



**TRANSCRIPT
OF PROCEEDINGS**

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PRODUCTIVITY COMMISSION

INQUIRY INTO PROGRESS IN RAIL REFORM

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

TRANSCRIPT OF PROCEEDINGS

AT PERTH ON FRIDAY, 23 OCTOBER 1998, AT 10.53 AM

Continued from 21/10/98 in Adelaide

MRS OWENS: Good morning, and welcome to this public hearing of the Productivity Commission public inquiry on progress in rail reform. This public hearing in Perth is the second in five sets of hearings; we have already held one this week in Adelaide and the others are scheduled over the next 3 weeks in Sydney, Brisbane and Melbourne. The hearings are designed for people to raise issues they feel affect this industry and they give people the opportunity to provide input into the draft report which is due to be released early in April next year. These hearings are in addition to the extensive round of visits already undertaken by the commission and the 60 or so submissions to the inquiry which have been received already.

While people who provide information are protected in this inquiry as if they were giving evidence in court, this is not a court of law. We shall try to make the hearings as relaxed as possible; however, there are some formalities which we try to follow each time we conduct a public hearing. First, for the benefit of the transcript we ask participants to introduce themselves and indicate in which capacity they appear here. I'll come to that in a moment. Secondly, information provided at these hearings is often used in our reports and we therefore ask participants to be as accurate as possible with their comments and in their answers to any questions. If there are any doubts about the accuracy of anything that you might say, please tell us that you're not absolutely certain and then we'll try to come back and get it verified one way or the other later. Finally, transcripts from today's proceedings will be provided to all participants at the hearings. Anybody else wanting a copy should contact staff, some of whom are present here, and they've got name tags on to identify them. Let me introduce my colleague on my left, Prof Derek Scrafton who is the associate commissioner on this inquiry.

We'll now get started and I wonder if you would now identify yourselves for the transcript, give your name and affiliation for the transcript and then we'll talk to your submission.

MR ROBINSON: Thank you very much. My name is Bruce Robinson. I'm here in my role as vice-president of the Bicycle Federation of Australia. There is a formal submission that has come in from the Bicycle Federation of Australia which no doubt you have.

MRS OWENS: Yes.

MR ROBINSON: I'm speaking to some parts of that. Some parts will be covered by people in other states, and I also hope to speak to some of the local aspects of that. The Bicycle Federation of Australia is not expert in some of these areas and we have asked Brian Fleay, who will introduce himself, to represent us as he has been involved in this area for a long time.

MRS OWENS: Good, thank you.

MR FLEAY: Yes, I'm Brian Fleay, a retired civil engineer and author of the book, *The Decline of the Age of Oil*. Since retirement I've been an associate of the Institute

of Science and Technology Policy at Murdoch University and have interested myself in the future of oil and the timing of its decline and the consequences. As well as writing a book I have given a number of papers, one of which was to the Chartered Institute of Transport's national conference 2 years ago. As a consequence of that paper the next conference which starts on 6 November has the theme Beyond Oil - Transport and Future Fuels, to which I have been invited to be the theme speaker. I have given you there a copy of the paper I'm presenting and the program.

I would like to speak very briefly and sufficiently on this topic in relation to what the Bicycle Federation have to say - obviously the subject is much bigger than that - but particularly the importance and the critical role that bicycles can play in an intermodal operation with urban public transport is a very high priority for this country. I'll leave it at that at this stage.

MRS OWENS: Thank you both for coming today and thank you for the Bicycle Federation's submission which we have read, and I would also like to thank you for the documents that have been tabled today.

MR FLEAY: I only finished writing that on Monday, so the ink's still not dry yet.

MRS OWENS: Hot off the press. We're very pleased, and it looks like a particularly interesting paper. What we might do at this stage is ask you if you would like to make some opening comments and then we will proceed with some questions.

MR ROBINSON: Thank you very much. The Bicycle Federation of Australia is an Australia-wide organisation of cycling groups. Obviously as a federation it has member groups in every state and a couple in some. When the Bicycle Federation of Australia's secretary sent around an e-mail to us saying this inquiry was on and we should appear and take an interest, it got relatively low on my list because I was actually overseas at the time and progress in rail reform - how does that relate to bicycles? But they kept at me and when I got the submission and looked at your terms of reference it's obvious, when one thinks about it, that transport as a whole is of interest to a bicycle group, and rail transport and its role is of interest, so I had to change my attitudes.

Also when I had done my homework and retrieved my copies from the library of the urban transport report - when Dr Scrafton was here a while ago at the cricket grounds I think it was remarkably free of cricket at the time, which was sad. There is a relevance here for good transport systems - I hope to show the integrated things and Brian can talk about just the oil in general - which have an important role. In illustrating that, I had an earlier meeting with the state bicycle committee here in the Department of Transport, and I left home at about 10 past 7 and I was at a meeting at 7.30 in a hotel which is about a kilometre that way.

Coming in with my bicycle on the train, which is the way I normally go to those meetings, is extremely efficient time-wise and I was able to read some things, make some notes on the train. So the combination of bicycle and train is an extremely

efficient way of doing things. The meeting I was at was delayed and I was running slightly late going from the Grand Chancellor Hotel, which is a kilometre away from here is also extremely efficient by bicycle, if you don't mind the odd one-way street, but I could have been legal and only a minute or two longer.

That is partly why we're here. I had to explain it to myself, so I thought I'd explain it to you, but there are a lot of things that are integrated and the Bicycle Federation should take an interest in progress in rail reform. That leads to my first comment, that my perceptions about urban transport systems - and some of my colleagues in other states will talk about country rail passenger things - but restricting it to urban transport, a lot of the urban transport around Australia is not well planned in an overall situation. It is poorly integrated and often has a set of competing fiefdoms and different authorities, and sadly the bicycle transport - our mode of transport, and even when combined with others - often ends up at the bottom of the heap. We don't have the unions behind us, we don't have big organisations, we don't have people competing to build private bicycle ways or whatever, so we end up at the bottom of the heap as a result of a lot of the poor planning.

The reason for our submission is to try and put the case that it would be extremely useful if the federal government took more interest and funded rail transport and its integration with other modes and planning. The current urban transport system, in the view of the Bicycle Federation of Australia - and I'm speaking personally, I guess, but to summarise the information that is here - the current urban transport systems are unhealthy, they're polluting and they're unsustainable. They're unhealthy in the dominance of the cars. If one looks at the girth of a common number of taxi drivers, for instance, you can see the people lounging and swinging the power steering with one hand, and they are lounging back because they can't get close enough to the steering wheel to get to a normal position. That's a caricature, but that is a serious health problem because of the lack of physical activity. Some of it is detailed in our submission, and there is more information but it depends on how relevant it is directly to your terms of reference.

There are enormous health costs on the Commonwealth due to the lack of physical activity and a lot of that is due to excessive car travel and dependency in our cities. If people walked to the train or rode a bike to the train or had to run for the bus, then that would have an enormous influence on their well-being, their quality of life and the dollar cost to the Commonwealth in billions of dollars per annum. The other analogy, apart from the taxi driver, is the problem of overweight and obese school kids because the kids get taken to school by mum in the Range Rover, depending which suburb you're in or whatever.

MRS OWENS: My kids don't.

MR ROBINSON: Not everyone's kids do. Thank you. I was trying to make some notes and I was aware that Dr Scrafton at least is an economist or - are you an economist, Dr Scrafton?

PROF SCRAFTON: My background is as a geographer, believe it or not.

MR FLEAY: Geologist, did you say?

PROF SCRAFTON: Geographer.

MR ROBINSON: But I assume your economics is of an order of magnitude or two higher than mine. But apart from the economics of the health costs, there is a range of things, so that the unhealthy lifestyles which are forced upon us by the urban transport systems where people feel it's not safe for their kids to walk to school or not safe to ride to school - these things are very unfortunate and to a fair extent they're relatively easily fixed. The urban transport systems are polluting and it's estimated, for instance, that 15,000 Californians die each year from cancer from diesel exhaust. One can scale that to here: they have got more stringent diesel exhaust emission standards and there is growing attention now to carcinogenic particulates - they are very small ones from diesel exhaust - but pollution in general and smog is a serious problem. The road that our urban transport systems are going down is the road to Los Angeles and Mexico City, and it's the view of the Bicycle Federation of Australia that we're at the crossroads now and we should turn off the route to Mexico City. Perth doesn't want to become like Sydney. Sydney probably doesn't want to become like Mexico City and the community in general doesn't want this to happen.

With these problems from diesel, if the GST proposed will lower the price of diesel in our cities that doesn't seem to be a sensible strategy for an integrated transport system. There are other pollution aspects of noise and things, so the transport systems we see at the moment are unhealthy, they're polluting, they're unsustainable. They are unsustainable in a number of ways - we can talk about environmentally unsustainable. In the terms of the ecologically sustainable working group on transport and things there has been quite a lot published, about taking up productive land and spreading the cities and things. They're unsustainable in energy terms, and we're spending our capital of available energy like a spendthrift inheritor of a family fortune that has been acquired over generations and generations, to be dissipated in a decade by some person - in the analogy - who is not thinking in the future. That will be the thing that Brian is far more expert at than me, so I'll leave that.

The city transport is unsustainable in economic terms. Within the BFA's report, Alan Parker, who will be appearing in Melbourne, has drawn on the work here at Murdoch University from Jeff Kenworthy and Peter Newman. I heard Prof Newman talking to a submission on urban air quality about the gross regional product. It was a line of thought that if you take Perth, how much of our gross regional product - the dollar equivalent of the gross national product - how much of that goes into transport? The more cars and the more freeways and things, then the higher proportion of the available resources just go into transport, moving people around. In Perth that's growing as the car dependence increases. So these tendencies are unsustainable in economic terms, but I'm admitting my lack of expertise in economics, so I won't belabour that. If you look at the quality of life issues and things as well, the

other things that are currently not in the gross national product, where the people like to live, whether their kids can cross the road or whether they're housebound or whatever - there is a whole range of things where these things seem to be not sustainable.

If we take a Thatcherian view of market forces of something to say, "No worries, the market will sort it out," then we can take some examples: the market forces gave us the tobacco industry and all the health costs, the profits. They got the health costs that are imposed on the community and the social cost. This community's addition to excessive car transport is fuelled by the same sort of advertising and promotion and has the same expenses for the community. I needn't go into that; you're aware of the externalities and things.

We'd like to recommend, as outlined by Alan Parker, firstly a much greater Commonwealth involvement in urban transport planning. This is partly because the Commonwealth has to bear the health costs, it has to bear a lot of the environmental costs; it's the Commonwealth that bears responsibility for our international greenhouse treaty obligations, and those sorts of things. So to just leave it to the states or to the market is not adequate. The Commonwealth has to deal with the balance of payments problems from importing cars and importing oil - and again oil will be covered by Brian. The Commonwealth has to face the strategic problems of an economy that's dependent on the cheap oil that is dependent on the cheap oil flowing without an end, and the vulnerability to the economy and to the nation in strategic terms when the oil supplies dwindle - and Brian will come to that.

We would like to support very strongly a Commonwealth involvement with funding for better urban transport including funds for light rail and heavy rail, and for urban transport as part of an integrated transport planning system. It's our view that the Commonwealth should be paying a lot more attention to this, rather than just funding national highways and things like that. Some of the things that could be done in integrated urban transport planning are the things that are raised by Alan in the Bicycle Federation of Australia's submission, the dual mode bicycle and train option - bicycle and electric train.

I will just mention I came in this morning by way of the fastest ways, and I'll be going back to work and then back to home, and in the total elapsed time and cost efficiency and things there's a whole range, but that's an extremely effective way of doing it. It was actually illegal to bring my bike - unwelcome to bring the bike on the train in peak hours, because I came relatively early, so that it was not - the provision was not tremendous. Of the dual mode there are a couple of strategies. I could have ridden my bike to the station, caught a train in and then walked around the city - but then I wanted to go back to work. Or there was the other dual mode, the mode that I used, where I took my bicycle on the train and it's now - I hope - still chained up outside. Then I can go back.

But there are some logistical problems with taking bicycles on trains because they're a bit oily and scratchy and they don't pack as well, but it's very effective and

that's the point that will be raised by some of our colleagues about outer urban and regional trains. If you can take your bike on the train here up to a new line up to the hills, outer hills towns of Northam and Toodyay, you could take your bike on a train and then ride down the picturesque valleys back to Perth or something. There are a lot of opportunities for bicycle on train dual mode as well as bicycle to the station and dual mode.

I have come back recently from a business trip, my bicycle and I - I'm not in the bicycle business - to Helsinki and to Holland. Helsinki is the headquarters of Nokia, the mobile phone company. They're exporting things all around the world, probably to the overall betterment of the community, apart from the concerts and things. They have a city which is roughly the size of Perth and they can have all sorts of things, but they've got a very human transport system that is much friendlier for bicycles, for instance.

I also went to Eindhoven. My bike and I went from the Amsterdam Airport to Eindhoven by train, and when you come outside the train stations in Holland - and I hadn't paid a lot of attention to this because I'm not very well travelled - there are acres and acres of bicycles outside Dutch train stations. So in lots of places - and Alan Parker has referred to situations in Japan that I'm not familiar with, but certainly in Holland the bicycle plus train transport mode is extremely efficient without destroying the communities. It doesn't need the freeways. It's possible to have a bicycle at each end and judging by the train stations in Holland it would seem that a lot of people do, because you see a hell of a lot of bicycles there, and perhaps I was there at the right time. But bicycles plus train are a very effective thing.

