electrification from Dapto to Oak Flats. Can we send a one-page summary on it?

PROF SCRAFTON: Yes, that would be very helpful.

PROF LAIRD: Thank you.

PROF SCRAFTON: Obviously a lot of the accent of the inquiry's work will be on freight, but it is important I think to pick up a little of the urban transport improvements that take place, and not just the big projects like the Parramatta to Chatswood project that you mentioned earlier. One of the points that you raised in your introduction was the aspect about steel movement. My understanding is that that has some of the biggest interstate traffic on rail at the present time. Is there potential for the proportion of that to increase? I would have assumed that a large proportion of steel movement in Australia that was capable of being carried by rail was already on rail, but do you think that's not a valid assumption and there is potential for more steel if rail was even more efficient than it is now?

PROF LAIRD: Yes. To give an example, at the moment some road products from Port Kembla are taken by B-doubles at quite attractive prices, set - but I don't have evidence - at 4¢ per net tonne kilometre down to warehouses in Melbourne. The truck then goes off to Western Port and it backloads with coated products from Western Port to Sydney warehouses.

PROF SCRAFTON: Thanks for that. We can pick that up I guess from BHP.

PROF LAIRD: Secondly, some steel can also interchange - you know, like the big billets - with sea between Port Kembla and Western Port. Thirdly, the last two annual reports of National Rail, and in particular the last one, shows that the steel traffic, in line with general economic activity, went down in the order of - I think perhaps even over - a billion tonne kilometres.

PROF SCRAFTON: Thanks for that. That's all I had.

MRS OWENS: Do you know what proportion of their costs the transport costs would be?

PROF LAIRD: No, we haven't discussed that in our task force.

MRS OWENS: It would be interesting to be able to assess what difference it would make to the steel producers if there was a more efficient transport system to transport the steel.

PROF SCRAFTON: One of the issues at present though is that they do have this ability to ship by all three modes and to maximise the benefits to them internally, I

guess, but the only way in that case that rail could capture a greater proportion of that business or even - I mean, maybe it would be fanciful to think that maybe at the time of the investment decision on the ship - might cause them to come back to rail, but the evidence seems to be that rail would have to be even more efficient than it is now for them to get that business. One problem of course, I guess, is the gauge transshipment that has to take place at Melbourne.

PROF LAIRD: Yes, that's one constraint. The other I think is that it would be nice for some steel applications if they could have 30-tonne axle loads.

MRS OWENS: In the submission it actually mentions mass-distance pricing, as did your submission, and it makes it sound like a foregone conclusion that it will be introduced. I was wondering whether there's something that Mr Warner, who wrote this submission, knows that we don't. It says on the last page:

Deferring the proposed round of mass limit increases for heavy trucks until mass-distance pricing is introduced.

PROF LAIRD: No, I think that was a recommendation of the task force as a whole that the federal government should not give further concessions to mass limits until there have been some improvements in the structure and level of the NRTC charges, whereas the present ones have no mass differentiation and whereas FIRS, the federal interstate registration scheme, had a very simple two-step one, and the overarching committee in 1990 recommended there be a three-step one corresponding to standard option A which we discussed before, and option X or option C. But at the moment the NRTC ones are flat and they propose for the articulated trucks and the updated charges that they will remain flat. So we'll see what happens.

MRS OWENS: How many stages in the New Zealand option?

PROF LAIRD: Every tonne.

MRS OWENS: Every tonne?

PROF LAIRD: Yes.

MRS OWENS: So that's a much more complicated sort of system.

PROF LAIRD: Yes. You have to go to a centre or a post office and prepay for a thousand-kilometre licence, which will cost you over \$500 for a heavily laden six-axle semitrailer. Then you're allowed out on the road, but don't be caught without a licence. And then when you want to do your next thousand K, you go and buy another one.

MRS OWENS: That sounds administratively fairly complicated. It sounds like something you might be able to do in New Zealand but not necessarily in Australia. Would that be right?

PROF LAIRD: I would not like to enforce it around west of the Great Divide of Australia but I think there is scope for limited mass-distance pricing on the more populous zone. For example, someone hauling containers from Port Botany to warehouses in western Sydney might be doing 20,000 kilometres a year. It's hard to see why he should be paying the same annual access charge as someone doing 200,000 kilometres a year. Likewise, there could be scope for mass differentiation, either lightweight like cornflakes, or heavy, and one would hope that these would evolve sooner rather than later - or re-evolve, because we did have them until 1996 in New South Wales.

MRS OWENS: I don't know if there are any other points you would like to make to this submission, but it was a very clear submission. I don't think we've got other issues we want to raise at this stage with you.

PROF LAIRD: Thank you. If I could convey to the group that it was heard and you did appreciate regional input?

MRS OWENS: Yes.

PROF LAIRD: And we will send you up the information on the bus interchange.

PROF SCRAFTON: Thank you.

MRS OWENS: And thank you for the tabled documents.

PROF LAIRD: Pleasure.

MRS OWENS: Our next participant this morning is the Institution of Engineers Australia.

MR VENN-BROWN: Yes, Chris Venn-Brown.

MRS OWENS: Could you please introduce yourself and your affiliation for the transcript, please.

MR VENN-BROWN: My name is Chris Venn-Brown. I'm a member of the Institution of Engineers and the Railway Technical Society of Australia. The National Committee on Railway Engineering made a submission to the Neville inquiry last year but since that time the national committee has been disbanded in favour of the new Railway Technical Society of which Prof Laird is the president. I've been seconded to make the submission to this commission on behalf of the Railway Technical Society, perhaps with some help from Prof Laird.

MRS OWENS: I would very much like it if you want to make a few opening comments, and then we can talk to your submission.

MR VENN-BROWN: Okay. Australia has the world's most energy efficient freight trains in the form of the iron ore trains in the Pilbara area, privately owned, but elsewhere the main line freight system is in a fairly unsatisfactory state, we believe, and therefore there is considerable opportunity to improve efficiency and there are significant benefits to be achieved by doing so.

Rail freight in 1996-97 transported, on the main lines of Australia, 110 billion tonne kilometres, which is 45 per cent of the land transport freight task. RTSA - that's the Railway Technical Society - supports the 16 recommendations of the Neville inquiry - all of them. In particular there were five recommendations which are very close to the recommendations of the National Committee of Railway Engineering. With the Neville's committee's numbering system they were recommendations 1, 3, 5, 10 and 12. As I say they were recommendations similar to those made by the NCRE to the Neville committee.

In addition recommendations 2 and 14 we believe are worthy of strong support. Recommendation 2, the committee recommends that the Commonwealth in consultation with states and territories declare a national track for intrastate rail services on standard gauge network from Brisbane to Perth. Recommendation 14 recommends that the Commonwealth provide funding for maintenance and investment in that track. The RTSA would invite the commission to consider four other recommendations made by the NCRE to the Neville committee. They are that the federal government form the national infrastructure advisory council.

I would say on that that a critical element in an integrated freight transport policy is transport's role within the wider context of infrastructure in Australia. There is significant industry support for an infrastructure council and the institution has been involved in proposing one model called the National Interest Infrastructure Advisory

Council. The mission statement of the NIAC would seek to facilitate the efficient and equitable provision of national infrastructure by public and private sector stakeholders through long-term strategies and sustainable development for present and future generations.

The second of these additional four recommendations is that the federal government urgently reviews the level of fuel excise paid by rail freight providers. This going back to the issue of diesel fuel excise. The Neville committee did address this question but took the view that since the diesel fuel excise went into consolidated revenue that it was not an issue they needed to make a recommendation on, but the RTSA still feels that this matter has not been resolved satisfactorily and that we would urge the federal government to review the level of fuel excise paid by rail freight providers.

The third of the additional recommendations concerns research and development and we would ask the federal government to encourage rail infrastructure and rail freight organisations to undertake railway engineering research and development. In 1985 the Australian Railway Research and Development Organisation was closed down and since that time any research and development has been undertaken on a fairly ad hoc basis by some systems alone, individually, and to some degree by a group led by Queensland Railways, but there has been no coordination effort to maintain the level of research and development. Since the railway industry is based on technology it's most important in our view that research and development be kept to the fore and state of the art technology be used wherever possible.

Lastly in this group of recommendations, the Institution of Engineers jointly with the Australasian Railway Association and the Institution of Railway Signal Engineers, has carried out a study on railway engineering skills availability and has come up with the result that it would appear that if developments proceed there will be a shortage of railway engineers. This has been exacerbated by the fact that a number of the older engineers - such as myself - will be retiring one of these days and leaving the industry and we don't see that the younger people are coming into this industry in the numbers that we would like to see. Again, it goes back to the point that this is a highly technical industry based on technology both above and below the track, and if the engineers aren't available to perform the necessary technology, carry out and design the technology then the systems cannot survive in the long term, in our opinion.

We have provided an attachment to the submission which is summary, I believe, of the report that we have prepared entitled Engineering for Rail Sector Growth. I will just conclude these remarks by saying that the Institution of Engineers and the Railway Technical Society considers that the creation of a level playing field and a range of actions to improve the efficiency of both rail and intermodal transport options will deliver considerable transport cost savings to business and the community with commensurate environmental benefits. Thank you.

MRS OWENS: Thank you very much for that. I have to say I think you have sent us the report on the skills supply and demand but I haven't actually read it. I have only got a copy of the cover sheet, so we probably do have it, but I just should say that. One of the important issues is the issue of supply of labour and having appropriate skills in this industry particularly as the industry is changing so rapidly.

MR VENN-BROWN: Most certainly.

MRS OWENS: The nature of the industry is changing; the people that are involved in the industry are changing; you've got a greater involvement from the private sector, and I am wondering whether those changes that are occurring is going to put even more pressure on the supply of skilled labour in the future.

MR VENN-BROWN: Yes, most definitely. When I was a young fellow in the engineering business, I graduated as a mechanical engineer with no particular railway training, but I was brought into a company and I was informally - it wasn't called this at the time but I was mentored by other engineers with experience and I was told what to do and I was shown all the specialities that applied to the railway industry, which is an interdisciplinary technology. A mechanical engineer just can't know about the bogies and the wheels, he has to know about what happens on the rail and something about the passengers, and he has to know a whole lot of things about a whole lot of related issues. Through the mentoring scheme, informally, people became hopefully experienced railway engineers.

Under modern circumstances there isn't that opportunity. Many organisations might only have one engineer, or one engineer who is too busy to look after a junior engineer, and so we have also as another exercise at the institution, in fact prepared a booklet which describes the sort of training that is required on a more formal basis for young engineers, to be able to call themselves railway engineers as opposed to mechanical or civil or electrical.

MRS OWENS: You don't try and get to these people at university or college.

MR VENN-BROWN: The institution is trying to encourage that and that's one of the purposes of this booklet - to do that - but it hasn't been happening to a great degree. In some areas, to a lesser degree it has, but by and large it hasn't been happening and the NRCA and now the RTSA saw a need for that, and that was one of the reasons behind producing this booklet. In fact we're going onto another stage of producing volume 2. We're going on to the experience side of it.

MRS OWENS: I suppose with engineers it's like any other profession, the people coming out of university or colleges are going to respond to the amount of money that they're going to earn in that particular job. I don't know whether the railway sector is being one of those areas where it's been renowned for paying big money. While the economy is relatively buoyant you're having to compete with other industries for these people.

MR VENN-BROWN: Yes. I have to say I'm not personally very knowledgeable on salaries for young engineers, but while you're correct in saying the railway industry is not a goldmine for young engineers, I don't think they are particularly low salaries either. But I would also say that engineers are funny people; sometimes they'll do something for the love of it rather than the money - sometimes.

MRS OWENS: Yes. So do economists, too.

MR VENN-BROWN: Good, excellent. There are occasions when people will find themselves in the railway industry through circumstances or whatever, and even though they might be able to get better money elsewhere, they won't necessarily move for that reason.

MRS OWENS: I suppose the other thing that has changed is that at one stage I'm sure the industry was perceived as being a relatively secure and stable sort of industry to go into, and you could expect to hold on to a job for quite a long time, and now there have been huge changes and you've got the private sector and you've got a whole lot of other companies involved in the railway business, you have had privatisations, you have had structural reform and so on. So it's changing the nature of the job and that security is probably gone.

MR VENN-BROWN: Yes, that's very true, and whereas an engineer who worked in the public sector in a railway would be in a railway environment without doubt, in the private sector he would be in a company who may have other interests, and he may move in and out of the railway sector, which is not necessarily a bad thing, but it means that it's easy for engineers to dissipate out of the railway industry into other areas and perhaps not come back when they're needed.

MRS OWENS: Yes. With all the downsizing that's been going on in the railway industry, has that led to a lot of engineers walking away and taking other jobs?

MR VENN-BROWN: There are a lot of private consultants.

MRS OWENS: That's what you're doing - is that correct?

MR VENN-BROWN: That's what I'm doing. I guess in a sense that's what did happen to me, although there were other factors involved, but there are a lot of railway engineers who are now private consultants, and there are some I guess who have gone into other industry allied. Personally I don't know of a lot, but I'm sure there are some. Certainly there are a lot competing with me.

MRS OWENS: I'm tending to go through your submission backwards, but I was going to talk about skills.

PROF SCRAFTON: There are two aspects of this submission from the institution that I would like to commend you on. One is the fact that in a fairly short time your organisation has had the opportunity to review the work of the House of Reps

committee and to give support to some of the recommendations in particular. I think that's particularly helpful for us. People often criticise, as Prof Laird did in his earlier comments, a succession of inquiries and very little action on the ground. I think if there is no action on the ground, well, the next best thing is to try to keep the heat on one way and another and I think that's what this submission does very well. I would like to pick up some of those in a bit of detail later.

The other thing that I find particularly helpful is at page 7 where you comment on recommendations 1 and 12 of the Neville committee's recommendations and in there is a paragraph that's particularly helpful to us. That is that one of the problems that has arisen for land transport is the fact that each mode has attempted to maximise the funding efficiency and effectiveness as an internal activity. The submission comments on the fact that for the user the important thing is the most economic timely and consistent service that can be provided to them irrespective of the mode, and I think that's very very important and I think in drawing that to our attention it helps us a great deal.

One of the things though that is apparent already in the submissions we have received and in the discussions we have had with the people is that process is still going on; that maximisation of funding inefficiency as an internal process. It is still arising and we did talk earlier with Prof Laird about the ways in which one could attempt to change that and it's obvious that at least the institution is playing its role in trying to do that. I would like to be a little bit more specific about it, if I can.

If I go back to recommendation 1 it talks about the Commonwealth assuming the leadership role and developing a strategic plan. I realise these are not your words, they are the House of Reps committee, but they are supported by your committee. My question is how do we do that? How do we get the Commonwealth to convert those words into some sort of action? What does leadership actually mean in terms of that recommendation? Would you like to comment on that?

PROF LAIRD: I appreciate it's a thought that has been around, going back I think to the 1991-1992 national response to the greenhouse strategy and ESD process - similar recommendations - the need for an integrated transport strategic plan. I guess all we can do is keep on reiterating that we do need to look at - it's not just a matter of providing more roads but it's a matter of moving people and goods in the most energy-efficient and cost-effective manner possible. So it's a hard question; how to convert those words in the Neville committee to government action. It's not only the Neville committee but it's also the national transport planning task force, we noted in the submission, and also state governments grapple with it as well. For example, we're expecting an integrated transport plan from the New South Wales government perhaps next month.

PROF SCRAFTON: I simply wanted to hear your views on that. It is difficult to translate those words into action by a particular government. Nevertheless, the House of Reps have made that recommendation, presumably to be considered by the incoming government. One problem of course has been in the past, and if we use the

national transport planning task force report as an example, you put a lot of effort into a job like that. If that leadership is not there in the sense of receiving the information, receiving the recommendations, well, then you languish. The only thing that's of any value is the data and the sense of direction.

MR VENN-BROWN: Could I just add there that I would think the National Infrastructure Advisory Council, which the institution has been promoting, could play a part in this area. Obviously such a council would have to have federal government support and I think if there is a policy on infrastructure covering all forms of transport, including rail obviously, then the integrated transport problem will start to fall into place.

PROF LAIRD: I would agree totally.

MRS OWENS: What about the existing structures that we have got in place? We have got the Australian Transport Council and the standing committee on transport.

PROF LAIRD: I think that they could be working towards this direction and, also with the Institution of Engineers Australia, there's increased interest in sustainability across the board and including in transport.

MRS OWENS: It's always harder to get new bodies up, that's all. I'm just trying to think of an existing process that could pick it up.

MR VENN-BROWN: It strikes me that many of these committees have been put together to address one part of the transportation problem. None of them address the thing as a whole and maybe that's because as a whole it's too hard a problem to address. The focus of each one seems to be a particular aspect and perhaps we need one of those bodies or a new body to address the whole issue but to lead us through the infrastructure, if the infrastructure is there, then the actual movements of rolling stock, for example, will tend to follow.

MRS OWENS: You have actually got for this National Infrastructure Advisory Council quite a wide set of responsibilities and so it's not really just about infrastructure as such, it's about best practice and standards and so on. So it would be a fairly broad-based - - -

MR VENN-BROWN: That's the way I've interpreted the institution's intentions and it's not limited to rail of course, it's intended to cover the whole transportation problem.

MRS OWENS: The Neville committee didn't pick up that recommendation. Was there any reason? Do you know what was behind that?

MR VENN-BROWN: No, I am not aware of why they didn't follow that one through.

MRS OWENS: I will have to go back to their report to see if they said something there.

PROF LAIRD: I think it falls in the same basket as the data that was ran before them but I think at the end of the day, given the time constraints to put out a report with impact - - -

MRS OWENS: They focused?

PROF LAIRD: They focused. I still think the Railway Technical Society of Australasia at its meeting in Rockhampton last month felt - and I am sure the Institution of Engineers Australia does - that it is important that government look at the earlier proposal for a National Infrastructure Advisory Council, not just transport but across the board. One would have thought that the events of this year in Auckland and Queensland with power and Sydney with water and now Victoria with gas would add weight to that earlier proposal.

PROF SCRAFTON: I guess that illustrates one of the problems; how would an organisation like that actually be able to focus its priorities? Which leads me to a related question: at the bottom of page 7 you mention the creation of the national transport interface committee. What do they do and who are they? Is that some magic group that we've never heard of? It's never been drawn to our attention by anybody else but maybe it's because it's a fairly recent creation - at the very bottom of page 7, the last sentence.

MR VENN-BROWN: I think my copy has got different page numbering.

PROF SCRAFTON: I am sorry about that. It's at the very bottom of where you comment on particular Neville committee recommendations. You have four paragraphs which we have just discussed about the requirement to see transport as a service. In the next couple of paragraphs you say there are two main elements to an integrated transport policy and it's at the bottom of the next paragraph. It says:

The federal government's recent creation of the national transport interface committee is an important step in working towards improving multimodal transport.

