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TRANSCRIPT OF PROCEEDINGS

PRODUCTIVITY COMMISSION

INQUIRY INTO PROGRESS IN RAIL REFORM

PROF D. SCRAFTON, Associate Commissioner

TRANSCRIPT OF PROCEEDINGS

AT SYDNEY ON THURSDAY, 29 OCTOBER 1999, AT 9.35 AM

Continued from 28/10/98

PROF SCRAFTON: Welcome to the first session of the third day of the Productivity Commission hearings in Sydney as the commission continues its inquiry into the progress of rail reform. My first task is to apologise for the absence of the presiding commissioner, Helen Owens, who has had to return to Melbourne for treatment, having fought the flu for the previous 2 days through hearings, but is really too ill to continue. I apologise for that but the decision was taken by the commission that it was more desirable to maintain our schedule than to cancel our meetings at short notice and disrupt the activities of those people who had planned to attend today. So we hope that today's participants will understand and accept our decision, and we apologise in advance if the logistics of only one associate sitting in the hearings today is not quite as efficient or as fluid as when we sit as a two-person team.

Our first participants are representing the New South Wales Mineral Council. We thank you for attending today and could I ask you to please give your names and affiliation for the record.

MR PORTER: Thanks, Mr Chairman. My name is Denis Porter, I'm the executive director New South Wales Mineral Council.

MR CLACHER: My name is Kenn Clacher. I'm the coordinator of the Hunter Rail Access Task Force.

MR SCOTT: My name is Russell Scott and I appear in my capacity as chairman of the Hunter Rail Access Task Force which of course is under the auspices of the Mineral Council.

PROF SCRAFTON: Thanks very much. Ms Owens has asked me to thank you for your comprehensive submission, following, as it does, contributions to the commission's black coal inquiry and to the House of Reps hearings into the role of rail transport in the national scene, and coinciding, I guess, with IPART investigations of interest to the council too. So we are very appreciative of the effort that the council has put in as a major user, so we can get that user side response to the reform process. Would you like to make an opening statement or introduction before we have questions?

MR PORTER: Yes, Mr Chairman, thank you for that opportunity. The coal industry is one of Australia's major industries and its biggest exporter. In New South Wales it employs over 11,000 people which is down 2½ thousand or so from a year ago, and many more indirectly. Rail transportation costs represent between 15 and 30 per cent of the FOB costs of export coal, so they are very significant. The world coal market is highly competitive and many New South Wales mines tend to be at the high end of the cost curve of supplies into the main markets in the Asian region. Any cost reductions that can be achieved, including those in freight charges, are critical to the continued strength of the industry.

The commission will be aware of reports by the BIE and the old Industry

Commission that the rail freight industry in New South Wales has been operating well below the efficiency achieved in best practice overseas operations. While elements of the rail system have lifted their efficiency the system overall needs further significant improvement. The rail system is still passing on its inefficiencies to the coal industry through access charges and is still exacting monopoly rents. The New South Wales coal industry therefore looks forward to implementation of the national competition policy reforms to rail in New South Wales. It saw this as an opportunity for the government and the rail industry to improve the efficiency of rail operations and hence lower the costs of the New South Wales coal export industry and make it better able to withstand the competition it faces.

As the originator of 80 per cent or more of the intrastate tonnage moved on the New South Wales rail network, the coal industry sought to have some involvement in the development of the rail access regime. The New South Wales government to its credit restructured the former State Rail Authority to facilitate the competition in those parts of the industry which are not necessarily monopolies; carriage of passengers, freight haulage and maintenance. It then introduced a rail access regime that has been shown, we believe, to be not effective under the terms of the Trade Practices Act; that is, it does not comply with national competition policy. Amongst its undesirable features is specific discrimination against the coal industry, including a monopoly rent on access for coal haulage.

The New South Wales Minerals Council had been confident, since the establishment of the regime, that it was not legally obliged by section 78 of the Competition Policy Reform Act 1995 to pay monopoly rent but nevertheless agreed to a phase-out of monopoly rent. In return the council has sought only the prompt establishment of a rail access regime which complies with national competition policy. The section of the act I referred to imposes a 5-year moratorium on government coal-carrying services from the application of Part IIIA of the Trade Practices Act. Our position has been vindicated by the recent Federal Court decision which found that section 78 does not apply to rail access provided by RAC in New South Wales. The failure of the New South Wales government to date to develop a regime which the National Competition Council can recommend as effective has been disappointing, to say the least.

A feature of rail reform in New South Wales since the structural separation became effective in July 96 has been the extremely slow rate of progress. For example, a rail access regime was established in August 96 with no public consultation but was not submitted to the NCC for certification until April 1997. Secondly, necessary changes to the regime were so extensive and progress in addressing them so slow that the NCC could not issue a draft recommendation on certification until April 1998, 12 months later. Even then the draft recommendation requires considerable further steps to be taken before an effective regime is established. Thirdly, the New South Wales government has been very slow in implementing various undertakings it made to the NCC in development of that draft recommendation. In one case, benchmarking of RAC's maintenance costs by IPART, it appears they no longer intend to comply with one of those undertakings.

We draw to your attention the fact that other industries such as gas and electricity, which are certainly no less complicated than rail, have developed access regimes in a climate in which all players in the industry have been involved and the processes have been transparent. In contrast the New South Wales rail access regime has been developed in the absence of such consultation. We think that rail reform, which is consistent with the spirit and letter of national competition policy will benefit not only the coal industry but the economy generally. In this regard we have made some suggestions in our submission about how we think competition policy might be modified to work more effectively. Effective implementation of that policy, we think, will have a major positive influence on rail reform in Australia. Thank you.

PROF SCRAFTON: Thanks very much. Would either of the other two of you need to add anything at this stage? Thanks. My question was going to be ask you to detail the ways in which the regime does not comply with competition principles but you've done that in your introductory statement and I thank you for that; I think that's an important detail that adds to your submission. I wonder if you would mind if I was to work through the submission page by page, picking up the points as we go along. That would not be our normal process but it would make it a little bit easier for me on my own.

My first comments then actually refer to matters on pages 4 and 5 of the submission and relate to the matter of ministers or premiers of states ignoring NRC recommendations. It's interesting to note that the House of Representatives in its recommendations have recommended a reverse onus thrust to this. Presumably this would be supported by the council.

MR CLACHER: Yes, it would. In fact we suggested that that be the case in our submission to the House of Representatives committee.

PROF SCRAFTON: Yes, I think if it was possible to achieve that it would certainly improve the reform process in the ways in which your council is suggesting and then it's merely a matter of the time taken by the agencies involved; whether it's a state regulatory body or a federal regulatory body.

MR SCOTT: Mr Chairman, that is a step that should be taken but it doesn't overcome the feature of the act that the responsible minister, even with a recommendation in favour of a declaration, can still deny that declaration and send the parties off into the Australian Competition Tribunal after a lot of work through the National Competition Council. The National Competition Council hasn't got a lot of teeth in that regard. It can make recommendations - - -

PROF SCRAFTON: I guess given the fact that we are in these early years, one advantage though is that it eliminates one of the potential hurdles or the potential stalling devices that are available to slow down the reform process. In retrospect I think one might ask why it was written the way it was, but you then have to consider whether or not states would have signed up if it had been written in this way originally. So it's encouraging that backbenchers at least, operating as a committee, have come to a conclusion that the way it's written is inappropriate.

On a related matter on page 4 you comment about the need for the process to be controlled, or disciplined I think was the word that you used, by general interest ministries rather than specialist ministries, and presumably specialist ministers, that draw attention to the fact that there is an extra hurdle built in there because you have ministers protecting a particular sector of the public interest, if I could put it as politely as possible; not implying for one minute that they would represent a vested interest in their own right, but there's a long history of regulatory capture by government departments and so on, so it's not unreasonable to find that happening. I wonder if you would like to speak to that.

MR CLACHER: In the case of implementation of competition policy it very quickly leads into very complicated areas, especially the New South Wales rail access regime which provides for discriminatory pricing and by implication application of Baumol principles and Ramsey pricing principles and these are allied with the interpretation of the Trade Practices Act. So we're very quickly getting into highly complex areas in which governments have to take advice from highly specialised people. If there's not a lot of people with expertise in that area, and there are not because we're in a brave new world here, then the government is highly reliant on these people, and if they're not, as part of the general interest ministries, the general interest can be put aside, as you suggest.

PROF SCRAFTON: A good example, I guess, is if one contemplates the future of the Hunter Railways that - I mean that the task force over the years has attempted to demonstrate - and correct me if my interpretation isn't necessarily totally accurate, but you could envisage a future in which the Hunter was a railway in its own right, rather like the railways of North Western Australia. It would be different of course because it would have carriage from mines from different owners, whereas at the present time in the north-west the railways are part of the production process related to a particular company and a range of their iron ore mines. Nevertheless, you could envisage a similar sort of situation in the Hunter. If we postulate the future of railways, many participants have pointed out to us that we shouldn't talk about the railway as an industry; you know, urban transport or urban railways are one business, regional green freight is another, interstate freight is another, and the bulk minerals trade is yet another. But this concept of a separate railway for the Hunter, if I could call it that, seems to fall on deaf ears. Is that simply a matter of the government not wanting to lose revenues? Do people have a more conceptual approach to the future of railways different to the one that I've just described, for instance?

MR PORTER: I don't understand that this is an immediate issue in New South Wales. The New South Wales coal industry of course several years ago was asked by the then coalition state government to come forward with proposals in terms of privatisation, which we did, but they weren't agreeable and eventually that lapsed and certainly this current government is not interested in privatising the rail system - certainly not the infrastructure. I personally believe that at some stage in the future we may see a body like FreightCorp privatised because you wouldn't have the political angst involved in such a move. But I don't understand that there's an issue there at the moment about privatising or separating out in some way the Hunter Valley system. I guess we've taken it as a given that the government will continue to want to own the infrastructure right throughout the state - or the major parts of the infrastructure.

MR SCOTT: Mr Chairman, I agree with Mr Porter. I mean we conceptually see the railway infrastructure in the Hunter in the same way as you see the electricity distribution system. It's a natural monopoly and we see no particular advantage, given that there is transparency, fair and equitable pricing for the use of that infrastructure, to have it owned by a private monopoly or a government monopoly. The outcome is equitable charge for the use of that service and all the other important features that we place on the use of the monopoly infrastructure.

PROF SCRAFTON: Thanks for that. The issue though is that in order to achieve that - you know, we've got separation and there's this sort of benchmarking and arguments, and the long debate that you've been involved in. It's simply the idea that maybe in the future it would be easier if these railways were individual functional networks but your point is well taken.

MR CLACHER: Mr Chairman, in the case of the Hunter, while coal represents something like 80 per cent of the tonnage moved on that network there is another 20 per cent of freight tonnage and also passenger services there, and while that railway is part of the Brisbane to Sydney line for example, I also note that it's part of what has been designated as the interstate rail network which is going to come under the auspices of the ARTC, you know, the line between Newcastle - - -

PROF SCRAFTON: Maitland.

MR CLACHER: - - - Maitland and Muswellbrook and then out through Ulan is drawn on the maps as part of that National Rail network and it's going to be interesting to see how the New South Wales rail access regime and the arrangements with the ARTC are coordinated. I also note that there is in the last month or so an application for declaration on the Hamersley; perhaps they might be going in the other direction.

PROF SCRAFTON: Yes, we met with Hamersley; they appeared before the commission in Perth and gave us their views on that. We also met informally with some of the other companies. But at the present time under the access charge and the stand-alone - the phrase would be - and so you still feel not comfortable to achieve your objectives representing users within the present regime if there is increasing transparency.

MR CLACHER: As Russell said, a monopolist is a monopolist, whether owned by the government or owned by private enterprise, and increased transparency will certainly improve the situation.

PROF SCRAFTON: Did you believe that the separation that has occurred in New South Wales to date with the four agencies is an improvement on what was there before?

MR SCOTT: Mr Chairman, most certainly. I believe there's a way to go, as you can see from our submission, but over the last 5 years there has certainly been improvement benefits to rail as of coal to Newcastle.

PROF SCRAFTON: It's a helpful comment because one of the big issues that - or an issue; whether it becomes an big issue remains to be seen - is the way in which different railways are moving in different directions, that for whatever reasons people are choosing to privatise as vertically integrated structures and so on, and New South Wales has made the separation. That is what makes our hearings here so important. We are at least in what Mrs Owens described as a big experimental model which is rather different from what is happening elsewhere. On the national scene we have the ARTC developing too but even there the models are not exactly identical.

If I could just move on to page 5. In the second paragraph on page 5 you talk about the mines being required under the terms of the mining leases or development consents to use rail transport. So in effect even if a government has a deregulatory policy or general direction to its policies it is still possible in effect to regulate an industry to a business. But some coal is moved out of the Hunter, and for that matter the mines further south, by road. So there's no regulation to rail, but simply for export coal there is this requirement in the leases or the development consents.

