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**HOUSE OF  
REPRESENTATIVES**

STANDING COMMITTEE ON PRIMARY INDUSTRIES  
AND REGIONAL SERVICES

**Reference: Infrastructure and Regional Development**

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**HOUSE OF REPRESENTATIVES  
STANDING COMMITTEE ON PRIMARY INDUSTRIES AND REGIONAL  
SERVICES**

**Monday, 21 June 1999**

**Members:** Fran Bailey (*Chair*), Mr Adams (*Deputy Chair*), Mr Andren, Mr Horne, Mr Katter, Mrs De-Anne Kelly, Mr Ian Macfarlane, Mr Leo McLeay, Mr Nairn, Mr Secker, Mr Sidebottom and Mr Cameron Thompson

**Members in attendance:** Mr Adams, Mr Andren, Fran Bailey, Mr Nairn, Mr Secker, Mr Sidebottom and Mr Cameron Thompson

**Terms of reference for the inquiry:**

The House of Representatives Standing Committee on Primary Industries and Regional Services will inquire into and report on the role of infrastructure in assisting the economically sustainable development of Australia's regional areas. The committee will, among other matters, consider and make recommendations about:

- . deficiencies in infrastructure which currently impede development in Australia's regional areas;
- . factors that would enhance development in these areas, including the provision of infrastructure such as energy, transport, telecommunications, water supplies, and facilities that deliver educational, health and financial services;
- . the potential for development in regional areas;
- . the extent to which infrastructure development would generate employment in regional Australia;
- . the role of the different levels of government and the private sector in providing infrastructure in regional areas;
- . planning, coordination and cooperation in the provision of infrastructure in regional areas; and
- . the benefit to the national economy of developing regional infrastructure.

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**Committee met at 8.48 a.m.**

**O'NEILL, Mr Dennis, Chief Executive Officer, Australian Council for Infrastructure Development Ltd**

**TIMMS, Mr Graham Edward, Director, Member of the Executive Committee, Australian Council for Infrastructure Development Ltd**

**TOWNS, Mr John, Member, Australian Council for Infrastructure Development Ltd**

**CHAIR**—I declare open this public hearing of the inquiry by the House of Representatives Standing Committee on Primary Industries and Regional Services into infrastructure and the development of Australia's regional areas. This is the first public hearing of our inquiry. To date, we have undertaken inspections and informal discussions in Queensland. The committee intends to carry out inspections and discussions in other states and we will be holding further hearings.

The committee regards this as a very important inquiry. The development of infrastructure in regional Australia is crucial to some of our most important industries and will provide the basis for the future viability of our rural communities. Regional concerns are now very much on the agenda and our inquiry will make a significant contribution to the debate. We will gather important information that will enable us to make strong recommendations about future regional policy initiatives.

Before proceeding, I advise the witnesses that committee public hearings are recognised as proceedings of the parliament and warrant the same respect that proceedings in the House of Representatives demand. Witnesses are protected by parliamentary privilege in respect of the evidence they give before the committee. Witnesses will not be asked to take an oath or to make an affirmation. However, they are reminded that false evidence given to a parliamentary committee may be regarded as a contempt of the parliament. The committee prefers that all evidence be given in public, but should witnesses at any stage wish to give evidence in private, they may ask to do so and the committee will give consideration to the request.

I welcome the representatives of the Australian Council for Infrastructure Development Ltd. We have received a very detailed submission from you—a most interesting submission, I would add. Would you firstly just like to give us a brief overview of your organisation and make a brief opening statement to the committee?

**Mr O'Neill**—AusCID is the principal industry association which represents the interests of investors, owners and operators of what is now this new class of privately owned public infrastructure, if I may use that term. It has at the moment nearly 70 members, of which some 22 are in that category of investors, owners or operators. Among the 22 are a mix of both Australian companies, foreign companies, banks, institutional investors, as well as more technically oriented or engineering/construction companies which have also moved to equity positions in infrastructure. Our goal is simply to promote a greater role for the private sector in the provision of public infrastructure predominantly through mechanisms which allow for direct investment.

**CHAIR**—Firstly, in your submission one of the core issues that you raise is this whole question of funding for infrastructure, and you are dealing with this question of public versus private. You have put forward a number of suggestions and what I would describe possibly as a joint venture exercise. Could you just outline for the committee what you see as the role, where you describe this key problem of funding of infrastructure encompassing both the public and the private sector?

**Mr O'Neill**—I will perhaps just give a brief overview in response to your question, then I would like to defer to Mr Timms who has much more detailed investment experience of the issue that I am going to address.

In a word, the problem that we face is simply that the Australian tax system was designed for an era in which public infrastructure was delivered entirely through government budgets at the federal level, the state level and, of course, the local government level. With the changes that have occurred in the last 12 years or so, we are now seeing the shift toward effectively a new paradigm whereby governments—for whatever reasons and I do not think we need to dwell on the reasons—have decided that there has to be a greater role for direct investment in infrastructure.

The private sector in a variety of forms has met that challenge quite enthusiastically, but in so doing has struck a considerable hurdle or series of hurdles, predominantly driven by a tax system that was designed for another era. We have clearly addressed this specifically in relation to a number of issues in the tax system. If I could pass to Mr Timms perhaps he can give you more specific examples of these hurdles and the difficulty of getting over them.

**Mr Timms**—I should explain that I am also the head of AMP's infrastructure group. We are probably the largest institutional investor—maybe the largest investor—in infrastructure in the country, including overseas investors and everything else. So, we have put a fair enough of money where our beliefs are.

The difficulties that we encounter are that, when you move beyond infrastructure which is justified on a pure user-pays basis, you get into areas where there is a clear requirement for some form of government subsidy or assistance. This may not be 100 per cent government subsidy or assistance, but it is clearly a case where a proportion of the funds required, not only to get the deal up but also to operate it on a day-to-day basis, need to be provided by the public sector.

This is a question of equalising opportunities between the city and the bush. If we accept that the bush is entitled to the same sorts of facilities and services as the city, then it seems logical that some form of assistance is going to have to be required simply because a shire of 7,000 out in western New South Wales cannot afford the same sorts of facilities as a municipality of 50,000 in Sydney. That is logical.

But when the private sector attempts to risk share with the government—in other words, it says, 'We will put in 60 per cent and the government puts in effectively 40 per cent—the current 51AD legislation on the ATO, and to a lesser extent 16D, says in effect that, unless there is 100 per cent risk assumption by the private sector, the private sector is not permitted to claim business expenses or depreciation in relation to that operation. This is not a secret.

It is not even a surprise, because about four or five inquiries over six or seven years have all identified this as a problem.

To give you a very concrete example, right at the moment there are somewhere between 500 and 1,000 bridges in the region of New South Wales which are in the process of falling down. There is a debate between the state and the federal government, I believe, as to how the cost of repairing those is to be undertaken. A very simple solution would be to say to the private sector, 'Why don't you build those bridges on a user-pays basis? We will string readers across the road and we can figure out how many trucks, buses or cars use them.' They will get remunerated on the basis of that calculation by the government making a very modest charge on, for example, the registration of the metropolitan users of motor vehicles. It is equalisation. The private sector then has an incentive to deliver a service which meets the needs of the transport going through.

In other words, there is no point in overbuilding, like Glebe Island bridge or something, because it is not going to be paid for overbuilding. If it underbuilds, it will not deliver the service necessary to get paid. The whole thing is very sensible. The revenue comes through on the basis of user pays and the government provides it. There is a subsidy both from the New South Wales government and indirectly from the federal government, because the federal government permits depreciation and tax deductions from the private sector owner. So you have equality of sharing between the state and the federal government. You have a user-pays driven model which allows you to build correctly according to your requirements, and the private sector will deliver it very quickly.

What is wrong with that? The tax office says it cannot happen. Section 51AD says effectively that, if you try to build it on that basis, because the revenue is collected by the New South Wales government, there is not appropriate risk sharing; therefore, you are not permitted to have your tax deduction and depreciation—end of story. That is a typical example of what is going wrong in regional infrastructure projects. They cannot be supported by user pays, because there just are not enough people out there. And when we get involved in public-private sector sharing, we cannot do it because of the tax limitations. I think that really says it all.

**CHAIR**—We come to the question of identifying a number of these projects. I was particularly interested in the IIS program and the projects that were identified in that. Could you tell us, firstly, is this still in operation?

**Mr O'Neill**—Technically, it is not. The two-year contract finished in late January this year. However, because there were unspent funds relating to the original allocation, in my final report to the minister a number of suggestions were made as to how certain elements of the original IIS project could be extended to ensure that those funds were expended wisely. The minister has replied to me just in the last week indicating that I should shortly receive some advice from the department re an extension of the IIS to finish off those unfinished projects. We are in a hiatus at the moment until I receive that advice from the department.

**CHAIR**—Could you give us a brief run down of how the projects were identified and what was the process involved?

**Mr O'Neill**—The process was very much one driven by local entities, namely, chambers of commerce and local development agencies, if I can use that term loosely. You will recall that there were around the country a series of organisations known as REDOs—regional development organisations—which were an offshoot of a program that the previous Labor government had put in place.

Also a number of the states had their own state based regional development agencies. We were in contact with both of those through state government development departments, as well as directly. We were also put in contact with chambers of commerce and had our own corporate network through the membership of AusCID. We went around the participating states and territories setting up workshops, largely driven by a set of priorities determined by the states and territories themselves as to where and when. For each of those workshops we had from AusCID a presentation based on what institutional investors required of a soundly conceived infrastructure project. We brought with us to those workshops usually one or two representatives of an institutional investor. For example, Mr Timms came to some of those workshops. I had somebody from the Commonwealth Bank, the National Australia Bank and Lend Lease at others.

