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PRODUCTIVITY COMMISSION

INQUIRY INTO ROAD AND RAIL INFRASTRUCTURE PRICING

MR G. BANKS, Presiding Commissioner
PROF. C WALSH, Associate Commissioner

TRANSCRIPT OF PROCEEDINGS

AT SYDNEY TUESDAY, 31 OCTOBER 2006, AT 11 AM

MR BANKS : Welcome, Ladies and Gentlemen, to the hearings here in Sydney for the Productivity Commission's inquiry into road and rail freight infrastructure pricing. I'm Gary Banks. I'm the Presiding Commissioner on the inquiry and Chairman of the Productivity Commission. To my left is Prof Cliff Walsh, who is the Associate Commissioner assigned to this inquiry.

As you may know, the inquiry had its genesis in the February 2006 meeting of COAG, and the Commission received terms of reference subsequently from the treasurer, responding to that COAG meeting, and requiring us, among other things, to report back to COAG by the end of the year.

As you also know, the task that we've been assigned has broadly three dimensions to it. One is focuses on competitive neutrality issues between road and rail. The second, focusing on the potential for new road pricing instruments, to enable more cost reflective and efficient pricing in relation to road infrastructure. The third is to ask us to look at a whole range of other non-price impediments to the efficiency of both road and rail.

The draft report that you have seen contains our preliminary findings and also raises a number of questions and issues for feedback from participants. The report was prepared following extensive discussions with a range of participants - over 70 submissions - and a couple of round-table discussions that we had in the course of the inquiry. The Commission is grateful for those who participated in each of those areas.

The public hearings, together with the submissions, are an important part of this process. They provide an opportunity for views to be put to the Commission and discussed in a public forum. For the record, I'd indicate that we do like to conduct the hearings in a reasonably informal matter, but I remind participants that a transcript is being taken and, for this reason, comments from the floor cannot be taken. But at the end of the day's proceedings I'll provide an opportunity for anyone who wishes to do so to make a brief presentation.

Participants are not required to take an oath, but are required under the Productivity Commission Act to be truthful in their remarks. Participants are welcome to comment on the issues raised in other submissions.

Following this hearing in Sydney, a hearing will be held in Canberra next week and then finally one in Melbourne. Transcripts will be made available to participants and will be available from the Commission's web site following the hearings, and copies may also be purchased using an order form available from staff here today.

To comply with the requirements of the Commonwealth occupational and health and safety legislation, I need to advise you that in the unlikely event of an emergency requiring the evacuation of this building, the exit is directly ahead of you or directly behind you, and if anybody needs any assistance, you can approach the Commission staff.

I would like to welcome Dr Phillip Laird to the hearings. Thank you for the various several submissions that you've made to this inquiry; indeed, submissions that you've made to other inquiries. So I look forward to having a discussion with you, but first give you the opportunity to raise all the points you want to make about our draft report.

DR LAIRD: Thank you, Mr Chairman. The policy issues relating to the inquiry present real challenges, and as you observed in a recent speech, any mechanism to raise either road freight rates or rail freight rates presents political backlash. But the thrust of my submission is that, as shown by emerging infrastructure issues, Australia is running out of time for soft options.

My main submission outlines the difficulties to government in leading reform and this challenging area of road pricing of heavy trucks, and also why, in my view, Australia as a nation needs to make more effort at this stage, in this area. But instead, this year we've seen the transport ministers back off in March from adopting what was a very benign third determination of charges for heavy vehicles and a generous Federal Budget in May, to both roads and road pricings, where the treasurer himself said, "Here's a 1.2 billion productivity boost to you guys."

The Commission's draft report appears, as I read it, to be saying that road pricing for heavy trucks is about right. Quite frankly, I just don't consider this supported by the evidence that's out there; overseas and in Australia.

Firstly, it presents a contest between competing interests, and to me, the public endorsement, so quickly, of a draft report by one of those interests, when that same party had strenuously objected to the third determination, raises questions.

Did we get the balance right? The first NRTC, National Road Transport Commission, the late Gordon Amadee, when announcing first generation charges in 1992, conceded that they would not be user pays.

In an article I'd like to table, "Recession puts truck plan off roads," from the Sydney Morning Herald, dated 13 April 1992, he explained why such prices would be untenable following a recession. What had been envisaged in 1990, in this first Special Premiers Conference, were intermediate charges that were to be determined by an overarching group of officials from state road authorities around Australia. These charges were supposed to be halfway between the Bureau of Transport and Communication Economics estimates, which said over 1.2 billion under recovery a year from articulated trucks, and the aggregate cost recovery of about 400 million a year. That was applied in the late 1980s.

This approach is outlined in a circular letter dated 4 September 1991, from the federal Minister for Land Transport, the Honourable Bob Brown. I'd like to table that too, please. Inter alia, he says, "Look, it will be users pay. There will be mass distance price options looked at, as well as zones for charging." Six axle articulated trucks - and I think he meant the heavier ones - would be paying about $8000 per year. Instead, as we know, the NRTC set $4000.

It was a remarkable political process, how we ended up with these uniform flat charges that an aggregate were basically revenue neutral to registration charges. The costs to the NRTC charges were up to $75 million per year to the New South Wales government, and I'll explain why in a minute.

One final thing I'd like to table is a letter, dated 2 July 1993, from the New South Wales Minister of Roads and New South Wales Minister for Transport to myself, saying that in essence New South Wales remains opposed to the introduction of these NRTC heavy vehicle charges. They don't reflect the cost recovery objective set by the Special Premiers Conference head of agreement, and they will deprive New South Wales of up to $75 million per year from reduced heavy vehicle registration charges.

Why do I emphasise this? It's simply because the second generation, albeit indexed, is basically the first generation charges. That's what we have today. This is what the New South Wales government felt of these NRTC charges.

MR BANKS: What was the date of that letter?

DR LAIRD: 2 July 1993. May I add that as per the submissions, it took a competition principles agreement tranche payment to bring New South Wales into line. It helped by a change of government in 95. They were one of the last to rollover and accept the flat charges .

