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**TRANSCRIPT
OF PROCEEDINGS**

PRODUCTIVITY COMMISSION

DRAFT REPORT ON PROGRESS IN RAIL REFORM

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

TRANSCRIPT OF PROCEEDINGS

AT PERTH ON TUESDAY, 18 MAY 1999, AT 9.30 AM

Continued from 13/5/99 in Sydney

MRS OWENS: Good morning and welcome to the public hearings of the Productivity Commission's inquiry on Progress in Rail Reform. This public hearing in Perth is the second of four sets of hearings. We held one set last week in Sydney, on Thursday we're in Adelaide and next week we're in Melbourne. The hearings are designed for people to raise issues in relation to our draft report, Progress in Rail Reform, which we issued in March, and to give people the opportunity to provide input into the final report, which is due to be released in August. 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 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 what capacity they appear, and I'll come back to that in a minute. Secondly, information provided at these hearings is often used in our reports. We therefore ask participants to be as accurate as possible and if they've got any doubt about the accuracy of something they say, or are not sure, they can come back to us later and verify it one way or the other. Finally, transcripts from today's hearings will be provided to all participants.

I don't think I need to do this but I will introduce my colleague, Derek Scrafton, who's the associate commissioner for the duration of the inquiry, and I think we'll get started now. Could you both introduce yourselves and your position with the organisation for the transcript.

MR JAMES: Wayne James, acting commissioner for Westrail.

MR RYAN: Tim Ryan, general manager of the network group, Westrail.

MRS OWENS: Good, thank you. Thanks for coming and thanks for the submission. We've read the draft submission that you gave us, and thank you for that. I think you've given us a final version today, so thanks very much for that but if there are any changes between the draft and final we won't obviously have picked those up and our questions are relating to the - - -

MR RYAN: There's nothing substantive that changes between the two.

MRS OWENS: Fine. I understand you've got some opening comments you'd like to make.

MR JAMES: Yes, thank you. We're appearing here today because we are concerned about the future of the rail industry into the next decade. It's essential that the Productivity Commission actually clearly states the current plight and state of the rail scene as it exists today and from that the real issues that need to be comprehended for the rail industry to re-emerge as a viable, robust transport mode for the next decade are really the concerns of Westrail today. As a result of that we have

provided

a supplementary submission to the Productivity Commission which, as you noted, you have received.

I'd just like to highlight the key points in that submission and I'd just like to go through those now from our point of view so that they're actually recorded in the public arena. If I refer to our supplementary submission, item 1 really is for information only and that's on the key reform initiatives. We believe there have been a couple missed out there in terms of the West Australian scene.

MRS OWENS: Thank you.

MR JAMES: In item 2, Performance of the Australian Rail Systems, I suppose there are two key points that we wish to emphasise in that section. The first point is that there is a need to ensure that the scale effects and the policy and market environment are taken into account when considering the Australian rail scene. The second item that we wish to draw to the commission's attention is that on-time running is not the most important key performance indicator when transport service is part of a logistic chain.

In terms of the section on structural issues, there are a number of points we wish to make there and I'll just summarise them one after another. The first point that we'd like to make is that there is a lack of definition of high volume. Westrail's highest track section carries 9 million tons per annum compared to a US class 1's average 27 million tons. Secondly, separation models work against economies of scale and can have a high interface cost. Thirdly, the best model for regional railways - and this is in Westrail's opinion - is integration with effective access regimes. Fourthly, the US rail industry is vertically integrated without formal access regimes. If we are to be compared to them, why not examine that model?

The next issue that we wish to highlight: the one-stop shop model for the interstate track is, in our opinion, the most pragmatic solution at the moment. Path pricing, whilst suitable for interstate market, may not be suitable everywhere and a number of pricing methodologies are likely to be used. The last point that we wish to highlight is that gross replacement value is an appropriate asset valuation methodology and is contestable and transparent.

In item 4, Safety and Regulatory Issues, we have three points that we wish to highlight. Firstly, there are a number of myths and generalisations that need careful analysing, and the industry lacks an appropriate framework to conduct this work. Secondly, uniformity can impose unnecessary costs and stifle innovation. Interoperability is the answer for the Australian rail scene. The third point: safety regulation must be based on compliance based approach and not on a prescriptive one. Lastly, competitive neutrality: the item there we wish to bring up is the lack of a framework for long-term transport planning leads to inequity in the treatment of road versus rail, especially in the investment decision-making processes. Thank you.

MRS OWENS: Good. Thank you for that and thank you for those introductory

comments. I think they were very useful for us. I think what we'd like to do is actually go through each of those areas and we might actually take the order in which you've done them in your presentation then and as in your submission itself. I will take on board those reforms that you have listed there. We are changing the nature of our reform chapter to make it less state based and more issues based. You'll probably find it's going to be a bit different in the final report. It was a bit of both, so we thought it didn't work particularly well, but we will take those and absorb those into it.

Can I just ask you, in terms of reform, when we were in New South Wales they suggested that we actually should be looking at the investment in rail as a reform initiative, not just - we've listed various reforms - structural reforms and so on. They said why don't we look at the increased investment that's been taking place in the rail system. Do you see investment in rail as reform or just an ongoing thing?

MR RYAN: I guess our first reaction was it would be difficult to identify any significant investment that was perceived to be part of a reform process, with the exception of the \$250 million which has yet to have any effective expenditure on the ground. That at least is targeted at achieving national standards but most of the money that's gone into rail has been replacement capital or new project driven. You wouldn't argue that very much of it came from a reform agenda.

PROF SCRAFTON: I appreciate that comment because that has been a problem for us and it's obviously a problem for the rail industry also, who would want to ascribe everything that has happened to a reform agenda, whereas in practice a lot of it is the management that would have taken place. In fact you made that comment about a couple of things in your documents. That's difficult to separate out. We left that out but others argued that it should go in, so we appreciate your comments on that.

MRS OWENS: I think in terms of the performance, you've given us some useful comments there as well in relation to scale efficiency and in relation to quality. I think in terms of on-time running, we used that as a measure because it's very difficult to get anything else on a comparable basis, and the question is whether you can really - is it better to have on-time running information than nothing at all, or do you think it is possible to collect other sorts of information?

MR JAMES: We report in our corporate intent statement our performance measures, which are about on-time delivery of tons, and have got public documents in the arena in areas of bulk haul. So I don't believe it's hard to do that and I believe the information should be available on the bulk haul side. We do also have on-time running in terms of passenger services and a freighter service, which is an on-time running service, but the bulk haul is tons delivered as against program.

MRS OWENS: So that is an on-time running indicator?

MR RYAN: Well - - -

MRS OWENS: Or is it?

MR RYAN: No, it's not.

MR JAMES: No.

MR RYAN: I guess the reason we raised the issue was there's a fascination with on-time running driven by a fascination with the interstate market, which represents very few tons compared to the total rail haul, and we don't argue that in the interstate market on-time running is the critical performance measure because it is about delivering, essentially, consumer goods and is in the distribution chain, but to most of our bulk customers on-time running is somewhat of an irrelevancy and our principal measure for them is tons delivered as against programmed tons. What time the train arrives is practically irrelevant to us and allows, in fact, for flexibility.

I suspect if you took the Hunter Valley, for example, and looked at on-time running, (a) it would take you a hundred years to work out what the actual schedule ended up being against the program because it's driven by the shipping system, so that can stop trains in mid-stream. Then the issue for the Hunter is: are you putting the right variety of coal into Port Waratah at the right time?

MR JAMES: Which is the same as our grain transport to all our ports around West Australia, meeting the shipping program and meeting the batch that's needed to go into those individual ships as they hit the wharf in line.

MR RYAN: The other point is that in the bulk transport area you can get a hundred per cent on-time running and fail to deliver the service.

MRS OWENS: The dilemma for us was really trying to get comparable data both across states and then we were trying to look internationally. I think that the only thing that we could come up with - and John's here and he probably can say more about this - was this on-time running indicator. I don't know if there are any other indicators that have been used on a regular basis that we can fall back on.

MR RYAN: That will be the practical difficulty because we've had internal dilemmas in getting away from on-time running ourselves to actually measuring and collecting the data about delivering the tons, for example, in the grain area where the industry has spent an awful lot of money on very powerful logistics and recording tools. So in comparative terms, I think it's going to be very hard to find a measure, but it is the only quality measure that you raise in the report and we think it understates a fair bit of the rail business.

MR JAMES: In the public arena, because most of the bulk haul operations, even in America and that, are a private clientele arrangement, they aren't publicised.

MRS OWENS: That makes it even harder, and it's going to make it even harder in

future in Australia as more of the system becomes privately owned and operated. It may be something that we'll never be able to pin down.

MR JAMES: Well, you would be able to if you had the approval of the client to show what his system was working at.

MRS OWENS: So we might be just the victims of time, a timing issue, but I think the best we will be able to do is acknowledge the difficulties of measuring quality across systems and say, "This is difficult at this point in time."

MR JAMES: We could give you some examples to show an example of the bulk haul measurement.

MRS OWENS: That would be useful.

MR JAMES: We can do that.

MRS OWENS: That would be very useful. We could put in a little box, saying that this would be the way it should be measured.

MR JAMES: A typical example of what happens in bulk haul logistics management.

MRS OWENS: Yes.

PROF SCRAFTON: Others have made similar comments, so I think we need to somehow accommodate this comment that you've made. Recognising that we will not be able to get some comparative data, we need to qualify what we've got much more than we have done already.

MRS OWENS: In terms of scale efficiency, I probably don't want to get into that in too much detail now. It's a bit hard to do it in this sort of forum. It might be better if perhaps John talks to you later about that issue, but I think it's the issue of whether we use loco numbers or loco horsepower and you've given an example of Westrail versus Burlington Northern and I think we'd just like to explore that a bit further with you, but maybe the hearings is not quite the right time to do it. Did you have anything else in performance measurement?

PROF SCRAFTON: There was just this, on scale efficiency: you had a little comment in there about comparing tons hauled and I had a bit of difficulty in reading that to understand the significance of that. On the first page, down at the bottom, you make a comparison of tons hauled per thousand tons of locomotive horsepower and you mentioned that the comment in the report that we made about horsepower in Australia catching up, as we put it almost, is not all that valid; that at the same time as Australia has been moving to 4000 horsepower, the Americans are introducing 6000 and so on, presumably. I think that's a good comment and I appreciate that but

the second one I had a bit more difficulty with, the tons hauled per thousand tons of power. I don't quite understand the significance of that as a measure.