We asked that those regional agencies identify projects in their region which they believed to be of an infrastructure character and to be worthy of analysis, because they were close to being capable of investment or capable of proceeding. Therefore, we left it entirely in their hands to come forward with those projects.

**CHAIR**—You have identified a number of other problems in your submission of actually achieving regional infrastructure apart from that important taxation issue—planning and coordination? Would you like to just expand on some of the other problems you have identified?

**Mr O'Neill**—Certainly. The most obvious issue that emerged, particularly through the IIS project was that there was a gap between, what I call loosely, bush expectations, and I will use the word 'bush' to describe the expression 'rural and regional' just to reduce the size of the mouthful. Frequently we found that, in coming forward with project ideas, the bush based proponent was firstly reluctant to consider that expertise had to be introduced very early in the process to work up the project. Rarely had they gone to an accountant, or gone even further to a city based major accountancy firm or major financial planning source of expertise, to help them work up the project.

They rarely had done significant marketing studies. While the ideas conceptually often sounded very good, they lacked the appropriate marketing back-up to say, 'Well, here is our guaranteed income stream' or 'Here are the risks associated with getting that income stream.' Therefore, their projects were at a much more conceptual level in many cases than would be required by an investor looking to actually write out a cheque and, at that point, jump into the project.

I have only skipped very lightly over the issues. In some water projects, for example, we discovered the problems were ones of government approval and significant risk associated with the process of obtaining state government approvals relating to aspects of those water projects that we looked at. In another case, it was to do with a regional airport. There were



agreements to be organised with the defence department about co-sharing the runway infrastructure and things like that. There tended to be a considerable underestimation on the part of the regional proponent of the amount of work required to work up all those areas of risk associated with a project so that it was then attractive enough for a private investor to put their funds into it.

There was also a cultural area of difficulty. We discovered that many people still have the perception that infrastructure ought to be, if it is not actually, delivered by government. This led to the perception that there should be a government bucket of money, if I can use the term rather loosely, into which they could dip to help them work up their project concepts. I think this might have been facilitated a little by some funding elements associated with the former REDO scheme, where there was a grant process available for doing feasibility studies. But, quite frankly, the few tens of thousands or even maybe \$100,000 available in those grants per project rarely would go very far towards doing a feasibility study on a significant infrastructure project.

So there is a range of examples, if you like, of the types of constraints we were discovering. A third one, which we have addressed in the report, relates to the fact that a lot of regional parts of Australia do not understand just what infrastructure they actually have, what its quality is, and what their medium- to long-term needs for new infrastructure might be. There is a lot of conventional thinking, again associated with the previous delivery mechanism being purely government. As I think Mr Timms alluded to, if you have to build a bridge it has to be a damn solid bridge. Therefore, there is an inclination to overengineer.

Again, the notion of public-private partnerships, which is really what we are all talking about now as the new way forward, is also about introducing private sector innovation and opportunities at a much earlier point in the project definition process, so that if you need a lightly engineered bridge you get a lightly engineered bridge. It is about understanding needs, putting those needs out into the marketplace and then having the creativity, innovation, competitiveness and contestability to bring forward the appropriate solution to match those needs.

**Mr NAIRN**—Mr Timms, you gave the example of bridge building. Just explain to me two things. First of all, you said that the cost could be recovered through an addition to car registration. That would be right across the board.

**Mr Timms**—We would have thought that if you accept the need for subsidy or provision of services to the regions over and above the metropolitan area it may not be unreasonable to have differential registration charges based on, say, a postcode.

**Mr NAIRN**—You would have a constitutional problem with that wouldn't you, though?

**Mr Timms**—I am putting forward a practical solution. But, if I might say so, this is exactly the dilemma we have. I was fortunate enough to meet with the Government of Singapore Investment Corporation a couple of weeks ago and I started explaining to them the challenges we faced in infrastructure here and they looked at me as if I were mad and commented: 'And you call us Orientals inscrutable.' They could not believe the sorts of difficulties that we run up against in these sorts of things.

**Mr NAIRN**—I am not trying to put a wet blanket on it. I am just raising it.

**Mr Timms**—There is an argument that suggests that, okay, you have a much smaller number of motor vehicles registered in the region; therefore, you provide a de facto subsidy if everybody pays the same amount. The point is not so much that, but to make sure that it is a residual amount and tagged to the usage of the bridges, because that is how you deliver the efficiency, that is how you get the right bridge for the right river—you base it on usage.

**Mr NAIRN**—What about responsibility for that bridge, then? How do you see that working? What length of time does the private sector investor basically have some sort of ownership of that?

**Mr Timms**—Conventionally on these sorts of plans it is somewhere between 25 and 35 years and then they are transferred back to the government at no charge. That is interesting in itself because it is one of the few examples I can think of where you have a positive wealth transfer—where you actually transfer wealth from the present into the future, which in itself I think is probably acceptable as a desirable way of going forward.

**Mr NAIRN**—That opens up the question, with the types of schemes that are around. Some are build, own, transfer or build and operate for a short period of time and then transfer or build, own, operate for some length of time and then transfer, and there are various arguments that go with that—sometimes you are transferring back to government a liability because it is at the end of its life or something like that. Many of your members have probably been involved in those types of projects out of Australia, which have been pretty popular in the last 10 or 20 years through a number of Asian countries particularly. Have you got anything you can give us on some of the experiences with other countries with these sorts of infrastructure developments and the various schemes that are used?

**Mr Timms**—Mostly, to be blunt, they have not worked. They have not worked for mostly the reason that we are trying to use what I would describe as mature economy financing techniques in developing countries. For example, trying to build a build, own, operate and transfer a toll road in China, where most of the people still do not use motor vehicles, is frankly of doubtful value. Building a build, own, operate and transfer toll road in Canada—where they have just completed the contracts for the 407, which is the equivalent of the Melbourne City Link—makes a lot of sense.

The other risk that you run—particularly in the Philippines and in Indonesia to a lesser extent—is that government supervision of the construction and operation has not been strong, for various reasons, and the roads that have been built have been very much substandard so they have tended to break down within five or 10 years rather than continue. So there is a major role for government in making sure that the contractor and owner lives up to his obligations. I would find it difficult to believe that, in the case of the Eastern Distributor in New South Wales or City Link in Melbourne, we would see the same sort of problems as they have had with the tollway in the Philippines. I do not see that at all, but there are problems, yes.

**Mr ANDREN**—I want to know your ideas for a national infrastructure blueprint, if I could put it that way. Is it feasible that a non-partisan outlook for 15 or 20 years could or

should be developed? I guess I bring into that the need for the data upon which to base it, and that includes things like population policy and immigration policy and so on?

**Mr Timms**—It is not only feasible; I think it is desirable, provided that we do not end up creating what amounts to a big project sponsorship group. The thing that terrifies us is that we will get sidetracked on massive overdevelopment projects such as, and let us name names, the Melbourne to Darwin Steel Mississippi or the ‘Roll the Waters Back from Queensland’ projects, to the exclusion of building a thousand bridges in New South Wales or developing and improving the Liverpool Ranges rail track. If we can do that on a rational basis, a bipartisan basis, it will be tremendous. If we end up being a big project sponsorship group and booster group, it would be very dangerous.

**Mr O’Neill**—If I may offer an insight on it. I think one point Mr Andren raised is most important and that is the question of information. Coming back to the IIS project, we did identify one of the missing links, so to speak, which was the inadequacy of information. Different regions had a different ability to identify what was the existing quality of infrastructure across a range of sectors in that region and, projecting forward, offer different qualities of insights as to what they might need. Certainly we would be inclined to draw the committee’s attention to the EPAC analysis in 1995 in which there were several recommendations about national oversight relating to information exchange relating to infrastructure in the states. This goes to the notion of infrastructure audits—the exchange of information to assist the strategic planning process within the states.

Let us be frank: we have awkward constitutional arrangements in this country and whether we like it or not there are seven, eight or nine—depending on how you do your counting—jurisdictions which have exclusive responsibilities within their own jurisdiction for the planning and delivery of infrastructure. So the notion of a national ‘plan’ is probably not feasible, but national oversight, given that the federal government is the steward of the national economy, would find some favour in the private sector simply because we need better information flows. We need better exchange of information, particularly as we move into an era where there is the roll-out of national competition policy and where the degree of contestability available now in markets did not exist 10 years ago—for example, in the electricity market. There have to be cross-border exchanges. There has to be an understanding of what the needs are in different jurisdictions and how those needs will be fulfilled, and that requires cooperation between governments.

**Mr ANDREN**—You mentioned the Steel Mississippi. Why would there be so much corporate interest in that project? Why aren’t bridges sexy as an investment?

**Mr Timms**—I am not convinced that there is corporate interest in that project. I believe part of the problem is, as with all these sorts of things, that the promoters of these projects get into the corporate offices and the corporate presidents or CEOs are very polite to them—they do not want to throw them out on their ears, particularly when they come with reasonable sponsorship—and that politeness is misinterpreted. It is a bit like—if I can use this analogy—‘Dad, mum says it is all right that I can go.’ ‘Yes, it is all right for you to go, if your mum says it is all right’ and back and forward it goes. My belief is that there is very little support for the Steel Mississippi within corporate Australia, except, of course, for those who want to build it—that is a different thing altogether. The people who want to make the

steel, the people who want to pour the concrete and the people who want to design it are very strongly in support of it. But, in terms of institutional investors, I think there is a realisation it is not a very sensible thing to do, but it is something that you can do.

