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**HOUSE OF
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STANDING COMMITTEE ON TRANSPORT AND REGIONAL
SERVICES

Reference: Transport networks inquiry

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HOUSE OF REPRESENTATIVES
STANDING COMMITTEE ON TRANSPORT AND REGIONAL SERVICES

Wednesday, 6 September 2006

Members: Mr Neville (*Chair*), Mr Gibbons (*Deputy Chair*), Ms Bird, Mr Haase, Ms Hall, Dr Jensen, Mr McArthur, Mr Richardson, Mr Ripoll and Mr Schultz

Members in attendance: Ms Bird, Mr Gibbons, Mr Haase, Dr Jensen, Mr McArthur, Mr Neville and Mr Schultz

Terms of reference for the inquiry:

To inquire into and report on:

- the role of Australia's regional arterial road and rail network in the national freight transport task;
- the relationship and co-ordination between Australia's road and rail networks and their connectivity to ports;
- policies and measures required to assist in achieving greater efficiency in the Australian transport network, with particular reference to:
 - land transport access to ports;
 - capacity and operation of major ports;
 - movement of bulk export commodities, such as grain and coal;
 - the role of intermodal freight hubs in regional areas;
 - opportunities to achieve greater efficiency in the use of existing infrastructure; and
 - possible advantages from the use of intelligent tracking technology;
- the role of the three levels of Government and the private sector in providing and maintaining the regional transport network.

WITNESSES

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Committee met at 9.25 am**MARCHANT, Mr David William, Chief Executive Officer, Australian Rail Track Corporation**

CHAIR (Mr Neville)—I declare open this public meeting of the House of Representatives Standing Committee on Transport and Regional Services in its inquiry into the integration of regional rail and road networks and their interface with the ports. The committee is examining the capacity of regional transport networks to meet the challenge of Australia's growing freight task. This is the 28th hearing of an extensive program conducted by the committee over the past year. It is seeking information from a wide selection of organisations and individuals about the current road, rail and port operations around Australia, their supporting infrastructure and the prospects for improving the efficiency of transport networks.

Today the committee will hear from the Australian Rail Track Corporation for the second time in the course of this inquiry. It will also hear from representatives of the proposed southern distribution business park project at Goulburn. I welcome our first witness, representing the Australian Rail Track Corporation. Although the committee does not require you to give evidence on oath today, I should advise you that these hearings are formal proceedings of the parliament and consequently they warrant the same respect as proceedings of the House itself. It is customary to remind witnesses that the giving of false or misleading evidence is a serious matter and may be considered contempt of the parliament. Having said that, you are most welcome. Would you like to give us a five- to seven-minute opening overview of your submission?

Mr Marchant—I think you have the tabled copy of that presentation that I forwarded to the secretary of the committee a few days ago. The committee is aware that we made a written submission on 23 May 2005 and a presentation to the committee in March 2006. Today we have forwarded a presentation in advance of the evidence to give some background to the next stage of that which focuses around your terms of reference. The first stage deals with the current rail and port connection projects in Australia. It touches on four major projects that are underway.

First is the Le Fevre Peninsula transport corridor in South Australia, which is both a road and rail connection to the port of Adelaide. Basically it goes through the progress of that investment, which effectively is a joint investment of the Australian government and the state of South Australia. Included within that is a \$24 million land based transport development to complement the port development. I present that on the basis that, as the terms of reference deal with road, rail and port connections, I try to give some summary update of some of the things that are happening in Australia again. In this case rail improvements will result in an increase of 22 train movements per day—an increase of 12 per day for the current train movements, which will result in a significant increase of access to the port of Adelaide for both grain, minerals and other goods and transport.

The second framework we touch on is Melbourne Ports. In the last month the state of Victoria has issued the Melbourne port strategy, which is an extensive strategy with regard to the options in Melbourne for improvements to the precincts of the port and to the other holding areas around the port. It is an extensive program which is aimed to back the Victorian government's objective in increasing rail as a percentage of port movements to 30 percent by 2010. That study,

as I have outlined, includes a range of enhancements or improvements in slide four to the ingress and egress to the port of Melbourne.

As the committee would be aware from the previous evidence, ARTC is developing a \$40 million improvement program between Tottenham and Dynon which will improve the capacity of that area. Secondly we are also extensively investing more than \$1.7 billion between Melbourne and Sydney and Sydney and Brisbane. The Melbourne portal framework connects directly to those improvements, so that they will all run in streams with each other. I certainly recommend the committee look at the Melbourne portal study, because it is an extensive and very detailed analysis of improvements in the state of Victoria.

The third thing mentioned is the southern Sydney freight access, which is an investment of ARTC of over \$192 million—it will end up being around \$230 million—for a new southern Sydney freight line linking Macarthur to Chullora, and from Chullora the state of New South Wales will hand over the existing freight lines from Chullora to the port so that ARTC will manage those totally separate from the rest of the urban system. That project has gone through an environmental impact statement, which has been on public exhibition. We are anticipating that the state of New South Wales Minister for Planning will determine the environmental outcomes from that EIS in October and, subject to those environmental outcomes, ARTC would commence construction in January and it will be completed 18 months later.

That will overcome in southern Sydney all the congestion issues between freight and passenger services. It will overcome the curfew problem that exists in Sydney in the mornings and the evenings from the south, and will quite separate those issues. There are obviously significant gains to the urban passenger system because it frees up some 30 to 50 peak-hour paths and non-peak-hour paths for urban passenger movements which would have been taken up by freight movements. So there is a double win there for everybody.

That still leaves one of the most outstanding issues in the medium term in Sydney, which is the absolute need over the next 10 years to address the problems of connections from Strathfield north of Sydney to Newcastle. I am hoping that the Melbourne-Sydney-Melbourne-Brisbane corridor study, which the Department of Transport and Regional Services is undertaking and which I anticipate will be released soon, will give some insight into options with regard to investments by both the Commonwealth and the state that could be taken over the next decade to significantly improve rail freight egress and ingress to northern Sydney and therefore to the port of Botany from the north. There are some very good options there, certainly in the short term, at about \$1.7 billion which would significantly improve the egress and ingress of freight trains to northern Sydney, Strathfield, Gosford and Newcastle and have the potential to significantly improve passenger journey from the Central Coast to Sydney by options around that. I am hoping that that study's release will open up an interesting debate and dialogue about options around northern Sydney as well as the whole Melbourne-Brisbane corridor. So the southern Sydney freight framework is moving through the approval processes, and we are certainly ready to start construction soon after the EIS is determined and get on with it and knock it over in the next 18 months.

The fourth area of major port connections is the Hunter Valley investment capacity program. I think when I previously spoke to the committee we had just released version 6 of the Hunter Valley strategy, which has improved our investment, subject to the coal industry's approval, from

\$200-odd million to \$385 million over the next five years. That will increase the present capacity on the Hunter Valley coal framework from about 90 million tonnes per annum to somewhere in the order of 160 million tonnes per annum by 2008-09, and that will more than adequately ensure that the coal chain frameworks in the Hunter Valley, subject to port improvements and the construction of additional capacity to ports, will more than adequately take care of capacity. That is a very significant increase in capacity in a period of seven years.

CHAIR—One hundred and sixty-five million tonnes is a lot.

Mr Marchant—Yes, and it would make Newcastle by far the biggest coal-exporting port in the world. Certainly, we have continued our investments through that. At the previous hearing I think I mentioned that the Sandgate overpass will increase capacity by about 20 or 25 per cent in one go. I think the committee looked at that area when it visited the Newcastle area. That project, which went to an EIS in August last year, was approved in September; we started construction in October last year. The objective was to finish by February 2007. I am pleased to say we will finish and it will be operational from November 2006, and it will be well in advance of the capacity needs there.

I have tried to touch on the major current rail and port connections of South Australia, Melbourne and Sydney. I mentioned the gap in northern Sydney and the Hunter Valley. What I have not mentioned is Brisbane. The reason I have not mentioned that is that one of the big gaps is the lack of consistent standard gauge connection to the port of Brisbane. As yet that is unresolved.

CHAIR—What do you mean by ‘consistent’?

Mr Marchant—At the present time there is a partial standard gauging to the Port of Brisbane. It is a dual gauging framework. It is very difficult to get capacity into the port because it has to fight with capacity on the urban passenger system, which is totally appropriate. The urban passenger system services the people of Brisbane.