MR RYAN: Again it's just simply attempting to compare, to equalise the question of locomotive numbers. There's no question the US have probably increased their average horsepower per locomotive by twice our rate. We did a huge catch-up with the NR fleet, for example, and that looked like a quantum leap, but at the same time that we built 124 locomotives Burlington North ordered 1100 6000-horsepower DC traction in the same year. All we're saying is that if you look at tons hauled by a locomotive in the Wheat Board study, you've got the reverse of that result, but if you look at it as tons per thousand horsepower, we in fact are using our locomotives much smarter. But if you look at it on absolute numbers of locomotives - so it's just neutralising the use.

MR JAMES: It's about capital resource management. As a productivity measure, we are ahead of the US.

MRS OWENS: Yes, but I think you came out looking pretty good, at least internally.

MR JAMES: The Australian average is above Burlington North, which is considered the benchmark measure in the US.

MR RYAN: Sorry, we should qualify that. That's a Wheat Board study, which I'm not quite sure has ever been made public in full and it only related to grain haulage.

PROF SCRAFTON: Yes, but thanks anyway.

MR JAMES: It's worth having a view and I'm sure the Wheat Board would give you a view of that study, because they did benchmark it and neutralise - - -

MR RYAN: And they actually ran it both ways on this scale efficiency thing. They just ran it out as an absolute number and then adjusted it for scale and you got quite diametrically-opposed results.

MRS OWENS: I think we will follow that up and have a look at that.

MR RYAN: I don't know that it's ever been publicly released but the Wheat Board have certainly used it in public forums and it's getting a bit ancient now - that's 1994.

MR JAMES: But it's the principle. It's the principle of how to measure the productivity improvement in the system.

MRS OWENS: Again I suppose it's going to come back to what data is actually available to do the measurement but we're still trying very hard to look at these other ways of measuring and make sure we're getting it right and, if we're not getting it totally right, we'll have to qualify like mad what we've got there. I think the next thing we'd like to talk to you about is the structural issues, and again you've given us very valuable insights there. In terms of high volume and low volume, we've been

looking at high volume as being rail carrying coal and iron ore and so on, and low volume as being the rest, so the high volume are the specialised railways and then there's the rest. Would you see yourselves as being a low-volume carrier or a high-volume carrier?

MR JAMES: Low volume.

MRS OWENS: Low volume. I just wanted to clarify.

MR JAMES: But I would question whether - - -

MR RYAN: Our most intense traffic is the bauxite traffic from Pinjarra to Kwinana, it's short haul, and on that section of line we carry 9 million tons a year. That's the highest we get and the US class 1 - - -

MRS OWENS: You said about 27 million.

MR RYAN: About 27 on average, and I don't have the numbers, but if you took the Hunter Valley and the number of tracks they've got in there, and you actually measured the tons per track, I don't think you're going to get much higher than 15 in the Australian environment, and the only exception to that will be the Pilbara iron ore railways. The other problem is that none of our alleged high-volume railways are stand-alone regional systems, they're part of in-service - you know, attached to low-volume stuff as well and there's no discrete regional high-volume railway. Where we carry the bauxite we have 9 million tons on the end of that line, which is our south-west main, and 4 million at the other end and it has some spur lines coming off it. So we've found it very difficult to understand, for the structural debate, this concept that you've got some isolated low-volume railways and then some high-volume regional railways and that in some sense they were separable.

PROF SCRAFTON: I think one of the things that is apparent to us from hearings is that our report is read that way far too strongly. It was not meant to be a rigid taxonomy in that sense, it was more just to say there are certain characteristics about railways, but it's not to say that they don't all apply in different proportions in different places and I think we take your comment on board. But that's why Helen asked the question about how you see yourselves, because in terms of the way that we saw it, we saw it as a low-volume railway, and your comment about the Hunter is very pertinent too, that even that would just be on the margin of what you might consider to be a true high-volume railway. But having said that, you make the professional judgment that you feel that if yours or any other railway that you run was a high-volume regional railway, you would have a strong preference for integration on that railway, vertical and horizontal integration on that network?

MR JAMES: Yes.

PROF SCRAFTON: We appreciate that.

MR JAMES: And I want to make the point again that I think when comparing us to anybody else around the world, the ones being compared to are vertically integrated.

PROF SCRAFTON: Yes, we picked that up.

MRS OWENS: Is that because you want to strengthen your position in terms of intermodal competition? What's the argument that you're using?

MR JAMES: The argument is what actually is happening elsewhere in the world in a competitive deregulated rail system? That's what America is and that model would appear to be working very well, considering that's what the benchmark is for productivity.

MRS OWENS: You talk about the US not having regulated access regimes, but you before that say that you are in favour of - you say that Westrail believes - this is on my page 5, I don't know what page number - I've got a fax page number - but, "Westrail believes that the appropriate model for high-volume regional railways is a vertically integrated railway with an effective access regime," but then you cite the US, without a very strong access regime, as being okay. I couldn't quite work out whether you think you need the access regime or not.

MR RYAN: If you go back to have a look at the argument about separation, our argument for integration is it leads to the most efficient provision of the infrastructure because there are key business drivers. There is a link between the above-rail and the below-rail operation and there are economies of scale. If you're worried about monopoly rent, then you have to have an effective access regime to avoid that. You have to have the access regime so that the price the track owner charges is regulated and you can't extract rents. The difference we see with the North American market is that the first test in Australia is whether the market would sustain, economically and practically, duplication of the infrastructure. In a large part of North America it can. The market is so big that an operator is not necessarily locked out of building his own infrastructure because the market will support it, whereas the Australian market, in almost every case you can think about, would not support duplication, so that's the bit that's missing out of the American system.

MRS OWENS: Yes.

MR JAMES: Hence our support in the Australian system for the access regime.

MRS OWENS: Yes. That's clear, and that's then consistent.

MR RYAN: But whether that access regime, in terms of preventing monopoly rents, needs to extend to above-rail competition is an interesting argument. The Americans seem to survive with the combination of commercial negotiations and the Monopolies Commission's power to ensure that there is competition in markets and they do have some regulation about service provision, but they certainly don't have it down to the nth degree that we have it here in Australia, so we're saying it's

potentially possible we have gone too far with the model here and if your prime concern is stopping monopoly rent, you can do that without necessarily having to have formal above-rail regulation for competition. The Americans don't have it, so effectively they've got two essential differences, but we certainly think in the most part in the American market you can duplicate the infrastructure so that that argument is quite different.

PROF SCRAFTON: Yes, good. I think on high-volume regional that's fine. Could we just take that a bit further in terms of your own operation in Western Australia. We have heard in some of the responses about the potential for above-rail competition in what we categorised as low-volume regional railways and I don't know whether it's easy for you to tell us, but would you describe the competition for the business you've got in Western Australia as very strong, the intermodal competition that you're facing in Western Australia? And is it possible to illustrate that by trends in freight rates?

MR RYAN: If we're talking low volume, essentially you're talking about our grain business and it is totally exposed to road competition. The pricing methodology that we use is that we price a location against the best available road distance and road-truck combination.

MR JAMES: Not the length of the railway.

MR RYAN: Not the length of the railway. So if you can use road trains in that district then that generates a different price than if you've got a limitation on truck size, for whatever reason. So our price is based directly on what the competitor, the road competitor, will give you, and the only way you survive in that business is that you manage the whole - we have a contract to shift all of the grain that's delivered to the nominated points. We still have grain that goes past those on-road competitors directly into port but if you've got the whole business you can manage the competition. If you begin to desegregate that business we think that rail will be in trouble competing with road freight rates.

MR JAMES: We are a volume-sensitive transport mode - rail. Long distance, volume-sensitive, is our efficiency.

MR RYAN: But even in other markets, for example the intermodal container market between here and Kalgoorlie, the goldfields, a reasonably significant market of all the traffics we have on rail, there are road trucks running along beside us with the same stuff on it.

MR JAMES: That's right.

MR RYAN: Very competitive environment. It's only probably when you get up to the real heavy bulk hauls, like the bauxite, that you start to question whether road is a feasible alternative.

MR JAMES: Iron ore.

MR RYAN: Yes.

PROF SCRAFTON: Which, in terms of what we were talking about earlier, sort of pushes you towards the high-volume-type railway, even if the totals are not very large, in the sense that you mentioned earlier. So that's a little bit different. It was those other markets that we were interested in and we appreciate that comment. Again, if I could just take you that little bit further, it has been put to us that there is potential for competition and it's hard to describe this, but I would describe what you have said exists in Western Australia as real competition. It has been put to us that there is the potential for real rail-on-rail competition in these markets. Would you agree with that in light of what you've just said? I will put my cards on the table first and say that given that situation, I don't think there is a lot of scope for rail-on-rail competition but we would like to hear what the rail operators believe, and we have come out in our report suggesting that it isn't that great but we have been criticised for that.

MRS OWENS: We were criticised in New South Wales last week. There was a very strong suggestion that there is a great deal of potential for rail-on-rail competition in those markets and our view had been in our report that low volume is relatively low volume in Australia and if you've got sufficient intermodal competition that's probably all you need, but what do you think?

MR RYAN: No, is the short answer.

MR JAMES: Yes.

MR RYAN: No, we don't think there's a lot of potential.

MRS OWENS: What about niche operators coming in on some of those lines?

MR JAMES: There is the potential for marginal competition. Our intrastate movements to Kalgoorlie, where we have an interstate operator coming down the same pathway, that obviously will provide some rail competition.

MRS OWENS: But it's only going to be a very small part of its business, isn't it?

MR JAMES: It's only a very small part of his business. I suppose the only other comment I would make, it would depend on what is the competitiveness of the other mode that rail was competing against, and if the road competition for some other reasons is highly priced, such as terrain, configuration possibilities, lack of bridges, structures, then the competitiveness will then be able to be managed in terms of above-rail competition.

PROF SCRAFTON: Thanks for that.

MR JAMES: And I think that's the key.

MRS OWENS: Are there many circumstances where you would say that road competition would be limited because of those constraints?

MR RYAN: Not in Western Australia.

MR JAMES: Not in Western Australia. In Australia there may be.

MRS OWENS: But in maybe New South Wales?

MR RYAN: Yes.

MRS OWENS: Maybe that's what they're talking about.

MR RYAN: I guess the reverse example was a better way of saying it. We, as you know, had an exercise in attempting to set up above-rail operations in the Hunter Valley. The attractions to us of the Hunter Valley were (1) there was no possibility of road competition in reality at the end of the day. There is some road competition but at the end of the day there's no way road can haul that task or politically would be able to.