PROF LAIRD: Can I respond. Possibly we have slipped a year and that may have been a recent initiative in 96-97.

PROF SCRAFTON: That's all the more reason why we should know what they are doing.

PROF LAIRD: The committee who drafted this submission felt from a wide perspective that we do need more focus on intermodal freight. It's not just focusing always on one particular mode but realising that in many transport chains there's often

two transport modes involved, so it's important to have efficient ports and freight terminals and particularly an interface with rail.

MR VENN-BROWN: Here we go, yes, that's right.

PROF SCRAFTON: Maybe rather than asking you the question, it's something we should seek to find out ourselves who this committee actually is and who it reports to. It says the federal government's creation so presumably it's the Minister of Transport and Regional Services. We will take that on ourselves, but thanks for drawing that to our attention; nobody else had done so.

MRS OWENS: It may be useful just to go through some of these recommendations and your responses to them. A general comment I would make is just about all of the recommendations that you cite here have something for the Commonwealth government to do. It's very much focused on what the Commonwealth can do, as we've just discussed, the Commonwealth must assume the leadership role in developing a national transport strategic plan.

The next one is the committee recommending that the Commonwealth - this is recommendation 3 which on my copy is page 4. I don't know what page it is on yours. It has just got a list of the recommendations.

MR VENN-BROWN: Yes.

MRS OWENS: It says:

The Commonwealth takes a strategic approach to provide consistency in rail safety standards and practices for the national track.

How realistic is that, given that it's a state responsibility? Is the work that Scott and the rail group are doing on that enough? There is work going on to try and achieve some consistency. Does that satisfy your need?

MR VENN-BROWN: It's certainly moving in the right direction. Yes, there's work in the Standards Association preparing Australian standards covering a whole range of topics. That's certainly the type of thing that I think the recommendation is referring to. That covers standards and safety standards. There's also the issue of practices and there is a definite problem that I think we quote elsewhere where, for example, there are 22 different types of radio frequency and protocols between Brisbane and Perth or something. These sorts of standards must be resolved obviously for efficient operation.

If any one state wants to take charge of that, then of course the other states will disagree and want to do it their way. So it needs the leadership in those sorts of areas. It has to be unified leadership that comes over the top of any one area preference. The means by which it's done perhaps needs some more investigation in some areas. There used to be a body call the Railways of Australia Organisation

which was a committee of the commissioners of the state railways and they started work on preparing engineering standards, some of which has gone into these new Australian standards. That body was disbanded for a variety of reasons but a similar body to that could be responsible for national practices but again, because it has to cover the practice over the whole of Australia, it has to be under the control or under the leadership of some sort of federal authority.

MRS OWENS: When we were in Western Australia last week we were talking about the different communication systems. Now, I am not an engineer so I don't fully understand that but there was a comment made that it doesn't really matter if there are different systems in place; it's provided the protocols are uniform across states.

PROF LAIRD: And there's some degree of compatibility. I would add that just as - if you go back 20 years ago, the discrepancy in road transport regulations placing enormous burdens on any road transport operator who wanted to conduct his operations legally. In the end there was a clear case for Commonwealth intervention, firstly through the Inter-State Commission of the valuable report on harmonisation of road vehicle regulations and then on to the National Road Transport Commission to bring forth - not uniform across the whole country but just the harmonisation of operating practices, safety - and rail safety is an area where the Commonwealth has shown leadership. We've got to do better than - break down some of these artificial obstacles for rail haulage of freight, say, from Grafton or Lismore to Fisherman Island and Brisbane. Hence why have a Commonwealth government? It's there to - - -

MRS OWENS: There's a whole other inquiry we could have on that. Possibly on why have state governments, might be better.

MR VENN-BROWN: I think the very nature of any transportation system is that it inherently can go from place to place; the vehicles can go from Sydney to Perth or Cairns to Adelaide and therefore the very concept of having different regulations applying in different places just doesn't fit in. You'd fit it in when the railway started a hundred years ago when each city was isolated from each other but it doesn't work any more.

MRS OWENS: Could there be good reasons why Western Australia might want to have some very specific regulations relating to WA? I mean are there geographic reasons or whatever?

MR VENN-BROWN: Topographical reasons. I mean, for example, the east coast of New South Wales is very hilly - got a lot more curves and so on - and therefore that produces some constraints on how your trains operate and the design of your rolling stock, which don't apply when you're crossing the Nullarbor and going for hundreds of miles in a straight line. Philip used the word harmonisation, and I think that's where harmonisation, perhaps, comes in rather than forcing one state to comply with what New South Wales needs or forcing New South Wales to comply with what

the Commonwealth railway needs over the Nullarbor. You must look at harmonising to - - -

MRS OWENS: And having neutral recognition of those other - each state's standards.

MR VENN-BROWN: Yes, particular.

MRS OWENS: Yes. Well, the Maunsell report certainly focused on this and we've read that and, again, it's a matter of, "Where do we go from here and how do we get there?" The next recommendation you listed was that the Commonwealth and the states and territories develop and accredit national qualifications based on consistent curricula, etcetera. We're getting back to the training issue there.

MR VENN-BROWN: Yes.

MRS OWENS: I don't know whether training as such is going to be a major part of this particular inquiry but I suppose it's like any other area where you want to get national consistency. We have a national training authority. I don't know whether that sort of shift to consistency would be done through a national training authority or through whatever other means.

MR VENN-BROWN: I think it could be for some of the skills involved in running railways. In other areas it would be more through other tertiary level training colleges and so on. Of course, the two things are tied together: the standards and practices and standards and training are linked. It's all really part of the same question.

MRS OWENS: Yes. Then we've got recommendation 10, which is that the Commonwealth ensure that the Australian Rail Track Corporation adopts an Access Regime providing for transparent and accountable pricing, which sounds fine but the ARTC only really covers South Australia and Victoria, and I suppose it's a matter of the other Access Regimes. So as far as I could see that recommendation is actually a fairly narrow one in that the ARTC is not a national body as such.

MR VENN-BROWN: Yes. Well, I can only comment on some personal knowledge of the people considering operating on New South Wales tracks and they can't do any preliminary costing on whether it would be a worthwhile proposition for them because they can't find out how much it will cost on the RAC-operated tracks in New South Wales. It's very important that if private operators are going to be enticed into the system that before they take the leap they know what's going to be in front of them in terms of costs.

MRS OWENS: Is it particularly a problem in New South Wales?

MR VENN-BROWN: I know it's a problem in New South Wales. I'm not terribly familiar in other states. Have you any knowledge on that?

PROF LAIRD: I think it's most talked about in New South Wales but in the body of the submission we make the point - - -

MRS OWENS: What page?

MR VENN-BROWN: Our page 9.

MRS OWENS: You talk about a national regime.

PROF LAIRD: It's two instances. One, if you can try and get some more consistency in the pricing; and so, take for example again, the movement of products from Lismore to Fisherman Island's port at Brisbane. It would be nice to know what you're up against in the way of Track Access pricing and there shouldn't be wild fluctuations. Ideally it should be the same both sides of the border so the committee drawing up the submission felt that we made the recommendation to the Neville committee that it should be more transparent and there should be less uncertainty if you want to get more freight onto rail. We were pleased that the Neville committee took up the initial NCRE recommendation in this regard.

PROF SCRAFTON: But they actually have got further, haven't they? In addition to recommending the consistency and the national approach they are very specific about what they think the RTC's Access Regime should consist of.

PROF LAIRD: There's a joke made that one day someone is going to bring out a fee that it's, say, \$25,000 for a locomotive per year and, say, \$500 per worker in the year. It was made by a FreightCorp representative at a conference. There's one model for access pricing for rail tracks.

MRS OWENS: Then we've got another recommendation on competitive neutrality, recommendation 12. I suppose what we have at the moment, I don't know whether it's discussed in - I've read the Philip Laird and this submission straight after one another so I can't remember which is in which submission but there's the issue of the current proposals to reduce the fuel excise and the relative impact that will have on road and rail. It has a greater benefit to road than to rail because it's a larger proportion of road costs. So that maintains that imbalance, doesn't it?

MR VENN-BROWN: Yes, I think we see it that way, yes.

MRS OWENS: So something else has to happen.

PROF LAIRD: Tax reform does provide a window of opportunity to revisit road pricing.

MRS OWENS: But at the moment the window of opportunity is going in the other direction.

PROF LAIRD: It's a very fast-moving truck I think we're looking at. It does have important implications for the way we move goods and people around into the next century.

MRS OWENS: What is going to be left is the 18¢ a litre charge. You're arguing it should be seen as a road user charge and if it's a road user charge it shouldn't be imposed on rail. If that was accepted it helps a bit, doesn't it? It's a move in the right direction.

MR VENN-BROWN: Yes, most certainly.

MRS OWENS: You've got these additional recommendations at the end and we talked about training but there's the issue of R and D, and we talked to Prof Laird earlier about research. He mentioned the fact that a lot of the research bodies that were doing work in this area no longer exist or - well, in the case of some of them they've subsumed into other bodies. You've got a recommendation that the federal government encourage rail infrastructure and rail freight organisations to undertake research via investment allowances and tax concessions and so on. With the very strong push to the private sector involvement in rail, private sector is eligible for the 125 per cent tax concession and they could put in for money under the START program. Is there much R and D being done by the new operators that have come in?

MR VENN-BROWN: Certainly not to my knowledge. The new operators, as far as I understand it, are running as close to the bone as they can to make their enterprises commercial and I believe there's not much research and development being done by the new operators or the old operators as they remain, except for Queensland Rail.

MRS OWENS: You mention Queensland Rail, yes.

MR VENN-BROWN: Yes, well, Queensland Rail is doing a fair bit on their own and there's some work being done up at the Central Queensland University and, I think, at University of Queensland, but outside of Queensland - my knowledge of any research and development is that it's pretty limited. I think you should bear in mind that, of course, the organisations, all being small, they don't have the inherent background to allow them to do large research and development projects. This is why it would seem that some - a combined organisation where perhaps the pooling of resources from various organisations would enable this to be done; take on much more significant projects.

MRS OWENS: Would the projects relate more to above-rail than below-rail? I mean, the sorts of rolling stock that is most appropriate for Australian conditions. What sort of research is needed?

MR VENN-BROWN: I guess one of the areas is this question that was mentioned in Philip's earlier submission on axle loadings, which is your combined wheel and rail issue, actually. That's a classic example of where one of the problems lies and this

disaggregation question because a lot of organisations are only responsible for their above-rail rolling stock and another lot of organisations are responsible for below-rail infrastructure, but no-one is responsible for the interface between the two. That's a critical part of the technology, the interface between the wheel and rail. This is where Queensland Rail have it over everybody because they can cover both aspects.

PROF SCRAFTON: I would have thought that the private operators in Western Australia, too, had a pretty good research underpinning.

MR VENN-BROWN: Yes.

PROF SCRAFTON: But equally, I guess, they don't necessarily want to share their findings, which is another finding.

MR VENN-BROWN: Exactly.

PROF LAIRD: I think they did, to an extent. If you go back to 1970 when these railways had been built maybe for 5 or 10 million tons a year, as it has been related, suddenly all the books were 20,000,000 tons, 30,000,000 tons so they are faced with a very unique question: how to make a railway, admittedly built to modern engineering standards of the sixties, you know, designed for 10,000,000 tons a year work for 20 or 40 and now over 50,000,000 tons a year? They were at the leading edge of world heavy-haul technology and they learned that if you kept the top of the rail ground, the profile grinding, that would improve the wheel-rail interaction and they shared some of this information throughout the world and international heavy-haul conferences and the conferences that the NCRE supported, the conferences on railway engineering.

But at the end of the day, they drove their freight production costs well below 1¢ per net tonne kilometre and they did that by being at the cutting edge of heavy-haul technology and it was supported by research and development, not only on site, but also in Perth and also, in BHP's case, with the Melbourne Research Laboratories, so I would suggest there's a good correlation between world-class operations and research and development. You can't have these world-class operations if it's not supported by adequate research and development and, in fact, if you want to be world best practice - you're up there, pushed up by the appropriate technology.

MRS OWENS: Some of which we can import from overseas. I mean, we can pick up ideas.

MR VENN-BROWN: Most certainly. And the international heavy-haul conferences that Philip mentioned and other international conferences. I mean, the railway engineering community is pretty good, they do share knowledge to a certain degree but, again, a lot of things are a little bit specific to particular conditions and heavy-haul rail-wheel interaction in the Pilbara is again a little bit different from perhaps not quite so heavy-haul in New South Wales over the older track, over the

older permanent way, etcetera, so there are a lot of specifics which need to be addressed before you can necessarily adapt all of the technology from the Pilbara and plonk it on the track in New South Wales.

PROF SCRAFTON: But a lot of the evidence of the profit overall for rail is in the heavy-haul areas.

MR VENN-BROWN: Yes, absolutely.

PROF SCRAFTON: Queensland, the Hunter Valley and so on. A lot of the problems which we talk about at the present time relate very much to general freight on inter-capital and I agree that there's some gap there but, equally, it does suggest that if you lift your game on the below track and you get those interfaces right with the correct power-weight ratios for your locomotives and trains, suddenly your costs will drop immediately. But it goes back to the question of getting that initial investment, that initial contribution from somebody, and we don't seem to know where to look except the federal government.

MRS OWENS: And, if anything, the federal government has been going the other way with support for R and D, reducing the tax concession from 150 to 125 per cent. There is a START program, but it's selective.

MR VENN-BROWN: I think there's another aspect on those two things, too, that the START program is a good example, as is tax concessions. In the case of tax concessions, you have to be making a profit before they're worth anything to you. In the case of the START program, it's a dollar for dollar thing, you have to have the first dollar to put in before you can get the second dollar from the federal government. In a particular case of my own, I've got a project I'd love to research, but I can't get a START project, because I don't have the first dollar to the second dollar for it, so that project is sitting in the lab there.

MRS OWENS: The other options are to develop relationships with universities.

MR VENN-BROWN: Yes.

MRS OWENS: Or with the CSIRO. You know, there are other ways of doing it.

MR VENN-BROWN: Yes, that's correct. Except that I think the organisations that you need to develop a relationship with have to have a focus on railways and, with all due respect to the CSIRO which is a wonderful organisation, they're not particularly railway-oriented. Some universities are, such as Central Queensland University and University of Queensland and the Wollongong University.

MRS OWENS: Don't forget Wollongong.

PROF LAIRD: And Queensland University of Technology, again supported by Queensland Rail.

PROF SCRAFTON: Yes. I think that's a good point, too, that you've just raised. It isn't just a matter of having the organisation and the skills there. You have to have, in effect, a sort of - at least an initial sponsorship that will build the link between the railway industry and the researchers and Central Queensland Uni, as you mentioned, QUT, and a lot of their support. I think in Prof Laird's research, very often you find that - I won't say it's been underwritten by a state agency, but you've received support either in kind or in cash, and I think it is not enough to just say, "We need better R and D," there has to be a sort of meeting of the minds and I suppose it is a role for organisations, like the Institution of Engineers, to try to foster that. But you do need that underpinning or the enthusiasm of a potential client organisation who can begin to see the benefits, so I think that's a good point.

MR VENN-BROWN: Yes. That's absolutely correct.

PROF SCRAFTON: I'm glad that the discussion there has brought that point out, that one has to enunciate - if one's looking for research support, one has to enunciate what it is that - - -

PROF LAIRD: With some goals, too.

MRS OWENS: It would be interesting to know what Queensland Rail - they've obviously got a research culture; if they're spending money on the research and maybe it is that they have got QUT there.

MR VENN-BROWN: Yes.

MRS OWENS: Something is happening in Queensland.

MR VENN-BROWN: Yes.

MRS OWENS: What is it?

PROF LAIRD: The Queensland magic. But to go to the conference in railway engineering in Rockhampton, one of the technical tours was to the Central Queensland University and there was a \$2.9 million centre for railway engineering - not entirely for the centre, but it was a new building. Then, to go through there and meet the number of different people in so many different areas - for example, power harmonics. They used to run Brisbane suburban rolling stock 25,000 volts AC. They brought in new rolling stock and suddenly circuit-breakers started flipping out, because it was generating a high, say a fifth, harmonic, and, you know, there were some very capable people, who just happened to be at the University of Central Queensland, some of whom were on grants, supported by the federal government through the Australian Research Council - which, you might know, it's a real lottery to get one of those - or just Queensland Rail, who could turn around and say, "Yes, we think we can give some advice which might help you solve that problem."

It wasn't just with the electric rolling stock or the electric locos, it was also with stability of embankments and a whole host of areas. Having mentioned that conference, the technical tour also allowed participants to go and see the new tilt train at Rockhampton, plus the latest in sleeper tamping and profile grinding, plus two recent locomotives that had just been commissioned, to meet the engineers, and I might add that that conference was severely frowned upon by the Sunday Telegraph and the New South Wales Shadow Minister for Transport, who said, "It's outrageous to have these fat cats going up to this resort and enjoying themselves playing golf and sipping cocktails by the lagoon," and the New South Wales Minister for Transport saw fit to issue directions to the statutory authorities that only one person from each organisation could go.

I mean from 11 to three. Those ones that were prohibited from going included people who had actually written papers, that had been through the refereeing process.

PROF SCRAFTON: Yes, I guess that was a pretty spirited defence for researchers. But it is important and it's rather indicative of the debate we had earlier about financing road against rail. There are some incredible archaic attitudes which prevail. I mean, one wonders how many people from Australia would have turned up at the last PIAC road conference in Paris or Vienna or wherever they happened to hold it - I'm sure it wasn't in Chile anyway. It is all part of the effort, of the level of effort, required to recognise what research can contribute to an organisation's performance, so although it was a very specific example, it's useful.

MR VENN-BROWN: I think we had represented 22 countries, I think it was, at the core conference.

PROF LAIRD: About 50 people, at least, from overseas, and with excellent technical and keynote presentations including, for example, a board member on the British Track Corporation, plus the director of research from the Association of American Railroads, plus the executive director of Spurnet from South African Railways.

MRS OWENS: It sounds excellent. We should have been there ourselves.

PROF LAIRD: It would have been a good opportunity to get a window into that industry now under investigation.

PROF SCRAFTON: The other thing, just to finish that off, about the role of research, your description of the sort of things that are happening in Queensland does highlight one other factor. Very often, the establishment of an organisation like that does not come from a sort of conscious decision, but the fact that you have a number of skills within the university, or research centre as the case may be, and you put them all together. I notice this has been true in other organisations, where you may not have a formal structure or research organisation, but you have maybe 15 people in a university, all who have skills that can contribute to the railway problem, and you need one person, or a couple of people, as the director of the centre to know where

those skills are and in making research applications or going to potential client organisations and talking about the opportunities that the centre can give.