**CHAIR**—Can we flesh out the concept that you put forward about the need for national planning. In your submission you identified, from when you were doing your work with IIS, a number of small projects which did not develop because of the lack of information, the lack of cooperation and certainly there are planning issues. Rather than looking at it as you have suggested—taking this nationalistic approach—have we got the data to say what these regional areas are? I go back to the REDO system and lots of other plans that were put forward. While some worked well, others did not. They did not address or define what was a regional area. There were some industries that fitted within one REDO and others fitted into another. What are the parameters that you think should be used to define regional areas, given the work that you have done with the IIS?

**Mr O'Neill**—That is not an easily answered question simply because firstly you have to understand that our focus is predominantly infrastructure, and to some extent the IIS did advance its purview beyond purely infrastructure. We did get some general business investment opportunities come through the door as well among those 68 projects that you have mentioned. To the extent that I am able to offer some comment on the question, firstly, we found that a lot of these regions are self-selecting. It is not that we can easily give you boundary markers that will help you put lines on a map.

The reason I suggest this, and I am advised by economists and others who have been involved around the edges of the IIS project, is that they are self-selecting is simply that the notion of what is a region is not just a geographic entity; it is a social entity, it is a function of patterns of development that have occurred in this country for the last 200 years. It is a function of what infrastructure is already there and can act as a magnet, if you like, for incremental investment. It is a function of transport routes. It is a function of the availability of other basic services like water, education, health and so on.

Arguably, the notion of what is a region is a dynamic thing because, as populations move and as economic opportunities change, what then becomes a cohesive region is a function of the relationships, both social and commercial, through the notion of clustering, for example, where interdependent businesses come together as a collective because they are in turn supporting some higher level economic output from the region. I am sure you could go with those ideas and notionally draw up a map of Australia with lines on the map that say, 'In the 1990s, there is a regional map of Australia.' But I would be loath to offer a view on whether that should form the basis for economic and governance type arrangements.

**CHAIR**—You also make the point in your submission that, if much of this infrastructure development is left to market forces, we will only see development along the coastal areas. That is further reinforcing your submission that this has to be a joint venture, a new partnership.

**Mr O'Neill**—That is correct. We are strongly of the view that where the market can be left to its own devices is simply where there is critical mass and where the population density is such that the elements that go to make a project commercially and technically

successful can be driven by normal commercial arrangements. Obviously, in cases where we have smaller communities and where it is desirable for reasons to do with environmental outcomes or social or political outcomes that there be support for the maintenance of basic services, we are fully of the view that the role of government is to provide access to all of its citizens to basic services. It really comes down then to determining how the cross-subsidisation between city and bush would then occur. That is where the partnership notion has to be made workable.

Our view is that this has to start with the tax system—get the tax system right. By saying that, we are saying, ‘Do not come up with awkward compromises.’ The more there are awkward compromises about so-called fixes to the tax system, the more one has to look to bandaiding on the side. It is the bandaids that lead to a degree of creativity on the part of the commercial side of the fence which, in turn, reinforces the suspicion—I am choosing my words very carefully obviously—on the part of government and the bureaucracy. This is not an ideal world and we know that fixing the tax system will lead to some awkward compromises.

Before we finish on our side, could I offer you the opportunity to hear from Mr Towns who has water expertise. A lot of the questions and the discussion have related to land transport but some of the issues you are raising are specifically addressed in relation to a range of water projects which I am keen to see brought forward simply because, apart from the intrinsic nature of the Australian continent in terms of its lack of water, it is also an issue to do with our poor use of water and an opportunity that is screaming to be dealt with. Perhaps if we can give Mr Towns a few minutes he can give you some insight into how there are many water projects that could be dealt with if the tax system is remedied.

**CHAIR**—Please do so.

**Mr Towns**—Water is a very interesting case. Mr Nairn asked about overseas examples. He may be interested to know about one of many in East Germany where they have had huge problems with infrastructure. A structure was developed there which was 51 per cent private sector owned and 49 per cent community owned. The community and government backed the income stream, so there was no problem with finance, and the private sector company got the tax deduction. It is very simple. It is economic. There are no subsidies and it is working. It is not that hard. We just choose to make it extremely hard in this country, for whatever reason I do not know. I come from a regional area so I agree with Mr Timms’s view, and I am sure the committee agrees, that people in regional areas should not have to settle for second-rate water quality.

**CHAIR**—You will not get anyone here disagreeing with you.

**Mr Towns**—I am sure of that. I guess the good news that the private sector can demonstrate today—contrary to what you may hear from certain vested interests—is that the technology and methodology now exists in the water area for even the smallest communities—I am talking down to 500 people—to get good quality drinking water and an environmentally responsible disposal system, to World Health Organisation standards, at an economic price, if you do it right. That is the water message. If the barriers were removed, and there are still a lot of bureaucratic barriers, which I will briefly refer to in a moment, a

substantial amount of regional Australia could be getting good levels of water treatment now and not have to stand in a queue for a handout.

Let us suppose that the tax problems that Mr Timms referred to are insurmountable. There are other methods of delivering projects like design, build and operate and turnkey where you can get a substantial number of benefits. You will not get all of them but enough to make it worthwhile. In our submission we mentioned one in Victoria in some detail, a BOOT project, which was delivering substantial millions of dollars of reductions in costs there, and they are doing it right. Would you be interested in a couple more examples of that nature?

**CHAIR**—Yes. I am just aware of the time.

**Mr Towns**—I will be brief.

**CHAIR**—I am also interested in you identifying those barriers that you mentioned.

**Mr Towns**—In terms of a barrier, the best one would be the small community of Marulan, only 120 kilometres up the road from here, where they needed a new water system. The government authority in New South Wales, which has monopolistic control of delivering water systems in regional New South Wales, estimated the cost to be at \$2.6 million and that, if the community came with them, they would give them a subsidy. This particular shire of Mulwaree made some inquiries and found that this was old technology and that the private sector could give them a brand new system for \$800,000. They had to fight bureaucracy to get it through but they got it through and it is operating. The quality of the water in Marulan is better than anyone ever expected. But they had to fight the bureaucracy to get approval to save taxpayers' money. That is the barrier. If the private sector was allowed to compete fairly for these water projects and not be handcuffed—

**CHAIR**—Is part of this problem simply that the information is not getting through or are you suggesting that this is the private sector just hitting a bureaucratic brick wall?

**Mr Towns**—The latter. It is simple.

**Mr O'Neill**—It is very much the fact that the contestability elements of national competition policy are too slowly rolling forward. There are blockages in place where the old culture is proving too slow to change. Alty that, though, with the situation where private investment needs to be made in the project as well and you also strike a tax barrier. So it is a combination of factors. Where these changes have been, perhaps unfairly, identified as a bit of a bogymen in terms of causing problems in the bush, we would argue to the contrary that they are actually part of saving the bush.

**Mr Timms**—The dilemma is that the culture relies upon the unchanged tax act to protect it by saying, 'Well, of course, you can't do this because the tax act won't allow you,' and that protects the culture, which reinforces the inability to change.

**CHAIR**—Yes, it becomes the catch-22.

**Mr Timms**—Yes, it is classic.

**Mr NAIRN**—What I was saying before is exactly what Mr Timms just said: that it is a culture problem in the bureaucracy. Does the current capital gains tax situation cause part of the dilemmas that you have? How does the capital gains tax impact on what you are seeking to do?

**Mr Timms**—Most of the projects that we are involved in tend to be long-term investment projects. For example, our South Australian regional water development, the Riverland water program, is a 30-year project. We are going to buy and hold that for 30 years and get a return out of it. At the end of that time the project will be worthless because we will be handing it back to the government—capital gains tax does not apply. In some cases it has an impact but, by and large, from our point of view—

**CHAIR**—It is not a major problem.

**Mr Timms**—No. It is not an issue for us in that respect.

**CHAIR**—We are out of time. Is there an area that we have not covered in any of our questions or a final point that you want to make?

**Mr O'Neill**—I would like to leave one final point because it helps to address some of the detail in this notion of the partnership and the way to go forward. From our perspective, one of the areas where you can really get greatest benefit from private sector involvement in the bush is to give the production to the private sector and leave the distribution to the government sector. So if you are going to have a partnership let the manufacturing, let the gross water production, if you are talking water, be what you give to the private sector because it can do that best. It can give you a cost per unit equivalent to what the city users will get. But you can leave the pipes, the distribution network, for the local councils, for your state government bodies to run. It should be the pipes that attract any cross-subsidisation, not the production end of it. At the moment we have in the bush a lot of pricing structures which in fact subsidise consumption, and it leads to distortions. Again, you need look no further than national competition policy to find some of the solutions to getting rid of the distortions that are in the system so that we get this public-private partnership working effectively.

**CHAIR**—Thank you very much for your attendance today.

[9.34 a.m.]

**HILL, Mr David, Research Officer, Australasian Railway Association Inc.**

**CHAIR**—We have received a submission from the Australasian Railway Association and have authorised its publication. Before we begin our questions, would you like to make a short opening statement to us?

**Mr Hill**—Yes, thank you. Firstly, I would like to apologise for the inability of our executive director, Mr John Kirk, to attend today. Unfortunately he is overseas on business, so I will be the sole representative. The Australasian Railway Association is the peak industry body for the rail sector in Australia and New Zealand. The ARA is a unique rail association. It represents the interests of both private and government owned rail operators—both freight and passenger—track owners, manufacturers of locomotives, rolling stock, signalling and communications, equipment suppliers, maintenance and construction companies, freight forwarders, investment banks, lawyers, IT and service providers, consultants and unions.