MR JAMES: But the uniqueness of rail is competitive edge.

MRS OWENS: Yes.

MR RYAN: So if you didn't have intermodal competition - we had a view that the provision of the current service was inefficient and we were more efficient at operating trains, we were better at logistics management than the current operator, so we could shave the margin and, thirdly, there was an element of monopoly pricing still in the existing prices in New South Wales. So we thought you could have a go at that.

MR JAMES: And there are other markets in Australia that are that way.

MR RYAN: If you run those reverse tests on most of our business we've nearly always got road competition.

MRS OWENS: Do you want to finish the story for the record?

MR RYAN: We are still having negotiations but predictably, and it's on the public record, FreightCorp dropped their freight rates whenever the competitive pressure came on, and presumably had achieved sufficient reforms to allow them to do that in a profitable way. It's a bit hard to tell but we assume that's what they did.

MRS OWENS: So they see that - you might not want to comment on this - contestability is enough, that actually getting to the point of actually letting the

competitives in may be a different story?

MR RYAN: That's right. There are very high changeover costs for an operation to go to a new operator and new rolling stock and there are risks for the business, the coal business.

MRS OWENS: Although they have done it in Leigh Creek.

MR RYAN: They've done it in Leigh Creek but that was a pretty standard and isolated operation.

MRS OWENS: Yes.

MR RYAN: So certainly there is no doubt that contestability immediately induces a result, whether or not you get the competitor.

MR JAMES: How robust that is for the long term is really the issue that is yet to be tested.

MRS OWENS: Yes.

MR JAMES: Because once the contestability is there will the operator go back to its old style?

PROF SCRAFTON: Yes, thanks for that. That really is helpful to us and we appreciate it.

MRS OWENS: If you think that the potential for rail-on-rail competition in the low volume - in inverted commas "low volume" - rail is probably quite modest in Western Australia, what do you think that implies in terms of access regimes here for those routes? Do you need a strong access regime or not?

MR JAMES: I believe you've got to have a strong access regime regardless.

MRS OWENS: But why? If you're not going to get others coming in do you need the complexity?

MR JAMES: I don't believe that ours is complex, to be quite honest, because it starts off with a commercial negotiation and only is affected if those commercial negotiations fall over for some high level reason. I believe that what we are setting up is the future transport system and to have this in place and be sitting back behind the structural framework is going to be very valuable in the future to leave all options open to any client, so he does get a choice if he wishes to make that choice, and I think that's very important, and there may be other commercial imperative later on over the next decade that may have been not available if we do not go down this pathway. So it is about opening up the market and then allowing the market to respond accordingly. There is no more competition that you can - you know, you've

opened up the market totally to the competition and there can be no more argument about it. It comes back to a client's decision., right, wrong or otherwise.

MR RYAN: If you go back to one of your themes about how do you - you know, given all sorts of reform at the end of the day you've got to get a more commercial focus into the rail industry. Our people have competed against road and know we can beat them in open competition, so the next commercial driver for us is that there is a threat of another above-rail competitor and there is no doubt that just the perceived threat of above-rail competition has provided a strong commercial focus, and to the extent that could pose an advantage our guess is it outweighs the cost quite considerably.

MRS OWENS: But as a perceived threat that's not a really great threat, if you think about what you were saying before about the need for economies of scale and the dangers of dividing up a particular market. It's not a really strong threat, is it? But you're saying it's just enough to keep you on your guard?

MR RYAN: It's just a package of drivers you've got to focus commercially, because their prime driver will be the road competition in this state, but at the end of the day, if they let their performance slip, then other rail operators will come in.

MR JAMES: That's in service delivery. That's the other equation to it. One is price and the other one is service delivery.

MR RYAN: You have to remember that we have seen competition on our interstate route where we're not involved, other than as the access provider, and our people have seen what competitive pressures do to operators and how they behave.

MR JAMES: And actual operators coming into the market for service delivery reasons, not pricing reasons, and an example there is really the SCT starting off.

MRS OWENS: I think we've talked about low volume. We've talked about high volume. The other issue is this relationship between the urban network and the rest of the network. Is your urban rail network here pretty well independent from the rest of the network?

MR JAMES: Pretty well independent.

MR RYAN: In terms of freight.

MR JAMES: In terms of freight.

MRS OWENS: You don't have the Sydney issue?

MR RYAN: No.

MRS OWENS: But in terms of what you've been saying you tend to have some

degree of sympathy for the Sydney issue in terms of - we had suggested this horizontal separation of the urban network and you were - I'm trying to find where you've got it, but you said that you had some concerns about that.

MR RYAN: No, essentially what we're saying is when most people have got the interstate model they either, like us, think the pragmatic solution is to deal with the ARTC and manage that as best we can because of the number of interfaces that are going to end up, or you dedicate an interstate track, which is the other model, and our suggestion is that no-one, when they talk about the dedicated interstate track, includes the urban interfaces and that in fact drives the majority of problems for that business. We don't have an urban interface with our interstate business but it certainly causes us major headaches because the entry and exit times for the trains out of Sydney and Melbourne, in particular, control how you can use the - - -

MR JAMES: Control how you manage across the network.

MR RYAN: So we get 16 interstate trains in a period of seven hours and otherwise don't use the track for the rest of the day, and that's causing major problems. So all we're saying is even if you got the interstate network as a horizontally separated thing, unless you resolve the urban issue, particularly in Sydney, you are not going to get anywhere and that's particularly important for the north-south corridor, which is the worst performing corridor.

MRS OWENS: But whether you have an integrated urban system or separated out, you've still got the problem one way or the other.

MR RYAN: Yes, that's right.

MRS OWENS: And that problem is partly a political problem, as I understand it, in Sydney. The politicians have decided that the passengers will take priority.

MR RYAN: Yes.

MRS OWENS: So that's that, but there may be other efficiencies to be gained by separating out the urban network, even recognising that constraint and talking about having a vertically integrated urban network such as the model that they've adopted in Victoria.

MR JAMES: Yes, we would support the vertically integrated urban model.

MRS OWENS: But we talk about it being horizontally separated.

MR JAMES: We don't support that in passenger terms.

MR RYAN: Sorry, horizontally separated.

MR JAMES: Yes.

MR RYAN: Urban on its own.

MR JAMES: Yes, that's right.

MRS OWENS: So you support being vertically integrated but you want to see it as part of the overall network?

MR JAMES: No.

MR RYAN: No, we're happy with horizontal separation.

MR JAMES: Horizontal separation of passenger and freight.

MR RYAN: Until you get the horizontal separation you are going to have this continual bloody problem with freight trying to go in and out of there and then at the end of the day the only solution in Sydney is to separate the two networks.

MRS OWENS: Yes.

MR RYAN: It's the only solution.

MR JAMES: It is. We've been around that bush more times than I care to think about, and you can argue it till the cows come home but until you do that you will never be able to give freight due consideration and you'll never fix the north-south corridor.

MR RYAN: Yes.

MRS OWENS: As you can understand, we received a different view last week in our Sydney hearings.

MR RYAN: I understand some of the current views might reflect nervousness about doing anything before the Olympic Games.

PROF SCRAFTON: Which is an extraordinary situation for a two-week event. I guess it just adds to - - -

MR JAMES: But very real.

PROF SCRAFTON: Yes - just adds to the comments that have been made, yes, about how these political influences can dominate.

MRS OWENS: There are a range of issues in relation to the interstate network and we've just touched on that when we were talking about the urban issue. But we have a proposal to establish what we've called a track manager, which isn't really an

ARTC,

it could be something else. But whoever the manager is wouldn't be the owner of any of the track and we've suggested that it actually runs or manages the track on behalf of the track owners, which could be Westrail or it could be the RAC in New South Wales, and it could be the ARTC representing the bit in between. And we suggested that you could have then the same access regime covering the whole caboodle, the whole lot, and that you wouldn't be treating intrastate and interstate operations any differently.

So we had a different model, which was this management model, so that we could then start to think about fairly innovative ways of determining who gets on to the track at different points and how to actually deal with the intrastate versus interstate tensions. And you have actually argued for a different model, and that is ARTC as a retailer, and I was wondering, in terms of your model, what that actually means. What does the ARTC do as a retailer?

MR JAMES: The model, and that is the model that's currently being pursued, in my view is probably the only pragmatic outcome we're going to see. The ARTC as a retailer sells access for interstate operations. It has the functional relationship with the access seeker in terms of paths, priorities and pricing and we simply sell them a block of access to our track. It will generate a national access code, and that's intended, and we will prespecify the basis of that access in terms of operating standards - at the national standard but in terms of the interface issues- and hopefully the customer will deal with one body. So we will have a formal legal contract with the ARTC about allocation of paths, about change, about new business and so on, and there will be a national access code; and I think that's as close as you get to a model.

The problem we have is that at the end of the day there isn't a thing called the interstate track. For large slabs of it it is part of intrastate or regional networks - you can probably forget the state boundary bit - and if you hand over the nominated track to the interstate people, then the interface difficulties become much greater because there are many more of them for the intrastate people who run across the tracks. And so we think you'll get a pragmatic outcome with the ARTC solution, and the customers in some senses are already reacting that they see even this model as putting a middleman into the process, and whatever happens they want to avoid that as far as possible.

I think it's workable but it may take a while to get people in other jurisdictions on the other side of the country to agree to a more open approach to any ARTC manager. There is a penchant for being a bit prescriptive about how it operates and that shows up in a whole range of access issues. Our view is that we sell access, you warrant that you're a safe operator, and let's go; and we have five years of experience with that and we don't have any problems with it. But there is a penchant to impose detail and that will just take some time to wind out of the system. I guess we don't need to tell you what jurisdictions that's happening in.

MRS OWENS: For the record you might. I think we've already - - -

MR RYAN: You've already heard.

MRS OWENS: I think we've already been given the story.

MR JAMES: There are only two.

MRS OWENS: No, we've been puzzling over this whole interstate/intrastate dilemma and how you determine who's going to get access to which bits of the path when, and how you actually ensure that those that value the access most highly get it, so we were thinking about this issue of auctioning train paths and so on. Everyone is not looking very convinced about that. Would you like to give us your views on that proposal?

MR JAMES: I think we said in here the clientele at the moment are responding to a structural way the system is set up. In other words, in the interstate market, in the east-west market, they're coming out because of curfews on the entrance to the system coming from the eastern seaboard and that's the market that they're in at the moment. I just think that the flexibility of people offering different services and running different trains is going to be absolutely closed off when you start to think of it in train pathways. I don't know what the amount of difference is in terms of trains running, but sometimes trains can run three or four hours late. Now, what happened to the pathway that you auctioned? It's just not practical when you're running the long distances, so that's one issue. The other issue is the different types of markets that people wish to operate in. At the moment, yes, they're very focused on intermodal container train movements.

