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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 ADELAIDE ON WEDNESDAY, 21 OCTOBER 1998, AT 9.30 AM

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 Adelaide is the first of five sets of hearings. The others are scheduled for the next 3 weeks in Perth, Sydney, Brisbane and Melbourne. The hearings are designed for people to raise issues they feel affect this industry. They give people the opportunity to provide input into the draft report which is due to be released early in April next year. These hearings are in addition to the extensive round of visits already undertaken by the commission and the 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, despite the microphones. However, there are some formalities which we try to follow each time we conduct a public hearing. First, for the benefit of the transcript we ask participants to introduce themselves and to indicate in which capacity they appear. I will 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 you may say, then would you please tell us that you're not absolutely certain and then we will try to come back and get it verified one way or the other later.

Finally, transcripts from today's hearings 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 today, and they will be only too pleased to assist you. They are wearing name tags to identify themselves.

Let me introduce my colleague on the left, Prof Derek Scrafton, who is the associate commissioner on this inquiry. I think probably now we should get started, and I wonder if you would like to introduce yourselves and your organisation so that the court reporter can identify your voices on the tape.

MR CARTER: Mark Carter, Chair, Rail 2000 Inc.

MR LANDER: Frank Lander, project officer for Rail 2000.

MRS OWENS: Thanks to you both very much for coming. As you know, we don't have a submission from you, but we do have access to the submission you made to the parliament inquiry earlier, so we have read that. What I'd like to do at this stage is ask you to raise any comments that you wish to, but at the outset I'd be interested in knowing a little bit more about your organisation and who you're representing. I am also interested if you have got any comments about the Neville report which was released recently, and your views on what's happened since that report was released.

MR CARTER: I have prepared a brief opening statement that I would like to read into the record.

MRS OWENS: Thank you.

MR CARTER: Before I start that, Rail 2000 is an incorporated body incorporated in South Australia. It was formed in 1989 to lobby for a better deal for the rail industry in Australia. We have 250 members, 150 individual members who come from all walks of life, just general members of the public who are interested in rail issues - contemporary rail issues, that is - and independent consultants, railway workers, quite a diverse range of individuals, and we have 100 corporate members again who come from all aspects of the rail industry including a number of overseas members as well.

The mainstay of the organisation has engaged in lobbying/consultancy for the rail industry and publishes a well-respected newsletter, Rail Directions, on a monthly basis that provides analysis and comment on issues pertinent to the rail industry during this period of enormous change. We are based in Adelaide. We have a very small staff. We don't receive any government funding, and basically we are reliant on membership income and income from organising rail industry conferences for our survival.

Rail 2000 thanks the commission for providing the time today for our organisation to give evidence at this public hearing. Due to time constraints and other calls upon our resources unfortunately we have been unable to provide a written submission to the inquiry at this stage, but hope through our presence here today to be able to answer any questions you might have of us.

I believe that this inquiry has already considered those submissions made to the recently completed House of Reps inquiry into the role of rail, and we are of course happy to answer any questions relating to our submission to that inquiry. We are also happy to answer questions that go beyond the scope of the Neville inquiry or our submission to that inquiry.

Where to begin? In the face of adversity the rail freight industry in Australia has managed to achieve substantial productivity gains. The Australasian Railway Association estimates an increase in productivity per employee of 200 per cent over the last decade. This is despite generally poor levels of investment in rolling stock and particularly in infrastructure for the industry.

If progress in rail reform is seen to have stalled or is not proceeding at a fast enough pace for our political masters, then Rail 2000 would argue that by and large it is not the fault of the rail systems themselves, but the rather haphazard and laissez-faire approach to rail reform currently being practised by federal and state governments. The fragmented approach to accreditation and rail safety, while guided by a universally agreed set of principles, does not seem to be making life any easier for new rail operators. Similarly, open access to the rail network, if this is the desired intent of governments, is simply just not working. This is either as a result of Claytons Access Regime being promulgated in some

states or unnecessarily cumbersome regimes in others.

Nationally, the number of private operators excluding the purchasers of the former AN businesses, the number of private operators that have taken to the rails under their own access agreements in the last 2 years we believe is one. Additionally, no-one is going to substantially invest in new locomotives and rolling stock until they feel comfortable over certainty in areas such as access arrangements and in future levels of government infrastructure investment. In addition, a large quantity of taxpayer-funded rail assets that could see new operators on the rails or existing operators increase their business is being tied up by the existing government operators.

There are also a few other issues I would like to bring to the inquiry's attention today, some of which follow on from the above. There needs to be an acknowledgment of rail's improved performance despite low investment levels. Once and for all, urban and passenger rail deficits must be clearly separated from any remaining freight deficits. The issue of hoarding of locomotives and rolling stock and the use of redundant infrastructure needs to be addressed.

Competitive neutrality issues between modes, especially the need for a more appropriate road charging regime for heavy vehicles and consideration of externalities must be addressed. There is a need to identify the appropriate track ownership structure for the future. I don't believe that at this stage we have reached that stage. This should take into consideration some integration of the interstate and intrastate rail functions.

Finally, if I may be so bold, the finding of this inquiry needs to be presented to government in such a way that in the final analysis it carries more weight than similar inquiries in the past. Otherwise I would suggest that we are wasting our time sitting here today. Looking back over a number of government inquiries into the road and rail industries, it is remarkable how many times the same recommendations are made, yet nothing seems to be done. The Industry Commission report of 1991 into the rail industry, as an example, recommended a move towards a more realistic road user charging system for heavy vehicles to level the playing field.

Despite the National Road Transport Commission acknowledging a user pays charging regime is appropriate, we are still many years off from such a system being introduced in Australia. That same inquiry recommended a form of universal accreditation and training for all rail employees. In 1998, 7 years later, the Neville inquiry had to make a similar recommendation because nothing had been done in the interim.

Perhaps most of all the need for a more integrated approach to road and rail funding priorities that has been called for ad nauseam in recent years has not yet been genuinely addressed. Despite some initial moves in this direction through the formation of the National Transport Council there seems to have been very

little progress in this area, and certainly the bureaucratic framework for such assessments does not exist. Thank you for your time today.

MRS OWENS: Thank you very much, Mark, and I think the last comment you made about the lack of progress in some areas might be a good place to start. As you are no doubt aware, there has been a process in place through the standing committee on transport, and the rail group has established a number of task groups looking at a whole range of issues including the issues of private investment, accident reporting, looking at upgrading the interstate network and monitoring its progress, competitive neutrality and so on. You are not optimistic that that process is going to achieve the right sorts of outcomes?

MR CARTER: We certainly wouldn't be critical of that process. I suppose my introductory remarks perhaps were overly pessimistic and I should have acknowledged, as I believe we did in our submission to the Neville inquiry, that there has been almost a quantum leap in some areas of rail reform as far as the Maunsell inquiry and harmonisation of standards, but I think that there are a number of larger - it's more than just playing around the edges, but it's certainly not substantial enough to lift the rail industry to a point where it fulfils its appropriate role in the transport system in Australia.

It's all very well for a committee to review the standards for the interstate track and to look at options for private investment in that track and to sort of identify those areas where attention is needed most, but unless the money is forthcoming and unless the appropriate policy framework is there, really that will come to nothing. It certainly won't make a huge difference to the fortunes of rail. I think if we go to the old chestnut of investment and the Neville inquiry - we would not disagree with the findings of the Neville inquiry as far as infrastructure investment goes; that is a reasonable assessment of the state of the rail infrastructure.

It's not a case of whether or not governments should or should not or do or do not have a responsibility to put that funding into the infrastructure; the fact is that because of years of neglect there is an enormous backlog of work, and there is an enormous need for catch-up investment, and the only place that is going to come from is the federal government. There is nowhere else that that is going to come from.

MRS OWENS: Can I ask why the federal government? Why not the state governments? Why not local governments? Why not the private sector?

MR CARTER: That's fair comment. I probably wouldn't argue with that. I think that certainly in somewhere like New South Wales there certainly is a case for the state government to put some funding into the network, seeing their somewhat recalcitrant attitude to being part of the national interstate rail network. At the same time there needs to be this - it's quite a complex equation here as to where the funding should come from, and who has responsibility. I mentioned in my opening remarks this need to balance. There is an awful lot of focus on the interstate rail transport task, which from purely a tonnage point of view is pretty small in the greater scheme

of things. From a net tonne kilometre point of view it's a huge task as part of the overall share of rail's overall task.

The question is, how do you achieve that balance? The problem we have seen with the focus on the interstate is almost the neglect of the intrastate, and I'm not saying we have the answers but there is an argument that if you have got grain at the end of a rail line in Victoria, a silo, and that's being exported, surely that is just as important as a container of goods that is going to be exported through Sydney or Perth. Then you get this clouding of who is responsible. Is it the states or is it the federal government? At this stage the funding for that grain line in Victoria purely comes from either revenues or from the state government, but surely the commodity we are carrying on that line is just as important as a container of cars or something that is going to Perth for export. So who is responsible for funding for that infrastructure?

MRS OWENS: I think that's the critical question, because there are these proposals around to spend a lot of money on the rail system. You know, there are two different directions that these proposals are going; one is to - as in the Neville inquiry - argue that a significant amount of money, \$3 billion or whatever, should be spent on upgrading the infrastructure, and then there are a number of other proposals around to develop totally new rail lines like the Alice Springs-Darwin line, which I know Mr Lander is involved in, and Melbourne to Darwin and so on. I wonder whether it's an either/or or do we, as a community, expect that it's all going to get done. That's why I wonder about the role of the Commonwealth government in this.

MR LANDER: If I could comment on the role of the private sector in rail investment, it's interesting that the road transport industry is not required to invest in roads. Roads are essentially provided for it and certainly it makes a contribution then towards the upkeep of those roads via its registration fees and fuel tax and so on, but it is not required to bear the risk of an up-front investment in its road infrastructure. It is provided for it. What we are saying for railways is that if you want a railway then not only do you have to pay for it as you go, but you have to bear the up-front risk for it. That is a very unlevel playing field in those terms we believe.

MRS OWENS: I haven't actually argued that the private sector should bear the up-front risk. I'm asking the question whose responsibility is it. But having said that there have been a number of private operators who have come into the market in Australia in recent years, notwithstanding the state of the infrastructure they've still decided that it is worth investing. We've got ASR, who are on after this, and there's a number of others. I wonder whether it's appropriate then for these companies to come in and then start to say, "Well, we want somebody else to pay for this infrastructure. We've made our decision, here we are, but we think that the infrastructure needs to be upgraded and the government should come in and do that."

MR LANDER: I believe in the case of many of our rural lines, and it is will be interesting to hear what ASR have to say later on of course - but it is very difficult for them to fund the whole of the infrastructure upgrading or rehabilitation by themselves.

On the whole they have inherited infrastructure which has been neglected over many, many years and they are trying to compete with a road system which is on the whole in very good state - fairly good state - which has been provided by governments. I believe that there is a case therefore for a once-only or for very discrete grants to upgrade that country infrastructure, rural regional infrastructure to a minimum standard to enable them to undertake commercial rail operations.

When we evaluate road proposals, our road construction and road upgrades, we take into account a wide range of community benefits and they are factored into it. It is not on a purely limited financial basis, but unfortunately when we evaluate railway projects - whether we're looking at a suburban passenger service or an Alice Springs to Darwin, or a regional railway upgrade, we tend to focus on very narrow financial criteria. Again, this is not an even or level playing field in terms of rail and road. If the community were to evaluate wider benefits from having, you know, retaining and upgrading a rail service such as accident costs, avoided road damage, spin-offs for regional development and so on - things which are fairly hard to quantify - then we would very often find that rail definitely is to the community's benefit - to invest in rail, or to assist private operators to maintain that infrastructure.

MRS OWENS: Why is it that you think these broader factors aren't taken into account in making these investment decisions?

MR LANDER: I think historically our roads have been provided for motorists. If we go back historically 30, 50 years or so, it has been seen as a bit like sewerage - something which you've got to have. You've just got to have it, therefore you don't worry too much about the financial analysis; you just bite the bullet and you do it. I think that is partly the reason. It's been seen as a community necessity: you've got to have it, you just do it. Okay, maybe you try and find the cheapest way of doing it, but nevertheless you just do it; whereas railways have not been very good lobbyists. They have been government controlled, and government operators have been very easily silenced, whereas the private operator can't. Private operators can't, as we're sort of finding out very fast. If they're not getting enough money they'll jack up about it, and good for them.

I think that things are going to change; that private operators are now going to start saying, "Hey, we want these factors taken into account. We don't think we're getting a fair deal." So they will start lobbying more effectively for the dollar along with the road transport forum. We think that the road lobby group is doing nothing wrong by campaigning for extra funding - good for them; go for it. But what we have not had until recently, and still don't have to any large extent, is an effective rail lobby to balance that. Perhaps that answers your question to a certain extent.

MRS OWENS: I think the rail lobby has done reasonably well in getting rail onto the political agenda over the last year or so. We've just had a parliamentary inquiry and we've got this inquiry now, and we've got - as I said - these other proposals out there and there's a task force looking at those other proposals. There's a huge amount of interest and emphasis on rail just at the moment. I don't know if the rail lobby has

been that unsuccessful in getting rail onto the agenda.

MR CARTER: But that's only really in the last - I mean, Rail 2000 started in 1989 and for our first 5 or 6 years of existence we were purely a voluntary body. We actually approached the rail industry in about 1991, the various service - you know, Genesee, Clyde, a whole range of companies suggesting that it was time that the rail industry got together and formed an effective lobby for rail, and we got some very polite letters back from everyone saying that they weren't interested in getting involved in anything as political as lobbying, and "Thank you very much, we wish you all the best with your endeavours; thanks" and that was it. It was only with the formation of the Australasian Railway Association about 3 to 3½ years ago really that rail finally found its voice. Certainly in a very short space of time it has been very successful. But, again, rail is always on the back foot. It's got a lot of catch-up to do with the road lobby - you know, the road lobby has been around for a lot longer than the rail lobby. But, you know, hopefully it will be more successful in the future.

MRS OWENS: Yes.

MR LANDER: And we have been successful in getting ourselves on the agenda, but the next test is how much of that \$3 billion does the rail industry actually get. The lobbying is now starting to come on line. Next step: can we actually get some money with it?

MRS OWENS: I suppose the very first step is that there is an NRTC and I think there is a proposal to set up an equivalent rail organisation, and you need an organisation like an NRTC that does look at those broader economic factors in making these decisions. I don't know what the progress on that is, but do you have any information on - - -

MR CARTER: Not at this stage. I think there seems to be some - one of the recommendations of the Neville inquiry was for a national land transport council and that the NRTC would perhaps pick up that role. I think the chief executive of the NRTC is coming up quite strongly against that saying it would cloud the issue, which doesn't help to do anything to lessen my suspicion that the NRTC is nothing but a de facto road lobby group, and just dressed up in another guise, when you see comments like that.

I think this goes back to what we need to - this approach to greater integration. Prof Scrafton is one of the authors of the national transport planning task force report, is well aware that there is a need for a greater focus on integrated transport planning. I think this also goes back to your question about the various proposals for Melbourne-Darwin railways and Alice Springs-Darwin railways, and VFTs and things like that. As a nation, even if it is private sector capital that's going into these, you can always adopt the approach, "Well, it's their money and they can do what they want with it," but really for the economic good of the country and the economic performance of the country, all these schemes - and this includes road schemes - need to be assessed within a framework of integration.

It's not just the integrational modes, it's what's going to give us the best economic result, really, from drawing a line - what is the best line we can draw on the map? Then, what is the best mode that we can use to operate that particular line? Going back to my previous comments, until we really sort that problem out I think we're going to have a lot more inquiries and a lot more arguing and a lot more lobbying until we really sort out this key point of integration.

PROF SCRAFTON: I think a point you made earlier though is very valid. We've been through something like 10 years of fairly substantive inquiries of which this is just the latest, and there's not a lot to show for it. However, you pointed out also that a lot of reform has taken place; you know, despite the problems a lot of things have happened. The big issue about investment is whether or not - if funds were diverted from other motor transport or other areas of the economy into rail, whether or not rail would play a key role. I should declare a slight conflict of interest here. I also pay my money to Rail 2000.

MRS OWENS: Sure - a member.

PROF SCRAFTON: Yes, that's right. But the issue that confounds the decision-makers in moving from inquiry recommendations into action is whether or not there will be that performance at the end. Does Rail 2000 believe that if - suppose the track problems were removed, taken over by government, whatever - and irrespective of whomsoever was to operate on them, that freight railway would be profitable?

MR CARTER: I have no doubts. The point you made there, regardless of who operates them, I think that is an important part of the equation. I think certainly from the rail freight perspective it would be safe to say that by and large Rail 2000 is a very strong advocate of the privatisation of rail freight operations in Australia, and it cannot happen quickly enough. I think for whatever reasons the mismanagement of the government rail systems in the past, either through - you know, a lot of that is down to sort of government interference in those operations - but I just think the evidence at this stage of private operations in the US and as an example in the UK, and to some extent the initial results that ASR and ATN are showing from their AN acquisitions - I have absolutely no doubt that if we had a perfect world and the track was up to a reasonable level and we had private operators on, I think that rail freight would be profitable.

There are maybe some areas Rail 2000 has been accused at looking at some sort of rail projects through rose-tinted spectacles at times, but I think as we've developed as an organisation we have a much more realistic attitude to those things these days. By and large the system - there aren't many railway lines in Australia that, given let's say the right level, the right amount of catch-up investment from either federal or state governments, and given the right policy framework - and that means addressing issues and finding the best form of access for certain rail lines, that is very important. There are certain branch lines that if you have an open slather, open access policy, are never

going to turn a dollar. The only way that you'll ever make money out of those is really for the ownership to be invested in the owner of - the person that runs the trains owns the track. That's the only way they're ever going to make a dollar.

Then you look at the interstate rail network, and while I think we're still going through a learning process on that, I think at the end of the day the appropriate model for that will have to be open access on the interstate rail network.

PROF SCRAFTON: How would you see it in about 5 years' time? If it went the way that Rail 2000 would like to see it, what would it look like? The way you've described it we would have a national track owner, we would have open access on interstate, we would have a series of regional operators.

MR CARTER: Yes.

PROF SCRAFTON: Mainly private, you think?

MR CARTER: Yes. There needs to be some finetuning around the edges. If you've got a regional operator operating in South Australia or New South Wales or Victoria and that regional operator has bought those assets or has them on a long-term lease, I think where there needs to be some finetuning at the edges is that if there is, let's say, a marginal branch line that that operator is no longer interested in running, there needs to be an appropriate mechanism, which I don't really think is there at the moment, to transfer the ownership of say a marginal branch line to a small - what they call the ma and pa operations. I think that's a little bit derogatory, but sort of a small branch line operator that has two locomotives and maybe 20 wagons sort of thing. It's not going to work every time, that's a market economics sort of thing, but we've got to try it.

What has disappointed us greatly in the past has been the almost - it's really been vandalism of the rail network in some areas, where a public asset has just been ripped up for scrap where, if it had been left where it was in the dirt, who knows - you know, with changes in the marketplace there may have been some worth in having that line there. A classic example - and it's one that Rail 2000 has highlighted on numerous occasions - was the narrow-gauge railway line that ran up to Wilmington and was referred to in the 1991 report of the Industry Commission. That's where you had a narrow-gauge railway line, the grain traffic on it wasn't bad but it wasn't good, and AN made lots of pretty noises about standardising the line and then decided that it wasn't worth the investment and they closed the line, they ripped it up, and now the whole pattern of the grain harvest in that region has changed.

If you'd left the track there and done the standardisation, today ASR would probably be making a few dollars out of that line, but now the local community and the local council up there - the Mount Remarkable District Council were actually members of Rail 2000 for a number of years because of this. Their roads were just getting cut up. The amount of money that they have had to spend on road repairs in that area would have probably paid for the standardisation four or five times over by

now. We've got to ensure that we have a framework that avoids those mistakes of the past happening again.

MR LANDER: Can I comment on the privatisation issue, and if I can go back a question at the same time, I was asked why was there this inequality in government investment. I think one of the reasons is that if we go back, or even now, governmental advisers are very loath to recommend funding of a project which they know is going to be a lemon.

MRS OWENS: Which is fair enough, isn't it?

MR LANDER: Yes, my word, definitely. Over the years, they know that if they undertake a railway project when it is operated by a government railway operator they're pouring money down the drain because they know that they're backing a loser, so play it safe and give the money to a road project instead. I believe that once the private sector gets involved in railway operations and demonstrates competence, governmental advisers who are recommending funding proposals and so on will be far more willing to back a railway project if they know that it will win.

In my knocking of government railway systems, that is not directed against personalities as such but the system which they're constrained to operate in, which is totally devoid of any incentives and disincentives for bad performance and so on. The private sector is motivated, has incentives for performance, and a private operator will make things work. If he doesn't, he loses his job and somebody else takes his place who will make it work. I believe that we will see stronger government support once the private sector has demonstrated that rail is a competent and efficient means of transport. That is what we have not had in the past.