CHAIR—There is actually dual gauge in the one suburban corridor?

Mr Marchant—Yes. It jumps from partly standard then to dual gauge. That means that the capacity to get trains through to the Port of Brisbane is significantly constrained by having to fit between urban passenger systems. In the longer term there is a need to look at a single standard gauge connection to the port, separating that from the urban system. That is one of the long-term plans.

CHAIR—In the same corridor or in a different corridor?

Mr Marchant—In the same corridor. It can fit in the corridor without much trouble. The issue is getting a consensus between the levels of players about that. That is, on the eastern seaboard, I think one of the most significant gaps to be resolved over the next decade.

CHAIR—What sort of money are you looking at there?

Mr Marchant—It is in the order of \$100 million to \$150 million. The issue there is not just one of money. It is, firstly, an issue of governments coming to a desire—in both Queensland and elsewhere—that it is worth while; and, secondly, it deals with overcoming the resistance in that population area to additional rail capacity. One of the problems in Brisbane over the medium and long term is that it is getting very constrained with regard to land corridors for major transport needs. Essentially, over the next 15 years, unless that is resolved, there is going to be major congestion there.

CHAIR—Potentially that is a superb port, isn't it, because they can keep going further and further out into Moreton Bay?

Mr Marchant—It is a very substantial port and one that will grow and become more significant over the next decade. It is very substantial, but one of its big hiccups is that connecting it to the standard gauge then becomes a major obstacle to the ingress and egress of our export capacity. I have not mentioned that in the submission. There is not much I can say because there is not much happening.

CHAIR—I would not mind having a benchmark figure from you. As part of this report, we are trying to do a matrix of each of the ports and what the impediments are at each port. They vary from a ring road at Bunbury through to constraints at Mackay. There are no two ports the same but, surprisingly, every port has one of, what you might call, those unnecessary constraints.

That leads me to my first question. We have to recommend to government how they might intervene to make these things better. How do we differentiate between things that are going to happen in the normal course of planned budgeting within organisations like ARTC and where over and above funding is going to be necessary? For example, you said \$40 million for the southern part of Sydney but \$1.5 billion for the northern part. Where do you find \$1.5 billion?

Mr Marchant—It is commercially impossible to do the \$1.5 billion to \$1.7 billion northern Sydney part. I will explain why. In the end, it could be done in some cooperative way between government and private investment, but the degree of its improvement is such that nobody would get a commercial return out of it in the shorter to medium term. Therefore it is not attractive to the private sector without massive increases in user rates. User rates by themselves will act as a diminishing impact.

CHAIR—Is it needed also, either directly or indirectly, for the freeing up of the suburban system?

Mr Marchant—The proposals in the study yet to be released have substantial benefits for the urban passenger system. That is why I think it will be a good project for both the state and the Commonwealth to work cooperatively on. Part of its substantial benefit is that it will improve by 15 to 20 minutes the present transit time between the Central Coast and Sydney. That is a substantial improvement. It will overcome reliability issues that delay trains on the large grade. That will produce greater reliability for the passenger system. Thirdly, it will produce a significant increase in capacity. The third biggest issue in the urban system going to the Central Coast is that there is a hell of a lot of population moving there but there is not a lot of additional capacity you can have to commute them.

CHAIR—Unless you do that thing.

Mr Marchant—Yes.

CHAIR—Perhaps we should touch on this in our report.

Mr Marchant—I think of it as a strategic thing, without getting into the details of the project—I am cautious about releasing it before the report comes out.

CHAIR—How far off is it?

Mr Marchant—Decisions about the release of reports are made by politicians, not by humble company owners or directors.

CHAIR—Can you give us a prospective scenario? We want to finish this report.

Mr Marchant—I would expect it to be next month.

CHAIR—Give us one or two pages as a lead-in, will you?

Mr Marchant—Yes.

CHAIR—It will be a speculative one. Then, when we get the report, we can adjust it accordingly.

Mr Marchant—Looking at the strategic issues, the northern Sydney one is strategic for freight movements—country, city and intercity—and the kick-off benefits are that there are also substantial improvements for the urban system north of Sydney. There is a twin benefit in that investment in the long term. One of the biggest constraints in this country on railways will be in northern Sydney over the period of the next 10-odd years.

The second biggest one, which has not come up because it is not sexy at the moment in the sense of getting publicity, is the Brisbane connection. There are the obvious issues in Melbourne, which I have touched on. The Victorian government have a very good handle and strategy around that. Adelaide has a very good handle and strategy. You have evidence from Western Australia. Without touching on the Esperance port, which has some issues of capacity, they are the biggest issues.

CHAIR—Is that Esperance, you are saying?

Mr Marchant—Yes, only because it has capacity issues.

CHAIR—Is that the flyover thing they need at the entrance to the port?

Mr Marchant—It is partly the flyover but more just improvements to the track infrastructure to improve the reliability of services.

CHAIR—Right through to Kalgoorlie?

Mr Marchant—Yes. They are basic improvements which are not a lot of money. It is just that it is probably not commercially a good idea.

CHAIR—Is that one of your lines now?

Mr Marchant—No.

CHAIR—Is it a Babcock and Brown one?

Mr Marchant—Yes, it is. The critical issues, as I am indicating, relate to Sydney, where the southern city freight line becomes the north. Brisbane becomes the connection to the Brisbane port. The sorts of issues that were floating around a year or a year and a half ago about the Hunter Valley are not issues. The issues there are being addressed adequately since we have taken up the lease in New South Wales. Secondly, the next round of issues there are of port capacity. Since then, the state government has released submissions to BHP.

CHAIR—Is the upgrade to 165 million tonnes fully funded now?

Mr Marchant—All of this will be funded by the coal users.

CHAIR—Yes, but does it not require government intervention in that particular case?

Mr Marchant—No. We do not use any government money in the coal network. The projects are approved by the coal companies and the operators. We finance in the private market against that approval. The only areas in which we ever use any government contribution are in the intermodal areas, which are not economic because of road/rail freight competition. In those areas, where the users are quite adequately able to pay in a rational, efficient way, they should pay. That is the route we take. The coal industry is quite adequately able to pay.

CHAIR—Do you include those sorts of suburban rail constraints in that second category as well?

Mr Marchant—The suburban rail constraint that I am talking about, northern Sydney, is not going to be fully commercial.

CHAIR—That is the point I am making. It will require some form of intervention.

Mr Marchant—Yes. The reason why government needs to intervene in passenger services is obvious and I will not go into that. The next one is in freight. The reason it has to intervene in intermodal freight is because the present pricing system between intermodal freight on rail and intermodal freight on road is totally distorted. The reality is that rail has to compete against road freighting companies. Those companies substantially do not have to pay or contribute towards the capital they use in any material way. They pay road charges, but the road charges that compete with intermodal roads do not transparently reflect the return on capital invested. In fact, the road trucks that compete with rail are subsidised by ordinary car users in their registration charges. I am not suggesting we turn it over.

CHAIR—There has obviously been some intervention in Adelaide. How much did the South Australian government put into that? Can you remember?

Mr Marchant—Effectively, they are putting in more than 60 per cent of it.

CHAIR—Are they?

Mr Marchant—Yes, and the Australian government is putting in the other 40-odd per cent. Really, the only private sector funding in it is ours. We are putting in a few million. The rest is from government.

Ms BIRD—On that issue, could I have your view on the Maldon-Dumbarton link, in terms of connecting it to the South Sydney freight line? Have you had a look at that proposal at all? Do you have any views on it?

Mr Marchant—Maldon-Dumbarton has been around for 15 or 16 years, from my memory. I have only been in the railway industry for eight years, so someone has obviously told me about the previous eight years. My difficulty in commenting on it is that the Maldon-Dumbarton argument has more to do with land transport and planning issues than it does with greater volume. The likelihood of significant volume increasing on rail between Port Kembla and Sydney is not high.

Ms BIRD—What about the movement of cars from Port Kembla—bringing cars straight up to the winter holiday houses?