Eindhoven is a smaller city. It's more like Geelong or Newcastle, perhaps, but it's also headquarters of the worldwide Philips organisation which is why I was there. So I was just using those points, that one can be commercially competitive and have good transport systems and involve bicycles. You don't need to think that if you're going to be commercially competitive you have to go down the Los Angeles road. That's not our aspiration.

The other opportunity for a dual mode use of trains and bicycles is particularly evident in Perth and it's worth dwelling on that because it may not be familiar to a lot of people. This is dual use of the rail reserves, and this is starting to happen in Perth. The urban rail reserves offer routes through the city along spines, and they're often along places where schools and hospitals and these things are. The opportunity exists to put bicycle facilities alongside the railway lines because the railway lines are often wide enough and bicycle paths are relatively narrow anyway. The trains didn't like going up and down hills much more than cyclists do, so often they have good grades, they are straight, there are few cross streets. You can achieve grade separation often by either going over the same bridges or you can just clip a little bridge on the side of the rail bridge. So if you like, that's a third dual model use of rail reserves.

The Western Australian government has an undertaking by the second term of its office to have an network of bicycle paths in Perth and a lot of these are along the

rail reserves. This comes to the problem of the fragmentation that there are - and I was just at a meeting with a Westrail representative - substantial problems, organisational, legal and cultural, of the railway people thinking to include bicycles in their transport planning. Western Australia is a probably a little bit further down than some of the other states and it may be an opportunity to learn.

If you have bicycle paths running along the railway line then that also helps people get to the train station, as well as coming in rail they can come - and certainly on our newest line the train stations are further apart. So if you're 2 or 3 kilometres from the railway line - and Alan Parker has in here drawn little circles and graphs that have got it on the second to last page in the one I've got - little circles of where, if you walk to a station, you need your stations much closer than if you ride, because the average cyclist can cover at least three times as much distance in the same time, as I did by getting from one hotel to the other in about 3 minutes.

That has substantial impacts, and part of that would be - given that not everyone likes riding bikes through the traffic - that if you live close to the line but midway between two stations, you can ride your bike in the quiet streets to the line and then you've got a direct route which either takes you to the station and if you, as I've been known, miss the train you say, "Bother" and you can actually continue your journey along the route and this is an enormous advantage. Currently this is not happening particularly well in Perth; there are some starts because of the fragmentation of the system. This is one of the things that I hope the Productivity Commission will look into - a better integration.

If you take this analogy of people using the railway reserves for longitudinal travel - as well the railways have been barriers to urban transport: people lived on the wrong side of the tracks, so it divides - just as freeways do now - and people often want to go from one side of the railway line to the other and the road underpasses and things used to be very busy and narrow, congested, unpleasant and surrounded by traffic funnelling in. In our railway line there are pedestrian underpasses usually at the railway station and other places. Currently these are out of bounds for cyclists.

Just in our premier's electorate or very close to it, they are going to close two high schools and put a new high school by the railway line and so that's really good. The kids can come by train, those who want to, but the new station they've just built has got a new underpass for disabled people, because it's near hospitals, but it's out of bounds to cyclists, so cyclists have to go through a busy underpass or they have to get off and either carry their bike or wheel it. A pedestrian wheeling a bike is not a cyclist and it's a bit the same as asking a motorist to have a person with a red flag out the front. People don't like changing modes, and so it would be quite practical for Westrail to design their facilities to include transverse pedestrian and bicycle routes, but the Westrail representative at a meeting this morning said their core business was to get people onto trains and that's where it stops. The global interaction of designing a better urban transport system is not part of their mandate.

We see this with the state road authorities, who feel they're designing roads for

trucks or the Commonwealth funding which is for the highways, so that there are a lot of things that could be done following some of the examples that are happening here about - but very slowly. Since the 93 commitment for a network of paths along the railway line there has actually been a kilometre of path established - where there was a new station - and it's certainly very good, and a good step. You could say things are proceeding at a snail's pace. I actually did some measurements the other night because it was raining and snails are moving about 10 times faster than the cycleways along our railway lines. It's not hard to build a cycleway, but to build a kilometre in 6 years or something is not exactly rocket science. So we think the federal government should take some action towards getting an environmentally friendly and healthy and less polluting urban transport system integrated.

I don't know how practical that is within your terms of reference but it certainly seems to be that if people just look at the rail task alone then it doesn't cover the urban transport task. For instance, reducing the price of diesel in urban areas and reducing the excise in petrol overall is a short-term gain which might have some extremely long-term costs. For instance, I did some calculations with the previous goods and services tax proposed in 1993, and again I've admitted my ignorance of these things. I understand the price elasticity of demand for petrol varies, the estimates vary between minus .2 and minus .6; if you take a minus .4, a 40 per cent elasticity in petrol demand. If you took that, plus the known relationship between petrol sales and crashes published by the Queensland University of Technology for the Federal Office of Road Safety, you can calculate that the previous GST reduction of petrol price of 25 per cent would have cost the lives of 400 Australians per annum, so there's a lot of interactions between charging things.

I was talking, if you like, about encouraging people to shift modes or to remain with environmentally friendly modes by pricing things and referring to the price of petrol and diesel and I think that's a very important part. The Department of Transport here is running travel demand management trials when they can get a modal shift of 10 per cent from inner South Perth from car trips into either walking or cycling or public transport trips, just by going around and talking to people, offering some information, no infrastructure changes, no high expense.

You can put the clock back 10 years to the number of trips and things, and the trips were more local and local benefit, so the travel demand management study, the travel smart study, is another one that shows that the march towards ever-increasing car use is not inexorable and it can be changed and they are the sorts of things and transport reform overall is happening. The evidence that you will hear is that it's happening at a snail's pace, in some areas anyway, and we'd like it to move along. We also would like to ask that the federal government set up an inquiry into energy use in transport and its availability. There was a state inquiry here in 1979 at the time of the change of government in Iran and the second oil crisis and people did all sorts of very sensible things, but that evaporated to some extent.

The federal government had a green paper on sustainable energy policy for Australia and it seemed to us - we're most interested in the transport energy side,

which seemed to be by far the most vulnerable - and the promised white paper has gone into limbo or lapsed. Certainly, this was 2 years ago or something the draft green paper was around, but our interest is in the transport energy moiety and that's the bit that Brian will demonstrate is by far the most at risk. I think the federal government should set up an inquiry, perhaps under the Productivity Commission, about energy use in transport.

I'll just pass over to Brian with a personal introduction. I met him by chance, to some extent in 1993, when he was espousing the beginnings of the thesis that he's put together. It's in fact not his thesis, he's just collating the information that's around, but he's put it in a coherent form. My initial reaction was one of disbelief and the reason I'm mentioning that is because I think it's still a very common thing for people to say, "Look, the oil supply is not as assured as it's made out," and most people don't believe it. In the interim I've heard him talk, I've read the book that he wrote and I've read a lot of the growing volume of the literature. My background is as a scientist and it seems an extremely plausible scenario. We're very fortunate that someone in Australia is following the debate and contributing to it and assembling it. One of the other things that people have said is, "Well, people have cried wolf before." People have said, "Are we going to run out of oil or copper or whatever?" - and we didn't. Just because people have cried wolf before, doesn't say the person crying wolf this time or the next time is not going to be right.

We feel that the planners should be seriously considering the possibility, now it's probably a probability, that the oil supplies and particularly diesel, will start to run short well within the transport planning. In Western Australia, the urban transport planning is running to a horizon of 2029, which is the bicentennial of the state, so it started off as a 32-year time-frame, so that we should be looking at those things. The Bicycle Federation of Australia certainly commends the Productivity Commission and your indulgence in letting us talk about bicycles. As I explained, I didn't think it was relevant initially either, but when one thinks about it, it certainly is.

I'd like to now introduce Brian. Can you give Brian some guideline of roughly how long his introductory remarks should take, given mine were slightly longer than I intended?

MRS OWENS: At the moment we've got you scheduled on the program from 10.45 to 11.30 and it's now 25 past 11 and we'd like to ask some questions.

MR ROBINSON: Sorry, I didn't know the time line. I could have been slightly briefer.

MRS OWENS: There is some flexibility but we are scheduled to be talking to the Department of Transport at quarter to 12. They may indulge us and let us spend a bit more time with you but I think we'll just need to ask, but they're not here yet, so I think we'll keep going. We have a morning tea schedule, but we can always cut that short and bring a cup of tea back.

MR ROBINSON: I'll hand over to Brian and perhaps you and he can manage the time as best you can.

MRS OWENS: I would very much like to hear from Brian, but it may mean we won't ask you as many questions as we may have liked, but we get another opportunity on some of these issues in Brisbane, Sydney and Melbourne. We saw a Mr Rod Munro 2 days ago in South Australia as well, so we'll just have to see how we go. Thank you, Mr Fleay.

MR FLEAY: I shall try and be very brief. Most of the concrete information I want to say is in my paper which you can read. Given the time constraint, I think I might briefly discuss what is happening at a global level and the initiative. Taking up the cue there that Bruce said about crying wolf and the reference to that fairytale, of course, the wolf did eventually come. When you're dealing with a non-renewable resource like petroleum, then inevitably the wolf must come. There must come a time, and as people ask me, "When are we going to run out?" I say never, because in two and three hundred years' time, people will still be producing oil.

The critical thing is when the production peaks and starts to decline and what I have learnt in the last 2 or 3 years and since, I think, I appeared before you in connection with the urban transport study, is that you have to make a very clear distinction and be very clear what you're talking about, because hydrocarbons which we're talking about follow the full range from methane, as natural gas, to bitumens and tars that are solid hydrocarbons and there is a world of difference in the economics of getting the liquids and gases out of the ground freely and cheaply, compared to the solid hydrocarbons.

A lot of confusion that has arisen on this issue and the uncertainty and the hesitation many people have with making forecasts and prediction, with very good reason, relates to this question of being sloppy in definition. What matters in this context we're talking about for transport - of course oil constitutes 40 per cent of the world's oil and 60 per cent of it is used to run its transport system, so it's not a trivial question in transport - is that it is this easy to produce, cheap to produce oil that matters - what is called conventional oil - that flows relatively freely from oilwells. For many of them it is at an incredibly low price because, of the 40,000-odd oilfields in the world, nearly two-thirds of the oil is found in just 360 of them, a very small number of very large oilfields which are easy to find, usually found first for that reason and of course produced the cheapest oil.

The significant thing that has happened since 1980 is the discovery rate of cheap oil of the giant oilfields has virtually ceased and, with all the world now explored, there are very few left to find and, equally, the peak of discovery of oil was about in the 1960s and has declined steadily ever since, despite all the efforts to change that. Again, the information is in my paper. Now the rate at which we are consuming oil is about four times the rate at which it's being discovered and consumption has exceeded discovery since about 1980. The particular figures in my paper dealing with that are figures 4 and 5, pages 12 and 13.

MRS OWENS: Are you talking about your paper Climaxing or - - -

MR FLEAY: The paper to the Chartered Institute of Transport Conference.

MRS OWENS: Thank you, yes.

MR FLEAY: Clearly what emerges from that, on the discovery, we're getting a pretty good picture of what the ultimate production of this cheap oil will be and that looks to be around about 2000 billion barrels. The significance, as I said earlier, is you reach the peak around about the halfway mark of that and we're very close to that halfway mark. On the eve of the oil crises in the 1970s, the world had consumed 250 billion barrels. It has consumed about another 600 billion barrels since, so we're just that much further through the resource.

The consensus that is developing around this issue now is quite clearcut and I might emphasise in the oil industry itself here, we will reach this halfway mark for the world outside the Middle East producers - where about nearly 60 per cent of the world's remaining oil exists - around about the year 2000. There's not much dispute about that. There is a little bit of uncertainty for the world as a whole will peak because obviously it's going to be deeply influenced by political and economic events and what you think the ultimate level of oil production might be. The best I think you can say at this stage is that some time during the next decade the world as a whole will pass through this peak for conventional oil.

Here perhaps I might backtrack a little bit. As I said, this came from the oil industry itself. The two people who have been the driving force behind this are Colin Campbell and Jean Laherrere, both retired from senior positions in their respective oil companies earlier this decade. Both are geologists and began publishing information of the kind that I'm just telling about. They were in due course recruited by a firm Petroconsultants in Geneva, a consultant to the upstream oil industry, whose special position in that industry is that they are basically the repository for the performance database for the industry.

The best way to describe it is that they fulfil the role for the upstream oil industry that the Australian Bureau of Statistics performs for Australian governments. What they have in the records is the detailed performance of some 40,000 oilfields in 65 countries and therefore these conclusions that they have come to in this regard are based on an impeccable database. I find it most interesting that this firm Petroconsultants has engaged these two people and said, "You can publish, and you take responsibility for what you say. We will not censor you, but we will have no opinion on what you say."