Let's look at some of these charges. B-doubles for an eight axle; B-double in 1989 was $12,650. When it came in the NRTC charges were slashed, more than halved, to $5500 a year. Incidentally, if we put CPI to that New South Wales charge, it's now about 20,500 a year. If you go and look up the latest NRTC 2006 charges following the indexation, it $7426 for an eight axle B-double. In other words, those B-doubles, running around New South Wales roads, are paying about one third, in CPI terms, of what they were paying in the late 80s.

Is it any wonder that the number of these vehicles, and particularly the nine axle B-doubles, which cost you an extra $343 a year, are growing so fast, and one has to wonder whether we have too many B-doubles in the populous zone of Australia. They find their way into lightly constructed roads and the odd urban street or off the Pacific Highway or wherever.

So the precursor to your Commission had no doubt at all that these NRTC charges subsided the heavily loaded big trucks that haul long distances each year. That was made very clear in the industry commission report for 1992, that these changes would distort road, rail competition as rail reform took place. After 14 years from the formation of National Rail, I think we've reached the point where such competition is being distorted.

I can't prove how many per cent would be shifted. I haven't got those resources. But what you can see, you can see declining modal shares, and I suspect declining rail tonnages between Australia's largest cities, Sydney and Melbourne. In submissions, I refer to a New South Wales Legislative Council's committee report tabled May of this year, which very clearly shows the ramp up of B-doubles and on the Pacific Highway this year. The numbers they give say it wasn't all from the New England Highway, some of it was coming off the rail, as well as general economic growth.

What is a reasonable charge? Attribution of these costs for the articulated trucks. I think we've got three levels, Mr Chairman. We've got what I'd call low, which is NRTC. We've got intermediate.

MR BANKS: Sorry, are you now talking about the NTC?

DR LAIRD: Yes, NTC and NRTC. They're basically interchangeable when it comes to road pricing.

MR BANKS: I'm just trying to see whether you're talking about 1993 or 2006, that's all.

DR LAIRD: Well, I've got to go back very briefly because out there in the 80s, there's quite a bit of work done by the Inter-State Commission; for example, two very definitive reports, 1985 and 1986, that laid the groundwork for the NRTC. They were pitching towards what I'd call intermediate charges which the overarching group recommended and were tabled at the Special Premiers Conference, I think it was July 91. And then we've got the high end. And at the high end of charges we've got the BTCE 1998 estimate which you refer to the methodology in your report. We've got McDonell's methodology which was indirectly referred to in your report. That was the one that I drew on. And you've got the New Zealand Road User Charges. And in the 1980s all of those three levels calibrated - as high. So I think between low, intermediate and high, you know, we should - I'm not saying we should go for high, but I'm not saying we should go for low either.

So, to move on, please. It would be great if the resources of the Commission allowed your economists to actually apply the BTCE methodology using the Ramsey pricing to current NTC data. It would be great if you could not only publish the current New Zealand Road User Charges like the Inter-State Commission used to do 20 years ago, but apply those to NTC data and see what Australian trucks would be paying if they had to pay New Zealand charges. And that would all, I think, help to fill in the picture a bit better. So, just - so, that's the first concern.

Second concern of the draft report is the treatment of externalities. Air pollution - I think there should be a little bit of polluter pays in the equation somewhere, for rail as well as road. And one rail area pollution should be addressing is reducing the average age of our loco fleet - understood to be 32 years - and you can see some real dirty diesels around Melbourne.

But the main thing is safety. Although we know that articulated trucks are driven about 3 per cent of all vehicle kilometres, about one road fatality in 10 involves an articulated truck. But most of these fatalities are on roads with speed limits bigger than 80 K per hour, and on the National Highway System in New South Wales over 10 years of RTA data, one road fatality in three on the Hume Highway, for example, will involve an articulated truck. And I just can't believe that this is internalised to the trucking industry. I think there's a cross-subsidy there. And again, to flesh it out I think the Commission could very usefully go to a report prepared by Prof Michael Quinlan. He was commissioned in 2000 to conduct an inquiry for the New South Wales Motor Accidents Authority and I refer to that in more detail in the submission.

But my main concern with your draft report is that we have a rail system in Australia which varies from the best in the world like in the Pilbara iron ore railways, the Central Queensland coal haulage, and the interstate trains across the Nullarbor to Perth and back. But then we've got some of the worst in the world. And the track between Australia's three largest cities - your draft report refers to Engineers Australia's C-minus rating for some roads, but rail also has a C-minus rating which wasn't picked up in the draft - hopefully in the final, but their infrastructure report cards rated Melbourne, Sydney, Brisbane as F - failed - unfit for current purposes let alone future purposes.

Now, okay, we're spending $2 billion dollars to try and patch up these interstate main lines but at the end of the day we will have not straightened out one kilometre of steam age aligned track. That is a real impediment to efficient operations. It pushes the tonnage of the trains down, it makes the transit times uncompetitive with road, and until we address it we're going to see more and more trucks on the Hume and more and more trucks on the Pacific.

So, also, our grain lines, they are a national disgrace in three states: New South Wales, Victoria and South Australia. And Tasmania, no train on any track in Tasmania is allowed to go more than 60 kilometres an hour and - anywhere. Now, just imagine the whole of the Tasmanian road system with a cap - no-one is allowed to drive more than 60 K an hour, but that's what we've got on our rail system there. And then there's numerous permanent speed restrictions because of the tight radius curvature and even more temporary speed restrictions due to decaying wooden bridges or what - you name it, it's there. So what do we do? Do we close the thing down, give it away and put it all on the roads? I somehow don't think so when you count all the costs.

So you very correctly in your draft report, if I may say so, identify poor track as due to past under-investment over many decades. But surely some of the under-investment was due - we gave the interstate truckie three decades of no registration fee to run up and down the Hume. All of that - you know, it's documented in the first submission following Hughes and Vale. You know we had from 1974 to 2004 a massive revamping of the National Highway System, much of which was paid for by motorists running around in Sydney and Melbourne. So I think we need to articulate a way forward to somehow get public investment or private investment to fix up this rail network in the south-east corner of Australia where most people live.

And in this context draft finding 6.8 suggested it, as I read it, we shouldn't really take an external costs into account and project evaluation and it seems passing strange because that's what the Australian Transport Council National Guidelines say. But if we applied that to roads we wouldn't build anything except a toll road tomorrow because if you couldn't include external benefits into a road benefit cost analysis, as well as knocking out safety, you'd knock out travel time savings and you'd see a lovely benefit cost ratios of two and a half, three, or whatever, deflate to below one.