Mr Marchant—The likelihood of moving cars between Port Kembla and Sydney by rail is not high. There are three reasons for that. The only rationally economic framework is that under 800 kilometres—unless you are dealing with bulk transport—rail for intermodal capacity is marginal. The reason for that is that you have two lots of handling: you have to get it off the port, pack the train, get it off the train and then distribute it elsewhere. If you are under 800 kilometres in that sort of framework, it becomes attractive to put it straight on a truck and take it straight to the distribution centres, rather than to one holding centre. You take 100 cars to Goulburn, you take 100 cars to the centre of Sydney et cetera. Taking 1,000 cars on a train over what is effectively less than 300 kilometres and then unpacking at a distribution centre and then having to repack them into other sets of trucks to go out in smaller batches is not economic.

Ms BIRD—But they are clearly doing that at Minto already.

Mr Marchant—At Minto? Most of the cars from Minto are going on long-haul journeys—they are going to Melbourne or elsewhere.

Ms BIRD—But they are coming into Sydney and then going out.

Mr Marchant—Yes. They are going by rail now, and they will go by rail from Port Kembla. But they will go by the existing rail route.

Ms BIRD—Which only has 65 per cent capacity because of the competition with commuter trains.

Mr Marchant—No. We have a line—

Ms BIRD—That is what the port tells us.

Mr Marchant—We have a line connecting with Moss Vale now which goes down to the port. We are negotiating a more direct connection from our line to the port with the state.

CHAIR—This is Port Kembla?

Mr Marchant—Yes. Effectively, that sort of capacity of rail movements of cars to Melbourne et cetera will be adequately handled by that land.

Ms BIRD—So the intention is to upgrade that. What is—

Mr Marchant—To progressively upgrade it according to the market. The difficulty with the Dumbarton option is that it presumes a lot of capacity would come to rail for a short-haul journey. The economics do not support that. They will still go by rail if they are going to Melbourne; they will still go by rail if they are going to Brisbane. They will just go via Moss Vale and cut up. But the great bulk of the cars go to Sydney. I would love them to go by rail—I promise you that.

Ms BIRD—So would all the people who battle to get up and down the highway by car every day.

Mr Marchant—I would love them to go by rail, but when you compare the rail fee to the trucking fee and consider the fact that you have to distribute it from that distribution point, the difference is so big that you would not do it. The only way that you could overcome that is if someone subsidised the car movers to go by rail. That then brings in another debate: do you want to subsidise those sorts of movements?

CHAIR—What about a new holding yard somewhere in the immediate Port Kembla area? Is that an option?

Mr Marchant—There is certainly the potential for holding areas for distribution being situated around the port precinct or close to it. My issue is the large capital investment for a new rail line when I am cautious about the volumes that would go on it. My caution is not because I would not like the volumes; I would love the volumes. The caution is because the price would not be attractive to the users. That is where it falls down.

CHAIR—What about the idea of coal up on the plateau coming down?

Ms BIRD—Coal companies indicated that they would build spur lines if it was there, didn't they?

Mr Marchant—Yes. I have not seen any of them putting forward a financing option in which they are prepared to pay user charges for it yet, but they would be happy if government paid for it.

Ms BIRD—They have certainly expressed an interest. They are waiting to see—

CHAIR—There is a lot of interest on this committee about the Dumbarton connection.

Mr Marchant—I am cautious about the motivation.

CHAIR—How do we progress that another step? Is there perhaps a need for a small study to tie all these ends together?

Mr Marchant—If there is a need for a study, there are three elements to it, one of which is that it is easy to do the engineering study. That is not difficult. We could ask about that tomorrow and a million consultants would be on us the next day to do it. The one that is much more critical is the market commercial study, because although coal companies and the rest have said that they are all attracted to it, they only seem attracted if government subsidises them, which seems strange given coal prices at the moment. Somehow that desire for the institutions and the infrastructure needs to be reflected in what they are prepared to commit in both commercial terms for usage and in commercial pricing for—

Ms BIRD—My understanding is that there are two private companies from south-western Sydney currently expressing interest in it, so there has obviously been a bit of a shift in some of the view about that.

Mr Marchant—I regularly get approached by private companies wanting to do a lot of things, except when it translates to how they can afford to pay for them. The next question they ask us is: can you help us get government money for it? So, yes, I expect there is a lot of interest, as long as government is prepared to top up the difference. I think that, if you are going to do it, you should do a proper commercial study so that you know what the difference is and whether it is worthwhile.

Ms BIRD—So the next stage should be a proper commercial study of its capacities?

Mr Marchant—Yes.

Ms BIRD—I think that should include the cost benefit in terms of a huge commuter corridor competing on the train and road networks already.

Mr Marchant—I agree totally. Essentially, the externality benefits are quite fundamental, because they are the difference between what you do for road and what you do for rail. The difficulty—and this is what I am trying to get across on another issue—is that those externality benefits are not taken into account in the cost of rail journeys. Therefore, if you do it for some externally good reasons, you are then left to work how you wish to subsidise the externality. In the end, it means government has to pay for it. Because it is an externality, no private sector can do it. I think getting an understanding of that is fundamental, because you do that every time you make a decision on roads.

CHAIR—Would you like to chance your arm on the cost of such a study?

Mr Marchant—That is easy. The engineering study itself would be somewhere around \$1 million to \$1.5 million and the commercial study—a good one—would be about the same. So in total it would be about \$3 million to \$3.8 million. You would be inundated by consultancy groups that wanted to do it.

Mr SCHULTZ—First of all, I compliment the Rail Track Corporation for the significant work it has done on the north-south corridor—concrete sleepers and the signalling process—which, correct me if I am wrong, has obviously centred around an improvement in the time frame of delivering freight between Melbourne and Sydney, but more importantly increasing the tonnage on those lines. What I have some concerns about—and perhaps you know more about it than I do—is why you have not made some efforts to do away with steam train era loops such as the Bethungra loop, which obviously costs a considerable amount of time for freight trains passing between Wagga and Yass.

Mr Marchant—Effectively, we have \$1.7 billion invested between Melbourne and Brisbane, and that is the totality of what we have to invest. We released a report a year ago which went through all the options we can invest in and their benefit in transport time, reliability and capacity per dollar. The Bethungra loop fell outside that range of investment against that amount of dollars. The thing is published and we have gone through it. Even the Signal Institute has a copy of it. It goes through all the options we considered and our assessment of what they mean to the market. We have to set a priority against how we can invest \$1.7 billion to get the maximum benefit with regard to reliability, transit time and movement from road to rail, and Bethungra fell outside that benefit. If someone gave me the capital to do it tomorrow, and we assessed that as being the next highest priority, we would do it.

We prioritise our investment by the best kick for the buck we can get. We found that improving average speed, improving train length and improving capacity movements had the best value per dollar we had to spend. So it was a rationing of what you get for the best kick for your buck. We published all that so that everybody can see how we came to that view. We would love to do a Bethungra spiral—we would like to do a lot of things like that—but it is a hell of a lot of money and the increment of improvement is lower than the ones we have chosen. If there was more money around the corner next time, we would look at it. My personal view is that we would like to straighten the railways out—just as the roads have been straightened out—but the reality is that we have a limited amount of money and we have to hit those things which are going to affect the market in the first five years—and these things did not fall within the priority. I am happy to send you a copy of the schedule for those things.

Mr SCHULTZ—Having asked the question and got the answer, you must have identified the distance in the time frame to go around that loop and then over it with the very powerful diesel motors that we have today compared to the steam trains that could not pull over the hill. Do you have any figures on that?

Mr Marchant—Not in front of me, but it is all published in the report. We went through the cost and benefit in fuel, efficiency and the rest against every priority. That is how we got the transit time framework: the transit time is the relationship between horsepower and capacity. So we assess them against all that. If you are asking if I would like to get rid of the Bethungra loop, of course I would. Would I like to straighten out some of the other loops? Of course I would.

CHAIR—Can you describe the Bethungra loop very briefly?

Mr Marchant—Effectively, because of the grade issues, the train goes around in a very tight spiral radius framework to get the horsepower to get up the grade. To do that it actually turns over itself. So from the front of the train you can see the middle of the train as you are going round, and the next one around you can see the middle and the back et cetera. It is a beautiful photographic framework, and many rail people like to take photos. What it does, though, is that it takes a very slow average speed. The difficulty is that the capital to overcome the Bethungra loop is well in excess of the available resources against all the other competing options. I am happy to give you a schedule of that because it shows exactly where they are.