Also, for that matter, commercial consultants too. I mean, we've had reference made a couple of times to former railway engineers who are now set up as consultants, who have produced some very good examples of comparatively cheap investments that would recover returns and, curiously, one wonders whether or not some of those ideas would have been suppressed when the person lived in a very large railway hierarchy, yet out in the open it can publish the material.

MRS OWENS: There are just another couple of recommendations you've listed here. You've got recommendation 2 - these are the other ones you strongly supported, which was the one declaring the national track for interstate rail services, and I think I mentioned before that in Western Australia, the argument goes that the key focus should be not on interstate, but intrastate, because the bulk of freight is actually moved intrastate rather than interstate, and I wondered if you would care to comment.

MR VENN-BROWN: Well, certainly there is a large amount of freight moved intrastate and I think there's potential probably for a lot more, but that's another question. But nevertheless, I think there's a case for a linking under a unified organisation along the lines of this recommendation, much as the way we have Highway 1 in the road system going right around Australia - and even down to Tasmania, across the ferry, I found out a few months ago. There's a case for having a similar arrangement for rail systems that can link the main centres throughout Australia, because I think, as Prof Scrafton pointed out earlier, bulk freight over long distances is where railways really shine and that's the area that needs to be concentrated on.

MRS OWENS: There's potential for a lot more bulk freight on rail.

MR VENN-BROWN: I believe so, yes. Living near a small country town myself, I see a lot of stuff coming into that town on road and mainly it goes back to the intermodal thing and mainly because you can't get it on and off the railway carriages but, potentially, a lot of that could go by rail.

MRS OWENS: So what's the barrier to declaring a national track to interstate?

MR VENN-BROWN: Probably the will to do it, is it not?

PROF LAIRD: I suspect.

MRS OWENS: Again, this is a state issue, is it?

PROF LAIRD: No. Again, it goes back to a national highway system which was formed in 1974. There is no requirement at all on the Commonwealth to take that step, but it was persuaded by the various factors, including the fact that the state

governments tended to concentrate on the cities and not the links between the state capitals.

MRS OWENS: So it's not necessarily in the interests of individual states to want to see a national network in place, or their focus is just elsewhere?

PROF LAIRD: Take the inland route. It might well be the best for the nation to link up Melbourne to Brisbane via Parkes, just like the Newell Highway does, but on the other hand if you have Sydney Ports, for example, trying to maximise throughput through its port and if you have, say, FreightCorp trying to maximise rail freight tonnages within New South Wales, then it's the old problem of individual units trying to optimise their own operations which doesn't always work out best for the whole system. So again the Railway Technical Society of Australasia, in looking at these recommendations, supported the view that it does need a national leadership.

PROF SCRAFTON: Do you think that the Railway Technical Society would go as far as to say that we should be diverting funds from road construction to at least get rid of this backlog of rail investment? I wouldn't ask you whether the Institution of Engineers would necessarily support that, but at least the railway - - -

PROF LAIRD: I'm glad that you made the distinction.

MR VENN-BROWN: Would we say that?

PROF SCRAFTON: We've already put Prof Laird on the spot as an individual.

PROF LAIRD: Can we take that one on notice?

PROF SCRAFTON: Yes. I think that's a good response; by all means. I think it does force you then as a society to think in the way that these decision-makers who are sitting on the fence and have procrastinated, as we've pointed out, for something like 10 years over this issue, it would cause you as an organisation - - - to have to think along those lines.

PROF LAIRD: We are an organisation with 300 members and five chapters, so I think it's appropriate that we do have some consultation to give a considered view.

PROF SCRAFTON: Without prejudicing what that might be, if the answer was no, then you understand the difficulty that decision-makers have got in trying to accept the recommendation. I guess that's really my point.

PROF LAIRD: Yes.

PROF SCRAFTON: But I qualify that by saying that I would not be expecting the institution with - I think you'd be outnumbered slightly. Again it is an illustration of the policy decision the community has to make.

MR VENN-BROWN: Without giving a direct answer to that question, it's certainly my view - and I think it's the view of the Railway Technical Society of Australasia - that our goal is to see the optimum transportation system. If that requires diverting funds from road to rail construction, well, so be it. But I don't believe we're promoting rail for rail's sake, we're promoting the optimum transportation system. We happen to be railway oriented, but we don't believe that roads should suffer at the expense of rail, any more than rail should suffer at the expense of roads.

PROF SCRAFTON: I guess it goes back to the point we made at the very beginning about making sure that we get the whole system right, not necessarily focusing on a particular mode.

MR VENN-BROWN: Yes.

MRS OWENS: I've just been thinking while you've been talking about that. There's basically about four different options for funding this additional work that needs to be done under recommendation 14, and that recommendation calls for a further 750,000,000 over 3 years, and for 2 billion over 10 years. The four options are, the Commonwealth can do it on its own, and within that option you can either do it by diverting road funds as Derek has just mentioned or it could be totally new dollars going in. Another is for the Commonwealth and the states to somehow get together and jointly fund the work. Another is for the Commonwealth to jointly fund the work with the private sector, and another is for the private sector to do it, and possibly another one is the states do it, but as you've been saying there may not be much in it for the states to do it on their own. There's no incentive to do so.

So there are at least four different ways of tackling this problem, and I think each of them has got its problems. There are difficulties in expecting the Commonwealth to put in that amount of money when there are all sorts of other calls on the Commonwealth purse. But similarly there are difficulties for the private sector if there's not a return on those dollars, and if they perceive that there's no return and that's not where the action is the private sector is not going to come to the party either. So, as I said, those are the sorts of different options, if you're talking about a decision-maker within government, that they would be looking at.

MR VENN-BROWN: Yes.

MRS OWENS: Have you got any other comments you'd like to make? If you haven't, we might close for lunch.

MR VENN-BROWN: No, I think we're happy with that. Thank you very much, and thank you for the opportunity.

MRS OWENS: Thank you, Mr Venn-Brown, and Prof Laird, for coming. We've had a very enjoyable morning, and I know Prof Laird has been here for quite a few hours and we appreciate that. We will break now for lunch, and we are resuming at 2 o'clock this afternoon with the Bicycle Federation of Australia.

(Luncheon adjournment)

MRS OWENS: We will resume the hearing on the first day in Sydney and the next participant today is Bronwyn Laing of the Bicycle Federation of Australia. Could you please for the transcript give your name and affiliation?

MS LAING: Thank you, Helen. Bronwyn Laing. That's L-a-i-n-g. I'm the secretary of the Bicycle Federation of Australia.

MRS OWENS: Good, and thank you, Bronwyn, for coming this afternoon and I would like to thank you for the two documents that you've tabled as an additional submission from the Bicycle Federation of Australia. So thank you for that and we will process them. Before we ask you questions would you like to make any opening comments?

MS LAING: Yes, thank you, Helen. I would like to present on behalf of the Bicycle Federation of Australia, to just cover again the reason why in Australia we need to be facilitating dual-mode transport systems, and by that I mean integrating bicycle use with rail use and in some cases with bus use, particularly in country areas. In terms of the health of Australians and the transport system, and particularly tourism, there's a real potential to be encouraging the bicycle for transport. For a lot of people using the bicycle for transport is something that they consider that they wouldn't do, so we need to be able to make it as easy as possible for people to make a choice of choosing the bicycle instead of choosing the car.

Heart disease is the biggest killer in Australia and by the year 2006 we will expect a 60 per cent increase in cardiac admissions to hospital. This is mainly because of the levels of physical inactivity in our current lifestyle, so if we can encourage people to integrate physical activity into their daily lifestyle, and in particular into their transport, then we can actually make some inroads to reducing the numbers of cardiac admissions to hospitals.

The Bicycle Federation of Australia believes that if we can integrate people, bicycle use and rail use then we really will have a way of making people more physically active. A perfect example is for someone to be able to cycle 2 or 3 kilometres from their home to the railway station, catch the train, and then cycle at the other end to their place of work, or another example could be someone choosing to cycle to their place of work of a morning and then in the evening be able to catch the train back home. They are typical examples of ways that people can integrate bicycle use with rail use.

In terms of transport, there's an increasing amount of personal transport in Australia, motor vehicle transport, so the roads are becoming more congested. There's reports in the media about the pollution, the slow congested roads and all that. I'm sure you're familiar with all those things. So again we have to try to encourage people to use public transport so we can reduce the congestion on the roads. I guess another point that the Bicycle Federation of Australia is working on is the benefit to Australia for promoting bicycle and rail as tourism.

In a lot of European countries this has been an effective tourism measure and it's very, very easy to travel on trains with a bicycle for holidays, and it's not uncommon to see families using trains for their vacations. As the system exists at the moment it's almost impossible to be able to use your bicycle on a train, particularly if you're looking at going somewhere for a holiday. It's very, very difficult. Can I just outline some of the barriers the cyclists face? Would you be interested in hearing that?

MRS OWENS: Yes, please.

MS LAING: I don't want to make it sound like it's too negative but these are the barriers that cyclists face. In most states in Australia there is an extra charge for the bicycle. In New South Wales, fortunately, there's no charge outside of peak travel hours. The rolling stock is not equipped to take bicycles. There's a lack of space on trains and some particular trains will only allow two bicycles per carriage. It depends on the particular train as much as anything. The XPT, for example, will take less bicycles than the suburban trains.

Despite paying for a ticket for a seat on the train the cyclist is forced to stand in the doorway of the carriage because there's nowhere to put the bicycle, so they have to stand there with it, and then that causes a hazard to other passengers on the train. They can't get past; they often block the doorways. In rural New South Wales the buses have replaced trains. Many of what used to be train journeys are now bus journeys and it's very difficult to get a bicycle onto a country-link bus. They require it to be boxed, booked ahead of time and it's also charged at the rate of children's fare. Given that bus service is replicating the rail service that used to be there I think that the fare for the bicycle should be dropped so that it's in line with the rail charges.

In some cases there's a lack of cooperation on the part of rail staff to accommodate people who are travelling with bicycles and the XPT trains also require the bicycle to be boxed, shipped to the station ahead of time, and I mean that's simply not practical when someone is travelling. It requires a lot of forward thinking and a lot of forward planning and that hinders people. They are not going to choose to use the train when there are so many barriers. In parts of Europe and Asia dual-mode transport has been promoted extensively and it has shown to be effective, particularly in Japan and the Netherlands whereby bicycles are used for not only commuting purposes but for all other purposes as well, and there is a very good network between bicycles and the rail system.

So as far as the future goes in Australia there's a good opportunity for dual-mode transport to be recognised as a significant activity for the average Australian. Currently cycling is viewed as a fringe activity; something that is only for children or for older people when they are retired and they can go and cycle on some safe bike path somewhere. That's not enough. We want to be able to get bicycle integrated into the transport system and for funding to be as equitable as it is for other modes of transport. So we need to have a cultural shift from where we are now to one of accepting the bicycle as transport.

Combining the bicycle and the rail network is a very, very good solution for transport problems, for our physical activity and also to promote tourism in Australia. I have listed here some strategies that could be considered to actually facilitate dual-mode transport and some of them are very simple, some of them are short term, some of them are longer-term strategies. I will just list them. Safe and secure bicycle parking facilities at all railway and bus stations. At the moment there are some lockers in Sydney but not enough. Bicycle ramps on all stairs at all stations.

The newer stations have lifts that people can use but the older style railway stations have stairs that are very, very difficult for people to climb up carrying their bicycles. As I gave you, Helen, there's a picture there showing you the bicycle ramps that you will find in railway stations in Europe. Bicycles can be available for use at stations so if people need to use a bicycle from the station to their workplace then there could be a bicycle there to hire. There needs to be a change in attitude within all levels of the rail system so that it's supportive of integrating bicycles with the rail system.

Rolling stock should be designed to carry bicycles easily. Identifying on rail timetables which trains will carry bicycles. That's very easy, by putting a little bicycle picture next to the particular train, and removing this outdated idea that bicycles must be boxed in order to get them onto a train. Identifying special carriages on the train that take bicycles - there's also a picture of it there in the other thing that I gave you - and a collaborative effort on the part of the rail authorities to work with the RTA and local government so that people can actually cycle in safety to and from railway stations. Another point that I haven't listed there that perhaps was mentioned at other hearings was the use of rail easements as cycleways. Has that been mentioned?

MRS OWENS: Yes, it has.

MS LAING: That's happening in Sydney to a degree but it's very, very slow. There's an opportunity there I think to provide cycleways. Just to finish off, I think it's vital that the government recognises the bicycle as a legitimate form of transport and commit funding that will actually double cycling by 2004 and double it again by 2008 in line with the national bicycle strategy that is currently being revised. So that's all.

MRS OWENS: Thank you. That was another interesting presentation. As you probably know we've spoken to bicycle federation people in all the states where we've held hearings to date and we are very pleased with the interest that we are getting from your group and the very constructive ideas that are coming forward, and I was wondering, with the sort of proposals that you've got - some of them to me seem like very logical things - we're talking about parking facilities and ramps on stations and so on - have these proposals been put to government in the past?

MS LAING: Yes. In this I can only speak for New South Wales and, yes, they have been put to government and in Sydney there are lockers available and that's really as far as it has gone.

MRS OWENS: Is it lockers in all stations or is it just in main stations?

MS LAING: No, not in all stations. I think there are 10 stations with lockers, so it's a limited number of stations, and lockers. They're the only bicycle facilities that exist in New South Wales at the moment.

MRS OWENS: It was something that was raised with us in Adelaide and the gentleman there, Mr Munro, mentioned the need for these lockers and he said that there are some in Adelaide as well but the problem is that you have to pay for the time in the locker, and not just purchase a key but you have to pay for time, and that can be, he considers, excessive for bicyclists. Is that a problem here?

MS LAING: Yes, well, the lockers are designed for people who are commuting primarily. They're not designed for people who maybe just want to use the train for the day, so I guess in that sense the cost could be excessive if you were just wanting to have it for one day and the locker would not be accessible more than likely because someone else would be using it. Lockers are good for commuters but for people who just want to say have a day trip somewhere, like myself going to the station this morning to get the train to Sydney. I don't necessarily need a locker but I do need somewhere that is covered and secure; maybe either patrolled by rail staff, with a fence around it or something like that.

MRS OWENS: Yes. In Melbourne they do have those racks that you chain your bike to, but I guess in those circumstances there are still potential security problems where people come and take things off the bikes, unless you take the wheels off yourself.

MS LAING: Yes, and I think commonsense prevails and you take anything that is valuable off the bicycle yourself.

MRS OWENS: Then you have got to carry it.

MS LAING: You don't leave it. Well, yes, you have to carry a helmet which is a real nuisance, but other bits and pieces like computers, you certainly take them off the bicycle. It's the same as not leaving valuables in a vehicle. You have to use your commonsense.

MRS OWENS: Yes.

MS LAING: I think it is an issue of actually having a designated area so people can lock their bicycles up and, when you look at train stations, there are often large areas for carparking and there is no designated area at all for bicycles.

MRS OWENS: I think the problem with designated areas is that in a lot of the stations - I can't speak for New South Wales as I am from Victoria - aren't manned, so if you have a designated area it does still raise the problem what happens to the bikes during the day if there is nobody actually looking after that station.

MS LAING: Yes. I guess it goes the same for the carpark, doesn't it?

MRS OWENS: But cars at least you can lock. Cars do get stolen from station carparks.

MS LAING: Yes.

MRS OWENS: But bikes, I think, are a bit more of a target just because of kids.

MS LAING: Yes. I guess that is a good reason for riding an old bicycle to the station - having two bicycles; a good one and an old one.

MRS OWENS: Yes.

PROF SCRAFTON: Bronwyn, because you are the secretary of the federation, I wonder if you would just explain to us how the federation operates? By its nature, it is obviously a federation of other organisations.

MS LAING: Yes.

PROF SCRAFTON: Does it have membership sort of nationally and can an individual be a member or is it other organisations that are members?

MS LAING: The membership of the Bicycle Federation is by other organisations. We have representation from all states and the ACT.

PROF SCRAFTON: We received submissions from three organisations in New South Wales - Greater Lithgow and District Bicycle Group - they all have super acronyms; that one is called "the Gladbag" or something.

MS LAING: Gladbag.

PROF SCRAFTON: Gladbag, that's right, yes. The Shoalhaven Bicycle Users Group and the Bicycle Users Group of Fairfield - you can work that one out for yourselves - but would they all be members of the federation?

MS LAING: Yes, they are all members of Bicycle New South Wales, which is the state cycling organisation and Bicycle New South Wales is a member of the Bicycle Federation of Australia, so that is how it works.

PROF SCRAFTON: Okay. You are the secretary in Sydney but the head office is in Adelaide?

MS LAING: Yes, that's correct.

PROF SCRAFTON: And the guy who is going to talk to the federation submission is Alan Parker, who will come to Melbourne?

MS LAING: Yes. It is a bit confusing, isn't it?

PROF SCRAFTON: No. It just needed to be worked through, I guess.

MS LAING: Yes, that's right. Alan Parker will present on our behalf in Melbourne.

PROF SCRAFTON: Yes. I think he appeared on behalf of the bicycle groups to the urban transport inquiry a few years back, too.

MS LAING: Yes, I think he did. I noticed in the submissions down there that he also presented a submission on behalf of PEST.

PROF SCRAFTON: What is that?

MS LAING: People for Ecologically Sustainable Transport.

PROF SCRAFTON: Okay, lovely. You mentioned in the submission that you tabled today that there are certain restrictions on the XPT which, to all intents and purposes, make it very difficult to take a bike at all; all that boxing, early booking and so on. Does that also apply to the other trains - the Explorers, or whatever they call them in New South Wales - the other units? They have XPTs on some trains but, on others, they have these diesel rail cars.

MS LAING: The Explorer is the electric one around Sydney, isn't it? The XPT is the diesel going into - - -

PROF SCRAFTON: Yes, but I think that the XPTs only operate on like the main routes like Melbourne and Brisbane-Murwillumbah, but then on the other country routes they have these others, and I think they call them Explorers, and I just wondered if the same rules applied to them but it may be different.

MS LAING: I actually can't answer that but as far as I am aware the XPT certainly travels to central-western New South Wales - - -

PROF SCRAFTON: Yes, central-western, but Canberra, for instance, is operated by these - - -

MS LAING: That's an Explorer, isn't it?

PROF SCRAFTON: Yes.

MS LAING: And there are the same difficulties there. I have had people tell me their horror stories of trying to get a bicycle on the train.

PROF SCRAFTON: And I guess, given the point which you made in your submission that in any case a lot of the intermodal travel requires a switch to a bus at a rural interchange point.

MS LAING: Yes.

PROF SCRAFTON: I was quite surprised that you would be allowed to take your bike on the bus at all. I mean, how do you manage to do that?

MS LAING: The rules of country link are that it is to be boxed - - -

PROF SCRAFTON: So it can go in the baggage?