The association was formed in 1994 and currently has a membership of 123. Members of the association employ over 75,000 workers in virtually all parts of both Australia and New Zealand. The rail industry in Australia provides significant economic benefits to the country of around \$7 billion per year. Association members are also large exporters of goods and services and their rail expertise is widely recognised in the region as being of the highest quality.

The Australian rail industry presently holds overseas contracts worth over \$500 million per year, primarily in Asia. The majority of members, 90 per cent, are in the private sector and are profitable enterprises trading in highly competitive domestic and international markets. The association is entirely funded by its members through membership fees.

Australia's 40,000 kilometre rail network is a significant national asset and plays a key part in the economic wellbeing of the country. Australia's railways play a major role in hauling the nation's freight, serving intrastate and interstate markets and many important economic regions. Regional rail passenger services provide safe, efficient transport for millions of passengers each year and are an important means of transport for commuters and tourists. These services keep approximately 8 million car journeys off roads each year and are an integral part of many regional tourism economies.

Rail employment in Australia's regional areas generates significant economic benefit by returning millions of dollars in earnings to those areas each year. Australia's regional and rural communities need an efficient low cost transport system to provide timely delivery of produce and to improve export competitiveness. Rail freight services are an integral part of the distribution process for intrastate and interstate freight and a range of regional produce and bulk export commodities. These products are hauled safely and efficiently from inland production areas to warehouses, stores, processing plants and ports hundreds of kilometres away.



All iron ore haulage, 80 per cent of coal and 70 per cent of grain are hauled by rail, including 90 per cent of export coal and 80 per cent of export wheat. These three commodities comprise 20 per cent of Australia's exports worth around \$15 billion per year. Wheat is one of Australia's most important export commodities representing five per cent of total exports worth around \$4½ billion to the nation's export economy.

Efficiency improvements in Australia's railways have lowered the cost of grain transport by 25 per cent over the past 10 years. This has significantly improved the export competitiveness of Australian wheat and has lowered domestic food production costs. Interstate rail freight services keep approximately half a million road truck trips out of regional centres each year, significantly improving road safety and reducing road construction and maintenance costs.

Rail plays a vital role in transporting a wide range of agricultural products. In Victoria, rail safely, efficiently and economically transports grapes, oranges, dried fruit and wine from the Mildura and Goulburn Valley regions to domestic markets and ports. Wine and other export commodities from the New South Wales Riverina area are transported by rail to the docks in Melbourne and Sydney. Fruit and vegetables are rail hauled damage free from North Queensland to southern domestic markets in transit times competitive with road.

Rail provides an integral role in transporting potatoes 2,000 kilometres from Tasmania to Queensland for use in chips in McDonald's and KFC. Rail is the preferred land transport mode because the potatoes are transported quickly, efficiently and reliably without any loss of quality and at a price competitive with local produce.

In Queensland, rail has evolved as vital to the state's livestock farmers. Livestock is conveyed hundreds of kilometres with minimal loss using specialised wagons and containers. In Tasmania, rail is winning back traffic that many thought had been permanently lost to road. Cement, coal, logs, containers, newsprint and even milk have all been targeted for increased market share by the newly privatised Tasrail. Under private ownership, Tasrail has made a profit for the first time in 127 years.

Regional and rural rail services also haul many farm inputs, such as fuel and fertiliser and a wide range of general freight commodities. Regional and short-haul private rail operators are playing an increasingly important role in Australia's rail freight task. Many of these operators are based in rural areas and provide a significant boost to local economies by providing employment and improving the distribution process and competitiveness of rural produce. These operators have minimal overheads, are highly customer focused, and have successfully regained traffic lost to road. This provides benefits to regional economies through reduced road maintenance and construction costs and fewer road accidents.

Regional roads are generally not constructed or maintained to the same standard as major highways. More freight on rail in these areas reduces the need for costly road upgrades and ongoing maintenance. Lack of investment in rural rail services often causes road transport to be used instead of rail. This increases the cost of transport to rural communities by increasing road wear and tear on lightly constructed rural roads and bridges, causing more road accidents and using three times more fuel than rail transport. The cost of repairing roads damaged by heavy trucks is a major issue for rural local government.

The heavily subsidised road transport industry continues to receive massive road funding and free productivity improvements from governments in contrast with minimal investment in rail. An example is in south-west Victoria where the Victorian government is spending \$4½ million upgrading bridges to allow trucks to carry increased mass between Mount Gambier and Portland. Had that money been spent on standardising the parallel railway line, the need to upgrade bridges for heavier trucks would not have arisen, with consequent savings in ongoing road maintenance costs.

Throughout Australia, increased mass limits for trucks will require at least \$1 billion to be spent on repairing roads and bridges that are unable to safely handle heavier trucks. Many of these bridges that will require strengthening or repair are in rural areas. The cost of these bridgeworks will be an added cost burden to rural communities as there are no plans to recover these costs from the trucking industry. This is in direct contrast to rail operators who must pay for the cost of maintaining and improving their infrastructure through direct track ownership or through track access payments.

In conclusion, an extensive regional and rural rail network is essential to the nation's economy. The rail industry's productivity improvements, operational efficiencies and private sector participation have provided many benefits to regional and rural communities. Federal, state and local governments all have a role to ensure that rail is an integral part of regional transport strategies for both passenger and freight services. The cost of developing and maintaining regional transport infrastructure would be substantially greater without rail infrastructure and the economic and environmental advantages it provides.

Investment in regional rail infrastructure has developed an efficient transport system and creates hundreds of jobs in manufacture, supply and maintenance of rail track and equipment. Many of these jobs are in regional areas, such as the New South Wales Hunter Valley, or regional centres such as Maryborough in Queensland. Australia's efficient and competitive rail industry provides many benefits to regional and rural Australia. Implementation of integrated land transport policies will ensure that the role of rail in serving these areas continues to grow.

**CHAIR**—Thank you very much indeed. You have very ably demonstrated a lot of what you see as the advantages and the benefits of rail transport in this country. What then would you identify as the major obstacles to attracting investment into developing the rail network further?

**Mr Hill**—I think there are a range of areas. Firstly, there is the lack of competitive neutrality between rail and road. I think that investors see a government that favours road transport in terms of investment funding and cost recovery—those sorts of areas—and when they look at investments they may tend to see rail as perhaps less attractive than some other areas because of the ability to make an effective return.

Secondly, because there is a lack of government funding in rail, it makes it harder for the private sector to invest in commercial projects. I do not want to focus on interstate necessarily but, using that as an example, if you look at the interstate rail network, there is a lot of work that needs to be done on that to bring it up to a level where the private sector would happily invest in projects that would provide a commercial return. Those are the sorts

of areas that presently inhibit the private sector. There are also other areas to do with various sections of the tax act—section 51AD—to do with investment and those sorts of things which basically make it difficult for, or are not conducive to, private sector investment in rail.

**CHAIR**—You mentioned in both your submission and your opening statement the success of Tasrail. Can you outline for us just why that has proven to be so successful? As you have stated, it is in the black for the first time.

**Mr Hill**—That is a good example of a combination of government and private sector cooperation and, I might add, integrated transport policies. The Tasmanian government is at the forefront of integrated transport policies in Australia. They are only allowing heavier trucks to operate to railheads to provide feeder traffic to rail rather than competing directly with rail—that is one situation.

Under the privatisation of Tasrail, the federal government agreed to invest in track to support infrastructure. Because it is under private ownership, Tasrail has also gone into a very aggressive marketing campaign and is attracting a lot of traffic back to rail that the previous Australian National government owner was basically getting out of. Had that rail system remained in public ownership, it may very well have shut down. Under private ownership, with the new entrepreneurial approach to things and with aggressive marketing, they have got back into a lot of markets where they have seen opportunities. So it is a combination of aggressive private sector ownership plus good government and private sector cooperation and an integrated transport policy, essentially.

**Mr ADAMS**—Can I also add that there was a lot of work done before the company took over and it was privatised. There had been a lot of turnaround in the conditioning of that rail before the other company took over and I think that added to the—

**Mr Hill**—Absolutely. I might add that in Tasmania, for example, in terms of integrated transport—and this is the approach that is lacking elsewhere in the country—there is a proposal for a magnesite mine in the north-west of the state. That would require a rail spur. The residents in those areas were initially a bit concerned about having a rail line through their backyards, but when it was pointed out to them that, if they did not have the rail line, they would have a B-double truck every 10 minutes of every day throughout the year, they quickly saw the advantages of having one train a day. So the government looked at both options and concluded, in consultation with the community, that overall they would be better off spending money on building a rail link than on upgrading roads.

**Mr ADAMS**—They actually changed where the spur was going to go so that they met the needs of the community.

**Mr ANDREN**—Mr Hill, in regard to the integrated road rail model, I understand that in the States, where road is not regarded as a competitor to rail, they tend to operate in a very integrated fashion. The transport operators—and the most enlightened ones that I meet around the place, too—would rather use rail if the system was up to speed, if you like. What is the experience in the States with the integration of road, rail and the operators?

**Mr Hill**—I think it is fair to say that these days smart trucking operators use rail because of the cost advantages it provides. In the US, trucking operators are using rail, for example, between Chicago and Los Angeles. They put their trucks on rail for the long haul to save fuel, labour costs and vehicle costs and so on, and so the drivers can go home at night and let the rail do the long haul. They are saving costs and the community benefits because basically 90 per cent of freight on that route goes by rail. The trucking operators are seeing the cost savings. The rail operators are putting in place fast, efficient rail services.

The three major trucking operators over there, JB Hunt, Schneider and Swift, I think is the other one, are all getting into rail in a big way. They are also using what they call road rail vehicles, which are semi-trailers convertible to wagons, on their passenger trains—this kind of stuff. So the smart trucking operators are seeing those advantages and it is working very effectively for both modes. The trucking operators save costs and the rail operators provide a fast, efficient service. It is working very well.