Mr McARTHUR—If you had a lot of capital how would you overcome this problem?

Mr Marchant—We would overcome the grade by tunnelling through.

Mr McARTHUR—So what is the ballpark figure on that?

Mr Marchant—It is somewhere between \$200 million and \$300 million. It is a very expensive exercise. If we spent \$300 million in one location we would not have the same average speed overall as if we invested 20-odd per cent in one location. We would like to, over time, get rid of that loop and a number of other very similar sorts of old alignments. But they take increments of capital of which the benefit ratio deteriorates as you get further down those increments.

Mr SCHULTZ—I have a sympathy for the infrastructure that you inherited from the New South Wales government. In the 19 years I have been in politics I have seen the neglect of those branch lines in particular. So I understand why you have to set priorities in the budget area. You are looking at some branch lines, aren't you, and doing something to bring those branch lines up to speed?

Mr Marchant—The branch lines in New South Wales do not come within our lease. We manage the branch lines in New South Wales under a management contract with the state of New South Wales. It determines the capital spend, maintenance and pricing of that—we are their agent. We carry out what they determine to do.

CHAIR—Do you have a part to play in deciding the priorities?

Mr Marchant—We give advice with regard to the priorities against the amount of money, and they conclude whether they accept, reject or vary that advice. Effectively, we are an agent to them and give them advice.

CHAIR—Just expanding on what Mr Schultz was saying, to what extent are you improving it?

Mr Marchant—The bottom line is that part of our management arrangement with New South Wales was a surety with regard to their investment for the next four years. That had not been done previously because it was based on government year on year. A part of our management agreement is that they invest a minimum of \$100 million in those branch lines, which is a

significant improvement on the levels of investment made in previous years. The nature of how the \$100 million is spent et cetera is determined by them on an ongoing basis, but there is a minimum requirement for the next few years.

CHAIR—To keep them open?

Mr Marchant—Even under that minimum requirement for the restricted lines in New South Wales those lines will close some time in the next three years, unless something materially is done to change the standard of them.

Mr SCHULTZ—Chair, they are a very serious problem. They have light gauge rails on them and timber sleepers, of course. The white ants and everything else have been into them. It is a major infrastructure problem, and the longer it goes the worse it gets. Nobody seems to want to do anything about it.

CHAIR—What is your recommendation to the state government then?

Mr Marchant—That is a matter between us and the state. I cannot disclose my advice to the state government. It would be inappropriate to do that. What I can do is draw your attention to pages 8 and 9 of the papers I have tabled today and talk about it in a more generic sense.

Firstly, the two states that have the most problem with their branch lines are New South Wales and Victoria. Queensland and Western Australia have branch lines that are in reasonable condition—they are not pristine. The interesting question that the Commonwealth has to ask itself on these demands is: to what degree does it bail out New South Wales and Victoria from more than 20 years of infrastructure neglect? This is not something that is being done currently by the government of New South Wales or Victoria; this involves over 20-odd years of neglect. The catch 22 is that those states have a choice as to whether they are going to invest in their lines or not. The states of Queensland and Western Australia did.

If the Commonwealth decides to bail out New South and Victoria, you will then pose the question: what is going to be done to benefit Queensland and Western Australia for their spending? It is quite a difficult question—a catch 22—about who is accountable for what. The grain people in New South Wales are concerned, as they are in Victoria, with regard to the condition of their assets and their lobbying of various state governments. The people of Queensland and Western Australia in the grain area have had their governments over time respond. The committee looks at it and says, ‘Something needs to be done,’ and I can understand that. The catch 22 is that if the Commonwealth decides to come in and bail out the states with regard to their assets that they own and develop, what do the states of Queensland and Western Australia get? Because they have been husbanding their assets, they are now disadvantaged and they will seek some benefit by way of recompense.

CHAIR—Is there a role for the Commonwealth to pick out some key ones like Mildura to Melbourne and Portland and some key lines—

Mr Marchant—Portland and Mildura are already lines that are in the AusLink national strategy—Portland because it connects to a port; Mildura because it is next to a national highway framework. When you look at some of the branch lines in New South Wales—and I have

mentioned two things—there are 15 or so what are called restricted lines where there is very low volume and the lines are in very poor condition, and our brief is to maintain them, not put new capital in them or improve them. Therefore I am forecasting that some time in the next three to four years they will be brought to an operational close because we will not be able to maintain them in a condition which keeps them safe for operations and, obviously, we cannot keep something open that is not safe for operations.

The catch 22 in Victoria and New South Wales is this: the grain industry have not been able to settle a list of priorities about what lines they wish to keep. They keep saying, ‘We want the government to keep more.’ Yet when you look at the branch lines and restricted lines in many areas, you see that many of them were built in the days of the horse and cart. Since then, we have got very efficient trucking and B-doubles and the rest to move grain. There has to be some rationalisation because not all of them have got very many tonnes. Let me put it this way: firstly, of the \$100-odd million to maintain the branch lines in New South Wales, the total revenue in New South Wales to the state is \$10 million—that includes passenger service. Secondly, the grain industry does not pay anywhere near the amount of maintenance and costs for those lines. The issue becomes one of very difficult economics.

The next thing is that some of those lines in New South Wales are within 200 kilometres of reasonably large silos closer to the more improved lines. It would be better to improve those lines and have them truck in and close the other lines and therefore not waste the expenditure on those, but that requires the grain industry to come to terms with what needs to be done about its configuration. There has been a reticence in New South Wales to do that and therefore they are playing everybody off in triangulation. They are playing the operator—PN has not got long-term contracts. They are playing the governments off and then they come to the Commonwealth and say, ‘Bail out everybody.’

Victoria has a very similar exercise. In the Bolte years in Victoria—for very good reasons—they had a policy which said there would be a silo every 100 kilometres. That was good in the 1960s because of the transportation problems. In 2006, it is irrational to only move something 100 kilometres and then have rail connect to it when you can move it quite efficiently 200 kilometres in B-doubles, have a greater volume and therefore more efficient rail movements. It requires a lot of people to come together and be rational with government. That has not happened. Everybody is sitting back and saying to one government or another, ‘Just throw money at us.’ Effectively, it has been difficult to get that bit of rationality.

If the Australian government were of a mind to get involved—and I think it would be a courageous decision to bail a couple of states out while the others have been doing the right thing—then it would be better to have a fund which had proper incentives in it. The Commonwealth could contribute 30 per cent to this fund as a rail infrastructure development fund for rural railways in the country which all states could bid for. The other 30 per cent to the development fund should come from the state governments on a dollar for dollar matching basis. The last third should come from the users, because they have to be brought to the table to work out what they rationally want to use, and they have to contribute. They do not have to contribute 100 per cent, but even 30 per cent would be a much more significant contribution. A lot of these players do not value the asset framework they have been asking for. They do not value it because they have been paying a pittance to use it. If they want it developed then the Australian government should contribute a third, the state governments should contribute a third and the

users should contribute the other third, so there is some relationship between their request and what they are prepared to contribute in a capital form. The ongoing maintenance of any investment from that fund should be paid for by the users.

CHAIR—Rather than being brought up to scratch.

Mr Marchant—Exactly.

CHAIR—Is there a figure for getting New South Wales and Victoria back to some sort of reasonable order?

Mr Marchant—The figures depend on whether you keep everything the way it is.

Mr SCHULTZ—We would not be doing that—

Mr Marchant—As I said, I think that is the most irrational thing to do. If, say, everybody becomes rational and someone is courageous enough to be the decision maker on that, one way is to have the fund determine whether it is going to invest and whether what it is investing in is realistic on a benefit-cost ratio, not just on a normal economic benefit ratio. Also, the fund determines whether it is prepared to invest in that framework. That will then make the decision making clearer if the states and others cannot do that for other reasons. So you do that through the fund. The second thing is how much the Commonwealth will need to contribute to the fund. My personal view is that the fund really only requires, in capital terms, somewhere near \$150 million to \$200 million. So the Commonwealth puts a third in, each state puts a third in, based on its request for funds, and the users have to put in the other third and have to contract to do that. The Commonwealth would put in about \$50 million to \$60 million to the fund.