MS LAING: Underneath in a box. Where that becomes impractical - I actually live 15 kilometres west of Lithgow and the western electric line finishes at Lithgow, so then it changes to buses, so I can get on the train here with my bicycle and travel all the way to Lithgow and then I get off at the other end to get on a bus to get home, 15 kilometres, and I have to put my bicycle in a box. I also get charged.

MRS OWENS: Where do you get this box?

MS LAING: I don't know.

PROF SCRAFTON: I see. It is easier to ride the bike home, I guess.

MS LAING: Perhaps I just pull it out of my Swiss army knife.

MRS OWENS: Yes, have your backpack.

MS LAING: The system isn't designed to encourage people to use bicycles and I think the other factor is the sheer cost of it. It ends up being cheaper to go by car.

PROF SCRAFTON: The thing that I find a little bit curious about it is that we have spent, I don't know, maybe 10 years or so now in which people have attempted to give cyclists a better deal and, you know, more bike paths, more bike lanes on arterial roads and so on, but we don't seem to have made much progress with - maybe we can only answer that by asking some of the operators themselves why they pursue this practice, but when we were in Perth we saw a lot of people using bikes on trains and to the extent that on one train we were on there were, you know, three or four bikes

in one carriage and so they seem to be very welcome in Perth. Do you have other experiences, any evidence, outside of - - -

MS LAING: I think perhaps the newer trains within Sydney certainly take three or four bikes in a carriage in that fairly open area where the seats are down the walls, but then that is a hazard for the other passengers and, to my way of thinking, it is a lot more reasonable to have rolling stock that has a separate area for bicycles so that you can put your bicycle in that bicycle section and go and sit down and you are not getting in the way of other passengers. I think that is one of the reasons why - well, it is not one of the reasons why people don't take their bicycles on trains. I think it really is a cultural thing in Australia that we have to address to try and encourage people in the first instance to at least start thinking about using bicycles and using trains and getting out of their cars.

PROF SCRAFTON: What proportion of all trips in metropolitan Sydney would be by bike? You mentioned in your paper that it used to be as high as 9 per cent of all trips.

MS LAING: Yes, in 1951.

PROF SCRAFTON: I just wondered if you had a figure. We learnt in Adelaide that it is 3 per cent of all trips.

MS LAING: 3 per cent. I couldn't give you the figure, I am afraid, but I am sure it wouldn't be 3 per cent. It would be less. Sydney is not an ideal cycling city - - -

PROF SCRAFTON: No, that's right.

MS LAING: Melbourne - I think you would probably get more bicycles on trains since there is a higher proportion of people cycling in Melbourne than in Sydney.

MRS OWENS: There has been a real effort in Melbourne to actually set aside parts of roads - radial roads - for bikes - - -

MS LAING: Yes, that's right.

MRS OWENS: There are bike lanes marked and there are bike paths; there is a very extensive bike path network. I haven't seen any figures but I would think that there would be more people riding into the city now than there would have been a decade ago, but I can't point to any figures.

MS LAING: Yes.

MRS OWENS: It is just an impression I get from driving - I drive, I have to admit - well, that is another issue - company cars. If you have a company car the incentive is to drive.

MS LAING: That's right.

MRS OWENS: We don't have company bikes.

MS LAING: No, because they would attract tax. In the UK actually the health professionals in some areas are paid to cycle and walk to work and not take their cars in a bid to get health professionals to start being more physically active and lead by example.

PROF SCRAFTON: Your comment about the health impact is very important. It is certainly true that one of the great arguments in favour of cycling is that you would lift the overall level of people's health even in a direct sense; that is, you know, people say, "What about accidents to cyclists?" but the number of deaths from health-related illnesses caused by sedentary activity or inactivity far more than offset the comparatively - I mean, the numbers are probably relatively high in terms of the mode of transport but still in aggregate it is a small number of cycle deaths.

MS LAING: The perceived risk of cycling being dangerous is very real and it is certainly a misconception. It is exacerbated by the fact that you have to wear a helmet and all those sorts of things. It gives people the impression that it is a dangerous activity, which hasn't helped.

PROF SCRAFTON: It is quite interesting you should say that. On the day that we were in Perth there was a big funeral of a motor cyclist who had been killed who was a member of a bikie gang. The interesting thing was that at this funeral a lot of the motor cyclists didn't wear helmets and, to my knowledge, the police didn't lay any charges against them, so I don't know how these laws - but that is not one of our terms of reference.

MS LAING: No, it is not. Those are some of the issues we have to address to try to get more people on bicycles and the level of particularly physical inactivity in Australia is very, very high, and the cost of heart disease is tremendous.

PROF SCRAFTON: Yes.

MS LAING: With the strategy for acting on Australia's weight, it has an interesting point in there where they refer to the levels of obesity and overweight in the Netherlands being much lower than here and the reason for that is that they cycle instead of driving.

MRS OWENS: But there still is a cultural difference.

MS LAING: Yes.

MRS OWENS: You mentioned the cultural change that is needed here and you mentioned the Netherlands and a lot of these innovations with bike carriages and special bicycle racks on stairs are relating to what is happening in the Netherlands and

also Japan, I presume, probably adapts for bikes, as well, but we do have this cultural difference and we have got a lot of urban sprawl.

MS LAING: We have.

MRS OWENS: Then you do have areas like around Sydney where it is not conducive to bike travel but I think what you are saying about an integrated system where you have bikes and trains makes sense, especially in peak periods. You are not going to be able to take your bike on a train because it is too crowded so you need somewhere to be able to park it.

MS LAING: That's right.

MRS OWENS: And in off-peak periods you should be able to take it.

MS LAING: Yes.

MRS OWENS: You mentioned in your opening comments about people standing near doors with their bikes and how that can cause problems. When we were in the Perth train people were actually sitting down with their bike in front of them, which meant that they were virtually taking up two or three seats. It wasn't so much of a problem because the train wasn't that crowded, but if it got a bit more crowded, you do have a problem.

MS LAING: It does create a difficulty and other passengers don't like it. People don't seem to have a problem with prams taking up space.

PROF SCRAFTON: Or wheelchairs. Yes, I think that's an illustration of the cultural effect that you remarked earlier. People would now accept that wheelchair-bound people have the right to be on the train, or a low-floor bus or whatever. That leads me to just one other point. Given that low-floor buses are being introduced reasonably quickly in some parts of the country, partly as a response to the DDA requirements, I would have thought that was also have made it easier for cyclists to be able to access say, a feeder bus of some sort, if they needed to. For instance, in your case where you described a bus taking you from Lithgow to a small country town say further west, that maybe in 10 years' time there will be low-floor buses on that route, too. It won't just be a matter of access to trains, but also to buses.

MS LAING: Yes, and all these factors have to be considered in any strategic planning, don't they, so that bicyclists don't miss out again?

PROF SCRAFTON: You obviously make an effort to keep the pressure on, and I guess there's not much more you can be doing.

MS LAING: I hope that it is. It is so nice cycling in Europe and seeing families - mum and dad and the children - all with their bicycles and their panniers, and you can

get on the train with a bicycle, go to your destination, cycle around for a week or so and then get on the train and go back home, not having to use a car.

PROF SCRAFTON: I think in Adelaide and Perth you'd see quite a lot of recreational cycling by families.

MS LAING: Perth more so. Adelaide is supposedly hostile towards cyclists, but the River Torrens is quite good with the Linear Park there.

MRS OWENS: Canberra is another place where I think bicycles have been well accepted.

MS LAING: They have, and it comes back to that point of how do you get yourself and your bicycle to Canberra for the weekend, for example. If you think, "I'd like to go to Canberra for cycling for the weekend," it's very difficult to get it onto the train to get there in the first place.

MRS OWENS: Yes, but you can virtually cycle from one side of Canberra to the other without having to go near a road.

MS LAING: You can, yes. It's very good. Yes, it's just getting to Canberra that's the problem.

MRS OWENS: I think your other point about dedicated rail paths along train lines is also an interesting idea, and you mention that it's already happening in parts.

MS LAING: Up through North Sydney here. Minister Scully is looking at the idea of using the rail easement along the North Shore, which is a really good start. I guess there are issues there with State Rail. What they are I don't know.

MRS OWENS: Are there safety issues?

MS LAING: I imagine there would be. I suppose it's a case of putting up a fence or something between - but then state rail would still have to have access to the line with their vehicles, so the practical - - -

MRS OWENS: I suppose it's only money.

MS LAING: Everything's only money, isn't it?

PROF SCRAFTON: I think that's right. I think it's a matter that the principle might be broadly accepted but if you take that example of the North Shore line, the actual engineering of it could be quite difficult. There are intersections, tunnels, for instance, near Wollstonecraft.

MS LAING: Exactly.

PROF SCRAFTON: All of these have to be accommodated into the ultimate path; whereas with the north-east busway Torrens Valley path, it was designed into the busway. They were designed together, so it's a little easier I guess in areas where you're doing something new, and not trying to impose it on an existing one.

MS LAING: Yes.

MRS OWENS: Brownyn, have you got anything else you'd like to add before we finish?

MS LAING: No, I think that's probably about everything. It's just that I think it would be valuable for you to keep in mind we have the review of the national bicycle strategy happening at the moment and that's going to be launched in February, so the issue of dual mode transport will be part of the revised national bicycle strategy. Whether or not the strategy gets funding - - -

PROF SCRAFTON: My view was that in general state governments have begun to provide money for Bike South, Bike West and these organisations within what were traditionally highway organisations have now set funds aside. I know in the total sum of a highway agency's budget it might be fairly small but you could do an awful lot with a small amount of money on behalf of cyclists. So the review will begin in February, will it?

MS LAING: The review is being launched in February in Adelaide and the difficulty has been that there has been no standard approach facilitating bicycle facilities across Australia. So we do have Bike West in Perth doing really good things; Bike South doing really good things. Each state is doing their own thing and there's no Commonwealth approach to it so it has tended to be haphazard. The funding has been all over the place, so the national bicycle strategy is an attempt to have a national approach to basically planning and have the states tied in to the Commonwealth so that they meet targets and that they meet their goals, so that cyclists all over Australia can have the same high-quality facilities.

Cyclists in Sydney don't have facilities anywhere near those in Perth. That's simply because Perth has had Bike West and has had a minister that has been supportive of bicycle use, whereas in New South Wales that hasn't been the case until fairly recently. That doesn't happen with roads. I'm not sure whether it happens with rail; whether it's as haphazard.

MRS OWENS: Who has initiated this national bicycle strategy?

MS LAING: It was originally developed or launched in 1992 and it has been revised as a result of pressure from the Bicycle Federation of Australia. Austroads are funding the revision so it will go the Australian Transport Council hopefully by December, to be launched in February.

MRS OWENS: Thank you very much for that.

MRS OWENS: We will resume. The next participant this afternoon is FreightCorp. Could you please give your names and affiliation for the transcript.

MR PEDERSEN: Yes, my name is Gary Pedersen. I'm general manager strategy and corporation affairs for the Freight Rail Corporation which trades as FreightCorp.

MR ATTLEE: My name is David Attlee. I'm manager corporate strategy of FreightCorp.

MRS OWENS: Thank you both for coming. At this stage, as you are aware, we don't have a submission; I gather it's somewhere in the system. But we do have some points that you have sent to us. Would you like to make any opening comments? I see that we're going to have a slide show, so if you would like Gary to introduce that, then we could ask you some questions maybe as we go or after we've seen your slides.

MR PEDERSEN: Okay. I'd be happy to take them as we go - I'm happy to do it that way.

MRS OWENS: Thank you.

MR PEDERSEN: Yes, you've not received a submission from us; the New South Wales government is putting in a coordinated submission. I don't believe you have that yet either.

MRS OWENS: No.

MR PEDERSEN: We've given them a copy of ours and been through it, so you won't be getting one directly from us; it will either come as an attachment to or be rolled into the New South Wales government but I am happy to leave you a hard copy of the slides if that would be of benefit to you today.

MRS OWENS: That would be lovely. Yes, you can table that, thank you.

PROF SCRAFTON: And do you have access to the submission that was made by FreightCorp to the black coal inquiry.

MR PEDERSEN: Yes, okay, that's fine. I expect you'll notice - at least I hope you'll notice - a degree of consistency. Apart from a nice clear picture of a 90 class locomotive, 4000 horsepower heavy-haul locomotive, I will just quickly run through the content of the presentation I'd like to give today. Initially just an overview of FreightCorp, its development as a corporation and some key facts and figures about it, and then to talk about the impact of the substantial rail reform that has taken place over recent years, and particularly since the last Productivity Commission inquiry.

We'll talk about our business performance, the substantial change in the culture of the organisation, the business improvements that have taken place; some issues about corporate governance as a state-owned corporation, which I think are worthwhile talking about, and importantly the benefits that have been derived by our customers as a result of that reform program. Just at a higher level, to talk about the direction we think the industry is heading in and, more importantly, where it might be going in the future. Lastly, what we think are some of the key issues for the inquiry that we would like to suggest - I am sure others will be suggesting also, it might be the focus of some attention - and that is competitive neutrality in the whole issue of access to rail.

So just quickly a very potted history of FreightCorp and where it came from. It was previously part of the integrated business which was the State Rail Authority of New South Wales. Back in 1989 what was then known as Freight Rail was separated from the passenger business, City Rail and Country Link - still with State Rail but as a separate business division, which was really the start of that separation back in 89, but still reporting through State Rail, the minister, the chief executive and so on.

The next major point was the creation and transfer progressively to National Rail of the interstate freight business back in around 93-94. That happened over a period of time and assets and businesses have gone at different times, but generally speaking, around that time. A major milestone then was the competition policy agreement around 1995, and ultimately clearly that had a role in 1996 when the rail industry in New South Wales was completely restructured and separated into the four organisations that we all know.

FreightCorp, which came into being on 1 July 96 as an above freight operator is no longer in control of the track. The Rail Access Corporation or RAC, who have responsibility for track and access management; RSA or Rail Services Authority, which has since been corporatised on 1 July just gone, to do the engineering services track maintenance, some rolling stock maintenance and so on, and the remainder of the passenger services stayed with RSA, doing the metropolitan and long-distance passenger services, and some train control functions for RAC under contract. But the major restructure was really the commencement of FreightCorp in 1 July 1996. So as a corporation we've been in existence now for two full years and we're into our third year.

Turning now to just a little more detail about what that means for FreightCorp: we are a rail-based freight services company, initially starting with a mandate to operate - and all our existing operations - on the New South Wales network, but as we know with open access state borders have really effectively disappeared now, and certainly we are increasingly looking to become a national player as are other operators in the marketplace. So that has been a fundamental change; from having state-based freight operators, each concentrating in their own little patch, to seeing increased competition and moving beyond borders. If you follow the press there have been various comments about FreightCorp being shortlisted for Leigh Creek coal and a potential for interstate operations; there are a number of things under development.

We are by far Australia's largest standard gauge rail freight operator - and I'll show you some facts and figures later - with a turnover in excess of three-quarters of a billion dollars on standard gauge, which is strategically important given the standard gauge network that links the Australian capital cities. So there's significant potential for us to use existing assets to extend beyond our traditional borders.

The core business at the moment in New South Wales is very much bulk commodities, export commodities. We're very much an export-oriented business, hauling coal and grain, some domestic but largely export; general freight, again including containers, both import and export, through the ports of New South Wales, and increasingly move to providing increasing total logistic solutions for door-to-door services which picks up on road and other issues, such as warehousing and so on. As I said, rail based but moving beyond that, as you need to do if you're going to provide a total service to a customer who is increasingly looking for more than just someone to provide rail long-haul. Just in terms of the importance to the Australian economy - a rough, quick and dirty calculation, but something like \$5 billion worth of product that we contributed to moving in terms of exports out of New South Wales in the last financial year.

Going on to some more detailed numbers - and again for 96-97 and 97-98, being the only 2 years we've existed, we do have statistics - and I think we provided some to the department to come into the submission. Going back, not always comparable since the separation of infrastructure from the old freight rail, but in the year just gone we've moved 82.1 million tonnes of freight, so a very significant operation. An increase, as you can see, of nearly 10,000,000 tonnes over the prior year, so a very substantial growth. At the same time doing that with less staff we've continued to drive a reform program, and that continues on today, and that number will continue to reduce; projecting to go to something like 2400 in the current financial year, so a very significant reform still going on, but it has come a long way from what it was when the Productivity Commission last looked at rail.

Net tonne kilometres, about 13 billion in 97-98. Total revenue of just on three-quarters of a billion, 772,000,000. I just focus there. It's an interesting set of numbers. So we've hauled 10,000,000 tonnes and generated less revenue for it in the last financial year. That will give you some hint of the benefits that are going back to customers, and I'll talk a little more about that a bit later.

MRS OWENS: Is it because of more competition?

MR PEDERSEN: In a word, yes. More competition and also the economic circumstances facing our export industries as well, but I will come to that again. Earnings before interest and tax of \$94,000,000 in the last year, and our annual report has not yet been tabled in parliament, it's not due until the end of this week, so I haven't got a detailed annual report to give you. We will forward that as soon as it comes out in the next week or two. But we have recorded a full commercial profit again in our second year, albeit down on our first year, as you can see, and there a

number of things arising around that: 97-98 was the year of the biggest grain harvest in certainly my time in the rail business, and also the declining freight rates increased the competition and it certainly reduced our margins in a significant way. For the second year in a row we provided a very substantial dividend to our shareholders, the New South Wales government, following 42,000,000 in 96-97 and 23,000,000 in 97-98. In addition to that we also paid tax equivalent payments to the New South Wales government and we also paid very significant interest on debt to the government and repayment of debt of a net total payments to government in 97-98 of just under \$200,000,000, returned to our shareholders in one form or another.

Just a breakdown of our business - I think it starts to give you a feel for the importance of export business and you can see there total export coal, 67.8 million tonnes out of a total of 82,000,000 tonnes, so very much dominated by that export coal business largely through the port of Newcastle but also some through Port Kembla. As you can see on there, 6.8 million tonnes of grain, 4½ million tonnes of bulk commodities, 1.7 million tonnes of intermodal services, containers and the like, and 1.3 million tonnes of domestic coal. So a significant rail operation dominated by export coal. Note, however, that's on tonnes. A better measure of the haulage task we actually carry out is on net tonne kilometres, and you see a slightly different picture with the expansion of those other areas that have a longer average haul than coal. Our coal haulage is out of the Hunter Valley and an average haul of about 110, 120 kilometres, so a relatively short haul by international standards. You can see much more significance in grain and bulk commodities - in fact all of the other commodities having a longer average haul, but nonetheless very much still dominated by the export coal business - 13 billion NTKs.