**Mr ANDREN**—I was told by one major transport operator here—this is a couple of years old now; I do not know what the updated figures are—that the access rates that were being charged by the state government in New South Wales were something like four to five times what they regarded as a fair rate. What sort of disincentive, if you like, is there in the system to not enable trucking operators to use rail?

**Mr Hill**—It depends on the corridor, I suppose. If you look at the east-west corridor between, say, Sydney or Melbourne and Perth, the trucking operators are getting onto rail. One of the country's largest trucking operators, Finemore, is a big user of National Rail because they see the advantages of that. I think on the east coast there are a lot of infrastructure impediments in terms of loading gauges and track quality and so on which do not prohibit, but certainly inhibit, the ability of rail to effectively either compete with road or coordinate services more effectively with road as it does on the west coast, to Perth. There, the rail infrastructure is of a very high standard and you can have heavier axle loads, fast trains, double stacked containers and all that sort of stuff, which attracts trucking operators to use rail. On the east coast you have a lot of infrastructure impediments which basically inhibit that kind of system developing.

In terms of access rates, that is a nebulous sort of comment. That is something the association tends not to get into. There are various views around about that kind of situation. It is not a debate that we would really want to get into. It is between the operators and the track access providers to work out an appropriate commercial rate.

**Mr NAIRN**—But surely it is a critical aspect?

**Mr Hill**—Rates are developed commercially between operators and, for example, the Rail Access Corporation. They are private commercial contracts.

**Mr NAIRN**—That is fine, but Peter was asking you about the charge by the New South Wales government for access.

**Mr Hill**—In terms of the Rail Access Corporation? That is something for them to work out. We as an association cannot determine what their rates are. It is not really a debate we

want to get into because there are as many views on access arrangements within the industry as there are members in our association. Those rates are not divulged by anyone because of the commercial sensitivity in terms of other operators.

**Mr ANDREN**—What I am getting at is the role of government in helping to provide infrastructure and then charging a fair rate by the privateers. If we have an attitude of total cost recovery without looking at the benefits that you have outlined in your report of better greenhouse results, more efficient freight carriage and so on, are our state governments up to speed in the rationalism of their own approach?

**Mr Hill**—What I could say in answer to your question is that the approach we should take is what happens in England. There you have freight grants available to freight operators and there are two types of freight grants. For example, if a private rail freight operator wants to operate a service into a private company and to put in a new siding or something, they can apply to the government to get a grant to put that rail spur back in. The other grant is addressing the question you have just asked of access provision. If a private rail operator wants to operate a service, and they find that the access rates they have been charged prevent them from operating a commercial and competitive service, they can apply to the government for an access subsidy, which will then enable them to compete with road and provide an effective service.

If you are saying that the rates are too high and are preventing operators getting into the market—and I suspect that may happen in some cases—then if we adopted that kind of principle, you would have a freight grant system whereby that operator could apply to the New South Wales government and say, ‘Can we have a subsidy to operate this service because the rates we are being charged prevent us operating a commercial service?’ What they have then is an environmental accounting framework whereby, if they can demonstrate the advantages to the government and the community by getting all the trucks off the road, then the government will provide that access subsidy.

I think you are right. We have a system where we are expecting rail operators to be charged full commercial rates but then, on the other hand, we do not charge that for the trucking operators. It is how you address that imbalance that is the significant problem.

**Mr ADAMS**—Could you, as an association, supply an overview of rail infrastructure needs in Australia?

**Mr Hill**—We certainly could. There are lots of infrastructure needs, whether those be upgrading to the state rail network, providing better urban rail public transport services, or looking at links to regional areas. One example of the last is in south-western Victoria. When the rail line between Melbourne and Adelaide was standardised back in 1995, that isolated a number of grain lines in that area. They were subsequently standardised for a cost of \$20 million because the government felt that was a far more commercially viable option than to spend \$30 million on upgrading roads and then have ongoing road maintenance costs. However, the rail line from Mount Gambier to Portland is still broad gauge and does not have access to the port of Portland because that link is standard gauge. What we would see done in that area is standardising the rail line from Mount Gambier to Portland to enable

logs and all sorts of freight from Mount Gambier to be railed directly into Portland. That would then obviate the need to upgrade all those bridges in that area for heavier trucks.

In large parts of South Australia the rail lines have been ripped up and they do not have access to grain services anymore. Australian Southern Railroad, the new private operator over there, would love to increase its grain market share, but will never get much beyond 50 per cent because the infrastructure is not there to do that. We have to look at areas where rail could provide an effective service, whether the rail links are available, and whether we need new rail links such as the magnesite mine in Tasmania and those sorts of areas. I think we have to look at what we have at the moment and see where we need new rail lines.

**Mr ADAMS**—We have all heard in recent years that rail is about big trains, long trains, made-up trains in Melbourne that can go to Brisbane, that those are the profitable trains, and that short-haul trains are still inefficient and not cost-effective. Is that an urban myth or a regional myth?

**Mr Hill**—It is an urban myth. You only to have a look at the US where there are over 500 short lines all providing very effective services on routes operating from three kilometres to 300 kilometres. They provide feeder services to the bigger lines and that is what is happening in Australia. You have Austrac operating out of the Riverina area providing a feeder service to FreightCorp at Junee. They operate their own trains, but they also provide feeder services in that area and that is very short haul.

The longer and faster trains to Perth, say, are the most profitable, but there are other niche markets where small short-haul operators are providing niche profitable operations. Austrac, for example, provides short-haul container shunt traffic in Sydney between Port Botany and one of the urban freight terminals there. It provides a very effective container shuttle service. These sorts of things are very effective, so it is an urban myth to say that rail is only good over long distances, or for bulk traffic or whatever. Depending on how you structure your operation, rail can be profitable in a whole range of areas. A US example is in New Jersey where a private operator operates over 20 kilometres essentially serving toy factories in that area. There are a whole range of areas.

**Mr ADAMS**—Do you know the figures in America for road freight versus rail freight?

**Mr Hill**—Overall, rail freight over there has a 40 per cent market share, which is similar to Australia.

**Mr CAMERON THOMPSON**—How much better, more competitive and effective will the rail network be when national competition policy starts to have an impact on some of the lines? In Queensland, where I am from, there is no competition with Queensland Rail until 2002 or something like that.

**Mr Hill**—I think that is only on the coal lines. My understanding is that the rest of the network is available for competition. They have a competitor, a private operator, between Cairns and Kuranda. Their network is open to access, but I think the coal lines have a moratorium on them.

**Mr CAMERON THOMPSON**—When the coal lines are competitive, is there going to be an impact, because there has been stuff-all from my perspective so far?

**Mr Hill**—It is difficult to say. If a competitor came in and operated coal trains in Queensland, they might provide a better and cheaper service than Queensland Rail. It is one of those hypothetical things that there is no way of knowing. We know, for example, that between Melbourne and Perth, with private rail freight operators, freight rates have come down by about 40 per cent. Whether that happens on the coal lines in Queensland is another matter. I cannot comment on that. Clearly, from the perspective of the coalminers, competition would be advantageous to them.

**Mr CAMERON THOMPSON**—Take the coal lines. The freight rates charged by Queensland rail have been a de facto royalty on those coalmine operators for years. Are there people out there interested in operating those lines? Are we going to see a significant improvement in the way that operates? No-one could be in a better position to judge that surely than someone from an overview that you have?

**Mr Hill**—Yes and no. You would find Queensland Rail was at the leading edge of technological efficiency in terms of operating trains. There is no doubt about that. They are one of the biggest and best heavy haul operators in the world and their narrow gauge coal operations are as efficient as anywhere. That is one issue.

In terms of competition and rates, I do not know if there are any operators out there wanting to do that. They would have to invest heavily in obtaining their own rolling stock and so on, so it would be a huge cost burden for them. The operators on the east-west freight line have not had to make any significant capital investments. I do not think the opportunity is there for a competitor to Queensland Rail to do that. That will affect whether any competitors appear. I do not know if there is anybody out there wanting to do that. There may be; there may not be. I am not aware of anybody at the moment. In three years time, there may be heaps of them. It is impossible to forecast that sort of situation. It could be that, when the moratorium is lifted, a narrow gauge operator from overseas may suddenly come in with a whole bunch of equipment and want to run a train. Who knows? I do not think you can predict that at the moment. There is competition in the rail industry in a whole range of areas, but we are not aware of specific instances of that.

**CHAIR**—While you are speculating, what is your view on the proposed Melbourne to Darwin railway?

**Mr Hill**—Which particular one?

**CHAIR**—Point taken. What is your view on the concept?

**Mr Hill**—Rail infrastructure is useful. If the proponents of the project can justify it commercially, and they can get investors and people think it is going to make a buck, that is fine. Our view is that those sorts of projects should not deflect attention from the needs of the existing network. Take the Adelaide-Alice Springs-Darwin rail line. You might have a high-speed world-class rail system linking up to Darwin, but then when you got it to

Adelaide and had to bring your train to Melbourne, you would have to chop it in half lengthwise to get it to Melbourne.

It is all very well to look at new links, but you cannot overlook the fact that what we have at the moment needs work as well. Essentially, a lot of attention to the existing network is being deflected by all those grand schemes, which may have a commercial basis. If someone can come up with the numbers and make a buck out of it, that is fine. The government should not be diverted from what is required in terms of the existing network.

**CHAIR**—What do you see as some of the opportunities and problems for the development of rail infrastructure for tourism?