MR RYAN: Let me give you an example. SCT are essentially in the business of product warehousing and discount.

MR JAMES: Yes.

MR RYAN: They're not in the rail business, never have been. And again, if you look at performance standards, their contracts exist with customers that require them to keep a certain amount of stock on a certain market shelf in Karrinyup in Western Australia. It doesn't say they'll run their train on time on Wednesdays. It simply says there will never be less than 10 boxes of Uncle Ben's dog food at Karrinyup, so they manage their process in terms of getting access to maximise the use of their train, and because they control the process they can choose their departure times. So they seek paths where they can get maximum train links and maximum tonnages on, whereas others, such as the National Rail Corporation, are a taker and you sit your train in the terminal and you say, "Bring all your containers in here. We're loading at 7 o'clock."

If a new buyer of National Rail, for example, wanted to extend that business into direct distribution contracts - and we would have to say that we see the elimination of the middleman of the freight-forwarding business as one opportunity for efficiency - then again the problem of what you want disappears and it doesn't necessarily - at the moment the paths are critical because they need to leave

Melbourne on Friday night for delivery into Perth on Monday morning because the customer wants to pick his stuff up on Monday morning. But if you were running his entire distribution process, whether you get in Monday or Tuesday, providing you're managing it, doesn't matter.

MR JAMES: Or Sunday.

MR RYAN: And then when you get out of the interstate mode and start to talk about the sort of access, I don't know how we would ever describe grain pathways. We have five trains that sit in Avon and on any morning we might have them programmed to go five different ways and a different ship arrives in port and we just go five different ways to what we even had planned on the weekly program. So when you get out of the direct interstate customer base, then your access - the example I used there was the Hunter Valley. You could have all the pathways in the world in the Hunter, but if your coal doesn't get caught up at Port Waratah, it will sit and rot and never get to use your pathway.

So in the Hunter the access you would want to negotiate is the capacity to get a number of tons to port on any given day in accordance with the shipping schedule and not at a pathway. So we think that at the end of the day there are a whole range of variables that go into negotiating pathways and in determining for the operator what's value for money.

MRS OWENS: Maybe if that's an argument for spot prices.

MR RYAN: Yes, spot prices; and some people want certainty about tons, others might take opportunity tons - you know, fit the train in where we can.

MRS OWENS: You see, all those people are going to all have different valuations on how they use that system.

MR JAMES: That's right. I think there is another aspect, and whilst we are concentrating very much on what is today's environment, I have a view that the environment that rail is moving into in the next decade is one of land transport competing against sea. I believe that ports will get more efficient. I think that's inevitable in Australia. I believe that cabotage will be removed at some stage. From that point of view that offers another competitive mode out there and we have to be very careful at the moment that we don't structure a land transport framework that is not flexible enough to respond to the competitive pressures that that system may offer to us. In terms of that we may see more reversal back into regional entrances and so - - -

MRS OWENS: Sorry, what do you mean by that?

MR JAMES: What I mean is that the shipping services may turn around and we may be taking rail out from ports back into the hinterland further, rather than dominated across Australia. So it may change the framework of how we do business.

And I just believe in this period of change we want to be very, very careful about putting any structural reforms in place that do not allow the land transport market to respond to any sea mode transport because of the reforms that will occur in that industry. And then what does the actual structure of our market look like? Because there's no doubt in my mind that land transport is going to compete against the sea and it may throw up different configurations, and for goodness sake don't close us off now by thinking about what is the structure model now. It should be left flexible.

What is wrong with the current situation? Is it flexible enough to ensure the maximum amount of competitive pressures left in the system? So then I come back to pathways. Auctioning pathways and having people locked into pathway management may be thrown out the door in three years' time, and I just believe that the market should determine those situations and not be structurally imposed upon us.

MRS OWENS: Yes. I suppose as an economist we'd see auctioning pathways as a sort of a market response rather than an allocation or an administrative method. It is a way of the market dealing with it. I think David Marchant - I've seen him at conferences talking about this proposal. You probably have, too.

MR RYAN: Yes, but he's got a single section of line.

MR JAMES: Yes.

MR RYAN: The only things he's got running are interstate trains that are currently running on strict customer-based timetables.

MR JAMES: Timetables, yes.

MR RYAN: Of course he'll do that. Yes, of course he'll do that.

MR JAMES: That's his segment of the market, so that works well for him; that's his. For another part of the same network, no, it doesn't work for it. Hence I'm just saying leave the options open. He can do that, and if that's good for his part of the market, so be it. But don't impose it across the whole system is where I'm coming from.

MR RYAN: The other thing we need to be mindful of is the cost of the investment in rail for an above-rail operator to get operational, someone like SCT, and then some long-term capability of guaranteeing their business. They have a long-term interest in access or a right to access without necessarily defining the specifics of it. So in the case of most of our access contracts we have a variation between 10 and 20-year terms with a broad right to access and a specific operation schedule that we can amend from time to time.

MR JAMES: We've had no difficulty in achieving clients' requirements in that five years of our experience, and they have changed.

PROF SCRAFTON: And making changes.

MR JAMES: And making changes in that. The nature of the business so dictates it that way.

MRS OWENS: Is that because you don't have congestion or a great deal of competition?

MR RYAN: We do. One of the problems of the interstate is that at the time when it runs it is extremely congested because it comes - - -

PROF SCRAFTON: In that 5 o'clock or whatever you've got.

MR JAMES: That's right.

PROF SCRAFTON: The one earlier.

MR JAMES: We call it a pack. It comes in a pack.

MR RYAN: But there are still ways of managing that.

MRS OWENS: I'm trying to understand how you actually manage it. Do you do it manually or do you negotiate?

MR RYAN: We negotiate. They have fixed timetables but when we have variations - we have an agreed negotiation process in the access contract which includes an obligation on us to negotiate with other operators. So if an operator says to me he wants to change his path, I can't say, "You can't because there's another operator where you want to be." I'm obliged to attempt to negotiate with that other operator and that happens regularly.

PROF SCRAFTON: I'd just like to comment on Wayne's little discussion there about keeping the future open. We tried in our report to make a point very strongly that there are no perfect models for any situation. I think that you've given us a rather different outlook on that; that we need to think about what it might be like in 10 years' time. Your discussion about the competitive influence - we did mention that occasionally in the report but it doesn't get any emphasis and maybe we will think a little bit more about that in light of your comments.

MRS OWENS: Yes, I think we haven't really talked a lot about logistics management.

PROF SCRAFTON: That's right.

MRS OWENS: And I think that our next participant will probably tell us that we haven't spoken sufficiently about the broader environment in which the rail system is

going to be operating in the future in Australia. So we haven't tried to look to the future too much. We're not futurologists but on the other hand we need to acknowledge that things are changing and that we don't want to lock the system into the status quo.

PROF SCRAFTON: At least that was the message we did try to give.

MRS OWENS: Yes.

MR RYAN: We have a view that the current round of privatisations and structural changes is round 1. We think there are probably too many interstate operators, or would-be interstate operators, already in a skinny market.

MRS OWENS: That leads to the issue of ownership. And with Westrail there is a proposal to privatise you at some stage. I'm not sure what the timing of that is now. Is it still meant to be this year?

MR JAMES: The program is for this year.

MRS OWENS: Later in the year?

MR JAMES: By the end of the year is the objective.

MRS OWENS: Have you found as a commercial entity that you have been constrained by government ownership at any stage? Has it been a problem?

MR JAMES: Yes, it is a problem in terms of flexibility, first of all in user capital; secondly, in terms of scope of business outside of the government's boundary in terms of its responsibilities to the taxpayer; thirdly, there is the issue that the reform of deregulation has gone about as far as it can in terms of Westrail under public ownership. The government needs to take a position or to analyse why it needs to be in there when we have a competitive transport market here within West Australia, and can it, by bringing privatised operation in, lead us to another plateau level in terms of cost efficiencies and focusing on service requirements rather than maybe some of the political influences that are there.

That's not saying that the political influence can't be dealt with. If there is a need for a state infrastructure to be built or operated, then it would be no different under private ownership or Westrail in dealing with putting funds into that as we deal with getting new resource businesses off the ground. Personally, we at Westrail see that we have a growing market. We have the introduction of now third-party operation into our market. In other words, we've lost the monopoly of intrastate business to enable us to compete, and we believe that we can compete and take this business to the next level and that it is a logical step.

The decision is not a philosophy of government. It is strictly a business decision. Westrail is considered as the leading government-owned railway in

Australia. It is profitable. It will come under more competitive pressures with the introduction of third-party track access which the government has legislated, therefore the decision to privatise is strictly one of a business nature and one of a government's decision-making of whether it needs to be in the business any longer or whether it should be putting its capital borrowing power into other areas of government - is the way that I see it. It will take a natural course of action but I personally believe that the Australian rail scene, in freight, will be fully privatised - an environment change in the next decade. That is the competitive model that will exist out there.

MRS OWENS: What about Queensland? Can you comment on Queensland?

MR JAMES: Queensland will always be last cab off the rank.

MR RYAN: He did say "the next decade".

MRS OWENS: Yes.

PROF SCRAFTON: Yes, okay.

MR JAMES: In terms of passenger transport, that's a different aspect. I believe that the government should own the infrastructure for passenger transport. They can always fund it cheaper than what private enterprises can with their credit ratings and that. The issue there is about value for money in terms of providing the "operate and maintain" side of the business. So therefore that is the contestable market that is available to be tested there from a government point of view. I think it's very clear and that's what our scoping study indicated at the end of the day.

MRS OWENS: In terms of capital as you're currently set up, have you had problems in the past trying to get access to capital when you've needed it for investment purposes? You have had a fair bit of investment, haven't you? You've done quite a lot.

MR JAMES: We are debt funded. Currently I think Westrail's debt is in the order of about \$730 million. That includes freight and passenger, although we are profitable in terms of the freight business. I think it's interesting, rather than look at the past, if we look at the future, where there is a direction being put forward about being low debt or debt-free in terms of the state managing its own business. It's a high priority in this particular state's way it wants to manage its business, and therefore where does it want to spend the limited capital borrowings that it's prepared to make available - in which areas? I believe that's a major reason out in the future. In the past it's been very much one of winning political support for the initiatives.