So that's a background in some of the facts and figures. We turn now to start to look at some of the reforms or the results of reforms over recent years. This slide talks about the impact of rail reforms, and in it we've tracked back some numbers to 1991 and some others since 95-96 or July 96 when we formed. You can see very significant improvements across the three measures, employee productivity, loco productivity and wagon productivity, and all measured as net tonne kilometres by employees or locomotives or wagons. So in that time we've seen significant increases in volume and done it with less employees, less locomotives - we've actively reduced the locomotive fleet, so our utilisation has increased by 39 per cent since 95-96 and 61 per cent 1991. Similarly with employee productivity, an increase of 55 per cent in the last 2 years, and wagon productivity, also increases of 25 per cent and 36 per cent respectively over the last 2 years and 7 or 8 years. So very significant productivity improvements, and that's just a selected example; that's pretty much the same across any measure you look at.

As I say, it's a little difficult to compare some of the measures as you go back prior to the formation of FreightCorp into what was the integrated State Rail. There has also been some impact of the transfer of functions to National Rail taking the long-haul freight operations, so some of our loco and wagon productivity figures actually dropped back somewhat when we transferred the long-haul interstate business to National Rail, where you traditionally get better utilisation, and don't

spend so much time sitting in terminals as we do in some of our other businesses, but nonetheless, even accounting for that, still very significant improvements.

Some of the less quantifiable impacts of reform, and in here I talk about the cultural change that has taken place - or is taking place, I certainly wouldn't say it has finished. But the reform, the creation of FreightCorp, the separation of the business, the commercial imperatives, open access, has certainly driven a very significant change in the organisation, and for someone who has been in the rail business in New South Wales for close on 20 years, it's absolutely evident for anyone to see that the focus on the customer relationships, provision of service, the much more commercial contractual relationships we have with customers now, the performance-based contracts we're seeing increasingly where we actually have part of the freight rate at risk based on our performance and deliveries on time, and reliability, the regular customer surveys that have now taken place; a very significant initiative in the last year of a success through a serviced customer focus program which we're pushing down through the organisation, which is driving the need to deliver customer service.

We've recognised that the game of pushing down freight rates and trying to compete solely on margins is not a very sensible one, and the way to succeed and to improve financial performance is to deliver that service excellence to the customer, and again I'm not pretending that we're there yet, but certainly significant strides have been made, and an adoption of shared values delivered throughout the corporation which has started the focus on - as you can see, they're quality service, integrity and fairness in commercial behaviour, innovation, creativity, mutual respect and trust, and it's something we've tried to consistently model throughout the organisation, and again since corporatisation and the commercial imperatives, it something we've been much more successful in doing than in the days of an integrated state rail authority under much more direct ministerial and government intervention.

Business improvements since the last Productivity Commission review have been very numerous. We haven't detailed them all, but just some examples of the sort of initiatives that have been taken: the ready power locomotive program, where we completed outsourced the supply and maintenance of about 90 of our key locomotives, including the 4000 horsepower heavy haul locos in the Hunter Valley; the world class one-spot maintenance facilities we've put into Port Kembla and Newcastle, with absolutely huge productivity improvements, and multiskilling, where we've gone from just a multiple number of classifications and awards down to one. We've built a state-of-the-art facility at Enfield to replace the one that had been built back in the steam days, which has also given us significant productivity savings.

Work practices: with corporatisation we established the first enterprise agreement for FreightCorp and again separate from the passenger businesses and all of the trade-offs that that previously entailed, so we were able to structure an enterprise agreement solely for FreightCorp, and that's delivered the sort of workplace efficiencies we've seen. There have been reforms across all of the areas, yards and terminals, crewing and, most recently, overheads as well. Typically we've seen

reductions of between 15 and 15 per cent in any of those areas over the last 2 years, and more still to come.

In management the creation of FreightCorp and with a separate board it has meant a much more focused management organisation. There's been a conscious decision to bring in external expertise into the organisation, particularly at the marketing end and strategy end of the business to complement the rail expertise that we've always had, and the corporation is progressively moving to basing remuneration on performance. That's already happening at the senior executive level, and with this last enterprise agreement we've now put in place an at-risk component of salary for all white-collar and administrative staff and will progressively extend that down through the organisation, so we get a much greater alignment of the organisation at a personal level with the corporate goals, so that the success and remuneration of our staff will be linked with the success of the corporation, again which hasn't always been the case in the past.

MRS OWENS: Is FreightCorp subject to Corporations Law?

MR PEDERSEN: No, we're not. We're a state-owned corporation created under an act of parliament. I'll take a step back. Our requirements basically mirror those of the Corporations Law, but it's done by the New South Wales government.

MRS OWENS: So it's very much like Westrail. It's the same sort of arrangement.

MR PEDERSEN: I must admit I'm not conversant with their - - -

MRS OWENS: It's commercialisation - it's a commercial focus.

MR PEDERSEN: Absolutely. Very much so.

MRS OWENS: With possibility greater flexibility than you might have under Corporations Law.

MR PEDERSEN: Yes, the State-Owned Corporations Act in New South Wales has mirrored the Corporations Law, so the memo and articles of association of the company mirror the Corporations Law, the requirements of directors mirror it. We're created under an act of parliament, not under the Corporations Law, but we're subject to the Trade Practices Act, we're subject to a taxation equivalence regime, where we pay tax to the state government, not the Commonwealth government. So it mirrors it, but it's slightly different.

MRS OWENS: Okay. Thank you.

MR PEDERSEN: I guess the next slide starts to go towards some of that. I just want to run through the government's arrangements that are in place now, which have changed substantially from the old State Rail Authority days. We now have a board of FreightCorp which is responsible to two shareholding ministers, who are ministers

in the New South Wales government. The managing director is appointed by the board and accountable to the board for performance, and responsible for the day-to-day operation of FreightCorp.

The portfolio minister which in New South Wales is the minister for transport is not a shareholding minister, so the corporation's performance is managed by the shareholding ministers, not the portfolio minister. The portfolio minister is the minister that has control of the legislation of the industry structure of the safety regime, the access regime, and so on, and also is the minister who purchases CSOs from FreightCorp. So we have a formal CSO contract with the minister for transport or his department, but the commercial relationship is with the shareholding ministers, so there's an annual statement of corporate intent which is signed off between the board and the shareholding ministers which sets out the financial objectives of the organisation, and there's quarterly reporting back from the board to the shareholding ministers on performance against those objectives.

PROF SCRAFTON: Gary, could I just ask, does FreightCorp then find itself given directions by ministers? If so, what form does that take, given that you've got shareholding ministers?

MR PEDERSEN: There's two relevant pieces of legislation in New South Wales. There's the State-Owned Corporations Act, and then there's the specific legislation that created FreightCorp. Under the State-Owned Corporations Act the minister for transport, the portfolio minister, can give written directions to FreightCorp, and basically the corporation is required to comply with those directions after it has costed the impact of it and after the portfolio minister has obtained the funding for that.

PROF SCRAFTON: Right.

MR PEDERSEN: It's required to be in writing. In the two and a bit years we've been a corporation we've had one written direction, which we publicised in last year's annual report, which was when the board soon after the incorporation decided to quit the Trackfast business, the small freight parcel business. The minister, while agreeing with the action or understanding why the board took that action, required us to maintain the service for a period of time while alternate arrangements were put in place. So we've had one written direction in that time, and it was spelled out in the annual report and is audited by the auditor-general. There have been no directions from the shareholding ministers. There's been an annual agreement on financial and strategic direction, and that's been agreed and moved on.

PROF SCRAFTON: Thanks.

MR PEDERSEN: I'll just go on and talk about corporate governance a little more. Very much I think the flavour you've seen already is that the corporation is run as a commercial business, where the board is responsible for the performance of the organisation and strategy of pricing, capital acquisitions, etcetera, and very much a focus on commercial performance. There are some specific requirements under our

legislation to have regard to environmental impacts, to have regard to regional development, but also to operate successfully like any commercial business, and, like any board, the board has to balance those things as any corporation does. It's no different, so very much a focus on bottom line performance and creating value for the shareholders.

That's certainly taken FreightCorp beyond its traditional boundaries in looking at strategic alliances and more innovative solutions for our customers, and the sort of surveys we've done recently have recognised customers have seen a very significant difference from the State Rail of old that they knew and loved, so to speak.

MRS OWENS: So who are these strategic alliances with?

MR PEDERSEN: It probably falls into the realm of commercially confidential information, but in generic terms we've opened a number of terminals in New South Wales where we've got local road haulers who are sharing revenue with us and operating locally. We are looking at a number of opportunities to operate outside of New South Wales in conjunction with other rail operators, and there are also some potential joint ventures for - there's some Beyond Rail line haul operations that I can't really go into. But it's really things that are supplementing Beyond Rail's traditional line haul, whether it's warehousing logistics, whether it's road delivery or whether it's in conjunction with other rail operators looking beyond New South Wales.

MRS OWENS: I think that's the first time I've heard of these strategic alliances. It's something that we came across when we were doing the air services inquiry.

MR PEDERSEN: Right.

MRS OWENS: It's an obviously very important part of international air services, and I just hadn't heard anybody describing strategic alliances yet in this context.

MR PEDERSEN: Well, it's been a key strategy of ours since we were corporatised. We recognise that we have certain strengths. With a staff of 3000-odd people and 300 locos, 5000 wagons, 82 millions tonnes of freight, we are obviously a very strong line hauler, bulk line hauler. As we look to expand, though, we recognise that we are not going to do that by necessarily acquiring the assets or moving into areas where we don't have those same sets of skills or expertise, and we've sort of recognised the need to think beyond the traditional way. Governments in the past have owned trucking fleets, and if I go back far enough, State Rail used to own trucks and containers and all sorts of things and exited the business after doing very poorly. We're determined not to repeat those mistakes of the past.

If I can move on to some of the benefits to customers that we've seen, and there's absolutely no doubt that the reform that's taken place has delivered very significant benefits to our customers, in the last 2 years we've seen prices on average reduce by 16 per cent. That's simply taking the revenue we've generated, the freight we've hauled, and taking an average price. Now, clearly it's different across different

market segments, there's some product changes and so on, but on average 9 per cent in the last year and 7 per cent the year before, and we calculate that that's roundly a hundred million dollars of reduction in freight charges that have been delivered to our customers in New South Wales, so a very significant benefit.

I think you asked earlier, Helen, whether that's been driven by competition. There's no doubt about that. Some of it is by active competition. We've had customers that have already put out to tender their rail haulage, and we've been required to compete with other potential rail operators. We've had the same thing with road with some of our customers, and quite separately from that, even where they've not gone to tender, we've had significant pressure with potential mine closures as well in New South Wales, where it's not a question of competition with another operator, it's a question of seeing the industry survive in what's a difficult international environment at the moment, and so the benefits of reform are being very significantly shared with our customers, certainly to the detriment of our margins, but that's life at the moment.

At the same time there have also been service improvements. It's not been at the expense of service. We've commenced regular surveys of our customers and they acknowledge improvement. I wouldn't be sitting here to say that they're totally happy with the service, they always want a better service at a lesser price, but they recognise that things have improved. Certainly we're heading in the right direction and need to continue to do that, as the last point notes there. But certainly the change from the freight rail of the State Rail days has been noticeable to our customers.

If I move on to some broader industry directions, the rail industry of recent years has certainly been one of significant change, both in structure and in the players and the nature of the players and the functions, and it's the one thing that's clear to us, that there hasn't been a consistent model for reform that's emerged. States and governments generally have adopted different approaches and operators have adopted difference approaches. We know we've got vertical separation in New South Wales, with a separate access regime, a track access body and a corporatisation model of FreightCorp and RAC and, more lately, Rail Services Authority, while State Rail has stayed as an authority responsible to a minister. Some have gone to corporatisation, many have moved towards privatisation.

We've seen AN already sold. NRC and Beeline Freight and Westrail we all know are at various stages of privatisation. Some of those businesses are being sold as vertically integrated operations, eg, AN and NRC and Westrail, if we understand the way it's heading. National Rail clearly has been sold as an above-rail operator with access to the national track via an ARTC, so there have been some very significant changes and I think even some of those sales perhaps started out as above-rail sales that purchasers or intending purchasers convinced have moved to integrated models to be sold, so it's clear the industry is one in transition at the moment, without drawing any conclusions about what the right model is, but it's an industry which is in change and seeing a progressive change from government to private ownership as well.

Continuing on that rail industry direction, if I move on to industry structure and specifically the number of players, it's a great ground for guessing at the moment about what the future of the rail industry is going to look like in Australia. I think the one thing that we have been clear on for some time is we're not going to see a multiple state-based number of freight operators each operating in their own patch. That's clear. It's already happening before - privatisation of some of the railroads and entrance of new operators. The thing that that brings to us is there is not sufficient volume, given the density of freight and the size of operation in Australia, to think that every one of the existing state-based operators is suddenly going to become national and all be competing on a national basis.

Our view is that there is only room, only volume, and it only makes sense from an economic point of view for one or two national operators to survive. That's not to say we're not going to have regionally-based operators or niche operators or the like. Ultimately that's something that the market will determine, so we're not saying that's a legislative change. We're saying that's what we believe is a likely direction of the industry. It's important to think about that. You might say, "Well, what will be, will be," but it's important in terms of forming a strategy of how one goes forward to think about where the industry is heading, and we've said here in the second point, we're entering a phase of intense competition.

We're certainly in it already, and it's going to intensify, and the industry is basically jockeying or positioning to be the basis of one of those - call it what you will, one, two, three, whatever the number is - major rail operators in Australia. That's happening at the same time we've got privatisation going on. So we've got government corporations such as FreightCorp and Queensland looking to position themselves nationally, we've got privatisations going on of government corporations which are already looking to position themselves. We've had examples of Westrail; it's been quite open about walking in and talking in the Hunter Valley to our customers, and equally we've been beyond the boundaries of New South Wales.

So there's a lot of positioning going on, a lot of discussions, a lot of initiatives being taken by operators to position themselves in the light of the industry restructure which is going on. Again here in the third point we think it's critical that the industry does pursue those economies and again those strategic alliances that I spoke of earlier, if it's going to sustain the long-term profitability. So increasingly we think we'll also see opportunities for organisations perhaps that were previously not competing or operating their own areas, actually combining their resources to provide a service to a customer that they couldn't otherwise do individually, and there are some examples of that happening at the moment.

Lastly, I guess the points that we'll come to in terms of the key issues that clearly the commission will be looking at are those issues of competitive neutrality, putting aside the rail-to-rail competition which certainly has been the focus of rail reform in recent years. We've seen much focus on the answers to all our problems being having on-rail competition. We think that's a very narrow view of the

competitive marketplace that we're in, and it needs to be seen in a broader context of transport generally, and particularly road and the much spoken about level playing field of competitive neutrality, and clearly that's an issue that we see is critical, and I'm sure the commission will be addressing. I'd just like to finish with a few slides talking about that.

I guess the first thing to say is that the whole area of competitive neutrality has been the subject of much debate and numerous reports, and has many numbers to justify rail or road position as I've had hot breakfasts, I suspect, and we're going to add to that by quoting some more numbers. But I've got to tell you we've not done any innovative or new work on this. We've picked numbers that are around the place. I guess the one thing that's clear to us is that there's not a competitive position with road, and this particularly focuses on the interstate freight, so I'm sure you'll hear from National Rail and other interstate operators more eloquent than us in terms of this.

It's not so much an issue for us in the bulk-haul business, but as we look to get into areas previously the bailiwick of road it becomes increasingly important to us. There are figures quoted there about the importance of road investment versus rail investment, and what we see are the undoubted inequities in access and the comparative numbers there. This is solely looking for road access, of the registration charges, and the sort of pretty publicly available figure of about 0.3 cents for GDK that rail pays, versus the sort of figure of anywhere - a fifth or a sixth or a tenth of that, depending on what corridors you look at and what assumptions you make. There are very significant inequities we believe in rail versus road charging that need to be addressed on a national basis, and I'm sure will be the subject of much review by the commission.

The issue of fuel excise is one that always looms large with rail. Off-road is exempt, except that rail is not regarded as off-road, and so we continue to pay a very significant charge for that. In FreightCorp itself, we're paying in excess of \$30,000,000 a year in fuel excise, for which we believe rail sees no benefit, and in fact part of it on past experience, knowledge or supposition is being hypothecated to road investment to assist the competition, and we don't believe that the recently announced tax plan by the government addresses the fundamental issues there. We still have, albeit a reduced fuel excise projected for rail and road, an exception for off-road, it still does not exempt rail, and we simply see no logic for that, and there's any number of studies that have been done - DIES and the various reviews over time - that seem to think that that's not a consistent approach.

There is also the inequity or disequilibrium in regulation of rail versus road. Again it's particularly relevant once you start to cross state boundaries, and the difficulties of doing that as a rail operator versus a road operator - negotiating separate access and negotiating separate accreditations and all of the different operating systems and the like that make it so much more difficult for rail to compete with road on a national basis - and clearly that's an area we think the commission would very productively spend a significant amount of its time addressing. We're not suggesting we know the numbers or the definitive answers to that, but it's clearly an

area. Whether one favours road or rail or thinks that rail is subsidised or is not efficient, as road would often say, putting aside that, it's clear that it needs a very rigorous and consistent review, and a set of answers that we all live with and work with.

The implications of that we believe are that rail is losing market share, certainly in key corridors. It doesn't apply to some of the bulks and so on, obviously. The balance of that is, it becomes somewhat of a spiral downwards in rail's case, where we have an infrastructure which is not at best practice and not fully utilised, and we have a set of charging mechanisms which encourage in fact less utilisation, and as a result the investment doesn't go in and the unit costs go up and the infrastructure doesn't improve, and so on and so forth; not exactly a desirable circumstance for a nation like Australia with such long distances and the need for both an effective road and rail infrastructure network.

This is not an impassioned plea for rail versus road, it's for balance. Clearly Australia needs an effective transport system, and that's we believe a combination of rail where it's best suited and road where it's best suited. Again we've quoted some numbers which are not ours but from other research which talks about the non-economic benefits that rail brings in terms of greenhouse emissions and fatalities and other externalities, etcetera. Again I'm sure the commission has access to a lot of that data.

We draw to a conclusion then and just talk about what we think are some of the initiatives out of all of that, and I think the one compelling one is the need for a national approach to transport and the need for a body such as the National Land Transport Commission which can look consistently at these road and rail, and for that matter, other areas of transport. The National Road Transport Commission has been very effective and very efficient, and has performed laudably for the road industry. Rail palpably has not had anywhere near its act together to the same extent, and from our point of view there's a compelling argument that they should be treated equally, analysed and reformed in the same manner, and that's without arguing for a rail perspective or a road perspective. It's simply a consistent perspective.

PROF SCRAFTON: Gary, we should point out though that the Road Transport Commission doesn't deal with road investment.

MR PEDERSEN: Right.

PROF SCRAFTON: It deals with all the other things you've talked about.

MR PEDERSEN: Yes, okay.