So, two other quick points. One is, I've referred to the New South Wales report on the Pacific Highway, which I'd commend to the inquiry. And the second is I really feel that we - like the AusLink corridor strategies, we really need to acknowledge that we may have a problem with oil supplies in the future, that we should be able to, if need be, flexible our funding of - I mean, if it turns out that - I think it was, what, $57 yesterday, this is just an aberration below $60 and after - as the northern winter bites it goes up and up and up. Then we really need, as a nation, to be taking advantage of the fact that rail for line haul interstate freight is about three times more energy efficient than roads - B-doubles or even B-triples might make that two and a half, and road pick-up and delivery blunts it a bit - but even two to one is worth having.

Also worth having is the option to electrify, like Queensland did it in the late

80s and now they save the best part of 200 million litres of diesel a year because they use Queensland coal to feed it into power stations to move - you know, to drive their locos to move coal for export. So, in conclusion , I don't envy the job that you have before you; I think there are demanding terms of reference. But the three main points are: please have another look at road pricing for heavy trucks; please look again at externalities; and please find a way forward, some how to get some more funding to build up rail capacity and strength, efficiency and competitiveness.

MR BANKS: Thank you very much. You've given us plenty to chew on there - as you always do, so we're grateful for that.

I guess, just in light of some of your initial comments, I should clarify a couple of things. One is, in case you were in any doubt about it, we approached this inquiry, as we always do, with an open mind. Indeed, if anything, I think the views that we had at the commencement of this probably accorded with your own in terms of the presumption that road charges are too low and that there is a relative subsidisation of road freight which is damaging rail. That was the presumption, I think, embodied in our terms of reference, and it's probably one that we shared. It's just that as we looked at it, took evidence, did our own analysis, we reached conclusions that were at variance with that.

But I should say that we didn't reach a conclusion that road pricing is about right. In fact, a large part of the report is really about how you could have a more cost-reflective pricing regime that would achieve more efficient outcomes in relation to road infrastructure, and we see that as very important going forward. One of the issues - one of the big parts of the report, actually, is looking at different institutional arrangements for achieving that.

What we did say is that under the current PAYGO regime, if you look at the highly-averaged approach, it is admittedly quite unsatisfactory. Nevertheless, the work that we'd done suggested that there was no compelling evidence that heavy trucks were being subsidised when you take into account the costs - or unit costs - of the roads they actually use, which, as you'd appreciate, on the major corridors, tend to be lower than the average network-wide costs.

This point has been missed by most commentators in the press who latch on to the fact that, for example, B-doubles were found by us not to be recovering their portion of the network-wide costs allocated to them by the NTC. Some studies that have been done more recently suggest that the roads B-doubles are predominantly travelling on - the major corridors - in fact are relatively low-unit cost roads. So that was a point I just wanted to clarify - we're not saying that everything is rosy in relation to road pricing or indeed rail pricing for that matter, and we do see that there would be significant gains to both modes from doing better.

I guess one general theme that kind of unites a lot of what you've been saying really is that there is a need for investment, particularly by government, I think, to achieve greater efficiency in relation to the rail network. I guess I'd just like to respond to the question as to why, if there are these significant efficiency gains to be had, we're not seeing investment occur. Why wouldn't the commercial operators see the value of doing some of the changes that you've been advocating, or do you see these as actually not achieving a commercial return but being warranted on non-efficiency grounds?

DR LAIRD: There's no doubt that Australia is conducting a giant experiment in rail privatisation, as is Britain - not successful, or as in Japan, I think very successful for passenger. New Zealand has also conducted an experiment and I think we can learn from New Zealand, where even with mass distance pricing, 10 years out from the privisation of New Zealand Rail, it was in trouble. And it seems that in New Zealand and to an extent in Victoria, under Freight Australia, you would get quite innovative business practice above rail but they tended to neglect or cost cut on below rail.

In the case of New Zealand it was solved by the government itself agreeing, if the company that owned it or subsequently bought it, namely Toll, was to hand back the track to the New Zealand government, and we seem to be going down this path for Tasmania and I add that I think it would be appropriate for Victoria. So when you vertically separate railways your above rail operator is often driven by short term financial imperatives. They want a return for shareholders - well, you know, they want to stay in business first of all and they want - if a large company, they want a good return for shareholders.

The investments that do improve efficiency, allowing for faster and heavier trains - setting aside the iron ore railways, and setting aside the coal railways where there's tens of millions of tons to make investment decisions easier, have tended to take place in Queensland for the freight. One exception, I guess, is the Alice Springs Darwin Railway, where you know, three governments between them were able to put up sufficient cash to interest the private sector, who went away and did its sums and then they found that more government cash was needed. So we got this long promised railway line finally built.

MR BANKS: Would you see that as a model for investment in rail, generally?

DR LAIRD: Yes, but what I see is that current NTC charges will act as a real deterrent in the populous zone for getting say, an inland route from Melbourne/Parkes to Brisbane hub. It basically comes back to this; if you go down the Hume Highway, I mean, most of it was a road with modest annual average daily traffic. You know, away from Sydney and Melbourne and away from the intermediate towns like Albury and Wagga Wagga. You know, it was a two-lane sealed road. It was poor alignment, which has been straightened out, it's 30 kilometres shorter than it was 35 years ago because it's been straightened out so much.

It was flood prone, so obviously, you know, it was good to elevate sections of it and improve the alignment, but look at the amount of dual carriageway that, in a normal situation without 3000 heavy trucks a night would have been, just two lanes with provision later for duals. Look at the number of extra climbing lanes, look at the current bypasses that were brought forward to allow people in Goulburn to get a decent night's sleep. I shouldn't have said Wagga Wagga by the way, it was on the wrong road. All of that had to be accounted, but look at the rail. I mean, here we are, as we speak today, the New South Wales and Victorian governments are still paying a debt incurred with the standardisation of Albury/Melbourne and they'll be paying that off until 2012.