MRS OWENS: So you're expecting, when your business is finally sold, that the new owner will continue investing in the rail or will they go to government and say, "We want the government to put in."

MR JAMES: No, we're expecting that the business that we've put in place at the

moment is supporting its infrastructure investment. When I said about the government, there will be external reasons - either community service values or resource payoffs to this state - for them maybe to invest in or contribute to some sort of infrastructure development. It is no different than us seeking contribution from the ARTC for the upgrading of the Koolyanobbing to Kalgoorlie railway for a national standard reason, not for a commercial reason from our point of view.

I believe there will be issues like that - resource driven, national productivity reasons, maybe community service obligations in the future. They should be seen transparently and treated as and when they come up but the business should have to stand on its own, given its commercial revenue coming in. We believe that it can and are demonstrating that with good management you can put a low-volume railway in place and it will be robust and viable.

MR RYAN: We've been running a fairly aggressive capital investment program and having to do it out of our profits, despite the fact that we have a very high gearing ratio. We're about 80 per cent debt funded.

MR JAMES: 87.

MR RYAN: So that hurts and you would normally expect in this sort of industry for about a fifty-fifty model, and that would make an immediate difference to us of about 30 to 40 million on the bottom line.

PROF SCRAFTON: The urban investments are not part of that. Were they grant funded?

MR RYAN: The urban investments are debt funded.

MR JAMES: They're debt funded and are under Westrail's accounts at the moment.

PROF SCRAFTON: But they're not in that 730 million.

MR RYAN: Yes, they are.

PROF SCRAFTON: They are?

MR JAMES: That's total Westrail.

MR RYAN: But they're accounted separately.

MR JAMES: The business, when it's sold, will be sold debt-free, so it will be up to the new owners to decide how they want to structure their business - if it's sold.

MRS OWENS: There are not going to be any hooks in the contract that say, "You shall invest so much in Western Australian rail operations for the next five years," or whatever?

MR JAMES: There will be. There are some stakes in the ground about supporting a couple of projects.

MR RYAN: One example is that the new owner will be required to upgrade the Esperance railway line in accordance with our plans but only if the iron ore contract to Esperance is extended, so it's got a commercial link to it.

MRS OWENS: Yes, and that will just affect the price in whatever way.

MR JAMES: That's right, that's all.

MRS OWENS: If they see that that's a value to them, it won't affect it much but if it was something they wouldn't have otherwise done - - -

MR RYAN: The only effect it will have on the value is if our guess about the investment is wrong in terms of commercial returns because if they get the contract, there's a commercial benefit for them to have the investment. So it's going to be pretty marginal play unless we wildly guess the investment wrongly.

MR JAMES: There also will be a condition to support the current grain network to possibly the year 2005, given that we have embarked on a - the Grain Logistics Committee in Western Australia, the industry, has predetermined the tracks that will want to be in place, and are matching that with a strategic receival point plan with the cooperative bulk handling. So there are just a few of those but they are business as usual, as far as I'm concerned. They are in our strategic plan and are in our forward estimates anyway, so all of the ones that I know of are the way we want to do business. It's just locking up the way we're doing business now for perhaps the first five years, and that's good for a transition period and makes everybody comfortable.

MRS OWENS: I was aware they've got these sort of conditions in Victoria with the franchising.

MR RYAN: There aren't the hooks.

MR JAMES: There are no hooks like that proposed in this sale at the moment that I can see.

MRS OWENS: Why do you call those hooks? You don't have to answer that - we can ask them next week.

MR RYAN: Because they are like a bale hook. Have you ever seen a wool bale hook? When someone grabs you with one of them they usually get you pretty severely.

MRS OWENS: Do you want to ask anything about the safety regulations?

PROF SCRAFTON: I would like to acknowledge, though, that we appreciated the supplementary submission and we appreciate all the cooperation we've had from Westrail. I would just like to put that on the record. I think this discussion has been very useful to us, as have all the discussions we've held with you.

MRS OWENS: You've got a little bit here on safety regulation. I don't think there's very much in that that I actually disagree with. You worry that absolute uniformity can stifle innovation and flexibility. I hope we haven't given the impression that we're actually advocating absolute uniformity, and if we have we will try and address that.

MR JAMES: No, that message wasn't aimed at you.

PROF SCRAFTON: I think you used an expression earlier, "interoperability", which is something that I thought was very useful.

MR JAMES: Yes, that is the key to where the rail industry needs to be going from a competitive business model.

MRS OWENS: I think in our very first meeting with you last year you raised this issue and this way of thinking about it and I think it has stuck in my mind. I don't know whether it has come across sufficiently strongly in what we've written yet but we will try to fix that. I think that was about all. You do make a point - again I don't have a page number but the second-last page. Right at the bottom you say, "While there's a number of initiatives under way in this area" - that is on safety regulation - "the lack of a rail body equivalent to the role performed by the Road Transport Commission in researching and introducing national standards continues to disadvantage this industry," and I understand that the proposal for a national land transport commission seems to have died. So where do you think we should go from here if we don't have that sort of body? Maybe a rail body?

MR RYAN: I'm not sure the idea for a national land transport commission has died but the principal role for the national land transport commission was to have a sensible and intelligent look at investment in transport infrastructure totally as a planning body, and if you look at the NRTC it's had two roles. It's had that role for roads - in other words where do you take road infrastructure, investment and planning - and it has also had a standards body sitting beside it as part of its work and it had some legislative backing and introduced a whole range of reforms. We have a plethora of subcommittees.

MRS OWENS: You've got some new ones, I see.

MR RYAN: And we've got another new one which is a voluntary body to - only into actual rights - do some voluntary standards and all we're saying is that if you sit back as an operator and you're going to wait for that process to deliver you anything, then you will go broke waiting. So the road industry has had both. The bit that we

like about the investment planning - and it has had some support for its technical stuff and we're still setting up subcommittees.

MRS OWENS: So, what, you would like to see some sort of commission, whether it's a land transport commission or something, that has this responsibility?

MR RYAN: Our reluctance to agree with that position is based entirely on a view that a number of people think that they can get away with giving us a body that does the regulations and then the argument about transport investment will go away and so we've not been prepared to support that as a policy because there is a view that the sop to the rail industry is, "We'll give you this regulatory body that fixes up your standards but we won't have the Land Transport Commission," and we say the investment - you know, strategic planning issue - is critical.

MR JAMES: Absolutely critical.

MR RYAN: And then it can have as two of its arms the road and the rail standards awards.

MR JAMES: That's about making land transport competitive for the next decade and see how we do it - you know, what is the logistics model of Australia?

MR RYAN: So we say a national logistics model.

MRS OWENS: So where are you now? Where do you sit now?

MR RYAN: We say we need a body to fix up the regulatory issues but the minute we accede to that publicly we will get one and everybody will ignore the bigger issues. So for the moment we're saying the Land Transport Commission is drop-dead critical, the most important issue, and we will live with the rest of it until we get that.

MRS OWENS: Is that likely? You haven't given that away as an idea?

MR RYAN: No.

MRS OWENS: What about this other role it was going to have in investment, looking at the relevant investment of road and rail.

MR RYAN: Yes, that's the issue we're talking about, the planning and the investment decision-making.

MR JAMES: That's the one we don't see as - - -

MR RYAN: That's the one we want to keep.

MRS OWENS: You want to keep that but not the other?

MR RYAN: No, we need the other as well but strategically we've been offered the

other as a sop to the first one and we're not interested. We want the first one first. We can live with our problems with standards.

MRS OWENS: So this intergovernmental agreement that has been agreed to, ATC, and the review of rail safety arrangements, did you agree to all that?

MR RYAN: That's simply a review of the existing IGA.

MR JAMES: And currently where is it up to, given that it has been some two years now that we've actually started to tackle - and the gap analysis.

MR RYAN: We're only having that because nobody is brave enough to say the real problem in safety administration rests in New South Wales and if you fix that there probably wouldn't be a significant issue.

MRS OWENS: Would you like to expand on that?

MR RYAN: It's simple. They are the only people running prescriptive and inspectorial-based regimes in the country. Everybody else is running compliance-based schemes and, secondly, they're running two of them. They've got the Rail Safety Bureau and the RAC, both effectively performing the same role and they're doing it on the basis of some local advice about duty of care but they impose on their operators and their owners things we would never dream of imposing and there is no evidence of any sort that their system is inherently safer.

MRS OWENS: So they're not getting better outcomes at the end of the process?

MR RYAN: No, and it's high cost to the industry, and if you examine all of the issues that have had the drum banged on - the Maunsell inquiry and everything else - if you follow the detailed path back, you will end up in one place.

MRS OWENS: Good. That's very useful, thank you. We are actually going to be talking to the RAC again in Melbourne next week. We didn't have an opportunity last week to talk about safety issues and we will be doing so next week. Have you got any other questions, Derek? Is there anything else you would like to say?

MR JAMES: No, I don't have anything to say.

MRS OWENS: We've held you up a bit too long, I'm afraid.

MR JAMES: That's all right.

MRS OWENS: I think what we might do now is break for five minutes and resume at 11 o'clock. Thank you.

MRS OWENS: Our next participant today is Mr Brian Fleay. Would you please give your name and in what capacity you're here, for the transcript.

MR FLEAY: My name is Brian Fleay. I'm a retired engineer, ex the Water Authority of Western Australia, and since retirement I have a connection with the Institute of Science and Technology Policy at Murdoch University. I am an associate of that body, which I think puts me on an even lower level than being a student, but still the main purpose of it has been, from Peter Newman's point of view, to give me access to the institute and the university services for the work that I do. I think that sums it up.

MRS OWENS: Good, thank you. And thank you once again for coming to see us at our hearings and thank you for your supplementary submission, which Derek and I have read.

MR FLEAY: Good.

MRS OWENS: And we'd very much like to ask you a few questions but meanwhile you have some opening remarks I think you'd like to make.

MR FLEAY: Yes. I hadn't originally thought about putting a submission in this round, but when the report turned up in the mail I was prompted to do so. My submission and my remarks are dealing more with broader global issues than some of the intricate detail of rail reform which, not being in the industry, I didn't feel too inclined to tackle. In any case I thought my best contribution would be the things at global level.

I had just read Dr Brain's book, which I found an inspiration. It fitted in with a lot of other things that I had come to from my other reading and looking at economics of an ecological and energy aspect, and I suppose in a fit of enthusiasm commented on that, and perhaps I think the important question that came out of that discussion of Dr Brain was the importance of appropriate leadership from government, particularly from countries like Australia, and various facets related to that. There are a lot of things I don't agree with him. I don't want to go into that. The second question I dealt with, of course, is the one that I dealt with last October when I spoke to you, and I think I gave you a copy of my paper to the Chartered Institute.