PROF SCRAFTON: That doesn't mean that a new commission could not, but it needs to be - - -

MR PEDERSEN: Yes, point taken - which I guess is the second point, Derek. Clearly we don't see that there are consistent evaluation criteria; certainly in our dealings with access bodies that are corporatised and that have got to take a rail investment onto their balance sheet and take a very commercial approach to a return on investment; we don't see the same evidence in road investment. Now, which model is right, one could argue about. What we would argue is that it should be a consistent approach. We would regard that as self-evident, but here we are many years after the last review by the Productivity Commission and we still clearly don't have that commonality of view.

The need for nationally consistent safety and access arrangements is self-evident. The concept that every time you cross a state border you have a different set of arrangements really just doesn't make sense whatsoever. I've got to say governments have started to make moves on that, but it's important that we see those through to the end very quickly. In our view, the case is very strong for the abolition of the diesel fuel excise for rail. In the tax package that's been announced, it's been clearly stated that it's a tax not a road-user charge, and yet it happens to be 18¢, which is somewhere around what the road-user charge was estimated to be. If it's not a road-user charge, then road is only paying its registration costs and rail is paying very significant access charges for access to the network. If it is a road-user charge, then rail shouldn't be paying it. So in our view the argument there is straightforward; not easily achieved, I recognise, in some very significant invested interests, but nonetheless something which we have to address as an industry in this country.

Lastly - this is only a minor point - FreightCorp recently negotiated its access agreements with the Rail Access Corporation and paid a very significant stamp duty amount on that access contract; again one that road has no equivalent for its access. Whether one abolishes it or treats road in a different manner, I don't know, but again, without drawing on the specific conclusions, a need for consistency between the modes. Access - I'll finish up with this one - is tied in with the competitive neutrality, but the need for commercial access charges reflecting what we believe should be efficient costs for access to the network, and that promote some effective investment decisions, and access and competitive neutrality are very much linked.

Again, access arrangements - while we've had the creation of the ARTC, it's still very early days, and it's still not exactly clear how that's going to work, and particularly with the seeming approach by Western Australia at this stage to sell the interstate track or long-term lease it and not cede it to ARTC. We believe, just as we have performance-based contracts in our customer contracts, we really need separate agreements with the access bodies wherever they be that put incentives on the access providers, as in almost every case they are a monopoly provider. Certainly they are a monopoly provider of access to rail tracks, they're not a monopoly provider of access to transport.

But with the separation of infrastructure from operations in New South Wales and other jurisdictions where it takes place, it's critical that there continues to be the

pressure on the access bodies to drive down the cost of access. We've put in place arrangements for competition between operators in above rail. We need to have similar arrangements to put pressure on access bodies to drive down the cost of access to the network so that they don't continue to operate as monopoly providers.

Lastly, one of the real issues for us is - and I spoke about it before - the infrastructure and the need for investment in the national network and some of the intrastate networks as well. At the moment we get very hung up on them on a balance sheet and needing a rate of return and we've not seen yet an effective way of pricing and funding those network upgrades that recognises a competitive user charge for the operators but a sensible investment for the community. So that's the end of our presentation and, as I say, I'm happy to leave a copy of those slides with you and answer any questions you might have.

MRS OWENS: Thanks very much, Gary. That was I think a very clear presentation for us and I thank you for that. I don't know whether you will be able to answer this particular question I've got but are there any proposals in the future to privatise FreightCorp?

MR PEDERSEN: You've correctly suggested I may not be able to answer that one. That clearly is a matter for the shareholder to address and one that it wouldn't be appropriate for FreightCorp to address at this point in time.

MRS OWENS: I might ask the question in a different way then. Will life become more difficult for you once Westrail, V/Line, Freight and National Rail are privatised? Is it going to become an even more competitive environment for you?

MR PEDERSEN: I don't think there's any doubt about that, as other operators are privatised. I spoke previously about our vision of the national operation and a small number of large operators potentially emerging. We don't lay any particular great intellectual ownership of this. It's a clear conclusion that many operators are coming to and our view is, as overseas or local operators are looking to acquire previously government-owned rail operation, they are inevitably going to look beyond their existing operations and their existing franchise. You would be living in I think a fool's paradise if you thought someone was going to buy V/Line and feel constrained by the border at Albury.

While in the past governments have not been so disposed to push across, we have had some border issues, but I think there's very significant potential for any of those privatised bodies to look beyond their traditional boundaries. New South Wales will clearly be one of the spots they come looking. That's a fact of life and we've got to take account of that as a government corporation and respond to it.

MRS OWENS: I think what Westrail have tried to do with their freight business is try and pre-empt that. I think that's what their strategy is.

MR PEDERSEN: Yes, they have been very open about privatising at a time of peak value before they see too much on rail competition. On a personal basis one could argue it's a fairly sensible decision.

MRS OWENS: It works well - well, it may or may not but it possibly could work well for them but this stage New South Wales is doing something a bit different.

MR PEDERSEN: Yes.

PROF SCRAFTON: Thanks, Gary. I just admire that presentation, although you were not able to give us a formal submission at this stage. I found the description that you gave to be really useful in what we know already, given that we have had the House of Reps inquiry and the McCall inquiry. It was excellent, from our point of view, and particularly important because you are an operator in this separated environment. You mentioned in I think about the first of your slides the jury is still out on separation or vertical integration. I think even from the wording on the slides, your description, I picked up some of the lessons learned or disadvantages of operating in a separated environment, but what are some of the benefits of operating in this separated New South Wales regime?

MR PEDERSEN: I think one of the clear benefits has been - and at the time we were corporatised and separated into the four organisations - there was much debate about the advantages and disadvantages of separating infrastructural operations. I think the benefits are probably reasonably known but that whole rail-wheel interface is a very alive one and there's no doubt - and I guess I'm answering the other side of your question and I'll come back to that specific one directly - but there's no doubt that a separation of above rail and below rail puts what was previously direct managerial control over track investment and trade-offs between speed restrictions and operating costs and so on - it makes it a little harder to manage because it's now either side of the commercial contract and legal proceedings and so on. So there's no doubt that we could put a lot of effort into managing that relationship with the access provided to try and replicate the control that we previously had.

I think one of the significant benefits we've had is it has really allowed the above-rail operator, as FreightCorp has become, to focus on its service and interface with its customers. We've recognised now that we are an operator like any other operator and we've now got a significant part of our cost structure - probably about 25 per cent of our costs are access in New South Wales - and that charge, depending on your negotiating capability but largely that cost is the same for any operator. So you're really forced then to compete on your operations, your above rail, and that has been one of the benefits that has really focused us on to the interface with the customer and has focused our management attention on that.

It's also separated a lot of the issues - in New South Wales we had a specific case of the Hunter Valley, and you're aware of the discussions, the views of - I think you've got the Minerals Council attending - - -

PROF SCRAFTON: Yes.

MR PEDERSEN: - - - and no doubt they might address issues of monopoly rent and the like. When we were an integrated business, it was one of the real bugbears of our existence that it was recognised there was a monopoly rent component but it was never separated from the operating cost and so there was always a suggestion, an allegation, of inefficiency in rail freight charges. The separation has made that very clear now because the access charge sits over there and the operating cost sits over here.

The Minerals Council I think would recognise that the operating costs have made very significant improvement and they have seen that in the above-rail charges and they are able to tender that out and compete one on one. I am sure they will still have issues with access charges and the level of monopoly rent and the rate at which it comes out, but we've been able to segregate that and separate it out, so that's been a significant benefit from our perspective.

PROF SCRAFTON: You mentioned, Gary, that FreightCorp does receive CSOs.

MR PEDERSEN: Yes.

PROF SCRAFTON: Do you want to tell us what they are for?

MR PEDERSEN: Yes, we have a formal contract negotiated and signed with the Department of Transport for the provision of services largely to rural New South Wales. Basically the definition in the act is a CSO is a service that we provide that we wouldn't otherwise provide unless we got a CSO. What it largely falls into is the provision of services to rural New South Wales at less than full-cost recovery and it's largely traffic on lightly-used branch lines. Certainly the grain industry benefits from that where we are charging less than full commercial rates for the haulage of grain and general products out on those lightly-traffic lines. So the government specifically sets out the services it requires and we negotiate a payment for that.

PROF SCRAFTON: Is that on a line-by-line basis or a service-by-service basis?

MR PEDERSEN: That's service-by-service basis, yes, by product. At the same time Rail Access Corporation also receives a CSO to keep open lines, so there's a specific line section CSO to keep lines open and then there's a provision to us as an above-rail operator to provide services on some of those lines.

PROF SCRAFTON: Thanks.

MRS OWENS: Can I ask you about your relationship with the Rail Access Corporation. Is it difficult negotiating a mutually satisfactory deal with the Rail Access Corporation?

MR PEDERSEN: I guess like any major contract, and it's a very significant contract for us, we have a full and free debate about the level of charges and the level of service. Having said that, this is our third year of operation and we've negotiated each year and achieved what I would regard as a mutually successful outcome. Access charges have come down in each year, partly driven by volumes increasing.

Probably the main point I'd make is that the negotiations occur within the current framework so, while we've agreed access charges, it's within the framework of the road-rail competitive neutrality interface at the moment. While we've signed off and agreed an access charge, given the CSO support that RAC gets we understand and accept there's a reasonable access charge to recover all the costs of that line. Whether that's an acceptable access charge by comparison with the road alternative, we would say it's not, but given the framework we've got in Australia and New South Wales, that would probably require free access and clearly that's not something that Rail Access is about negotiating.

So it has been difficult and it has been lengthy and very vigorous but we have achieved a result and I guess the proof of the pudding is the fact that we have increased volumes on the network.

MRS OWENS: What happens if you want to upgrade or ensure that the lines that you are using are upgraded and maintained. Is there appropriate responsiveness to those needs? If you were vertically integrated it becomes automatic because it's in your own interest to maintain the lines at a certain level. When it's split off like this, I guess it becomes part of the negotiated outcome, does it?

MR PEDERSEN: It is. There's a process in place where we go through each year an asset-planning process and RAC prepares asset management plans and line management plans which come to the operators for discussion and input. So we feed in what we see are the projections of tonnage, what we see are our operating requirements, whether it be to run longer trains or heavier trains or faster trains. In days gone by that was something we did internally but now, with multiple operators whether they're passenger or freight, there's still the multi-part process to go on where RAC is getting back input from a number of operators, not only ourselves.

So we are giving them our requirements, suggesting what we think are the imperatives for investment in the track, whether it's to expand to handle volume in the Hunter Valley or to increase operating speeds on a branch line, and there's an intricate process where there are benefits and costs associated with that and we try and negotiate them. Now that we are doing it by a contractual process, it's more difficult but in a multi-operator environment in New South Wales it's the way it's got to be. So there's a format for doing that and we have, as I say, vigorous discussions about whether the amount of contribution that RAC looks for for an additional crossing level, or whatever, it's justified in the operating benefits we can get out of it.

MRS OWENS: Yes, your operating benefits might be different from another operator's benefits and you don't want to be paying for their requirements when yours might be more modest.

MR PEDERSEN: Correct, but equally another operator that funds those benefits wouldn't like to see us getting access for a free ride. RAC has got some different approaches, whether it's funding up-front or pay as you go type operations.

MRS OWENS: You said before that your expectation was you would get to a point in Australia of maybe having one or two main operators. What does that mean for the survival of FreightCorp? Would you be one of those operators that would be left?

MR PEDERSEN: Clearly that's our intention. We believe - when I said one or two operators, that was standard gauge operators. I just make that point because there will always be obviously for other gauge potentials for regional operations on those.

MRS OWENS: And you've already said you're the biggest now.

MR PEDERSEN: Yes, and you can debate that. It's like when you're a small investment bank they've always got the best deals and the biggest assets and so on. I am sure National Rail will come along tomorrow and say they're the biggest because they run more NTKs, but we're certainly the biggest in terms of turnover and profitability, which I think are the important ones, rather than how much freight NTKs you run but, yes, clearly National Rail and FreightCorp are the two big standard gauge operators in Australia and with the privatisations taking place our clear strategy is to position FreightCorp to be the basis of one of those enduring national operators.

MRS OWENS: So if you end up with one or two is it really worthwhile having separation, vertical separation?

MR PEDERSEN: That's a good question, isn't it? That's why I say with the privatisations that are taking place, some integrated, the establishment of the Australian Rail Track Corporation, it's unclear where that's going to end. I think we're in for a few years of uncertainty as the sort of shake-out and repositioning takes place. I guess initially the view in New South Wales that separation was necessary for competition on an arm's-length basis - some models have started to emerge in South Australia and in Victoria and Western Australia, it would seem, where they're to be sold or have been sold as vertical operations with Access Regimes in place. The jury is really still out, I think, about which is the best way to go. I guess what I would hate to see is a multiplicity of models all around Australia, who suffered from breaker gauges in the past. I would hate to have the same thing happen with Access Regimes and safety regimes and all the rest.

MRS OWENS: But we've got that now, haven't we? That's what people are complaining about.

MR PEDERSEN: We do, absolutely, and hopefully whatever happens in the next few years is not going to lock that in place.

PROF SCRAFTON: It's a rather painful process but maybe - as you demonstrated from New South Wales - you have to go through this in order to get to that long term objective.

MR PEDERSEN: Yes.

PROF SCRAFTON: If one looks back, say 10 years, and tried to see that scenario of, say, two or three, or whatever - certainly no more than three, let's say, above-track major operators - it would have been difficult to see how you got from where you were, state-owned railways, boundaries, subsidies and so on, to get to be where we are, which leads me to a question, and in all fairness, Gary, I'm not even sure to whom such a question should be addressed, but as you're the first participant from the broken-up New South Wales - does anybody in New South Wales have a feel for the transaction costs of getting to where we are, the change from what was the combined or merged SRA into this what is beginning to emerge now as a very clear picture, as you put it yourself?

MR PEDERSEN: Certainly from my perspective I don't think anyone does and it's a very difficult question to answer. With the separation, the changed operations, the increased competition, it's a very hard question to answer. I guess that's one of the issues of separations we've seen. Our degree of interaction these days with State Rail is very minimal. It has been heads down about the issues facing FreightCorp and the converged commercial imperatives facing us, so I guess probably the best organisation to ask that would perhaps be the Department of Transport when they come along, but I suspect not. I'm not aware of any figures of the cost of - - -

PROF SCRAFTON: In explaining my question, maybe it's not that important in the end run because you have to go through the process whatever it costs to actually achieve the reform.

MR PEDERSEN: I was going to say the other thing that comes to mind is you have to weigh that up and undoubtedly there have been costs of separation. There is no doubt about that. The challenge is to weigh that up against the benefits that have been driven by that process as well and I've quoted some of those in terms of reforms to customers and so on, benefits to customers. The question you ask yourself is, "Well, would that have occurred if we hadn't gone through what we've gone?"

PROF SCRAFTON: That's right.

MR PEDERSEN: I don't know how anyone can answer that. So it's a curly one, isn't it?

PROF SCRAFTON: Yes, and maybe in the end it's not particularly significant but the reason I ask it is because those in favour of vertical integration will argue that transaction costs are high.

MR PEDERSEN: Yes.

PROF SCRAFTON: But your response is quite valid. I mean if you move along a path of reform you have to realise that there will be costs involved. One direct cost that we do know about, say in Victoria, is that you can't jump over the number of staff and consultants in the Treasury who are actually running the process.

MR PEDERSEN: Yes.

PROF SCRAFTON: So we do have a feel for some numbers but how important is the reform and what are you prepared to pay and put up with in order to achieve it, and from what you said, certainly in the case of FreightCorp and maybe of the four organisations, it probably is the one with the clearest mandate or the clearest terms of reference. It would seem to have been worthwhile in your case. I don't want to put words into your mouth but the way you describe the reforms as they've affected you you obviously are running with what you've got and running well and running happily. Is that fair enough?

MR PEDERSEN: I think I said along the way there was a unanimous view in FreightCorp that what we did 2 years ago was the right way to go at the time, that nonetheless that's what was put in place and we've taken that and adopted the challenge and run with it hard. Now, as I say, I don't know how anyone could answer the question: was there a better alternative? Would we have got where we are without having travelled the journey we've made? I don't know how to answer that. The one thing that's clear is there has been very significant reform and the sixty-four dollar question is would that have been achieved otherwise? I don't know, Derek. If you figure out the answer as you go through here, please, let us know.

PROF SCRAFTON: Yes, and that's the reason for asking. The more organisations we talk to - much of it obviously hinges on the cultural change that you talked about.

MR PEDERSEN: It's very hard to quantify those things, isn't it? One of the real benefits that we've seen is, with open access, the threat of competition and the very significant reform program that we've put in place, and it hasn't been easy. I don't think I said there but we've been through significant reform up till July 96. We started life with 4000 staff in July 96. We are now down below 3000, so we've taken out over a quarter of the staff in the last 2 years and there's going to be another quarter or so to go. That's just in 2 years; that was after significant reform.

That has been achieved without industrial dispute of any significant kind and part of that has been the very compelling argument that when we say to the staff, "Look, you don't have to go along with this reform, you have choices", but recognise that we're now in a completely unprotected deregulated competitive environment

where any operator in Australia can go to our customer and say, "Give FreightCorp the flick - they're clearly not getting on with it - and come and join us." It's hard to argue against the marketplace.

Ultimately it's going to be determined by whether you provide a service that's value for the price you're charging and if you don't get that reform and cost structure under control then you're simply not going to survive and I think pre-corporatisation we used to talk about that a lot but the last couple of years have really brought it home in very stark relief and I guess the rail industry has been late coming to that, versus other industries, but we are certainly catching up in a hell of a hurry I think.

MRS OWENS: Just coming back to separation: I understand that there has for a long time been a Sydney-specific issue relating to freight and passenger trains sharing the same rail network.

MR PEDERSEN: Yes.

MRS OWENS: I'm wondering - you said that your interaction with SRA was minimal - how you deal with those issues relating to joint facilities, joint infrastructure.

MR PEDERSEN: When I refer to minimal interaction with SRA it was from a sort of a management perspective, in terms of knowing what they're doing or what they've achieved and so on. In New South Wales the train control function is in fact carried out by State Rail under contract to Rail Access Corporation, so the day-to-day control of trains in the commuter network in Sydney is managed by State Rail under contract to RAC. We negotiated an access contract which provides for access via certain train paths.

I guess one of the unique things about New South Wales, it's a benefit in that it is standard gauge. The disbenefit is it's the same gauge that freight travels on, that passengers travel on, through what happens to be the most densely populated city in New South Wales with a very significant passenger operation and it just so happens that we've got the western coalfields to the west of Sydney which traverses the metropolitan network, and so as a result we face very significant restrictions in when and how we can operate in Sydney. There's no doubt that imposes a significant cost on us, but that's a fact of life in Sydney.