**Mr Hill**—That is a tricky one. I suppose the Great Southern Railway operate their private interstate trains; the *Ghan*, the *Indian Pacific* and the *Overland* do quite well. Queensland Rail has its Cairns to Kuranda tourist train, but they run a very extensive tourist rail network. What sorts of services were you thinking of?

**Mr ADAMS**—Let us say connecting passenger train carriages to freight trains.

**Mr Hill**—That is an interesting concept. In America, they tend to go the other way around. They have started putting freight wagons on their passenger trains. The impediments to that are basically getting safety accreditation and making sure that the equipment is compatible and those sorts of things. In the mid-1980s, Australian National Railways used to do that. Between Adelaide and Port Pirie they used to run container flats on their passenger train connecting with the *Indian Pacific*, so that was a done thing. That has also happened in other parts of Australia over the years. It is not happening at the moment primarily because you have different safety regimes in different states and compatibility of equipment and so on. There are a lot of regulatory hurdles to go through to get equipment to comply. There are requirements that apply to passenger trains and there are other requirements that apply to freight trains, and getting those two to match makes things a bit difficult.

Rail operators in Australia provide a very good tourism service. If you look at New South Wales's Countrylink passenger services, it operates extensively throughout New South Wales. Victoria has got an extensive network of trains and buses. In terms of ferrying tourists, we have got a pretty good network.

**Mr ADAMS**—Would you say that we have a good national rail system now? I do not know that the rail system goes into the New South Wales metropolitan area. Does that bypass that?

**Mr Hill**—In terms of infrastructure, there are a number of missing links. I think the biggest missing link is Melbourne to Brisbane direct. There is not effective rail competition at the moment to the Newell Highway and, consequently, road gets the lion's share of both the freight and passengers up the Newell Highway. There are two proposals, for example, from Melbourne to Darwin. One of them is looking at linking existing rail lines and providing a direct link through there. I think that is a very good option because that would provide an alternative to the winding coastal route through Sydney. If there was an inland route going to Brisbane from Melbourne, it would avoid all the congestion and problems.



**Mr ADAMS**—And have a spur line into Sydney.

**Mr Hill**—That is right. You could still have the existing line but a direct route between Melbourne and Brisbane would provide substantial relief to the Newell Highway and remove the pressure to upgrade that road and put road trains on it, which is being proposed. So there are a number of missing links. Coming back to one of your questions about Melbourne and Darwin, and all that stuff, we have to look at what we have at the moment and look at how we can fix things there without getting too carried away with grandiose schemes.

**Mr ADAMS**—But some of that rail line is the original line so it is 100 years old—there are the hills and the grading and all of that.

**Mr Hill**—Yes, that is right, but technology can overcome all of those things. Modern engineering methods can overcome all of those sorts of problems.

**Mr ADAMS**—So it is only money.

**Mr Hill**—Yes, it comes back to government will and government commitment to an integrated transport strategy that looks at each mode and funds them accordingly and recognises their benefits rather than saying, ‘We will invest everything in road,’ which seems to be happening at the moment.

**Mr ADAMS**—Or private investment.

**Mr Hill**—Yes. The federal government spends \$1.6 billion each year on roads, yet they cannot seem to find money for rail, other than \$250 million over four years, which will be the end of it. We have to look at how serious we are about infrastructure investment.

**CHAIR**—Is your association looking seriously at the types of funding arrangements for the future? You have several times this morning mentioned government, and I know you were here for the previous presentation. Is your association seriously looking at other means of funding?

**Mr Hill**—We have a taxation subcommittee set up to look at those sorts of things. I am not heavily involved with that so I am not in a position to comment on that, but there are people looking at ways to attract private sector investment.

**Mr NAIRN**—I have a question about maintenance costs. With roads you tend to talk about the need for rebituminising in a 20- to 25-year cycle, or something like that, depending on the type of highway. Is there a rule of thumb with rail?

**Mr Hill**—In terms of maintenance costs and so on, there is a rule of thumb but it depends on how it is used. For example, the iron ore railways in north-west Western Australia are out there all the time ensuring that they have got top class rail. They have to. They cannot afford accidents or anything at all to go wrong. So they are out there continually attending to their track. That goes on to a lesser extent everywhere else but it depends on the extent and nature of the traffic. A rural branch line with one or two trains a week may see minimal maintenance but then a heavily used passenger train service—say,

between Melbourne and Geelong—gets quite a lot of maintenance for safety reasons. It is similar to road: it depends on the amount of traffic, where it is, what it is serving and all those sorts of things. Rail maintenance includes things like rail grinding, where it smooths the surface of the rail, repacking ballast, resleepering and all those sorts of things. There is an extensive program that goes on. It really depends on the utilisation of that rail line.

**Mr NAIRN**—But, overall, do you use a third of the cost as the figure?

**Mr Hill**—Essentially, yes. If you look at a basic two-lane road compared with a basic single-track railway line, you are looking at about \$3,000 or \$4,000 a year to maintain the rail line on average versus, perhaps, \$9,000 or \$10,000 to maintain the road on average—that is the order of magnitude of the figures. They would vary according to exactly where it was, but they are the relative sorts of expenditures.

**Mr SECKER**—Some of my eastern state colleagues have not been thinking very favourably about the Alice Springs to Darwin line. What are your thoughts on the feasibility of that line and where it might go from here?

**Mr Hill**—It comes back to my earlier comments about not losing sight of where we are at the moment with these things. We have an extensive rail network at the moment which we should not neglect or ignore; we should not get diverted by these other projects. As I said, if you have a world-class rail line between Alice Springs and Darwin you might get your train to Adelaide, but where it goes from there will depend upon the available infrastructure. If you send it to Perth, it is okay; if you send it east, it is not. I think that is the problem we have to address—around the east coast between Melbourne and Adelaide and from Sydney to Melbourne, and so on.

I draw your attention, for example, to where the federal government is funding a road tunnel through the Adelaide Hills for a cost of \$138 million. That will save trucks about 10 minutes. If you had put that money into the Adelaide-Melbourne rail line, you would have saved three hours. That is the kind of lack of integrated transport planning that I think we are being subjected to at the moment. That is the kind of problem that we are being faced with. We are looking at spending money on Adelaide to Darwin, or Alice Springs to Darwin, but we are overlooking a fair few fundamental problems elsewhere in the system.

**Mr ANDREN**—Following up that, would you care to suggest why there is this disparity between the emphasis on either mode?

**Mr Hill**—I think we have institutionalised road bias in this country. Governments of all levels get about \$15 billion a year from roads. It is like the tobacco industry—if you get a lot of income, you are not going to cut that off in a hurry. I think that, over the years, a lot of transport planners, bureaucrats and so on have come from road backgrounds. For example, if you look at transport planning in Victoria, Monash University has a transport engineering school that is based on roads. There is not a lot of rail input into all this sort of stuff, so it comes from a whole range of things. Then you have institutions like the motor car industry, truck manufacturers, bitumen makers—all those sorts of people—there is a very heavy influence. The other factor is that rail is, I suppose, a victim of its own efficiency. Because it uses less of everything, it is not as influential—it has fewer people; it uses less fuel. But

even though it is more efficient than road by far, that efficiency makes it less powerful as a lobby force. So I think they are the sorts of influences we are subjected to.

**CHAIR**—Do you see your association playing a more pro-active role in the future, with a greater emphasis on integrating rail and road rather than it being either or?

**Mr Hill**—Yes. Our view is entirely integrated transport planning. We have been promoting this for a couple of years now. We see that as being the most practical and effective approach to transport planning. If you are going to maximise your transport dollar, integrated transport planning is the only way to do that. For example, the NSW and federal governments are presently spending \$4 billion upgrading the Pacific Highway and nothing on the parallel railway line. Our view would be that, if a proper cost-benefit appraisal of upgrading both the rail and the road had been done, you could probably spend a billion on the road and a billion on the rail, have two really good, effective links and only spend half of what you would have spent on the road. So I think it is that lack of integrated planning that is causing a lot of overexpenditure in transport investment and causing a lack of economic efficiency.

**CHAIR**—Why do you think there is that lack of planning for an integrated system?

**Mr Hill**—I think it comes back to what I said a minute ago—that it is an inherited institutionalised road bias in transport planning in this country which is inhibiting the ability to look at things beyond roads. There is lip service paid to rail but, basically, a lot of emphasis is on roads. Part of that arises, historically, because rail has been government owned and has not had the ability to influence the debate to any great extent. We are now seeing that start to turn around and these issues are becoming more prominent and publicised.

**Mr ADAMS**—What are the circumstances in a place like the United States?

**Mr Hill**—They have just passed legislation for the second time, a renewal of an existing bill, called the Intermodal Surface Transportation Equity Act. They will have the ability through that act to use highway trust funds for rail projects, and are doing so for urban public transport, short haul railways and that kind of thing. Similarly, in New Zealand, there is a thing called TranzFund, where income from transport users is used for a whole range of projects. So they do not see it necessarily as road money going to roads; they see this as income from transport users going to transport infrastructure projects that are all assessed, and ‘we will see what happens from there’. I think that is the kind of approach that would work in Australia, some kind of intermodal transport act passed federally that says, ‘Here’s a transport fund; here’s a pot. Let’s evaluate projects equitably.’ On the same basis, historically, we have seen a narrow commercial investment approach to rail but a very social, environmental, broad, holistic approach to roads so, consequently, those projects have tended to win out. Whereas if we had the same kind of investment criteria applied to rail and road, we would see more balanced transport planning, decision making and funding occur.