CHAIR—I cannot reconcile that. If \$100 million from the state government of New South Wales is not going anywhere at present, how will another \$70 million—

Mr Marchant—One hundred million dollars goes into maintaining tracks that should be closed.

CHAIR—This is premised on there being a rationalisation first?

Mr Marchant—That is right. It is not difficult to rationalise; you just close something down. The element of why it is not big money is not wanting to put in CSOs for operating expenses. That is a matter for the state and for the framework. This is a capital investment framework program.

CHAIR—Is this \$150 million per state?

Mr Marchant—No.

CHAIR—It is all up?

Mr Marchant—Across the nation, yes. It is one-third, one-third and one-third. The Commonwealth puts \$200-odd million into the investment basket, the states effectively put in

\$200 million to the degree that they wish to have it in their area and the last \$200 million comes from the users. That may come from advertised charges. Effectively, the biggest issue on branch lines is not ongoing operating expenses. It is the capital required to upgrade it so it can be properly maintained. So you are looking at one-off capital injections; you are not looking at ongoing frameworks. The one-off capital injections are easier things to target around. If you were to ask what I would do, I would look at a rail infrastructure fund to which every party has to be a contributor. It is just like any other investment fund, and I would put it in some body to adequately assess whether the proposals being put to it were rational on a benefit-cost ratio and were not just another method of subsidising something which was irrational—that is, if the Commonwealth were to go down that track.

CHAIR—Do you reckon it could be done for \$150 million?

Mr Marchant—On a fund basis, yes. The fund will effectively get some rebating back and will keep itself going—

CHAIR—Is that with \$150 million from the Commonwealth and \$150 million from the states?

Mr Marchant—My personal view is that the elements of the problem are not as big in capital terms as everybody is making out. Unless you go absolutely over the top, a large part of it has to come back from operating expenses. So, at the maximum, you are looking at \$100 million from each of the players in the initial years. They may top up the fund in future years, but I think in the initial years you need to have a very targeted fund.

CHAIR—So, in a way, it is not that big a task if it is planned properly? Is that where you are coming from?

Mr Marchant—Not if it is planned properly and everybody contributes. The most critical thing is to have everybody in the tent. When nobody has to put up hard dollars to back up what they say they desire and need, then they are not as committed to the solutions. In a way, if you become a welfare recipient, you tend to act accordingly. You have to have incentives in there for people to actually move themselves forward. That is as much the case for the commercial sector as it is for any individual.

CHAIR—Will that reduce New South Wales's operating and maintenance costs as well? Or is that \$100 million still required?

Mr Marchant—It will partially reduce it because, effectively, you will overcome one of the problems, which is that the maintenance cost is much higher because you are dealing with dilapidated assets and they are very hard to keep together. Therefore you have to constantly go out and play bandaiding and it is very expensive.

CHAIR—Give us your view on how much of the \$100 million you could save.

Mr Marchant—I would be cautious about doing so because it would cover issues that we have given advice on to the person we are contracted to.

CHAIR—But, if we were arguing the case with the government in our report, it would be nice to have some sort of target or benchmark figure.

Mr Marchant—I will certainly supply you with some indicative figures across the nation.

CHAIR—Okay. We can take out what we need.

Mr Marchant—Yes, and move from that basis.

Mr McARTHUR—Vince O'Rourke and his team gave us an interesting presentation about the inland route. He was suggesting that we have new technology, we can move trains at 150 kilometres an hour with heavy 68-tonne rail gauge et cetera. Could you give us the reaction of the ARTC to that proposal, whether it might come to pass and whether all the investment you are making on the north-south rail on the eastern seaboard is worthwhile if it does come to pass?

Mr Marchant—Firstly, the Australian government, through the Department of Transport and Regional Services, has commissioned a report on a Melbourne-Brisbane corridor, canvassing all the options—Vince's option, Everal Compton's option, the Inverell Rail Interest Group's option. The report is very extensive. It deals with the four major zones: the coastal zone, what is called the inner central zone, the medium central zone and the outer zone across the area—very far west New South Wales, medium west, left west before the Great Dividing Range and then coastal. The report then goes through those zones and the range of options. I think somewhere near 130 different options are gone through. Every group's proposal that has ever been raised in the last decade is extensively gone through in the report.

The report goes through, on this common basis, the capital infrastructure costs. It then goes through the likely revenue market framework, on a similar basis so that there is like-for-like analysis. It also deals with the benefit-cost ratios, not only the economic but also the externality benefit-cost ratios, and it reports on all of them extensively. It is probably the most extensive analysis of options on that corridor I have ever seen, and I think it reflects great credit on DOTARS and all the players that they have actually brought it together in a form which everybody can look at and analyse the benefit framework.

The report does not make any recommendations. It quite correctly leaves those to be public policy decisions, for governments and the rest to analyse. The report then compares, obviously, each of the benefits against those costs. It looks at commercial benefits—that is, at what could be financed by the private sector—and at what could not be financed by the private sector and for what reason, and at what externality benefits could not be financed by anybody but government, and goes through them. As I understand it, it is the government's intention or the minister's intention to release that report for public discussion in the near term.

The report also canvasses—objectively, in my view, although I may not necessarily fully agree with it—ARTC's program on the coastal route. I think it would be fair to say that the report says that ARTC has optimised its spending to the maximum degree possible for the benefits that can be gained. That is a pleasing thing for us because it was done objectively. It basically says, 'You're getting the best kick for your buck that you can get for that amount of money.'

It then goes on to ask, 'What happens from now?' It looks at all those sorts of options and then leaves it to the political marketplace to choose. It would be fair to say that it identifies very clearly the issues of northern Sydney and that, one way or another, those issues—urban passenger issues from the Central Coast as well as freight issues—probably will have to be addressed.

We can never run away from the fact that Sydney and Melbourne are the two largest logistical centres in this country. It is not possible just to ignore Sydney and say we will go from Melbourne to Brisbane and pretend Sydney is not there. It is just not possible to do that. No matter what result comes about, Sydney has to be addressed. The report indicates that in the early term there would be substantial expenditure on an inland route between Melbourne and Brisbane and suggests that it would be some time before the capacity was utilised against the degree of capital spent. There is obviously some risk about whether that would bear fruit for a long period—that is, it would need to be subsidised for operating costs for a long time.

CHAIR—Operating costs?

Mr Marchant—Yes. Not just capital, but operating costs for a period of time.

CHAIR—Is that premised on the Toowoomba connection to Brisbane being completed?

Mr Marchant—The report canvasses the Toowoomba-alone option against the Toowoomba to Brisbane option. It would be fair to say, on the market research, that the Toowoomba-alone option, without going into Brisbane, would not attract the same revenue base as the proposal to go to Brisbane. It does not canvass what would happen to the roads if you went to the Toowoomba-alone option, but a previous report mentioned that the number of trucking movements between Toowoomba and the coast would be very significant. Basically, if you do not go to Brisbane then you are going to have another problem. Firstly, Toowoomba on its own will not attract as much on rail and, secondly, even if it does attract it the number of road movements between Toowoomba and Brisbane would require a very substantial road program. And you would be dealing with a massive number of B-doubles per hour, which I expect would have some reaction from the community there as time moved on. So the bottom line is that it canvasses all those options?

There will need to be some decision about whether it is better to follow an incremental coastal route from Sydney and the rest for the next few years while the market grows and move maybe to an inland route at a later date when the market has got to a volume level that would help support paying it off earlier. I think the rationale from the report—and it makes no recommendations—is that there are needs for increments of investment on the coastal route to improve it even further, especially around northern Sydney and the issues around that, and that the Melbourne-Brisbane inland route is probably a few years off.

CHAIR—I want to come back to Mr McArthur's basic point. I do not want to verbal Mr O'Rourke but, as I remember his evidence, he said that our approach of recent years has been very much incremental. Here we get a 60 kilometres per hour line up to an 80 kilometres per hour line, an 80 kilometres per hour line up to a 100 kilometres per hour line, and so on and we say the job has been done. His argument, as I remember it, was that we need to put in one super

rail, perhaps on a European standard—I think he might have mentioned Europe—that can really demonstrate higher speeds, double stacking and all those sorts of things.

Mr Marchant—With respect, I have not seen Vince O'Rourke's evidence. I am very cautious about going down that path, except to say that the report on Melbourne-Brisbane covers all the options—speed, axle loads—and gives a relative and objective costing basis and likely improvement basis to that.