So we're somehow expect, you know, including Alice Springs/Darwin - somehow, although they had lots of government money, but matched by the private sector, rail to pay its way but roads - well, and I think this is one of the troubles with PAYGO. You know, to lay down an inland route Melbourne/Parkes/Brisbane, and we know from the Ernst and Young study we need it by 2019. I think we need it by 2014, because when you look at Sydney's rail congestion, the most congested double track in the country is Hornsby/Broadmeadow. It can't take any more freight trains. You know, it's got passenger trains every half an hour off-peak during the day on this line. So if you want these long-term investments and rail I think there's very different - and you want it done by the private sector - it's very difficult when you're just charging marginal costs for roads and forgetting all these huge sunk costs. Like, from 74 to - 1974 when the Whitlam government brought in the National Highway System to 2004, if you add up every financial year and index it appropriately we've spent 5 billion on the Hume Highway.

MR BANKS: Have you added up the excise in that period and other--

MR LAIRD: That was in the publication. That can be forwarded. No, sorry, I added up the rail excise, which incidentally came to about 2 billion before it was finally stopped in the year 2000.

MR BANKS: What we have is the Australian Trucking Association, including in Brisbane yesterday, telling us that more money, more of the passenger taxpayers' money or the trucker's money should be brought back into road expenditure because only a fraction of the money that's collected from those using the roads is spent on the roads. How do you respond to that?

MR LAIRD: Well, very easily. As we did to - look, most of this fuel excise being generated is being generated by motorists running around our five mainland state capitals. Now, are the truckers suggesting that we should be using, you know, this fuel excise from the motorists in our state capitals to upgrade the National Highway System or - now the AusLink road - now the road park to the AusLink System. I mean, if they are, you know, that's pretty ambit I think.

MR WALSH: I think there is concern about the spending that goes on in and around the urban areas too, and state governments are even more exercised by the fact that, you know, the excise revenues aren't flowing back to them to enable them to maintain their urban road systems appropriately, or even the interurban. I wonder if I could just come back a little bit. Gary mentioned earlier that, if you look at the intercity highways the unit costs are actually - of use - are actually very low, I mean, obviously because they've been built for that purpose so the marginal damage costs are relatively low and even though the capital costs are high, the volume of use suggests that overall unit costs are pretty low.

So if you had an appropriate road charging system - that is, with location as well as mass distance - built in, it's quite likely that the articulateds would be charged less.

MR LAIRD: Yes, that point was well made by the former chief executive of the National Transport Commission.

MR WALSH: So, I mean, in that -

MR LAIRD: I think, that's the trouble with PAYGO. It's not even PAYGO, it's "pay as you went".

MR WALSH: From that perspective then, what's happening at the moment is, that in fact trucks are being over charged for using the corridors where they're competing with rail, in principle, I mean, we don't know for sure.

MR LAIRD: Two things are here. One is the road construction costs and if you regard, say, that 5 billion be put into the Hume from 1974 to 2004 as sunk, you don't have to worry about it. Then I can see how that on - if you had mass distance pricing only on the current maintenance and a little bit of enhancement of the Hume Highway, that you might end up with something low. So - and yet, if we want to privately fund a decent railway, you know, we've sunk it, because we've said, look, your competitor can have this you beaut one which 35 years ago was a basic two-lane road, flood prone, 100 kilometres of urban areas as it didn't go - bypass the towns, it went up through - linked all the towns and through them. It took a truck 15 hours in 1970 to drive Sydney to Melbourne. So if we have a system that says, look, you can have this you beaut road which has been 85 per cent reconstructed to modern engineering standards and we won't worry about the sunk cost.

MR BANKS: Well, it's not clear. I just say on that, you'll have to demonstrate to us that those so-called sunk costs have not been in part paid for by motorists, because I think that's precisely the point that is being made. Other work has been done recently and presented at a seminar in Canberra which suggests if you look at a rate of return on that whole capital outlay, then basically PAYGO is recovering those historic costs as well. So that is an important issue that you've addressed and we look forward to whatever you can tell us about that. But, I guess you have to look at both the expenditures and the revenues that have been gained from those roads over that period of time.

MR LAIRD: Gee, that would be a real good exercise for an honours student, Mr Chairman - over a year. I mean, I'd have to get all the truck traffic over 35 years, their charging - - -

MR BANKS: But all I'm saying to you - I'm not asking you to calculate it, I'm just asking you to acknowledge that there are two sides to the equation.

MR LAIRD: Agreed. But I just feel we need a bit more balance. I mean, the bottom line is - I mean, you've got these rail systems linking our three largest cities which increasingly can't cope. The market is telling them that it's not what we want, you know, because the transit times are too high, the reliability is too low. And, sure, we'll patch up, we'll spend - because of so much under-investment it's going to cost the best part of 2 billion to fix it up. We'll be doing things like replacing - as we speak an 1880 bridge over the Murrumbidgee River at Wagga Wagga is being replaced.

We're yet to start replacing the electric staff system between Casino and Acacia Ridge near Brisbane, which was put there with gauge standardisation in the late 20s. And we worked out for the Queensland Transport the cost of stopping a train each time they come to one of these crossing loops. Even today, the train has to stop, the second person has to get out with this bar of metal, put it in the machine, press buttons and take out the next staff. Then if you work out the costs to the - it was about $106 per train five years ago, but that was worked out for Queensland Transport.

Even when we concrete sleeper the whole lot we're left with, on the main south line, something that is 60 kilometres longer than it should be, where trains going from Sydney to Melbourne traverse 36 circles going to the left and then 36 to the right. Going from Sydney to Brisbane they traverse 88 going one way and 88 the other way, reflecting its status as a string of branch lines.

If we leave it like that, even though we concrete sleeper the lot, and bring the signalling and the bridges up to 20th century standard, we are still left with something which is substandard, circuitous, and will not allow any freight train, unless it's got huge locomotives and just a few wagons, like an XPT, any chance of competing with trucks only paying marginal costs - what I submit, are marginal costs - to access a you beaut Hume Highway, which in three years time will be dual carriageway, except for about 20 K, and by 2012, it will be duals all the way - why not have B-triples? By 2016, we will get Sydney, Brisbane hopefully a dual carriageway.

How do you get the investment in to bring up the track to something fit for standard. To me, that's the overriding question, and I guess what I'm saying is we don't do it by subsidising trucks.