**CHAIR**—Would you see a better promotion of successes like Tasrail aiding your position for a more integrated system? Do you think the lack of promotion, the lack of

information that investors have is part of the problem or do you see the major problem as just being that institutionalised culture?

**Mr Hill**—I think it is a combination. I think it is institutionalised plus the lack of knowledge of what is happening in Tasmania. If the combination of the integrated transport approach in Tasmania plus the success of Tasrail were promoted widely, and used as a model, we would see a lot more balance happening throughout the rest of the country.

**CHAIR**—What sort of promotion does your organisation do for these success stories?

**Mr Hill**—For these sorts of things we do presentations, we do letters to governments, and so on. We put out press releases—all sorts of things.

**CHAIR**—Have you ever taken part in any of the rural infrastructure projects that have been conducted?

**Mr Hill**—When you say taken part?

**CHAIR**—Have you taken part to promote that investment into an integrated transport system which could be very successful for investors?

**Mr ADAMS**—Do you put the tent up at the local show?

**Mr Hill**—We have an Ausrail—

**CHAIR**—With due respect, I do not think appearing before us is a great way to promote your cause.

**Mr Hill**—Sure. If you are talking about appearing at the Bathurst showground or something—

**CHAIR**—How are you spreading your message, in other words?

**Mr Hill**—Our association members are out there doing that. FreightCorp, for example, gets out there and promotes its services as an integrated transport provider. We, as an association, do it globally through these sorts of things but our individual members do it through their own little patch, and we do not want to tread on their toes. In each state, we have members who do these sorts of things—Queensland Rail is out there doing its bit; FreightCorp is doing its bit; and Australia Southern Rail in South Australia is doing its bit. We do what we can on a global level and then our members do what they do in their area.

**CHAIR**—Perhaps it is time to review your means of promotion.

**Mr ADAMS**—Looking globally and acting globally.

**Mr ANDREN**—They might need a subsidy, Madam Chair!

**Mr Hill**—We are a highly profitable, efficient industry. We do not require subsidies—other than for urban passengers, for which there are significant social and environmental reasons.

**CHAIR**—I think that is an excellent note to end on. We are out of time but are there any matters that committee members have raised which you would like to make to us before we finish?

**Mr Hill**—No, I think we have pretty much covered everything.

**Mr ADAMS**—All those rail commissioners' bands, those special ones that each commissioner in each state used to have with all the brass in them and all those wonderful things; do they still exist?

**CHAIR**—I think that was before my time.

**Mr Hill**—They do exist, mostly in private hands, actually.

**CHAIR**—Thank you for attending here this morning.

**Proceedings suspended from 10.13 a.m. to 10.28 a.m.**

**CRAIK, Dr Wendy, Executive Director, National Farmers Federation**

**CRICK, Mr Geoffrey, Chairman, Farm Business Management Committee, National Farmers Federation**

**GRIMSON, Mr Mark John, Deputy Director, Rural Policy, National Farmers Federation**

**NEEDHAM, Mr Mark, Director, Infrastructure Development, National Farmers Federation**

**RITCHIE, Mr Todd, Director, Economic Policy, National Farmers Federation**

**CHAIR**—Welcome. We have received a submission from the National Farmers Federation and have authorised it for publication. Before we begin our questions, would you like to make a brief opening statement to the committee?

**Mr Crick**—Yes, thank you. The NFF would like to thank you for the opportunity to appear before the inquiry on this most important issue of infrastructure and the development of Australia's regional areas. Agriculture represents the very beginning of the production chain, particularly in food and fibre. Without an efficient and competitive agricultural sector at the base of the production pyramid, many manufacturing industries would not exist.

The role of infrastructure in regional areas is crucial since it underpins development. Unfortunately, farmers have over a period of time witnessed a run-down of rural infrastructure and services which have impacted adversely on their own rural enterprises and on the associated local communities located throughout rural and regional Australia. In many parts of rural Australia, this run-down of basic infrastructure has reached the point where the quality of life for those living in these areas has deteriorated markedly. The NFF believes that governments must recognise that infrastructure should be provided on an equitable basis to all Australians, both in terms of access and affordability. For regional communities to be viable and employment opportunities maximised, they must have strong industries, a vibrant rural sector, and equitable and affordable access to social services.

The NFF's recommendations in relation to infrastructure are outlined in our submission. I would like to highlight a few of the major points but, first, I will make some general comments on the issue of infrastructure provision.

Historically, substantial infrastructure investment was essential for the economic development of our nation. As an essential ingredient to modern economic growth, there is no doubt that sustained investment in infrastructure is highly desirable. It was stated at the Fitzgerald inquiry, 'It is beyond dispute that investment in economic infrastructure, much of it traditionally publicly provided, affects the productivity of the private sector capital.'

It has long been accepted that governments have a key role in the provision of infrastructure because it may often be impossible for a private provider to reap the benefit of investing in such enterprises. There are, however, now concerns that Australia's

infrastructure stock may be running down as governments increasingly spend less on capital works and more on recurrent expenditure. Recurrent expenditure by all levels of government in Australia is now around 15 times greater than capital expenditure. While current expenditure is increasing rapidly, capital expenditure is languishing.

The new idea that infrastructure costs should be borne by users alone is contrary to economic theory, which stresses that in the case of externalities there will be underprovision of useful infrastructure if the full cost is sought to be recovered from the direct users only. Economic efficiency dictates not a policy of user pays but a policy of beneficiary pays. To the extent that infrastructure reform has meant a shift towards fully commercial models under which the whole costs of infrastructure must be met by users and by users alone, we question that this is neither rational nor efficient, particularly in the rural and regional sector.

The issue of infrastructure provision is closely tied to that of national competition policy. At our most recent meeting in Longreach, the NFF council recommended in relation to national competition policy that owners of infrastructure assets be required to meet universal service obligations with regard to the provision of services to rural and regional Australia. It recommended increased funding for regions and sectors affected by the implementation of national competition policy for adjustment, and that governments recognise that rural and regional Australians—together with other users of infrastructure—are unfairly disadvantaged and inadequately resourced to fully participate in the rapid and diverse range of review processes that are currently under way. The government should ensure that adequate funding is made available to user groups, so that a balanced debate can take place and that the reforms result in the establishment of competitive service providers and do not simply create non-government revenue monopolies.

The greatest asset of Australian agriculture—as well as the broader community living and working in rural and regional Australia—is people. The NFF is extremely concerned that the next generation of our young people appears to have been forgotten. Access for rural students to tertiary education continues to decline. The equal opportunities commissioner's report *Bush talks* stated that, in 1989, 25 per cent of those eligible took up tertiary education and, sadly, eight years later, that has dropped to 16 per cent.

In health services, rural and regional Australians have lower levels of health services than urban Australians to the point that the Medicare levy rebates in general practitioner items in the city equate to \$145 per person per year whilst in the country it is only \$92 per person per year. In fact, we also have a higher level of illnesses.

In telecommunications, the NFF believes that all Australians must have affordable and equitable access to quality telecommunications products and services as a matter of urgency. We look forward to the early implementation of the Senate committee's recommendations from the public inquiry into call zones.

In terms of water infrastructure, the NFF recommends that governments invest more funds into the refurbishment and the upgrading of water infrastructure, particularly focusing on reducing wastage through leakage and evaporation. In terms of road and rail, it is essential that our rural centres and primary producers are able to move freight in and out of regional areas all year round. It is inconceivable that, as we approach the 21st century in a

westernised country, large parts of regional Australia can be cut-off due to the inadequacy of our road network. A similar lack of investment in rail continues to have a negative effect on potential productivity improvements in Australia's rail industry. There seems little disagreement with the view that rail infrastructure requires substantial investment and effort by the Commonwealth, the states, the territories and the private sector.

Thank you again for giving me this opportunity to appear before you. We are happy to field any questions that you may have but, in closing, I must stress the bottom line: without greater levels of investment infrastructure, rural and regional Australia will continue to decline and with it will go part of the social fabric of the nation.

**CHAIR**—Thank you very much for your very detailed submission and for your comments in opening the session here this morning. In both your submission and your opening statement you have gone into a lot of detail explaining the run-down of infrastructure in regional areas. Let me assure you, I think that everyone sitting at this table represents a regional electorate, and I do not think you would find any disagreement on that count whatsoever.

I noted that in both your submission and your statement you always referred to the need for the government to put in funding for infrastructure in terms of the service delivery of health, education, transport and water. What I would like to know is: has the NFF done any work in its economic development unit in looking at a partnership arrangement between the private sector and the government for the future, or has your work tended to be in simply looking at what the government is putting into infrastructure needs? I noticed at one stage you talked about the danger of non-government monopolies. It seems to me that perhaps there is another area that we should be looking at.

**Mr Ritchie**—What is the NFF's perspective, Wendy?

**Dr Craik**—Correct me if I am wrong, Todd, but it is not an area that we have actively pursued. In specific areas like telecommunications there is no doubt that the private sector has a role, and the government puts policies in place. So in that sense you could call it an uneasy government or non-government partnership. Regarding the rural telecommunications infrastructure fund, we have done work in that sense, but I think in the sense that you are asking, if we have looked at developing programs ourselves—

**CHAIR**—Not developing yourselves. Have you actually looked at the feasibility for the future of government and private sector partnerships? We all agree that we have enormous problems of infrastructure running down in regional areas. Over the years, a culture seems to have developed that the government is going to be the only one who can ever solve these problems. We have heard other views in other submissions and, given its importance, I am interested to know whether this is an area that the NFF is investigating.

**Dr Craik**—I think probably the answer is no, other than perhaps in areas like landcare and even water infrastructure, through the notion of a community deciding what they want in water infrastructure and then looking at a beneficiary pays approach. In a policy sense, we have agreed to that, but we have not pursued it further than that. So each sector—the



community, the government and the industry—picks up the part of the tab in a beneficiary pays sense, in a policy sense.