Their actions speak otherwise, and this position is gradually being accepted by the oil industry itself - naturally somewhat reluctantly and not too publicly - and it has reached a stage where this year they managed, after some 2 or 3 years of lobbying with the International Energy Agency, that that agency, in a report to the G8 energy

ministers in March this year, shifted from the position they have historically held, that if the price of oil rises, you find more oil to one that was based on the physical constraints. In their report - and I have given you a copy there and the graph concerned is on page 12 - they have accepted the position that for the world outside the Middle East this conventional oil production will peak about the year 2000. They have based their peak for the world - which is about 2013 - on the US Geological Services estimate of an ultimate of 2300 gigabarrels, which puts it at about that midpoint as a surrogate peak about 2013. I don't need to tell you that political and economic effects are going to have a big bearing on what actually happens, but this is a sort of global picture.

What Colin Campbell has told me in a fax I got from him is that as a consequence partly of their lobbying, Jean Laherrere is going I think next month to speak to the US Geological Survey dealing with their work. The US Geological Survey is about to wind back its estimate of ultimate to about 2080 giga-barrels, which if the IEA is to be consistent, they would bring their midpoint back to about 2006. So everything in pointing to the next decade coming - this is the period when the world will pass through the peak and will decline for this cheap oil.

I might add this is a very significant shift of position for the International Energy Agency and I don't need to tell you the political implications of it - though the International Energy Agency is still under the illusion that the non-conventional oil - that's the stuff from tar sands and bitumens and so forth - can quite smoothly and without any economic disruption continue to meet the demand. This is where they are quite wrong and my paper deals extensively with that question. At the Chartered Institute of Transport's conference in 2 weeks' time, I will certainly be interested to hear what the two representing the oil industry have to say on my views.

A good illustration of why the dependence on non-conventional oil is not a viable proposition can be taken by the example of the Canadian tar sands project, which was basically a huge mining operation on a colossal scale. If you want to get a description of it I suggest you have a look at the March 1998 Scientific American. There are four articles there on this topic of the end of cheap oil. But basically, in looking at the economics of these energy source oil, and other energy sources in terms of their economic effectiveness, their economic efficiency, I approach it from the point of view of the energy cost of getting oil.

All value ultimately derives from energy. I think the people in Victoria are aware of that. When the gas was cut off, things sort of went "choonk" - do you live in Victoria?

MRS OWENS: Yes.

MR FLEAY: Right, so you know what I mean.

MRS OWENS: I know exactly what you mean.

MR FLEAY: Therefore a very important economic indicator is the energy cost of getting energy: the energy you get divided by the energy you are spending at the energy profit ratio. I haven't got time to deal with that but the first part of my paper deals with it and the theme runs right through; it is something that is quite critical. What I finally managed to find out in the middle of the year is the energy cost of producing oil from Canadian tar sand. Basically for every three barrels of oil that they produce they consume energy equivalent to about two barrels of oil. Right at the beginning, I think, in my figure 1, when I am talking about energy profit ratio you can see a diagram there that illustrates what it means for an energy profit ratio of two as against an energy profit ratio of 20.

I haven't time to elaborate but the International Energy Agency has yet to take that step and appreciate that. Involved in this is some fundamental critique and weaknesses in economic theory itself which derive from the fact that it draws its roots from 18th century rationalism and Newtonian mechanics. Newtonian mechanics preceded the development of the science of energy. I won't say any more but I do discuss that in my paper.

What the world is faced with is that during the next decade it will pass through its peak of production of this cheap oil. There's plenty of hydrocarbon resource but it is a resource that cannot support the present system and it is a situation where technology is not likely to have any bearing on it because the fundamental problem, the fundamental economic problem is the sheer scale of things, the sheer quantity of materials you have to handle, which is not amendable to technological improvement. But you can go further than that: using Petroconsultants' database on all those oilfields you can - in the absence of political and economic aberrations, of which there will be plenty - make a very broad profile of what the rate of production of that oil will be through to the middle of next century, this conventional oil. It is simply because it is probably the one resource unique in the world where you can do that. It is just simply that once it starts declining it is the physical limitations that prevent you from doing it. In very broad terms, you can say that the production of oil in the world is going to halve about every 25 years once we pass through the peak.

Coming back to what Bruce was saying about 2029 as the planning horizon for transport here, we can expect in the world then about half the amount of oil available as in the world now. I deal in my paper there with the Australian oil production - West Australian oil production according to Department of Resources development report peaked in 1996 and by 2008 it will be less than 25 per cent of the present. Of course Bass Strait oil is now about 43 per cent of what it was producing in 1986 and everything hinges, fingers crossed, on what might or might not be found in the Timor Sea or not.

The best estimate and most latest estimate of the Bureau of Resource Sciences - and you will find that in figures 12 and 13 on pages 24 and 25 in my report - show a potential for a growing need for imports of oil into this country compared to businesses usual consumption of fuels. It is quite conceivable it would require major discoveries outside the framework of anything that is likely to happen through there to

say about 2020 to be reaching the point where there will be negligible oil production in this country - certainly into the third decade of next century - and we will be at the mercy of imports and we won't be at the head of the queue. We will have some natural gas and we will have some condensate from natural gas; how much condensate depends on what natural gas developments take place and how much condensate they have in it.

I will just very briefly round up: there are two major priorities for oil in this one. Obviously freight transport is one. We must have and we cannot do without freight transport. We have an agriculture that basically only works in this country because we use petroleum fuels; not only for the manufacture of fertilisers and pesticides and all the transport and everything else, but people have described modern industrial agriculture as a means of converting petroleum into fuel, so they have got to get first priority. Not only that, but a priority over about three decades to a substantial shift of focus onto a direction of an agriculture that can survive without using oil - with gas as a bridging fuel, which is tied up with the whole questions of land degradation and salinity. I touch on that in my paper.

Therefore my contention is, and what I have been saying around the country for the last couple of years is that the decline of oil in what I am saying here - the main brunt of that decline will have to be borne by urban car transport. That means that if I said the rate of oil decline in the world is about halving every 25 years or so, then we have got to go down a much faster rate of decline in Australia and it reinforces the need to shift our passenger transport system to electric-powered, coal-powered - I know my friends on the greenhouse side would not approve of that but my contention there is that greenhouse is not going to drive the decline of oil; the decline of oil is going to drive greenhouse, but then that is another question.

That reinforces everything that Bruce was saying about the critical role bicycles can play, integrated particularly with urban transport, to deal with these questions of making a rapid and swift shift of the urban environment to a mode as they get forced to shift away from the present dependence on cars. It has the great advantage that it doesn't particularly require any technical research. It is to some extent a software-type solution rather than a hardware one. It can be done fairly quickly and it is one where you can call into play the initiatives of a whole lot of people as the sense of this predicament arises and people wonder, "What can we do?" This gives them the scope for something to do and set something happening at the bottom level and can start the process of moving the restructuring of the way things are done so that most of the trips to and from work are done by walking, bicycling and in this fashion.

The only other thing I would like to make in this context - and it has a wider bearing in respect to rail - is that rail is more energy efficient for long-distance transport than road. There will have to be a stress to actually reduce the amount of transport to stop the unnecessary carting of materials around - things I quoted which are on the agenda at the moment; the absurdity of Australia importing pork from Canada and Denmark and putting Australian pig producers out of production, or Australian citrus growers pulling out the trees because of imports from Brazil - this

sort of transport should have to go. As we move into the next century you will find a contraction of the global economy and everything will - there will be an inevitable reduction in the amount of transport. I think you can get some of idea of what I'm going to say to the Chartered Institute of Transport next Friday fortnight.

The arguments are compelling. I haven't been able to cover them here adequately, but I can't stress enough here that this issue is starting with Colin Campbell's book - and I'll leave you a copy which was published in September last year - plus that article in the Scientific American. There is starting to be a flood of articles in newspapers, in Science - 24 August issue - and a whole swag of things in oil industry journals; articles like Spectator. That one was published in the Melbourne Age on 7 September and Colin Campbell is getting deluged with requests to go and talk. I would say in 12 months' time this is going to be in the public arena and the whole shift of focus of oil development is now starting to shift to the Middle East as the only area where - in the immediate future for a limited period of time - there can be an increase in oil production. That will be very visible by the end of next year, and this whole issue is starting to come out in the open. It has already started to happen. I think I've said enough at this stage.

MRS OWENS: Good, thank you both very much, and I think you've certainly given us a lot of food for thought. We do have your paper and we will read that with great interest. I don't know how much further we can take it at this point, but I think one of the questions I'd like to ask you, Mr Fleay is: has this particular issue got onto the agenda in other countries, and are you aware if steps have been taken in other countries to deal with it through looking at the issues of urban transport in particular?

MR FLEAY: I can very briefly read out to you this fax I got from Colin Campbell on 31 August. You've got articles: the National Interest Washington, spring issue; the Scientific American, March issue; Science, 24 August issue; the Observer newspaper in London on 26 July; Die Stern on 22nd of four; Capital of Germany in September this year; Geopolitique of France in August this year; Energy Investor in August 1998; the Spectator in London in August - that was the one that was published in the Melbourne Age; there is a German government report in press; Norway's financial journal; the Future of Oil issues by Petroleum Exploration Society; Forbes of June.

The lectures that he is going on - he was at the Centre for Global Energy Studies in London, a gold-plated affair chaired by Sheikh Yamani in which he tells me this was talked about and I have got newspaper articles here that show clearly that companies like Shell and BP are starting to wind down some of their exploration effort in the world. They are handing it over to Woodside in this country. Saudi Arabia is inviting the oil companies back in again and so on. He is talking to Shell Oil - yesterday in fact in Amsterdam; the Geological Society of America, Toronto, Cambridge Investments in November, Commonwealth Club in Silicon Valley forum, San Francisco, the Walt Disney Board in Los Angeles - strangely enough - the Institute of Petroleum in London and I believe Lateline is planning a program in the next few weeks involving Colin Campbell, Sheikh Yamani and Daniel Jergen. So the

thing is slowly coming out.

Naturally, in view of the issues involved, there is a degree of inertia and reluctance as you could understand, but the uncertainties about the people who are crying wolf are diminishing because the whole world has now been explored. The particular thing that Colin Campbell had done, backed up by that enormous database, is to hammer the question of being consistent in your definitions and to be consistent in your use of statistics. They are discussed in my paper. When you look at all the range of estimates of what ultimate oil production will be - which is the key thing because it sets when the peak is going to be - when you look at them and look at getting a consistent approach to definitions and a consistent approach to statistics the differences narrow and they hone down.

MRS OWENS: It will be interesting to see what the response is nationally to these sorts of pressures that we're obviously- - -

MR FLEAY: Yes.

MRS OWENS: - - - well, I don't know whether it's obvious but which we may be facing in the future. When you look back to what happened when we had the oil embargo back in 1973-1974, the response at that time was not necessarily to move in the direction of people using bikes and people going on to trains and so on. The response then was to change the nature of the sorts of cars that were being produced and moving away from the big American Yank tanks to smaller cars.

MR FLEAY: Yes, that's true.

MRS OWENS: And that was the response at that time. We've already moved down that track to producing cars that can actually be very energy efficient and there are now electric cars and so on.

MR FLEAY: Yes.

MRS OWENS: So that may be in a direction that we may continue to go in, and people may move in that direction.

MR FLEAY: I do discuss those briefly in my paper and they will be issues that will come up at the Chartered Institute of Transport conference. I personally will be quite interested to hear what the two people from the oil industry will have to say.

MRS OWENS: Yes. One of the real questions we have got is that - I think it's almost a cultural question, and in the bicycle Federation's submission it talks about the best practice being in countries like Japan and the Netherlands, and you talked about Helsinki. You say there has been in those countries a culture and a history of using bicycles and public transport.

MR ROBINSON: The Dutch bicycle thing is relatively recent and I think Alan

discussed that in that paper if not others, so it's not partly historical. The Dutch government - when things are referred to there it's the environment thing - have taken steps about the time of the first oil crisis, so the Dutch emphasis on cycling - there had been people who had ridden bikes before, the provision of infrastructure - you can't ride your bike to work on a bike path if the bike path is not there, so that's relatively recent and it's not a historical thing. The bike paths around Helsinki are all recent.

You said about the trend to more efficient cars and certainly in Australia that's being reversed; if every second car is a company car - and Ian Lowe has published things saying that people who have company cars who don't pay their own petrol don't put petrol usage very high, so that all our fleet is being dominated by people who don't have to pay for the petrol. There is the American thing - if you lower the price of diesel then you get more Toyota four-wheel drives taking kids to school, and I don't think the current trend is particularly - one of the things that came out of the ESD things was no regrets options. To some extent we're talking about urban rail and things. There are strategies we can do now which are defensible on health grounds or environmental grounds independent of this, so there are a lot of options that can be taken now.

MRS OWENS: I just wonder and still think there is a cultural barrier in countries such as Australia, that you've got in some cities at last quite a lot of urban sprawl. I come from Melbourne and it has spread and there has been access to, I think, a much better bike path network and probably there are more people riding their bikes than there were a decade ago, but I would say it's not an avalanche of people.

MR ROBINSON: No, the travel smart trialled by the Department of Transport here showed in South Perth that just by promotion by going and talking to people they shifted the model shift away from single car trips and things, but they also shifted the destinations. Many less people - many more of the trips were within the municipality, so if the price of petrol is low then you go to the big shopping centre over here; if it's high you go to the deli.