MRS OWENS: Yes, you did.

MR FLEAY: And the outcome of that conference greatly exceeded my expectations. They took on my agenda to the extent that scared me, if you know what I mean, and that prompted Peter Newman - that was what led to this publication - what prompted me to write a postscript, as I think there were a few issues there related to nonconventional oil and things like coal that needed statement, plus a few things; particularly, as I mentioned to you a while ago, the recognition that the salinity problem in the southern part of Australia is much more serious than I

understood at

the time we last met, and that this has very important transport implications because the whole question of dry-land agriculture in southern Australia is really in question.

And then I dealt with a fairly local issue that I was aware of for the south-west of Western Australia - declining rainfall. My last years in the Water Authority were spent in the role as manager of the operation and maintenance of Perth water sources, so it's a subject I'm familiar with. And as I said in my submission, the Water Corporation here has been forced to come to grips with this issue, which I described in my submission. It's interesting in this respect: if you look at the wider perspective of the way I perceive the development of the 21st century will be, perhaps the Water Corporation of Western Australia is at the forefront of what will be the focus of business in the 21st century, because you go all around the city here and you will find billboards from the Water Corporation pleading with people to use less water; that is to say, to buy less of its product. I think perhaps if we leave it at that.

Just one final point: some of the things I put in my submission in relation to oil and the International Energy Agency's position on this. I got an e-mail from Colin Campbell - and I think if you've read my submission, the central point - I got an e-mail from him on Friday on this question that relates to that Australian Financial Review article that I sent to you. I can give you the copy of that e-mail.

MRS OWENS: Thank you.

MR FLEAY: The essence of it is that the International Energy Agency, in putting out a report basically accepting the timing of the decline of conventional oil, and then saying that the gap could be filled by unidentified nonconventional oil, which is primarily things like tar sands and shale oil - was put in there deliberately to provoke people like the author of that article in the Financial Review that I sent to you, to challenge them on the question so that they would be in a position to change their position, but doing it with pressure from outside rather than saying it themselves. So that is real dynamite. Anyhow, I'll leave that as my opening remarks.

MRS OWENS: Good, thank you. I think there's a wealth of information in both of your submissions and in the other material you sent us, and I don't think we can do justice to it all today.

MR FLEAY: No, I wouldn't expect you to.

MRS OWENS: And I think I mentioned to you at morning tea time that I haven't as yet read Dr Peter Brain's book.

MR FLEAY: Yes.

MRS OWENS: I'd very much like to. It's just that I've been reading submissions and doing rail things recently, but it is one of the books I will get round to. But there has been quite a significant amount of media attention, especially when it just came out, and I think what we might do, if you don't mind, is to send him a copy of your

submission.

MR FLEAY: Right.

MRS OWENS: I think he would probably enjoy reading somebody's views on his views. But I think what we might do, if it's okay with my colleague, is focus on some of the issues in relation to our inquiry that are directly related, and there are a few which we might run through.

MR FLEAY: Yes.

MRS OWENS: But I thought what we might do is start with this issue of transport planning. And you do mention in your submission, right at the beginning, that there's a state planning strategy for Western Australia which does include transport strategies.

MR FLEAY: Yes.

MRS OWENS: And there has been quite a lot of interest in developing a national land transport strategy and I was wondering if you had any knowledge of that, the momentum that's being built up on that, and any views on that.

MR FLEAY: Not really, no. Working by oneself in the range of issues I cover, it is very difficult to keep a finger on everything and still remain married, if you know what I mean.

MRS OWENS: Yes.

MR FLEAY: I am just finishing off a paper on the subject of the Australian Transport Research Forum, which is here in Perth later - I think it's the end of September - and in that I am outlining a whole series of what I see as research projects that need to be done and scenarios that need to be developed, and to some extent I think it's focusing on the sort of issue you've said we're talking about.

In terms of the question of agriculture, salinity and oil, the position of salinity is far more serious than people previously thought. It is starting to come out in the news. There was a session on the 7.30 Report last Thursday - I think it was - for a quarter of an hour that had the scientists going out and complaining, and I just picked up from the newspaper this morning, from the West Australian, an article that is reiterating that point. So it is coming out into the open.

The second question that relates to that, as far as I'm concerned, is that another issue that has to come into that agenda of the radical transformation of agriculture that has to take place is the extent to which our agriculture, as I think I put it, is a way of converting petroleum into food. If you put the two together we have a titanic task against us. It's probably the single most important one to deal with, and of course it has enormous transport implications. If, as the scientists are saying, as much as

60 per cent of the wheat belt in Western Australia has to be revegetated to save it, then that has a radical impact on the entire - it calls into question the future of cereal production in the state and the economic viability of farms.

And what is emerging is that the same problem exists in the Murray-Darling Valley which, as these scientists say - and I have here an extract from a chapter of the forthcoming book that I referred to in there, where basically practically all - the Murray River is the main source of public water supply for South Australia, the whole state and so forth, so if you think of some of the medium-to-worse scenarios, the future of South Australia is at stake. So these things have enormous implications for the future of transport and the like. And I think I make the point in my report that in my view the proposition for privatising Westrail freight in this state, insofar as an important part of that freight is in the wheat belt - with that scenario in mind a private company would be insane to go into that business without looking at what the implications might be for the future of carting the wheat crop.

And I think when talking about rail reform we are talking about a 30 or 40-year time-frame; we're looking into the middle of next century in terms of perspective. So these things are of extreme importance, and just listening to the extent I could hear the two Westrail people here this morning, I got the impression that notion has not yet entered into their thinking. I'll make sure I contact them in the next few weeks in that regard.

MRS OWENS: They might be worried about the price they'll get for their business. But in terms of entering into the thinking, the state transport strategy that you mention in here, does that take into account these broader environmental variables, or sufficiently well, in your mind?

MR FLEAY: No, but as you can imagine, I have been talking to people in the transport department here for three or four years now and I think they recognise - they'd even accept the sort of things I'm saying, certainly about oil. I've only just taken up this question of the salinity issue. But I think the political environment they work in means that they have to be very circumspect to what they say but one can certainly see a shift of thinking in this regard. In fact I've got an hour session with Simon Holthouse, the chairman of the State Planning Commission, and people from the Planning Commission next month, and I can see in the way their strategies are developing they are responding to this to the extent they are.

But you know what the road lobby is like at the present time, and I think in my submission I suggested there is a real conflict between what the present government is trying to do - one thing, it has got this southern suburbs railway which, if it's done properly and in the right place and really developed, will diminish the car dependence and at the same time reduce congestion; and at the same time they've got a massive road program that is doing just the opposite, and the whole thing doesn't mesh. Something I would like to develop further at the end of my submission - I think one of your questions of future inquiries that you had in your recommendations was about - - -

MRS OWENS: This is the future road inquiry?

MR FLEAY: Yes, the road inquiry. I think that needs to look at the broader question of the lack of a level playing field in the way in which roads are financed as against rail.

MRS OWENS: That was an issue that we raised in that particular chapter and I would think that that would be something that would be encompassed.

MR FLEAY: I think you're aware of that without me having to tell you. In terms of the oil future we face, I think this becomes an even more critical question, doubly so when you consider the impact of heavily laden trucks on roads where one truck causes about seven to nine thousand times as much damage to roads as does rail. In my perception, I think if that was looked at in depth - and in that Australian Transport Research Forum paper I'm writing I am raising the whole - I have got about four pages of a whole list of things that pick up general issues I have in this paper and try to spell them out as being what should be research or strategic planning or a scenario development in this connection.

MRS OWENS: Yes. What is your timing on that work?

MR FLEAY: It is the end of September, beginning of October.

MRS OWENS: That is going to be a bit late for us.

MR FLEAY: Yes.

MRS OWENS: It would have been quite a useful document to have had.

PROF SCRAFTON: Brian, just picking that up, a lot of people have said to us in summations that we need to have - and in fact you might have heard it from the Westrail people. We need this sort of strategic planning for transport investment and all of that.

MR FLEAY: Yes.

PROF SCRAFTON: But in your paper you point out a big weakness in it and that is that very often in these strategic plans they are somewhat removed from reality.

MR FLEAY: Yes.

PROF SCRAFTON: They present a golden future and I have found this in my career that, providing that's all you ever produce, the government will release it but if you try to tell them that life might not be quite so rosy in the medium or long-term future, they don't want to know about it.

MR FLEAY: Yes, you are quite right.

PROF SCRAFTON: I don't know how you get over that. On the one hand these strategies are desirable but they ought to tell the truth.

MR FLEAY: I think perhaps I will answer it in this way: I think the population at large is getting increasingly sceptical and disbelieving on these optimistic scenarios and that is part of the reason why at a political level the general political support for the major political parties has never been lower than what it is now. There is a slow shift of people's thinking taking place and I think to this extent a large part of the population is ahead of the politicians and ahead of many business leaders, and I have been aware of this in wanting to go to conferences to talk to this - I wanted to go to the last month's Australian Water and Waste Water Association to point out that all the assumptions that the water industry makes about plans for 40 to 50 years assume that the energy environment will not change - but I couldn't afford it. This whole question means that all these discussions don't allow, you might say, heretical views that come in, which is essential, as you know, that a question - you tend to work in a closed shop.

MRS OWENS: Yes.

MR FLEAY: Part of this, of course, involves a whole cultural system, and if you think we've been going down a certain pathway for 200 years or so and then having to change direction, these things are hardly surprising.

MRS OWENS: Yes.

MR FLEAY: But I do think the question of - if I might just come back to the oil question again, which is essential to this whole set-up - that the whole business of what is happening with oil is, I think, going to come out into the open in the next 12 months and that e-mail that I gave you from Colin Campbell is certainly suggesting that it's already starting to happen. It is already happening in the main oil industry journals in the world and, in particular, the things that have happened in the last nine months, which I touched on in my submission on this, are suddenly sharply defining what the future is going to be, and the first thing is that what is now absolutely set in concrete is that the oil production in the world outside the Middle East is going to peak in the next year or two. There's nothing can prevent that from happening now.

The corollary to that is that now oil production is going to shift during the next decade to the Middle East because it's the only place where it can happen and that I would expect within the next 12 months the current negotiations between the oil companies and those countries about the oil companies coming back to invest in oil - and the countries need them because the oil companies have the expertise - will surface. At that stage it will be very hard to deny what is happening - it will all break out into the open - and the scale of that shift is from those five countries in the

Middle East currently producing about 30 per cent of the world's oil, it will go up to 45 or 50 per cent, and that is 45 or 50 per cent of a higher level of production now. That is assuming that there aren't too many extreme political and economic upsets that alter the fact.