If you've travelled on the trains in Sydney I'm sure the option or opportunity of seeing a freight train trundling through Parramatta station at 8 o'clock in the morning in amidst all the peak hour passenger trains wouldn't be one that thrilled you, and that's just a reality. There are some separate freight lines in Sydney but there are many where we have to use the same lines that the passenger operators use and as a result we're simply barred from the network in certain times. There are curfews in place when we've simply got to not flight trains into Sydney or stand them aside at significant cost to us, but that's a reality in doing business in Sydney.

The alternative is to build and separate infrastructure for passenger and freight and that's an expensive business in Sydney. There's some work going on at Flemington junction at the moment to separate lines there. There's many hundreds of millions of dollars required to do that, so certainly we feel the impact of the passenger operation. National Rail probably feel it just as much, if not more. So it's the same for any freight operator. The paths are simply not available when the network is saturated with passenger trains.

MRS OWENS: So your main competitor, National Rail, and yourselves both face these problems of getting access to train paths at the times you want them?

MR PEDERSEN: Absolutely.

MRS OWENS: How is it decided who is going to get access when? Is there an auctioning system or is it not so sophisticated?

MR PEDERSEN: No, it's not that sophisticated yet. It basically started with a status quo I guess. We both started lives not in competition. When National Rail was set up they were running interstate freight; when we were set up we were running intrastate freight. We've both got access contracts which provide our current services. Progressively the boundaries are blurring between operators and basically the way it works is if we want to run an interstate train we go to either RAC or ARTC and look for a train path. You can only look for what's available that's not currently being utilised. So there's no auctioning system in place at the moment.

MRS OWENS: Does the system work reasonably well or could it be more efficient?

MR PEDERSEN: I guess it can always be more efficient. It works reasonably well at the moment. As the demand for commuter traffic grows and as events like the Olympics and Easter shows and so on come along then the availability of freight paths gets more difficult and with a limited infrastructure, unless there's investment in additional infrastructure, then it becomes more difficult and your time of operation gets restricted. Hence the need for separation.

MRS OWENS: There's also a potential barrier to entry of other competitors, isn't there, if you've already tied up the existing freight paths and the time slots? It could conceivably be seen as a barrier to entry?

MR PEDERSEN: There are still significant paths available. The question you ask yourself is at what time they are available and to meet what markets, and they vary. If you're trying to get in the overnight service to Melbourne then there's a certain time-frame you're looking to get out of Sydney and vice versa. If you're looking to haul coal from Lithgow then that's different. So it depends on the market you're trying to compete in and the market you're trying to serve, but in any infrastructure there's a defined availability of paths and over time the industry is going to need to come to grips with how it rations those. It hasn't really been an issue to date but it will increasingly be one.

MRS OWENS: You see it as being an issue for the future?

MR PEDERSEN: Yes, absolutely.

MRS OWENS: Should it be an issue for us to consider?

MR PEDERSEN: Yes, I think it's legitimately one that access bodies are generally dealing with and should be looking to deal with. I guess it's also an issue in a vertically integrated operation, if you look beyond New South Wales into Victoria or South Australia or somewhere, or Queensland for that matter. Clearly, the issue becomes more significant when you've got infrastructure being pushed to a stretch point with the volume of traffic. If you don't have constraints on capacity, then it's not an issue.

MRS OWENS: I presume it would be a greater problem here in New South Wales than it might be in some of the other states.

MR PEDERSEN: I suspect so, yes. I'm not totally conversant with the requirements of other states, but certainly, Sydney has got a unique set of circumstances, as I said, you know, the densely trafficked passenger network, and standard gauge being shared with the freight network as well.

MRS OWENS: And the government policy which gives precedence to passenger services? That's right, isn't it?

MR PEDERSEN: Yes, correct.

PROF SCRAFTON: One of our terms of reference, Gary, relates to the impact of rail reform on rural and regional Australia and you already mentioned about your CSO for freightlines and so on.

MR PEDERSEN: Yes.

PROF SCRAFTON: But you also presumably try to develop that rural business, given that grain is an important part. You mentioned, in fact, that your best year was partly a function of the grain crop. When we were talking to you informally, you described a reform that FreightCorp had introduced together with GrainCorp - is it GrainCorp?

MR PEDERSEN: Yes, GrainCorp. Yes.

PROF SCRAFTON: We don't need to take the time now, but I wonder if you'd just give us one page about that sometime, because we found that very interesting at the time, where somehow you were sharing employees in some way.

MR PEDERSEN: Yes. Yes, certainly. It's not quite sharing employees, but let me take you through it. One of the issues in our business, and for any grain business, particularly in New South Wales, is the variability of the harvest. You can go from, you know, 2 years ago when we had the absolute bumper harvest, when we were stretched to breaking point with wagons and crews and so on to do the task, and 2 years before that, we had one of the worst droughts in living memory, so it's very much a boom and bust cycle.

What we have traditionally done is resourced to meet the requirements of the industry and, as a result, there are certain years when you have very significant surplus capacity and that comes at a cost, obviously, whether it's train crews being paid guaranteed payments or wagons which sit around under-utilised or whatever. So one of the things that we've been turning our mind to is how to get a cost structure which is more variable and more related to the variability in the grain harvest. One of the significant costs for us is serving those lightly-used branch lines, where many of the branch lines in New South Wales, the only traffic on them is grain. There is no other general freight, they're such small communities there is no freight to move other than grain and it's seasonal.

One of the initiatives we've taken is we have actually subcontracted GrainCorp, the grain-handling body in New South Wales, to crew our trains on selected of those branch lines.

PROF SCRAFTON: Right.

MR PEDERSEN: So previously what happened, if I can describe it for you, we would run a train out onto a branch line, we would have two crews sitting in a locomotive cab and they would run out a branch line, drop off wagons, come back, pick up wagons, and they'd be sitting there, two crew in a cab, while the GrainCorp crew are filling the train, etcetera. When we looked at it jointly with GrainCorp, one of our co-service providers to the Wheat Board, we looked at how we could do that more efficiently and what we came up with was GrainCorp is very effective at recruiting crew on a seasonal basis, so they don't have full-time employees throughout the whole year. They have a certain number, but they recruit to meet the size of the grain harvest.

The agreement we've come to is that when we get to our main line point, we've designated a couple of locations, we actually hand over our train to the control of GrainCorp, so their people come into the cab and drive the train out. Now, there are no other trains on that line, it's only GrainCorp on that line, so there are no issues of safety or other operators or whatever, they're all duly accredited, and what it means is that (a) they have the benefit of hiring crew as and when they need them; and (b) they can multiskill them with the handling task as well. So we've been able to negotiate a deal with them, where it's cheaper for them, it's cheaper for us and we pass some of the benefits on to the Wheat Board, the end customer, and ourselves, so it's really been a win-win for us. We've made redundant some of our train crew that were

previously out there and not effectively utilised. GrainCorp has picked up some of those, but not all.

As I say, we're trialling that in a couple of areas in New South Wales this harvest and if that's successful, we'll look to extend that, so it's still early days, but we're reasonably confident that it's going to be successful and take a reasonable amount of cost out of the cost of hauling grain, because it's a very important business to us, but it's a very expensive business, given that variability and, you know, rail had traditionally been a very fixed-cost business and so we've been looking at ways of how we can make more variable our cost structure and that's one of the ways we've come up with.

PROF SCRAFTON: Good. Thanks for that. Don't bother with the one pager, it'll be on the transcript. Thank you.

MRS OWENS: I just had one more question. I was just going to ask you about moving some of your operations interstate. I think you said at the outset that that was one of the things you were either proposing to do or you have done.

MR PEDERSEN: Yes.

MRS OWENS: Have you actually gone interstate? Have you set up business in Victoria or Queensland?

MR PEDERSEN: At this point in time, the answer to that is it's still work in progress. There are a number of initiatives under way, but none that I can publicly point to, where services are in operation, but there are a number where we're in active discussions and we expect some announcements in the not too distant future. But, yes, not yet. It's a question of watch this space.

PROF SCRAFTON: Before our inquiry finishes?

MR PEDERSEN: Yes, I hope so.

MRS OWENS: So you'll face some of those problems that others have faced, going into different states, particularly safety - - -

MR PEDERSEN: Yes, we've already faced those. In advance of operating, we've already been in discussions over access and accreditation in other states and found some of the pitfalls around, yes. I guess what that certainly has proven, it's not as simply as buying a truck and heading off interstate. It takes a little longer to negotiate access and accreditation, etcetera.

MRS OWENS: So how long does it take?

MR PEDERSEN: Well, we haven't got there yet.

MRS OWENS: You'll come back and tell us later?

MR PEDERSEN: Yes. You certainly measure it in months and months and months.

PROF SCRAFTON: Gary, I just had one other - it's really a comment more than a question, but somewhere in the many inquiries that your managing director and yourself appeared in, there was a description of why the Malvern to Barton railway was not completed.

MR PEDERSEN: Yes.

PROF SCRAFTON: I was reminded of it when you were talking there about competitive neutrality and difficulties of competing against road. While I thought it was an excellent description, where the core traffic was not going to aspire to the levels that it had been before, I just thought to myself that it wouldn't stop people building a road. You know, that is one of the problems that you're up against, that you have very rigid sort of financial standards and objectives to achieve with railways, but the road industry is not necessarily constrained by the same standards.

MR PEDERSEN: Absolutely. I was somewhat involved with the financial evaluation of interstate rail at the time and at the time, it was considered there were very substantial projections of coal growth in through Port Kembla. For one reason and another they haven't materialised, and with the change of government and a relook at the economics of it, it was shelved. I think perhaps this government or a previous government had said it would build it by contributing X dollars, as long as the private sector funded the rest, and we've seen the impact of that. The line hasn't been built, because the economics are not there if anyone has got to take it on their balance sheet. As an operator, we'd love it to be built. We simply can't afford to pay access for it though, if it's got to be fully recovered by an access provider.

So you're right, it's that issue of rail investment traditionally has been required to be on a balance sheet and to be commercially justified with a full rate of return and, you know, I guess that's why there haven't been many rail lines built recently.

PROF SCRAFTON: Yes.

MR PEDERSEN: And you can draw your own conclusions about what might be built in the future, if they're solely built on economic - or financial terms, I should say.

PROF SCRAFTON: Thanks. Are you going to ask David if he has anything to add?

MRS OWENS: I was going to ask both of you. We've probably run out of questions at this stage. Is there anything else that either of you would like to say before we close for afternoon tea?

MR ATTLEE: No. I think we've pretty much addressed the issues.

MR PEDERSEN: I thank you for the opportunity to talk to you, and I hope you've found it useful. Maybe if I sum up, I think we've said this, and I think we've demonstrated the very significant reform that's taken place in FreightCorp and its predecessors. I hope we've demonstrated we're proud of those achievements, but there's still a long way to go.

The single biggest issue from our perspective is the need for a consistent and equitable approach to land transport in Australia. There's a place for rail, there's a place for road, there's no doubt about that, and the two modes are not always directly in competition and I think if we have one suggestion the inquiry might come to, it's a suggestion that at least put in place a framework to once and for all resolve this interminable debate about rail versus road, efficiency v subsidisation, etcetera, and I think the opportunity is right to do that and I guess that's what we'd commend to you, to address that. It's not a very simple task, but an admirable one, I think.

PROF SCRAFTON: Thanks.

MRS OWENS: It's not simple, but we certainly will have a look at it, so thanks very much, Mr Pedersen and Mr Attlee, for coming today.

MRS OWENS: Our next participant this afternoon is the Rail Equity and Finance Group. Would you like to give us your name and your affiliation for the purposes of the transcript.

MR GIBBS: My name is Ian Gibbs. I'm a director of the Rail Equity and Finance Group. The Rail Equity and Finance Group is a member of the RAA. It was set up about 2 years ago to specialise in providing financing structures to the rail industry, particularly since it has been privatised and to assist all the new private rail operators, to provide them with finance to allow them to compete in the national rail network. My background is banking through various years of international banks. I set up this company specifically to look at the opportunities within the rail industry and to assist not only rail operators but rail maintenance providers and also equipment suppliers within the rail industry.

MRS OWENS: Thank you very much, Mr Gibbs. I think one of the important issues for our inquiry is this whole issue of privatisation within Australia, and there has been a significant shift in the direction of privatising national railway lines and also other private operators coming into the business, and I think one issue that comes out of that is whether there is a problem with availability of capital in a country like Australia. Is there some resistance to lending to these entities or for taking equity in private rail companies in Australia?

MR GIBBS: The short answer to that is yes. At this moment a lot of the trading banks and asset-based financial institutions in Australia, whether they be domestic or international, don't really have a grasp on the rolling stock or locomotive assets and what their true values are. We've found in all different sorts of situations, where we've gone out in the marketplace and tried to set some financing for up and coming rail operators, that the major banks or institutions were finding it very difficult to understand the value of a locomotive compared to say a front-end loader in the mining industry. They seemed to be very comfortable with things like the equipment in the mining industry but with rail they find it very difficult to understand the overall asset value of the rail equipment, plus also its residual value, which is also a very important factor in any structuring of finance.

So what we have done is been able to source one or two domestic suppliers of finance but also some US-based financial institutions who are willing to look at Australia as a safe investment opportunity to develop their portfolio of rail assets worldwide. We find that they are more aggressive in the marketplace, to understand and to be able to fund some of these smaller rail operators who are wanting to develop their operations in Australia.

MRS OWENS: You said they see Australia as being a safe environment but at the moment there is still a considerable amount of flux and change going on in this sector and, I would argue, some degree of uncertainty about the future. Each state is doing something a bit different. There's the potential for a significant shake-out at some new stage. There are a number of new competitors coming into the market but then

we hear - and you probably heard at the conference yesterday that we weren't at - that there's a potential for a shake-out so that there's one or two key or main operators in freight, for example. So it's very much a changing environment at the moment. Does that have an impact on those US bankers?

MR GIBBS: Not really. The way we see, as they say in the industry, the worm is turning all the time. We see deregulation allowing a number of small private rail operators trying to compete in the freight or the passenger rail business. They will most probably get to a certain critical mass in their development through their own internal funding or equity or friendly bankers, and I would assume that in the next 2 or 3 years that they will be gobbled up by some of the bigger freight operators because they will reach a certain stage in their competitiveness that they will start taking market share from the larger freight operators like FreightCorp and National Rail, etcetera.

I would say in the future they would be taken over by some of those bigger groups. But might I say also that the rail industry is so diversified in terms of what it can offer - and we've been looking at a number of opportunities with smaller freight operators who provide branch line operations or specialist work for the main line operators, whether they be in the transportation of freight from regional centres or providing ballast trains for rail maintenance providers. They're the sort of things we can see as a real niche market for investors to get into the marketplace, whereby we're helping to assist the overall industry by developing niche markets within the industry.

MRS OWENS: Are you interested in investing in below track or is it mainly in freight operations?

MR GIBBS: We're a bit unsure with below track about who owns what in the industry when we see various things happening within the various states. New South Wales, Victoria, Western Australia and Queensland have been saying a few things but we're not too sure how or what security we're going to have if we invest in below track infrastructure. That's a real grey area for us right now - to determine what is the true value and what is the true asset that we have as a below-rail sort of infrastructure. We would like to sound out the various owners of the current rail infrastructures to work out whether there is an opportunity for equity investors to come into the marketplace and be able to earn a yield on their investment in below-rail infrastructure.

MRS OWENS: What sort of yield would you have to earn on that investment?

MR GIBBS: Well, a ballpark figure would be an internal rate of return of between 10 and 11 per cent over say a 10-period. That's what they're looking for.

MRS OWENS: If you were approached by an operator to work in New South Wales and just operate a freight business on one of these branch lines and you had the choice between that operator and an operator who wanted to set up in South

Australia or Western Australia where there's the potential for a vertically integrated operation, which way would you prefer to go?

MR GIBBS: Well, we'd have to look at all of the various fundamentals and the parameters which affect that particular branch line operator. But take for instance the Riverina district right now where there's a branch line operator working there. They're doing very, very well; because of the amount of opportunities that occur there. In other states we would look also very carefully at that. There is a similar situation with V/Line Freight with the amount of freight that they haul down from the various branch lines into Melbourne. There's an opportunity there for potentially a branch line operator to work there. In Western Australia the same thing happens. With all the wheat trains coming in from the various outlying regional areas, there's an opportunity there. If Westrail was deregulated or privatised there's an opportunity there for a branch line operator to work those as well.

So those opportunities we can see right across Australia as just being able to grasp the nettle in terms of understanding whether we can get a definitive yield on our investment, what are our assets with above and below rail, and be able to turn it so that we see the rail operator has good management, has good equipment, that it will run reliably over say a 10-year period. All those sort of parameters we have to look at very carefully to make sure that particular branch line operator will provide the service that is required and also provide the service to the main line freight operators.

We have to look at it that Australia is very much behind the world in its rail investment and rail technology. If you look at the US whereby you have a number of main line operators and then there is a whole lot of other branch line operators who both own the rolling stock as well as the below rail infrastructure - and I think we may be tending to go that way. I hope we do because it gives you a lot more competition, it has a lot more freedom of choice for the end-user to develop his product and to make sure his product is delivered from A to B at the best price and on time. I think that's the way we should go.

PROF SCRAFTON: Could I ask you, Ian, is the market developing reasonably quickly or is it a slow process? Are there a small number of players like yourself?

MR GIBBS: Well, in my industry, the financing industry, there's only myself as a small arranger or investor-type person or group, so the major companies or bankers that I know are out there now are Macquarie Bank, Deutsche Bank and BT. They are about the only ones that I know which are forming consortiums or are very interested in developing an investment in rail assets. They're looking at the big ticket items like looking at the sale of V/Line Freight, National Rail and Westrail.

MRS OWENS: Are you looking at the big ticket items?

MR GIBBS: No, we're staying away that. We find that anything above \$50-odd million is a bit too big for us. We feel that we can operate our niche financing service to various operators between half a million up to \$50 million

investment. That's our niche market that we look at. But again we'll look at situations whereby if it's higher than that we may syndicate with other banks to bring in the investment expertise and the dollars to support a project like that because apart from anything else the rail industry is very capital intensive and that's why it lends itself very easily for people like us to come in there and provide the finance, subject to good management, good equipment and good contracts to service that equipment.

In the past, because it has all been through rail authorities owned by governments, there was no need for commercial funding, so what we're doing now is looking at the opportunities and saying, "Here is a commercial orientated financial institution or group who is willing to get out there and put their dollars on the line and say yes, we will invest in the rail industry because we think it's a good industry, we think it's going to develop, we think it's going to become world's best practice eventually and we feel there's an opportunity for people like us to invest in a good industry which is sound."

It's coming out of the dark ages from being under the government's wings for so many years and now it's starting to have a bit more of a commercial reality to it. That's where we think it's going to lead to and that's where we would like to seek out our opportunities with various groups; whether it be with some of the bigger boys like FreightCorp and Queensland Rail and V/Line Freight, or some of the smaller operators like Great Northern, Austrac, Northern Rivers, and all those sort of groups who are just starting to sort of build their expertise, their management and their assets. So that's where we're coming from.