PROF WALSH: AusLink was quite explicitly established to include the potential for new investment in rail. Do you think that that isn't an appropriate sort of framework within which to make these sorts of decisions now?

DR LAIRD: I think AusLink is an excellent first start. It's far better than what we had before, but it's only a start. We have to - you know, to quote a Financial Review editorial in August two or three years ago, it's in the submissions, the investment community would give two cheers for it, but the real three cheers would be for good road cost recovery, but as the editor wrote, they know that - the federal and the state politicians know that they virtually have to blockade their parliaments in order to bring it in.

MR BANKS: We've demonstrated since that editorial that there is cost recovery at least at the aggregate level and the big fight is about which corridor is competing with rail and to what extent you're getting cost recovery for different classes of vehicle.

DR LAIRD: Yes, look, I know it's not black and white. I don't want to paint it that way, but as I see all that work done by the Inter-State Commission during the 80s, you know, again it comes to this idea, you've got no intermediate and high charges, and I think we are on the low end. I think also our discussion today brings up, I think, the limitations of PAYGO. I mean can you put rail on PAYGO?

MR BANKS: Sorry?

DR LAIRD: Can you put a decent rail system on PAYGO?

MR BANKS: I'm not sure that people would be prepared to pay as they went. I mean I think that's the problem, you see, that you've got. One of the advantages of road that you have alluded to which trucks have is that they share the road with cars, and indeed while you might get variations in the proportions on different routes, basically 80 per cent of the traffic on our national road network is cars not trucks, and that's an inherent advantage that trucks have over rail which needs to be taken into account. So clearly the cars need to be sharing the costs proportionately, and that is an inherent advantage, you see, apart from the other additional advantages of road, which are flexibility and the service characteristics of road.

DR LAIRD: I should also say that elsewhere I've argued that it's not just the trucks that are under-recovering. I mean there are a lot of motorists underpaying all of the external costs. I mean you take air pollution in this town alone, this city of Sydney, estimated by the BTRE only as recently as last year to be costing a billion a year. At the end of the day that's coming out of the health budget, pensions, goodness knows what, and surely this is, I think, a reasonable charge on a fuel excise.

PROF WALSH: There are a couple of points about that. I mean one is that the sources of the air pollution are highly mixed, aren't they?

DR LAIRD: Yes.

PROF WALSH: Heavy vehicles may be a relatively small proportion given that they're a relatively small share of the traffic. The other thing is - and I think it comes to your query about draft finding 6.8 which we may not have made as transparent as it should be, but what we were really saying - and I think we say it perhaps a bit more clearly in another finding - is that applying a uniform charge on all vehicles to account for air pollution in cities doesn't seem to be a particularly efficient way of dealing with it. In fact, if what you did was calculate the total amount of air pollution generated by trucks, divide it by, say, the net tonne kilometres and added that to road user charges, what you'd actually be doing is overcharging trucks when they're going through the rural areas where it's less of a problem and still undercharging them in the urban areas where they're making a bigger contribution.

So what we were trying to say, was its much better to go right to the source point where it's occurring, try and get some pricing right at that point to the extent that we can, rather than using relatively inefficient instruments like adding an average charge on top of the road user charge itself.

DR LAIRD: I think it's good to target the vehicles themselves and any incentives to clean them up, locomotives as well as trucks, is a good thing.

PROF WALSH: And there are indeed new engine standards and so on. I mean they're bearing quite a large cost in order to meet those new standards.

DR LAIRD: But at the end of the day I think rural roads are, simplistically, subsidised by the people living in the five mainland state capitals plus Canberra, so you get a - I mean if the roads had to pay their way, they would now be - if the rural roads were on a stand-alone basis, they would now be looking like the branch lines of New South Wales, Victoria and South Australia, so they are getting cross-subsidised from the city. All I'm saying is that these externalities are not zero. They come from cars. They come from trains as well as trucks. It would just be nice to have a little bit of polluter pays in the system. The money generated applied to - we've got this huge infrastructure backlog in this country, road and rail.

Let's generate some extra funds - and goodness knows as the cost of getting work done in the construction industry rises we will need more and more funds, let's put a - not zero but a low value for externalities and push the funding back into better infrastructure, and there's many an investment in roads, for example, that - where is it - where Victoria Street meets Darling Street in Balmain. If you go up Kings Cross, William Street, years ago they put a tunnel below a main road. Brilliant. Why haven't we done that out there yet? There's just so much infrastructure deficiencies and I think at the end of the day, you know, a politician who says, "We can't put freight rates up, road or rail, because people won't like it," well, you know, maybe we should be dampening our consumption of material goods just a little bit in order to have more infrastructure because we have let our infrastructure get to the point where we need a Prime Minister's taskforce like last year to say, you know - but as you look at those rail systems linking our three largest cities, there's got to be a way forward to putting it.

I mean put it this way, if you keep on charging trucks like they are and you don't put more public - okay, come out and say, "Okay, these things are subsidised so we'll need more subsidies into rail," but - so, you know, again in summary I hope the extra references I've given you will be of some assistance to yourself and your staff. I hope that the draft report can address some of my concerns.

MR BANKS: Certainly that's what this process is about and we appreciate your diligence and your passion in advocating your point of view and we'll certainly take all of that into account including the documents you've tabled today, and you've ended on a note of infrastructure and our next participants will want to talk a bit more about that, so thank you very much. We'll just break for a few minutes.

MR BANKS: Our next participant is the Australian Council for Infrastructure Development Limited. Welcome to the hearings. Could I ask you, please, to give your names and the capacity in which you're here today.

MR JUDD: I'm Bruce Judd, here in the capacity of the Chairman of the transport group in the AusCID organisation.

MR BANKS: Thank you.

MS REYNOLDS: Jane Reynolds, formal association is primary sources active in the capacity of adviser to the Transport Working Group.

MR BANKS: Good. Well, thank you very much for attending today, and I should thank AusCID for also providing a very useful submission earlier in the proceedings. But as we discussed, I'll give you the opportunity to raise any points you'd like to make.