PROF SCRAFTON: I think that's a good point. I think that's certainly true, that a private operator operating where say a government operator had operated 10 years ago, making the sort of decision that was talked about say in Wilmington, might well have produced a different result. I wonder if I could just take that one step further. Would you advocate that we should start thinking seriously about using what are now road funds or earmarked as road funds for railway projects?

MR LANDER: Perhaps they should be called transport funds. The whole concept of the National Land Transport Commission is that we say, "How do we want to transport product X from A to B? What is the most efficient means to do it? We've got so many million dollars earmarked for this project. Should we upgrade the road so it can take B-doubles and B-triples and what have you, put in road widening and make the road pavement stronger to take these heavier trucks, or should we invest a certain amount or that same money in upgrading the railway line alongside it so that can do the task more efficiently?" So instead of earmarking road funding, perhaps there shouldn't be any road funding, there should only be transport funding.

MR CARTER: I'd add to that that I think we need to see a huge cultural shift in Australia. You'd need a very experienced lobbyist to sell an idea like that to the

trucking industry. I think we'd have to deal with numerous trucking blockades. I certainly agree with it 100 per cent. I think certainly in Europe we're seeing moves towards that kind of approach, especially in the UK at the moment. As a society, that is the way you're going to have to make the decisions. I think because perhaps the problem with transport problems are not quite as acute here as they are in the UK, it certainly will take a Herculean effort to sell that particular policy to the community, but certainly I don't disagree with it at all.

MRS OWENS: You might be able to sell the policy to the community. What you're saying is the trucking industry mightn't be so - - -

MR CARTER: And politicians as well. Governments seem very reluctant to adopt an appropriate road user charging system. They've done it in New Zealand. They have a system that much more accurately reflects the true cost of the trucking industry to the economy. The NRTC have acknowledged that we should have a similar system here in Australia but I think the latest figures here are that it's at least 6 or 7 years away because they claim to be under-resourced. I go back to the Industry Commission report, 1991. That recommended a more appropriate road user charging system. The political will is not there to do it. I believe that's got a lot to do with revenue implications for government in adopting such a system.

PROF SCRAFTON: Can I just pursue it a little more. I think it was in your submission to the House of Reps committee that you drew attention to the fact that in South Australia 158,000,000 or something was being spent on the Griffiths Highway and an alternative would have been to have spent something of the order of 80,000,000 - is that right? - on a railway from here to Murray Bridge or Tailm Bend or the railway through the hills. However, it's also true that the road planners have got their little packaged projects already there, and one of the problems I think for railways - you know, we've had these 10 years of inquiries.

Despite your comment about a need for a cultural shift, I think a lot of people have supported the idea of a close look at investment for transport, but the \$158,000,000 project is there in the drawer somewhere and when somebody comes along with funds for rail transport, very often they struggle to find valid investments. I think the One Nation program was criticised from that point of view. Do you think that we have got or are getting our planning for rail to the same pitch or the same level as the road planners are?

MR LANDER: There is for example - it's Jack Smorgon, isn't it - - -

MRS OWENS: Yes.

MR LANDER: - - - who's looking at an appropriate investment schedule: if they get the money how do they spend it? Certainly I think it is a good thing that at last railways are getting proactive and saying, "Look, if you do give us this money we've already got our plan worked out. This is what we can spend it on and these are the benefits," and actually go into sale mode and sell it to governments, that "If you give

us this money, these are the benefits and so on on a national basis." We think that the Smorgon inquiry or study is very much a good step in the right direction in this regard.

MR CARTER: I think that's looking at the big ticket type item. I suppose in that regard, some of the big ticket items perhaps have got better planning already than the railways themselves. I'd say that at this stage probably rail is a bit better prepared than it was before the One Nation funding, but how long that's going to last remains to be seen. That is probably a downside of the privatisation of rail networks. It's part of this complex equation we've got. Private operators are more focused on really the operational performance and in order to make a profit they don't really have or don't retain the resources to do this forward planning for track infrastructure or for, let's say, major infrastructure projects.

PROF SCRAFTON: Yet in countries where private railways predominate, you still get solid investment.

MR CARTER: As I say, they're going to be able to come up very quickly with a solid investment proposal for a line they control, such as a branch line, because generally speaking it's going to be a fairly clear-cut project that you're going to look at; it's not going to be a complex project. But obviously where you've got the interstate network you're going to have problems in the future perhaps coming up with these projects in advance because you've got a number of customers on that particular - this is where I'm saying I really don't know quite what the appropriate model is for Australia. I think we're moving in that direction, but at the end of the day it may not be a perfect model.

You've got competing - you've got Toll, you've got SCT, National Rail, Great Southern Railway all operating, as an example, between Adelaide and Perth, and you've got Patrick as well between Melbourne and Adelaide, and they've all got different priorities. I know of one of those private operators who said they didn't really care about - I think they've changed their mind since then because things got worse, not better, but I know one of those private operators basically said they weren't that worried about Melbourne to Adelaide because they had to get a train to Perth and it really didn't matter if it took an extra hour or two getting from Melbourne to Adelaide, as long as it was in Perth on Monday morning everything was hunky-dory sort of thing. I think those words will come back to haunt them because I know that operator is looking at other - they're changing their business focus. But that's an example of where there is confusion out there as to just what is going to be appropriate.

Who is going to come up with "the" project? Who's going to have that project in the drawer so that when the government comes along with 200,000,000 they can whip it out and say, "Here it is. This is what we all think should be the" - but maybe the ARTC will be able to facilitate that process.

MRS OWENS: But you've got the ARTC covering only two states at the moment,

South Australia and Victoria. What you're really saying is that you need an ARTC covering the whole country.

MR CARTER: Certainly in relation to the interstate track.

MRS OWENS: Yes. I'm talking about the interstate track.

MR CARTER: Yes, the interstate track. This is symptomatic of the problem that I raised in my opening remarks about the states and their inability to really agree on anything. State borders are probably the biggest impediment to a healthy rail industry.

MR LANDER: ARTC doesn't have to actually manage the tracks though, physically manage the day-to-day operation of the tracks, to be able to coordinate the investment on that corridor, or some equivalent body to ARTC. I guess the point is that there needs to be a coordinated investment on that corridor.

MRS OWENS: It gets harder, doesn't it, when you've got an ARTC and then you've got an RAC in New South Wales and you've got a different system over in WA and - - -

MR CARTER: WA was the point I was going to raise.

MRS OWENS: How do you coordinate all that?

MR CARTER: You have a heads of agreement between government - I don't know, and the states don't seem to want to really solve the problem. Western Australia agreed - the heads of agreement - that they would be part of the ARTC and I think if you read between the lines of that agreement, which was only made 12 months ago, Western Australia probably were looking at leasing their Kalgoorlie to Perth main line to the ARTC probably about now, but of course they have changed their mind and they want to bundle that piece of track up as part of the sale of Westrail. Frank is right that, yes, maybe the ARTC at the end of the day will be able to provide an overall umbrella for investment and control of that interstate track, but it just makes it that little bit harder each time a state decides to go its own way. One rail operator certainly put to me that he felt the biggest threat to his business at this stage was the isolation of that track in Western Australia. He felt that, you know, in priority - one, two, three - the most significant issue facing us at the moment was the possibility of the inclusion of that standard gauge track in the - - -

MRS OWENS: It's all going to depend, isn't it, on the Access Regime and how well that works in Western Australia, whether that becomes a significant problem?

MR CARTER: And I doubt whether that's being addressed. I would say short-term expediency in the drafting of that Access Regime, which I believe is before the Western Australian parliament at the moment, and will probably be passed any day now - I would say there's a lot of short-term expediency in there that won't even - the problems will rise up in 2 or 3 years' time, or maybe even 12 months' time.

PROF SCRAFTON: Could I just pick up on that point. In your earlier comments you mentioned that, and we've talked a lot about some of the changes that you would like to see or that you do foresee, but you also mentioned earlier that things like the Access Regime and the accreditation programs and so on - and you've now mentioned the sale processes - could actually hinder the achievement of what you see as the future for rail. Is that a fair assessment?

MR CARTER: Absolutely. Take accreditation and rail safety. I think we all probably in Rail 2000 - when the intergovernmental agreement on rail safety was first announced, at least it was meant to be a set of standards that all the states agreed upon, and we probably all viewed it as a good thing. But the reality is that each state is setting up its own little bureaucratic network to administer the rail safety regime. Rail operators have to pay accreditation fees. You have mutual recognition in theory of accreditation across state boundaries, but if you want to operate in a state you've still got to pay the accreditation fee in each state that you operate in.

Certainly in a country the size of Australia, something like this should surely be able to be handled by just one body. You really don't need, each time you cross a state border, to have a little man at the gate saying, "Where's your accreditation fee?" It's just another unnecessary level of bureaucracy placed on the rail network; same as with rail safety. I think that could quite adequately be administered just by one national authority, and the sooner that happens, the better.

PROF SCRAFTON: Do you think it's liable to?

MR CARTER: I think it's another one of these things where - it's interesting. My understanding, just from anecdotal evidence or conversations, is that in some quarters of the rail industry - and people who are involved in the process of reform - there is certainly an intent to proceed in that direction. At the end of the day it's just how fast the states can be dragged along with that process. I would say at this stage what you're seeing is that the states are basically ignoring it and continuing to build up these bureaucracies at this stage. There's no recognition at the state level that such a thing is going to happen, but I think it will probably take about 3 years to resolve, but it's another 3 years of messing around; another 3 years of unnecessary charges. It's all paperwork. It's more work, you've got to have someone within your organisation to deal with all that. It's really an unnecessary impost on rail operators.

PROF SCRAFTON: Given this level of strength of view or level of knowledge that Rail 2000 has got, how much pressure do you find yourself able to put on to governments, because you've pointed out a lot of this has its origin in the fact that a lot of the people involved work for governments so have a close association with governments? Do you get a good hearing from governments as an organisation?

MR CARTER: Not particularly, no. Maybe in the background. I don't think government would ever acknowledge that Rail 2000 is making a difference. We realised that a long time ago; that there will never be any acknowledgment of the role

we play. But at the same time I know from the results that we get - we don't do it alone. What we do is set the groundwork. We look at something. We perhaps shoot from the hip a bit sometimes, but I think that's a useful part in the whole process. Our newsletter is widely read. I know who reads the newsletter and I know where it goes and I write the newsletter in that way to make sure that if we've got a point, that's how it gets across.

Frank made a point earlier about greater private involvement in the rail industry; we have a role where we can facilitate - you know, the Melbourne-Adelaide corridor is an excellent example. It was really Rail 2000 that first highlighted the atrocious state of that particular corridor, and I'll claim to be the first person that called it a bit of a goat track. But it was John Finnen from Great Southern Railway who turned the tide on that, and now we see perhaps \$50,000,000 likely to be invested in that corridor, where 6 months ago Robin Cooper from Victoria and Mark Vaile were saying they wouldn't spend a cent on it. There has been this enormous turnaround, and I think that shows that the private sector lobby will be more effective, and it shows that we can play a role in facilitating that.

MR LANDER: One area where we have done a lot of work is in the area of road charging, road costing and this sort of thing, and we're very pleased to see now that the ARA which does have access to greater funding and that sort of thing is actually running with that. Can I comment briefly on this one?

MRS OWENS: We will be talking to ARA in Melbourne, but you may. We've got quite a lot of material from ARA on this particular issue. They obviously have done a lot of work.

MR LANDER: Well, if we can add our weight to that then: a key interest in transport is how much does it cost to send it by truck and how much does it cost to send it by train? What are the relative financial costs? Train will always, on almost every corridor, every situation, be considerably cheaper than road if you take out the cost of the provision and maintenance of the infrastructure; that is, the above rail costs are very very low for a train in nearly all circumstances, given even a modest tonnage. The critical issue is: is road paying its fair share for the use of the road system? The National Road Transport Commission - NRTC - some years ago developed a cost allocation model. We have reviewed that, and my opinion - I'm not a road engineer, although I am an engineer - is that the model is basically sound, and a very good working basis for developing road charges.

It allocates cost to various classes of vehicles such as articulated trucks and so on, and I believe that in doing that, while the model needs finetuning and improving and so on, it is basically sound and a very good starting point. The problem is not with the model; it is with the application of the model. Having allocated a certain charging to, let's say, the articulated trucks, this charge is recouped via the registration fee plus a fuel tax, and that is based on an average vehicle carrying an average load over an average distance.

This is the critical point: the vehicles which are competing against rail on every corridor are not average vehicles. They are above average weight vehicles, travelling at above average distance per annum, and this results in a massive under-recovery from vehicles which are competing against rail. They are being subsidised by the short-haul delivery vehicles which are not in competition with rail. We say, so what? The magnitude of this under-recovery is significant. For example, we calculated using NRT's cost model on the intrastate corridors between adjacent capital cities - Melbourne, Adelaide, Sydney Brisbane - that the level of this under-recovery is 5 to 8 dollars per tonne, which is incredibly significant when the going rate is around about \$40-odd per tonne. That is an enormous level of under-recovery.

If the road transport lobby were required to pay its full allocated charges, rail would immediately be a strong advantage with respect to it. The long distance, heavy-haul road industry is enjoying a massive cross-subsidy. The answer we believe is to move to a mass distance charge. That is where, if you go twice as far in your truck, you'll get paid twice as much. If you carry twice as much, you pay twice as much. It's the way that rail access pricing is done, and New Zealand does have a form of mass distance charging now in effect. There are trials in Tasmania which are looking at GPS, so you can monitor how far a truck goes. It's possible to monitor how much the truck weighs. We are within a year or two of coming up with an effective, easy to administer system. The road lobby will argue very strongly against it, but we believe there has to be government resolve to make sure that the truckies are paying their fair share, then we will be moving towards a level playing field.

PROF SCRAFTON: I feel that the NRTC, without putting words in their mouth, would agree with everything you've said. Do you think that the second round of charges, which they have now put on the table, may go some way towards solving the differential?

MR LANDER: Definitely not. I've seen those charges, and the increase in registration charges is token, at best. It's trivial. If they increased it by a factor of three or four, they might be somewhere near it. n

PROF SCRAFTON: Is this why you feel that a form of mass distance charging in Australia might be 7 or 8 years away?

MR LANDER: No, I said I feel that we would have the technology and the means to do it - - -

PROF SCRAFTON: Now?

MR LANDER: Within a year or two we should know how to do it. We should know how to do it, and then maybe - you can't implement these things with a flick of a switch, but within maybe another year or two after that it should be implemented. Let's say within 3 to 4 years we should be able to have a low cost, technically sound, mass distance charging regime in place for the heavy vehicle transport industry. You don't have to bother about all the light trucks and those sorts of things, but for

articulated vehicles we should be able to have that in place. There's only about 2 or 3 hundred thousand of them in Australia; that's not many.

PROF SCRAFTON: My understanding was that in the second round of charges all of the increases do occur at the heavy end, and I'm sure that the objective of the NRTC is to get to the sort of mass distance approach that you're talking about. However, the NRTC is only an advisory body. In the end it's governments that make the decisions- - -

MR LANDER: Yes.

PROF SCRAFTON: - - - which could well, as you've pointed out, slow down the implementation rate. Could I just ask one more question on that. Have you made these comments to the NRTC? Their second round of charges are presently out for comment, and I understand that the final closure date has been extended well into November. My suggestion is that - I know they've probably read your stuff before, but I think a formal submission, even if it was in the form of a letter, saying the sort of thing you've just said to us, would again - I pick up Mark's point. You get sick of saying it over and over again to different groups of people and different inquiries, but if you want things done, you've just got to hang in there. I've spent my whole life doing it, and I'll die in the process, but somebody else will get the benefit, we hope.

MRS OWENS: Not just now.

PROF SCRAFTON: Not this week.

MR LANDER: Thanks for all that.

MRS OWENS: Could I just ask about New Zealand. I don't know what you actually have to do to introduce mass distance charges. Do the trucks actually have to have some equipment put into them so that they can measure where they're going?

MR LANDER: Yes.

MRS OWENS: Is that where the cost lies?

MR LANDER: Yes. In New Zealand they use pretty old technology, which unfortunately is very prone to tampering, and so while the scheme in principle is very effective, it is too prone to tampering. But the trial in Tasmania is for GPS - global positioning satellite - to track a vehicle and you can't tamper with that, and with electronic weighing of the truck itself, determining the axle loading and so on; stuff which is incredibly difficult to tamper with. The electronic technology, the price is just coming down all the time. It would not contribute at all - or minimally - to the expense of operating a truck to fit these devices to it and to set up a central monitoring station to monitor this sort of thing nationwide.

So let's say that the basic technology is proven worldwide; it's just a matter now

of finetuning the application to the road transport industry, and okay it's not going to happen overnight but 3 years is a reasonable time-frame to expect that to eventuate, I believe. NRTC would be able to comment more on my time-frame. I know that NRTC does support a mass distance charge. When I've read their press releases they over and over again - I say to myself, "Hello, they've been reading our Rail 2000 newsletters" because they say exactly the same thing. The long-distance guys with heavy loads are being cross-subsidised by the other guys. They admit it themselves. But the answer isn't just to increase charges. That's using a sledgehammer to crack a walnut. The answer is that everybody else's charges should go down but having a mass distance charge in place for the heavy long-haul road and articulated road industry.

MR CARTER: I think the other thing just to add, the recently suggested increase in charges by the NRTC just highlighted the highly political nature of road charging, given that they came out not long before the federal election and you had just about every state transport minister and in fact the federal transport minister saying no way were those charges going to be implemented. Now after the dust of the election has settled I'm sure they will be implemented, but in the lead-up to the election - they weren't outrageous increases either, but it was that politically sensitive an issue that, as I say, almost every transport minister came out and said there was no way they were going to accept those increases in charges.

MRS OWENS: The other part of the equation is fuel excise and that's an issue that the ARA has also raised as a competitive neutrality-type issue. I was wondering if you had any comments on the potential impact of a GST and whether that resolves the problem, or does it still maintain a differential between rail, or have you got any comments about that?

MR CARTER: We haven't really done any research on it or really spent much time reviewing it but an initial impression is that rail is actually going to be penalised for being more environmentally friendly. Actually the GST when it's in relation to fuel excise is actually a very unfair and environmentally unfriendly tax. It's quite ironic that we're talking about heritage funds of a billion dollars trying to fix up the environment and then we're going to bring in a tax that actually encourages greater fuel usage which will ultimately stuff up the environment. The figures vary quite wildly but certainly rail can be anything between two and four times as efficient as road transport, and therefore fuel, as a percentage, is a much lower cost input to rail operations than road. Therefore it will certainly impact upon the rail industry because the fuel excise component for road transport is much greater and a greater proportion of their costs.

MRS OWENS: So they save that by moving to a GST is what you're saying?

MR CARTER: Yes. At the end of the day there's the argument that it will bring cheaper goods onto the supermarket shelves, etcetera, but do we really want to save a couple of cents on a can of baked beans for an environment that is going to be worse off because the GST - we've been lobbying for the externalities of road transport to be

built into the assessment of road and rail projects, and we're only just getting there, to being acknowledged. There's no way it's actually being done at the moment, but at least it's been acknowledged by the Neville inquiry that this is something you need to have a look at.

If you follow the logic through there are external effects of having a GST that are not being considered. One is that as it stands it will promote greater use of heavier trucks which will have a flow-on effect of an increased burden on the economy as a whole. At this stage I think the ARNA have done some initial research on this and I think they will probably be better able to give some actual sort of specific figures as to the impact they believe the GST could have on the rail industry.

MRS OWENS: We can ask them about that in Melbourne, can't we, Derek?

PROF SCRAFTON: And on urban transport, too - a similar reaction.

MRS OWENS: Yes. I think there are some interesting issues to be worked through there which we will give some thought to.

MR CARTER: Will you be seeing John Finnen from the Great Southern Railway at some stage? I believe he's got some views on the GST as it affects his businesses, more from the view that he's a tourism operator. I think if an overseas tourist flies from Perth to Sydney they won't be subject to GST but if they take his train from Perth to Sydney they will be subject to GST. I don't think he's very impressed about that.

MRS OWENS: We have seen GSR but I'm not quite sure whether they are coming to the hearings or not.

MR CARTER: Right. Certainly that was an anecdotal point that - - -

MRS OWENS: But we can follow up with them on that. Have you got anything else you'd like to bring to our attention at this stage? If you haven't any closing comments we'll break in a minute for morning tea.

MR CARTER: There were a couple of points that I just want to go over quickly, that I made in my opening remarks - I think they're worthy of comment. I made the point that urban and passenger rail deficits must clearly be separated from any remaining freight deficits. I'm well aware that from an accounting point of view that's already done now, but I think it's worth just making the point that in the past - I think it may have actually been the Industry Commission report in 91 came out it detailed the rail deficit. That figure has been seized upon by politicians, the trucking industry and the media as being that rail per se has this terrible effect on the economy and loses all this money.