CHAIR—Is there an executive summary of that report?

Mr Marchant—There will be when it is published. But I would be cautious about the myths of what happens overseas. I have spent the last two months overseas, travelling with all the North American railway companies, the European companies and then in a business development school framework. I have some reflections on that. Firstly, the North American market is booming at the moment because of the commodities boom. You would be interested in the massive debate there about port-rail interfaces, which is very similar to the debate we are having here, and it is the same in Europe. Secondly, intermodal freight trains in America are second to the commodity trains. Their average speed is in fact lower than the average speed we have in this country. The reason the intermodal freight trains compete so well in North America is that there are massive truck size restrictions on every federal highway. No B-doubles are allowed on any federal highway of the United States or Canada. There are limits and restrictions on truck sizes and they are not allowed to travel on any American freeway. Therefore, rail is attractive because its competitor has two problems: it cannot get the volume on road and, secondly, it has a shortage of drivers for freight work. There are no American freight trains running at 150 kilometres per hour anywhere and there are no plans for any.

Dealing with Europe: I spent a full day with the commissioner of land transport for the European Union and his people, as well as with a number of railway companies. Europe's major problem is that it cannot get freight to move on rail. The average speed of freight in Europe is 20 kilometres an hour because they cannot get them through the passenger systems. The biggest problem in Europe is that their trucks are lined up bumper to bumper. Rail movement across Europe is very difficult because of different ownership. The European Union is in fact withdrawing its rail strategy that was released seven years ago. Strangely enough, it will be issuing a new one in the next month or so, dealing with a corridor strategy rather than a Europe-wide one. It is a very similar strategy to ours: go to the corridors and fix those frameworks up. They are desperately trying to get a corridor strategy across Europe which is focused on improving the east-west and north-south freight and passenger framework.

There is no freight system in Europe running at 150 kilometres an hour anywhere. There are a number of passenger systems running at 150 kilometres an hour. The freight systems are in fact secondary to the passenger movements because there is a very dense population. You should also be aware that trucks across Europe are restricted in size. There are no B-doubles or otherwise allowed on any European highway. You would probably be aware that they are tolled quite substantially, over and above their freight rates and over their fuel levy. Those tolls are quite expensive. If you travel from western Italy across to Cannes, through France, to go to the UK, you will go through a minimum of six toll booths. The freight truck premium per single loader is around 50 euros per toll, on top of their fuel and their rebate. So we are in a very different competitive framework.

CHAIR—Three hundred euros to go across Europe?

Mr Marchant—Absolutely. I travelled it a few weeks ago to see what it was like. I promise you, it is expensive.

Mr McARTHUR—Were you in the truck?

Mr Marchant—No. I travelled in a car. I paid only six euros at each toll, but I followed the trucks.

Mr McARTHUR—Just give us the experience, though. Seriously, you had to go through all these tolls and pay the money?

Mr Marchant—Yes, you pay the tolls, and quite rationally. These roads have been upgraded quite substantially. The trucks are bumper to bumper. It is a real problem.

CHAIR—I saw that myself in Italy just recently. It is certainly true about the bumper to bumper stuff.

Mr Marchant—You would not have seen any B-doubles.

CHAIR—No.

Mr Marchant—I am not suggesting that we turn the clock back in this country. This is not a rail versus road issue. The country's logistics are critical for our exports and imports. But if we are going to solve rail and road problems we have to deal with the transparency of pricing. We have to eventually get the beneficial users of the road system, which are the long-distance trucks, to better contribute to the assets. I will explain why. Most of the bridges and roads are being upgraded for heavier weights. It is not because the cars have got heavier; it is because the trucks are heavier. Most of the tar on our highways is now getting deeper to deal with the breaking up of the roads. It is not because the cars have got heavier; it is because the trucks have got heavier, with more axles.

The beneficial user is not paying for those benefits. Yet, if they have to go on a rail system, they pay a mass distance charge et cetera. We need to get that sorted. In those areas where trucks do compete with rail, the pricing should be reasonably transparent. In those areas where they do not compete, for social reasons, they should be getting a discount because they have to move goods and services across the country. But unless we do that we are constantly going to be looking at a situation where governments are being asked to subsidise freight movements on rail to the same degree that they are subsidising them on road. That is at the expense of the social obligations of having land transport to move our citizens around. People talk about what happens in Europe and North America but they talk about it in isolation from what is really happening there. I would like to see a freight train running at 150 kilometres an hour, double stacked, but I expect every railway operator in the world is looking forward to that one day.

Mr McARTHUR—You have talked about the freight link through Sydney. Can I just ascertain when you think you will overcome the politics and actually get it done?

Mr Marchant—The EIS is being concluded. The New South Wales Minister for Planning has indicated that he expects to determine that in October. I expect that, subject to those terms and conditions, we will start building in January.

Mr McARTHUR—So you really think there is a chance of getting an outcome.

Mr Marchant—Absolutely.

Mr McARTHUR—Just define it again: you will get a dedicated freight link from—

Mr Marchant—Macarthur to Chullora, then we will take over the freight lines from Chullora to the port and have them totally separate from the urban lines. At this point in time, you are probably aware that, apart from Fairfield City Council, every other council in metropolitan Sydney has supported it. I notice that the administrator for Liverpool City Council put out a public statement supporting the proposal.

I do not think there are any insurmountable hurdles in moving this thing forward. We have to be sensitive in how we build; we have to be sensitive with noise issues and, as good citizens, we should be. We are certainly putting money in behind it. The New South Wales government sees this as the most critical infrastructure asset going around Sydney. The Australian government also sees it as that because both have said so. New South Wales has announced that the decision is critical.

CHAIR—Has it been funded yet?

Mr Marchant—We are financing it, yes.

CHAIR—You have the funding for that, in other words?

Mr Marchant—Of the north-south \$2 billion, ARTC is raising \$1.2 billion. The Commonwealth's contribution is \$850-odd million.

Mr McARTHUR—My final question is a throwaway line: when is Queensland Rail going to take over ARTC?

Mr Marchant—I have not heard from them for a while, but if their proposal is there I am sure my shareholders would be looking at it, as long as they have a big bank account to go with it!

CHAIR—They are obviously using your tracks!

Mr HAASE—David, it is good to see you here again. I imagine you are familiar with the report of the study undertaken by the National Transport Commission entitled *Twice the Task*?

Mr Marchant—Yes.

Mr HAASE—There was a proposal on the need for a national entity to address the long-term strategic planning and development of Australia's freight transport infrastructure. I would like to hear your considered opinion of that proposal.

Mr Marchant—My first objection is that, essentially, a national entity is only as good as the support it gets from the states and the Commonwealth. We work in a constitutional environment which requires the Australian government and the states to be able to work collaboratively and for there to be a range of compromises through that process to get something achieved. If there is to be a national entity it has to be one which is supported by each of the states and the Commonwealth together. There is no way the Commonwealth can impose an entity and hope that it will work—even if it wanted to.

Mr HAASE—What is your satisfaction currently with what you perceive to be the degree of national cooperation?

Mr Marchant—I think the AusLink program is starting to develop that cooperative framework in a way which is a non-threatening process, because it has everybody working on corridor plans together. We have been working with both the South Australian government and the Commonwealth on the east-west one, with the Victorian government on the Melbourne part and with New South Wales and the Commonwealth on the north-south one. My personal view is that that is a beginning to getting quite a collaborative framework. The difficulty in setting up a single body is that it would require a hell of a lot of consensus from the states and the Commonwealth. Also, there is no body that is going to overcome politicians making political decisions in the interests of their electorates. There seems to be a massive desire by everybody to say, 'We're going to take it out of politicians' hands and put it in some independent body.' As night follows day, that body will be unsuccessful, because there is no way you are going to get in between government selections, whether they be Commonwealth or state, and what they truly see to be the infrastructure priorities for their electorates and their constituents.

Mr HAASE—Let me be specific—

Mr Marchant—The body can only be one that gives advice around options. You have AusLink and a whole range of other options.

Mr HAASE—You agree that there is a need presently for an alternative to the degree of cooperation that is being engendered by AusLink?