MR CLACHER: Yes, that's right.

PROF SCRAFTON: So what proportion of the total coal production is freighted by rail?

MR CLACHER: A couple of years ago there was something like 55 million tonnes shipped out of Newcastle. I think 5 million tonnes of that arrived at the port by road. In the past couple of years that has decreased significantly, so at the moment there's probably only a couple of million tonnes per year out of 63 million tonnes - about two out of 63 - in the latest year would have been delivered to the port by road.

MR PORTER: Chairman, if I could just comment: there are not many mines in New South Wales which have the luxury, if you like, of being able to choose between road and rail. Kenn can correct me but I think most of the tonnage by road into Newcastle is from Lake Macquarie, that southern area, which doesn't have access to rail. There was a fair amount of coal moving by road from the Upper Hunter Valley. I think most of that has gone onto rail now - - -

MR CLACHER: Yes, it's gone to rail.

MR PORTER: - - - from around the Muswellbrook area. It's different down south.

You have a significant proportion of tonnage to the Port Kembla coal terminal by road but again the mines involved mostly - there might be one or two exceptions - where they move it by road; they don't have ready access to rail. So the policy, as I understand it at the state level, is wherever possible mines should use rail, and if rail is the logical option then that tends to be written into the conditions for leases and development approvals.

MR SCOTT: Mr Chairman, it's driven by social and environmental concerns.

PROF SCRAFTON: Yes. I think one of the organisations that we heard from earlier in Sydney was in fact concerned about the environmental impacts of trucking coal - and their representative up in the Sydney-Illawarra. I guess also, with the topography in the south, with steep escarpment and so on, it creates particular problems. On page 8 the - and the letter which we received from Mr Porter telling us of the judgment in the case of the appeal to the Federal Court, it makes one wonder what prompted the RAC to make the appeal in the first place.

MR CLACHER: From the time that we started pointing out to them that we didn't think that access to the infrastructure owned by the Rail Access Corporation was caught up in this 5-year moratorium, they disagreed with us; obviously it's in their interests for the moratorium to apply because it gives them much more freedom to price as they wish, but let me just point out something about the appeal. The appeal from the Trade Practices Tribunal to the Federal Court was in fact initiated by the Queensland government who were a party to that - or at that time were an intervener in the action in the tribunal. It was they who raised in the tribunal the question. Whether RAC would have done so if Queensland we don't know, but that was the actual mechanics of it.

PROF SCRAFTON: Thanks for that. I guess one benefit of it is it clarifies your other issue in relation to the process.

MR CLACHER: It does, yes.

PROF SCRAFTON: But again it demonstrates the complications that are caused by the implementation of the competition policy but with the various organisations and the different interests of the parties involved, it could take some time for the policy to evolve in some areas. But I guess the benefit is that the council can now resume its appeal to the ACT.

MR CLACHER: That's correct, yes.

PROF SCRAFTON: Okay, thanks for that. If I could just turn to 15. The very last paragraph on page 15 makes the point that there are still no publicly available operations for protocols. Do you have any feel for whether there is the intention to make the protocols public? Other people have commented on this too, I might add.

MR CLACHER: Currently RAC has engaged a consultant to try and develop some operations protocols and I understand that work is in progress, although obviously they're well behind the 30 June date which we were advised some time ago as the release for these operations protocols.

PROF SCRAFTON: For the Hunter Valley that was.

MR CLACHER: I think, yes, these were particularly for the Hunter Valley.

PROF SCRAFTON: Other participants have commented on the general benefit that might come from the protocols being made publicly available in other areas too, particularly the priority of cost given to passenger services in the metropolitan area and how that translate into operational procedures.

MR CLACHER: Well, the priority for passenger services, I understand, is not limited to the metropolitan area. Obviously it has a lot more passenger services. The Sydney network is dominated by the passenger services but there are also passenger services in the Hunter area which the coal trains have to work around.

PROF SCRAFTON: Does it cause a problem though?

MR CLACHER: I think they do, yes. There are times when coal trains have to wait for passenger services and that causes a bank-up of the coal trains.

PROF SCRAFTON: Because there are suburban trains out of Newcastle, aren't there, to Maitland?

MR CLACHER: Yes.

PROF SCRAFTON: Plus longer distance passenger trains, I guess.

MR CLACHER: Also there are two mines plus the delivery from Ulan to (indistinct) which is the passenger line south of Newcastle.

PROF SCRAFTON: Right, to the mine. Also, I guess, in the south the problem is maybe more acute for mines in the south where some of the freight trains, some of the coal trains have to pass through the metropolitan area, don't they?

MR PORTER: From the west. They come through the western part of Sydney and then back out again.

PROF SCRAFTON: Those from the area further south, Picton and that, are they affected by passenger trains? I guess they are.

MR CLACHER: Yes, they have to come up through - into the Sydney area and then go - - -

PROF SCRAFTON: And then go south again.

MR CLACHER: - - - back around south. Also trains from the Blue Mountains are affected also.

PROF SCRAFTON: So the effect is quite considerable, really - quite widespread. Turning to 17, if I could, you mention there about the CSOs for rail freight. I wonder if you would explain that in more detail for me. My understanding is that there are CSOs - as you mentioned in your submission, line CSOs and commodity CSOs. My understanding was they essentially referred to sort of rural branch lines and to other rural freight services. It's not clear to me what the council's interest in them is. Is it simply the overall efficiency of the organisations that concern you, continuing subsidisation of organisations?

MR CLACHER: Yes, I think we have a couple of points of interest in the CSOs. One is it appears that in fact we're contributing to people who require CSOs by way of cross-subsidisation, and one is the degree of transparency required. If the provision of CSOs were much more transparent then it would be - well, the railways could perhaps be run much more efficiently. I think there's a possibility or in fact a likelihood that a lot of the traffic which comes from these rural lines that you mentioned - comes via the Hunter network to Newcastle or south - is in fact being subsidised - getting a CSO for that part of the line.

PROF SCRAFTON: So it's a more general matter of the efficiency of the organisations. I think when we discussed this with the Department of Transport yesterday I got the impression that these CSO payments were much more transparent than they had been heretofore, and in fact I'm not even sure whether they offered to give us a little supplementary note or submission which would describe them. So perhaps we're moving along that track but if we receive anything from them that's on the record obviously it can be made available to you, but I guess the other concern is that the Rail Access Corporation itself, as you point out, receives a subsidy, but I would have thought in one way that should provide some benefit in that it reduces their cost to the taxpayer - it doesn't reduce their cost but the taxpayer underwrites that cost.

MR CLACHER: From our perspective, Mr Chairman, the water on CSOs and cross-subsidies is still very muddy. The Rail Access Corporation in public hearings to the productivity commission on its inquiry into black coal in Australia and to the House of Representatives committee on rail reform told both of those inquiries that the RAC does not have cross-subsidies and that it can't cross-subsidise because the rail access regime does not allow them to do so. However, in their annual report for 1996-97 the CEOs report actually said that effectively the RAC does cross-subsidise some services from their profitable services, and the only profitable service they have is the Hunter coal network.

PROF SCRAFTON: Yes.

MR CLACHER: So there's not yet the degree of transparency being provided to reconcile those different statements and the state budget has I think only just a one or two line statement there on the CSOs obtained by RAC. We haven't seen a breakdown of those at all.

MR SCOTT: I think the recurring theme, the word that will keep coming up and up and up, is transparency, and as Mr Clacher put it so succinctly, that the waters are muddy and there is conflicting - - -

PROF SCRAFTON: Yes. However one looks at it in your role picture organisations might debate particular situations but if your members are paying more than the standard loan cost and then in some way that profit to the railways, or to the government if we look in the broader picture, is used to finance CSOs - I guess it's like a lot of other infrastructure debates, you can argue that there is no direct hypothecated relationship between the two things but in the overall finance of the state of the nation, if one wanted to generalise it that much, somebody's profits are being taken from some areas.

Anyway I must say that in the discussion yesterday I was quite encouraged by this comment from the department but whether it will in fact appear exactly in the form that I understood it - I certainly got the impression that in developing the CSOs there is a very clear picture within the department of what they're for. They are, as you mention, by line and by commodity and the justifications presumably relate to things like regional development and so on. But from your point of view I just wanted to understand what the council's interest in it was and now I do. Thanks for that. I think you make an interesting point there where the RAC itself described itself as merely a collection agency for the adjustment component. It's a very interesting outlook on the economics of life, but we all are, everybody is; you know, the finance goes from somebody to some place else.

MR CLACHER: Mr Chairman, as we pointed out in our submission while that's what RAC told the Productivity Commission, an analysis of their accounts and their 1997 annual report gives a slightly different picture and we presented in our submission some calculations which showed that they collected something like $50 million in monopoly rent in 1996-97 but their accounts didn't show that this was passed on directly to the government but that it was just an integral part of their receipts, and they made something like $30 million profit before tax and 20 after tax, so it seems that it wasn't quite as they said.

PROF SCRAFTON: The words don't fit the numbers, yes. Thanks, I appreciate that. I appreciate you elaborating on that for me. Page 19 and 20, I guess most of this in some ways we have covered already in general. Just about the description there of the timing that it takes to achieve access applications and just the timing that the reform process is absorbed by your new members, I don't think I had any specific questions but just to observe that. I think at the end of it it's a sort of 2-year time-table to finalisation.

MR CLACHER: If I could just comment, Mr Chairman. On the very last page of our submission we have a comparison there of the time that it took to implement an effective gas regime in New South Wales and the time that it has taken to implement an effective rail access regime in New South Wales. As we point out there it was only about 3 days' difference between the establishment of gas and rail access regimes in New South Wales but the gas regime was certified as effective within about 12 months. We are now 2¼ years down the track and it appears unlikely that an effective rail access regime will be established for another 9 or 12 months. So it's possible to do it more quickly than 3 years but it appears that circumstances can make a difference.

PROF SCRAFTON: Do you think that's because there's no overriding inter-government agreement as there was in these other areas when competition also was being established or there's something different about railways?

MR CLACHER: In gas there are a couple of differences in New South Wales. One is that the main target of the access regime is not a state owned entity. Another is that - it may be related to the first point - there was a large degree of public consultation in the establishment of the regime for gas, and there has been none in coal. One is that they did get away to an early start in gas because gas is one of the areas which is specifically mentioned in the arrangements for competition payments. The $16 billion of competition payments specifically mentions gas as one of the key areas there but it doesn't mention rail.

That may have some influence, and I think possibly the gas consideration, certainly on a national scale, might have got away to an earlier start, but still with all those things considered there would seem to be a will in gas, which doesn't appear to be apparent for rail. I don't see that the mechanics of rail in principle are all that different from gas or electricity. They've all got a fixed network which is a natural monopoly and things come on at one end and go off the other end. It's a question of what gets charged for passage across that network, but conceptually I don't see any difference between rail and any of the other major regimes.

PROF SCRAFTON: Thanks. I've concentrated on the time element in my comments and questions but of course you point out on that page that the industry has spent, I think it was $1.5 billion to date on this, which does demonstrate the inbuilt cost of reaching satisfactory conclusions. In a way when people look at the transaction costs of reform they obviously are going to be much greater in rail.

MR CLACHER: Much. Apart from the $1.5 million in direct cost in addressing all these submissions and so on a far, far greater cost has been the opportunity cost of paying for inefficient rail access charges when an effective regime might long ago have been paying efficient charges.

PROF SCRAFTON: Could be, yes.

MR CLACHER: That swamps the $1.5 million it's costing to pursue an effective regime.

PROF SCRAFTON: Also the indirect costs involved in the government in its organisations itself.

MR CLACHER: True.

PROF SCRAFTON: Yes, thanks for that. Do you think then - still on page 20 there - that there's a role for a national rail regulator? Do you think that would help at all in your experience of dealing with these regulatory bodies?

MR SCOTT: Mr Chairman, I think that certainly intrastate freight is terribly parochial and I think you would be setting yourself a very difficult task to get Westrail and Queensland Rail and Rail Access, and so on, all singing off the same hymn book. There are very specific circumstances in terms of the nature of the infrastructure and the age of infrastructure and the needs of infrastructure in each state.

PROF SCRAFTON: So you would support the present set-up where you have very clearly independent state regulators?

MR PORTER: We don't have a regulator at the moment here in New South Wales, which is a glaring problem. We finally have some involvement of IPART, as you know, on a couple of the issues.

PROF SCRAFTON: Yes, that was really going to be my next question. Would you be in favour of state regulators or rail rather than be dependent on regulators covering a wide range of economic areas, such as IPART or the Queensland Competition Authority?