I would ask that in your final report it's clearly delineated, the fact that the bulk of the rail deficit does come from urban rail operations, and we're not saying that's a

bad thing, we see that as a community service obligation.

MRS OWENS: Yes, you just want us to be clearer.

MR CARTER: It just has to be clear that really you're almost looking at two different industries today.

MRS OWENS: Yes.

MR CARTER: There aren't a lot of synergies today between urban rail operations and freight operations, and I think they almost need to be considered as two separate industries. Any deficit can't be lumped together as it has been in the past. I mentioned the issue of hoarding of locomotives and rolling stock and the use of redundant infrastructure. I think I've addressed the point of redundant infrastructure and that is just that there needs to be an adequate mechanism to ensure that there is the widest possible range of choices to ensure that that infrastructure is retained and used if possible.

I haven't been able to do any research on it yet but I believe in New South Wales they have actually called for expressions of interest in certain redundant rail lines over there for possible use in the future and that may be addressing that point to some extent. The problem in New South Wales at the moment is that you've got the Rail Access Corporation and if I've got traffic on a little branch line that I'd like to use, I go to RAC, I've got to pay them a gold-plated track access fee to use that track, whereas if I had total control over that track I could probably do the job for a lot less so long as I stayed within adequate safety parameters. I could do that job for a lot less. I just think that's a point that needs to be addressed in the future.

The issue of hoarding of locomotives and rolling stock, I don't know if you've received any evidence on this at this stage, but certainly it's interesting that you've got open access but unless you're prepared to go out and buy a \$4 million locomotive and \$10 million worth of wagons, how are you going to get onto the network? I don't believe that that investment at this stage - given the substandard state of the infrastructure and some confusion over Access Regimes no-one is going to put that kind of money into buying new equipment.

Those government operators that are sitting on surplus rolling stock and locomotives that could be used by other operators claim that they're not a welfare organisation and they shouldn't be supporting their competitors, but at the end of the day those assets were paid for with taxpayer funds. It's not as though they are private companies that own the assets. They were paid for, they were public; they're really just custodians of those assets. There should be, either through some kind of central leasing body or something, a greater access allowed to those assets.

If you wanted to drive past the Islington workshops in the Adelaide suburbs you'll see there's about 20 locomotives sitting there, 3000 horsepower locomotives just sitting there. There's nothing terribly wrong with them. Probably most of them

could be started up tomorrow and they're just sitting there. I think that's a national scandal, given that there are operators that are desperate for motor power at the moment. That's just a micro-issue, but unless these issues are addressed nothing is going to change. There's no point having open access if there are no locomotives. That's one of the reasons I made the point the earlier that we've got open access and it's been around now for 3½ or 4 years.

In the last 2 years there has only been one operator that has had a genuine access agreement and started running trains. That's Austrac, running trains on the Sydney to Melbourne corridor. As I say the last one before that was Patrick Stevedores and that was 2 years ago. It's just not working.

PROF SCRAFTON: So that's just another constraint after the ones you described earlier to the reform process?

MR CARTER: Yes, it's just an other restraint. As I say, if we've got a process of rail reform and we've got this process of reform, at the end of the day nothing is happening, or nothing significant is happening. Thank you.

MRS OWENS: Thank you very much for that, Mark and Frank. That was, I think, a very interesting discussion to lead us off on our hearings. I would like to break now for 15 minutes for morning tea.

MRS OWENS: Our next participant is Australia Southern Railroad. I would like to thank you for coming. It's Mr Charles, known as Chuck, Chabot. Thanks very much for the submission. We have read it and we would now like you to speak to it, if you would like to do so. But before doing so, could you just say your name and your affiliation for the transcript.

MR CHABOT: My name is Charles Chabot. I prefer to go by Chuck. I am the chief executive officer of Australia Southern Railroad.

MRS OWENS: Thank you. Would you like to make any opening comments?

MR CHABOT: Yes, if I could, I'd just like to give a little commercial for Australia Southern Railroad, if I could take just a moment. We've been in business now almost a year. About another week and a half and we'll have our first anniversary. We are very pleased with what we've done. We have taken a business that involves 80 locomotives, about 1200 kilometres of branch lines and three gauges, and 1200 wagons. We took over a freight business in South Australia that was losing about \$50 million a year, actually costing the taxpayers about a million dollars a week, and we have turned it around and we are now a taxpaying entity.

We went from about 1200 employees with AN down to under 600 employees for ASR and our contracting partners, Transfield and Clyde. The employees are working under a different arrangement than they ever worked under before. We think they're working harder. We know they're working smarter. And they received their first profit-sharing bonus in July, and I think they're much more motivated than they ever were under Australian National. I think we're a good example of some of the benefits of privatisation.

I would like to take a couple of minutes today - I heard Mark and Frank's comments earlier and I agree with almost everything they said. The purpose of this is to look at ways of improving productivity and determining what progress there has been in implementing rail reform. A number of the issues that are typically brought up such as the competitive neutrality between truck and rail, the tax burden on railroads, the requirement for standardising gauges, for standardising radio frequencies, putting in common working systems, having a standard Access Regime and standard safety regimes are all very valid points.

I would like to briefly touch on three other points, however, that I think are equally important to seeing continued improvement in the Australian railway scene. The first is a requirement that the government and the industry take a longer-term view. The second is to urge the state governments and the Commonwealth to continue with the privatisation, and in fact to speed it up. The final one is a warning to those same governments not to over-regulate the industry once it is privatised. I think a long-term view is extremely necessary in this industry because of the amount of capital required.

A typical locomotive will cost in the range of 3 to 4 million dollars, a grain

wagon will cost somewhere between 120 and 160 thousand dollars, upgrading track will generally cost somewhere in the range of \$10,000 a kilometre, and the operators as they come in must have a reasonable expectation that they have a good chance to make a profit on that. The short-term rush to induce competition into the industry I believe is truly counterproductive. The idea that every shipper needs two or three rail carriers to have the equipment ready and able to serve them at any time, and those same two or three carriers to be competing on price is very good in the short run, but in the long run it will mean that no-one is making the investment required to upgrade the equipment.

A step toward ensuring that this sanity and long-term sensibility prevails in the industry is privatisation. As private operators come in and make the investment in their equipment, they make investment in the track, they make investment in their rolling stock and in their people, they're going to take the long-term view. They aren't going to be out there trying to compete head-to-head with each other, pushing prices below marginal cost. I can tell you we are seeing it right now with the state-owned railroads; they have surplus equipment - I'm going to say government-owned railroads, not necessarily state. They have surplus equipment that they didn't pay for, they have no bottom-line responsibility, and they're trying to prepare the railroads for privatisation by adding business, forgetting that the new owners are going to want to be able to make a profit on that business.

So I strongly urge the continued trend toward privatisation and the speeding up of that trend, but once we have the private operators in it's very important that we avoid the tendency of governments to over-regulate. There seems to be an understanding on the part of the Australian governments that they can't run the railroads as well as private industry can, but as soon as they're privatised those same governments then want to have a number of agencies set up to have the railroads report to them to control their safety, to control access, to just respond.

I made a very quick list and it goes on for over two pages listing the agencies that Australia Southern has to report to already, and we have only been in business for a year. It seems like every month or two now, or every week initially and now every month or two, we are finding a couple of new organisations that we have to report to. We have to report to the Australia Bureau of Statistics on our monthly traffic and on our rates. We have to report to the Australian Securities and Investment Commission because we are a foreign-owned company. We have to report to a number of local councils on dangerous goods that are moving through their area. We have to report to WorkCover.

We have to report to the state departments of transportation in every state that we operate in, and we operate in New South Wales, Victoria, South Australia, Western Australia, and in the Northern Territory. We have three or four different bodies that accredit us for safety. We are not opposed to safety. In fact, rail is the safest mode of land transportation, and we intend to continue that way. But we have four different regimes that we have to report to with slightly different standards and slightly different auditing procedures, and we have to pay fees to them.

This trend toward the over-regulation - in fact the number of commissions that Mark talked about in his speech that we have to come and make submissions to - well, your intentions are good. It takes our time away from what we really need to do, and that's to run our railroads efficiently and serve our customers. By doing that, we will be able to build the business, take business off the highways and reduce highway charges and reduce highway damage and cost, and we will be able to make our customers more competitive in world markets. In our business alone we have seen a significant reduction in our grain rates which makes Australian grain more competitive in the world markets and it provides a better return to the farmers. We can do that if we can focus on what we do best, and that's not reporting to various government agencies.

I guess in summary I think three things that are typically overlooked in talking about the success of a railroad is the need for a long-term view on both the part of the industry and the government, the absolute imperativeness that we privatise quickly, and the need to avoid over-regulation of them. I'd be glad to answer any questions you have.

MRS OWENS: Thanks very much, Chuck. I can't guarantee that we will be the last inquiry of this type. I think they do keep going, and it is our bread and butter.

MR CHABOT: I received a letter yesterday asking us to make a submission to another commission on private investment in the rail industry.

MRS OWENS: You can just send them the same one.

MR CHABOT: The same one? Okay, thank you. I'll tell them you said so.

MRS OWENS: Yes. Well, quite a few people have sent us the same submission as they sent to the parliamentary inquiry and that's been perfectly acceptable to us because a lot of the issues are still around, as our previous participant has told us. I think you have raised some extremely important issues in your opening comments and I would very much appreciate it if that list of bodies that you report to - if you would be happy to table it for us? Is that possible?

MR CHABOT: Could I get it typed up and finalised and sent to you?

MRS OWENS: That would be lovely. Thank you.

MR CHABOT: I would be glad to do that. It was kind of an eye-opener to me.

MRS OWENS: Yes. I would like to start by asking you about - I guess it's your parent company, Genesee and Wyoming. I'd like to really get behind the initial investment decision. Despite all these issues that you have raised, that company still made the decision to invest in Australia. Does that company become involved on a day-to-day basis with what you are doing, or does it stand back from the operations in

Australia? Does it benchmark what you're doing vis-a-vis operations in other locations? What is the nature of the relationship between ASR and the parent company?

MR CHABOT: ASR is a wholly-owned subsidiary of Genesee and Wyoming of Australia, which in turn is a wholly-owned subsidiary of Genesee and Wyoming Inc. Genesee and Wyoming is a company that's approaching its hundredth anniversary in the rail business. It is exclusively in the freight rail business, operating approximately 20 railroads in Canada, the United States, Mexico, and Australia. The company is organised regionally, with four regions in the United States, one in Canada, one in Mexico, and one in Australia.

Each region is quite autonomous, although we do benchmark against one another. We are fiercely competitive in trying to produce the best results for the company. I report directly to the chairman of the company, as I did when I was running one of the US regions. I am a senior vice-president of the parent company. So we look at it as being that we are part of Genesee and Wyoming here, even though the vast majority of our employees are Australian citizens and former Australian National employees. Our ownership is American and we try and bring the best practices of both continents together.

MRS OWENS: Do you have a sense that doing business in Australia is more difficult than in those other locations?

MR CHABOT: It's definitely more difficult than in the United States in terms of the regulatory burden, the number of bodies we have to report to, and just the effort we have to put into reporting. It is much more difficult. In some cases working with particularly our private sector customers it's probably easier than it is in the United States. Working with our government customers is more difficult than it is in the United States. So it's a mixture.

MRS OWENS: In terms of the initial investment decision, was the company aware of all these issues at the time when that decision was made? We have heard about the regulatory issues that you have just discussed, and all the other agencies that you need to report to. There is a whole range of other concerns that people have got about the rail system in Australia, such as the level of investment in infrastructure and the competitive neutrality between road and rail in Australia. Were all those factors on the table at the time the investment decision was made?

MR CHABOT: I think we were quite aware of most of them. We knew that we would have an open Access Regime. We knew that we would have safety accreditation. We didn't realise we would have to qualify in four states and be audited by four different states and that. We knew most of the taxation requirements. I guess it's a bit more onerous than we thought it would be. In spite of this - and please don't think that I'm saying that Genesee and Wyoming is not pleased with our investment here. We are very pleased, and we will probably be making further investment in railroads in Australia, and we definitely will be making more in Australia Southern.

So far this year we have already put \$5 million into our rolling stock. So we are very pleased with it. We would just like to see it become better, and we think it can become better if the whole industry becomes better.

MRS OWENS: And your investment decisions for the future would be influenced by the sorts of things that happen in the next few years in terms of how the government responds to these sorts of inquiries? That would be a factor?

MR CHABOT: Yes, they definitely will.

MRS OWENS: Yes. In terms of access, you have I suppose experienced Access Regimes from two sides. Have you sought access in the other three states outside of South Australia for operations in those states? And the other side of the Access Regime is other companies seeking access to your lines within South Australia. I was wondering if you'd care to comment on Access Regimes.

MR CHABOT: We do have access agreements with ARTC to operate on their controlled track into Victoria and into Western Australia and the Northern Territory and New South Wales. We have not sought access in any of those states on the branch lines, and we have had no formal requests for access under the South Australia Access Regime. We have entered into an agreement with one small passenger operator to provide access to them which we have yet to file with the South Australia administration. We have been discussing that with them and just trying to learn more about how they are going to be operating and what we will have to do with them. Other than the one passenger operator coming to us and starting negotiations, and negotiating successfully with them, we have had no formal request for access.

MRS OWENS: What if a major competitor wanted to have access to your lines? Would that cause you problems?

MR CHABOT: It definitely would cause us problems but it's something that we would have to do. We knew that coming in. We still don't know exactly the procedures we'll have to go through. We're working with the state department of transportation to determine those procedures, and we will follow the procedures and meet the requirements of the regulations.

MRS OWENS: But it does lead to working with a certain degree of uncertainty about the future, doesn't it?

MR CHABOT: Yes, it does. Because of that, what we have done is we have worked with every one of our major customers and in most cases we have them signed up under long-term agreements with service guarantees and rate guarantees that are very beneficial to them, but are providing us with security so that we can actually make further investment in the property.

MRS OWENS: You mentioned this small passenger line. Is it the Bluebird line?

MR CHABOT: Yes.

MRS OWENS: When we last talked to you, you raised questions about maintenance of the line - distinctly different maintenance requirements for that railway on part of your track, and I was wondering if you'd care to comment about that particular issue.

MR CHABOT: There are a couple of issues related to that. One is that Bluebird would like to have some of our track upgraded and at the access rates they're paying us we can probably afford to replace two or three sleepers as a capital program for the yearly access charges.

MRS OWENS: That would be useful.

MR CHABOT: We basically are charging them a token fee, and we will not - out of the goodness of our heart, we are not going to put millions of dollars into our line to help another operator. My board simply wouldn't allow me to do that. We will require to get a return on any investment we make in that line, so Bluebird has then gone to the government to try and get a grant to do some of the upgrading, which we're very willing to work with them on, even though the upgrading is not required for our freight service. We do have a contract and an association with one contractor, Transfield, to maintain and upgrade our lines when we do the upgrade, so we would like Transfield to do that, and we don't want to have to go through the administrative process of a tender offer with a number of people coming on. We don't want to have to qualify a contractor to come on our line. We've already gone through that with Transfield. So if we do the upgrading it will be - as long as we can legally make it so - with Transfield.

MRS OWENS: But wasn't the point you made at that time that the government - to put money into this - will require Bluebird to go out to tender for that maintenance?

MR CHABOT: We're not sure that that's going to be required. Bluebird thought it was at first, and we have told them - it wasn't the Bluebird we required to go out for tender, it was that we would be required to, as the owner of the track.

MRS OWENS: Which would put you in a rather difficult position vis-a-vis Transfield, wouldn't it, if you've already got a contract?

MR CHABOT: It would put us in a very difficult position vis-a-vis Transfield. It would also put an administrative burden on us that we don't want to undertake.

MRS OWENS: Yes. So this is a potential - I don't know whether this is the only problem you would have with such an Access Regime, but there is an indication that there could be other problems of this type in the future.

MR CHABOT: Yes. We're working quite closely with the state Department of Transportation trying to point out a number of the issues, and they are working also

very closely with us to try to avoid this being an administrative burden or to avoid as many problems as we can.

MRS OWENS: Did you have any concerns in your dealings with the ARTC? Was that a fairly straightforward exercise?

MR CHABOT: I have to say it was quite a straightforward exercise. We have had no real problem with them whatsoever. Primarily there have been very limited services that we've wanted to institute and that we continue to run on their track, and our working relationship with them has been very good.

MRS OWENS: You run in New South Wales and Western Australia: what did you do in those two states?

MR CHABOT: In Western Australia and New South Wales both we took over AN's agreements, and we've updated those agreements, so they were simply an update of what was previously in effect, so we didn't have to negotiate new access rates there.

MRS OWENS: So you didn't have to go through those Access Regimes.

MR CHABOT: Actually going out to Kalgoorlie in Western Australia we did negotiate one new one, yes.

MRS OWENS: And that wasn't too complicated?

MR CHABOT: No. That was not complicated at all. It was modelled pretty much after the one we inherited, with just a different time-frame and some different provisions.

PROF SCRAFTON: Thanks, Helen. Chuck, I'd like to pick up this point about competitive neutrality with private rail companies competing against government-owned instrumentalities or corporations or whatever. In your submission you talk about the Optima contract - Optima having put their traffic out for bid - and that bidders have come in from government-owned railways. Could you bring us up to date with that submission and just where it's likely to go.

MR CHABOT: Yes. Late last week Optima announced or told us that we were not short-listed for the tender, and told us that at least two parties were, both of which were state-owned railroads. We are very willing to compete against private sector operators who have to make a return on their investment, but I really don't like having to compete against government-owned railroads or government-owned railways that don't make a profit, that don't have a need for investing in their equipment, who in fact have been provided at taxpayer expense with a large surplus of equipment. This would be the second large piece of business that we've lost to a government-owned railway.

Prior to start-up, in spite of there being a clause in our contract that we would have a contract with Great Southern Railway to provide them with locomotives and drivers, a Commonwealth-owned railway was allowed to come in and take that contract away from us. At the same time that Commonwealth railway was allowed to nominate 34 of AN's locomotives. Of course they took all three and four thousand horsepower locomotives. The average age of those locomotives was under 8 years. The 80 they left us with have an average age of almost 30 years, so we feel we're competing with our hands tied behind our back, and we will until the privatisation of those lines occurs - of those railways occurs.

PROF SCRAFTON: What has happened to the locomotives that were nominated by NR? Did they actually take them all? Do they use them all?

MR CHABOT: They took them all and they have returned 13 of them to AN, the body that's left over, trying to close the rest of AN down, and those will be sold later this month. They're parking a number of them in various places. In fact we're making money by storing locomotives, because they simply don't have enough room to store their surplus locomotives. We're also storing wagons for them. In fact, National Rail is one of our biggest customers. So while we can't use the locomotives to haul freight and serve our customers efficiently, we do make some money by storing them. Mark Carter made the point that those locomotives could be started up tomorrow. National Rail has hired Bluebird to go out and start these locomotives once a week and just roll them, to make sure that they're still operational.

MRS OWENS: It sounds like there's some good jobs there.

MR CHABOT: Yes. We feel that the sooner the government railways are privatised, the better it will be for us and for Australia.

PROF SCRAFTON: Yes. I guess that leads to the point you made, that while you're happy to be part of the privatisation process, it's got to keep moving for firms like yours to be able to compete fairly across the board.

MR CHABOT: Yes. I mentioned that we have signed long-term contracts with most of our customers. Partly that is a defensive move in case the railways aren't privatised. Most of the state railroads have surplus equipment, and they are starting to poach on each other's business. Westrail is looking in the Hunter Valley, FreightCorp is bidding on Optima. They're starting to go outside their territory, and frankly I know, even though I believe in my heart the ASR is more efficient than them - and I think I can prove it by the fact that we're making a profit while they're losing money - I also know that I can't compete with someone who doesn't have to make a profit and doesn't have to pay for their locomotives and wagons.

MRS OWENS: But this is an issue presumably that will go away at some stage. Being optimistic it is possibly going to be a short-term issue. It may go away by the end of say next year.

MR CHABOT: I believe in about 2½ years it will be gone, if the railroads are privatised. If not, and as long as the governments are willing to continue allowing their state railways to lose money, it could go on for ever.

MRS OWENS: So how have you managed to win the contracts you've already got, given what you're saying is unfair competition? Did you just bid low for those or - - -

MR CHABOT: In every case we offered some rate reductions. We also got some volume increases. We made some changes in service patterns that improved service to the customer and allowed us to save money, but basically it was through the ineptitude of the government-owned railways. They simply didn't get there fast enough and were too arrogant when they did.

MRS OWENS: But they've lifted their game is what you're saying in this last instance?

MR CHABOT: What was the question?