If you look at the demise of the country towns and things, the price of petrol for instance - or the signals that the government sends; if the government says, "We're going to reduce the price of diesel and reduce the excise on petrol", whereas in a lot of the cities that are much more favoured in terms of places to live in, you know, the price of petrol is much higher. The market signals that could be sent from paying for the hospitals and the waiting lists and all the schools, things we need, by putting the price of petrol up would seem to be a very sensible economic thing to do.

PROF SCRAFTON: It seems to me that the main message that comes out of your two presentations, which I have to say are excellent - I certainly enjoyed hearing your presentations. The reform that has taken place in favour of say bike travel, and the amount of money that has been put into urban transport say in the past 10 years is quite enormous in Australia, but obviously from what you say the pace of reform is too slow. Often the countervailing forces that Bruce has just described are often more powerful than the innovations and the reform that takes place. Maybe the

important thing for our inquiry is the message that while reforms have taken place, they don't take place fast enough and they're not consistent enough. I guess that is really an outcome. It's not a question, it is just an observation on what the two of you together have said.

MR ROBINSON: If you look at the money being spent on tunnels and freeways here, there is \$2000 million packages of road funding. If you look at Melbourne there is the city link project and things. There are those sorts of things happening. There is a lot of road money going in and a few token cycleways doesn't really tip the balance.

PROF SCRAFTON: You could do an awful lot for cyclists though with a very small proportion of that amount of money.

MR ROBINSON: Sure. It's a very cost-effective thing. But even within those constraints the amount of money being spent in Perth and in Melbourne is small by comparison with the outlay into the energy inefficient modes.

PROF SCRAFTON: That does lead me to one specific question that I would like to ask you, and that is whether you would support what are now often tied road funds being spent on rail facilities rather than on roads. Would you like to have seen that \$2 billion project expended on rail projects?

MR ROBINSON: Yes.

PROF SCRAFTON: You feel that strongly about it.

MR ROBINSON: There may well have been starting to be a decline in bicycle transport in Perth and in Melbourne and the problem is that you can put in a few cycleways, but most of the trips to the school and the shop are going to be on roads. So the more freeways you build, the more people become car dependent and the whole system clogs up. You've got the sort of boiling frog syndrome, that people don't notice things getting worse and worse and worse.

Moves that will take cars off the road and avoid new freeways, like the freeway here through Northbridge, a sort of cappuccino strip or whatever - if that funding had gone into urban rail or urban light rail, then the city would be much better off. The money that we spent on the electric railway to the northern suburbs, the newest one which was put in between 1989 and 92, or whatever, that money in retrospect is clearly well spent.

PROF SCRAFTON: There are plans in Perth for a railway to the south, I understand, that could cost a billion dollars. So it's not as if that planning is not there. I just go back to my earlier point that the reform seems to be taking place but taking place too slowly.

MR ROBINSON: Yes, it's one step forward and three steps back.

PROF SCRAFTON: Yes, okay, a good description.

MR FLEAY: I would put it another way. Transport planning in this country, looking 30-odd years ahead, and especially road transport planning, simply takes the fuel supply for vehicles for granted. You will never find it really seriously looked at. You might get a passing mention but not the sort of in-depth thing that I look for. The comparison I make is like Western Power Utility here building a power station and not bothering to do anything about the fuel supply to run it. That is quite literally what happens. I can understand why it happens. We talked about the "cry wolf" syndrome and there are a lot of good reasons why people have avoided it, but it's got to stop for obvious reasons.

Just to reinforce that point, in looking at Sydney and Melbourne where you have the city link and these private investor-funded roads in Sydney, I've read the prospectuses of some of them where they have called for financing and deal with the financing - particularly the city link one. When I wrote my book I read it twice just to make sure. I could not find a single sentence anywhere in that document that referred to the question of fuel supplies as an important issue in the viability of the project. That included all the financial consultants and the engineering consultants who certified this, that and the other thing.

PROF SCRAFTON: Without prejudging those evaluations, they hope they will recover their investment before the problem arises.

MR FLEAY: That's right. The total investment in those particular roads, if you think of starting from the Sydney tunnel alongside the Sydney Harbour Bridge, is close to \$4000 million total investment, I'm worried a little bit as to what the impact of my paper at the Chartered Institute of Transport might have on the share price of these things.

MR ROBINSON: Perhaps we should be selling at this stage. Quite seriously.

PROF SCRAFTON: I must say that I really appreciate your contribution. The evidence of the 1970s is that Australia and many other countries seem to need crises or high prices in order to think straight. There's no doubt about it..

MR FLEAY: Yes.

PROF SCRAFTON: The rise in four-wheel drives that was quoted by you is an excellent example. We spent years developing energy-efficient and space more efficient vehicles only to just have ourselves marketed out of existence by a whole new generation of vehicles that for many reasons are totally inappropriate.

MR FLEAY: Completely offset the advantage in fuel efficiency - -

PROF SCRAFTON: That we achieved.

MR FLEAY: - - - and by persisting with the car-based system where you promote urban sprawl, which increases the distance that people have to travel. That is what has happened.

PROF SCRAFTON: Before you guys go I need to make a comment from the commission's point of view: I don't run for the bus but I do walk for the bus.

MRS OWENS: He doesn't own a car, which is interesting.

MR FLEAY: I have a confession to make today - I came in a car.

MR ROBINSON: Can I just ask a question that arose from the Industry Commission and related to the system about the fuel franchise levies. Our premier unveiled a strip of cycleways - the first bit of the veloway along the railway line, and all the TV cameras were there and they wanted to talk about it because it was the day of the High Court decision. In urban transport things South Australia used to have, I think, a situation where there was a graduated fuel franchise levy which seemed to be an ideal situation. You say, "Look, the price of diesel in the city should be high because we can catch a train or ride a bike but the price of diesel in Hall's Creek should be lower." There was that mechanism, which wasn't used here but there were interstate differences, and it would just seem to be enormously important that that flexibility gets back into the system so that someone - state or Commonwealth - can set differential fuel prices - differential fuel excise things.

So say, "Look, the farmers are in trouble, they need diesel for freight and things but we're in trouble in the city from the carcinogens and the four-wheel drives." The question is what mechanism is there? Do we need to change the constitution? Surely the Australian government should be able to find some way of putting that back.

PROF SCRAFTON: I think you've answered your own question.. The reason for the South Australian differential was quite elementary. As you point out, it was simply a mechanism by which the state taxation - although we were not allowed to use that word - the state levy system, if you like, could go some way towards equalising the commercial cost of the fuel deliveries to the remote locations. It was a three-step system but it did disappear with the demise of the state levies. However, your comment is quite right: there is nothing to stop any government that is determining a taxation regime to create differentials within it, even if it simply done by a rebate system which it is, I guess, the present time.

MR ROBINSON: Yes, the rebate system.

PROF SCRAFTON: The comment that you made earlier about the impact of tax reform focused on a GST creates some new anomalies for transport which do worsen the situation if one is looking at reform of the present urban transport system.

MR ROBINSON: An excise rebate is a federal issue at the moment, so that the petrol taxes are entirely federal now. We could advocate a rebate based on effectively

the South Australian model, of a multi-tier distance-based thing.

PROF SCRAFTON: Yes. Just for the record we need to affirm that the taxation was always federal. The levies were the state system.

MR ROBINSON: The South Australian is fuel franchise levy.

PROF SCRAFTON: Yes.

MR ROBINSON: I was trying to be careful with my terminology.

PROF SCRAFTON: Right. But nevertheless the Commonwealth does have the ability to institute various levels of taxation in any regime, as it does for income tax, for instance. It's not a difficult thing for the policy formulator to do.

MRS OWENS: I think we probably will have to keep moving. There were a number of other probably local issues we could have talked to you about. We both spent yesterday doing a bit of train travel and have shared train carriages with bikes and walked up a ramp at the East Perth station where it said "No cyclists" and then the cyclists were riding over.

MR ROBINSON: They all say that.

MRS OWENS: So we have had a little experience just yesterday with quite a few bikes and we could have had a discussion about that but I think we will have to, I'm afraid, move on to the next participant. We would like to thank you very much for coming and we may get back to you, if we may, to talk about some of these local issues.

MR ROBINSON: Thank you very much for the invitation and thank you very much for coming and providing this venue for a range of things. Certainly I think a lot of these things need to be discussed outside a party political election issue thing because sensible things don't always come out of that data.

PROF SCRAFTON: And best of luck in Tasmania with your paper.

MRS OWENS: We will now break until quarter past 12 for about 7 minutes, get a cup of tea and then come back in, and we will then be talking to the Western Australian Department of Transport.

MRS OWENS: We will now resume proceedings. Our next participants this afternoon are representatives of the Department of Transport WA. We have a submission which is called the Western Australian government submission. When you are introducing yourself could you please clarify whether you are talking on behalf of your department or on behalf of the Western Australian government? We have both read the submission so at this stage what we would like you to do is just to introduce yourself for the transcript and tell us in what capacity you are here.

MR BRINDAL: I am Doug Brindal from the Department of Transport and I am director of regional policy at the department. The submission that we have made to you - if it hasn't come through formally from the minister it will shortly do so. I did send over an advance copy to you just to help things along, so it is in that sense a submission from the WA government.

MRS OWENS: Thank you.

MR BURROWS: My name is Rob Burrows. I am the director for the office of rail safety in Western Australian, which is part of the Department of Transport. I prepared part of that submission to do with the regulatory function for rail safety.

MRS OWENS: Thank you. We have got a very useful attachment B, called Developments in Rail Safety at a National Level, so we can talk to you about some of the issues in that attachment.

MR BURROWS: Sure.

MRS OWENS: Can I just clarify before we proceed: given that this is a draft submission, can we ask questions relating to that submission?

MR BRINDAL: Please do, yes.

MRS OWENS: Fine.

MR BRINDAL: There is a formal submission coming through from the minister and as far as I am aware it is exactly the same as that. It is just a question of the time lines involved in getting things through these processes.

MRS OWENS: Would you like to make some opening comments before we ask you about the submission?

MR BRINDAL: Only very briefly because the submission is intended to be relatively straightforward to help bring the commission up to speed with some of the important things that are going on within Western Australia. In doing that it has focused on some key strategic issues; namely, on-rail competition - as it is often called - which is associated with the question of access to the Westrail system. The issue of the future ownership of Westrail - as you know, there has been a recent announcement about the intention to dispose of the freight business of Westrail and

there are obviously some significant issues associated with that, particularly this often debated issue of separation versus vertical integration of the enterprise.

The actual process involved in the disposal of Westrail's freight business is relatively young and I am not sure how far we can go into that but of course we will try and answer any questions that you have in that respect. We have made some mention in the paper about some of the initiatives that Westrail has taken in terms of introducing competition in terms of provision of services within its own organisation, so to speak. That is really just to give you a sense of some of the things that have happened there in terms of competition. Of course, there is then reference to some of the things that are happening at the national level, just to give a Western Australian perspective. I think, as you have already noted, the developments in terms of rail safety and uniformity of rail regulations and so on are quite exciting in that area. That is it in a nutshell. As I say, it is very much a matter of bringing the commission up to speed with some of the issues that we see as being important over here.

MRS OWENS: Thank you very much. I have to say that we are delighted to have a submission from the Western Australian government, and I think you are the only department that we will be talking to on this round of hearings. Hopefully we will pick up some of the others at a later stage when we do our hearings relating to the draft report, but I think we are both very pleased to have this particular submission. I think there is a range of issues that have cropped up in the last few months in relation to the potential sale of Westrail freight business.

Some of those issues are national issues and we may come back to that in a minute, but I think a good place to start would really be that you have put into your submission some figures relating to the performance of Westrail - page 6 - and you have shown in those figures a very significant drop in numbers of employees, just a fairly small increase in revenue, part of which I would presume is related to asset sales and partly to the CSOs. There has been a turnaround in profit and a very large increase in freight tonne kilometres. Is there any information relating to customer satisfaction? Do you monitor other aspects of that business?

MR BRINDAL: When you say "you", do you mean the Department of Transport?

MRS OWENS: The Department of Transport. We will go back one step. Does the department take an interest in what is happening at Westrail or is your role a broader planning function? How does the department and Westrail link in together?

MR BRINDAL: We are fundamentally a planning and policy body. There is a specific rail safety regulation function that Rob deals with but increasingly, as Westrail has become a commercially-oriented organisation, the direct involvement of the department with Westrail's day-to-day operations has become less and less. At one stage, going back to the old regulated days when the Transport Commission - which is one of the predecessors of the current Department of Transport - had to issue licences to road transport before road transport was allowed to perform any freight functions within the Westrail area, there obviously was a very close association

between the two bodies on a day-to-day basis.

But in this day and age, as Westrail has becoming increasingly commercial, the relationship is very much at a strategic and policy level. There is still a requirement for Westrail to get its capital works program okayed through the minister for transport and outside of established discretionary limits those capital works proposals come through the Department of Transport for recommendation to the minister for transport.

MRS OWENS: What happens with community service obligations now? You still have some role in that, don't you? You fund those obligations?

MR BRINDAL: With the urban situation there is an arrangement between TransPerth, which is a division of the Department of Transport and Westrail - and that involves payment of a community service obligation. With the non-urban rail passenger services there is a direct arrangement between Westrail and state treasury in terms of payment of community service obligations, but they are the only CSOs that apply to the Westrail system. There are no CSOs on freight operations at all.