MR CLACHER: Are you referring to - - -

MR PORTER: Specific rail.

MR CLACHER: Sorry, Mr Chairman, are you referring to regulation of the regime or rail safety regulations in this context?

PROF SCRAFTON: No, I was thinking more about the regime and pricing than about that whole area of technical and safety regulation, which is a minefield in itself, and you're quite right to make a distinction because experience I guess in both areas will tell us whether the answer is different in the technical area. Although in the access area there is quite an interface with that safety problem which people have also drawn to our attention, but I was thinking more in terms of the pricing aspects and ease of entry, and so on, in the regime.

MR CLACHER: For access regimes of course it is an enormous problem for people who have interstate operations and for them obviously the way to go is to have a single access regime applying to the interconnected network. If you're going to do that it seems from the point of view of efficiency and equity to have the same regime applying to intrastate operations, at least certainly on the Hunter network which, as I said, in all the maps which are drawn for the interstate rail network, are shown as an integral part of that. It may be different for Queensland, say, where the intrastate coal haulage is quite separate from the interstate network.

PROF SCRAFTON: I appreciate those comments. Their option is to ensure that we have the appropriate numbers of regulators in relation to the businesses, or you may have a combination of a rail regulator and an IPART or Queensland Competition Authority, as the case may be, and whether that would expedite the process, it's hard to say, but certainly their influence to date, it seems to me as an outsider living as I do beyond the boundaries of Queensland and New South Wales, those two regulatory authorities certainly seem to have begun to make their presence felt, if I could put it like that.

MR PORTER: I think if you also get a regulator, be it a state or a national body, operating from some reasonable principles, I think they can also develop some expertise in the area and because they have that expertise I think they tend to be able to see through some of the information that might be fed up by the rail departments or the rail transport policy departments. As Kenn said earlier, these are complex issues, there's no doubt about that. Senior ministers in governments don't understand the details. Some of the senior bureaucrats in the central agencies I don't believe understand the details sufficiently well, so a regulator can cut through that process I think and, as I say, keep the rail agencies and some of the rail or the transport policy people a bit more honest.

MR SCOTT: I think there's another thing, Mr Chairman, too, that between these large infrastructure regimes there are common elements whether it's gas or electricity or rail, and I refer specifically to asset valuation methodology, depreciation, charging, rates of return and so on, and I think we're probably seeing some movement towards some general acceptance that there are principles and economic theory that applies across the range of access regimes regardless of the specific industry. There will always be differences but there will be also similarities as well, and I think to try and say that an access regime in one state for a railway infrastructure should earn a higher or lower rate than another and the assets should be valued differently and the new capital should be treated separately and differently, I think recognition of that, which seems to be coming, will be a major step forward.

PROF SCRAFTON: That prompts me to say that I should have mentioned in my introductory comments about the final report on black coal. We've not talked about some of those topics that you've raised there here because I think a lot of those were given a good airing - a lot of discussion - in the black coal hearings in the draft report and in the final report, but Mrs Owens did ask me to apologise for the delay, not that the commission has any control over the timing of the release, but of course the calling of the election has slowed that process down.

I'm sure that the report will be available reasonably soon and I would hope that the commission's comments on some of those topics do help again to clarify the development or the recognition that there is a need for principles and their application and the extent to which the history and experience developed in other areas can be applied, in that particular case, in the coal transport area, which is one of major concern to you. So I'm glad that you raised those points because I should have mentioned that earlier. That was the only reason for not raising them in particular today; I wanted to look at some of these broader issues.

I guess I would like to turn to 29 and 30 in the time we've got left, if you wouldn't mind, just this matter of ownership. You mentioned earlier, and you mentioned in your submission, that it shouldn't make any difference whether railways are owned by government or the private sector but it has been put to us by some participants that the process of privatisation will in fact also drive the pace of reform, that the simple matter of two private companies dealing with one another rather than one of the parties being a government agency does in fact improve their performance and their ability to do business. Do you have a comment about that because you do say it shouldn't make any difference, and I agree - let me say I don't disagree with that statement. The question is whether it actually does or not?

MR CLACHER: Perhaps we're being a bit naive or unrealistic in that comment.

PROF SCRAFTON: Because in all fairness you do go on to say that the governments do interfere and it's the extent of that interference that ultimately affects the performance, or certainly you've highlighted a lot of these areas.

MR CLACHER: Certainly one good example of interference is this question of the contestability of maintenance for the Rail Access Corporation, which was suspended in favour of the Rail Services Australia.

PROF SCRAFTON: We were advised yesterday that is one of the very few areas where the government has actually given a direction to these corporatised agencies in New South Wales, and one of the things we were interested in was just understanding the shareholder representation with the shareholder ministers on the one hand and a portfolio minister on the other. It appears that the amount of direct interference, if I could use your word, or the use of the power of direction has been fairly sparingly used but that was one of the big areas. My understanding of what we were told yesterday is that when the power of direction is used in that way the agency has to be compensated in some way, but I don't think that actually applies to the example that has been used.

MR CLACHER: I don't think so.

MR PORTER: Also we had the moratorium which was, what, 16 or 18 months, announced earlier this year, but we don't know the details, but we understand that has in effect now been superseded, if you like, by some sort of contractor agreement between RAC and the RSA for maintenance.

PROF SCRAFTON: The RSA are in fact appearing before us this morning. In fact I think they appear probably next, so we can ask them about that. But over the page, on page 30, just continuing on with the private involvement, privatisation and private sector investment, I think the comment that you make there in relation to infrastructure is that it's the secretiveness that is the problem; that it wouldn't really matter who it was, if I could say that, but the process has to be open as before. One wonders why the secretive nature has continued for so long.

I mean I know that it's part of the history maybe of New South Wales, and maybe other eastern states. All I know is as a relative newcomer to Australia - I've only been here for 26 years - I must say in my early years I was quite surprised. But it's difficult to see how this sort of thing could carry on when you do have the competition regime in place, where the principles have been set down and the need for transparency made more clear over and over again by people, that one can still use words like "secrecy".

MR SCOTT: I believe it's still the case, Mr Chairman, that for a coal producer railing to Newcastle in the Hunter Valley they have to sign a confidentiality agreement to find out from Rail Access Corporation what their access charge is or what their rail access charge component is in their total rail tariff and it's quite an onerous confidentiality agreement.

MR CLACHER: Many companies have chosen not to sign them, the confidentiality agreement.

MR SCOTT: Yes.

MR CLACHER: They do find out what the access component of their rail charge is because it's separately identified on their FreightCorp bill. But just getting back to your earlier comment, I think one explanation is that monopolies thrive on secrecy if it helps them to do what they want to do.

PROF SCRAFTON: So the separation has certainly achieved some bad effects but it has not eliminated some of these aspects of your dealings with the - - -

MR SCOTT: It's reduced the size of the monopoly for a start.

PROF SCRAFTON: You can see more clearly where the problem is.

MR SCOTT: Yes, and in fact the monopoly has been reduced to, I guess, the core of the natural monopoly itself, which is the track and infrastructure.

PROF SCRAFTON: Which I guess goes back to the point you made earlier, that is one of the benefits, or at least you begin to see more clearly where - - -

MR SCOTT: Where the problems are. That's right.

PROF SCRAFTON: Yes, thanks for that. It's now almost 10.30. I don't want to take too much of your time but I wondered if I could ask you if there are other aspects of the submission that you would like to highlight that I've not asked you about - anything that you would like to just highlight for me that you want us to take into account? I pointed out at the very beginning it's a very thorough submission and we appreciate that and it would be used, as was the other documentation we have access to, including the black coal material and the materials of the House of Reps, but I wonder in doing the same as I did, in flicking through the pages, there are other items that you want to ensure are on the record?

MR CLACHER: Perhaps one aspect that we haven't mentioned very much is the nature of the price setting mechanism which essentially in the existing regime is for Rail Access Corporation to charge what it likes between the floor and the ceiling, which are very difficult to calculate. In fact their calculation, the floor and the ceiling, under the access regime is a mixture of rocket science mathematics and economics and it is, as far as we know, not something which has been attempted in a prescribed manner in any other access regime anywhere in the world. For that reason it doesn't appear to us that Rail Access Corporation is actually going through the procedures which the regime suggests it should.

It's taking a much more simplified and practical approach which is reasonable but it means it just highlights the nonsense of a rail access regime asking the impossible. Another aspect of the regime, or the price-setting mechanism which worries us greatly is that there's no objective to be used or mentioned for RAC - or figures to arbitration, for the arbitrator to use, to help them to decide where between this floor and ceiling prices should be set. There's no objective specified for the price. In all the discussion on this regime and the pricing principles the defence of them immediately is, "Oh, it's a Baumol Ramsey pricing arrangement," and that pricing arrangement is if it's implemented strictly in accordance with the theory it minimises the efficiency losses which arise through pricing at other than marginal cost.

The point is that nowhere in the rail access regime or the Transport Administration Act, or anywhere else, RAC's pricing principles - although they allow discrimination - do they say, "The purpose of this discrimination is to minimise efficiency losses." There's absolutely no guidance at all to RAC or to the arbitrator as to how the discrimination or what the objectives of the discrimination are. Of course we know that the coal industry is being discriminated against and given the history of the profitability in the coal industry, which I think we talked about in the black coal inquiry, we don't think the discrimination is justified.

PROF SCRAFTON: Thanks. At this stage I wouldn't want to add anything to that. I think that is stated quite clearly and I'm sure that the black coal report will have some comment and so I think it's probably inappropriate for me to respond, but it was one of the reasons it was said earlier that I appreciate the priority, the significance that has in your submission, and drawing my attention to it. Is there anything else?

MR SCOTT: Mr Chairman, I was just about to say I have a problem philosophically with the idea of a monopoly such as Rail Access Corporation who operates with a degree of secrecy contemplating as part of a normal setting of access rates the concept of negotiation with the operators and their end customers.

PROF SCRAFTON: Thank you.

MR SCOTT: Nothing further, Mr Chairman.

PROF SCRAFTON: Nothing else.

MR PORTER: No.

PROF SCRAFTON: Thanks very much. Thanks for coming. I repeat my thanks at the beginning for everything you've done to make a contribution to this rail reform area and just wish you success in your work and the best of luck in your mission in the reform area. You obviously have made a big contribution over time and continue to do so. Thanks very much for coming. We will take maybe a 15-minute break and return at 10 to 11.

PROF SCRAFTON: The next participant is Rail Services Australia. Thanks for attending. Would you identify yourself for the record, the transcript.

MR OGG: Thanks, assistant commissioner. My name is Terry Ogg. I'm the chief executive of Rail Services Australia. Rail Services Australia is a statutory state-owned corporation of the state of New South Wales and it's the successor organisation to Railway Services Australia, which was a statutory authority established on 1 July 1996 as a result of rail reform in New South Wales.

PROF SCRAFTON: I understand, Mr Ogg, that you would like to make a presentation to us. That's certainly an appropriate way for us to proceed. Do you want to make an opening statement or would you like to move right into the presentation?

MR OGG: I'll move straight into the presentation, assistant commissioner, thank you.

PROF SCRAFTON: Thanks. Just one minor point. Because you're using overheads, would you make sure the presentation is such that the transcript will pick up your points, so that we don't rely unduly on the image, but that the words are - to extent that you wish them to be.

MR OGG: The first slide is really Rail Services Australia. It's designed to give an impression of the focus we have on our task, the task given us by the New South Wales government. That task set out in the amendment to the Transport Administration Amendment Act that created us is summed up by the New South Wales transport minister, Mr Carl Scully, in a statement during his second reading speech to the effect that:

> What I am endeavouring to achieve is a building up of a thriving, vibrant taxpayer-funded rail maintenance business that can compete in the wider infrastructure maintenance market.

So Rail Services Australia has a major focus on construction and maintenance of rail and related infrastructure, not only in New South Wales, but throughout Australia and overseas. Indeed, as we speak, RSA has operations in all mainland states of Australia and has recently delivered a contract in Hong Kong, which resulted in some 30 of our people being in Hong Kong for over 8 months. That was quite a successful and profitable contract for us. Consistent with Minister Scully's statement, Rail Services Australia's mission is to become Australia's leading asset management contractor. We emphasise that we want to be Australia's leading asset management contractor, not Australia's biggest, because size is not an attribute that can be defended in the marketplace; leading is, and to be Australia's leading asset management contractor, we need to be able to deliver what our clients want, when they want it, to the specifications that they set out.

Therefore, we have to have internally the resources required to do that. Our vision is quite simple, it's to survive and grow. It's a tough marketplace; there are a number of world-class and local players in our marketplace, ranging from organisations the size of Alsthom, which is $US10 billion in market cap, which is a French-based organisation, through Transfield, which is one of Australia's leading privately-owned engineering, construction and maintenance organisations, to ourselves and others much smaller than us, also in our marketplace. To survive and grow, we have to have the balance sheet, the management skills and management systems and the resources needed to compete with organisations of this size, skill and calibre.