MRS OWENS: They've lifted their game say for the Optima - - -

MR CHABOT: I don't necessarily believe they've lifted their game. Optima had such expectations of low rates when we took over that we simply couldn't meet them and sign them up to a long-term contract, so Optima has spent - I've been in this country 14 months now, and I've spent at least one meeting a month with Optima negotiating and trying to get a long-term rate. They have extended the tender process. Because they haven't been able to make up their minds in 14 months, they've asked us to extend our contract even further so they can go out and negotiate with the state railways to finalise their package. I don't think it was anything in the high quality of the bids that the state railways did. It was just that Optima, a government-owned entity, didn't have the ability to contract over a 14-month period.

PROF SCRAFTON: Without taking up too much time, there's a lot of history behind that. Not only was it a government entity, but it was strongly protected. When the power station and the coalmine were first established, the freight rates were ludicrous. What was then the Commonwealth Railways were carrying their coal for virtually nothing, and even in AN's time they lifted that rate, but it has been an extraordinary history of conflict between the carrier and the shipper, mainly because both were owned by governments for many, many years.

MR CHABOT: It's interesting to note that right now the rate that we're charging Optima is less than 40 per cent of the rate that AN was charging it, and they're still very dissatisfied. On a cents per tonne kilometre basis it's the lowest rate we have. At the same time, Optima was given the rail line between Leigh Creek and Port Augusta. They refused in the last several months to pay the full rate to AN, so AN is suing them - this is one government suing the other government. Optima has turned around and sued AN for not maintaining the line well enough. So I don't know how much taxpayer money is being wasted on it.

MRS OWENS: It's very good for the legal profession.

MR CHABOT: It certainly is. I've been thinking about changing my profession. I don't think you have to work quite as hard to make a buck there.

PROF SCRAFTON: Could I ask you about the other aspect of competition. You mentioned in your submission with trucking - and you heard some of Rail 2000's comments about what is seen as an uneven playing field there - do you believe that it is possible for rail to capture more of the intrastate freight business, like the grain business particularly in South Australia?

MR CHABOT: Absolutely. Our market share in our first year has gone from about 35 per cent of the market to well over 40 per cent. We took over at the beginning of the grain harvest last year. We weren't able to make significant changes in how we operated, but while making only relatively minor changes we've grown from under 35 per cent to over 40 per cent. We expect within another 2 years to be over 50 per cent of the South Australian grain harvest.

PROF SCRAFTON: Are you assisted in any way in that, for instance, by the strategic planning of the marketing bodies or the grain handlers, or is that all railway - - -

MR CHABOT: No, it is absolutely by working with the customers, working with the Wheat Board, the Barley Board and SACBH, the bulk handler. Working alone we would have been able to do very little of that, but without us being in there, we don't think it would have happened.

MRS OWENS: But people are telling us that it's particularly hard to compete with the road sector, with the trucking industry in these markets, because of the taxation arrangements and the charges on the trucking industry. But you're still managing to take market share, despite those possible disadvantages

MR CHABOT: Yes, we are. We're able to take market share. We could take a lot more if that playing field were levelled.

MRS OWENS: What would you expect? What would you expect your market share to be if you had a level playing field?

MR CHABOT: Our market share in South Australia in grain would probably never go much above 50 per cent, simply because the rail lines no longer extend in certain areas. Unless we want to build new rail lines, it's too late to really get us much over 50 per cent of the market share. The damage has already been done. The inner city market, for example, between Melbourne and Adelaide - we think that rail has about 15 per cent of the market. We believe if the playing field were levelled, if the trucks had to pay their fair share of the road cost and we didn't have to pay the highway-user tax and fuel - we think we could probably get 50 or 60 per cent of that market. Again

there's a lot of business that rail doesn't have and that rail shouldn't be involved in: the small package business has a very high service sensitivity, where he has to leave one point and be at another point within a couple of hours. Rail will never compete in those markets, and in my opinion shouldn't try, but rail should be able to compete on the Melbourne to Adelaide corridor for a good portion of the business.

MRS OWENS: But what about (c), the potential for boats to take some of that business?

MR CHABOT: Ships on, I would say, the Adelaide to Melbourne corridor - there's very little business that should be going by vessel. Probably some - - -

MRS OWENS: It's more a Melbourne-Perth issue.

MR CHABOT: Melbourne-Perth. Ships are a threat, and they could easily take - I guesstimate up to about 10 per cent of the business. I think the service-sensitive nature of it, the difficulty of getting to and from the ports will protect most of the business.

MRS OWENS: It's just one of those areas which we'll talk to other participants about because there has been - I think GSR said to us a couple of weeks ago that there seems to be a significant increase in coastal shipping and it's happening quite quickly in that Melbourne-Perth route.

MR CHABOT: I have been told by Toll and SCT both that they are somewhat concerned about it. I think it will take some of the market away, but I don't think it will be more than 10, maybe 15 per cent.

MRS OWENS: Okay. We can talk to them about that anyway.

PROF SCRAFTON: Chuck, you mentioned in your introductory comments about the need for a long-term view, and you see that as sort of 5 to 10 years out, longer perhaps. Who do you think should be responsible for that? Who should be pulling that long-term view together?

MR CHABOT: I think the private industry should be the principal players in it. The private industry will be the ones making the investment, they're the ones that have to get the return for it, and therefore they should be the primary decision-makers. When it gets into community obligations the public benefit markets, the government obviously has a role, and if there isn't enough business to support private industry in a certain area, and yet the government doesn't want to put money in the roads, then I think there is a very legitimate place for the government investment and a place for the government directing and controlling.

PROF SCRAFTON: Do you receive any CSOs now from any government for your services?

MR CHABOT: No, we don't. We do operate what we call the sugar and tea train from Kalgoorlie to a number of towns on the Nullarbor, but we don't receive any benefits from that. I think if we were to try and stop it, we would be threatened an awful lot by government - but they're not paying for it.

MRS OWENS: You said in your opening comments that you are now profitable and you've got your number of employees down from, I think, it was 1200 to 600.

MR CHABOT: Yes.

MRS OWENS: The employees that are left you said- I wrote this down - were working harder and they are about to get a profit share. Was it difficult to negotiate enterprise agreements and so on with this workforce? They would have been previously within the public sector. You have taken over part of that workforce. Are the 600 the same people or are they different people? Did you have major problems downsizing? How did you go about it?

MR CHABOT: Let me say first of all, the ASR employees have received a profit share. They received a payout in July and they will receive another one in December. It was quite difficult. I really can't say for Transfield and Clyde, who employed some of those 600 employees. Almost all of them that we hired and they hired were former AN employees. We had a very difficult time trying to negotiate an enterprise bargaining agreement. Because all employees were made redundant before we took over, we were able to select those we wanted to hire and if the union had not been willing to negotiate an enterprise bargaining agreement with us, we could have gone with Australian workplace agreements.

So we did have some leverage to negotiate the work changes. I will say that while employees are working harder, most of them are awfully pleased with it. An AN driver used to come to work, for example, get on his train that was already started - the locomotive was already started - have his day's work planned out for him and he would go out and be told exactly what carriage to shunt where and what to do. Our drivers now come to work and most of them have to start their own locomotives, inspect them, they're told basically the objectives they have to meet that day but they have to figure out how to do it. Sometimes they have to get down on the ground and couple and uncouple cars or throw switches.

So they're working harder, they're having to work smarter, but they're saving us a lot of money and they claim to be having a lot more fun at it. They've got a challenge. They can use their brains while they're out there. That was a difficult sell to get them working that way but we were able to select the ones we wanted, to train them, and I think the vast majority of them are very happy. I will say our turnover in the first year - I believe we've only lost two drivers in the 11½ months.

MRS OWENS: Coming back to investment decisions, was the fact that you were buying into an integrated system a crucial factor in the investment decision?

MR CHABOT: That was a very important factor. I can't say for sure that we wouldn't have bid if it hadn't been that way, but we would have bid substantially less. A key reason for that is 2 months after we took over, we took over train control on our branch lines. Track Access, a forerunner of ARTC, was charging us \$500,000 a year to provide that service. We're doing it with no additional employees and probably an investment of \$25,000 in PCs and communications equipment. So we were able to save immediately half a million dollars because we're integrated.

Our cost for maintaining the lines is substantially less than when they operated or were maintained by the government. Our cost of inserting sleepers is less than 70 per cent of what the government's was and I think we're getting by with a lot more rationalised maintenance program. AN had the idea, and I think if ARTC had the track they would have the idea, that it all has to be maintained to 80 kilometres an hour. It's a good round number but it has nothing to do with what the customers need. We're letting some of our lines deteriorate to 50 and 70 kilometres an hour. We're upgrading a couple of them to 90 kilometres an hour. Overall we're saving quite a bit in our maintenance just by maintaining the lines, each specific line, to the commercial standards required on that line. So it is a major factor in our successful operation, and we knew it would be very important going in, and we would have bid substantially differently if we didn't have that.

MRS OWENS: What about interstate lines? I can see that it can work well with intrastate lines. What about interstate lines where you may end up sharing the line with a number of other operators? Does the argument break down there somewhat?

MR CHABOT: The argument breaks down an awful lot there because you have multiple standards. For example, on the main line interstate between Melbourne and Perth, Great Southern operates a passenger service and they want to be able to operate - or they would like to be able to operate at 140 to 150 kilometres an hour. We operate some bulk trains handling fuel oil and bulk commodities that can operate very well at 80 kilometres an hour. We really don't want to pay to have the track maintained to 140 kilometres an hour, but somebody has got to reach a compromise. In the main line tracks there is a real problem doing what we have done in South Australia.

MRS OWENS: We talked to Rail 2000 before, and you may treat different parts of the network in different ways and it makes sense to do so, from your point of view.

MR CHABOT: Yes. Obviously I would like to be able to control the main line track and maintain it as I want to, but that wouldn't make Great Southern very happy or probably some of the other operators. From a rational systems point of view, I have to admit that, yes, it probably makes more sense.

MRS OWENS: Is ASR bidding on some of these other lines that the government is still operating in Victoria, for example?

MR CHABOT: Yes, Genesee and Wyoming will be bidding there. We will

probably set up a separate subsidiary corporation to operate if we are successful, but we plan to bid.

MRS OWENS: The question of franchising rather than full privatisation is not an issue, or is it?

MR CHABOT: It is an issue and it reduces the sale price of the line.

MRS OWENS: But it's still worth getting in there?

MR CHABOT: We believe so, yes. It's like open access. Logically on branch lines, like in Victoria or South Australia, I see no need for open access but Genesee isn't there to support two operators. We bid knowing that we were going to have open access and we just did our bid to reflect that.

PROF SCRAFTON: It's very interesting if you draw a parallel with the deregulation of road transport back in the 1960s - that's exactly what happened. People said there will all these operators, but in practice there was one - if you check in the small towns of South Australia, there's one truck operator, one guy takes the stuff out in the evening and comes back in the morning and services the town. That's all the market will stand. In fact on the passenger side it's a problem getting the markets big enough to have a bus line at all in some places.

MR CHABOT: I agree with you, and in the long run, I think you will see that pretty much happening in Australia. In the short run, with the government-owned railroads having a surplus of equipment and no profit motive, I think you will see a lot of competition on branch lines. Where there may not even be enough to support one operator you will see two or three competing there and probably making investments in specialised equipment to compete.

MRS OWENS: Just coming back to this question of the benchmarking that takes place between different operations and different countries, one of our terms of reference asks us to do some international benchmarking and some intermodal benchmarking, and I think the great difficulty we face is getting the appropriate information. Is any of that information on the public record or could it be on the public record?

MR CHABOT: No, it is not. We are very proud of our operations but we don't really want to disclose a lot of internal data. It's something that opens us up to our competition copying us.

MRS OWENS: No, I just thought it was worth asking. I wasn't surprised at the answer.

MR CHABOT: I will say I am very proud of the fact that Australia is the safest region in Genesee and Wyoming right now.

MRS OWENS: That's useful to know. With safety accreditation, I think you did mention at the outset about the multiple systems that you have to work through. Do you have any idea of what it costs you in terms of having to pay accreditation in the different states and so on?

MR CHABOT: I have a very good idea of what it could cost us, and it could cost us over \$500,000 if each state carries out their threat to impose their charges. We're negotiating with all the states we operate in right now and we're working with the Australasian Railway Association to try and get (indistinct) not just for the accreditation but for the fees, or at least get a significantly reduced fee in the various states.

MRS OWENS: So you pay the fees in one state and that would be it, and there would be mutual recognition in the other states, both the accreditation and the fees paid so it wouldn't be duplicated.

MR CHABOT: We would like to get it for the auditing, which we don't have yet.

MRS OWENS: So at the moment you are happy to undertake auditing in each state - - -

MR CHABOT: Yes, we will have to.

MRS OWENS: - - - and you said at the outset they're different auditing requirements, just slightly different.

MR CHABOT: The auditing is quite different. For example, one state - I don't know which state it is - requires an outside auditor to come in that we have to pay for. Another state allows us to do our own internal auditing every 2 years and the state does it on the third year. The auditing requirements are quite different.

MRS OWENS: My understanding is that some of that is gradually changing, or it will change in the future. Is that your understanding?

MR CHABOT: We hope so.

MRS OWENS: I suppose it's a matter of keeping the pressure on. I think to keep the pressure on, there needs to be an understanding of what this is costing the operators and the inefficiencies that this results in.

MR CHABOT: We would like to see the overall process simplified with some standards set on a national level or at least by agreement among all the states and have one very minor fee that we would pay.

MRS OWENS: I understand there are some national standards already in place.

MR CHABOT: There are a number of national standards relating to operations, yes.

MRS OWENS: But then some of the states require additional - - -

MR CHABOT: Each of the states have their own additional that they require. There is no single uniform body or federal that we could say is an adequate safety regime.

MRS OWENS: I think it's one of the other areas we will be spending a bit of time on and having a look at that issue. I think we've just about covered everything. Is there any other comment you would like to make, Chuck, before we finish?

MR CHABOT: No, I would like to thank you for the opportunity to be here. I hope some of my comments that are somewhat negative on the government aren't taken wrongly. Genesee and Wyoming and Australia Southern is happy to be here. We think we're serving our customers well and even if things don't change, we'll be happy to be here, but we think it can be an awful lot better for us, for the railway industry and for the economy of Australia if we can make some of these changes. Thank you.

MRS OWENS: Good, thank you.

MRS OWENS: Our next participant is the Bicycle Federation of Australia. We'd now like to welcome the Bicycle Federation of Australia, represented by Rod Munro. Rod has put in his own submission and will be largely talking to that. For the purposes of the transcript, Rod, would you please give your name and your affiliation and then we can get started.

MR MUNRO: My name is Rod Munro. I'm a member of the Bicycle Institute of South Australia, which is a bicycle lobby group. Here in South Australia it's been running for about 20 years. I've been a member for about 15 years. We're affiliated with the Bicycle Federation of Australia. Every state group is affiliated with the national group. I'm here as a cyclist, I guess, and I have a couple of papers here that I'd like to table.

MRS OWENS: Good, thank you. We thank you for the papers and we'll read those with interest, and we have read your submission. I was wondering, is there anything you'd like to say to open the discussion?

MR MUNRO: I guess just basically as cyclists it's certainly within our interests that the rail industry in this country, both the freight and the passenger, is as efficient as it can be and can mix it with the trucking companies and also with the personal vehicular transport as well.

MRS OWENS: I think one of the issues that you talk about in your submission is the issue of bicyclists using rail and combining the two modes of transport.

MR MUNRO: Yes.

MRS OWENS: And if you're going to do that there are two things you might want to do. One is leave your bike at the station and catch the train, so you need some sort of security, secure storage.

MR MUNRO: Yes.

MRS OWENS: The other is, if you do want to take your bike on the train, being able to do so at a reasonable charge and have the facilities on the train to do so.

MR MUNRO: That's right.

MRS OWENS: I was wondering, in terms of the first of those, the storage at stations, has that improved over the years? I suppose you can comment more about South Australia, but has that been something that has been improving?

MR MUNRO: I think it has been improving. It's certainly not uniform across all stations. There is still an access charge or a key-hiring charge or something at virtually all of them. We have a bit of a problem with the hiring of the locker when you provide carparks for free. I can't see the sense in charging bike riders to hire a locker. Fair enough, a key-hiring fee, which makes sense, but not the hire of the

locker.

MRS OWENS: So these are actual lockers that you can actually put your bike into?

MR MUNRO: Yes.

MRS OWENS: They're not just the bike racks outside where you've got real security problems.

MR MUNRO: That's right. If you're going to use a bicycle for transport, you need lights, you need bags, whatever, on it, and usually these can be vandalised or stolen if they're just locked up to a rack. Quite often it is necessary for overnight storage in these lockers. Somebody might ride their bike to a station, catch the train and then ride another bike to another location at the end of their journey, and so for that reason they're leaving bikes at both locations overnight and they need them to be secure.

MRS OWENS: Yes. Do most of the Adelaide stations have these lockers?

MR MUNRO: I honestly can't comment because I don't use the rail to get to work. I use the O-Bahn, which has them but doesn't go to the trouble of promoting them. I would say that most stations don't have lockers. I can't tell you for sure, but I would say most don't have lockers.

MRS OWENS: I'm a Victorian and one of the things that's happened in Victoria over the years has been the de-manning of stations so that there's nobody working on the station, and I wonder whether the question of lockers now becomes a more vital question given that shift to taking the station attendant off. I don't know whether it is an issue so much in South Australia.

MR MUNRO: I would say certainly somebody there is better than nothing there, but certainly it's an issue now. Even for a short term, a bicycle is going to get stolen or vandalised if it's not in a locker of some description.

MRS OWENS: Do you ever take your bicycle on the train?

MR MUNRO: When I go to Melbourne I do. I did last time, although it cost me about 50 or 60 dollars, so I don't think I'll be doing that again.

PROF SCRAFTON: Would that still be cheaper than renting a bike at the other end though?

MR MUNRO: Probably, but last time I used it I went to Tasmania or something like that and so what I'll probably do next time is catch a plane direct to Tasmania because of that additional cost, that \$60, getting the bike backwards and forwards.

PROF SCRAFTON: And rent a bike at the other end?

MR MUNRO: No, I'll fly my bike over with me.

MRS OWENS: How much would that cost?

MR MUNRO: I think it's very minimal and it's counted as hand luggage or something like that.

MRS OWENS: That's interesting. So the airlines are actually charging less - - -

MR MUNRO: For taking your bicycle with you, yes.

MRS OWENS: - - - for taking your bike than the trains?

MR MUNRO: Yes.

MRS OWENS: If you're going on the Overland and taking your bike, does it go into a special carriage?

MR MUNRO: What I generally do is I wheel it onto a luggage car or something like that and bungee-cord it to the side of the car. I generally do that myself rather than have the handlers do it, and they charge me \$60 for the pleasure of it.

PROF SCRAFTON: I was quite interested in your comment that there are bike racks on the O-Bahn. Is that at all three stations?

MR MUNRO: They've just removed them from one of the stations. I don't know why they did it. Maybe they weren't being used. They are at Tea Tree Plaza and they are at Darley Road. But I'd like to make the point they don't advertise them. There's no indication of what they are. They're just little green boxes stuck in the side somewhere, so if you actually wanted to hire one you'd have to go to a lot of trouble to find out how to do it. There's no phone number or anything on them.

PROF SCRAFTON: So I guess that's one of the functions of your organisation, is it, that you would promote things like that?

MR MUNRO: We would probably lobby TransAdelaide or whoever, "How about telling us? Put a sign on there, put a stencil on there, something to let people know," and we'd probably lobby TransAdelaide to reduce the charges for them and stuff like that.

PROF SCRAFTON: Maybe another alternative is to put something about it in those newsletters that they give out now every month, make some use of those.

MR MUNRO: Yes. Most long-term cyclists who are members of clubs or whatever would know about them, but the odd cyclist or somebody who doesn't ride at all wouldn't know about them at all, so they might take their car or they might leave

their car at the station, I don't know. So there's those people out there that don't know, so they'll never use it.

PROF SCRAFTON: It's an interesting comment that you make that they will charge for bicycle parking but not for carparking.

MR MUNRO: I don't know why. They say it's an administrative charge for dealing out the keys or whatever, but usually it's far more than an administrative cost; I would say it's probably to discourage use of them. I don't know.

MRS OWENS: But why would they do that?

MR MUNRO: I don't know.

MRS OWENS: I guess it comes back to this question of thinking about transport in a sort of coordinated, integrated way and seeing that everything should be linked to everything else and trying to facilitate proper use of facilities, and if one of the customers of the railways is a bicyclist it's a matter of facilitating things so that all customers have proper access and you're getting the integration which should apply to people using cars or buses or bicycles.

MR MUNRO: Yes.

MRS OWENS: It should go across the board. I guess it's a matter of who takes responsibility for getting the system working more efficiently at that broader level. There was another thing you said in your submission which I thought was interesting because it's not quite my perception, but your last sentence says:

If bicycles continue to be ignored, then potential passengers will continue to drive to their destinations and more rail lines will be paved over for bike paths.