Mr Marchant—I think in the end there has to be a much longer term prospect of a body giving good advice to Commonwealth and state ministers dealing with freight in its overall sense—road, rail, port et cetera. I think that would be a good thing to do. The issue, though, is that it has to be a body which does not see itself as a determiner as distinct from a good adviser bringing together advice to everybody.

Mr HAASE—It sounds to me as though you are not optimistic of that being the outcome—that you do not believe that the individual desires could be overcome for the collective good.

Mr Marchant—The collective good is a judgement that people make based on their perspective. If I were the Premier of Western Australia my collective good would sometimes be different from that of someone sitting in Canberra or Sydney. 'Collective good' is a relative concept. It depends on who you see as part of your collective. I see that there is a potential for that to happen if, in fact, it is a body that is set up to help advise each of the states and the Commonwealth about longer term trends and methods to address them. I do not think a decision-

making body would last about two years because it would upset one or other of the participants to such a degree that it would be useless.

Mr HAASE—Federation is often difficult, isn't it?

Mr Marchant—That is why you do it by actually sneaking up on it. You do it by good advice, data and collaboration with regard to understanding and then you let people work out the collective good from that.

Mr HAASE—Chair, have I got time for half a question?

CHAIR—On what?

Mr HAASE—Intermodal hubs.

CHAIR—That is going to be our next topic.

Mr HAASE—I know it is but before David left I wanted to hear half-a-dozen words about where he thought intermodal hubs fitted into the solution for our eastern seaboard cities.

CHAIR—Mr Marchant can make a quick comment on that.

Mr HAASE—If you would, please.

Mr Marchant—I think they would in Melbourne, Sydney and some of the east-west framework. The reason for that is that the congestion around the port and very valuable areas is such that the price of that congestion would be better relieved by moving things out quickly, and then distributing outwards. I think it will become more so as the shipping movements throughout the world start to change and make single points of contact. Is it a problem today? Partly. Is it going to be a problem in 10 years time? Absolutely.

Mr HAASE—Given that you have said that 800 kilometres is about the minimum distance you can move stuff on rail effectively—

Mr Marchant—Non-bulk.

Mr HAASE—Does that impinge on what you have said about the necessity for an intermodal hub? Where would you place it in distance to a city?

Mr Marchant—The issue comes down to the congestion costs of our urban cities which is not something which is priced in at the moment.

Mr HAASE—So with cost transparency—

Mr Marchant—In 10 years from now the congestion of going to those ports through the urban cities in the streets is going to be so great that the collective good of the people managing those areas will come to a view that they need to do something different.

Mr HAASE—Thank you.

CHAIR—Thank you, Mr Marchant. We trust we can come back to you as we have in the past, and you will give us that update we mentioned earlier.

[10.32 am]

SHAW, Mr Michael, Executive Director, Mariner Financial Ltd

STEPHENS, Mr Robert Charles, Project Manager, Southern Distribution Hub Pty Ltd

CHAIR—Although the committee does not require you to give evidence under oath, you understand that these are proceedings of the parliament and warrant the same respect as attend to the meeting of the House itself. I have to remind you that the giving of false and misleading evidence is a serious matter and can be considered a contempt of the parliament. Having said that, you are most welcome here today. Could you give us a five-minute overview of your submission and then we will go to questions? Is it the wish of the committee that the supplementary submission be accepted as evidence? There being no objection, it is so ordered.

Mr Stephens—Thank you, Chair. We really do appreciate the opportunity to present this project to you. I appreciate Barry's last question to David Marchant. We consider intermodal hubs to be necessary. This project is of a significant size. It is a \$1 billion project over 15 years. It will provide 2½ thousand jobs in regional New South Wales, so to that extent it certainly is of state significance. I think the potential for it to be associated with the rail network and its proximity to the ports will be of interest to you. I understand that PowerPoint presentations are not the flavour of the month but I believe this is a very quick way of presenting the who, what, where and why of the project and its relevance to your committee. I will now take you through our presentation.

A PowerPoint presentation was then given—

Mr Stephens—The project is 4½ million square metres, which is 450 hectares, of land in a very sensible planning situation on the national highway adjacent to Goulburn. The demand for the project came from some studies in 1992 by the state and regional development department of New South Wales. They identified that 26 million square metres would be required for warehouse and distribution outside of the metropolitan area. We are providing approximately a tenth of that, and this would be some of the first of that to be provided.

It is a Mariner project. Mariner is a publicly listed company. Once again, the site is strategically located. It is 190 kilometres from Goulburn. I will leave one of these documents with you. These are the criteria for developing hubs. It is ideally located in proximity to Sydney and Canberra, and it is three kilometres from a substantial workforce at Goulburn. It is a major regional initiative. It has been accepted as a state significant project. It is certainly critical to the future of Goulburn, and it represents sustainable growth for regional Australia.

As for the size of the project, there will be \$170 million annually going into the local and state economies by year 10, with \$100 million going into public infrastructure by year 15 and there will be 2½ thousand jobs. That is a significant contribution from the private sector to the state's economy. As for the advantage of Goulburn, that speaks for itself. The project itself is a part 3A application before government. The plan will be on public exhibition in the next month and we expect some indication of approval before the end of the year. It could be operational in 2008-09.

This shows Goulburn itself and this is the site. That over there is the main highway from Sydney to Melbourne. You can see that the site is blessed with infrastructure. All services are there on the site. You can see from the size of it that it is substantial. It might be an odd shape but it is actually in a valley of similar shape.

One of the things that I will point out from the rail point of view—you can see it coming in here and I will refer to it later—is the very close proximity of major underutilised infrastructure to this project. This project was a road project in its conception based on the national highway grid. It was planned from a greenfield point of view. A number of sites in New South Wales were looked at and this particular site certainly came up trumps.

CHAIR—At the top of the red is a line that goes across towards Goulburn. Is that a road or a railway line?

Mr Stephens—It is a road. One of the points that we would like to put before the committee is that we were certainly encouraged, when we started out with a road project, by the state government to look at the potential linkage between the underutilised facilities here and those over there.

There are benefits to the project and nationally from having that linked in. It is a matter of whether it is a rail link into the site or whether it is a road link. There are opportunities there for both to occur and we are currently investigating that with ARTC. I will just move on and come back to that rail issue if I can. The main significant piece of that infrastructure is the construction of an interchange into Goulburn off the freeway. Some 4,000 trucks pass this site each day, so the traffic impact on the town, having regard to the way it has been developed, required a roundabout so that there was no interference with the social structure within the town of Goulburn.

To give you an idea, the red colour that you can see represents the type of infrastructure that we are looking at. It is in the vicinity of some \$20-odd million worth of infrastructure, which will be built by the RTA and under the RTA's supervision but at a cost to the project. The cost of that will be borne by the project. There are a dozen or more options. This in fact is the preferred option and it might appear quite extensive but you have got the town of Goulburn over here and the site over here. It actually will be the first roundabout that has been built on the freeway to accommodate the B-triples that, from July last year, have commenced operation—albeit in a limited way at this stage. But that will provide access for B-triples in and out of the site without interfering with the community.

The location itself is desirable within the industry. Coles has relocated to Goulburn and expanded their business—50,000 metres under cover and employing some 350 people there. They did that because of the workforce and the location.

CHAIR—That is a distribution centre for Coles?

Mr Stephens—It is, yes. That is the nature of our business—attracting that into the site. That is the site itself. As you can see, that is a valley there with the freeway passing through. There is a natural valley. Everyone is aware of Goulburn's water challenge. One of the things we spent considerable money and time on was looking at a stand-alone situation where the harvesting,

collection, storage and recycling is unique and is not linked to the Goulburn water supply. It is a stand-alone situation. I know you cannot invent water, but we are dealing with it in that we actually have additional capacity to supply to the Sydney water catchment and additional capacity beyond that that can be delivered to the benefit of Goulburn.