Once you recognise that, the question will then start to be raised in people's minds - quite apart from all the implications of dependence upon that part of the world - that when are they going to peak? And the particular position is coming out - that will probably occur somewhere between 2007 - about the end of the decade - and the immediate consequence of this is that it is now a very much higher financial risk for any oil company to invest in oil and gas development - exploration - anywhere else in the world simply because of the huge difference in the production cost between Middle East oil and the rest of the world and, equally, the development cost.

MRS OWENS: Yes.

MR FLEAY: Economics is now taking over and there is nothing that can stop that. The only thing that is uncertain over that decade period is how political and economic events are going to affect it.

MRS OWENS: Yes.

MR FLEAY: The consequence of this is: amplified by the problems that are occurring in Indonesia, where the least explored area in Australia is the Timor Sea, that political instability makes that an even higher risk area and therefore, starting from this year, we're going to have a dramatic and rapid increase in the level of oil imports in this country on a business-as-usual consumption scenario of something in the order of a fivefold volume increase. At present exchange rates and oil prices that is an increase from \$1000 million dollars a year to \$5000 million a year. You can make all sorts of speculations about changes and exchange rate and oil prices and what it might actually be in 2010, and the whole system at the moment is oblivious to this and there are plenty of people in this country who are now aware of it because of the work I have done. Certainly I think most transport departments and main roads departments - the Australian Automobile Association knows about it. I have had talks with them on this subject, but I don't know that they sure know what to do about it. Does that answer your question?

MRS OWENS: Yes.

MR FLEAY: It's a bit rambling.

MRS OWENS: No, no.

MR FLEAY: I think you've got the general picture.

PROF SCRAFTON: It's important that we get on the record that many of these strategic plans don't acknowledge some of these realities.

MR FLEAY: Yes. Could I just make one point on this question of strategic plan? Planning is a hazardous business at any time, as you well know, and the one certain thing you can say about most strategic plans is whatever they propose, the outcome will be different. But that is not the reason you try to develop scenarios; it is an attempt as best you can to find out. The unique position we are in with respect to these petroleum fuels - and I include gas in that - is that because it is a fluid and comes from geological formations, once you have reached the point of peak, the primary constraint on how much oil you have got is the physical performance of oilfields.

The rate of decline is predictable and, again, assuming that there are not too many political and economic disturbances, you can make a broad forecast of what the rate of production will be for the next 50 years; that is built in to the physical performance of these oilfields as we know them now and the database - the only database in the world - that could describe that is that one by Petroconsultants, and I find the behaviour of that firm in that context at the present time very interesting. When a firm like that, better informed than anybody else in the world of the state of things, when they behave the way they are, and the way they have helped and supported me with reports that cost 40 and 50 thousand dollars a copy - when they start behaving that way, when the heart of the oil industry - we know where we stand.

But coming back to strategic planning, if we look at that at a global level we have there, you might say, an agenda of which we have to - the world has to adjust, and it's a titanic task, but this gives a prospect for more reliable strategic planning than perhaps might be in any other circumstances and therefore it has a role and there is an important role for government in this, but I don't need to talk to you about all the difficulties and problems with this.

MRS OWENS: Yes.

MR FLEAY: So this is something that can be done and, in that respect, in this country, if you take the question of the problems of southern Australian agriculture - indeed, for agriculture of the whole of the country - because of the extreme infertility of our soils, because of its geological history, something that is unique in the world, and the fact that we are only making that agriculture work because we apply and use petroleum fuels and all the inputs that go in, then the first priority for the remaining fuels in this - those fuels here, and that must be natural gas because there is no way, once we get to about 2020, that we can rely on being able to import oil from about the only place in the world where you can - the Middle East - that the first priority for these fuels in this country has got to go to that agricultural transformation.

The corollary to that is the least justifiable use for these fuels is by private car travel in cities and so therefore the central task we face is to restructure our cities in a way that can cope with it; that is the message I'm trying to get across. It raises a question, of course, about the viability of the cities themselves in this context and I start raising all these issues in this Australian Transport Research Forum, including

the question - when I say the first priority has to go to this transformation of agriculture

through to the middle of next century. What does that mean? I'm not sure what it means yet, but I think it's a correct strategic judgment. I don't need to draw to your attention that the question of the future of transport and the role of rail in this is a very central question to this issue, which is not yet on the agenda.

MRS OWENS: I was going to ask you, are you aware of any other countries that are looking at these sorts of issues, such as the oil issue, and trying to incorporate that into their planning for their future transport needs? Have we got any examples of anywhere in the world that is doing it right or thinking about these things at least?

MR FLEAY: Not really.

MRS OWENS: No.

MR FLEAY: But I think we're on the threshold of that happening. Just to illustrate that, I got a letter from Buz Ivanhoe in Los Angeles - he's the counterpart of Colin Campbell in - outlining the major transport projects for California over the next couple of decades, which was essentially - a great extension of the building of freeways in Los Angeles was the main part of it.

MRS OWENS: They're building a few train lines as well at the moment, but fairly limited.

MR FLEAY: Yes, there are changes taking place. I think I mentioned in my submission the latest book by Peter Newman and Jeff Kenworthy, *Cities and Sustainability*, in which they see to get more sustainable cities essential is to end car dependence - I think broadly their views.

MRS OWENS: Yes.

MR FLEAY: They have raised the oil supply issue on that. In fact my paper to the Chartered Institute of Transport was one of the references in that book just released in January of this year. Significantly it was released at a seminar at the White House in Washington, I gather at the White House's invitation. So things will start to change. I think historians in the years to come are going to be debating for hundreds of years about this period in history, as to how we could have got ourselves in this situation.

MRS OWENS: If we have historians in hundreds of years time. Most kids seem to be not doing history any more. I think there's another worry there, that's a whole other story there about education and what people's priorities are. But you raised a very important issue about private car travel in cities.

MR FLEAY: Yes.

MRS OWENS: I suppose the question is how you actually deal with that issue. You can either deal with it by trying to have a very good public transport system in

your cities, or as your submission points out - I think you do - you could actually -

well, maybe your submission hasn't raised it, but you could have some sort of charges on cars going into cities, like they do in Singapore for example.

MR FLEAY: Yes.

MRS OWENS: So you can tackle it at different levels. Have you got any views about that? We raised in our draft report the possibility of separating out the urban network and trying to get that operating more efficiently.

MR FLEAY: Yes, no problems with that. That's a sound approach. I think I make that point that where you split rail freight into the four categories is a sound one, and there's no question that things like coal and iron ore will continue to run on rail.

MRS OWENS: Yes.

MR FLEAY: And certain levels of bulk freight like cereals. My strong feeling is that the shift from rail to road here is wrong on two grounds, and it's partly because rail has been the poor cousin, it's partly because there's more people in road transport so they have more political clout. But the real question that I think one needs to ask about this is that the road people are always wanting more funds for roads, and they're always wanting to increase axle loads. There is always the fundamental belief that it would be just as easy in the future to rebuild a road as it has been in the past. This is not the case. I meant to put into the end of my submission discussion here on the question of discounted cash flows. I might finish it off and send it to you as a supplement.

MRS OWENS: Thank you.

MR FLEAY: The essence of it is - and this again arises from my exploration connections, ecology, economics and energy - that it is only appropriate and legitimate to use a positive interest rate in such calculations in a period when you have an expanding availability of energy of increasingly high quality. It arises from considering economics as a metabolic process rather than a mechanical process, and if you look at the implications of the move into the next century, where in fact we are heading into a period of declining availability of low energy, you should be using negative interest rates. Now, I think you know enough about what the implications of that are.

Therefore I'm raising this question in my ATRF paper. This question needs to be looked at in terms of the viability of rail versus road in this context. It's as much a political question if anything, because to solve these problems you have got to take into consideration how you restructure the whole trucking industry and the like. I think you know the sort of problems that exist there.

PROF SCRAFTON: If the politicians won't face up to some of these issues, surely in the end the shortage of petroleum-based fuels and the higher costs will bring about this reduction in private car use.

MR FLEAY: Yes.

PROF SCRAFTON: So we'll get there in the long run but it might be a rather more painful process than what was planned for.

MR FLEAY: Exactly, yes. I think the interesting experience here, and you're probably aware of this, about the introduction of the electric rail system in Perth, particularly to the northern suburbs, resulted in a significant shift of people out of cars into those trains. I think in about the first year of operation they reached the level of passengers that they didn't expect to get for about five or six years. In fact they've had to buy more carriages to cater for the traffic. That, I think, is a pointer to what is possible. My contact with people is that the politicians underestimate the extent to which people can change. Doubly so if you get some feeling of the things I'm saying, and I am making headway in this state. There is a furious fight going on at the moment about roads versus rail in the western suburbs from Fremantle through Cottesloe on this question. That is on the agenda.

PROF SCRAFTON: Of course, if you make the wrong investments now, that infrastructure is there for 30 years plus, without even major repairs as you were talking about.

MR FLEAY: Yes. Now, this comes back to the question you were touching - I think what you might say congestion pricing. What we're dealing with here is a systems problem, and you can only deal with it as a systems approach. The transport system very much shapes the character of a city, its energy expenditure and everything else. This is the central theme of Newman and Kenworthy's new book and they have got documented evidence on this from very detailed and comprehensive studies of 46 cities around the world, including Asian ones, most of which was funded by a World Bank project.

MRS OWENS: I think you mentioned that the last time we saw you.

MR FLEAY: Yes, right. Therefore, and this is the point I'm wanting to make here, any investment in things like urban transport should not be seen as an investment in a transit enterprise, but an investment in the city as a system. It's wrong, therefore, to think in terms of the financing of that just from fare box, which I don't think - - -

MRS OWENS: I don't think governments do see it just from fare boxes.

MR FLEAY: No, but part of the difficulty here is grasping that concept and then saying, "Right, well, in looking at the finances of it, you've got to look at it in a more comprehensive question way of doing this." This again comes back to the question of how roads are financed, how rail is financed, and the real problem we have in this country, and particularly here in Perth, of having built a sprawling city - is how the hell do we now adapt to survive? I think the reality is that parts of the city are going to die because of this. There are enormous problems there, but there are enormous

potential and opportunities too.