The last bit didn't quite make sense. I thought maybe it was "more rail lines will be paved over for roads" rather than - - -

MR MUNRO: No. What has happened in America and is happening here is that a lot of the disused railway lines, instead of being left stagnant, have been used by the local councils as a multipurpose path for cyclists, horses and whatever. It is happening a fair bit.

MRS OWENS: Well, that's not a bad outcome if the rail line isn't there, but - - -

MR MUNRO: Personally I'd rather see - - -

MRS OWENS: Have the train?

MR MUNRO: - - - the freight and the trains down the rails, and I'll take to the road. That's what I'd prefer. But it's not happening. And once those rails are ripped

up, as Chuck said, they're not going back down in a hurry.

MRS OWENS: But I do wonder about this other part of that sentence which talks about bicycles being ignored. My impression is, over the last at least 10 years or so - and my impressions are based on living in Melbourne - that there's been a huge amount of things that have been done for bicyclists. We've now got a lot of bike paths, a big network which I use myself, and then along some of our major roads they have actually put lines along the roads so that you don't go to the left of the lines as a motorist because that's for the bikes, which I think is quite effective.

MR MUNRO: Yes, I agree things are happening and things have been happening here in South Australia over the last 2 years or so - bike lanes everywhere - but I think there is a long way to go to get to world's best practice for the amount of rail passengers using bicycles to access the rail facilities. At the moment I don't know what the percentage would be, maybe 1, 2 or 3 per cent, whereas world's best practice - you look in Japan, 30 per cent, and the Netherlands and whatever, 20 per cent. So there's a long way to go. In these documents that I've tabled I've got some cuttings from magazines with examples of bicycle parking facilities which aren't just lockers, they're actually massive multistorey facilities for storing up to 1500 bicycles at railway stations and whatever. So, you know, there is a way to go.

MRS OWENS: You said that there are these access charges. What sort of charges, what level? How high are they?

MR MUNRO: The access charges for?

MRS OWENS: For the lockers that are there at present.

MR MUNRO: Probably \$10 a month would be about normal. I don't think any of us would have a problem with a key-hiring charge to ensure that the key goes back when you've finished with a locker after a couple of months or whatever, but just the ongoing cost for hiring a locker - - -

MRS OWENS: I just wonder what happens in other states, whether they've got the same.

MR MUNRO: That wouldn't be uniform. That would be different across states.

MRS OWENS: Yes. In this inquiry we've probably had as much interest from the bicyclists as we have from people in the rail sector. We will have opportunities as we go around the different states to ask what's actually happening in each state.

PROF SCRAFTON: I think most of the questions that I had have already been answered. I just wanted to get back to this point about the secure parking. It seems to me that that is a very important part of it, isn't it?

MR MUNRO: Yes.

PROF SCRAFTON: You've got to have that if you're going to try to increase the proportion of people who access suburban trains by bikes because it doesn't seem to matter these days, wherever you park your bike it's a hazard.

MR MUNRO: Yes.

PROF SCRAFTON: They're like Commodore cars, very popular with thieves.

MR MUNRO: Yes.

PROF SCRAFTON: It's a sad aspect of what you have to put up with, but I think it's important. I just wanted to broaden that a little bit. If you take the rail network in metropolitan Adelaide, it isn't that extensive compared to say the bus network. You talk about having them at the busway stations because obviously TransAdelaide have the space, there is somewhere to put them, but do you think that maybe we ought to be giving a bit more thought to finding suitable sites just on ordinary bus routes, the transit links, the express bus routes? There must be scope for doing it in more than just railway stations.

MR MUNRO: I'm sure of that. Three or four lockers at every bus stop or whatever gives - - -

PROF SCRAFTON: Or one where there's a bit of space, like at a little local shopping centre or somewhere where TransAdelaide or the bus operator could negotiate the space.

MR MUNRO: One thing - I think I've mentioned it in there - by allowing people to cycle and encouraging people to cycle to the station you're getting a bigger catchment area.

PROF SCRAFTON: Yes, you did say. That's a good point.

MRS OWENS: Because they can go further, yes, on their bike.

MR MUNRO: That's right.

MRS OWENS: They can go for 3 kilometres instead of one.

MR MUNRO: So even though the network is not that extensive - - -

PROF SCRAFTON: That's right, you could increase the catchment.

MR MUNRO: By trying to encourage people, yes.

PROF SCRAFTON: Sure. It's a good point, yes.

MRS OWENS: Do you think there are people out there that are not riding their bikes to the stations because of these charges or because they can't get secure - - -

MR MUNRO: I'm not sure of the exact figures, but there are that many people who have had a bike stolen.

PROF SCRAFTON: Yes.

MRS OWENS: That puts them off, does it?

MR MUNRO: And they never do it again, so, yes, there are people out there who aren't doing it because of that.

MRS OWENS: You talk about these best practice countries like Japan and the Netherlands and I wonder whether we can ever reach those sort of levels, because there is this sort of cultural thing and there's been this sort of history of bike use, and in Japan you've got the population density and the need to use bikes for all sorts of other reasons. I do wonder whether we can aspire to the levels of bike use that they have.

MR MUNRO: We can, but for the same reason the freight industry is crying foul with freight, the passengers have the same problem, in that car travel is subsidised to a great amount - tax deductions and whatever. The government makes other forms of transport easier to do or cheaper to do. So until they properly tax road transport, until they realise the real cost, the entire cost - because there are hidden costs in road transport. There are injuries; there are deaths; there are sicknesses caused through poor health, through asthma; there are premature deaths and heart attacks caused by people driving their cars all the time instead of walking to the station or riding a bike. Until all those hidden costs are taken into effect for pricing of motor transport in general, we believe that any passenger transport is just going to really struggle.

MRS OWENS: I take your point there, but I think in some states that other modes of transport like bikes are going to struggle by virtue of the fact that we've got this urban sprawl.

MR MUNRO: Yes.

MRS OWENS: It's not so obvious here in Adelaide, but it's pretty obvious - - -

MR MUNRO: It's becoming obvious.

MRS OWENS: Every time I come here in a plane it seems to be bigger, and you can see it all. But that is an issue, and in that urban sprawl in cities like Melbourne you've got fewer public transport facilities like stations or they're further apart and you've got bigger and bigger distances to get to those stations, so it's all moving in the other direction; of people getting into cars to even go to the shopping centre, and

everything is designed around driving to shopping centres and restaurants and so on. That's the way our planning or lack thereof has taken us.

MR MUNRO: That's where I hope that an inquiry like this can maybe point it out that maybe we're going in the wrong direction and we need to come back the other way.

PROF SCRAFTON: Is your association represented on the TransAdelaide - they have an advisory committee or something. Do you know whether the bike people are - - -

MR MUNRO: Probably not.

PROF SCRAFTON: I think if I was you, as an association, I would seek to do that. I think that while the number of people feeding the services might be fairly small - 3 per cent was a figure you quoted - I still think the whole idea of those user groups is to get them representative. So I would, if I was you, talk to your peers on the committee. I'm sure they would be receptive to it. They look for user responses. It's just a comment. It seems to me that you and your colleagues interstate have made a big effort to put submissions together for this inquiry, but you certainly need to make sure that you're talking to the - I know you have good support from Bike South, don't you, or whatever it's called these days.

MR MUNRO: Yes.

PROF SCRAFTON: But, nevertheless, it's probably not a bad thing that the sort of things we've just talked about in this 20 minutes - or whatever it's been - ought to be put directly to the public transit operators.

MR MUNRO: Okay.

MRS OWENS: Rod, is there anything else you'd like to say before we finish?

MR MUNRO: No, just thanks for the opportunity to speak here.

MRS OWENS: Thank you very much. You're our first bicyclist, and we'll run through some of these issues again with your friends from the other states, and we'll be talking to the Bicycle Federation submission, I think, in our Melbourne hearings. But, thank you, that was a very good start to that discussion.

MR MUNRO: Thank you.

MRS OWENS: We will now break for lunch, and we will be resuming at 2 o'clock, when we'll be talking to Dr Ern Easton. Thank you.

(Luncheon adjournment)

MRS OWENS: We are now commencing the Adelaide hearings for the afternoon. My colleague, Prof Scrafton, has informed me that this is fortuitous, that we're having our first hearings over a railway station, and we didn't quite plan it that way - and it's a very nice railway station - but that's where we are. Our first participant this afternoon is Dr Easton. I would like you at this stage, for the purposes of the transcript, to give your name and affiliation.

DR EASTON: Yes, I'm Ernest Easton. My affiliation is with Easton Business Consultants, but I'm not appearing on their behalf today. I prefer to appear as Dr Easton today.

MRS OWENS: Right, thank you very much.

DR EASTON: If you don't mind I want to emphasise that I'm not talking on behalf of clients.

MRS OWENS: Yes.

DR EASTON: I'm talking personally.

MRS OWENS: Thank you very much, Dr Easton, for coming and thank you for your submissions. We've both read your submission and we've also read your two submissions to the black coal inquiry. I know you've been a very active participant in commission inquiries in the past and have also participated in our rail inquiry back in 1991. I know from my colleagues working on the rail inquiry that they found your contribution a particularly useful contribution to that inquiry. We thank you again for coming to this inquiry. Would you like to make some opening comments and then we'll have some discussions.

DR EASTON: Yes, but feel free to ask me questions at any time.

MRS OWENS: Right.

DR EASTON: Because it won't interrupt my train of thought materially.

MRS OWENS: Thank you.

DR EASTON: The first thing is that I distinguish between pricing in a monopoly supply situation and pricing in a competitive situation. I think that's a reasonable distinction. The monopoly situation exists in regard to coal and other minerals, but particularly in regard to coal. In pricing there are certain common factors. Efficient costs must - although they are not necessarily determinative of pricing in a competitive situation - be of paramount importance because, for instance, how on earth do you effect a CSO unless you know the results? The results should be determined in regard not only to the costs as they are, but to efficient costs.

That having been said, also asset valuation, and return on assets are common

factors, but return on assets in my view is not necessarily the same in the monopoly export coal situation, as in a highly competitive situation, because there's more risk and the beta value of course is higher in that case. So you would expect, all things being equal, if you can, to try to earn a higher rate of return in a competitive situation than you would in a guaranteed business monopoly supply situation. As you know, in regard to the latter, I've arrived at a beta of 0.3. Some people say it's too high - an equity beta of 0.3 - but be it as it may, there's some risk in all operations of rail.

I touch on transparency, and I will get to that later. On transparency I think it's important that rail has segmented profit and loss accounts. I tender a supplementary submission on some suggestions as to possible ways in which they could be developed. That would inform the public, parliament, and the users of the results in that segment. I suggest that the break-up be between coal and minerals, other freight, country passengers or country and interstate passengers, and commuter services and that the statements and the reports show earnings - independent of or exclusive of CSOs, of course - earnings, operating expenses, depreciation and return on assets, both as to amounts and percentages, because the percentage of return on assets required will vary as between businesses. Then you arrive at a surplus or a loss and then you show the CSOs and so forth and so on. That would be very informative.

MRS OWENS: Can I interrupt at this stage: what does it look like now? How are the accounts set up now? It's obviously not in this light.

DR EASTON: As a totality. With much delving you can arrive at the CSOs. The information on the CSOs is shown separately, but of course there are no CSOs for coal and minerals. But it's not set up in a way in which you can readily understand it. Queensland did advance, some several years ago, the idea or concept of segmented reporting and then they abandoned it.

PROF SCRAFTON: Yes, I think you said in one of your submissions that the Queensland DOT or the Queensland transport people actually showed amounts, too, in their accounts but then they disappeared after a while. They were only there for a couple of years.

DR EASTON: In 1990-91, queerly enough the old Queensland Railways didn't submit an annual report separately that year, but the Department of Transport did, and included the Queensland Railways accounts. They showed in operating segments the expenses - the direct expenses. They showed certain administrative costs as a conglomerate. I was heartened on that occasion because I'd just told the Industry Commission that the operating expenses in Queensland in coal were about \$3.80 per tonne, and that was almost precisely the figure that they showed in the report.

MRS OWENS: And you had estimated it, had you?

DR EASTON: I had estimated it previously.

MRS OWENS: That was very good.

DR EASTON: I think I estimated it slightly higher than they did, because usually when estimating costs of transport operations I err on the side of caution; that is I round them upwards rather than downwards. I don't think that's a bad idea.

MRS OWENS: No.

DR EASTON: But then they abandoned it. I don't know why but I suspect why - because somebody made use of it. Never again have they published anything remotely resembling that information. The extent of the CSOs I would like to comment on at this stage. Taken in Queensland it's roughly a billion dollars revenue earned from coal and minerals. You can argue about how much of that is royalty and so forth and I think I won't repeat the ground I've covered in submission 47 to the black coal inquiry - but just about a billion dollars. From other freight they earn \$190 million; from suburban passengers \$55 million - I'm rounding figures - and country passengers \$50 million; on the other freight, 270 million CSO is added to the \$190 million. In commuter services \$280 million is added to the \$55 million. It's fantastic - a 5 to 1 ratio. In country passenger services the CSO of 50 million corresponds roughly to the earnings.

In New South Wales - and I'm quoting rounded figures here - the revenue from coal and minerals is 400 million with no CSO, the revenue from other freight is 400 million with \$125 million CSO. From all passenger services, 400 million earnings, 350 million CSO. That demonstrates how it's necessary to, in a readable form, bring all this together to show what's happened. Please tell me if you disagree with me at any time.

MRS OWENS: I think more transparency and more information is always better than less because only then can you make the right sort of decisions about how you're going to allocate your resources.

DR EASTON: Community service obligations may be paid for a number of reasons - economic, social and so forth and so on - but governments should have the capacity to be informed to make the right decision. I think the decision should be seen to be the right one, which brings me back to segmented profit and loss accounts. I think decisions may be correct, but it's even better if they're seen to be correct. At present unless one is very interested in the subject you have to delve for minimal information.

MRS OWENS: Yes.

DR EASTON: Productivity I regard as a most important item. The trend of pricing for export coal, with which I'm most familiar, has been sharply downwards in New South Wales in key areas in recent years. When I first came across it in about 1985 on the Upper Hunter where most of the coal in New South Wales is produced and railed, it was \$7.76 a tonne. By 1990, at the time of the Industry Commission's inquiry it was down to \$7.28 a tonne; by 1997 it was down to \$5.25 a tonne, which included a 90¢ admitted monopoly-rent element which was gradually to be phased

out. In 1998 it has been further reduced to \$4.60 a tonne, which includes a monopoly-rent element of 60¢ a tonne. That lines up against my estimate of about \$3.60 a tonne. Again, I don't think I was far out.

But in Queensland that trend has not been duplicated. I think that submission 47 to the black coal inquiry - sets it out in some detail. If you look at the totality of the rail charge including that super royalty element, it was about \$11 a tonne in 1985. In 1996 it had increased to over \$12 a tonne. In 1996, Queensland Rail reported that about \$3 a tonne represented the super royalty element which had been removed progressively but that doesn't gee with other Queensland papers. In 1993, the Queensland government issued a royalties paper which said that they proposed to remove a super royalty element from the rail freight and increase the direct royalty from 4 to 5 per cent - an average of 4.65 per cent - to 7 per cent and that that 4 to 5 per cent produced \$2 in revenue. So by arithmetical means one can deduce that the super royalty element involved and the increase from 4.65 per cent to 7 per cent is about a dollar a tonne, not \$3 a tonne. My submission 47 discusses that matter in detail. The plain fact is that Queensland didn't reduce their rates over that period.

They have reduced them recently, as contracts are renewed. I know the figures for some companies but I'd rather not mention them in a public hearing, but they've reduced, they've come down. You can draw your own conclusions from \$3 a tonne and \$12 a tonne.

I get back to productivity: if you get charges right in a monopoly situation initially and if productivity adjustments are not made correctly, you soon get out of gear again, particularly during inflationary periods. I've got little faith in the CPI minus X approach, which is quite common. CPI minus X involves forward predictions of what you will achieve in cost savings through productivity gains. If a supplier is making forward forecasts in that manner, it will invariably underestimate the gains. I think the ICC, the Interstate Commerce Commission in the States, came up with a much better solution. I think I've referred to it in my submission, but broadly, it's to pass on the whole of the achieved gains to the customer with a perceptible lag.

That mimics the situation in a competitive situation, where one supplier by greater efficiency might get ahead of the field in the short term, but they catch up with him later and he's got to pass it on. At that stage, he's got to pass those benefits on to the users. But I think the correct approach to productivity, in view of the fact that Australian railways are well behind world best practice still - though they've achieved startling improvements, they're still well behind world best practice and world best practice is not a stationary target, it's a moving target. It goes on getting away from you. I've forgotten the 100-yard race - you know the story probably better than I do. You gain 9 yards in 10 yards, but you never catch up. But, saying a good word for the railways now, extraordinary steps have been made in some railways, particularly New South Wales, to improve efficiency. You're probably well aware of the case where they created a one-stop wagon repair shop in Newcastle. Are you aware of this? I think you are, but I'll just go through it again.

Roughly, there were 1100 wagons being repaired by 200 men. The staff is now down to 20, it's not quite on a total factor productivity basis, it's not quite as startling as that, because there was a considerable investment in capital equipment in the workshops.

But in Queensland, the train cycle times have come down sharply. That's partly due to the railways, partly due to the improved efficiency at the loading terminals in particular. SRA and now Queensland, you know, have given bonuses to efficient loading terminals - very substantial. In New South Wales a system also exists for giving bonuses for regularity of loading. In other words, they penalise sudden daily or weekly shifts in the volume of loads and reward the degree of consistency. But you can't do that in the competitive situation, you can't do that with traffic in other fields of freight. One can consign major freight one month and not ship freight for another year, if ever, so they've got problems in those areas. Also in less than car load traffic in freight - the administrative overheads are staggering. As you can imagine, even the operating expenses - if you have to stop at every station and off-load part of the load or wagon or detach a wagon and leave it there. If you haven't got it loaded in the correct part of the train, you've got to do all sorts of things.

Asset values: it's important that the railways value their assets appropriately. I suggest that for infrastructure - and I've got a lot of support on this from the academic world, and I instance Freebairn as one case for historic costs. I've got also the support of the American practices, the Railways Accounting Principles Board. My copy of that report is almost falling to bits. I'm reminded that on the occasion of the previous inquiry, the Industry Commission didn't have a copy and I lent them my copy to copy.

The Board was so representative and they took a long while to reach their decisions. They had the professor of economics from Yale, the professor of accounting from Colombia, the controller-general from the US government, the executive vice-president of the American Railroads and also the president of Shell Mining. So you can't discount their conclusions, and they came down unhesitatingly in favour of historical cost, with nominal cost of capital rates being applied to a rate of return of course. On historical cost for infrastructure, a lot of infrastructure is sunk capital, a lot of it never has to be replaced. You don't have to replace concrete sleepers. BHP researchers have established that the life of the rail is so great that it's almost - it exceeds the life of two or three mines.

Ballast is progressively replaced as it goes on. Concrete bridges and culverts don't have to be replaced. You don't have to replace the bank. You don't have to build new cuttings unless you're going to widen the railways, which is extending the railways. Therefore I think the replacement costs valuation for rail infrastructure is difficult to justify indeed.

MRS OWENS: What about some elements that may be renewable?

DR EASTON: Such as?

MRS OWENS: I don't know.

DR EASTON: Timber sleepers are renewable. They're usually renewed in dribs and drabs.

MRS OWENS: So you just pick that up as part of your maintenance costs.

DR EASTON: As part of your maintenance.

MRS OWENS: Yes.

DR EASTON: Replacement of like by like is a maintenance charge. Even the Queensland Treasury has admitted that in writing and if the Queensland Treasury admits it - I used to be an economist in the Queensland Treasury and I know the way they work, unfortunately.

MRS OWENS: That's why you know so much about what's happening in Queensland. You take an interest.

DR EASTON: Well, I won't comment any further. I think a large-scale replacement of timber sleepers by timber sleepers is a borderline case; it doesn't often happen. Concrete sleepers are increasingly becoming the vogue on most lines. You don't have to replace concrete sleepers unless they fracture or something, which is a normal maintenance charge. By the time the infrastructure has to be replaced, if ever, probably new means of transport will be devolved.

On the rolling stock side the case is more arguable, but with rolling stock prices technological advances are so rapid, that it's difficult to say the replacement loco is the same as the loco replaced. There are tremendous advantages in the modern loco. It's got greater haulage power and it requires less servicing, it requires less maintenance and that leads to greater availability from a given number of locos, because there are less out of service at any given time.