Our values are consistency - that is a consistent approach to our clients, our stakeholders, our people - honesty, integrity, perseverance and service. We are, in essence, a service business here to deliver what our clients want, when they want it, and at a price they can afford. As I mentioned, we are the successor organisation to Railways Services Authority, which emerged from State Rail Authority when rail reform was implemented by the New South Wales government on 1 July 1996. The units that comprise Rail Services Australia were just some bits from SRA. They were the engineering, construction, maintenance bits. They were also the rolling stock maintenance bits. The first objective was to put them together as a business, give it a focus and then make that business competitive in the marketplace, so the focus is on our mission of becoming Australia's leading asset management contractor. That's what we want to be.

When we were the engineering bits from the old SRA, our function was to plan, develop and deliver New South Wales' rail infrastructure maintenance and rail enhancement tasks. That is still our major task, but in order to do that task, we're building our processes around what we need to do to be successful in our marketplace. To be successful in our marketplace, we need to be an efficient manager of the resources our clients need from us to optimise the revenue generated by the complex system assets they own. The emphasis here is on managing the resources that our clients want. We have some 5400 employees, all of whom have skills applicable to rail infrastructure maintenance and asset management in its generic sense.

But our clients don't need all of those, or one client doesn't need all of those, so our systems are really designed to ensure that our clients only get the resources they need for the tasks that they give us. Our focus is on assisting them, our clients, optimise the revenue generated by the assets they own. In other words, we're a service business. The assets that our clients own, in the case of rail infrastructure, are the track, the overhead, the signalling systems, etcetera. Those assets are only valuable to the client to the extent that those assets are in a fit condition to generate revenue for our client; so our task is to assist the client, ensure that the asset is in a fit condition to generate the revenue that it could reasonably expect from its assets. That is true for rail, it's also true for mining, power, roads, water, etcetera, which is why we're focusing on complex systems, because we maintain assets not as individual assets, we maintain a complex system of assets.

That is where a blown light globe, for example, can have as much impact on availability and reliability as a broken rail or a wash-away or whatever, so we need to ensure that we take a systems approach to the assets that our clients have and maintain in a way which doesn't result in failure of any part of the system, because of the impact of that failure on the system as a whole. Our business structure is a little bit like the Parthenon. Asset management is our key. Service, construction projects, particularly rail-related infrastructure projects, are well within our core competencies. Infrastructure maintenance is also well within our core competencies. To support our key businesses, we need strategic engineering skills, standard engineering. We need consulting, because a lot of our services result in advice being given to our clients on what they should be doing with their assets, what standards they should have in place to maintain those assets and how they can maintain those assets in a safe environment.

We have the need to acquire materials, plant and equipment, etcetera, and because our business involves infrastructure and our clients are looking for assistance in the financing of new infrastructure assets, a very important part of our business is strategic capital and advice in that direction. All that is supported by the internal support services of accounting, compliance, governance, etcetera. Very clearly within our business is the concept of operating in an environment which facilitates our clients learning from us, us learning from our clients and each of us learning from the marketplace. To do that, we've built in, internally and with our clients, what we call "feedback loops".

The contract we have with our client generally specifies the what, the when and the how of maintenance or construction or asset management in general. The what and the when cover such things as fit for purpose, asset management plans, technical maintenance plans, degradation modelling. The how is the program of work, of scheduling work, identifying the required tasks and delivering those. The relationship between our client and the what and the when level is essentially planning: what does our client want to do with its assets over the next 5 years, over the next 12 months? What are the tasks it sees? What's the market environment in which it's operating? How does that impact on its use of the asset, therefore how does it impact on the maintenance needs over that period? And secondly, there's the execution. Having planned what needs to be done, we then work with a client to ensure what was planned gets done.

Of course, it being something involving future need, there are often changes to those plans because of changes to the external environment, the economy, the physical environment. We might have a lot of heavy rain, get wash-aways, etcetera, so we have to change some of the planning. So there's a built-in feedback loop approach, internally and externally, with our clients. To ensure this feedback process is managed efficiently and effectively internally, we have major investment in a management information system, which is an integrated management information system that takes our client's assets, puts them into an asset register and then we record all our activities against particular assets. So we get information on how often a piece of equipment needs maintenance and we can get information on failure rates; we can get information on life expectancies across similar pieces of equipment, across a whole network of assets and we can build those into the plans with our clients.

Our integrated management information system also focuses on reporting to our clients on cost of doing work, invoicing our clients for that work, preparing our own internal management reports and ultimately our annual accounts and annual reports. To ensure that this happens smoothly, we have two key management functions within the organisation, contract management and resource management. The contract management stream is really about meeting the needs of our clients and utilising to the full the resources that are available to the organisation. The resource stream is really about ensuring that the resources needed by our clients are available at a price that they can afford. We also have business development which focuses on our future, where our organisation is going. That feeds back into our resource side, because that enables our people to be trained in the competencies that future clients will need or expected clients will need.

We have a fairly simple one-page set of strategies and objectives, divided into four key areas. To those of you who are familiar with it, it is essentially a balanced scorecard. It's designed to focus not just on the financial performance of the organisation, but on other key areas that an organisation needs to succeed in for it to be regarded as an achiever within its industry, and those areas are clients and markets, financial performance, internal processes and organisation learning. To be Australia's leading asset management contractor we have to lead in each of those areas.

Focusing on clients and markets, our objectives have been to achieve market leadership, to be recognised as Australia's leading asset management contractor throughout success in retaining existing clients and winning new clients in new markets. Our strategies there are to build closer relationships with clients, to anticipate their needs and requirements, to deliver services on time to budget and to standard, to apply core competencies to new lines of business.

In terms of financial performance, the focus is very much on increasing net worth. In other words we take a value approach, adding value to the investment that our shareholder has made in our business. There we have to deliver a fair return to shareholders while giving full regard to social, safety, environmental and employee responsibilities. Our strategies in that area are to implement an economic value-added program, to rationalise assets, to implement integrated safety, environment and a quality system within the organisation, and to meet the need to add value to our business.

Internal processes: the objective here is to achieve competitive parity, that is parity with our competitors in this market, bearing in mind that our competitors range from Alsthom and larger organisations to quite small - 10-15 person businesses; to deliver world-class project management and financial management; to manage inventory effectively and efficiently and to increase the flexibility of service delivery. Our strategies there are to implement contract resource management structure, that structure that I talked about before where we have resources within our organisation managed in such a way that they're delivered to the contract manager; to upgrade our operating systems and our management information systems; to upgrade our inventory and procurement management systems and to upgrade our tendering processes. The strategies that we have here are really short-term strategies and a number of those have been actioned in the last 12 months.

In organisational learning the core outcome of organisational learning is to achieve revenue growth, and we want to generate revenue from new markets and new clients by enhancing capabilities and commercial competencies of our people and to deliver sustainable cost reduction to all our clients. Our core strategies here are to apply marketing strategies to non-traditional areas which use RSA's core competencies; to develop strong strategic alliances, implement job and work redesign which is a movement - well, it's a change in our organisation from discipline-based work structures to competency-based work structures. Instead of having a fettler which is a civil discipline, we can have a multiskilled individual who can do fettling, signalling and electrical tasks. To implement the second phase of our Australian quality management framework, which is a task we've working on with the Australian quality council, and to focus training strategies on core competencies. So those are the strategies that will achieve the objectives in each of our key result areas of clients, markets, financial performance, internal processes and organisational learning.

That's the theory and it's fun to discuss in theory. If we look at where RSA is heading and what's happening in the business community, particularly amongst major Australian corporates which is where we're seeking to benchmark ourselves, the balanced scorecard approach which we have adopted is known about and used by about 40 per cent of Australian major corporates - two is a score out of five, so about 40 per cent of Australian corporates today know about it and use it. In 5 years' time KPMG estimate that about 60 per cent of Australian corporates will know about it and use it. So there's a significant increase in the application of balanced scorecard to measure corporate performance. It's something which we have implemented and are working through within our organisation now.

Value-based management: again at the moment, according to KPMG, amongst Australia's top corporates about 40 per cent know about it and use it. About 70 per cent will know about it and use it in 5 years. In RSA we have built into our systems and our approach and our processes value-based management. On-line analytical processing: this means I, as CEO, my managers, will have on their desks PCs which give them access to live data which they can analyse in live time. We now have that within RSA. It's not as widespread as I'd like yet but it will be over the course of the next 6 months or so. 40 per cent of Australian corporates know about it and are implementing it. According to KPMG 80 per cent of Australian corporates will know about it and be implementing it within 5 years.

Integrated enterprise-wide systems: about 44 per cent of Australian corporates have those now. RSA has it and is implementing it. About 70 per cent will have it and have implemented it in 5 years' time. Techniques for faster reporting: again our systems are designed to produce significant reports to our client within 7 days at the end of the month which go through the impact on their asset of all the changes that we have made, either through routine maintenance, major periodic or enhancement spending. Our clients get that now within 7 days of the end of the month. We are seeking to improve that by actually giving our clients on-line access and reporting so that they will not have to wait till the end of the month but will be able to see what's happening to their asset on a daily basis.

About 46 per cent of Australian corporates are investigating or implementing techniques for faster reporting now. According to KPMG about 80 per cent will be doing that in the next 5 years. So while I don't claim that RSA today is ahead of the game in these areas, it is at least on target to be operating in each of those areas consistent with Australian corporates and indeed if we get our systems right over the course of the next few months we'll start to get ahead of the game. Again the theory is fine if it demonstrates value and in terms of track reliability since the creation of the four new entities from the old SRA 1 July 1996, this slide shows that there has been significant improvement in track reliability, that is asset reliability, by some five different measures.

This slide is taken from a presentation given by Rail Access Corporation in May, so it's information that we share. It shows that for example in broken rail there has been a 67 per cent improvement between the old regime and the new; 24 per cent improvement in misalignments, 40 per cent improvement in signal failures, 50 per cent improvement in the number of track failures and 50 per cent improvement in the number of civil engineering incidents. So we've made huge strides in terms of reliability in the new environment by separating into four entities.

Another measure by which one can test a theory is the achievement of cost savings. This slide shows that the starting point for 1 July 1996 was an expected or planned scope of works for New South Wales rail infrastructure maintenance of around $670,000,000. In our first year that scope of work was delivered on time, on budget for 634,000,000. Our start point for the 97-98 year was a budget of 605,000,000. We have completed that scope of works for 535,000,000. So you can see that substantial savings have flowed from the reform taking place in New South Wales, from the application of business practices to rail maintenance, to the application of business practices to ownership of rail assets. These savings are not one-off. These savings are in fact annual savings and we anticipate that over a billion dollars in savings - that's present-day dollars - will be delivered to the people of New South Wales over the course of the first 6 years of rail reform. That's money that governments can spend on schools, police, hospitals or, if they choose, on rail.

That, assistant commissioner, is my opening presentation. I'm delighted to take questions from you on matters raised in my presentation, in our earlier discussions, or on the submission presented by the New South Wales Department of Transport on behalf of the rail entities.

PROF SCRAFTON: Thanks for that, Mr Ogg. That's a great introduction. It was helpful to the commission to understand how these organisations have progressed since the break-up of the former SRA. In fact some of the questions that we might have asked you are already answered by your descriptives on the overheads. One question I have is about the cost savings which are quite impressive. You mentioned that the government can do what it likes with them; you know, invest in other areas if it wishes to. It is not clear to me why they would not be passed on to the RAC or in turn would take account of them in their rate setting for access charges and so on.

MR OGG: I think that as far as access rate setting is a question for RAC - however, if I look at the maintenance savings - maintenance is one of the cost contributors to access charges. There are a whole raft of other cost contributors to access charges. The state of the track, the needs of the operators for the track are all other cost contributors. If I can give an example on the state of the track, if I buy a brand-new Holden motor car for $32,000, I expect a maintenance cost of somewhere in the vicinity of $1200 a year. If I buy a 5-year-old Holden vehicle for $15,000, then I would expect maintenance costs of around about $3000 a year. The maintenance cost is a function of the state of the asset and the decisions by the users of the assets and the owners of the assets as to what regime they actually want to operate in. Then the access price-setting presumably has something to do not only with costs but also with - to put it in capitalist terms - what the market will bear.

PROF SCRAFTON: Thanks. Can you tell us a little about the role of RAC in regional New South Wales, or for that matter regional Australia, because now you're nationwide. I ask that because part of the commission's terms of reference are to just look at the impact of rail reform on rural and regional Australia. How many of your employees, for instance, are out in the country?