MRS OWENS: We were just looking yesterday at the accounts and it is actually very difficult to pick up the total CSOs that are paid because of the different arrangements. You can get the urban CSOs indirectly and the non-urban - there are specific lines in the accounts, so it is very difficult to actually bring it together and say, "What are the CSOs that are paid?"

MR BRINDAL: We do make mention in the submission of an estimate of the CSO. It is associated with the urban operation. I am sure we can get hold of the other figures if you are interested in seeing them.

MRS OWENS: Given your planning function, to what extent does the department get involved in the decision-making in relation to whether to sell off the freight business, to franchise urban passenger - if that is to happen - the decision-making in relation to structural separation versus vertical integration? Does the department get involved in those sorts of very basic decisions?

MR BRINDAL: Certainly in its advisory capacity to the minister for transport it has to be very closely associated with that whole process, but not in a determining role; in a policy advisory role to the minister. As part of the lead-up to the decision to sell Westrail's freight operations there was a considerable amount of work done by consultants that were overseen by a steering group that was chaired by the then director-general of transport. That freight disposal process, as you may be aware, is now in the hands of a task force which in turn is being chaired by Chris Whittaker, who is the substantive director-general of transport but is moving off-line for the purposes of taking that matter forward. Basically that task force has to look at the various options available to government in terms of the disposal of Westrail's freight business and it will be making its recommendations in due course to cabinet, so certainly the department plays an integral role in that without, as I say, the

determining body about how such decisions are made.

MRS OWENS: What are the major advantages of privatisation in this context? What are you hoping to achieve?

MR BRINDAL: I guess we have got to see the privatisation of Westrail's freight business in the context of a very rapidly and substantially changing rail freight industry within Australia as a whole. You would be well aware of a lot of the initiatives that are occurring in other states, the privatisations that have already occurred and those that are planned. The future of Westrail has to be seen against that backdrop. The work that was done for the government - there was a very extensive piece of work by a consortium of consultants which concluded a number of things - but a couple of the major items were that while Westrail had achieved a great deal in terms of improving its efficiency of operation in recent years as well as over a longer period - and some of those figures that I have put in the submission there are broadly indicative of that - that while Westrail had made some giant strides there the evidence pointed to some scope for substantial further efficiencies arising from privatisation of the Westrail freight business. They come from various angles, some of which were a lowering of cost structures as a result of a private operation not being subject to some of the constraints that tend to occur with a government-owned business.

MRS OWENS: Is this on the labour side or - - -

MR BRINDAL: Yes, and perhaps the availability of risk capital. Governments tend, by their nature, to be somewhat risk averse in terms of capital expenditures and a private concern, understandably, has more flexibility in that sense than a public enterprise would have. There is greater flexibility, I think, for a private concern to involve itself in various other enterprises other than simply align all freight.

MRS OWENS: Is this where you mean going out of the state and - - -

MR BRINDAL: I think there are two elements at least: one is operations in other states, and that is something that Westrail has certainly been expressing a great deal of interest in. There are some legislative issues there that have to be dealt with and will be dealt with but there are perhaps some lingering concerns about the extent to which Westrail can take up those opportunities, certainly as quickly as a privately owned-organisation might. Also it's possible that a privately owned Westrail might want to move into associated businesses whether they be freight-forwarding or whatever. I'm just trying to make the point there is a greater deal of flexibility on the part of a private organisation to take advantage of opportunities as they arise. It has been suggested from time to time that National Rail, as an organisation, has tended to suffer from some of those restraints notwithstanding that it was set up on a commercial basis. It's certainly been a long, hard fight for that organisation to achieve the efficiencies that people originally expected of it.

In terms of the basic efficiency of the organisation, all of those things could be expected to have an impact on the ultimate level of efficiency that the organisation

could achieve. What Western Australia is then looking at - if it didn't proceed to sell Westrail - is that increasingly it would be competing against other organisations, other rail operators around Australia. As I said earlier, increasingly there is privatisation of a number of those other operations. It would be to some extent hamstrung by its continuing government ownership and hence placed at a disadvantage in terms of competing with those other operations.

That, in conjunction with the fact that Westrail's business is fairly highly concentrated - there is, I think, something like seven of its largest customers account for 75 per cent of its business - that makes it as a business relatively vulnerable to loss of any of that business to other operators. When you pull all of that together the changing context within the Australian rail industry scene, the potential benefits of privatisation, it all pointed to benefits both to rail freight users within Western Australia and to the government as, of course, the custodian of public funds that have been invested in the rail system; that there were apparent benefits from moving down that particular path at this point in time. If it stays with a government ownership in the longer term then certainly there are those vulnerabilities the government would have to contend with. It could have implications for Westrail's bottom line and for government exposure to future capital requirements.

MRS OWENS: The other way that it could have panned out was you wait and see what happens and then somebody else comes in and says, "Well, we'll do all the business that you need done in intrastate business within Western Australia." You could close Westrail down basically. Not that you want to do that because you probably want to get money for the business, but the other way would have been to just wait and see. There have been arguments floating around recently about the future of rail, that we might end up with two big operators and a few small regional ones and that's where it might end up. I don't know. I have no feel for it at this stage.

So that's one of the major decisions you had to make, and the other one was whether to sell it off as a vertically integrated entity or to do something like they did in New South Wales and have some sort of structural separation, and you've come down on the side of vertical integration.

MR BRINDAL: Yes.

MRS OWENS: We've got some material about the approach undertaken in the scoping study and there were three criteria that we used: one was to maximise the sale-part price; one was to minimise ongoing costs to government and the other was to maximise the social and economic benefits to Western Australia. I think they're all very worthwhile criteria but how do you balance or weight those criteria?

MR BRINDAL: Yes. I wouldn't pretend to put a quantitative value on those weights. I think they're all very relevant considerations for government and certainly one wouldn't want to interpret the order of those as being the order of importance, I don't think. But clearly government has to be concerned about what it can get for an enterprise in which it has invested a tremendous amount of public funds over a very

long period of time. Certainly the first two of those criteria deal with - first of all, what it can get for Westrail as a business, and secondly, what it's going to cost it in the future if it maintains that involvement; and thirdly obviously the question of what is best from the point of view of transport policy and what is good for the transport system as a whole.

The way that assessment came out in summary is that the vertically integrated model was judged to be clearly superior from the point of view of the first two of those criteria - ie sale of Westrail and continuing financial implications for government. On the third one the issue of the economic and social benefits is a little more vexed. At the end of the day you come down to a question of trying to balance on the one hand the professed advantages of separation for encouraging greater competition on the rail network, the argument being that if you've got a separate track authority it's more likely you'll get a range of competitors coming onto the network. That's a fairly contentious issue in itself but that certainly is often put forward as being an argument for separation.

On the other hand the vertically integrated model is considered to offer significant advantages, particularly in a fairly extensive network like the one we've got where large parts of the network are relatively lightly trafficked; that there are significant operating advantages and efficiencies associated with having a joint ownership of above and below rail parts of the business. That allows a trade-off of operating parameters against investment in track and Westrail could give you a large number of examples of how they've managed to do that, particularly out on the grain network where they've managed to tailor the quality of the infrastructure to the nature of the train operations which, in turn, are geared into the particular requirements of the grain distribution system.

So you do get a capacity there to integrate the above and below rail components of the business in a way which in theory may be achievable with a track authority. In practice quite often it has proved quite difficult to achieve, I think. There are other advantages of vertical integration associated with the incentive for a track authority or the track component of a business to improve its degree of productivity. Again, a separate track authority, on occasions at least, have been shown to be a little bit slow to move in terms of improving the level of productivity that it actually delivers into the rail system. It's a question of what incentives are available to a track authority. As part of a vertically integrated set-up the track component is part of a larger enterprise which has a direct incentive and direct need to provide bottom-line rail services that meet the market's needs.

To come back to your question, the question of separation versus vertical integration, there are pluses and minuses associated with each of the models. The greatest advantage that's put forward in respect of separation is that of promoting competition. The judgment in the end was that provided we got a rigorous and stringent enough Access Regime in place that a lot of the concerns about the vertically integrated model could actually be dealt with in terms of dealing with competitive access; that that particular disadvantage could, if not be swept away then at least

ameliorated and the advantages associated with vertical integration could be gained. It's a judgment at the end of the day but I think government is quite convinced that is, on balance, the right way to go.

MRS OWENS: It's probably a judgment that could pan out different ways in different states, just depending on the nature of the business and what is being carried and so on. Another argument that has been put to us for vertical integration is just that - and it may not apply in your case - is the potential for a stronger business which can then compete more effectively with road or other modes of transport. That may apply less on an intrastate business than in an interstate business. I'm not sure.

MR BRINDAL: No, I'd say it's a large part of the Westrail network. A large part of its business is very much subject to road competition, particularly in the grain area which, on a geographic coverage basis, is the largest part of the Westrail network. So the potential or the capacity for the rail business to actually compete with road is absolutely critical. Certainly that's one of the things that is tied into that earlier question that you asked about why Western Australia felt it needed to go down the path of the sale of the freight business - the actual contracts between Westrail and the grain industry for the cartage of grain expires, I think next year, and will have to be renegotiated, and that's quite a critical point of decision both for Westrail as an organisation and for the grain industry, and I suppose for the community generally.

MRS OWENS: So a lot of the success of this approach is going to rest on the Access Regime. I understand the legislation still hasn't been passed.

MR BRINDAL: No.

MRS OWENS: What's happening with that?

MR BRINDAL: It's in the upper house at the moment. We're commencing with it in the upper house. State parliaments have been on call for that debate to commence for about the last 2 weeks. We expect that it will occur early next week. So that will be the debate in the Upper House. It will depend how that goes as to when and in what shape it moves to the Lower House and we'll take it from there. We're still hoping that it will be able to get through the current sessions. There are some amendments that have had to be made to the original access regime to try and cope with the changes that are necessary because of the potential sale of the freight business.

MRS OWENS: You initially went in on the assumption that Westrail was a public entity. Is that right?

MR BRINDAL: That's right, yes.

MRS OWENS: The approach you have adopted, there has been, I think, some criticism from other states about the impact it may have on a national network. Do you think that that criticism will, to some extent, be ameliorated by the access regime

that you eventually develop or do you think that won't go away?

MR BRINDAL: We think the adequacy of the access regime, both the one we're putting in place and the one that I understand the ARTC is in the process of developing itself, that they are quite critical in terms of dealing with that issue. But we maintain through all of these discussions - that we're sticking to the principles of the intergovernmental agreements that were drawn up late last year, that set up the Australian Rail Track Corporation - it was always envisaged as part of that agreement, that the Westrail part of the system would remain owned and managed by the Westrail organisation and that the way that ARTC's rights to market interstate freight would be via agreements between ARTC and Westrail.

That was always the core of that intergovernmental agreement, and the Western Australian government's made it quite clear that if Westrail as an organisation is sold to a private operator, then it will be seeking to ensure that the obligations that the WA government took on board as part of that IGA are transmitted to the new owner. The details of how that will work out are part of the process that we have to go through but the bottom line is that we signed up to certain things that Western Australia would do in the IGA and we fully intend to carry through on those.

I have to say I think some of the criticisms that have come forward are really an attempt on the part of some parties to use this change point - and it is a significant change point - and they see that as an opportunity to secure an integrated interstate network which is what they sought in the original instance. That's fair enough from their particular point of view. The critical thing from our point of view all along has been that there's a great deal of intrastate traffic on that line, it is not purely an interstate link, and that makes it quite significantly different to large parts of the - certainly the Commonwealth-owned and Victorian-owned parts of the network. New South Wales has got a similar problem; a large part of the usage of its interstate line is intrastate, and that creates interface issues between inter and intrastate that have to be dealt with - whoever is in charge of the line. Our position all along has been that we preferred to have that control of the Western Australian part of the infrastructure in the hands of Westrail.

PROF SCRAFTON: I'd just like to stay with the access regime, if we could, a little bit. In your paper you describe the parts of the railway that will be included in the regime initially, and I understand from the comments you made earlier that presumably a lot of that is left out of these slightly loaded lines, with maybe one traffic and fairly small volumes. What is the situation in relation to the private railways of the north-west which are now caught up in the national competition policy and with an application to declare a one rail open access regime over one of these private railways. Hamersley are coming to meet with us this afternoon. Is the state government involved in that debate and does it affect your access regime, the way it stands now?

MR BRINDAL: I'll take the second part first. It doesn't affect the access regime that's in parliament at the moment; which is quite specifically dealing with the

government railways network, and it was never intended to cover the private railways as such. Regarding the Pilbara railways, I haven't had a lot of involvement in that. I understand that the government through its state agreements with the various mining companies - those state agreements do have clauses in them relating to access, though they are not of a nature that would satisfy national competition policy requirements. So there is certainly a linkage between the state government and the Pilbara railways in terms of access. I think the different companies have perhaps decided to go their own ways in terms of dealing with the access issue. At least one of them I know has had extensive talks with the state government through the Department of Resources Development in dealing with those access issues. I'm not au fait with the situation in terms of the other companies.