Also, wagons in New South Wales - I worked out the costs just recently, a couple of years ago - the replacement cost of a typical standard consist of two locos, 3 thousand horsepower locos, and 42 100-tonne wagons, 75-tonne load, in New South Wales, and arrived at the following figures: in 1985, that consist would cost \$9.34 million; in 95, the same consist could had been purchased for \$8.8 million. The trend in the USA and Canada is to cheaper locos. There's another thing in favour, as the railways expand in any field, they place greater orders for locos, and the greater the order the less the cost, because of tooling up.

I don't know whether the commission has explored this, but from my days of consulting to VicRail, which are 10 years old now, there was considerable scope for standardisation as between states. The rolling stock engineers liked to add all their frills and furbelows to the locos, whereas they could have standardised throughout

Australia with considerable cost benefit and, I suggest, with no major disadvantages. We've got to get the economies of scale for the producer. In a locomotive type, particularly an improved locomotive type, the economies of scale are great.

MRS OWENS: And you're saying that has actually been happening, those economies of scale have been achieved?

DR EASTON: That is being achieved. Of course, there's a by-product - as tariffs decrease, overseas locos become more competitive and that has an effect on the local producers. On the return on assets I worked out in my thesis a couple of years ago, I used 8.25 per cent as the bond rate and worked out a nominal return of 12.5 allowing for a risk modified market rate of return on equity capital and a return on debt funded capital of about 1.25 per cent in excess of the borrowing rate. That was worked out in regard to a bond rate of 8.25 per cent. The bond rate is now five. So you can do your own arithmetic, but it reduces that to about nine and a half or thereabouts - maybe a little more.

There's been a suggestion in New South Wales - the Access Regime - that you should use nominal rates of return associated with replacement valuation of assets. Now, that's economic and accounting heresy and I don't really know anybody outside a treasury which could suggest it. Queensland more or less does the same thing.

MRS OWENS: But they get a nice big figure, don't they?

DR EASTON: You're doubling up.

MRS OWENS: To 14 per cent or whatever you mentioned.

DR EASTON: 14.5 per cent from memory. I think my memory is good.

MRS OWENS: Yes.

DR EASTON: And that 14.5 per cent could only be achieved if you were earning about 22 per cent before tax, and that's overall debt and equity capital, which means you're going to get about 30-odd per cent on equity capital, which is well beyond the bounds of reality. I think that's going out the window now. I think IPART is not going along with it.

MRS OWENS: No, I'm sure IPART will have something to say about it.

DR EASTON: I think they are.

MRS OWENS: They will be doing their calculations.

DR EASTON: Because you can't level it.

MRS OWENS: Have you made a submission to IPART or spoken to IPART?

DR EASTON: No, but IPART - when was their inquiry?

MRS OWENS: I think they've got one now. I think it's happening.

DR EASTON: I think so. No, I omitted that.

MRS OWENS: I can tell you. They advertised on 31 August.

DR EASTON: What's the deadline?

MRS OWENS: It was comments by 14 September 1998. I think you've missed that one.

DR EASTON: I was away at the time. I still come back to historical cost for rail-specific assets. There may be other assets, buildings and so forth, which have a market value. The market value just gets into a different pot. But if one insists on replacement values for rolling stock with real rates of interest, I suggest the railways might get their fingers burnt. On the other, on infrastructure, I can't see any justification for other than historical cost.

MRS OWENS: But as an economist you usually say that historical costs are sort of sunk, they've gone, and - - -

DR EASTON: Historical costs and sunk costs are not necessarily identical. In infrastructure, practically all costs are sunk costs. Forgetting about timber sleepers for a moment, which have some sort of a value - not much after your cost of recovery goes in - you've got rail. What else have you got that you can recover and sell? So it's sunk.

MRS OWENS: So historical costs are costs that have been expended in the past, and normally what you do is look to the future.

DR EASTON: And a decision on new investment, say in rolling stock, is made independent of the sunk costs because the sunk costs are there whatever happens. Say for argument's sake you're depreciating your infrastructure at 2 per cent per annum and it's half depreciated and the original value was 200,000,000 and it's down to 100,000,000. If all traffic on the line ceases, those costs associated with that 100,000,000 are still there. Any borrowings and so forth and so on are still there. Costs of funding the debt are still there. You can't get rid of it. I think Brealy and Myers said it all: "Forget sunk costs. It's spilt milk." But in a decision on new investment, those sunk costs will not vary - capital-wise anyhow, because maintenance-wise they may. Those sunk costs - if the additional revenue is sufficient to pay for the new investment it's a sound decision, because you don't have to take into account that old investment in making that new decision. I think I am right. Correct me if I am wrong.

MRS OWENS: So instead of looking at sunk costs why don't we look to the potential future expenditure, the future maintenance - - -

DR EASTON: If the route has to be expanded or a higher grade rail has to be laid to cover heavier axle-load traffic, that is a capital cost. The improvements are a capital cost. And if you have to widen the cutting to accommodate a double track instead of a single track, that's an extra cost. The historical cost increases because it's not a replacement cost.

MRS OWENS: No, it's not.

DR EASTON: It's the cost of additions which is added to the incurred costs. Instead of "historical costs" I'll say "incurred costs". Do you follow?

MRS OWENS: Yes.

DR EASTON: There's no argument about certain elements of rail. You don't do anything about tunnels unless you have to widen the track. Tunnel is there for all time. The ballast is progressively replaced as required. You can't let ballast run out if it washes away. You've got to put more ballast in, otherwise the whole track would go into disservice.

MRS OWENS: You also made other arguments in your submission about the advantages using "historical costs" - you talked about it being verifiable and you're more likely to get accuracy and transparency and so on - those arguments.

DR EASTON: That's particularly so when you get - say you get the rolling stock. You don't have to make decisions as to whether, in terms of service potential, a modern loco is the equivalent of 1.2 or 1.25 or 1.3 old locos. You don't have to do that because you've just got the cost of buying that loco. Incidentally, in a fleet of locomotives, which involves hundreds of locos, some are being replaced each year. If prices are rising, the capital value is increasing each year. If prices are falling, the capital value is decreasing each year. You don't have to worry about service potential or anything like that. You've just incurred the expenses. But I do make a distinction between that and say the other extreme of a building.

If the railways own a big building which they use for administrative purposes they don't assess its market value. All they do is make decisions on whether to rent, sell then rent, or sell and buy a building in a less valuable part of the town and so forth and so on. You've got to get market value where market value is pertinent, but there's very little market value in a wagon or a locomotive. You might sell some of them to Malaysia and you might sell some of them to somewhere else.

MRS OWENS: Dr Easton, why is there this persistence? Why do different states still use replacement cost if you have been making these arguments for some years now? Why do they persist?

DR EASTON: New South Wales uses replacement costs. They have done so since about - they changed over in about 1990, give or take a year or so. Up till then they had been on historical cost. They brought Price Waterhouse in to report on the valuation of assets, and Price Waterhouse supported a continued valuation of infrastructure as historical cost, but they said they should move to replacement cost valuation for rolling stock. They decided to go the whole hog.

Queensland of course used deprival value, whatever that means. To a monopoly it can mean whatever you like. Deprival value has got some meaning when you're in a competitive situation. If you're in a monopolistic situation, deprival value could mean what you think it is, and of course they apply nominal rates of return to that as a required rate of return. In Queensland, about 75 to 80 per cent - 75 per cent or 70 per cent of the total earnings is from export coal, where they have a complete monopoly. I stand open to correction, but I think coal is still regulated to rail in Queensland. I don't know of any change in that. Does the commission?

PROF SCRAFTON: I'm not sure whether it's formally regulated, but the nature of the traffic is such and the distances involved are such that - - -

DR EASTON: It was regulated to rail, but the distances - once you get over about a hundred K, road ceases to be competitive.

PROF SCRAFTON: That's right.

DR EASTON: The research in the US has found that's about the distance and I think pragmatically it's been proved to be the case in - - -

PROF SCRAFTON: Yes, I think it has.

DR EASTON: But of course government can sew coal traffic up by other means.

PROF SCRAFTON: Yes.

DR EASTON: The conditions of the lease.

PROF SCRAFTON: Right.

DR EASTON: Examine the conditions of the lease, although that's a voluntary arrangement.

PROF SCRAFTON: Or, as in New South Wales, by the nature of the exporting facility itself, the port facilities and the ability to service only railway cars and not trucks for instance. There are other ways of doing it.

DR EASTON: About 40,000,000 tonnes comes down that railway now south of a place called Whittingham, and imagine 50-tonne trucks on the road day and night, screaming past every couple of minutes. Environmentally it's outside the pale.

The monopoly is greatest in regard to coal because of the configuration. The Hunter Valley line is 90 per cent coal, the lines west of Mackay are 100 per cent coal, and the line from Rockhampton West is about 70 or 80 per cent coal at least. Even the line to Moura is about 70 per cent coal, so they're ostensibly coal lines.

PROF SCRAFTON: Yes.

MRS OWENS: I was going to just return to your submission - - -

DR EASTON: I'm sorry, I've inhibited you asking questions because I've talked too much.

MRS OWENS: No, I was just going to return to your submissions to the coal inquiry for a minute. We're not really going to go over a lot of the same ground as the coal inquiry did for, obvious reasons; we're not duplicating what they're doing. But you did raise an interesting issue which you just alluded to in your opening comments, and that was about royalties. I think you said that rather than to see the existing volume royalties in New South Wales, or the ad valorem royalties in Queensland, and differential pricing, you'd prefer to see a resource rent tax which was revenue neutral. I think that was in one of your submissions.

DR EASTON: Yes.

MRS OWENS: I was just wondering, is that a proposal that you've taken elsewhere as well?

DR EASTON: Yes. It hasn't been kindly received by all the coal industry because some of the coal industry would be disadvantaged and they happened to be mainly more influential members of the coal industry. But if you look at it, a volume royalty as in New South Wales is the worst of all possible worlds. An ad valorem royalty as in Queensland is a little better. But I think the Industries Assistance Commission rubbished them both.

MRS OWENS: That's correct, yes.

DR EASTON: Yes, rubbished them - and I've rubbished them in my way. But to combine that with so-called differential pricing to give incentives to produce in rail, almost applying what are stated to be Ramsey principles - without knowledge.

MRS OWENS: There's a bit of duplication, isn't there?

DR EASTON: Yes. But how do you differentiate between coal producers? The differentiation could be, at a stretch, the right decision at a certain time to get a new producer in.. But what if the exchange rate varies? The whole ball game is opened up again. What if one producer who has been working on easily accessible coal finds that he has to mine less accessible coal and his situation has changed? I think rail freights should provide a level ballpark for coal producers, but the incentive to

produce in rail for the marginal producers should be provided through a resource rent tax. The information will come out in the wash. If you try to apply Ramsey-based pricing within an industry basis on a monopoly supply situation you've got to set up a huge machine to secure the necessary data, and even then you probably won't succeed.

In a railway context, there is an American economist - I've forgotten his name but it begins with H - he said for use in rail pricing the Ramsey concept is a pretty toy, no more. I'm a firm advocate of Ramsey pricing for certain circumstances because I think Ramsey pricing - it's second only to multi-part tariff pricing, but multi-part tariff pricing is on the way with the Access Regimes - but provided the Access Regimes fix their prices in a correct way. Take that Hunter Valley line: if a producer comes on with, say, mining and his standard production achievable within 2 years is 3,000,000 tonnes, he should pay for the 3,000,000 tonnes. But if he goes to 3.5 million, provided the capacity exists on the line, you shouldn't charge him more access fee. I think the Access Regime would provide for a greater charge and I think that's the wrong way. If you read my thesis, on that particular chapter, I think you'll find I've argued that very strongly. Although the thesis is not the last word, I got through the hurdles of Freebairn and Dr Keith Tracey - whom I regard as almost the equal of Freebairn - and Maddock - got through that triple hurdle and I think that's not a bad hurdle to get through.

MRS OWENS: It's not bad going at all. I don't know if too many get through the three of them, the three hurdles, so you've done very well with that.

PROF SCRAFTON: Dr Easton, do you think that we may see a coal mining company building its own railroad in the foreseeable future in Queensland or New South Wales, instead of fighting its way through these regimes? Alternatively do you think that, using the new Access Regimes, we might see another carrier, another rail operator in Queensland or New South Wales hauling coal?

DR EASTON: I think there's scope for the latter. Of course in Queensland the coal companies have put in \$1.244 billion towards the cost of the infrastructure and rolling stock. That brings up a point which I've never been able to understand. When the Central Queensland Railway was electrified, Queensland Rail at the time picked up the tab for the infrastructure additions and the new electric locos rolling stock - picked up the tab for about 690,000,000 if I remember rightly. But the old locos, many of which had exhausted less than half their working life, were sold to Tasmania and I think Malaysia and/or used in other services in Queensland, but not a penny went to the companies. I don't think the companies pushed it hard enough. I think they could have pushed that, because although technically they didn't own those locos - - -

PROF SCRAFTON: They actually paid for them.

DR EASTON: They had a moral right. Reverting to your question - - -

MRS OWENS: Why - - -

DR EASTON: - - - I don't think it's likely. Ulan paid 60-odd million to upgrade that line from Muswellbrook West originally, but then both parties opted out of it and that's been repaid. I don't think that's an option. I think the cost of the infrastructure is too great and the Hunter Valley and Queensland lines have still got surplus capacity for some years ahead.

PROF SCRAFTON: Thanks.

DR EASTON: When and if a stage is reached, or approaching, where the capacity of any major line will be exceeded, I think there is an option for the coal companies to come in.

PROF SCRAFTON: I was thinking about it particularly in relation to your comment about the rate of return that the Rail Access Corporation is seeking on its tracks.

DR EASTON: I think IPART will put a lid on that.

PROF SCRAFTON: You think that will - yes. So you're fairly optimistic that some of these problems at long last, after all of the pressure that has been applied by people like yourself and the mining councils and the coal companies and so on, will begin - - -

DR EASTON: I think the pressure that's been applied has been greater in New South Wales than in Queensland.

PROF SCRAFTON: Do you? Yes.

DR EASTON: My Queensland clients will hate me for that but I don't think they've applied it strongly enough for some reason. They may have their reasons, because some of the mines in Queensland - in New South Wales you've got a greater proportion of underground mines, and although the new techniques in underground mining are improving the economics of extraction, the economics are still greatly in favour of the open-cut mines in Queensland - - -

PROF SCRAFTON: Yes.

DR EASTON: - - - particularly where the open-cut mines are in that Bowen Basin where the coal is literally on the - not quite on the surface but near as dammit to it. But this is a possibility if and when the - but the other possibility of another operator, I think that's on the cards. You know that Hunter Valley rail organisation within the coal industry, which is a bit quiescent at the moment, was actively pursuing this concept and I think they've got something.

PROF SCRAFTON: Do you think that also was responsible in some part for the rate falling in New South Wales, the way you've just described about the rate

changes?. Do you think that that's partly responsible for that, the threat that the New South Wales miners might in fact combine to own or to contract with it?

DR EASTON: I think in New South Wales the SRA response, which I've indicated, it's - - -

PROF SCRAFTON: That's right.

DR EASTON: I've been greatly heartened by that in two ways: my clients have benefited but also it gratified my ego, if I may say so.

PROF SCRAFTON: I think over the years you've put a lot of effort in, there's no doubt, both you and your clients together. I think one - - -

DR EASTON: I think the pressure in New South Wales has been so great that it's forced the SRA to rethink. To give them credit, they have rethought and they've come up with some innovative ideas. I've mentioned some of them - the bonus for regularity and so forth and so on.

PROF SCRAFTON: Yes.

DR EASTON: They have leased a lot of rolling stock instead of buying it, and so forth and so on. I think pressure from the customer and/or the public in general - the public have been the customer - but I don't think the public fully realise that pressure is the way to go. In Queensland, for instance, when you get \$55,000,000 earnings from commuter services and there's a \$275,000,000 subsidy if you like, and this gets back to the concept of segmented profit and loss accounts, unless Queensland Rail or the new corporation is earning in excess of rate of return on the assets employed and the CSOs related to that. I don't know. Therefore I'm suggesting that that model, profit and loss account, not only the rate of return or return on assets should be shown as an amount, it should be also shown as a percentage, which would be different for different segments.

PROF SCRAFTON: Yes. One other thing, Dr Easton, do you have any feel for the rate of return that some of these American railroads get from their core business - you know, Burlington and all that, and the Union Pacific and so on? I guess it's not easy to abstract from the return for the total organisation, but I wondered if you had any - - -

DR EASTON: No, I have not really got a feel but I don't think it's phenomenal.

PROF SCRAFTON: Just in relation to the numbers you were talking about earlier - - -

DR EASTON: I don't think it's phenomenal.

PROF SCRAFTON: Right.

DR EASTON: All the evidence is that it's not excessive in regard to market rate of return, but I would not like to say more. They have also been controlled and regulated by the ICC. I don't know whether you've ever seen the mass of statistical data that they collect. I know I was starting to go mad with them and eventually threw it out the window, and I've worked with American consultants at various times and they were of the same opinion. No, I don't think the rate of return is excessive.

PROF SCRAFTON: If Queensland Railways and the New South Wales Freight Corporation were privatised, do you think that would help the negotiations with the coal companies? Do you think if it was two private companies dealing with one another that it might create a better business environment than the one that you're so familiar with over the years?

DR EASTON: That's a difficult one to answer. It's a difficult one to say yes or no. The private company would have to be regulated on the model of the ICC model or the ACCC. They would have to be regulated to a rate of return. I would go as far as to say I don't think anything would be lost.

MRS OWENS: But nothing much gained either, because by the time you introduce a regulatory system - you've got to have a regulatory system that - - -

DR EASTON: You must have a regulatory system.

MRS OWENS: - - - is set up in the right way with the right pricing principles.

DR EASTON: I don't know whether you need to have a regulatory system for suburban passenger services.

MRS OWENS: No.

DR EASTON: No. But I mean particularly for monopoly services.

MRS OWENS: Yes.

DR EASTON: You'd have to be regulatory because to substitute an uncontrolled private monopoly for a public monopoly - - -

PROF SCRAFTON: I guess then in that case I'll put my two questions together. One is the private sector coming in and more than one operator - do you think that's a likely scenario instead of - - -

DR EASTON: If there were genuine competition, but I think there's scope for privatising operation rather than privatising provision of the infrastructure. I think this is the essential difference, because if you have too many people providing infrastructure the costs would go through the roof, but more than one operator on a line, that's totally feasible. You'd lose some economies of scale but it would be offset

by competitive drive.

PROF SCRAFTON: Competitive - thanks, yes.

DR EASTON: I think that was one of the ideas in that Hunter Valley Rail Corporation.

PROF SCRAFTON: Right, the corporation.

DR EASTON: They would introduce some competition.

PROF SCRAFTON: Yes.

DR EASTON: But they'd have to get a certain volume of business. A small competitor would be useless. Say for argument's sake someone came in on that Hunter Valley line with 40 or 50 million tonnes of coal, and they've got about 5 or 6 million tonnes of coal. Forget it.

PROF SCRAFTON: Yes.

DR EASTON: They'd be killed.

PROF SCRAFTON: Thanks, Helen. That's all I've got.

MRS OWENS: Have you, Dr Easton, got anything else you'd like to add before we finish?

DR EASTON: About 70 pages.

MRS OWENS: You can keep going.

DR EASTON: I think I've made my point on productivity.

MRS OWENS: Yes.

DR EASTON: I think productivity is terribly important, particularly with this gap. The BIE is really part of you now, isn't it?

PROF SCRAFTON: Yes, of the Productivity Commission.

DR EASTON: I've worked very closely with the BIE on their studies, and my own conclusions from working with American consultants briefly from time to time are consistent with their thoughts. Railway systems in Australia are at best 15 to 20 per cent below world best practice standards. At worst, in some areas of operations and traffic the margin is considerably greater, and I repeat that the standard of world best practice is improving all the time. To regard it as a stationary target is a

pitfall.

Just one other thing: getting back to return on assets, if you said "replacement value" - which I hope you won't - for rail-specific assets, my research indicates that real rates jump all over the place. They jump even more than nominal rates. Just a thought: in 1960 to 72 the lowest real interest rate was 8.1 per cent, the highest 5.2 per cent. In 1973 to 84 the lowest was a negative rate of 5.3, the highest was a positive rate of 7.2. In 1985 to present the real interest rates varied from about 4.4 to 7.9 - a low/low or low/high.

MRS OWENS: So this is another argument against using replacement costs because if you use replacement costs you've got to use real - - -

DR EASTON: You've got to use real interest rates.

MRS OWENS: Real rates.

DR EASTON: The other one is that I'm not against replacement costs in certain circumstances but I think for those rail-specific assets which constitute a very high percentage of the total assets used by rail, I don't know what values you'd derive from replacement costs. I can think of all the disadvantages. You'd get yourself, in rolling stock, up against this valuation of relative service potential - and to what purpose? The railways - I repeat, I think they'd be worse off by using real rates. They'd have a lower target by using real rates and replacement values, properly adjusted, for service potential replacement values than they would by using historical costs and nominal rates. But with historical costs they've incurred the expenses of borrowing that amount anyhow, so if prices are falling I think they're entitled to try to earn a reasonable amount on their previous investment, if they can get it. No, I don't have anything more to add.