MR JUDD: Thank you. Well, first of all, just one little brief background of the AusCID group. It was a group that's involved in development of infrastructure. It was formed in 1993, and it has members in it who are companies in owning the infrastructure, the operating of it, the building of it, the financing. We have legal firms in there as well, and the advisory services that are all associated with putting together private sector funded projects. Today happens to be the second-last day that the group formally will be around in the way that it has been, because it's now merging with the group of IPA, which is Infrastructure Partnerships of Australia, which is another group, and the AusCID group and that group are merging, and that formally happens in two days time. So tomorrow is our last day in this role. Sorry, it's not my last day in this role. In the new merge group the transportation group that the AusCID group has I believe will continue on.

MR BANKS: And the name of the new group?

MR JUDD: The name of the new group is IPA, Infrastructure Partnerships Australia/AusCID.

MR BANKS: Okay. I thought we were getting a simpler acronym.

MR JUDD: No, no. Look, one has horrible thoughts as to which way that may go; but, anyway. Now, as far as this draft report is concerned, which we're very very impressed with, we've had a whole team of people who have been involved in looking through it. But I must admit that the report is quite large, and the amount of time that we could all spend upon it was somewhat restricted. But the recommendations in it are things that the AusCID group really strongly supports, and the whole theme that was coming through here was a more commercial approach to priorities in the way that freight and the infrastructure world was handled, and that's what we like to think that we're involved with all the time. So the thrust of that, and all the different models that you've shown in here, were all things that we play around with, and we thought that that was excellent.

The other area that we find most important from the private sector side is the transparency. Now some people may think that the private sector doesn't want things to be transparent. Well, I assure you that we do. We would much prefer projects to be absolutely transparent from both sides. When one party tries to somewhat restrict the knowledge behind a contract et cetera et cetera that can cause embarrassment and confusion, and transparency is something that we absolutely support, and that theme comes through in your report.

From the transparency side, we think that the way this project link your project, your report, actually links in with the priorities of the way AusLink was done. Most impressed in that as well. So AusLink was something that our group was pleased with, and I believe that's exactly the way that we view this report as well. And for transparency, the allocations of government funds, if that is possible to be transparent we certainly appreciate that as well.

The area that I don't think was as strong as this as we would like it to be is the way you identify or you may attempt to identify projects that are suited for the private sector involvement. We would like that, if somehow, if that could be stronger, and maybe there's a few words in there, in this general area, Jane, that you might like to be involved in.

MS REYNOLDS: Sure. I guess in terms of general transparency links to a point a little bit later down the dot points that we've indicated is also the role of the private sector. In your discussion paper it's in - raised quite late in the institutional areas, and given that this is intended really to look at things at a national level, Commonwealth level, federal level, it's been requested by, of course, COAG in the original stages. But there are lots of areas at state level that are far further advanced in the private sector role in infrastructure delivery than has been considered in this document, or even identified in this document. That's not unusual, because that's also the case in AusLink. That's also the case in the infrastructure guidelines that you refer to.

The types of things that I would identify are things like Partnerships Victoria. The extensive work that has gone into developing the guidelines as to where private sector should be involved, under what circumstances, at what stage of the project delivery, what are considered policy decisions versus project decisions, all of that sort of work. Now, one of the concerns that the AusCID working group has had is actually consistency at this level and in the assessment processes that are necessary with the guidelines - and I'll put a caveat there. We're certainly supportive of the guidelines and the processes of the guidelines.

But as this discussion paper actually raises itself, however it is yet to be seen how effective the AusLink processes will prove to be in practice. And I understand that those guidelines are also being redrafted. How the private sector will be involved in that, and how those assessment processes will be involved is yet to be seen. So I'll restate; very supportive of the general director of the guidelines and where it's hoping to go in its transparency in assessment of policy priorities and project assessment. On a mode-neutral basis, how does the private sector fit in with that.

Another point on that is just the guidelines and AusLink is transport infrastructure focused, and there are very appropriate reasons for that. The private sector involvement is typically undertaken by Treasury departments, and Treasury departments typically at state level, as the state governments have been the primary investors in infrastructure, the delivery of infrastructure. So the comment generally that we'd make is that transparency, but consistency also, between those various assessment projects which have implications later on.

MR JUDD: One more point in there as well. This is back to detail almost. But the transparency of the public sector comparator; that's an area that we find is never as well defined as we would like it to be. It would be advantageous, I think, for all parties if that was known up front.

MR BANKS: The methodology, you mean, for that or the figure?

MR JUDD: The methodology and the actual figure.

MR BANKS: Okay.

MR JUDD: The actual figure, because you know something that you're aiming at then. You'll still get the competition. Like, the competition is still there. Like, the company that I'm involved with versus the other companies out there will compete neck and neck. Like, they're just at each other's throats. So by us knowing the comparative beforehand will not in any way detract from what the most efficient and best price that one would get for the project. I think sometimes people think when the target is - if there's a target there that you know what you're aiming at. Therefore, the price, it might be a little bit too high. But the reality is, I'm positive that's not the way the world works.

There's a comment that we have here on post-project accountability. When a project, whoever develops it, we'd like to see real transparency in how the project has been assessed after it's been established.

MR BANKS: Just your point about the comparator, is that information made available at any point? Is it made available ex-post?

MR JUDD: It's in different areas, in different states, it's different, and I must say I've lost track as to exactly where it is in each state, but I know it's always a talking point that people would very much like to know the comparator. But also, if the state believes it can do it for that price they should be held to do it and accountable for it.

MR BANKS: That's right. Sorry, you've been referring to dot points. I'm not sure that we have those, do we?

MS REYNOLDS: We sent through a brief agenda. We haven't sent through our commentary and the detail of that - - -

MR BANKS: Right.

MS REYNOLDS: - - - with the intention that we would put together a further submission supporting these views.

MR BANKS: Okay.

MR JUDD: In - I think it was in section 9, there's a National Road Fund. Sorry, it's also referred to in section 8; the National Road Fund. The concept of that is something that we quite like, but I think we're almost as confused as the report is in the way that that can actually happen. But the concept of having it we believe is good. There's a great deal in the report about having absolute at arms-length funds going to say this National Roads Fund et cetera in a funny sort of a way - and people can debate this at great length, what I'm about to say. But I was associated up until 14 years ago with the RTA for many many years, and the reality is that their funds - and I think it's still the case - are almost predictable each year how much comes through as to how much they spend.