MR OGG: We have something in the vicinity of 1600 employees directly in rural centres in New South Wales, if we include Newcastle as rural - non-Sydney metropolitan as a definition for rural. If we include Newcastle as part of urban, then that number falls to around about 1300. We have a fairly big multiplier effect in most of the communities in which we operate because we use local suppliers. Our employees' children attend local schools, go to local churches, use local shops. In some smaller country centres we would be the major employer in that particular centre.

Rail reform itself should not have a big impact. If the enterprise concerned is operating at or near the efficient frontier, then the numbers should be right whether they're in an integrated entity or whether they're in a separate entity. The issue comes down to, I think, use of the asset and how indeed efficiencies made in the maintenance environment can impact the use of the asset, to what extent rural communities in New South Wales - or rural communities anywhere in Australia - continue to need/use rail, is going to be critical to the numbers of people required to maintain the asset in those regions.

PROF SCRAFTON: In the rationalisation of assets that you talked about do you have a sort of plan which ensures you will retain skills? How does the organisation ensure that if there is downsizing in certain areas that you are not going to lose skills?

MR OGG: We have a whole lot of programs designed to focus on that. Firstly, we have business development which is designed to grow our revenue; the more revenue we have the more employees we have, and our focus for revenue growth has really been on looking for alternative contracts that could employ the competencies we currently have, so that we can move people off rail with a bit of training onto new contracts, so that we can keep the employee base, the resource base that we have and utilise that more efficiently and effectively; that's one way.

A second way we have is through negotiations with our unions we have implemented a thing called "job and work redesign" where we're moving from discipline-based skills; that is, civil, electrical, sig-type skills to multiskilled individuals, where we can assess the competencies that we need to get particular pieces of work done and we can train people in those competencies and get that work done. So we are constantly, if you like, addressing the issue of what competencies are required to do particular asset management work; that's another way we are doing it.

A third way we are doing it is to work with our unions to look at what happens during a downsizing to see whether or not - to minimise, if you would like, a general downsizing and focus on specific areas that - or skill bases that are no longer needed by the organisation, and also to look at areas where we might have excess numbers and redeploy those to other areas. So we have quite a lot of tools we are attempting to use to maintain the skill base, and indeed one of the reasons we have been pursuing rail infrastructure maintenance opportunities outside New South Wales is to keep together a mass of skills needed to maintain the infrastructure. Other states have, in a sense, disbanded the core competencies that existed in the politically integrated rail businesses as those rail businesses have been wound down and sold off. The objective in Rail Services Australia is to keep those together and perhaps exploit the opportunities that will come up as other rail industries or other state industries run down their rail core competencies.

PROF SCRAFTON: You mentioned in your introductory comment that you were working in all states. Do you want to give us some examples of some of the projects that you - - -

MR OGG: In Victoria, for instance, we have recently completed construction of a siding for a new rail player, CRT, which is moving quite a lot of chemical base between Melbourne and Sydney; we have connected their warehouse and storage complex with the main line in Victoria and we will be doing some further modifications of that for them over the course of the next couple of months. We have done a number of passing loops in Victoria for National Rail Corp and there have been a number of other contracts that we have won in and around Melbourne in construction. We haven't yet won a maintenance contract in Victoria but maintenance contracts haven't been put out yet for tender.

In Queensland we maintain track from the New South Wales border to wharf in Brisbane; that is a standard gauge track and the narrow gauge track in that region; that's under contract from Queensland Rail. In South Australia and extending into

Western Australia we recently won a signal maintenance contract for 5 years on the ARTC, the Australian Rail Track Corporation asset, and have employed some 30 sig-elecs in South Australia to handle that contract for us. The contract that we won in Hong Kong was the installation and commissioning of some signalling gear for Hong Kong mass transit railway and we worked there with GEC Alsthom on that contract.

PROF SCRAFTON: Thanks. In your overheads you talked about the value-based management principles that you have in place and I guess you have taken on an organisation, a corporatised organisation, and moving into a competitive market, but it is also something of a regulated business, as well. Doesn't that provide an opportunity or incentive for higher profits in a regulated business? I can understand the wish for you to do that in what I might call "the present and future context", but you are really still, to some extent, part of a regulated business.

MR OGG: Our business is not regulated in any shape or form. We get no money from government other than support for redundancies. Our prices are as tendered based on the return needed on shareholders' funds that we have; therefore we have adopted value-based management as a way of integrating through the whole organisation the need to earn a return on funds employed and cost of price tender accordingly. If we assess that the market will bear a little bit more than the weighted average cost of capital return assessment that we have for the equipment that is being used, or the assets that are being used, because we have specialist knowledge or skill, then we will seek to extract that additional premium.

If the market won't quite return it then we will seek to price accordingly, but we have no cross-subsidies between parts of our business. We don't see ourselves as operating at all in a regulated business. All our contracts are either fixed price or cost-plus and, where we have cost-plus contracts, it is essentially an open book basis where our clients can look into our costs and make themselves comfortable that the costs are genuine.

PROF SCRAFTON: But the RAC is still your biggest client, is it?

MR OGG: Yes.

PROF SCRAFTON: We understand from our earlier discussions with you and with the RAC and the department about the suspension of the contestability of some of your contracts, the suspension runs to July next year. Is that right?

MR OGG: That's right.

PROF SCRAFTON: I guess in using the expression of "a regulated organisation" it was more in the sense of that that a lot of your work, at least in the immediate future, is - while it may not be guaranteed and the price may be negotiable, as you said, there is still a certain security there, or the government has created a measure of certainty for you.

MR OGG: Only, if you like, until 1 July, and indeed there is an election coming up at the end of March.

PROF SCRAFTON: Okay, thanks for that. I appreciate that. On the supply side to your business, traditionally they always did a lot of things themselves and then - made a lot of things in factories and so on, or workshops which would have found that way into the components of the organisation which are now part of RAC. Has that changed a lot? Is much or most of your material sourced outside?

MR OGG: I don't know the amount in percentage terms but certainly the bulk of our plant, non-specialist rail plant, the bulk of that would be sourced from outside. About half our ballast is sourced from outside; we have three quarries that supply ballast. All our rail is supplied externally. We do do some construction of turn-outs but we also have turn-outs competitively tendered so that the price there is a true representation of the market.

Our labour rates are set by our industrial instruments and our industrial instruments are on file with the commission and any of our competitors can see an industrial instruments and get a feeling for what our labour rates are like. We do use contractors to do work that we can't deliver from our internal resources - and again I can't give you figures - but in our capital works, in enhancement tasks that we do for RAC, particularly in the signalling area, for example, the vast bulk of that is supplied by external manufacturers and often installed under our supervision by external contractors, so it is a fairly broad mix, although the bulk of the revenue would be retained to meet internal labour material costs.

PROF SCRAFTON: Thanks. You described your asset management program there: One of the things that is not clear to me is the extent to which the asset planning is handled by the client agency, particularly in relation to the RAC. Do they do their own asset planning or in association with you or are you gradually taking over that in the areas in which you have contracts?

MR OGG: No. We do it in association with RAC and I guess this is the area where further significant reform will emerge. It is the area of what I will call "fit for purpose" and it is the debate that we have in a planning process with any of our clients, be they rail or anything else - "What do you want the asset to do over the next 5 years?" Essentially the answer to that question can only come as the result of discussions and negotiations between Rail Access Corporation and the operators. If the operator wants to run longer trains with heavier axle loads, then that's going to have an impact on maintenance.

It's also going to have an impact on the size of passing loops, etcetera, and if you want to run trains more frequently, for example if over the course of 5 years the volume of coal to be shipped in the Hunter Valley is increasing by 5 per cent, 6 per cent per year, then train frequencies are going to increase and that too will have an impact on the maintenance environment because it impacts the amount of time that the maintenance organisation has to do the work. That will mean that we would need to focus on a different set of equipment and program the work in different ways.

So we sit down with our client and work through this issue of fit for purpose, what do they want out of the asset over the next 5 years, and then quite specifically what do they want out of the asset over the next one year. Ideally, we'll get it on the basis that it's sort of a rolling 5 years, so that next year and then the next 5 years and we keep moving it out. That will give us, and the owner, reasonable understanding of what the environment for maintenance is and what we're building towards, because a lot of maintenance spend can be simply on "fix that problem" and you can fix that problem 10 times over 10 years if you maintain it one way and different traffics might exacerbate that problem.

So what one has to do is sort of say are there a variety of fixes and do those fixes involve just sort of minor tamping or fettling, or do they actually involve significant formation rebuild? How do we then program that in so that we lower the cost overall of maintenance so that problem gets solved so we don't have to go back there year after year and spend a bit of money on it. It actually gets solved but it gets solved in the context of progressive solution because the client doesn't have all the money that it needs to do everything it wants in any one year.

It's a technique which is employed in Europe, to a lesser extent in the United States, but it does involve a reasonable amount of modelling of the maintenance tasks and assessment of priorities, and then becoming aware of the impact on those priorities of natural events such as very heavy rain because that then will totally disrupt or could totally disrupt your schedule of fixes because you have to come back and do something and change your schedule of fixes. As I said, that's the area where I think there's going to be significant improvement over the next few years and it has a potential to make major cost savings in maintenance and improve significantly availability and reliability for the operator.

PROF SCRAFTON: Thanks very much. That's an excellent description of the work that seems to be needed in making this transition from the integrated organisation into the separated agencies. One could argue that all of that ought to be done or needs to be done in an integrated organisation, but it seems to me anyway - and you can correct me if it's not a fair assumption - that the corporatisation - or the separation initially and the corporatisation later - has certainly focused that approach in your organisation.

MR OGG: I think the advantage of the separation that occurred in New South Wales into four fairly distinct functions has certainly assisted the focus on the tasks needed or the approach needed to the tasks in each of those functions. It has also highlighted the internal trade-offs I guess that occur in a vertically integrated business between capital for new rolling stock and capital for lineament changes or new infrastructure enhancements. New rolling stock, new lineaments and enhancements - each have an impact on the bottom line of the vertically integrated business - but the way they track through is different and therefore it's often difficult to make a proper distinction between the need to spend $400 million on a new set of passenger rolling stock versus 400 million on a dedicated freight path through the Sydney metrop area.

PROF SCRAFTON: Yes, thanks very much. I really appreciate that. I don't think that I've got any other questions. I really appreciate you coming along though because it is an important element of the new structure. There's just one thing when I think of it; could you describe the corporate structure for us? You have - well, you can tell me - ministers and the board and - - -

MR OGG: I have two shareholder ministers - the premier and the treasurer. I have a portfolio minister, the minister for transport. The board is appointed by the shareholders ministers and the shareholder ministers act as the owner. They are responsible for the performance of the business as a business and castigate the board and the CEO if the returns on funds employed are less than adequate.

The portfolio minister has overall responsibility for the transport portfolio and therefore has the ability to direct the organisation in the interest of the state to fulfil and meet policy obligations that the government has. So there's an interaction there between the performance of the business and the policy obligations of the government, which is a fair and equitable split, and it's one which therefore manages those conflicts quite transparently. I have a board - seven people on the board. They are all senior industry figures. It's a good mix of skills coming from finance, engineering, advisory backgrounds. I have an executive committee, which is a committee made up of my key direct reports, that manage the business on a day-to-day basis.

Strategy, compliance, governance, safety is essentially a corporate function; managing contracts is the function of the contracts manager; maintaining the availability and skill base of the resources is a function of the resources manager; developing - winning new work - is the function of the business development manager; looking after the financial aspects of the business function is my chief financial officer; and I have a corporate services director who looks after internal compliance, governance, and acts as a secretary to the board. I then have the business established across the state and in Queensland, Victoria and South Australia in separate offices, again where the resources are supported by various people. So it's a new style of management known as a cellular style where we encourage the formation or aggregation and disaggregation of teams. It's a fairly flat structure and it's very much a team-based approach to managing this organisation.

PROF SCRAFTON: Thanks very much. Again I repeat I do appreciate your coming and sharing that with us. It gives the commission a better understanding of just how the organisation works. If we have any detail queries, perhaps we could get back to you if there are any specifics. The other thing that I might ask - it's not absolutely necessary because your delivery I think covered almost everything that was on the overheads - but would it be possible to receive a copy of the overheads just for completeness? I think your delivery probably covered it all.

MR OGG: I can send you a copy, yes.

PROF SCRAFTON: Thanks very much. We will take a 5-minute break and then reconvene with the next participant.

PROF SCRAFTON: The next participant is the Campbelltown and Districts Commuter Association. Would you identify yourself for the purpose of the record.

MR CRAIG: My name is William Craig, Bill Craig. I'm the president of the Campbelltown and Districts Commuter Association.

PROF SCRAFTON: Would you like to make an introductory statement before I ask a few questions?