PROF SCRAFTON: Just a minor point on the access regime too: is it a requirement under the proposed regime for an applicant to have been accredited before he applies under the regime or is it possible to apply for access and achieve accreditation later?

MR BURROWS: It's possible to get both in parallel.

PROF SCRAFTON: I ask the question because in some of the informal discussions we've had in the east - possible third party operators or new operators on existing track have commented that the process is not that easy to find your way through. I wanted some comment on how you see it developing in Western Australia, appreciating the fact that the legislation is still there.

MR BURROWS: I think the area where it has been a major problem has been New South Wales. There the legislation for the rail safety functions requires you to have access before you get accreditation. I understand, although I haven't seen the legislation, that the access provider requires accreditation before you can get access, so there's a sort of catch-22 situation. We've recognised that for some time, and in developing our legislation here, we've got what I'd call compatible legislation in that the access and the rail safety legislation sitting side by side will allow both those activities to progress in parallel, and essentially on the accreditation side, we can give interim accreditation. We can actually give accreditation subject to, "You're not operating until you actually get access rights" and so on, so it's a workable solution. It won't be a problem here.

PROF SCRAFTON: Good. Thanks for that. Perhaps it's a model that others will learn from. The comment has been made - again only informally - that there's a feeling that the access regimes in - I think it was Western Australia, South Australia and Tasmania are certainly more user-friendly than in other jurisdictions. Doug, could I just come back to you? I'm aware you had a direct regional policy. In our terms of reference we're asked to look at the regional impacts of some of the reforms that have taken place and will continue to take place. I think it's interesting you have a job which is directly responsible for regional policy so nobody would be closer to the action than you are. How is it working in Western Australia? We have, for instance, a submission, from Esperance - concern about the future about the - I guess it's the

Kalgoorlie to Esperance line and the possible demise of traffic. We have seen elsewhere - if you see the South Australian reforms - the impact on towns like Port Augusta. How is this seen in Western Australia in terms of regional development and the transport impacts?

MR BRINDAL: We put a lot of effort into looking at regional impacts of transport policy changes right through the eighties and the early nineties where we were going through the process of deregulating transport over here and stripping away some of those regulations that applied to road transport that I mentioned earlier. We went through a period of progressive deregulation so that we could actually monitor what was going on as it actually happened. Invariably the finding of that monitoring process was that the net effect of improving the level of competition in the transport system was a positive one. I wouldn't pretend that there weren't problems that didn't surface here and there but I don't think today you would find too many who would propose that we go back to the old policies of regulating freight to rail and so on.

The bottom line effect of deregulation through that whole period has been a greatly improved delivery of rail service, both from the point of view of the efficiency of the rail services that remain and a quantum improve in Westrail's financial performance. I was meaning to look up what Westrail's deficit was back in the late seventies and convert it into today's dollars but I didn't get around to doing that.

MRS OWENS: It would be nice if you could send us something on that.

MR BRINDAL: I will certainly look it up but it would certainly be in the hundreds of millions of dollars and that's a drain on taxpayer funds that isn't there today; Westrail has declared a \$46,000 profit as you know. So from the point of view of the financial performance of the organisation, the delivery of services into interregional areas, both the performance of the rail system and the opportunities that were opened up for road transporters to do their bit, and for those two modes of transport to keep each other on their respective toes, all of the indicators that we've had have been very, very positive. I guess that's one of the reasons why we're very keen to see competition in the on-rail competition sense taken further as being the next step in terms of transport policy.

The bottom line effect of competition has been very, very positive. I recognise the issues that you have just referred to regarding what is going to happen in the future as we continue to go down the line of more and more stringent commercial criteria being applied to retention of the Westrail network. Some of those issues certainly are issues for the freight sales task force and government to look at as part of the privatisation of Westrail, and I wouldn't try to pre-empt that in any way; I think that's a significant issue that does need to be looked at. But I guess where I'm coming from is - to me the best way to ensure the retention of efficient services to regional areas is to have the most efficient rail operation that you can have, and the history of it is that you get that most efficient rail network through exposing it to competition and letting the managers of that network do their thing in terms of in as an unfettered way as possible improving the efficiency of the organisation and gearing itself to the

market's needs. Really, in all of that period since Westrail was opened up to competition from the early eighties through till now, the extent of the network that's actually been closed down is very, very small. There have been a few bits and pieces here and there, but fundamentally that network is largely intact, despite the fact that we've got an organisation that's, as I say, a quantum leap away from what it was back in the seventies.

PROF SCRAFTON: Yes. I think it's an important comment, because we tend to concern ourselves very much with these sort of reform issues of the present time, but in fact a great deal has been achieved and even with our previous participants we talked about the pace of reform being too slow in certain areas and so on, but I think we also ought to keep in mind the reforms that have taken place and often with very beneficial outcomes. I think probably lower freight rates - although you didn't mention that - but I would imagine in some cases, in real terms, much lower freight rates; better service at lower cost.

MR BRINDAL: Absolutely.

MRS OWENS: Have you had any contact with the Esperance Port Authority? As Derek said, they did send us a submission, and their complaints seemed to be about a number of things, but about the state of the track, wasn't it?

PROF SCRAFTON: The possible demise of the line, I guess.

MRS OWENS: Yes. But in the meantime, the state of the track, which they say has not been maintained.

MR BRINDAL: Westrail could answer that more precisely than I could. It's certainly not correct to say it hasn't been maintained. There are differences in track standards. I referred earlier on to the fact that Westrail, facing the sort of network that it does, has got to gear its track standards to the nature of the traffic that is on those particular tracks, so by its nature you get variations in track standards as a result of that. I think the key issue at Esperance - which I'm sure they made to you in their submission - is the relative competitiveness of that line *vis-a-vis* the Eastern Goldfields railway line and the potential impact that that might have on the Koolyanobbing iron ore traffic. That's a real issue in itself.

At this point in time the decisions that will govern what money gets spent on various parts of the network are fundamentally going to be economically driven. I think the reality is that there are a lot of factors that will bear on where Koolyanobbing sends its iron ore and the quality of the line, presumably, is one factor. How important a factor it is in the overall decision, I couldn't tell you, so I'm probably not really in a position to take that any further.

PROF SCRAFTON: No. I only quoted it as an example of these regional impacts that do occur when you have reform, that everybody doesn't win. Perhaps a better example is, say, the city of Port Augusta. Inevitably some of the small towns in the

interior will suffer as you get technological innovation, and some of it is long overdue in the railway system, and so in my home state of South Australia two or three regional towns that were traditionally based upon railway businesses have gone by the wayside.

Could I just go back to a discussion about the situation nationally. You mentioned earlier, in response to an earlier question, the volume of interstate business even on the line from Kalgoorlie into Perth is not that great in terms of the total volume of business, but there has been a lot of accent in the last whatever - I don't know, 5 or 10 years, on this sort of national rail issue, culminating in the House of Reps inquiry, which has just reported. But, as a result of that, you have all these committees and investigations going on into the national scene, one of which involves this business of national or Commonwealth government investment in rail. What is the Western Australian view of all that?

You are sort of at the end of the line and you have a very strong regional economy, a very strong regional transport system, and in your paper you do talk about supporting the national efforts and so on. But what do you feel about this need for a national investment? I think somewhere in one of your own papers, you talk about up to a billion dollars or something being required. Do you see Western Australia getting a fair piece of that investment or do you see it as Western Australia contributing to the improvement of this situation over in the east? How do you feel about the establishment of organisations, such as this talked about National Land Transport Commission or a rail transport commission, in order to facilitate that process? There are a lot of questions there, I guess, but I just wanted to package it all up together, and you can respond however you feel.

MR BRINDAL: Yes. The bottom line is that the interstate rail network and that service across the Nullarbor is obviously of critical importance to Western Australia and for that reason alone, we're very strongly supportive of any initiative at the national level that can be taken to improve the quality of that infrastructure. In a national sense, of course, we support the role of rail and want to see rail enhanced nationally, as in fact we're attempting to enhance it over here. How all that translates into dollars that are placed into infrastructure, is one of those things I think we've got to work our way through at a national level. It's very much on the agenda of the Australian Transport Council and the \$250 million, which was increased slightly at the lead-up to the last election, is a very good start, but is a long way short of what is needed to lift the standard of the network up to the level that it needs to be at.

Westrail, I know, have put proposals to the ARTC in terms of some joint funding of upgrades along the Eastern Goldfields railway, I think particularly between Koolyanobbing and Kalgoorlie. I'm not quite sure how that has panned out in terms of what ARTC has actually recommended to its board and to the minister regarding the expenditure of that \$250 million, but certainly one of their objectives is to use that \$250 million to lever up the total amount of investment in the system by getting contributions from various parties who will benefit from the expenditure of those moneys. As I say, Westrail has in fact put a proposal to ARTC very much along those

lines, where Westrail would be putting funds into upgrading the network and would be met with a similar level of investment from ARTC and both parties, if you like, would benefit from that infrastructure upgrade.

In terms of the Land Transport Commission issue we haven't actually taken a firm position on this, I guess because we're not convinced that there's a clear enough definition of the problem that we're trying to solve. I need to explain that. A lot of the initial push for a national rail transport commission sprang from the idea that because we've got one for road, shouldn't we have one for rail, given that there are some regulatory uniformity issues between the different jurisdictions. That's an issue in its own right, as to whether in fact you need to set up a rail transport commission just because you've got a road one. I don't think that's a good enough reason. You really need to have a look at what's already in place and what has been put in place over the last 12 months or so and what progress is being made and what progress we can hope to make in the future in terms of regulatory uniformity, and maybe you need a commission and maybe you don't.

I think that's an issue that needs to be worked through, but the talk about a National Land Transport Commission seems to go beyond looking at regulatory uniformity bodies, whether they be rail or road, and taking us into the realms of quite high-level strategic planning types of bodies that would look at particularly intermodal and cross-modal allocation of funds for infrastructure. That's a totally different animal to what NRTC has been or to the original concept of a rail transport commission. I think, as a matter of principle, we'd all subscribe to the need for a better level of integration of transport planning and transport infrastructure investment. Quite how you go about that, I think needs to be thought through more thoroughly.

I guess the two points are (a) make sure we define the problem we're trying to solve first up. Is it just regulatory uniformity? Is it these highlevel strategic issues? Secondly, make sure that whatever we put in place is actually going to solve the problem that we've identified. I think we're just a little bit short of doing both of those things at this stage. The process is in place, ATC meets later this year, and I understand there will be a paper going forward to that. Hopefully, it will provide us with a little more clarity than what we've got at the moment.

PROF SCRAFTON: I think it's a good comment that we don't need organisations necessarily for the sake of it. We need to know what it is that it's supposed to be doing. Good, thanks for that. We've talked a lot about rail reform and the interface with road, but it's apparent to us from our informal discussions that sea is increasing its share of the market between the eastern states, between Sydney and Melbourne on the one hand and Perth on the other. Do you have any figures about that? Is that a real perception on our part or on the people who have made this comment to us? Are you aware that - - -

MR BRINDAL: I don't have any figures, unfortunately. I've heard the same sorts of comments. I guess I've heard them coming from different directions. One is that, yes, particularly the freeing-up of coastal trade will certainly push us in the direction

of having a much more effective sea-based competition to the land transport system, and others who say that by its nature, that form of transport can only tap into certain markets and really won't seriously impact on rail and road transport across the Nullarbor, but I really don't have any hard evidence to present to you.

PROF SCRAFTON: Thanks for that. I would just ask, given that we're still at a very early stage of our inquiry, if anything like that comes your way we would really appreciate it if you'd let us know. We have exactly the same problem. It's a little more than anecdotal. I think people who are in the business see it on a day-to-day basis, but you don't get any feel for the quantum of the effect. If it is significant at present, it will be on this east-west business. That's what why we raise the question here. Thanks for that.

MRS OWENS: I'd just like to come back to an issue - we've got Rob here - and talking about safety there are a couple of issues. We're moving down the track of getting greater uniformity across the country and between states in terms of regulation, but the question is, do we need that uniformity? Why do we think that that's a worthwhile objective?

MR BURROWS: As far as the rail safety function is concerned, it's very important to the industry and they've made it quite clear that it's a critical issue for them. They've made a lot of noise about it over the last 2 years in a number of inquiries and a number of studies that have been undertaken. If you're going to have a national rail network, you don't want to have to travel from one state system to another on the national network where you have got a whole lot of different regulatory regimes doing different things, because it makes it difficult for them in the way that they have to operate, how they have to manage. It's better if you've got effectively one system being applied.

That's exactly what the rail safety regulators are working on at the moment, to make sure that we have got four major processes in our business. One is to accredit agencies, one is to audit to ensure they're doing what they said they would in their accreditation, another is accident reporting, and the final major process is to deal with accident investigation. Now, what we have all agreed as a group - and there's a fair bit of cooperation and willingness - is that hopefully by the end of this year we will have all of those four processes documented and put into a manual which we will all use so there will be a consistent approach to how regulation is done.

Now, there are some constraints in a couple of areas due to legislation: most of the states have legislation that will support this consistency. New South Wales' act came well before the IGA for rail safety was put in place. Their Rail Safety Act was in 1993. The IGA was in 1996. I think that it's fair to say that the Rail Safety Act in New South Wales is now under review, and it is expected by everyone that it will change to be able to reflect the requirements of the IGA. As soon as that happens there is no reason why the regulatory function in all the states can't be run identically, so that in effect you have got this perception that there is one system operating in Australia, and those that want to operate on a national basis can get their

accreditation from the states through a one-stop shop arrangement so they are only dealing with one agency at any time.