MRS OWENS: I think if you're looking at using, as you call it, a systems approach, you need to, and I think we identified in our draft report, look at how people make journeys.

MR FLEAY: Yes.

MRS OWENS: You know, what people actually do in cities. We pointed out that there's less commuting or fewer journeys from suburbs into a central city and there's more journeys traversing the city and so on, and that led to the growth of the car to deal with that. But I think the other thing that you need to think about in that sort of system's wide view of the world is just what's going to happen in the future in terms of people's habits in terms of journeys to work - whether they do go to work. There's going to be teleconferencing and there's new technologies. Are people going to travel for the same reasons and in the same way as they have in the past?

MR FLEAY: Yes - - -

MRS OWENS: So the future is going to be different anyway.

MR FLEAY: My view on this is that the future role of what you might call broadly information technology is greatly exaggerated. To some extent my thought here is a little bit theoretical in the sense that information is far more energy intensive than people think. A lot of what is now in the way of information technology will shrink as we move into the next century. At the same time it is going to have an important role to play because of some of the things you say. But I think those issues are peripheral. The more fundamental questions that are going to confront everybody are the questions of - there has always been a question of food, shelter, clothing and things of that kind.

The other side to this is that we shift to a much greater role for walking and cycling. This is one of the things that come out of Newman and Kenworthy's exercise. In those cities where there is a transit orientation there is a much greater number of all trips, including trips to work, done by walking and by cycling. The practice of town planning that has occurred in this country, and this raises the important question of integration of land use and transport, has tended to a reduction in the approach - there's residential there, there's commercial there, there's industry there, which is virtually forcing people to travel in cars to get to work. We've got to break this down to have more commercial and industrial enterprises of the right type scattered amongst residential of a higher density, so that you can have a greater role for cycling and walking and there has got to be a fundamental change in the way that traffic forecasts are made for roads.

Where the present methods look at the local area, aggregate it up into a number of trips and then work on that and as a result they completely devalue altogether the role of walking and cycling, which is mostly at that level. So again there's a whole

lot

of conceptual questions involved here. Does that answer your question?

MRS OWENS: Yes, it does. Thank you.

MR FLEAY: You're aware of all of these issues. All I am saying is the sort of perspective I talk about in the future - oil supply and its connection - the special problem that this country faces with its agriculture gives a different perspective and a different proportion of weight you give to all these issues.

PROF SCRAFTON: I just have one little technical comment to make to you. You mention in your paper about the need - because of the petroleum issues that you've raised, we need to plan to shift to use of natural gas as a fuel. This seems to me to have been fairly successful already in transit buses, hasn't it?

MR FLEAY: Yes.

PROF SCRAFTON: I think most transit fleets have a proportion of LNG buses but you mention that rail operators have not thought about it much, or truckers for that matter. Is there a reason for that? Is it because local transit fleet operations lend themselves to the refuelling processes and so on that are used? Why do you think there is that imbalance?

MR FLEAY: Part of it is involved in the tax system; part of it is involved in the question that for a given range you need a much larger fuel tank for natural gas than you do for diesel, for example, and you need a network of fuelling stations, so there is that barrier there, and my reason for advocating this shift to some extent as a matter of urgency in this country to natural gas has to do with our extreme deficiency in oil supplies in relation to natural gas and, as I see it, as we start moving into - the issue will start to arise by the end of next decade because of the role of the import, and certainly as we move into the second decade then it will be imperative to switch to natural gas for this question, simply out of security of supply. We're not going to be at the top of the queue and my perception is that by the third decade of next century - certainly by the end of it - we can't rely on having any oil at all which, I might add, also touches on the question of the supply of bitumen and things of this kind as well.

PROF SCRAFTON: Sure.

MR FLEAY: It is this shift to natural gas - and I think the sooner we start, the better, because you can't do it overnight.

PROF SCRAFTON: Will you be raising that in your paper to the ATRF?

MR FLEAY: Yes. Those questions I am putting right up front.

PROF SCRAFTON: Good.

MR FLEAY: Hopefully the sort of people who will be there from universities,

transport departments, all the transport industry and consultants and so forth will help spread the message.

PROF SCRAFTON: Good.

MR FLEAY: And hopefully by that time there will be some public announcement about the oil companies coming back into the Middle East, and then that e-mail I gave to you from Colin Campbell - you might notice at the end of the month he was at a meeting with the Saudi oil minister and the top people from Shell and BP, etcetera, where they will be discussing these issues and if there's anything that passes, he'll soon e-mail me and tell me everything that they discussed, so I have insight into things that I don't think even the Australian government has, through this contact.

MRS OWENS: You have a very useful source.

MR FLEAY: Yes.

MRS OWENS: I just had one other issue I wanted to raise with you, and that was in relation to your comments on page 14 of your submission about the privatisation of Westrail, and you said in your opening comments that anybody buying Westrail would be insane, given potentially what's going to happen with grain and with wheat, and I was wondering - you seem to be in your submission taking a fairly negative view of the idea of an overseas purchaser buying Westrail. Is that the right interpretation?

MR FLEAY: Yes, and in that I am reflecting the position of the WA Farmers Federation and the basic reason is that the present reports are that the likely buyer is, I think, a Wisconsin rail company from the US which has extensive rail interests through the grain-growing belt of the USA, and the view of the Farmers Federation - you're handing over to one of your principal competitors in the grain market and the most powerful economic agent in the world, for that matter, a stranglehold over your transport network which they could use against you. It's that factor that comes into the question.

This touches on the sort of things that Dr Brain has to say about the role of government in this country for a small country in the larger scheme of things; that it has to think very carefully about privatising everything without thinking - not just in rail but right across the board - that you finish up with big overseas companies own it; you have lost a significant part of your sovereignty. Their interests, larger interests, do not necessarily coincide with the interests of this country. It's that sort of issue that is at the bottom of it - as the basis of it.

MRS OWENS: But the actual company that may bid for Westrail - its interests might be just in making money running trains.

MR FLEAY: Yes.

MRS OWENS: And they might be able to do that very efficiently.

MR FLEAY: Yes.

MRS OWENS: I guess the trade-off is even perhaps a loss of sovereignty - I'm not sure about that - against the ability to actually carry wheat or whatever it is more efficiently than is currently the case.

MR FLEAY: Yes.

MRS OWENS: I'm not implying that in Western Australia it is not efficient at the moment. It is just a matter of relativities.

MR FLEAY: I put it in because I think that needs to be part of the debate and it's not a trivial issue. It raises all the sorts of issues that you are trying to tackle there.

MRS OWENS: What if the buyer was an Australian company like the New South Wales FreightCorp or Queensland Rail? Would you feel less concerned if that was the case?

MR FLEAY: Yes, but then you have the question as to how long will that ownership stay that way, too? You have got that question that you have to consider. I don't think I mentioned this in my submission - the current practice of wanting to benchmark the performance of industries in general in this country against world-best performers, and therefore then the automatic follow-on is that we should seek to emulate them. If you come back again to our transport nest and the character of the country you have and the environment it's in - and I think you touch on this question in your report - there's no way that this country can match the performance of a lot of other countries, and this applies to a lot of its national transport - because of the very nature of the country itself. It means it could only support a small population, most of whom live along part of the coast, and therefore you have an inherent disadvantage of economy of scale that affects what you can achieve and like matters.

You have to be careful about trying to emulate the performance of other countries which have an advantage because of their natural resource base and, if one tries to do that, part of the consequences are that it can often be at the expense of fixing up some of the severe environmental problems we now face, which are really a central issue - those sorts of issues. It really also comes back to the question that I touch on in my paper: everybody thinks we are heading down the road of an ever expanding globalisation of the world economy, and you can only do that if you have ever expanding cheap transport, and that is not going to be the case for the 21st century.

PROF SCRAFTON: Fine.

MRS OWENS: I think we have actually kept you here longer than we probably told you we were going to keep you, so I'm sorry about that.

MR FLEAY: That's all right.

MRS OWENS: I think I have run through all the questions I was going to ask you, Mr Fleay. I thought it was a very interesting discussion and I'm sure that Derek would agree with me.

PROF SCRAFTON: Yes.

MRS OWENS: I think it is reassuring to know that there's somebody in Australia that is thinking about these longer term issues. Is there anything else you would like to say before we close?

MR FLEAY: Yes, just very briefly. I would like to give you a copy of this paper which I only got a couple of weeks ago from one of my contacts in Seattle, Richard Duncan, and basically what he has done is looked at world energy production, kinds, amount per capita, who, over a long period of time, and he is a bit long-winded in getting there but it's this figure here which is - you can keep this copy.

MRS OWENS: Thank you.

MR FLEAY: The essence of what he has done is looked at the per capita energy production in the world since 1850 and from 1850 to 1940 it increased, I think, at 2.3 per cent per annum - - -

PROF SCRAFTON: 2.12.

MR FLEAY: 2.12, and of course that was primarily coal. World War II created an interruption and from 1945 to 1973 I think it increased at 3.7.

PROF SCRAFTON: 3.54.

MR FLEAY: 3.54. That, of course, was the era when we shifted from coal to oil and where natural gas came in. It was also when most of the hydro-electric was developed. I might also add, from my papers, that the transfer to oil was to a fuel that was more economically effective than coal but the significant thing is that since 1973 to 1995 there has been virtually, for all practical purposes, no increase in per capita energy production. Population has kept pace with the increase in energy production and I find that as a first bit of empirical evidence of the claim I make - we're at the climax of the fossil fuel age - and I think the likelihood is that as we - particularly after we pass 2010, the combination of population increase and declining oil means that we are actually going to have a decline. I have e-mailed Richard and suggested to him that he now does another study that looks at the per capita production and consumption of energy by regions.

MRS OWENS: Yes.

MR FLEAY: South America and things like that. I think that will be a very interesting insight.

MRS OWENS: Yes.

MR FLEAY: But I think to note for the last 25 years there has been no increase in per capita energy production in the world and, of course, the thing about what is happening is that increasing numbers of countries in Asia are now making a claim on that energy.

MRS OWENS: Yes.

PROF SCRAFTON: Yes, that's excellent.

MR FLEAY: You can keep that.

MRS OWENS: Good, thank you. That's another document that has been tabled by Richard Duncan. Any other comments?

MR FLEAY: No. I think I have covered enough for you at the moment.

MRS OWENS: That concludes our hearings here in Perth and we are adjourning until 9.30 on Thursday, 20 May, in Adelaide. Thank you.

AT 12.13 PM THE INQUIRY WAS ADJOURNED UNTIL
THURSDAY, 20 MAY 1999

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