MR CRAIG: Yes, thank you. Committee members, ladies and gentlemen, we must first thank you for the invitation and the opportunity to present the association views before the committee. Possibly the first part of the submission was not relevant to the guidelines laid down by the inquiry. It was felt that there are many aspects of our everyday lives affected by transport though. There are also many problems created by attitudes and by accepting what we have is the norm and considered the best science and technology for us. There is also the misconception that the status quo in the oil fuel will be the same forever more. Our present transport system is not based on the motor vehicle, but on cheap and abundant fuel. As can be seen on the news recently, there is a great emphasis on alternative fuel sources for road transport, such as the shale oil controversy in Queensland and natural gas, and no consideration for an alternative to road transport.

There have been several inquiries into the rail industry. I feel that there is sufficient information to warrant further investigation into other performances and aspects of our transport system. These could be an inquiry of this type into the efficiency and productivity of road freight, due to the enormous amount of money thrown into the road arena, which is managed on a demand system; also into the availability and the types of fuels that could be used for road and rail transport and their efficiencies. If funds were dispensed on performance for dollars spent, then the Adelaide Hills road improvement is probably one of the glaring examples where rail should have received the funds. Concerning the modified energy map in the submission, an attempt was shown for urban transport to display the best case for cars against the worst case for tracked electric systems.

An extra arrow should have been drawn pointing to the 20 per cent, as well as to display the two aspects of importance, when selecting urban transport for efficient operation fuelwise. This is a utilisation factor of the energy consumed and the vehicle efficiency. This is why every attempt should be made to keep patronage high on our public transport systems at whatever cost. Australia has been challenged for excessive use per capita of fossil fuels by the world monitoring organisations. We have been granted an immunity for our use. There is sufficient evidence around that we can do better, and very quickly if we want to, but this is not happening. Why is this so? I personally became interested in transport matters about 10 years ago because my children have asthma and I would like them to have clean air to breathe.

There are over one million asthmatics in our cities and this consumes 600 million in medication per year paid by the state. Remove the problem, save the money. Recently, a Queensland investigation, I think, found that 5 per cent of vehicles emit 70 per cent of the particulate pollution in our cities. These are heavy diesel vehicles. Why not natural gas conversions quickly? The recent inquiry by the House of Representatives Standing Committee on Communication, Transport and Micro-economic Reform into rail was, I think, understated. There were some aspects of the rail industry not exhibited strongly in this previous inquiry. Military advantages of rail or even, strategically, electric rail, were not discussed, except surrounding the Sydney-Canberra submissions.

Australia's future fuel prospects were not discussed in great detail. This point is important for the future when fuels will be dwindling. For a modest injection of funds initially, the intercapital rail system would have many of the impediments removed as displayed in the submission. This would provide an efficient and profitable system for the operators and, indeed, the country. The only direction is that we will all benefit in the next century. Thank you.

PROF SCRAFTON: Thanks very much. Bill, would you tell us about the association and its size and the main issues that it deals with? Is it particularly concerned with rail commuters or all commuters or bus services? Just give us a little run.

MR CRAIG: It was a large, but now dwindling organisation because of the number of people that are really interested in public transport. This is probably because of the time it takes or consumed in their travelling in the evenings. It's very difficult to get people along to meetings. I've even tried Saturday mornings and advertising for the meeting to be held and getting less and less people along. The problem, I think, is that people are just not interested. The commuter association is one of the many associations in Sydney under the umbrella of another organisation called the Rail Strategy Forum and also the Commuter Council. The state government has dictated that each entity must have a customer representation, hence the Rail Strategy Forum with representatives from the associations.

PROF SCRAFTON: Thanks for that. In your introductory comments, I think you probably gave me a key to the answer to my first question. In your covering letter, page 2 of the submission, you use the expression that "We would be in jeopardy." When I first read that, I thought you meant within the Campbelltown district, but you mean that more in a national context, in the world.

MR CRAIG: That's right.

PROF SCRAFTON: Because I realise that the distances, the commute time, by almost any mode, I guess, from Campbelltown, certainly for CBD employees, is very long. Nevertheless, my impression is that you have quite a good rail service. Is that right?

MR CRAIG: We have six trains via the East Hills line and four trains via Granville. That's a total of 10 trains and, as a matter of fact, there is a little part on page 5, where, towards the bottom, I said, "The six train sets from Campbelltown". It should have been ten.

PROF SCRAFTON: Right.

MR CRAIG: So that's why - the enormous amount of road construction and the low utilisation rate of the cars, hence nearly all cars have one passenger, so we'd have to have these enormous amounts of road space consumed, just to get people to places instead of trains.

PROF SCRAFTON: Which reminds me, let me just comment. My home base is South Australia and I just certainly would not want to disagree with your assessment about the investment in the road improvement up the hills. I'd like to put on the record, though, that at no point was that road improvement - that investment of 138 million was never ever justified in terms of what we would consider to be transport need. It's a cosmetic improvement. It was not even really justified on the basis of safety. There is an element of safety in it, because we get heavy vehicles turning over on the existing road, but that isn't a function of the road design particularly that occurs. Nevertheless that enormous investment has been put in there for a little more than cosmetic improvement to the road.

I don't mind my comments on that being on the record as I come from Adelaide. It's important that people understand that. Several parties have drawn attention to the fact that if that money had been put into a rail investment between Tailem Bend and Adelaide, that it might have been better invested, which leads me to a general question. Would you or your association be in favour of diverting funds that are presently expended on road into rail investment?

MR CRAIG: Horses for courses, if you like me to use that term, because I have one example here, where possibly we would all benefit as a country and not merely the western suburbs of Sydney. I went to, in 1994, the Liverpool-Hornsby strategy. I was a participant in that. I have a small part from that study which looks at the Cumberland Highway arterial as one of the alternatives and I'll hand you this. Because it's about 800-plus million for the road orbital west of Sydney, that money could be used in a better way, by enhancing the east coast rail, as well as supplying funds to the Cumberland Highway, the existing path, removing a lot of the impediments, similar to the submission removing the impediments for the rail on the north coast, as an example, and there are some comments on the back end as well.

PROF SCRAFTON: We'll take that as a supplementary submission to your existing submission. Thanks for that, that's fine. I appreciate that.

MR CRAIG: I'm sorry about the roughness, but the content is there.

PROF SCRAFTON: That's fine. It's the content that matters to us. In your submission on page 4, you draw a link between the Olympics and a green city. Yes, it's at the top of page 4, where you talk about the Olympics in Sydney and the city being presented as a green city. I was not aware that Sydney attempts to present itself as a green city. Does it? Is that expression "a green city", taken from some Sydney publicity or the way that Sydney likes to present itself?

MR CRAIG: Yes. I presume it's publicity and also from the statements made on television, publicity, that one of the reasons why we got the Olympic Games here was because we could supply a green environment, ie low pollution and good public transport to get people to the events.

PROF SCRAFTON: Okay. Thanks for that. I just had not made that link before, but I appreciate that. It just struck me that several cities around the world would attempt to present themselves as environmentally acceptable and I guess anyone can present themselves that way. Whether that in fact is true in practice, I guess the city itself has to deliver. But that's good, I appreciate that. On page 7, you mention the SCT train operating from Melbourne to Adelaide and on to Perth, in the middle of page 7, in country transport. Would you or, again, you or your association be in favour of increased private sector involvement in railways?

MR CRAIG: As a national entity, probably most people would not like to see it, ie in terms of private enterprise making profit, going out of the country. But it appears that what has already been privatised that has a great persuasion on the government to change their directions, hence these inquiries, to invest money into the rail network.

PROF SCRAFTON: Good, thanks. Yes, I think that is right, that irrespective of one's attitude towards privatisation as a philosophy, where it has occurred, for example in Tasmania and rural South Australia, the performance of the new organisations has certainly been impressive, but that's not to say that privatisation is necessarily the motivator, although certainly the operators would argue that it is, but whether it is or not, the performance has certainly improved enormously and I think that, as has been proved in other areas, other infrastructure areas, that the role of the private sector is definitely going to increase. It's whether it's desirable or not.

MR CRAIG: One of the former people in charge of the BTC in Victoria, was that Marius Van Onselen? He was in charge of the freight.

PROF SCRAFTON: Yes, right.

MR CRAIG: One of the statements he made, which I think the private operators see as of great significance is that the track is the entity and the means by which they as a transport operator are defined, so he actually went out of the way to go and open up branch lines that were closed, to give him a greater reach into the transport network. So if they're going to shrink their operations like, for example, New South Wales, the RAC has put out advertisements to say, "We've got some disused lines. What should we do with them?" This is not a good attitude of an owner of an asset, if he's saying, "Our definition is not what we want to operate in the environment we want to operate."

PROF SCRAFTON: But it may well be that a new operator, the equivalent of a small regional rail operator - and we heard yesterday from people associated with the Austrac organisation - may well be able to revitalise a branch line that a bigger organisation or an organisation with different corporate objectives might not.

MR CRAIG: As you said, with Tasmania and South Australia it's happened already.

PROF SCRAFTON: It seems to be as much a cultural change as an economic one or as a financially-driven - well, I guess they're all interrelated but the cultural change seems to be quite important in achieving the objectives. Just one other thing in relation to your paper: If we go over the page to page 12 where there is a section in your report and you describe, as an example, what could be done on the north coastline. On page 16 you give out an estimated cost. I just wanted to check - I mean, that's an excellent summary and we appreciate you drawing that to our attention, but I just wanted to ask you about the source of that. You mentioned somewhere later on - I think it's on page 16 - about Prof Laird and some of his colleagues. Did you develop that yourself or is that from another source?. I was just interested in that.

MR CRAIG: I took the comments concerning what he terms as the "red sectors" where extreme grade and curvature occur together on the previous page and the locations plus the estimates of dollars and cents and fuel saving from his paper.

PROF SCRAFTON: Thanks.

MR CRAIG: The other estimates are from various magazines and information available.

PROF SCRAFTON: Great. I think quite a few of them are actually sourced. One of your annexes is the New South Wales energy flows - you've sourced that to Office of Energy annual report. The reason I ask you is because if we choose to quote some of that, it's important to us to ensure that we know the source material. If we did and we had a problem, we would come back to you and just check that out, if that's okay, just to confirm the sources.

MR CRAIG: That's okay. My apologies for the date of the information. As you can see, it's 91-92 material, which I've taken from some other things that I've written in the past.

PROF SCRAFTON: Some of our participants would argue that very little has happened since that time except a series of inquiries, which is something of a problem, but if you want to keep the heat on and the work is still necessary to be done, there's absolutely nothing wrong in repeating it and drawing it to our attention. That's fine. That's all that I've got, Bill. The only specific question is to ask you if we need anything else, if we can come back to you, and just ask you if you have anything else that you would like to mention?

MR CRAIG: I was up very late last night perusing the information, and one of the points which I mentioned in the preliminary was military uses. Nothing was done in the previous inquiry about that. A friend delivered me a tape last night which I watched several times. It was called Locomotion and it's available at the ABC Shop which you can peruse if you wish. It was basically talking about the history of rail and in the First World War the trench warfare was bogged down because of the availability of rail to deliver enormous amounts of equipment and materials but it couldn't be transported any further because there was no means at that time, ie trucks.

From the Second World War Hitler learnt this and made warfare mobile. He motorised his army which meant you could have air and surface attacks - that he called the blitzkrieg - which could go in and take control very quickly. Rail didn't figure in his plans. He preferred also to travel by road. But when you look at the Russian front, for example, there was a quick advancement to the door of Moscow itself but what really beat him in the end was the extreme winter, the inability to get supplies to his troops as well as the Russians moved 10 divisions of troops from the expected Japanese front in a matter of days by rail, offloaded them directly into the war at the door of Moscow. So there was his defeat in that particular instance.

A standard German train at the time was 55 wagons and two to three trucks per wagon equivalent, and they needed 120 of these trains per day to supply the eastern front. That was an enormous amount and there were no trucks available to do that once the lines were extended. So military-wise, yes, rail may have an advantage for moving large amounts of equipment very quickly. What was the other point?

PROF SCRAFTON: Just while you're looking for that, I'd make the point that in my experience the military does use rail considerably, particularly on major logistical exercises. For instance, in the north much of their material would be handled by rail to Alice Springs or - I don't know in the case of Queensland but certainly in the case of the Northern Territory they tend to be great supporters of rail.

MR CRAIG: There was also alternatives which can't be used by road for fuel. That's why I mentioned in the report future prospects of fuel. One of those that is coming along very soon which we may be interested in is called the thorium reactor - the nuclear reactor. On Quantum from ABC recently they said there were three being built in Spain which will reduce fossil fuel usage. Also they can consume weapons material like plutonium, so what's in enormous numbers of nuclear weapons around the world could be consumed as fuel. They're extremely safe compared with conventional reactors because you won't have meltdowns, for example. Where the neutron production for the fission of the material is created from a critical mass in conventional reactors, the neutrons are produced from an accelerator. So if you do have a problem, you merely switch off the accelerator and you stop the reaction - 5 per cent of disposable waste as well of conventional reactors. This could lend itself to the nuclear-powered rail system similar to what they've got in France.