MRS OWENS: It's a one-stop shop and one set of accreditation fees? Would they have to pay in each state, or what would happen there?

MR BURROWS: I think all of the states have a requirement from the government that the rail safety function be selffunding, so each state is collecting fees for the accreditation it does in its states. They have all developed different fee scales, but they basically reflect the different nature of the rail business in different states, and if you go in, which we've done - we have gone in and studied all of those to try and work out what our approach to fees should be, and the underlying principles under those, and why they elected to have a particular type of fee structure. It really boils down, at the end of the day, to the nature of the industry and the structure of the rail industry in that state, so you might have a high level of freight in one area and more passenger or heritage or whatever in another - you know, difficult sorts of structures. So those fee scales have reflected those sorts of differences.

There has been a request from the ARA to have a common fee approach across Australia. That was recently considered at the Rail Safety Committee of Australia. That committee has industry as well as regulatory representatives on it. I think it's fair to say the outcome of that discussion was that they really couldn't see the problem and they've referred it back to the ARA for more definition. We have to wait for the ARA to try and define it a bit more clearly. The overall effect of each state having a different fee scale isn't that you're paying multiple fees - ie, for the same effort over and over - it's more that you're paying the fee for what you're doing in your state and then if you're travelling to the next state, then you're paying a fee for the regulatory effort in that state.

MRS OWENS: But there is not going to be duplication within that.

MR BURROWS: No, well, I'll give you a simple example. Most of the states for the track owner have the same fee basis - that is, on the kilometres of track maintained - and if you're maintaining X kilometres in New South Wales you would pay for that amount of track in New South Wales. If you owned Y kilometres in Victoria, then you would pay for the addition. But if you had a single fee scale and you added all those up, the total amount of track is what you would be paying the fee on, not - yes, which is the sum of all those components. Essentially the other parts of the accreditation fee are on the same basis and should be looked at in that manner.

MRS OWENS: Yes. I think one of the other issues that people have raised with us is whether they should be paying or being accredited at all if they're just working as a subcontractor to somebody else that is paying or is accredited. There's different layers. Does every layer have to go through the same processes? Is it necessary? Is there regulatory overkill?

MR BURROWS: The approach that we're adopting in WA is that we are

accrediting the primary owner and operator and we would expect them to take responsibility for managing those contracts that they have with the other contractors that are maintaining their track or rolling stock or whatever. We are not looking to accredit those other organisations, so we are just having the top level. Queensland has taken the same approach. New South Wales, which came first, is the one that has taken the other approach, but they're currently looking at that and I've heard - and you might put that question to them to see exactly what their position is, but I've heard that they are starting to understand that they might have that wrong, and want to relook at that and do it a bit differently as well. So what we are hopefully heading towards is a common approach across Australia where you are looking at the primary owner and operator.

PROF SCRAFTON: If I could just make a comment on that, despite the fact that people make criticisms of this sort, is it your view, Rob, that as a result of the experience gained to date and the work that is going on in your committee and so on that these problems are really very much transitional ones? Is that fair?

MR BURROWS: I believe that the problems are well understood and known now, and that there's a fairly strong element of cooperation between the state regulators and governments to try and make sure that they aren't real problems. Some of the problems that are being promoted around the place are more of perception and worry that every other state is going to do what New South Wales has done since 1993.

I know this for a fact because in setting up the regime here for rail safety in Western Australia I had quite a number of rail companies meeting with me and saying that they were very concerned that we were going to do this and that, things which were quite contrary to the philosophy which had been put into a cabinet submission and approved by cabinet as the way that we would implement rail safety in this stage. And when we started to learn more about what was happening in the other states - because we don't want to reinvent wheels too much and I go around and say, "Well, we've got to get an accreditation system. How do you do it in Victoria and how do you do it in New South Wales?" and you start to learn about the others and you start to see that there are some differences.

But essentially the areas that they were concerned about and which the industry has been throwing out as being a national problem, are in fact only probably a New South Wales problem in most cases, and I think New South Wales is going well down the track of trying to overcome those.

MRS OWENS: I won't keep you much longer, but you mentioned in this attachment that we have got on developments in rail safety at a national level developing an Australia standard on rail safety management, AS4292. Has that been adopted in all states?

MR BURROWS: All states have adopted it. It's a requirement of the IGA. They have adopted it in different ways, which I will explain, but essentially under the IGA for rail safety it requires, for accreditation in one state where you've got an operator

that wants to go and operate in another state, for that accreditation to be recognised. So we have what's called mutual recognition of that accreditation.

MRS OWENS: Yes.

MR BURROWS: The mutual recognition process is working where the legislation is in place in those states. In Queensland, New South Wales and Victoria and, more recently, South Australia, where the legislation has been proclaimed, mutual recognition is working. In Western Australia we haven't got our legislation in place so we can't recognise anyone at the moment.

MRS OWENS: So that's a matter of time?

MR BURROWS: It's just a matter of timing. I think there has been a fair bit of criticism actually from industry that the IGA doesn't work and mutual recognition isn't working, but in fact it can't work until the legislation is in place, and that isn't far off.

MRS OWENS: Yes. This could happen by the time our inquiry has finished next year.

MR BURROWS: It probably will.

MRS OWENS: It will all be resolved.

MR BURROWS: Except for the Northern Territory which has now signed up and they're furiously preparing their legislation. Whether they get it in place by the middle of next year when your inquiry is finished, I don't know, but they're having a good shot at it. The Australian standard, how we have implemented that in WA is to actually write it into the legislation. Now, for mutual accreditation to work it requires under the IGA that that accreditation in one state be done against AS4292, so you're accrediting that they meet the requirements of AS4292. If that happens, then the next state that the rail operator wants accreditation in should say, "We recognise that." Okay?

MRS OWENS: Yes.

MR BURROWS: Now, in Western Australia and South Australia and Tasmania - and I know that the Northern Territory is going to do the same - all of those states have actually written into their legislation that AS4292 is the requirement and the basis for any accreditation.

MRS OWENS: Yes.

MR BURROWS: In the other eastern mainland states - Queensland, New South Wales and Victoria - it isn't written into their legislation but it is required administratively.

MRS OWENS: It doesn't make a difference one way or the other.

MR BURROWS: It doesn't. The effect is that you are still being accredited against AS4292.

MRS OWENS: Yes.

MR BURROWS: But I make the point that within AS4292 it says that this isn't the only way to get accreditation, that there are other standards and other ways of doing it, so there is some flexibility there, anyway.

MRS OWENS: Yes, and the whole philosophy is really one of a duty of care, isn't it? I am just again looking at your philosophy of safety accreditation that you have set out here, and it's about the railway owners and operators being accountable for conducting their railway activities safely; they will assess their own safety risks and ensure that the identified risks are controlled by applying technical and management standards and so on. I mean, that's a sort of a duty of care sort of an approach, isn't it?

MR BURROWS: Yes, in effect you have got the railways coming along to the regulators saying, "This is how we want to run our railway. These are the risks that we have assessed, the safety risks, and this is how we're going to control them," and the controls will be through processes, policies, standards, whatever, and they have to demonstrate that those will provide a reasonable level of risk amelioration. So they're really saying, "This is what we're going to do and if we - -"

MRS OWENS: Yes, and it puts the responsibility back on them- - -

MR BURROWS: Yes, puts the responsibility with them.

MRS OWENS: - - - rather than Big Brother saying, "Thou shalt do it this way and we're going to come and inspect you and make sure you're doing it this way."

MR BURROWS: That's true. It's, "We'll tell you what we're going to do and then you can come and make sure that we're doing what we said we'd do."

MRS OWENS: Yes. I don't have anything further. Have you?

PROF SCRAFTON: No. That was good.

MRS OWENS: That was very interesting, and I think the issue of regulation and safety accreditation and so on has been an issue that has been raised with us, particularly on our visits, and we're getting different stories. Some of the operators have been complaining that it's still not working particularly satisfactorily, but it may be just something that we will find by the time we finish this, hopefully the problems that are outstanding will be resolved.

MR BURROWS: I think there is a good chance of that, yes.

MRS OWENS: Thank you both very much for coming, and thank you again for the submission. When it's no longer a draft submission or when you have got a final submission you can forward that to us, and that would be great.

MR BURROWS: Yes.

MR BRINDAL: Sure.

MRS OWENS: We will now break for lunch and we are resuming at 3.15 with Hamersley Iron.

(Luncheon adjournment)

MRS OWENS: Our next participant this afternoon is Hamersley Iron. I would like you both, if you would, to give your name and your affiliation for the purposes of the transcript.

MR EGGLESTON: I'm Peter Eggleston, general manager external and community affairs with Hamersley Iron.

MR RICHMOND: Malcolm Richmond, managing director development for Hamersley Iron.

MRS OWENS: Thank you, and thank you for coming this afternoon. We have the submission from Rio Tinto, and there are a couple of sections in that submission that relate particularly to Hamersley Iron, and we'd like to thank you for your contribution to that submission. Are there any opening comments that you'd like to make before we get on to asking some questions?

MR RICHMOND: Yes. I guess there are two points we want to firmly make, and I guess a number of points that I'm sure will come out in the question time. There are two points that I want to reinforce. These are outlined in the paper, but because of the particular interest these have with Hamersley I thought I'd reemphasise them. The first point is that all our sales are international sales. We hold a very strong position in the world iron ore business, and we see that our long-term competitiveness has been so far quite good, and we certainly don't rest on that point and we're looking for the next 10 or 20 years to be just as competitive as they have been in the last time-frame.

We measure our competitiveness not just in terms of cost and where we lie on the world cost curve - although that itself is well positioned - but we see ourselves also competitive in the sense of two other criteria; one is as it relates to the quality of our product, and the third relates to the promptness and the timeliness of delivery. To that end we have chosen, given our history and our geography, to develop this competitive position, not only just with sound management and outstanding recruiting, investing in our intellectual capital bank, but also we have specifically chosen to run our production process as what we call our integrated core process. By that I mean where each of the process steps that are important to producing our final product, the rules which guide the behaviour of each of these steps are set in part by the n th minus 1 process step and the n th plus 1.

We have found that that yields a very sensible way, in terms of the three criteria I have just outlined of cost, timeliness and quality, to run our business. Colloquially I guess we refer to it now more and more as our factory. I'll stop there. I've got half a dozen more points, but I think most of the ones I'd like to dwell on are less central to that, and I'll try and raise them later.

MRS OWENS: Thank you, Mr Richmond. Would you like to make any additional comments, Peter? No. I should say at the outset that the questions we'll ask this afternoon will focus primarily on the Hamersley issues in the Rio Tinto submission.

MR RICHMOND: Yes, I've come here on that basis.

MRS OWENS: I should also make it clear that, in the context of the Robe River's application for declaration, we won't be able to go into the issues in detail in relation to that submission, but we can talk about points of principle and we can talk about your views about the process that is in place, and we are happy to talk about the issues that you've just raised in terms of your perception of your integrated production process and the issue of access in the context of an export-based business. So if we can keep it on those broader points of principle, I think it would be preferable. We do not want to be second-guessing the National Competition Council on these matters.

I've got a fairly general question to ask you, and that is we have seen from the recent House of Representatives report and other sources that the iron ore railways up in the Pilbara are among the most efficient in the world, and I'm interested to know on what basis that occurs. Is it because of economies of scale, is it because of this integrative production process that you were talking about earlier? Is it because of the maintenance that you do? What is it that makes those railways so efficient?

MR RICHMOND: That's a good question. I can give you some qualitative answers, but I'm not going to be able to give you definitive ones because we're actually still working on that question. But let me give you some insight though as to where we're at. The fact that we run an integrated process certainly allows us to keep costs substantially lower than infrastructure railways. We have looked at, say, lines like Burlington Northern in the States which are considered certainly one of the best there is. Our costs are well below that so the first implication is, despite the fact they have excellent technology, we restrict ourselves to some fairly specific goals with our process style, and that per se confers a fair amount of cost saving.

I think also the fact that having to remain competitive in a very difficult world market also is a very strong driver. The price of iron ore has fallen in real terms about 50 per cent over the last, say, 10 or 12 years. The world iron trade cost has also come down to a similar figure. We have stayed at roughly the same position throughout, and we hope to keep doing that. With that in mind, all things being equal, our rail costs have had to come down at much that same rate, which is a fairly substantial cost reduction, and they have made it. So that you've got a carrot and you've got a stick.

I think also, as I said last time as well, private industry - particularly in mining because we've tended to attract at times some pretty high-quality, far-sighted thinking people - we've tended to be very careful and sensible with our investment decisions. We tend to make good investment decisions and we aren't afraid to reinvest, and because we basically have set ourselves goals to be at the world's leading edge that sort of culture has seeped down into our willingness to try technology. There are few technologies that are adopted across the world that we have not considered, adapted, improved or whatever and so that's part of our general culture. There is a broad amalgam of ideas for you.

MRS OWENS: Thank you for that. The integrative model that you have referred to, is that the sort of approach that is adopted by your competitors in other countries? Do they have the same sort of rail systems and so on?