So if they have a dedicated funding regime or not the reality is, I think, most state departments do get that anyway. But there might be people around who would debate that at length. But the reality is, they almost have a known consistent total amount of funds. The big debate in the department is a ratio of moneys being spent on capital expenditure versus maintenance, of course, and over the years maintenance has - like, it's picked up a fair bit now, and maintenance is a wonderful area to privatise. They're areas where the state still keeps control, and if one wanted efficiencies in all of these areas the privatisation of the extended periods of maintenance is absolutely an excellent way to go, and I think that's proven.

PROF WALSH: I think on your point about the RTA being reasonably clear about what it's going to get, I think it is actually in a sense unique in Australian context. Other states do have a form of road fund, a highways-like fund I think it's called in South Australia; not all of them but some of them. The difference is that the RTA doesn't need Treasury approval, whereas in South Australia, say, actual spending is subject to Treasury approval, I think. In some other states they'll say - and it's probably true - that all of the revenues that they're getting from rego and fees for heavy vehicles is effectively put into the roads budget, but it isn't a road fund in the sense of being guaranteed and dedicated.

MR JUDD: Exactly right. But while that all is happening - and I agree with all that you've just said - the reality in all of that, though, is that they seem to spend about the same amount each year, if I can be as straightforward as that. In New South Wales, for example, when they say the three-for-three fund started up - that's going back many years now, it's now about the eight-for-eight, I think, or whatever it is - the percentage is much much higher. Then that's become a little bit muddy, hasn't it? The money goes to other areas. I think it funds ferries and all sorts of things now, which is - so the purity of why it started may be slightly lost.

Look, to get back to, briefly, on your report. The technology side is mentioned as well, and we absolutely support the technology for tracking vehicles, particularly freight, in - the database that you get from that, the information that you get from that is just the - is excellent, it's exactly what's needed for a real pricing regime. So technology in GPS coupled with knowing exactly what's on different trucks, for example, and knowing exactly what's moving around, all that data being correctly handled we believe is what any authority requires to come up with the correct pricing regime.

At one stage it talks about the public utility model, and it talks about lots of models, and there's a variety of them. But it insinuates, I think, that the public utility model isn't really happening, hasn't happened here in Australia. I've been somewhat associated with the Gateway Bridge, the Gateway project, and while I read through your report I would have thought the way the Gateway project worked is the public utility model. But maybe I - - -

MR BANKS: Could you talk a little bit about it, if you could.

MR JUDD: Well, sorry, this was a bridge that was built up in Brisbane. It was opened in, what, about 1986, and the length of road up there, and it's a government-owned corporation. There's one share, and that resides with the Director-General of Transport and Commissioner for Main Roads, whoever they are up in Brisbane, and there's a toll, there's a toll on the roadway, and that's exactly how it works. I would have thought it was what I've read in your public utility model, and they have recently in Queensland decided to greatly expand that project, and it's all been expanded within that authority. So the funding of it, everything.

MR BANKS: It sets its own charges?

MR JUDD: It sets its own charge. Well, it does it in conjunction with the Treasury in Queensland, of course. But it sets the toll, and I would have thought the way that operates is pretty similar to what your public utility model is and also in the report it gives examples of privately funded projects, the history of these in New South Wales anyway. One of the earlier ones was the Sydney Harbour Tunnel, and I think it implies in that because there's a government traffic risk guarantee in the funding of the Sydney Harbour Tunnel, which I happen to know exceptionally well because I was involved with the project, and there may be lots of faults with these jobs, however, I happen to believe that the way that the guarantee of the traffic numbers on that project, which are arrived at by the RTA, which had a growth rate I'm sure was 1 per cent, and we all knew it was going to be much more than that, the blue sky - and I'm almost speaking against my kindred friends in the financing world, but the blue sky in that project was clearly owned by the state.

So the traffic numbers are now considerably higher than what that model first anticipated, and that was understood and known by people at the RTA in those days, so that was not a mistake, and the state has done very, very well from it. So I think in looking at the whole variety of models the state does have control over the network. I think when the state gives away - sells rights and controls to others for what can impact the network I think is very dangerous, and it just so happens that I think the Sydney Harbour Tunnel model is something that shouldn't be forgotten.

MR BANKS: I was just going to ask a question because it related to a conversation earlier. You clearly support the use of technology, and we were asked in our terms of reference to look at that, and while we've seen that - the way we put it there's probably not an off-the-shelf solution that's fit for every purpose, but you can see technology moving in the right direction and indeed GPS and other satellite based technologies proceeding apace, so in the longer term you can assume that technology will provide the means to do not only distance charging but location based charging as well.

I guess the issue for us was the institutional arrangements in which that would best fit because once you move from the current regime through the excise and rego charges to direct charging you're suddenly confronted with all sorts of issues to do with our federation apart from other things but - I don't know, Jane, whether you wanted to make any comment on that.

MS REYNOLDS: Other than to agree with you. Yes - I mean I caveat this with this is not necessarily an issue directly relevant to AusLink, more of a personal comment I guess given my interest in transport policy and institutional structures and the way our federation works. Anything that we have that we call national in Australia is obviously a negotiated national outcome, and that relates very much to recommendation; whether it be recommendations of how we run a national road fund, whether it's even feasible, whether we can get agreements to it, what it does, what are its objectives intended to be, also how its decision-making would arise.

Technology will provide the opportunity for anyone making these decisions with increasing information to tie demand to supply. That may be considered a threat to some who are presently making those decisions. Whether that's appropriate is a question of the politics versus the policy. On a policy side certainly strongly support the use of technology appropriately implemented considering the costs, who bears the costs of implementing that technology when it's often going to be used for a policy decision-making purpose. So all of those sorts of considerations need to be brought out. Again, it's a question of transparency though in a national approach. How do we bring together all of the work that's being included in Victoria or New South Wales or at a national level?

AusLink seems to be increasing in its priority for setting transport priorities. It seems to have come out of the cold over quite a number of years for an improved national approach to many of the policy areas we have. Our constitutions, multiple, don't support that, so how do we play it out now? National Road Fund? How will the priorities be set for a national road fund? Will they come out of AusLink? That might seem to be an appropriate base. That's where a lot of the work is being done. But if that's to be the case, those priorities need to be openly transparently known.