When you look at other things like solar power, let me give you an example.

100 mirrors 10 metres square of sunlight would produce 1 megawatt. Bayswater power station to the north of Sydney produces 2640 megawatts, so you would need a lot of mirrors to produce a solar tower arrangement. Solar electric panels at 80 watts and 12.5 of them would produce 1 kilowatt or 12,500 per megawatt. A wind-powered transport system: 100 kilowatt turbines, 10 to the megawatt. 30 would be needed to power one NR diesel equivalent. Off-peak power from Bayswater could power 880 NR diesel equivalents and we have one of the worst things in the world as far as energy efficiency - is off-peak water heaters - because only one-third of the energy that's consumed in the coal station is delivered into the water tank and most of that leaks away every day. I've put some insulation on my water tank and save 2.5 kilowatts per day being leaked out in the pipes.

So for this high-tech energy system, a more appropriate means of using the energy would be most appropriate. At the moment night-time off-peak electricity would be quite appropriate for powering our transport system if we are looking at alternatives for transport energy. I think that's about all, thank you.

PROF SCRAFTON: Thanks for that. That's superb. We will just adjourn for a couple of minutes and then invite our next participant. Thanks for that.

PROF SCRAFTON: The next participant is the organisation Friends of the Northern Railway Inc. Would you identify yourself for the record?

MR SMITH: Yes, I'm Greg Smith. I'm the treasurer of Friends of the Northern Railway which is basically a user group based in Armidale, New South Wales.

PROF SCRAFTON: Thanks. Do you wish to make any opening remarks or supplement your written submission before we have our question and answer session?

MR SMITH: I made on behalf of Friends of the Northern Rail a very short submission. At this stage we wanted to kind of join with the inquiry as a kind of project of public interest. I think it might be possible to make another submission at a later stage. That would be right, wouldn't it, given the draft report? Do you call for further submissions?

PROF SCRAFTON: No, the process is that we receive submissions and we receive them formally until the end of the hearings, the next round of hearings.

MR SMITH: I see.

PROF SCRAFTON: But we then prepare and release the draft report which we plan to do by about Easter of next year, whereupon there are a round of hearings based upon the draft report. However, you and any other organisation is free to reappear again at that time and presumably if you wanted to table supplementary information in support of your comments at that time we could receive them then.

MR SMITH: Sure. Thanks. So initially we've got a very short submission making some general points and that's to engage with the process. I've been rather long-winded and circuitous but in response to your original question I probably will make a few remarks in a few minutes just to supplement that. So Friends of the Northern Railway had its inception, it's 3 or 4 years ago, with the campaign to restore passenger rail services on the Armidale-Moree routes from Sydney, given that they had been ceased prior to that, and that campaign was partly instrumental in the service being reopened with a new set of trains which I think by and large has been working quite successfully on that route, only north to Armidale, not north of Armidale at this stage. But basically with the train splitting at Tamworth that service, we think, is providing an important service to people of the region and that would presumably mirror this service that country passenger rail is providing to country commuters elsewhere in Australia.

So probably my remarks won't be lengthy, they will be mainly directed to country passenger rail, but we're also interested in promoting rail generally as a project for Australia and rail freight from the New England area. New England is not a major freight area but there are significant movements of products like superphosphate into the region and wool and possibly timber out, plus other movements of oil products, and we've tried to join in with discussions to further and promote that kind of activity, and with the kind of set-up in rail at the moment it's possible that some private freight users might broker deals with local industry groups and something could pick up there in addition to what already happens.

On the issue of country passenger rail I'm speaking to New South Wales and specifically to the kind of Armidale-Moree, but Countrylink in New South Wales in 95-96 had basically required roughly $74 million of government subsidy, so that exceeded fare revenue at that time, that amount, and made for a cost-recovery factor of about 45 per cent. The imposition of an access charge caused that cost-recovery factor to fall to 34 per cent in the following year, 96-97. There's an issue there that we're trying to give a bit of a run to, which is the treatment of concessional travel; that is counted effectively as the government subsidy, the fact that this in strict revenue terms is not cost recovery, that the funds are being provided for out of the welfare budget.

We would argue that it's a bit hard to say that the Countrylink operation only recovers 34 per cent of 40 per cent of its costs for that reason. If the revenue was attributed to Countrylink on the basis of the service provided, that is carrying people from Armidale to Sydney, let's say, the cost recovery would be 88 per cent in 95-96 and 68 per cent the following year where the access charge applied. We argue that the concessional travel is provided for welfare reasons and clearly is using taxpayer money but it's not strictly good public accounting to then say that money is - it should be treated as a welfare redistribution such as any other payment of social security, for whatever reason, but not attributed as a subsidy to rail. That seems to be unduly a punitive kind of accounting framework and puts rail on the back foot in terms of public opinion and the general sense of its viability.

So if that was rethought clearly you might want to tie the welfare budget to rail in the way that it's presently tied, which raises the whole issue of whether you would have contestable travel vouchers and such arrangements. I think that is almost certainly probably going to be a component of future reform in this area, and I think hopefully the rail service can be fostered and prosper in such an environment. But it seems to me that given the system in place the funding of concessional travel shouldn't translate directly into an operating deficit for the country passenger service.

We note that with the cost-recovery factor calculated on the most unfavourable basis, that is counting concessional travel as a subsidy, probably the Countrylink operation might just fall short of the cost-recovery factor for long distance buses. I've got a figure there of 58 per cent cost recovery for long distance buses in 1988, taking into account the costs of upkeep of road pavements. They seem to me to be important figures and I will come back to that, but I mean I'm in no position to make accurate estimates there so I'm basically garnering some old Productivity or Industry Commission figures there.

If we attribute the funding of concessional travel as revenue, that is to take a more generous view of the cost recovery of Countrylink, then Countrylink compares favourably on a cost-recovery type of calculation; that's a purely financial accounting framework, with long distance buses. We certainly acknowledge that it would be good for Countrylink to increase its revenue earning capacity and that's a subject I will come back to at the end. So that's one set of things I wanted to refer to.

A second set of things I wanted to just refer to in opening, if that's okay, is to talk about the general principle of externalities and the general case for rail. I just wanted to make a few remarks here. Can I say, without wanting to be presumptuous, that it seems to me that in this area - I mean the cost recovery is financial accounting and that's important - to contain costs and generate revenues on a financial basis, no question, whatever service you are providing - but there do seem to be in this arena, with the kind of interface between road and rail, crucial questions of externalities.

I think personally, without getting into too much of a clarion call, the Australian community, in this stage of its transport history, greatly from the Productivity Commission giving a really good scrutiny of the issues involved here and trying to bring it up in a way that there's a broad-based cost benefit comparison giving the best possible estimates and assessment of the relevance of externalities in the comparisons between road and rail, because it seems to me that if we're talking about privatisation and cost efficiency, and so on, if the playing field between road and rail is not level you've just got a bias in there right from the start, and it seems to me that would be to the detriment of the public interest.

On a straight comparison of cost-recovery factors country passenger rail is, let's say, more or less comparable to long-distance buses. That seems to me more could be done on that. Rail freight on the other hand, one would think, compares very favourably with road freight haulage, taking pavement upkeep into account, even on a narrow cost recovery kind of calculation. If consideration of externalities would boost the case for country passenger rail one would think it would make the case for rail freight overwhelming by comparison with road freight; not to the extent of all or nothing but we're talking about kind of boundaries here.

Unacknowledged externalities make for market failure. That's well received in the textbooks. On the grounds of reduced levels of energy use, reduced incidents of accidents, rail would seem to be favoured in comparison to road, and I think some efforts could be made to put numbers on that. That proposition may in the end not be true. It seems to me that it's sort of overwhelmingly indicated to be true but it seems to me to be important issues of social and economic policies there. In cities reduction of congestion would surely favour metropolitan rail systems as an externality in favour of rail and to the detriment of road.

The problem however with externalities is that they do not enter the framework of market calculation. That's the recent - one of their externalities. In principle they can be internalised by applying some method of valuation, and it seems to me the Productivity Commission is uniquely equipped to do some creative and really interesting work in this regard, but this process of internalising externalities, it seems to me, is more referred to as a possibility than its practice. Cost recovery remains the numerical bottom line. The existence of externalities may be cited but they usually remain unincorporated in the practical management decision-making process.

So we would argue that this inquiry gives the Productivity Commission a chance to make appropriate changes in the balance in this regard. I get back to my kind of clarion call mode at this stage in transport history: Australia, needs proper attention to be paid to the merits of rail, and I think trying to give some indication of the relevance of the magnitude and way in which externalities bear upon the issue of road versus rail is an important issue. I just say that's probably the main general point.

I just have a couple of quick closing remarks about the country link operation and the general issue of public sector management because clearly we are, as has been talked about in the previous discussions - the whole issue of change in the way infrastructure is managed in modern economies in Australia is no exception, and rail in that sense is probably coming a bit late for the party, but maybe getting a bit late to the party can mean that these things are set up quite judiciously in the case of rail.

Country passenger rail clearly has to adapt to commercial realities so there is almost certainly scope for charging a higher proportion of full fare-paying customers and possibly for some increase in fare levels the independent pricing and regulatory tribunal in New South Wales suggested that elasticities of demand in rail travel might be on the inelastic side of things, so there is some scope presumably for some categories of passenger for raising fares, which would be good for the revenue stream.

If this was to be achieved there would need to be appropriate emphasis on marketing, so any country link, I suppose, essentially, is a corporatised entity at the moment - if it was privatised and hived off into subsidiaries. It would be a pity for instance for the travel centre network to be unduly run down. It seems to me there will be issues of commercial assessment there, but I would have thought that a properly humming kind of travel centre network is a way of keeping the issue of country passenger rail in the public's mind, and I would have thought properly run would be remunerative. There have been some questions about some aspects of the travel centre network but, from the point of view of country rail users in the country, it would be rather alarming to see that network unnecessarily run down, but then of course it has to be commercially effective.

The other side of the coin to revenue generation is clearly containment of costs, so one would like to see on whatever basis it was run, corporatised or fully privatised, a proper attention to the operational requirements of rolling stock acquisition and maintenance staffing arrangements. All those would need to be addressed. I mean, we don't have a strong brief for private operation versus government operation, although I suppose I personally make the point that it is very fashionable to talk about government failure these days and to overlook the contribution which good management can make in the public sector, as well as in the private sector, but that is not really an FON - a Friends of the Northern Rail point of view. We're looking for a good rail service that provides a service in country areas where we think there is a strong and consistent demand for it, so that sort of issue of ownership - public versus private.

I would probably make the general point however that if it does go to private ownership there is such an interface between private and public interest in the rail service, as I think there probably is in the electricity service or the communications service, that if it does go significantly to private operation we need a good and well-constituted regulatory framework, and the crucial issue there, of course, is the rail access charge and the way in which operators can interact with the system, and my final point would be in relation to that. A crucial issue then is what the access charge means for access to rail, taking into account costs of road use alongside that, so the issue of road use and the cost of road use is not an irrelevant issue for a rail access corporation which requires some kind of regulatory umbrella, it seems to me.

PROF SCRAFTON: Thanks for that, Greg. I appreciate those comments because, in fact, some of the questions that I might have asked you to elaborate on from the written submission you have actually covered in your comments. It is a very wide range of issues, many of which are fundamental to the inquiry, and the extent to which we can make progress is going to be assisted by submissions and comments like you have just made - I mean particularly the issue of externalities and competitive neutrality between the modes.

MR SMITH: Yes.

PROF SCRAFTON: It is very important. It is something that while our terms of reference relate essentially to rail, you cannot ignore these broader issues in which the future of rail will have to thrive if it is to survive. From all of the topics which you have raised - might I just ask you first, in your professional capacity in the Department of Economics at the - is it the University of New England?

MR SMITH: Yes, it is.

PROF SCRAFTON: Do you do research of your own in the transport area?

MR SMITH: No. I must confess this is as much as I am doing. I have looked at industries like the coal industry, which obviously uses rail, but this is more of a little bit of a kind of social profile, gown and towns, sort of - - -

PROF SCRAFTON: That's excellent.

MR SMITH: But I mean it is just a case of the art of the possible. Certainly they're interesting areas and country areas have a perspective, yes, so maybe there is some hope in the future of doing a bit more.

PROF SCRAFTON: Because my recollection is that there have been members of the faculty of economics at the University of New England who, over the years, have been interested in transport economics and suddenly - if it is true the way you have described it, you have picked out some of the really important issues and, in the time left to us, I would just perhaps be able to pick up one or two of these. You mentioned when you talked about voucher systems - if I could concentrate initially on the section to do with the CSO obligation, which I think you presented very well.