MR RICHMOND: The question is a lot more complex than you might think because there are integrative models and integrative models. In fact we are shifting to an even smarter model, that's integrated, and the previous one was pretty good anyway, but also integrated. The key competitors - not all - but most of the key competitors run their own railway in some integrative way. One of the top five uses a common carrier, of which they now have a shareholding. This is NBR in Brazil. They persuaded the government to sell or privatise the railway in which they took our a 20-odd per cent participating interest.

MRS OWENS: To your knowledge have any of those other company run and owned railways been subject to the equivalent of our Access Regime?

MR RICHMOND: No.

MRS OWENS: This is where I'm getting to, you see. I'm just trying to establish what you're confronting now. Is this something that's unique?

MR RICHMOND: I think you could widen the question and say, "Has anyone been subject to something like this in any other country?" The answer is, "Unlikely." I'm just quoting here from a rail expert, just giving me a bit of hearsay evidence, but he said to me, "It would be very, very surprising if any country has acted or would act like this."

MRS OWENS: So in that sense if the declaration application from Robe River was to be successful at the NCC and if ultimately you were to negotiate an access rate and ultimately they had access to your line, to what extent do you think that that could negatively affect your competitiveness?

MR RICHMOND: I'm not sure I want to answer that question. I obviously have views, but I'm not so sure I should answer that. If you want to ask more about the double side of that I'm prepared to consider it, but not a question like that. But clearly we're worried.

MRS OWENS: All right. Just saying that you're worried I suppose is a useful thing. Are there prospects of others wanting to get onto your line, as well as Robe River?

MR RICHMOND: Sure. There's one other.

MRS OWENS: Could it be turned around the other way? Does this mean that there's potential for you in the future to seek access to your competitors' lines?

MR RICHMOND: I suppose it does, but it would be unlikely we would want to.

MRS OWENS: I suppose it comes down to geography, doesn't it?

MR RICHMOND: Yes. Our winning formula has been to run in this integrated fashion, and although the up-front investment expenses are very large indeed over time our experience has shown that that is the most effective way of being a sound participant in iron ore.

MRS OWENS: You don't see that there's any potential to actually benefit from having an Access Regime, where your competitors can pay you to use some of your spare capacity?

MR RICHMOND: Things are either integrated or they're not. As I said to you earlier, integrated processes are set. Each step within the integrated process is set by a series of schedules and rules - I mean in the mathematical sense here - and they're essentially set by information carried forward from the nth minus 1 process and backwards from the nth plus 1. In our case that would mean the rules of running any particular train at any particular time is set by the situation we have with the stocks and the port and shipping news, etcetera. The previous one, the nth minus 1 process in fact in our case would be the rail load-out in the mines and what information is stored there that says, "This is what we should do with the train schedule today." If the rules are optimised - which they are for us now - we're making the point, because we integrated, that the way we would have to alter the rules is almost by definition, not the optimum. Do you follow my point?

MRS OWENS: Yes.

MR RICHMOND: That's also the legal definition I've noticed in American case law as well.

MRS OWENS: Is there some degree of predictability in the schedules that are run, or is it unpredictable? You don't know from day to day what time- - -

MR RICHMOND: It's a bit of both. Let me give an example: for example, if we had a series of rather difficult shutdowns of our major crushers at one of our mines and because you run an integrated process with five mines making two products, all of a sudden the grades that we want to sell at would be grossly distorted because the mine being shut down, let's say, is far richer than the others. That being the case we might well decide that is too big a burden to pay - "We've got 2 days off. Let's do some major rerail on those 2 days. Let's not run the railway line. Let's stop it." Those sorts of things do happen reasonably frequently. In other words, we optimise the total system; we do not optimise to lower rail costs. We optimise to make the best possible product at the best possible time at the lowest possible cost. It's a continuous trade-off. The mnemonics of that can be quite difficult.

MRS OWENS: So if the access seeker was prepared to cover the revenue foregone

- if that was to be jeopardised - would that be acceptable to you? This is in the access price.

MR RICHMOND: That's very theoretical because, firstly, the act explicitly excludes that. Secondly, it's probably fair to say that even if you were allowed to use it in your tariff it would be rather a difficult sum to calculate from time to time. The answer is I would see problems with it.

PROF SCRAFTON: I would just like to pick up this matter of community benefit from export markets that are referred to in the submission. I wonder if you would like to just speak to that. The point you made about achieving efficiency in a domestic market is quite different from the implications for somebody relying on exports like yourselves.

MR RICHMOND: Yes. It seems to me the act here has oversimplified a more complex situation. I can see why someone would say, almost as a blanket statement, low phone rates in Australia are per se a good thing. Of course you have a few caveats to that but high enough to encourage people to re-invest, etcetera. I can't really see why someone would say low sheep prices or low wool prices per se are a good thing. If we encourage a situation that would lower the price of wool or, in our case, the price of coal or iron ore by doing things, I can't see that's necessarily in Australia's benefit. That was the thinking behind that argument.

PROF SCRAFTON: It seems to be largely theoretical anyway, given the point that you made about the price that you receive for iron ore having declined over the years.

MR RICHMOND: Yes.

MRS OWENS: I just wonder whether the price necessarily is going to be affected by the decision about what happens to the actual railway line. The competitor is going to open a new line. They're going to do that anyway regardless of what happens.

MR RICHMOND: That's then assumption that I think you're wrong on. That's my very point. Iron ore, unlike coal, has high entry barriers. The main entry barrier is the railway itself.

MRS OWENS: So you think if they don't get access to your line that they won't go ahead with development?

MR RICHMOND: It's hard to tell. It would certainly make them think more, shall we say, realistically about the state of the market. It's not in Australia's interests to encourage oversupply. If you take away the greatest barrier to entry, they don't have to think quite so realistically.

MRS OWENS: It will have an impact on the investment decision because it's going to add to their costs of having to build a railway line that's a million dollars, or

whatever it is, per kilometre. Supposing they still said at the end of that, "It's still worth our while developing this mine. It's going to cost us more. We're going to have to write it off over X number of years but it's still worth our while" - the price of iron ore is going to be whatever it's going to be at the end of that process regardless of what happens to your track.

MR RICHMOND: I am arguing that is not the case. I am suggesting if you lower the entry barriers you tend to increase the rate of additional supply which in turn would lower the price. That's my argument.

MRS OWENS: How sensitive is price to additional suppliers? There's an underlying downward trend, but you are saying that it is reasonably responsive to one extra mine going in.

MR RICHMOND: Yes, very. The way iron ore prices are set - and I don't want to go into that in too much detail - the entries vary.

MRS OWENS: I suppose it's a matter of waiting and seeing what happens but is it going to make a difference to your own investment decisions? If they do get access, does it have an impact on your future investment decisions in relation to- - -

MR RICHMOND: Our new mines - that's right.

MRS OWENS: If you wanted to set up a new mine and you had to build a railway line you might think twice about that because- - -

MR RICHMOND: There are two issues there. Would it affect us in two ways: firstly, would we be affected by lower sales in our existing mines and therefore our willingness to expand them? Categorically that is correct. Secondly, is the more philosophical point - and this must be a concern for all of Australia - the whole issue of property rights and the willingness of people to subsequently invest in anything that could be even remotely deemed infrastructure. I would regard that as a very serious problem for the nation.

PROF SCRAFTON: In the House of Reps they commented to that effect. They supported your - I should be more careful, I think - but they seemed to accept that view without actually coming down and making a firm comment or recommendation about it, but there's no doubt that the broader issue of property rights is an issue. There's no doubt about that. It raises a broader issue just about the way that reform is being implemented, and this is commented on in the Rio Tinto submission. It may not be that the need for reform is queried but it's the way in which the process is being implemented on the ground. I guess the difficulty for an organisation like yours or anybody else caught up in it, is that's where the case law is going to evolve. As Helen said, we can't comment on that specifically but obviously other participants have commented about how slow the process is, aside from anything else.

MR RICHMOND: In the east it certainly is. I can certainly vouch for that, yes.

Although by and large in New South Wales the Hunter Group - I don't know if you've been there yet - the Hunter Group are getting access to the track.

PROF SCRAFTON: Next week.

MR RICHMOND: The dispute there seems to be, as I understand it - and I am sure Barry Cusack and Rio Tinto will explain it further - the slowness seems to come about in getting the right sort of arbitral arrangements on the track itself for the tariff. I don't want to comment too much on the east at all, but over in the west here we have fundamentally a far more philosophically, conceptually difficult problem. Hilmers and most people do tend to agree that the east railway systems are badly run and poor cost and therefore poor prices. No-one is remotely suggesting anything of that here.

MRS OWENS: I suppose there is a broader community question as to whether it makes sense to duplicate rail facilities in areas when they are running through national parks and there's native title issues or whatever. Do you care to comment on that? That is one of the arguments we have heard from the Robe River people - does it makes sense to have duplicated facilities, duplicated tracks all over Australia?

MR RICHMOND: So far we've all done it, and so far we've not regretted it - all of us. In terms of infrastructure being duplicated or in terms of native title and so on, I don't regard it as a particularly difficult issue because you can run another track parallel to ours if you want to, and you avoid those problems. Now you have the amended Wik, it's not an issue.

MRS OWENS: Who owns the actual land that your track runs on?

MR RICHMOND: Basically us. However, there are easement rights and they could be negotiated. In fact, on the recent sale of the gas pipeline you might recall the gas pipeline was sold but not the easement.

MRS OWENS: If they do get access, what approach would you prefer: that they run their own trains on your lines subject to your control and scheduling requirements, or that you run the trains? How would it operate?

MR RICHMOND: I don't want to go into that too much. I will only make one statement here: we don't want them at all. I'll stop at that. I'm sorry, we're moving into areas I don't want to get into.

MRS OWENS: You have no other views you want to put to us in relation to the actual process with the NCC - your involvement in that process, the cost to be involved in the process?

MR RICHMOND: We will be making our case in roughly 3 weeks' time.

MRS OWENS: This becomes a fairly significant case. It's establishing a precedent that hasn't been there before.

MR RICHMOND: The thought has crossed my mind.

MRS OWENS: So you're really sort of having to lead the pack on this one?

MR RICHMOND: Yes.

PROF SCRAFTON: The question was whether Mr Richmond wanted to raise those other topics he mentioned. There were two or three other items that he had there. Did you want to raise them?

MR RICHMOND: Yes. Let me make a couple of broader points. I've made these before so they're no great surprise, but to compete internationally is not easy and we compete on three fronts and we think we have an infrastructure and organisation that can do that and do it well. To invite, through legal means, the chance to worsen the position of one of Australia's very few highly world-class, highly-competitive companies, strikes me as being a problem, a deep problem. I do not think it is in the national interest at all.

The second point is that if we do that why on earth do you want to ruin a successful formula? We compete in the top 80 per cent of world trade - I think there are about 10 major players. A fair few run their own rail line. Number 5, who I mentioned just a minute ago who doesn't have their own railway line, is trying to get it. Clearly there is an implicit understanding in the key players as to what are the rules of the game to win.

I just want to reiterate a point we may have raised a little bit earlier. When I read the Hilmer report, on page 261 it made it crystal clear that they expected if a minister was to declare an asset it was to be on the basis that the minister himself was satisfied that the current owner was unlikely to be harmed in any way. If we are running an integrated process I simply cannot see how that in fact can be the case.

MRS OWENS: You cannot, under the current legislation, use that as a defence or as an argument, presumably, or can you? You can still try.

MR RICHMOND: I don't want to comment on that.

MRS OWENS: It is a difficult position because you are going to be putting this case in 2 or 3 weeks' time and we can't step into that jurisdiction, as you can understand.

MR RICHMOND: Yes.

MRS OWENS: What we will be doing is just following what happens. The access issue is an important one. It is one of the issues that we have to look at as part of our terms of reference. As I said, I think the interest we have is in the principles of what is subject to access requirements and the processes by which these issues are being

addressed. It is early days in this regime and I think the important thing is to ensure that it is not counterproductive; that the overarching objective is to get greater competition into markets. But if it adversely affects key industries or key companies in our economy we have to really be able to address that problem.

MR RICHMOND: Yes.

PROF SCRAFTON: I would just add that it may well be that there are other weaknesses in the present Access Regimes, and if that is the case, we would hope people draw them to our attention and we can highlight them. While we appreciate you coming to the hearings, it is important for us to get the range of responses - people who think the current regimes are working well and those that don't and those that think that they have fundamental weaknesses and that's why we appreciate having your view.

MR RICHMOND: There's a certain irony in all this, isn't there? The generally held belief that the eastern states railways are performing poorly - nothing has changed and all of a sudden the one set of railways that are working well might in fact be the ones altered.

PROF SCRAFTON: Yes.

MR RICHMOND: For an economic rationalist that really is a little bit of a bitter pill.

MRS OWENS: That might be a very good spot to stop.

MR RICHMOND: Thank you.

MRS OWENS: That concludes our hearings here in Perth and we adjourn until 9.30 am on Tuesday, 27 October, when we will be appearing in Sydney. Thank you very much.

MR RICHMOND: Thank you.

AT 3.33 PM THE INQUIRY WAS ADJOURNED UNTIL
TUESDAY, 27 OCTOBER 1998

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