MRS OWENS: I think it's been an extremely useful discussion for us and I thank you for your contribution, your suggested segmentation.

DR EASTON: I just thought of that last night and dashed it off this morning.

MRS OWENS: It was an issue that we talked about just before lunch, this issue of trying to avoid lumping everything together. This has just served to clarify my thinking on that. I would very much like, if you're agreeable, if we have further questions about these issues, if some of the team could come back to you at some stage and clarify it. It's quite a technical area and it's an area that's very difficult for us at this hearing to make the most of.

DR EASTON: I'd welcome that.

MRS OWENS: I would be very grateful.

DR EASTON: I made a special study in it. I found out that when the Industry

Commission sat previously, they accepted my operating costs but they queried my approach to capital costs, and I sat back on my haunches and I agreed with them.

MRS OWENS: Yes, I read that they said that, yes.

DR EASTON: Then I decided to explore all the wonders and ramification of CAPM and I enjoyed it thoroughly as a quest.

MRS OWENS: Excellent. There will be other opportunities throughout the inquiry. We'll be putting out a draft report next April, but in the meantime this is one of the issues I think that we will be looking at and, more than any other participant that we'll have coming to us, you have probably done more thinking in this area than anybody else and so it would be very useful if we can come back to you.

DR EASTON: That's why I wanted to give this evidence, in this case, as an individual rather than representing Easton Business Consultants. I think there's a subtle distinction. If I had talked as Easton Business Consultants - I've got Easton Business Consultants has clients, but I prefer to speak.

MRS OWENS: Yes, thank you.

DR EASTON: But I'd welcome that. What would be the procedure? Would you set up a conference telephone conversation?

MRS OWENS: We could do that, or team members will ring you. We may end up setting up a telephone conference. That would be a good idea.

DR EASTON: A telephone hook-up would probably accomplish a lot.

MRS OWENS: Are you based in Adelaide?

DR EASTON: I have a house in Adelaide and I have a house at Carrickalinga, but during the summer months - Carrickalinga is a seaside place and you're more likely to find me there. I can give both telephone numbers.

MRS OWENS: That would be fine. We can track you down, yes. Thank you very much, Dr Easton.

DR EASTON: Thank you very much. I enjoyed it.

MRS OWENS: We are departing from the program at this stage. We've got a couple of other participants this afternoon but we might just break for a couple of minutes until the next participant comes up.

MRS OWENS: Our next participant this afternoon is Mr Allan Ward. Mr Ward, thank you for coming and we are sorry about the slight confusion about you appearing today but, thankfully, we have sorted that out and we are very pleased to see you here with us. We would like you just to state your name and your affiliation and the context in which you are appearing today.

MR WARD: Thank you very much. Allan Ward. I am a councillor on the Burnside Council, which is an eastern suburbs metropolitan council in the Greater Adelaide area. The catalyst for becoming involved in this inquiry was the problem that we have in the eastern districts of heavy road freight vehicles' increasing participation in use of our local roads. Initially a small group was formed and when the Portrush Road Action Group got under way, the Hampstead Road people - which is on the northern side of the River Torrens - heard it was under way they joined in, and so it became a combined exercise of people along the heavy road transport network from Mount Barker Road or Princes Highway coming from Melbourne. At Glen Osmond heavy trucks were traversing Portrush and Hampstead Roads to get to the northern and north-western side of Adelaide and the council supported the people and recognised their complaint.

As a result, I eventually submitted a report, which was accepted by a committee of council, which is called the Burnside Environmental Advisory Committee, and this report was then sent off to the state strategy and planning committee. From there, the senate inquiry into rail and the national transport network came on the scene in that we were informed of that through the Local Government Association in South Australia and I was convinced that I should perhaps produce this paper that I have produced and which has now been forwarded to the senate inquiry and now on to you people. That is where we are at at this stage.

MRS OWENS: Thank you very much. Thank you very much for the submission which we have, as I said, read. I have got a few questions I would like to ask you about it but, before I get into the substance of the submission I noted somewhere that you're actually with the Transit Police here in Adelaide.

MR WARD: That's correct, yes.

MRS OWENS: I think that one of the issues that I wouldn't like to pass by while we have got an opportunity is to perhaps talk a little bit later on about security, if you are prepared to do that - - -

MR WARD: Yes.

MRS OWENS: - - - because we may not actually speak to anybody else in your position who would be able to answer questions on that. If you wouldn't mind doing that off the top of your head, we would be very pleased.

MR WARD: No problems.

MRS OWENS: As you mentioned you have got a major concern with heavy vehicles, heavy trucks traversing roads and providing an environmental nuisance - if that is the best way of describing it - in particular areas and in particular in your local government area.

MR WARD: That's correct, yes, an environmental and a safety aspect.

MRS OWENS: You have in your submission and in the attachments suggested quite a few solutions. One of the interesting ones you raised was the possibility of a roll-on roll-off type technology, and you cited what is happening in Switzerland.

MR WARD: That's correct.

MRS OWENS: I was wondering if you would care to expand on that and tell us if you know the extent to which it actually works there? Has it actually been a deterrent so that trucks are actually going around the country or are they using the facility? Does it slow them up? Have you got any details about it?

MR WARD: Yes. The situation is that Switzerland, as you realise, is an independent country surrounded by EC countries. They were given the opportunity to become an EC member and one of the problems with being an EC member is that they would have to accept regulations relating to free flow of transport - unregulated. They could see that, being the cross-roads of Europe, they were going to get enormous amounts of heavy vehicles traversing their country and destroying the serenity of their lifestyle. Apparently already you are not allowed to drive a heavy vehicle across Switzerland on Sundays. But of course you can't stop things like that unless you provide a solution, and their solution was to introduce ultra low-profile flat cars coupled together in a continuous train so that they could carry a load which is limited only by the siding length in Europe.

As you can well imagine, Europe is not blessed with too much space and so siding lengths are generally limited to 750 metres so it means that is the length of the entire train you can operate. In reality you are getting a train that is probably no more than 600 metres in length. It is continuously coupled; it is continuously linked with platform plates so that the trucks when they pull up in the loading area can drive up a ramp which is attached to the two end wagons, which have got special buffer sections so that they can connect up to locomotives front and rear, as required.

The truck drivers drive their units on at one end and drive right through to the other end - the front end of the train as it stands. They get out of their vehicles and then they go to a converted passenger coach which has been converted into a cafeteria car and it has got bunks there, so if they want to roll out a bed-roll, they can lay that out because it is out-of-cab time for the purpose of hours of driving - whilst they are in the buffet car or cafeteria car, whichever you want to call it - and when it gets to the destination, then the cafeteria car and the locomotive are unhitched from the train; it moves forward and they can immediately get in their trucks, start up and drive off

forward, so there is no requirement to back around or anything like that.

There is a very minimum time for loading and a very minimum time for unloading; in fact, probably the greatest hold-up would be at unloading because the trucks would just have to idle for a time while they built up air for their air brakes, and that doesn't take a great deal of time. It is only the front few trucks which would have a problem with that by the time you got to the rear of the train. It is quite successful, however, my latest news is that unfortunately the Swiss have acceded a little bit to the EC requirements and it is not going to be as rigidly enforced upon truck users, but it is still going to be made very attractive for them because they will move across Switzerland at a pace which is far faster than what they can drive their trucks across. If time is money, then that is the reason why you pay to put your truck on the train.

You can load up in Italy - say in Domodossola at the beginning of the Swiss railway network - and you go across the Simplon Pass and the Brunic Pass and you enter Germany at Basel or wherever the train - there are several destinations because it is a very complex network. Switzerland is probably best described as "the world's biggest train set" because everywhere you go there seems to be another railway line. They are all in exceptionally good condition. Most of the rail is now laid on concrete sleeper in Europe and it is a continual process of keeping things up to date and that is why the system is a better way to go than the way we are doing at the moment.

MRS OWENS: So it is a better way and you say that it is faster but you say that the Swiss have now acceded to the EU requirements for greater - - -

MR WARD: Not entirely, but they have relaxed their initial - there was going to be absolutely no bending of the rules, but to what degree they have decided to accede to EC requests, unfortunately I am unable to say at this stage because I am not privy to that information.

MRS OWENS: Do you know whether it has actually reduced the demand for roll-on roll-off? If it actually a beneficial way of moving freight through Switzerland you may find that the companies, the freight forwarders will still use the technology.

MR WARD: I think it is too early years at this stage because it is only really a getting off the ground type of situation. It is not intended to be fully implemented until - as in that article that was in my report - past the year 2000. They're intending to move 1480 trucks per day across Switzerland whereas we have got 1560 trucks a day going along Portrush Road, and that is only semitrailers and B-doubles and doesn't include rigid-framed vehicles with a dog trailer. We feel that if you put that together with Glen Osmond Road traffic and Cross Road traffic, we in fact have got a bigger problem than the Swiss have got and for that reason we should be doing something about it.

As I have suggested, we should put these trucks on the ULP freight cars at Tailem Bend - which is a recognised railway centre - and freight them through either to Islington or Dry Creek for them to be unloaded there where they are virtually at the

very back door of where most of these vehicles are going to go. If they are intending to travel to the west, then they are on the other side of Adelaide anyway and that is the big safety factor. Even though we have spent \$138,000,000 putting a hole through the hill, my experience from 40 years in the police force is that instead of the accidents happening up in the Adelaide Hills they are going to happen down in the metropolitan area.

MRS OWENS: You mentioned in your submission "attachment Trailer Rail", which we have actually visited Trailer Rail and have actually gone over to Perth and looked at them putting it all together and it is quite interesting. Have you got any views on whether that is a technology that you think is as good or not as good as - - -

MR WARD: I think it is a viable part of the overall operation. I don't think it is the total solving of the problem and I don't think that it should be ignored, but it does have limitations in that the heavy weight that is required to make the chassis of the pantechicons - or whatever units you have got using along it - take away a fair bit of the payload capacity because of the way in which we police axle weights on road vehicles. So it takes a little bit of the shine off what is actually quite a good idea. That idea has in fact - the situation was initially American and it came to Australia. We made it better. The Germans came here and looked at it and said, "We want to use that idea." Apparently we were told, "You can't sell it to them. It has got to go back through the American parent company." So the Americans made the money out of our technical expertise.

PROF SCRAFTON: Apparently now the Germans have developed a technology themselves and the Trailer Rail people are hoping that the - my understanding is that the second set of trailers will in fact be German technology, partly to reduce the licence fee to the Americans in the way that you're talking about.

MR WARD: Yes.

PROF SCRAFTON: Councillor, I have got another conflict of interest to declare: I am a ratepayer in the City of Burnside.

MR WARD: I'll have to ask you whether you're in Beaumont Ward.

PROF SCRAFTON: No, but no close enough to be affected by the Portrush Road problem but, nevertheless, very conscious of it. I have a couple of questions to ask: one is that when you first put this forward, which is about 18 months ago, I think, now, did you ever get any reaction from the urban planners or are they still sort of wrestling with this Portrush Road problem? I thought I read somewhere that they had agreed to divert a greater proportion of the trucks through Dequetteville Terrace or something. Is that right? Can you just bring us up to date?

MR WARD: Yes. Last year, Transport SA - which is more commonly known as the Department of Transport - but that is their new name, put on two seminars and both seminars came up with the finding that the preferred heavy freight route should

be Glen Osmond Road, Fullarton Road, Dequetteville Terrace, Park Terrace and then either use Churchill Road or South Road to get to their destination in the north-west area or the industrial area of Adelaide. However, the revamp of the roads on the eastern side of Adelaide is such that federal money has been allocated for the upgrading of Portrush Road, and the fear amongst the residents is that if this occurs before they put money into the stated preferred route, it will only further increase the attractiveness to use Portrush-Hampstead Roads rather than the stated preferred route.

PROF SCRAFTON: Because without having any numbers - and it would be purely perception on my part - the problem has not gone away at all, has it? If those numbers you had here - 1500 you just mentioned there - I can't imagine, from observation, that that has declined at all.

MR WARD: If anything - one of the things being a councillor at Burnside, when we leave after a council meeting on a Tuesday night - - -

PROF SCRAFTON: You're right there.

MR WARD: It can be anything between 11 o'clock and 1 o'clock and, I can assure you, if you stand outside the council chambers at 1 o'clock in the morning, it is not an uncommon feature to find six or eight semitrailers or B-doubles pull up at the Greenhill Road intersection. Then, of course, having stopped, they've got to start off again and, you know, it's really quite horrific. If a little old lady who's driving her car doesn't drive it that night but I'm sure that if she was sort of hemmed in with these great things on the road during the daytime, when we fortunately don't have - they're not so intense; they're there but they're not travelling as a single block.

MRS OWENS: In convoy.

MR WARD: It would be quite overbearing, I think, for a person who's a little bit timid on the road. We do have a lot of retired people on that side of town and this is one of the things that has sparked this feeling - we are worried about the numbers and we feel that something drastic should be done. Earlier today Chuck Chabot stated that they're only carrying about 15 per cent of the freight between Adelaide and Melbourne, but again it's a case of it being a non-competitive field because it's far from the level playing field that we seem to hear so much about in federal politics and state politics.

If you look at the condition of the rail on the other side of the border, it is so poor that when you talk to engine drivers they say that they move around their cabin at peril once they cross the border, the track is so bad. Having been a fairly extensively travelled person in Europe and used the European railway system, there's only two other places where I've actually travelled where the track is worse than here - either on the TransAdelaide system or the track system that's in Portugal or Turkey.

MRS OWENS: Whose responsibility should it be to actually address these

problems? You've got the local government that's actually feeling the effect of it; there's a state government issue presumably, to the extent that your state government would see that as an important environmental issue or safety issue, and then you've got the federal government. Where should the responsibility lie? If you're going to move to roll-on roll-off type technology, who should be implementing it?

MR WARD: I think it's totally out of the question for local government to do it because we simply don't have the money. From the Burnside Council's point of view, we have a \$17,000,000 a year budget which is flat out providing services that we want to be able to successfully provide to our ratepayers. We don't have any money left at the end of that. It therefore becomes either a state responsibility or a federal responsibility and I think that the move should be away from state responsibility for these national transport matters to federal because we have to think not only just of our own backyard but we've got to think about the whole country. I feel that if we're not thinking about the whole country then we're falling down on our feet and we're going to go backwards.

MRS OWENS: It's always a tricky issue because there's always buck-passing. It doesn't matter what sort of expenditure you're talking about; each level of government will say, "No, it's their problem."

MR WARD: I think one of the big problems that rail has faced is that it was worked to death during the Second World War in transporting of men and material, and then when the war had finished and the rail system was in fact fairly run down from a very low maintenance factor it was just left at that stage and funds were not injected at the rate at which they should have been. The situation just does not get better; it just stagnates as you go further along through history for the last 45 years or so where money should have really started to be injected into the rail system around Australia. I'm not talking just here in South Australia. We could all talk about what we would like to see done here in South Australia but I think that the national rail system is deplorable in its standard, compared to looking at Europe.

MRS OWENS: You say in the submission it's not just about infrastructure and so on but you mention - I can't remember which page it is - about it not being particularly the railways but being particularly customer-focused, which is a different issue. I don't know whose responsibility that is, apart from the railways, and the way to address that is by privatisation or competition or whatever.

MR WARD: If you look at ASR - without quite reaching the 1-year mark they've turned around and they're operating with a small profit margin. It indicates that there have to be changed work practices and it doesn't only have to start down at the bottom level, it's also got to go all the way through to the top level with a completely different refocus on managerial skills and implementations. It's an unfortunate situation, I think, that in the past the rail system has just been that people get promoted through the system because they've been there longer than anyone else and not necessarily have got the best business acumen.

PROF SCRAFTON: I think even when we heard from Australia Southern Mr Chabot pointed out that most of the employees actually worked for AN before. What happened was they changed the structure at the top and the whole motivation of the organisation and suddenly you get this whole new outlook, whole new life. So you're quite right, this isn't just a function of downsizing or whatever; it requires a change in outlook.

MR WARD: Yes.

PROF SCRAFTON: I'm just pursuing the idea of trying to get this sort of innovation in the railways. I guess the only way you could achieve the idea of having this European rolling train system through the city would be by coercion; that is, you would have to force people to do it, wouldn't you?

MR WARD: Yes.

PROF SCRAFTON: That is a tall order but there's no reason to believe that if you could achieve that then presumably it would be profitable. Presumably you could do it.

MR WARD: It may require some subsidising, particularly in the beginning, because I think you'd have to convince the road transport industry that they are able to use a system which is going to give them in fact more profit margin in the beginning. If you consider a trip from Melbourne to Adelaide, the more expensive part of the trip really is from Tailem Bend to Adelaide because you've got more wear and tear because of the uphill gradient and the downhill gradient factor.

PROF SCRAFTON: And the braking.

MR WARD: Yes, with heavy braking and so forth. That is also an environmental aspect because at this stage all brake material on trucks is still asbestos-based. It has not reached the stage yet where they're using non-asbestos brake linings, so that's another little bit of a thing that goes with it as well. It's probably a situation where perhaps if people do want to use the road they pay a toll and that toll should be more substantial than the fee to travel on the train.

PROF SCRAFTON: Yes, that's a good idea. You don't take the choice away absolutely but you pay some penalty. I think you'll find it's also the situation that is now beginning to apply in the European examples. You mentioned that the Swiss are backing off a little but one of the things that they are doing is saying, "If you bring your truck through you pay very high fees."

MR WARD: That's why I didn't want to commit myself too much, because I believe that's the way it's going to go but I can't quote figures unfortunately at this stage; my information is not at hand that much.

MRS OWENS: I think it's very useful for you to draw it to our attention.

MR WARD: I think this situation could also be very effectively used out of Sydney over the Blue Mountains.

PROF SCRAFTON: Yes, you mentioned that.

MR WARD: Get the rail to the western side of the Great Dividing Range. It would take a lot of traffic out of the road system that crosses over the Blue Mountains.

PROF SCRAFTON: The irony of that, of course, is that at the present time it happens the other way around; people truck everything to Bathurst and Parkes and other places, and then the rail takes over. The reason for that is, of course, they can't double stack on the railway, so they truck this stuff to terminals which are on the west side. So the highways through the Blue Mountains actually carry more traffic than would otherwise be the case.

MR WARD: Yes, that actually is probably the major problem that would confront the scheme here because even though in Europe the ULP flat wagons do allow the pantechnicons to drive on and clear the catenary for electrification, here several of the tunnels in the Adelaide Hills are just so low in clearance that there's hardly hand space to put between the wagons and the walls. It would require quite a revamping of the hills railway line to the effect that. If we're going to do that then we might just as well at the same time build the tunnels so that we can double stack but that problem would actually start right at Regency Road, which is at the southern end of the Islington freight depot, because that's the very first obstacle that has to be overcome.

PROF SCRAFTON: And it's a fairly new bridge.

MR WARD: Because that bridge is too low.

PROF SCRAFTON: And that bridge is not that old either.

MR WARD: No, it's a relatively young bridge. In fact I think if it was 15 years old I think I might be very generous.

PROF SCRAFTON: I haven't got anything else. I think you wanted to talk about security as well.

MRS OWENS: Yes, just briefly on security, you say in your submission you're with the transit police division and I know you're not here representing the South Australia Police Department but could you give us any insights into the issue of passenger security that you're concerned about, and whether that has been something that the South Australia government is prepared to put resources into, whether it has been an issue, whether the issue has been addressed, whether the public perceive the public transport system in Adelaide as being a safe, secure system in which to travel.

MR WARD: Yes, we have to go back a few years because the transit squad, as it is

known today or as it appears today, was roughly formed in its present context about 10 years ago, however it wasn't constituted with only sworn police officers. They had a mixture of transit officers who were not fully sworn state police officers and also you had railway police officers who were special constables. Then because there was a different ability to coordinate the activities of these people they introduced a nucleus of state police officers under the command of a senior sergeant who later was upgraded to an inspector's position.

Even under those conditions they experienced difficulties in that the big problem was that there was conflict of attitudes towards work as far as the unions were concerned, so it was considered that the only way to solve the whole problem was to have everyone as a sworn police officer. That was going back about 4½ years ago. They commenced to train those who were not sworn police officers to become sworn police officers in their entire knowledge of the legal system, which meant that they not only had to know what was a breach under the Public Transport Act but the rest of the police knowledge that's required to be a police officer, which probably for the individuals concerned was very good because it actually increased their working knowledge.

Unfortunately though, from the transit policing point of view, it has meant that they can also transfer out of the transit police. They were required to spend a minimum of 2 years in that position and of course over - I've only been in this location since January last year and of course in that time I've seen quite a few of those people who've gone past their 2 years requirement moving out, and so we're now hoping to get other people come in, but of course it doesn't matter where you go in the Police Department, we have a manpower or personpower shortage. We are rather under strength in that we are supposed to have 75 people and there's roughly 50 to 52 people there at any one time.