Then who makes the decisions relating to the assignment of any funds that are available with those priorities because if the decision - or the organisation running the National Road Fund, if it is to occur, if it works out that the organisation takes back a set of recommendations to a COAG - an Australian Transport Council, the various jurisdictions, I think that is probably inconsistent with the transparency, particularly as many of these organisations which are coming up are negotiated. There are not institutional structures that support them. There are no formal consultation processes certainly from non-government stakeholders' perspective to be able to engage with them.

PROF WALSH: Hopefully we'd make reasonably clear that we think that a road fund model must really have independence of the decisions that are going to be made. You might get input from AusLink at the Commonwealth level and from state road authorities and so on, valuations, but then the ultimate decision in principle should be made by the board - an independent board - within the fund. That goes to an extent to your point about, politics versus policy because that will seem a little threatening to some, but in principle it - I might be wrong, it seems to me that governments would still have the capacity, if they want to, to put more money into the system to get something built that wouldn't get brought into this set of priorities, so we'd have the core being decided in a relatively independent and rational and transparent way, but then with the capacity for governments to buy, CSOs or whatever it might be that warrants the buying. Does that sound - - -

MR JUDD: Yes - I'm sorry, the short answer is yes. There will always be the politics involved in this and people who believe there can be a pure or improper thing that's happening there that's devoid of politics I think is deluding themselves, but the bulk of it run in exactly the way that you've said is an area that we see could really work well.

MR BANKS: I think again it's been said it's a matter of getting a higher level agreement about how you structure it and what the overarching principles are that the independent board would then have reference to in making day-to-day decisions.

MR JUDD: You have to be a little bit careful with how stringent you are with what the rules are that this body has to work to because you have to allow it flexibility as well. Like, on one hand you want it to have real guidelines, it has to work to be accountable to et cetera et cetera, but in the real world there are areas that need a little bit of flexibility, discretion, so I'd suggest that that be slotted into the model as well.

PROF WALSH: Can you explain that a little? Can you give an example?

MR JUDD: There'll be areas where - I'll take an extremely simple example. Take the Pacific Highway, for example, Pacific Highway. There could be a very emotional bus accident where many people are killed, for example, which may put it out of proportion that it really warranting those funds immediately, but clearly the politics of it and the sensible application of the funds could be to bring certain areas forward to suit black spots.

PROF WALSH: That's just where I was thinking, maybe, it would be possible for governments to top up and say "Okay, we're willing to pay for that project, even though according to your current cost benefit rankings," or whatever, it wouldn't come to the top of the list - just as a suggestion. In New Zealand, for example, they've had a model like this for a long time with a genuinely independent board but the government made the decision that Auckland's traffic problems are so large that it wants to put additional money in there and it's done precisely that, without perverting the decision making for the rest of the system, I think.

MS REYNOLDS: How does that work, though, with a third level of government that we have in Australia, that New Zealand doesn't have? It is a terrific system in that sense but for instance, if you look at the North Coast, there, Mr Beattie, I think at some point made the statement that he was willing to change the borders of Queensland in order to get that area of road built. Now, I think it would be difficult to see that he had any intention or any view that that was going to occur, but it's a statement made in a media release. So there are games that are at play. Why hasn't AusLink funded and prioritised that area? It's open to speculation that it may be one of those areas of the complications of boundaries.

MR JUDD: The topping up of these areas - though that could be an area where the private sector could be involved as well, for something to be brought on stream faster than what was originally planned. That's something that your report could consider for the private sector to be involved in, in financing and topping up.

MS REYNOLDS: On that point, can I suggest that certainly at Commonwealth level, certainly if I use the term national level, I don't think there's any clear understanding or articulation of what the private sector should be used for, on what projects, and when. AusLink, if my memory serves me correctly, the white paper itself raises, I think in three discrete paragraphs that the use of the private sector should be encouraged, and that's the level of detail. The guidelines itself, I think it's section - it's a very small section relative to the overall guidelines but again, it's very basic information that really is quite well known at a general level but doesn't get into the detail of when those decisions should be made, how we might bring the private sector involved.

Issues of intellectual property I don't think are well understood within these particular policy frameworks, simply because there is no direction at the moment as to how they might be handled. I think there's various assumptions, probably incorrectly placed, that the private sector will just bring together proposals to us as decision makers. To put together those proposals can cost in the order of millions of dollars and then you add the uncertainty of being - handing over the decision entirely to other organisations, as to whether they might proceed or not, or a further risk; if it's decided that it's a really good idea then we'll take it to tender.

So the intellectual property is lost or has a very high potential to be lost. How do you deal with those sorts of issues? I think - I certainly don't have a solution to that, but I think there needs to be an open discussion about what the private sector should be used for, in what instances.

PROF WALSH: I wonder if the decisions about when and where the private sector operates presumably reside at state levels and I mean, they act as the agency of the Commonwealth to deliver whatever projects are being funded under the AusLink system, the AusLink network. So individual states, wouldn't they be the people who make those sorts of- - -

MS REYNOLDS: There you have a corporate knowledge issue and that's the consistency between jurisdictions, because the guidelines, AusLink, the bilateral agreements, all of these directions are handled at the transport infrastructure area. The guidelines, the working with government in New South Wales partnerships - Victoria, is all handled at Treasury level.

So if you put together the guidelines as they have been, with an assumption that it's going to be a pure policy assessment, if you don't have the corporate knowledge and understanding of these other policy areas and guidelines existing, it's not necessarily the stated assessment but it sets the assumptions under which you make the assessment and that can severely hinder the use of the private sector, which is a clearly stated government objective, but there's no detail on how or why or when. So I think those sorts of statements need to be clearly understood.

MR BANKS: Were there any further points to make?

MS REYNOLDS: No.

MR BANKS: If you don't have any further questions, then thank you for taking the time. We've found that very useful and we look forward to seeing the write-up of your response to the discussion draft.

MS REYNOLDS: Certainly.

MR BANKS: Thanks very much.

MS REYNOLDS: Thank you.

MR BANKS: I would just ask for the record if there's anyone else who wants to appear this morning. There being no-one I will conclude today's proceedings. We're resuming in Canberra next Monday, Monday morning. So with that, I adjourn today. Thank you very much.

THE INQUIRY WAS ADJOURNED ACCORDINGLY