MR SMITH: Yes.

PROF SCRAFTON: I have a few comments and a few questions. I was going to ask you what you meant by "a sensible fair structure", but you have actually described that, that there is potential, and you mentioned that it has already been highlighted by IPART that there is potential for revising the first structure somewhat, but it is very heavily dominated, as you pointed out, by concession riders at present.

MR SMITH: Yes.

PROF SCRAFTON: Changing the regular fare - if I could call it that - the regular adult fare would be more an element of potentially changing in effect the concession fares. If the concession fares were set as a percentage of the regular fare, that's where the impact would be, whereas a lot of people, as I understand it, actually travel on sort of free vouchers and so on, so the fare system would not influence that element of the travel, would it? They have - is it two free vouchers a year that people can use to travel by rail? I don't want to talk too long about it but it relates immediately to another of your comments about the use of voucher systems in general to deliver sort of user side subsidies, or user side government contributions rather than supplying them to the provider of a particular mode of transport.

The matters that you raise are very much interrelated, aren't they, and would require - a decision in one area would have immediate ramifications in another. If one was to get a sensible - to use your language - fare structure, it would have immediate implications for the level of reimbursements that come from the government to other concession fares. I don't know whether you want to comment on that. It is really as much an observation on the things you have said, but I mean I think it is - you mentioned, I think, that you felt that contestable travel vouchers - and these are my words, not yours - were almost inevitable, but they have been talked about for 20 years, to my knowledge, and certainly they haven't appeared yet because the governments use the reimbursement payments as much to prop up the supplier as they do in effect to give that concession to the needy, if I could just group everybody that gets them - students, the aged, whoever.

MR SMITH: Yes, that's a different tack to the one I took, and you're suggesting that the concession or reimbursement is in fact a subsidy to the supplier?

PROF SCRAFTON: I'm not sure that anyone who pays it would actually acknowledge that but I suspect that that is the reason or a reason why we don't get that - what you consider to be a fairly logical move - through a contestable voucher system.

MR SMITH: Yes.

PROF SCRAFTON: And we were talking here about, if you like, the over-the-rail or over-the-road suppliers, the bus operators and the railway operating companies, but it is certainly aware of beginning to equalise that supply and demand relationship. It does not take anything away from your bigger issue about the below track inequities, which we acknowledge are a very big part of our inquiry. The charges for use, for rail use, through access charges of road use through whatever - - -

MR SMITH: Yes.

PROF SCRAFTON: I have got one other comment to make: I was also surprised that when describing the accounts you mentioned that the supplier still regards these as being something of a subsidy. I was under the impression that most railway companies in Australia now regard the pensioner reimbursements as revenue and they're allowed to treat it as revenue in their accounts, but the way you described it is not the case in New South Wales.

MR SMITH: Well, then I defer to - I mean, that is a similar sort of point to the previous one, isn't it, but my main thing here was that there was quite a substantial report put out on the country link operation in New South Wales by the Independent Pricing and Regulatory Tribunal and we actually responded to that, and one of the things - I haven't got it here but I am going on tables, and they calculated various forms of cost recovery factor which did and did not or included part of the concessioner travel, but I got the impression that they - I don't know whether this is hard fact, but when I said 34 per cent in 1996-97, that was the cost recovery factor without counting the concessioner travel - it was counted as a subsidy.

PROF SCRAFTON: Right.

MR SMITH: So if you count it as revenue the cost recovery factor probably in that year was up to about 70 per cent or 68 per cent.

PROF SCRAFTON: Yes.

MR SMITH: There was an access charge as well.

PROF SCRAFTON: Yes. I guess my surprise was not so much at what you have said but the fact that the real operator continues to see it as subsidy rather than revenue. I think that is what surprised me. I thought it was the other way around but, be that as it may, I think your comments are very valid. The way that IPART actually reported it gives you the opportunity to dissect it whichever way you want. You can either see it as total cost to government, in which case the distinction between revenue or subsidy becomes somewhat less important and, at the same time from the operator's point of view, you can see it as total revenue when the difference between the 34 and the 68 does become important - - -

MR SMITH: Yes.

PROF SCRAFTON: - - - and the third way that you can actually look at it is to see it as the total cost of providing a service into a particular area in the way that you described your organisation being founded when the railway was taken away from - or that extension from - was it Tamworth to Armidale and Moree?

MR SMITH: Yes.

PROF SCRAFTON: And then as a result of this it came back on.

MR SMITH: Yes.

PROF SCRAFTON: You can see it as the sort of social cost to the community at large, if you like, which you also mentioned in a similar way.

MR SMITH: Yes.

PROF SCRAFTON: I understand that what I have just described to you - I should mention to you, I guess, Greg, that my home is in South Australia and apparently it is only in South Australia and Western Australia where it is clearly seen as revenue to the operator, and the distinction between cash phase, if you like, and reimbursement payments from the operator's point of view are not important. They regard that as revenue, in the way that you were talking about. So you're probably right, in the eastern states maybe they're still using - - -

MR SMITH: I could be somewhat over-interpreting what seemed to me to be the drift of the IPART report. It would seem to me surprising if we do move in the direction of further - you know, a variety of operators on the lines paying access charges and meeting their own operational requirements in, say, passenger and also in freight. It would seem to me surprising if the present system of tied grant to rail survived in that sense, but, having said that, I would in general terms want to defend - for people making a journey, an 8 or 9-hour journey - especially elderly people and students - this is a wonderful way to be able to move around the country.

PROF SCRAFTON: I've never been to Armidale by train, but I've been to Dubbo by rail, and you're quite right, it is a desirable way. We're tending to swap ideas here more than question and answer, but your comment about the fact that you would - I mean, the logic says one should move to a contestable voucher system, partly because you are getting more than one supplier. You've pointed out already that, you know, you've got the road and rail supplies, but you might well have more than one at a future date and so that would also tend to support your idea that if you were going to treat the network as a network, then about the only fair way to do it is to make them vouchers which are acceptable on any mode or on any carrier.

MR SMITH: I've tended to be pushing the idea that bus services could do most of what country passenger was doing, so the vouchers would have given more flexibility for people on concessional travel to use road, but I don't think that's the only way it could go.

PROF SCRAFTON: Yes. I appreciate that discussion and if you do have other thoughts on that, and even if I might ask you, Greg, that when the transcript comes out, because your introductory comments there were fairly extensive and certainly elaborated on the submission, if you wanted to just amplify any aspect of it, it would certainly be gratefully received by us, either in your professional capacity or in just your working for the Friends, as it were. You know, you had other thoughts, or in discussions with other people you clarified your own thoughts about it.

MR SMITH: Do we get a copy of the transcript?

PROF SCRAFTON: You can, I think. Yes, copies are made available to those who appear at the hearings, in order to ensure that you are correctly reported and also to allow you to - if there are clearer ways of expressing what you wanted to say. Just in the time available, I'd like to just talk a little bit about the externality side of the argument too because, again, this is a debate which has been around for a long time, but which is fundamental to the arguments about levelling the playing field between road and rail transport, and from various directions and in different capacities people have appeared before us and stressed this very strongly. In fact, people have pointed out that rather than the playing field being more level, it's amazing how short-term decisions - and the one currently quoted to us is the new tax reform - could in fact make it worse, simply because of the way that it deals with fuel.

MR SMITH: The diesel fuel.

PROF SCRAFTON: Yes, and the impact that has on competitive carriers. The fact that, particularly in the interstate road freight business, the margins are very tight as it is, what might otherwise be seen as a comparatively minor change in fuel costs could in fact impact on some rail carriers adversely, and this was brought out very strongly to us yesterday by National Rail, but others have mentioned it. The correct allocation of externality costs is obviously a key in this, and you quite rightly stated that in urban areas it's essentially the congestion costs, whereas in country areas it's essentially the roadway costs or the access charge, if you like, to the road infrastructure. But the imbalance is enormous, because of the way that the investments have been made over the past 20 years - maybe longer, but certainly for the last 20 years, and your comments are quite appropriate in drawing our attention to that and the interest that you apply to it.

MR SMITH: Can I just say in relation to that, rather briefly, I'm just going through some materials that I've managed to collect, and it's by no means comprehensive, but there was a publication by the Industry Commission in 1988, I'm pretty sure, called something like Public Rail Freight Services or something like that, and in that they did calculate the pavement costs of roads and some cost recovery categories, cost recovery type of calculations for various classes of road vehicle, including trucks with more than six axles and so on, and they clearly had the least cost recovery factor and so on, in fact, performed very poorly in relation to rail freight. But in that, also what they did was make some track record of the costs of road accidents in Australia, in that publication.

Now, I don't know whether there has been any follow-up on that, but in the issue of accidents and in the issue of energy use, which the previous speaker was talking about, it would seem to me perfectly feasible to get some fairly reasonable estimates of differences of magnitudes, of value magnitudes, in this area. Then you'd have a cost recovery factor of various modes of rail against various categories of road transport, which is a basic kind of framework and, on top of that, you'd be attributing externalities and you can presumably attribute those on an annual basis, and it seems to me that's the makings of a really worthwhile exercise in relation to all these issues which do get bandied around in Australia in various contexts. But it seems to me that the Productivity Commission is in a wonderful position to do something really constructive here and there would be work heading in that direction in the 1988 report.

PROF SCRAFTON: Yes. It's interesting you draw our attention to that. It was a report of the Inter-State Commission. You may remember that the Inter-State Commission was provided for in the constitution, but it has had a rather rugged existence. It was established initially and then wound down, I think around the 1920s, and then it was re-established, I think in the 1970s, and did some excellent work, but as often with organisations that do good work, the government didn't want to see the reply of. The Inter-State Commission was wound up again, I think around 1990 - I wouldn't want to be quoted on the dates - and that was one excellent piece of work. Some of that work that it has done had been picked up by the National Road Transport Commission in more recent years, but your comments are certainly well-taken and we will pick that up.

I'm particularly encouraged by your comment that maybe we, in the time that we've got available to us, shouldn't be looking necessarily for magic solutions, but trying to get some orders of magnitude, because there's no doubt that the competitive debate is largely driven by the - if one assumes that reforms above rail are taking place and whatever the strengths and weaknesses of them and the models that are used are, that if we say, "Well, you know, things are beginning to move there and the real problem is in the provision and cost of track, in the investment programs and the pricing structures that are used," and I promise not to delay you in this meeting and so I'd just like to make my very last comment. You've talked quite a bit about cost recovery and it is an important element.

In the passenger area certainly it's an appropriate expression, but in the freight area, one of the things that I think bedevilled the road-rail problem was the debate about cost recovery, whereas really we should be seeking efficient costs and efficient prices in order to allow that debate to be more economically or scientifically based than it is now. The search for cost recovery in road, for instance, I think because we had had many years of provision of the track at very low cost, immediately when people sought full cost recovery, the magnitude of the change required frightened politicians and decision-makers, whereas I think if one can demonstrate efficient costs, for rail and road, which then translate into the price structures, that maybe the debate will be better understood.

You're quite right, though, and I would acknowledge your contribution and that of the previous participant in drawing attention to the fact that the community does seem to be aware of some of these relative advantages and disadvantages, but its translation into policy is something which we should not be particularly proud of in Australia. It has been pointed out to us that, you know, this is about the fifth inquiry into land transport in the 1990s. It is in fact a pick-up on the stocktake on the 1991 Industry Commission report, but in between we have had a number of inquiries, the House of Representatives inquiry that has been mentioned, the National Transport Planning Task Force and some of the numbers are quite well understood, but converting that into policy reform is what is proving difficult, and perhaps in this inquiry we'll learn something from what is happening in rail reform above rail, and we've heard some encouraging discussions about what has gone on.

We've also heard some rather less encouraging stories about how long it takes, but if we want to achieve these reforms, we do need these sort of changes and the sort of things that you've made a contribution on now, so I thank you for that. I wondered if just before - we promise to let you go, but if there is anything else that you wanted to add before I close the hearing, I'd be happy to hear it.

MR SMITH: No, thank you very much. But I'd just say that efficient pricing structures are not only to do with levels of use and replacement of capital and so on, but they would take into account externalities.

PROF SCRAFTON: Right.

MR SMITH: So the more that story links into the investment pricing structure story, I think the better served Australian rail users and road users will be.

PROF SCRAFTON: Thanks very much for that. It's much appreciated. That concludes our hearings here in Sydney and we will adjourn until 11.15 on Wednesday, 4 November, when we'll appear in Brisbane. Thank you very much.

AT 1.10 PM THE INQUIRY WAS ADJOURNED UNTIL
WEDNESDAY, 4 NOVEMBER 1998

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