The individuals I think have benefited from the injection of training that has broad based their law knowledge, and I think it has also helped because it has made a better attitude towards the enforcement point of view. However, in terms of what the public feel, speaking to the general public, several years ago when the unit was formed as a composite unit, it was at that stage that many people would simply not travel on the local rail system, particular after the beginning of the evening time because they just felt that it was not safe to do so.

I would not even today claim that it's a 100 per cent safe system, but I would certainly say that it's a much safer system today than it would have been back in those days. It's our aim to make the system as safe as possible, but of course unfortunately there is a small group of the community whose hell-bent idea seems to be to destroy the public transport system, and it's unfortunate and I think you've probably heard it before that a lot of people feel that the courts aren't upholding the policing.

MRS OWENS: Do you operate by having police roaming through trains on a random basis?

MR WARD: We endeavour to cover each of the rail lines with a crew which consists of three persons and a motor vehicle, and the general plot is that one person drives the car and the other two travel the train, and the car travels along the nearest possible roads following the train up the track so that if there is a problem they can respond fairly quickly to the request from the train crew to come and assist them if they've got a person on board that's not required to be on board. It works pretty well. Of course no system is perfect, but it does work. We have a fairly good hit rate, I suppose you could say.

We also, as another aspect of it, provide a beat patrol of the Adelaide Railway Station and surrounds, which includes this complex here and the Hyatt area, and up in front of Parliament House is our territory, and down to the theatre, at the rear, and in addition to the rail system of course we also cover the bus and tram system as well.

MRS OWENS: Is there any evidence that people have responded and are using the systems more than they were in the past?

MR WARD: I can't speak from personal knowledge because I simply wasn't here years ago but I have spoken to some people out in the public and they feel more comfortable travelling late at night than they used to 10 years ago; they have come back to the system to travel. But of course there are still some people who feel that it's not quite safe enough yet.

PROF SCRAFTON: Yes, it's very difficult. I think once you've got a reputation it's very difficult to actually correct that, isn't it, even if in practice it's safer. People still have that perception which they remember from 10 years ago or whatever it was.

MR WARD: Yes.

PROF SCRAFTON: My personal view is - I mean, I don't use the trains a lot simply because of where I live, but I use the buses a lot and you don't see that concern in the evenings, but that's partly of course because the buses do have somebody there, in the driver or the operator, that you can see. But even there, that's another problem that we have had in South Australia over the years, isn't it, with bus operators being attacked when they arrive at a terminus to lay over or something. We have had one or two rather nasty assaults in the past few years. But I think that the idea of the squad is certainly - people are aware of it and there is that feeling of security.

MR WARD: Yes.

PROF SCRAFTON: The other thing is, do you protect the property? I seem to remember vandalism in the railcar depot and stuff like that.

MR WARD: Yes.

PROF SCRAFTON: Is that part of your responsibilities, too?

MR WARD: Yes, to investigate it, but not to provide the security for it.

PROF SCRAFTON: So they have private security but you do the investigation of any incidents?

MR WARD: At the moment it has been turned into a fairly secure area with 8-foot fences topped off with razor wire which makes it fairly unattractive to climb in, but of course it doesn't mean that it's impossible to get in there. I believe there have been a couple of incidents in there, but of course you can never stop some people.

PROF SCRAFTON: Yes.

MR WARD: But it stops the person who's - - -

PROF SCRAFTON: Casual, yes.

MR WARD: - - - not so persistent in his desire to trash public property. But at the same time I would have to say that even though we are very worried about graffiti here, and the policy here is that a train doesn't continue on during the day if it gets graffiti during the daytime, when I went to Europe in 96 I was interested to see the German railway system and what it looked like, because I'd read in one of my information sources that they had spent the equivalent of \$2 million the immediate preceding year, and I just looked around and I thought, "Where have they spent the \$2 million?" because graffiti in Germany is almost out of control.

PROF SCRAFTON: Yes, everywhere.

MR WARD: And yet you go to Spain where you might think people might be a little bit more hot-headed, but you really have to look for the graffiti. So it's definitely got something to do with the social attitude of individuals, and also perhaps law enforcement, too, because I think that the reputation of the Spanish police is that they don't mess around, whereas unfortunately in Germany, despite its previous reputation for rigid law enforcement, I think they're sort of trying to soft-pedal, and with dire consequences.

MRS OWENS: That's very interesting. I think we have probably covered what we wanted to, and I am very pleased that you were able to talk about those security issues at the end, but I think it was useful to talk about some of the ideas in your submission. Have you got any other comments that you'd like to make at this stage?

MR WARD: I think at this stage I'd just like to back up Chuck Chabot's statement in that even though he's prepared to bring his running speed down to within the track's capability, if he can increase the capability of the track then he can improve the service. I look at the Adelaide to Melbourne route and the question I ask is, would a truck operator like to have a 40-kilometre-per-hour speed limit placed upon him for not just 1 or 2 kilometres but for a couple of hundred kilometres? Would he like to operate a single-line operation between two capital cities so that you have only got

passing loops? I think he'd say no to both of those.

Until we do something about first of all getting the Victorian side of the line upgraded so that trains can travel at a respectable speed by - I believe there are thousands and thousands of concrete sleepers stacked on the side of the track and just not installed. That has to be the first step. Then the second step should be, we should give very serious consideration to duplication of the track as much as possible, and I say that particularly in view of the possibility of the Darwin-Alice Springs line being built, because I'm still a little bit sceptical about that. I think that still might be pie in the sky. I'll believe it when I see it.

MRS OWENS: That might be a very good place to finish. Thank you very much, Mr Ward. We will break for one or two minutes.

MR WARD: Thank you.

MRS OWENS: We will resume with our last participant for the day. It is Ms Elizabeth Hiskey. I gather you're appearing in your own right but could you just give your name for the purposes of the transcript.

MS HISKEY: My name is Elizabeth Hiskey and I'm appearing as a private individual with no affiliations.

MRS OWENS: Thank you for your submission which we got earlier today. It would be very useful for us if you could perhaps just talk briefly to the submission, and I note that some aspects of your submission are commercial-in-confidence which, in this public hearing, means that we cannot ask you about them. We could go off the record if you wish, but perhaps if you could clarify which aspects of your submission you would be happy to discuss and then we can have a discussion.

MS HISKEY: As far as my submission goes I apologise for the fact that it's handwritten; I don't have access to a computer at the moment - - -

MRS OWENS: It's very clear writing. That's fine.

MS HISKEY: Good. My submission is in two parts, two linked letters, one of which is open but refers to the attachment which is commercial-in-confidence. I am happy to answer questions about the covering letter, any of that content. As far as the commercial-in-confidence attachment goes, I was simultaneously appalled and delighted to hear during conversations with Mr Ward during the lunch break that point 1 in the commercial-in-confidence section has already been thought of by minds much more technical and well informed than my own, so I am happy to discuss now point 1 of that.

I don't know how to undo the commercial-in-confidence section - just be declaring it, I suppose - but I took the trouble to ask Mr Ward how long Burnside Council and associated people had been discussing these matters, particularly given that they are only a few kilometres from where I live on the A21 Transport SA declared route and I was vaguely aware that Portrush Road residents were becoming quite political in attempting to divert the traffic to run past my place. It's obvious that his work predates my own by about 18 months to 2 years as just one of those things that happens often in the academic world and the world of ideas generally that common problems in various locations generate common solutions sometimes.

MRS OWENS: There is an element of serendipity and it happens over and over again where two independent groups have come up with the same idea almost simultaneously. It's wonderful how that happens.

MS HISKEY: I learnt a lot listening to Mr Ward because he obviously understands a lot more than I the technicalities of how to put these things together, and listening to Dr Easton also, the wealth of knowledge and information about costings and investment considerations which I have not had a chance to model at all.

MRS OWENS: You may find the Burnside City Council's submission a useful document to get hold of.

MS HISKEY: With which to fight them?

MRS OWENS: One way or the other or you might just find it interesting.

MS HISKEY: Yes, thank you.

MRS OWENS: Given that you can talk to the first part of the second letter - I'll quote:

Drive-on loading rail bogies to enable single truck vehicles to be transported by rail.

So it's this same sort of idea as the roll-on roll-off type proposal.

MS HISKEY: Yes, and also I'd identified Tailem Bend as the place to roll on coming from the east. I was actually thinking of further west or north than Islington. I was thinking of carrying, particularly through traffic - through to somewhere in the vicinity of Gawler or somewhere like that. The rail does divide so it depends who's going where, I suppose. We do get quite a lot of through supermarket traffic to country areas in South Australia - is my understanding.

MRS OWENS: Have you taken this proposal anywhere, apart from here?

MS HISKEY: I wasn't really sure where to take it. I am certainly open to negotiation.

MRS OWENS: I'd suggest that you do have some common issues or interests in common with the Burnside Council actually because your concern is that there will be a redirection of traffic to your road, but this probably resolves that problem more directly.

MS HISKEY: That's where my concern started, yes, but I'm also interested more generally in the idea of the rail infrastructure generally being there, the historical and some cost argument that you heard earlier, and that would actually be relatively speaking, potentially a low-cost solution in the long run to the problem of urban areas becoming merely thoroughfares.

MRS OWENS: Have you given any thought to who should be responsible for introducing such a solution? Do you think it should be a Commonwealth responsibility or a state responsibility?

MS HISKEY: Probably a combination of the two, because it's something that can be generalised to other cities as we've already heard. I think that there are quality of life issues here too for the major urban areas and quite a lot of residents in different

places are starting to move on that. The timing could be quite good given the federal government appears to be signalling that in their second term they will be more interested in some social concerns, but I think those social concerns have not yet been identified fully. This could fall into that catch-all phrase. I'm not sure.

On that first point also I'd like to mention that the framework of the greenhouse challenge program is what I had in mind in saying that it might also gain benefits under the Kyoto agreements because the federal Department of Environment has in fact developed quite an interesting and quite sophisticated program which has the overall title the Greenhouse challenge program but is divided into three levels of operation. Greenhouse challenge per se is an environmental program which is undertaken by large corporations. I think greenhouse partners is one designed for medium-size enterprises and then, more recently, has been launched the greenhouse allies program, which is designed for small business but could equally, given that it's mentored by greenhouse challenge participants, the larger corporations or larger organisations, be applied to local groups, for example, in the vicinity of a station. So it would then become a local initiative in a particular catchment area, say around the station, for people to measure how much the real cost is of their vehicle use and to compare that with potentially bicycle use to the station, short trips within that particular catchment area, and so on. I'm sort of flying a bit here, I suppose, but just to give you the idea.

MRS OWENS: I am not familiar with these particular programs but is there funding available under those programs to look at some of these issues?

MS HISKEY: What I've just said is an extension of what they have in mind, but I think some funding is available. That program, the greenhouse allies program, was launched here in Adelaide a couple of months ago and I attended the first workshop which just gave an overview and didn't get into the guts of it, so it would be necessary to go back to the federal Department of the Environment to find that out. It seems to me that some Commonwealth initiatives, which look at process as well as all the other usual measures, are already in place that could be most useful.

MRS OWENS: One of the things that really needs to be pinned down is that there's been in a number of our submissions, and submissions also to the parliamentary inquiry, emphasis on the environmental impact of heavy trucks on roads. I think what hasn't really been pinned down is what that actually means, whether you can measure that - and I am sure you can measure emissions and all sorts of things - and looking at the relative benefit of different modes of transport in that context. What you are saying is there is a mechanism through these agreements to think about some of these questions.

MS HISKEY: Perhaps not so much from the point of view of technically acceptable measurement - I'm not sure how much analysis they do - but certainly from the point of view of facilitating a group of people to look at a local problem and to develop communally the political will to change in ways that, although the individual contribution might be very minor, the overall social contribution could be relatively

significant for that area. If groups are doing it all over the country then you start to get something that is more measurable, yes.

PROF SCRAFTON: I've got nothing on the issues you've talked about but I would like to discuss the other paragraph in your covering letter, if I could.

MS HISKEY: Yes.

PROF SCRAFTON: I'd like some clarification of your concerns there, which I think are quite interesting. I wonder if you'd like to just talk about that paragraph, initially to put it on the record.

MS HISKEY: Which one?

PROF SCRAFTON: The one about security of information about travellers and so on.

MS HISKEY: Without going into a huge amount of detail and in general terms, when some people, for example, suffer a workplace injury from which they are recovering or attempting to recover, they can find that they are suddenly under an awful lot of scrutiny in going about their daily business, particularly if it's of a non-work nature. In addition, if under certain circumstances such a person ends up on say social security payments, because of the way that - and I'm using old names now probably - but because of the way that social security information is linked into the national database which comprises five of the really major federal agencies, all sorts of people can actually suddenly deal with an enormous amount of interest in a person's doings.

On the one hand that interest can be legitimate. I certainly would not be advocating any of the mechanisms available for ripping off the Commonwealth government or any other agency; on the other hand sometimes it can be intrusive. I suppose one can never be sure perhaps whether what is happening is inept surveillance, which is all too obvious, or whether there's an intention to harass. There is another aspect to this as well; that apparently there are certain individuals who choose a target and follow them around for sport. I've been introduced to that notion.

However, one of the differences, and this relates I suppose partly to the question of security at night that was discussed previously but would also apply during the day, is that on a train it's much harder to get out of the situation even in a suburban context and particularly on an overnighter, all-day rail trip and it could be quite uncomfortable. That has actually addressed the second point first, which is passenger movement and passenger comfort while travelling by rail.

Security of information basically refers to bookings. I know that people just don't make bookings any more. Some people just roll up at the last minute and hope they get a seat and pay in cash, not because they're hiding anything but just because they hate this experience.

PROF SCRAFTON: No, I think it's a useful point that you've brought to our attention, because it is rather like the night-time security thing, that once people get a feel for this sort of discomfort and they don't travel - or whatever it is induces them to buy a car or second car or whatever - then these people are lost to public transport for whatever reason it is. This is not a situation that I was aware of and for that reason I think it's very valid that you would draw it to our attention.

MS HISKEY: I have no idea how much of it goes on, absolutely none. For example, for myself I don't startle easily and am not inclined to be panicky, but I know that I would think - for example, if I was in that situation on an overnight trip, I wouldn't necessarily think that anything might happen to me, but I mightn't sleep very well or at all and I might wonder whether somebody else was waiting at the other end. It sort of denies the benefits of getting out of town, I suppose.

PROF SCRAFTON: Thanks for that.

MRS OWENS: Are you referring to workers compensation type organisations? Who is implementing the sort of security surveillance?

MS HISKEY: Sometimes - WorkCover corporations basically exist to doubt the veracity of the information given, I suppose. That's rather a cynical view perhaps. They obviously have other roles, some of which are being devolved now - for example, the rehabilitation and return-to-work programs and all that. I suppose from their perspective they're testing the veracity of the claimant. With some types of injury it's completely meaningless to follow someone around because they're not visible anyway.

MRS OWENS: But you're saying if somebody was going on an interstate train trip they'd go as far as actually accompanying that person onto the train and watching them.

MS HISKEY: I'm not sure. I'm not alleging anything at this stage, but certainly if other things that have happened that I'm aware of, are happening with regularity, then I'd say the possibility certainly exists that being accompanied for at least part of the journey would certainly be possible. Finding out what the ticketing arrangements are would be possible and therefore knowing the end point of the journey would also be very easy. Such people seem very plausible in their interest. They would not necessarily identify themselves. Of course, then there are former employers tied in with the WorkCover claimant who might be rather interested in proceedings as well, obviously because they might be a party. I think without expanding levels of concern or anything I think there are real issues there. Did you want to ask me any more questions?

PROF SCRAFTON: No, that was fine, thanks for that.

MS HISKEY: There are a couple of other points that I was wondering if I could

make in relation to the bicycle interests. I have read some of the bicycle strategy information that has been around, and I have also looked at some of the South Australian Passenger Transport Board literature. It seems to me that everyone is still assuming individual ownership of bicycles in the same way as we think about individual ownership of cars.

I wonder if fitting in with already proposed bike-bus, or bike-rail type ticketing innovations - whether some kind of hire arrangement mightn't be possible as well so that multiple use of bicycles would be possible, rather than having an individually owned bicycle hanging up all day at a station. I know that these things can be quite difficult to actually put together on a cost-effective basis and I would really just have to ask that the modelling be done in some way. I do certainly agree that the public health benefits of setting up some kind of structure that facilitates the use of the bicycle - people like myself who haven't ridden a bike for years might perhaps start out 1 day a week.

MRS OWENS: Good luck. There are bike hire companies but they often set up their offices close to tourist attractions, like the gardens or the rivers or whatever - so it's not something you see spread right through suburbia.

MS HISKEY: I'm thinking, for example, were one to catch a train to somewhere in the Barossa, were one able to buy a rail-ride ticket with a bit of information - now, some of the roads may not necessarily accommodate bikes up there, particularly outside the town centres, so there probably needs to be a bit more thought put into that, but I'll leave that to the state transport man over there.

PROF SCRAFTON: I feel sure that the people who are running this new Barossa charter train would be quite interested in hearing the idea. They seem to me to be very innovative. They've already put together three different package levels for people who take their train, and if it was possible - and I'm sure that there's some marketing person in their organisation that would smoke it out at Tanunda. If it's not, then they would tell you, but they seem to be quite responsive to the market - those people that run that thrice-weekly, I think it is now - three times a week they run and obviously the key for them is to lift their ridership. It's quite an interesting idea, it's just a matter of whether there are enough bikes in the Barossa to put such an idea - somebody with whom they could work to get that sort of idea together.

MS HISKEY: It is difficult because in a way with something new like that, which also attempts to attract new cyclists, some investment in bicycles is necessary to test it almost, I think. I do understand that that could be quite difficult to work out. I was also wondering on the question of long-term planning and looking at the demographics that we have in Australia at the moment, it seems to me that particularly given points already made about the infrastructure being laid down historically and because it's already being sunk as well, that planning 20 years down the track would be entirely sensible and appropriate in this industry. Working out packages which involve children and families - catch them under 5 and you've got - - -

MRS OWENS: Got the lot.

MS HISKEY: Potentially, yes. One idea which would cost, but may be done - it would be done on a modular basis - might be to reconfigure one or more carriages, say, for example on the Melbourne to Adelaide runs so that without being too up-market one has perhaps three suites in a carriage, rather than a whole series of single or twin sleeper compartments. The only problem there might be that if it's necessary for regulatory reasons to have a passageway through, then that may not be feasible, but there may be some way perhaps of encouraging family travel with young children and making it easier for them. That might require some attention to meals and things like that.

Similarly, and I think this is something that's going to come up fairly quickly, increasingly older persons are using the scooters which are actually quite bulky, but do provide a new solution to mobility which is not actually being looked at terribly much by any of the traffic or transport people, I think. Were it possible to scooter onto the train and then just to be able to operate within a fairly limited geographical space, that might be a solution for enhancing travel by retired people.

PROF SCRAFTON: I'll just make a comment about that, Helen. People are conscious that the planning for the mobility-impaired traditionally has concentrated on design standards for wheelchairs, but there's a real recognition that scooters are the next generation, and not only are they different technology, but numerically they're going to be much greater, because they are a far more attractive technology. That is, people who otherwise might have stuck to a walking-stick or a zimmer frame will, simply because they didn't want to have to resort to a wheelchair, in fact find the scooter technology pretty attractive. I know that the disabled groups and the people who are catering for them in improving transport accessibility - you're quite right in saying that not much has been done up to now, but people are very conscious that it is the next design problem.

MS HISKEY: Yes, because often the people who use that technology can walk short distances and they're not frail aged, they're actually quite robust often, I think. The other point in relation to demographics - this has already been commented on, on the Melbourne to Sydney run and also in relation to business class passengers on airlines - often that's almost the only time that some high-flying business people have to themselves, and so the possibility of developing that as a niche could perhaps be considered for overnight trips, for example, just on the short-run interstate routes.

Finally, often for particularly suburban train passengers, or indeed for any form of public transport at the micromini level, if you like, despite all the corporate privatisations and so on, from the point of view of the traveller one is still operating with the monopoly because there's a particular mode of transport to a particular place which is either the only one or the only really feasible and convenient form. I suppose that comes back to the earlier point I made about the greenhouse allies program perhaps being a mechanism for a small community located on a railway or around a railway station catchment area, to actually address that as stakeholders to what is in

effect a monopoly form of transport.

MRS OWENS: Good, thank you very much for that. Thank, you for coming. I know you've been sitting here for a good part of the day. That ends our hearings here in Adelaide. We adjourn until 9.30 on Friday, 23 October in Perth. Thank you very much.

MS HISKEY: Thank you.

AT 4.31 PM THE INQUIRY WAS ADJOURNED UNTIL
FRIDAY, 23 OCTOBER 1998

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