You can quite clearly see that Goulburn is well located with regard to the rail network. The port of Wollongong and the port of Sydney are there. It is a fact that 80 per cent of the product that comes into the port of Sydney is distributed within 40 kilometres of Sydney. We are certainly not looking at that market but there are niche markets—bulky goods and the long-shelf, long-delivery items that we will be keen to see on the site down here. There are some discussions with the port authorities underway in that respect. At one stage Goulburn had 1,300 people employed in the rail, like a lot of cities around the country. The main Melbourne southern line is there. There are three of these yards in Goulburn. This one here is the one we are talking to ARTC about at the moment. To develop that type of infrastructure today is certainly prohibitive but to have that standing idle and not utilised and within 1½ kilometres of our site is certainly something that we wanted to bring before the committee. We are working with ARTC on how we can utilise that as a joint venture and common user infrastructure. I will leave material here for the committee, but we are ready to go to public exhibition and that should occur within the next fortnight or so.

CHAIR—You have come to see us today, and we appreciate that. Is there an implication of a request for facilitation of roadways or rail? You have done it in the context of this arterial road and rail study in connection with ports and inland hubs and, although you differentiate this from a hub, it has the same sorts of elements in some respects.

Mr Stephens—Sure.

CHAIR—Is it an information thing at this stage?

Mr Stephens—It certainly is an information thing. We have no ask of the committee but, because of the substantial commitment of funds by Mariner and the private sector, we certainly want the committee to be aware of what is in the pipeline and to be aware that we would like that to be taken into account in fitting in with the access to ports and regional services.

CHAIR—So when we are talking about these hubs, you would like this one at Goulburn to be considered seriously in that field?

Mr Stephens—Absolutely. We do not know what the outcome of our discussions with ARTC will be in the future, as far as the utilisation of that rail is concerned, but we do see that there is significance just beyond our project and we may want to come back and talk to you in the future.

CHAIR—If you have that as a starting point, it would be a fabulous place for a hub.

Mr Stephens—Absolutely.

Mr McARTHUR—These intermodal hubs have had a long history of not getting off the ground and there has been a lot of argument. Why should yours be better than all the others?

Mr Stephens—For one thing it is based on the fact that the congestion within Sydney and the better use of warehouse and distribution land in Sydney through the metropolitan strategy is putting pressure on these warehouse and distribution operations to move out. There is certainly a financial incentive. They are looking at a cost of around \$500 a square metre in the metropolitan area. Down in this area, that will be supplied at in the vicinity of \$150. These are real commercial incentives for people to be looking at that. The point that the previous witness made was the fact that, in 10 years time, these operations will be essential. This development is a 15-year project.

Mr McARTHUR—It was not clear how you connected the rail. Do you have plans to connect the rail?

Mr Stephens—We would like to see the rail connected and it is possible to do that through a rail link, but the most effective way would be to do it by road. There are half-a-dozen options for how that can occur.

Mr McARTHUR—A road link from the depot to the railhead?

Mr Stephens—Yes.

CHAIR—Aren't you then getting into double handling whereas, if you had the track coming into the site, you can go straight to the—

Mr Shaw—Not really. They would have to take them off, anyway, to put them into distribution centres. So, strictly speaking, it is the same number of movements. We will be looking at multiple types of loads on this.

CHAIR—So if you negotiate this marshalling yard, that would be a feeder to your site? Is that the idea?

Mr Shaw—That is right. We are looking at either road or rail spurs and there are a number of options available. The next step would probably be to work with the council and ARTC and look at the most appropriate route to take. We obviously need to take into consideration the existing infrastructure and the surrounding residential areas that may or may not be involved.

Ms BIRD—I have listened to the previous evidence, and you are talking about B-triples et cetera. We have had information that it is very difficult to get rail up when we are providing that sort of access by road. The previous evidence indicated a proposal for the branch lines, with a joint state, federal and private enterprise fund that people could access if they could put up a business case. I am interested in how you would see that model for the intermodal hubs. If there were some sort of proposal that said, 'The feds will put in so much money, the states so much and private industry so much,' then you could put up proposals to this fund about a business case. Would that perhaps address some of the things you are looking at with your infrastructure?

Mr Shaw—It certainly would. The good thing about Goulburn is that it is on the main line. It is not a branch line into Goulburn.

Ms BIRD—Sorry, I would see it as a separate fund to the branch line—

Mr Shaw—Yes. For something like this, we have already invested a substantial amount of funds into this project to get it to where it is. Obviously, to have government support through some infrastructure fund would be extremely useful because it reaches the point where it becomes uncommercial for us to keep on putting all the infrastructure in ourselves. So, yes, definitely, that would be extremely useful.

I think the next step for us on this project is to move into what I would call more feasibility studies in terms of road and rail intermodal. Right now the key is to get the project up and running and the next step is to do the detailed feasibility analysis of coordinating road and rail together. Although it is currently controlled by the council, we are potentially looking at the small airport there to see if that could be brought into the whole equation as well. But that is the next step down the line. I will just refer you to these documents—

CHAIR—Before you move to that, is it the wish of the committee that these documents from the witnesses be taken into the record as exhibits and authorised for publication? There being no objection, it is so ordered.

Mr Shaw—This is an interesting document that came out. When you look at our site you can pretty much put a tick in every single one of the boxes in this. So in terms of the success of the site as a future intermodal hub, it probably has as many pluses going for it as any site we know. It is the right distance outside of Sydney. We all know the congestion within Sydney. I was aware of the Sydney Ports Corporation effort to get an intermodal hub up in Enfield. I understand that is having some problems, partly because it is already a highly congested area. At least providing this type of facility outside of the congestion of Sydney will allow movements out of Sydney, repositioning the freight and then feeding it into the network. Of course, provided we get ease of access into the north-south rail route it will actually improve access out of Sydney and decongest the city.

Ms BIRD—I was just interested, having an investor here, to see whether private enterprise was interested in that model. So thanks for that, Mr Shaw.

Mr Shaw—We are very interested in it, yes. We would like to be part of that and have some say in that.

Mr HAASE—It is a great opportunity to have you here because I have a question that has concerned me for some time, and it is perhaps along the line of my colleague's question. Government's role is to facilitate and to plan in an orderly way for the future development et cetera to avoid congestion, and sometimes it catches up with us. But I propose that the perfect mix is where orderly outcomes are not only desirable for government but for everyone else in the consumption chain as well. What is it that motivates your potential clients to come up and take this facility? Where are the dollars? Where is the commercial gain for particular operators in the chain in moving out into the sticks of Goulburn as opposed to being in a city where the action is? Can you give me a succinct answer?

Mr Shaw—When you say succinct, I do not think there is any straight answer. We are pushing the boundaries a little bit here, and we understand that we are to a certain extent. But I have been involved in the property industry for some years and I have seen the spiralling price of industrial land in and around Sydney: going out past Campbelltown, Southern Highlands, Picton—

Ms BIRD—Indeed, on the coast.

Mr Shaw—and on the coast, it has just gone absolutely crazy. You then also see the congestion in the city. There was talk about Chullora—trying to get onto the Hume Highway in Chullora is a nightmare. We are looking at this over time, and this is a long-term project. We are not saying, ‘Let’s just get into this thing and get all these end-users in and then we are going to make this thing happen.’ We recognise it is a long-term project. But I think we are going to see, slowly over time, that there are going to be proven efficiencies by moving the product out of the city, away from the congested areas, as quickly as possible. We are very interested in looking at the links into Port Kembla, for example, and seeing exactly what is going to happen to Port Kembla. There is talk about the cars, for example, at Minto. Minto now is a hugely developed industrial area and there are acres of cars packed there. Just a simple component of moving those cars from there out to Goulburn and freeing up that land for more—

Ms BIRD—Those that are going south could go to Goulburn and those that are going north could go to Minto.

Mr Shaw—Exactly. Over time, we will be able to work with the end users, move them to that location and see the benefits. There is also the issue of the B-double/B-triple. At the moment, I understand the plan is that Goulburn would be the northerly limit of the B-triple. Again, we see a benefit in us providing some sort of staging facility in Goulburn, which is right on the highway, and hopefully we can link it into the rail and provide a true intermodal hub, which not many places have.

CHAIR—Thanks, Mr Stephens and Mr Shaw, for your evidence today and for taking the trouble to come in to see us. We are very interested in this. As we have taken evidence during the hearings, our view of intermodal hubs has changed quite considerably. We trust we can come back to you if we need more information, and you will receive a copy of the *Hansard* draft for any editorial corrections.

Resolved (on motion by **Mr McArthur**):

That this committee authorises publication of the transcript of the evidence given before it at public hearing this day.

Committee adjourned at 10.56 am