PROF SCRAFTON: One of the problems that some of these small operators have put to us informally - not in hearings as yet although we do believe that one or two of them will appear before us - is it's a terribly protracted process from their point of view in the sense of getting all the accreditation that they need, going through the access regime and so on. Does that cause you a problem or is it a help in terms of providing time to put the financial package together?

MR GIBBS: It has been a waiting game for us. I've been involved in this industry for about 2 and a half years now and I've been waiting for the new operators to come on board and to develop and source new contracts and to be able to acquire equipment so that they can get out there and compete. Accreditation has been a long and slow and drawn out process, but the companies now which do have accreditation to me do have a real advantage and a real leverage now against any other potential group who wants to get out there and provides a rail service. Their accreditation is long and laborious and will stymie any new incoming group who wants to become a rail operator. So the ones which are there now and have their rail accreditation I think have a great leverage, and in our terms we think that's an asset itself - the accreditation that they've got.

MRS OWENS: But what happens if you want to actually support one of these new ones that wants to enter the market? Then you've got these others acting as a bit of a barrier to entry. I mean it could work either way for you, couldn't it?

MR GIBBS: Yes. We're there just to assist, we're not there to try and guide them or to try and sort of influence their accreditation. We just feel that the ones who have accreditation now have a very good opportunity to develop, if they have the right contacts, the right opportunities that come their way. Maybe some of the majors will fall by the wayside because they haven't reached that critical mass within a certain period of time. They'll fall by the wayside and become tourist train operators, maybe. I don't know. There's all sorts of things that may happen to these people.

But if they're prudent enough and they're good enough in their management and they have the right sort of assets behind them, we'll come in and back them as financiers, because we know the value of the rail assets is now becoming quite relevant and a number of banks do not understand the value of rail assets, particularly locomotives, whereby you could pick up a locomotive last year for \$10,000 - in a pretty poor shape but you could spend \$150,000 on it and get it back into accreditation and run it, earning an income. To me, that is a marvellous situation to be in and that is what a lot of smaller operators have done and that's why they have such a good leverage now, because a lot of the old rolling stock or locomotives have all been picked up now and some of them have been refurbished and they're out there now earning dollars through revenue.

Our biggest fear, I think, is that when National Rail gets privatised or FreightCorp gets privatised - they're holding back on a lot of locomotives and rolling stock right now and they have just garnisheed all of them or they have just put them aside and we're waiting for the time when all that is going to come onto the open market, if at all, so there is a problem there.

MRS OWENS: Could that diminish the value of the existing rolling stock?

MR GIBBS: Yes, it does. It is a rarity if you can find a 2000 or 3000-horsepower locomotive in reasonably good condition. They are a very rare to find and obviously they range from \$10,000 up to 1.5 million now, to buy a reasonable 3000-horsepower locomotive, and once there is a flood of other locomotives come onto the marketplace obviously the resale value will go down on the other ones. This is the whole thing about competition: there is so much equipment out there available to be used by other rail operators but it is all being held back by the big boys because they feel or fear that if it was on the open market that would be in direct competition to them and so they would lose market share.

MRS OWENS: And they are trying to increase their value?

MR GIBBS: Exactly, so it is a bit of a catch-22 situation.

PROF SCRAFTON: It is a bit of a worry, isn't it, when most of those locomotives were bought by the taxpayer and that government organisations are in effect holding them back from productive service?

MR GIBBS: Exactly. It is a bee in our bonnet and it is a fear of ours because if we start to invest in the marketplace with rail operators and we put a value on certain pieces of equipment, in 5 years or 10 years' time what is that value going to be if they let all this other equipment back onto the market? This has been the biggest fear of a lot of people in the market, whereby they can't get locomotive power and they say, "Well, what do we do? Do we buy a new locomotive for 3½ to 4 million dollars?" That is what they cost these days, each, and so if they do that what is going to happen in 2 years' time when National Rail gets privatised, say, and there is a flood of locomotive power on the marketplace?

So everybody is sort of hanging around thinking, "Well, what's going to happen?" and they need a bit more direction, a few more guidelines, from either the government or the ARA to be able to determine what is going to happen in the future. But a lot of rail operators don't know so they're just hanging around or teetering around on the edge to try and work out which way they are going to go in the future; how big do they expand; how big do they invest in the rail industry, because these things are hanging around; like the National Rail sell-off of V/Line Freight, etcetera.

I would assume that once V/Line Freight is sold it will be a lot clearer to a lot of rail operators what is going to happen in the future, because then they will see who owns what within V/Line Freight and see how it all sort of pans out and I think we will have better idea as an industry, whether it be from our point of view, from a financing point of view or from a rail-operator point of view. Yes, once the V/Line Freight is sold a lot of people will have a bit more understanding of how things are going to work out in the near term.

MRS OWENS: I would like to just come back to the point we were talking about a bit earlier when you talked about the US investors seeing Australia as being safe, and I mentioned there is possibly a degree of uncertainty at the moment and you have just raised the issue of the risk associated with the rolling stock and these locomotives at some stage coming back into operation.

MR GIBBS: Yes.

MRS OWENS: There are other risk factors, as well. There is the risk factors associated with the operator getting access to the track; there is the risk associated with the access provider actually keeping the track up to scratch and maintaining the track at appropriate levels. There is the risk of other competition, unforeseen at the moment, coming in in future and there is also the risk of whoever is going to come in and take over the big boys, National Rail and Westrail and V/Line Freight, so there are a lot of factors you're having to consider, aren't there?

MR GIBBS: There are from a financing point of view, where we have to look at not only the wherewithal, the credit worthiness of the actual company itself, but we have to look at the industry as a whole and see what other risks there are; whether it be the equipment risk, access risk, ownership risk. All those things have to be evaluated by ourselves to determine whether we, as a financier, are going to get our

money back plus a yield, or whether our client is going to get steamrolled or bankrupt because they don't have good access, the track is in a bad condition and they can't get service for their clients. All those sorts of things have to be assessed.

Rail access pricing is also a big issue in terms of how much it is going to cost per kilometre to try and work out whether it is economically feasible to run a train from Sydney to Melbourne using the current rail access regimes. They are the sorts of things we have to look at as well.

MRS OWENS: Yes.

MR GIBBS: But we feel that the RAC is doing a reasonably good job and they're trying to determine what is fair and reasonable and that is what we're working on as well. We hope there are other commercially orientated people in those higher places who can understand that if they don't get it right or they don't work it out it is going to cause a huge number of problems, not only from the point of view of infrastructure, but servicing clients, and also from the financier's point of view; that they will most probably say, "Okay, we've done our dough here but we won't come back into it again because of the lack of good management with the various corporations or semi-government institutions who run these things."

So we do have a lot of risks but we feel that this is a growing industry; we feel that the people who can make those decisions and have those guidelines - we will give them the benefit of the doubt, you might say, and let them work through that and we will monitor it very, very carefully. If we feel there is a problem or we feel that they are not coming up to speed in terms of their right access pricing or the infrastructure or maintenance, we will have to evaluate that and work out whether we stay in the marketplace or not. At this stage we are keen to develop assets. Our portfolio here in Australia is based on what we have seen so far. If everything falls through here in Australia we know we have an asset like a locomotive, and we may be able to sell it again overseas, back to America or back into Asia or somewhere else, so there are always opportunities to sell it offshore.

MRS OWENS: Yes. So when you are valuing that asset you look at the alternative uses or what you can get at an offshore market.

MR GIBBS: Yes, that's right, whether it be back in Asia or into America or South America, so we do take that into consideration if things don't work out here in Australia.

MRS OWENS: You are not necessarily factoring in the government stepping in and providing a subsidy to the operation at some stage?

MR GIBBS: We often wonder about the so-called subsidies or CSOs and how that all works and it is all very enlightening stuff now in regards to the sale of the other business units of V/Line being - or the two trams and trains and V/Line passenger - they all have CSOs within them and it would be interesting to see how a potential

bidder bids a price for those assets, or those business units, knowing whether they should take on the CSOs or should they be diminished or should they be increased or whatever.

I think the government has a moral responsibility to assist new private rail operators who purchase these various assets to assist them as much as they can to make it as commercial for them, as well, so I think there is a very strong responsibility for the state governments or the federal government to keep the CSOs going for as long as it takes to get a new owner of the business up and running and be able to provide them with a yield that they want or which is within commercial reasons.

PROF SCRAFTON: Maybe a contract which declines over a period of years to zero at year 5, or whatever.

MR GIBBS: Yes, let's say a CSO starting at 30 per cent in the first year and going down to zero after 5 years - something like that - so that it provides the incoming owner the incentive to build up his business, refurbish his assets so that they become more serviceable, more reliable and, as that happens, he will begin to create more cash flow through a better service to the customers - to the people of New South Wales or Victoria. I think the government should look at staggering those CSOs downwards over a period of time.

PROF SCRAFTON: Also we just heard from the FreightCorp people that they still have CSOs for country freight and presumably those CSOs should be contestable, too.

MR GIBBS: They should be contestable and also if a new operator wants to run that type of business in competition with someone like FreightCorp that they should have access to those same CSOs and so it should be - - -

PROF SCRAFTON: Tendering - - -

MR GIBBS: - - - a totally transparent situation.

MRS OWENS: But those sort of CSOs may or may not be appropriate for those CSOs to reduce to zero. I understand from the discussion we had with FreightCorp before afternoon tea that those CSOs are there because of the variability in the grain harvest and they are there propping up some small unviable grain lines - - -

MR GIBBS: Yes, well, I agree with that.

MRS OWENS: - - - and maybe you need those CSOs to continue on an ongoing basis.

MR GIBBS: Yes, I don't disagree with that. That is what they are there for. A community service obligation is what they say, but it shouldn't be used, I don't think, in a competitive nature to outbid an incoming competitor, because FreightCorp has

been there for the last 50-odd years doing the same thing and earning the CSOs from the government, and I think there should be a transparent policy there that any incoming competitor should be able to be awarded the same CSOs, because a lot of us don't even know what those CSOs are on specific tracks or specific branch lines. We don't know what they are. They are not transparent. How can a new operator bid against someone like FreightCorp, who really doesn't know the value of those CSOs within the structure of FreightCorp on that particular line?

PROF SCRAFTON: That is a useful comment and something that we can ask the DOT about when they appear before us because they are the people who give those contracts and, according to FreightCorp, they are given on a service-by-service basis; it is not supposed to be a blanket amount of money. Anyway, we will see.

MR GIBBS: If it is on a service basis, well and good. Let that be transparent so that if someone else wants to come in there with a lower cost base because their overhead costs are different to FreightCorp, let them bid, knowing that what they get is exactly the same as what FreightCorp gets, so that a fair level of competition can occur. We look at a situation where the jewel in the crown for FreightCorp is the Hunter Valley and the coal industry. There are so many competitors up there who want to get into that area but, again, to develop an operation up there they would need so many locomotives and so many coal wagons, so the investment is huge. They want to know that they are going to compete; that the actual pricing of it is competitive and that they know what those CSOs are and they know that the government will allow a fair bidding process to occur.

I don't think it is right at the present stage because of lot of these incumbent operators have the fear of God put into them now because of this privatisation but if they work it well and work it properly they are in the box seat. They have got all the assets, they have got all the expertise and, if they do it well, they should become still the incumbent operator. If they understand the marketplace they may allow a smaller operator to come in there and start taking a market share but if they do it well they could easily just make a bid for that company and get them out of the marketplace.

But we just need a bit more of an open regime, a bit more of a transparent regime, with the whole thing and with rail access pricing as well. I think we should have gone down the road of the South Australian rail access regime, which was a very open and transparent regime, where the pricing was known and you could calculate what the pricing was. Here in New South Wales it's not transparent.

MRS OWENS: I think we've just about finished.

MR GIBBS: Good. I hope it's of some benefit to you, coming from a completely commercial viewpoint or orientation, more so than from being an incumbent group that has been involved in the industry for 30 or 40 years. I mean, we are seeing a cultural change within the rail industry, but it's going to be slow and it's going to be long-winded. It will happen, but it's just we have to be patient within the industry, because there's a lot of baggage there, if you want to call it that, and there's a lot of

cultural sort of understanding that, you know, once you had a job in the railways, you had a job for life type situation. All those sort of things have to be relearned or re-educated, that the whole industry is becoming more commercial.

It's all about servicing the end user and the end user knows what he wants to pay and if he's going to pay that, you have to try and service those needs from an end user point of view. You can't say to the end user, "Well, we are the incumbent rail operator. This is our price. If you don't want to go with it, it's up you" type of thing. They would most probably go back to road. So this is a wonderful opportunity for rail to now really compete with road by having a number of other operators come in there and start competing. It not only gets the incumbent rail operators, but against road, and I think that's where the intriguing nature of rail is right now, to develop not only its business and expand its competitiveness, not only with other rail operators, but against road, to try and develop that. We see that happening a lot in the near future.

PROF SCRAFTON: I think what has been particularly interesting hearing from you is the way in which you support the smaller niche operators.

MR GIBBS: We see that the biggest operators - well, in the past, they could easily go to the New South Wales treasury and say, "Okay, we want \$150 million to buy new rolling stock" and they would go, "Okay. Well, we'll do that at 4½ per cent." We can't compete against that.

PROF SCRAFTON: No, that's right.

MR GIBBS: If you go into the treasury market, there's no way we can compete. But with the smaller operators we can compete, and we do very very well because we understand the market and we understand the value of rail assets, more so than the traditional banks. We see that the smaller operators not only need good management and good skills and good opportunities but they need funds as well. We've funded a number of them now and we feel that, by doing that they've gone from a small minnow of a company to something which has exponentially grown within 12 to 18 months since privatisation.

So we are helping the industry, very much so, and we understand the industry and that's why we're in it, because we see there are great opportunities for the small operators to become niche market players. We don't want them to be another FreightCorp or another V/Line freight. We want them to become niche market players with balance sheets of say \$50 million-odd, of revenues of 20 to 30 million dollars, and playing a niche market role to service the companies like National Rail, FreightCorp, to help them become better at what they do and to help them to become more competitive against road. That's where we see the market is.

PROF SCRAFTON: Great. Thanks for that.

MRS OWENS: So you're reasonably optimistic about the future?

MR GIBBS: Yes. I'm reasonably optimistic about the future, if we can all get together and say, "Okay, we need better management of the rail industry and we need better understanding of rail access regimes, we need better understanding of how we can upgrade our track, our below-rail track, so that the rail operators can provide a better service to the end users." Now, that's where we're coming from. It's the end user now who is controlling what is going on and that's the way it should be. The demand is from the end user and the end user says, "Well, this is what I want," and therefore the rail industry has to comply.

MRS OWENS: So it's not about running trains any more, it's about providing services.

MR GIBBS: Providing a service to the end user. Now, whether those end users are freight forward companies, whether they're big transport groups or whether they're farmer Joe out there out there near Bellingham, all those sort of things are all the same. They are end users who need a service. That's where we see the market going and we're happy to provide our service, which is in the financing side, to rail operators who are going to give it a go, who have got a good contract with say the Rice Growers Association or whatever, and they've got a 5-year contract. They don't have the money to fund new rolling stock. Well, we'll provide them with the funds so they can go out there and purchase rolling stock.

The other interesting thing about rolling stock is that we've seen so many opportunities lost by some smaller operators because they can't get rolling stock or locomotives because someone like a rice grower says, "Okay, we want you to start in 2 months' time, there's a window of opportunity there for you," and they say, "Well, we'd like to, but we haven't got rolling stock" because all the rolling stock has been hidden away by the big boys or, if you want to try and import it from overseas, it takes you 6 months sometimes to import it from overseas, at a cost.

MRS OWENS: At a huge cost, I would imagine.

MR GIBBS: So this is the problem. We know that the equipment is available, but it's just being sort of squandered away so that no-one can actually have access to it and that really annoys us a bit, that there is the equipment and the assets there to be made available, but they're not because of, I don't know, some sort of insecurity within the various corporations who own those assets, which as you said before were paid for by taxpayers' money, which is a very valid point. So we have to play a very very fine line here, but we understand that that's the way the market is and we'll invest cautiously and prudently within the market. But we feel that there is a good opportunity for small operators to develop their niche markets, whether they're in freight or in passenger or in providing maintenance services to the main contractors. Hopefully, that has answered some of your queries and given you some sort of food for thought.

MRS OWENS: It has. We don't want you to get any more hoarse than you already are, so I'd like to thank you very much, Mr Gibbs.

MR GIBBS: My pleasure.

MRS OWENS: I think that was a very useful discussion for us. It's another perspective that we haven't had before.

MR GIBBS: Well, it comes from a completely commercial, completely outsider's point of view, where my background is not in the rail industry, it's in the finance industry. We are seeing it from outside, ourselves, and we see a lot of things going on, we see a lot of good things and we see a lot of very frustrating things happening within the industry, and from our point of view we hope that we can provide the service that will enable it to expand and develop and create a best-practice industry within the next 5 years. That's what we hope.

MRS OWENS: We would like to do another inquiry in 5 years' time and have you back and see what's happened in the interim. I think things will move and I think they'll move quite quickly.

MR GIBBS: We hope so. As I said, now we're seeing V/Line Freight and a whole lot of Victorian rail assets being sold, it's going to be a different industry once that all is bedded down. And who is going to own V/Line Freight? No-one knows right now, but that's going to be very interesting. Will it be an incumbent rail operator here in Australia? Will it be a UK or European operator or a US operator?

MRS OWENS: Yes. The game could change overnight.

MR GIBBS: It can change just like that, and good luck to it. We're hoping that it's going to happen, because we've got our fingers in some of those pies and we think, "Well, okay, if they do that, then we'll be in there to help them to try and finance it," so it's a real juggling game right now, so it's very interesting times.

MRS OWENS: Very exciting.

MR GIBBS: Yes, it is very interesting. I enjoy it. Thank you very much.

MRS OWENS: Thank you very much. That concludes today's hearing and we will resume tomorrow morning here at 9.30, on Wednesday, 28 October. Thank you.

AT 5.08 PM THE INQUIRY WAS ADJOURNED UNTIL
WEDNESDAY, 28 OCTOBER 1998

INDEX

| | <u>Page</u> |
|---|-------------|
| PHILIP GLENCOE LAIRD: | 136-157 |
| BETTER CITIES ILLAWARRA: PHILIP GLENCOE LAIRD | 158-162 |
| RAILWAY TECHNICAL SOCIETY OF AUSTRALIA: CHRIS VENN-BROWN | 163-181 |
| BICYCLE FEDERATION OF AUSTRALIA: BRONWYN LAING | 182-193 |
| FREIGHTCORP: GARY PEDERSEN DAVID ATTLEE | 194-220 |
| RAIL EQUITY AND FINANCE GROUP: IAN GIBBS | 221-232 |