Picking up your other question, in some of these areas we would see that the government has the community service obligation. They provide these services in urban areas like, for instance, Medicare funding and, when you look at the disparity between urban and regional areas, education funding. I guess we would see that the government to a large extent in some of those areas has a very definite obligation that I am not sure the private sector necessarily has.

**Mr Crick**—One recent example in Victoria is associated with electricity. In the western district of Victoria there is significant opportunity to increase dairy production. One of the major impediments to that increased dairy production is the provision of electricity. The Victorian Farmers Federation has had a consultancy done. We will be putting a proposal to the state government whereby the cost of that infrastructure is about \$20 million. The sensible investment from an electricity company's point of view is only something between a quarter and a third of that to get any sort of a return on the investment. That was the sort of example where we believe government needs to come in and make a contribution. The beneficiaries of increased production facilitated by that electricity will be right across the whole community. In fact, it will be across the whole of Australia because that additional production will all be exported. So these things need to be developed, I think, in specific areas away from the social aspects.

**Mr ANDREN**—You speak about the uneven distribution of benefits arising from the national competition policy in regional areas vis-a-vis metropolitan areas. Could you expand on this? Do you see any evening out of NCP's impact on the bush in the long term? Or, how should NCP be modified to accommodate the particular idiosyncratic nature of the bush?

**Mr Ritchie**—I think the first point to make is that with any study into the differential impacts, the findings can only be preliminary at this stage because national competition policy has not been going for long enough for a full exposition of the differences. But the Productivity Commission did look at it. I am sure you are all aware of their study. It very clearly showed that there were differential impacts between metropolitan and regional Australia. In fact, we think they have underestimated those impacts. We are currently preparing some work that we will put to the Productivity Commission, I believe, in the middle of July but it is only preliminary at this stage. So that is the first point you need to make about the differential impact.

Secondly, in many of the issues that we have, we have not seen the worst effect yet. What we think the worse effect will be when it comes to infrastructure and rural and regional Australia is that, with the government increasingly getting out of these areas, when it comes time to replace the infrastructure facilities, who is going to be there to do it? Some of these private sector organisations in gas or electricity do have the provisions in their required rate of return that the government are guaranteeing them for replacement of infrastructure, but it seems to me that most of that money is finding its way into the general revenue spending. We simply ask the question: while you cannot see any problems with that in the near future because the infrastructure is there and by and large it is working reasonably well, who is going to replace it when it runs out? You are never going to pick

that up in any econometric study of what is going wrong. So that is going to be the strongest point that we are going to make to the Productivity Commission.

**Mr ANDREN**—In effect, I guess you are saying that pure market economics is not going to work in a bush infrastructure sense. You can remember back to the days when they said: ‘Rail is costing us \$1 million a day.’ Are you saying that we should be asking, rather than what is the cost of supporting, what is the cost of not supporting infrastructure with public money?

**Mr Ritchie**—Absolutely. One of the consultants who was doing some work for us had an anecdote that I will quickly go through. It basically involves the heart asking itself the question, ‘Why am I sending blood out to my toes and hands? They are inefficient, it is a long way to get there and I have to work really hard.’ The short answer was, ‘I will just cut my arms and legs off, and then I will not have to worry about pumping all that blood out there.’ Obviously there are long-run consequences of that, but it is a reasonable analogy for what is happening in rural and regional Australia.

**Mr ADAMS**—It is also a little criticism, maybe, of publicly owned rail over the years from organisations like the National Farmers Federation, so maybe you were cutting off your own arms.

**Mr Ritchie**—We have no problems with increasing efficiency in government owned enterprises. If in that push to increase efficiency there is no provision made for upgrading over time, then we are going to end up with a situation. To put it into more economic terms, you can take something like Central Railway Station: obviously very efficient and very profitable, but if it did not have all the trunk lines delivering the freight to the Central Railway Station, it would not be efficient. There is a measurement problem here as well: you measure Central Railway Station in the city as getting all the benefits, and all the trunk lines come up as inefficient. That is a problem with how you measure the efficiency of infrastructure.

**Dr Craik**—There are a couple of other issues, too, when you ask what else should be done. One of the things we believe ought to be done with NCPs is that adjustment assistance ought to be made available. There ought to be a better look at who are going to be the losers in this, particularly in the short term, and some adjustment assistance ought to be made available to some of those likely losers so that we do not have rural and regional Australia possibly disadvantaged. For instance, if an industry closes down, there are no other options for people to work in a town and they have to move the whole family to somewhere else to find another job—all those sorts of issues.

**Mr ANDREN**—To whom is the assistance made available?

**Dr Craik**—To the short-term losers.

**Mr ANDREN**—To the individuals?

**Dr Craik**—Yes.

**Mr SIDEBOTTOM**—Thank you for your submission. There is a lot in here very relevant to my electorate of Braddon in north west Tasmania. I was particularly interested in your section on human capital and rural health, in particular human capital. There does not seem to be a great emphasis on social infrastructure in a lot of submissions, which I think is really important.

The thing that particularly caught my attention in your submission was related to the tertiary access allowance. However you define rural and remote, there are a lot of areas closer to metropolitan areas which I regard as rural, particularly in my electorate. I would particularly endorse your tertiary access allowance. If you take an area like mine, you can commence a university course, say, at a campus in Burnie, but you can do only one year there. You then have to go away to Launceston, Hobart or the mainland. The interesting thing, just in my calculations alone—and it is relevant to what you are saying here—is that that is an additional \$10,000 on top of the amount for a student who is housed in a metropolitan area.

I can appreciate your relaxed Austudy assets test on your 75 per cent discount for business and farming enterprise, and I know there are various views towards that. But your access allowance also takes into account the fact that it is not means tested; it is based purely and simply on geography. So it is equitable, and I think that is a very important value that we have to get across. Otherwise, we will lose students to tertiary education when they are a very important and valuable asset, and it is just a greater disincentive for people to go on and continue their education. I very much endorse that concept and, as a committee, we will no doubt be looking at this further. It is very important. I suppose there are the questions of distance and how you determine who is eligible, but that is applicable across the board, not just to farmers. It is applicable to people living in those areas totally.

**Dr Craik**—That is really an issue for the isolated children. We have it for the under 16s already. That issue you raise has complicating and compounding factors. We are concerned about the provision of GPs to rural areas. One of the findings is that many more medical students who come from rural areas to do medical studies go back to rural areas. If the overall rate of rural students going to universities is dropping off anyway—at what you might describe as a pretty alarming rate, I would have thought—then that has another compounding effect on getting GPs back.

**Mr ADAMS**—Farm profitability also affects that. If you have some tertiary education, the farm profitability is up.

**Dr Craik**—There tends to be a relationship between profitability and education or whatever—taking on further training and flexibility and all those sorts of things.

**Mr ADAMS**—I would have thought so in the modern world.

**Mr SIDEBOTTOM**—Although this is mainly related to farming, I think the principle relates to anybody living in that area, frankly. We can argue about Austudy, your income and so forth, but I still think this principle of opening up things in terms of equity and having it based on geographical qualifications—

**CHAIR**—For regional inhabitants.

**Mr SIDEBOTTOM**—Absolutely. It is very important. I congratulate you on that.

**Mr Grimson**—Our proposal is not just restricted to farmers either.

**Mr SIDEBOTTOM**—Yes, I saw that bit.

**Mr SECKER**—When we talk about efficiency, I am always reminded of the *Yes, Minister* program where the most efficient hospital was the one without patients. I think we forget the other two Es, which are effectiveness and equity, when we talk about how useful infrastructure is. Could I also compliment you on your submission. I found it very useful in the nuts and bolts, practical recommendations you have given this committee, especially on things like telecommunications, education, health, water and transport.

I note you brought up electricity, and that was one area I had not seen in here. I wonder whether you want to comment on that, because I know that is a problem in South Australia. If you go up to Camerons Corner in New South Wales, there is at least single-phase power to every station; if you go across the border into South Australia, there are generators because ETSA, the Electricity Trust of South Australia, have taken the attitude that there is no way they are going to get the returns so they have not provided electricity to remote areas.

The other point is that in areas which I would not call remote—for example, the Coonawarra area, the Limestone Coast, Kingston Road and all down the south coast—there is no three-phase power. You have huge industries there—the pine forests, the growing blue gum industry and the wineries, of course—having to struggle without three-phase power, which really is a limiting factor. I wonder if you would like to comment on that a bit further than you did?

**Mr Crick**—That is certainly a similar issue to the one in western Victoria, just across the border. This is only in its early stages. Victoria is at a somewhat different stage in its privatisation to South Australia, as I understand it. But it just gets back to the same issue, though, of the return for the dollar, firstly, direct to the power company; and, secondly, to the farmer. All those other beneficiaries in between do not make a contribution. Because there is no other contribution made, it may well be that those power lines are not upgraded and the ability to increase production off that country could slip by the wayside.

**CHAIR**—Just on that note, what sort of work has the NFF done in actually assessing the benefits of infrastructure? You have given a couple of examples, but we are faced with a situation where, whether it be government investment or privately sourced investment, substantial funding is going to be the key question for the future. No matter which sector the investment is going to come from they are going to need key information. What sort of work is the NFF doing in actually compiling that sort of information—the benefits that can arise from infrastructure development?

**Mr Crick**—I will let Wendy answer the technicalities of that. But directly, if we do not have the infrastructure out in the country, we will not have people out there. That is about what it all boils down to, I think.

**CHAIR**—I understand that, and we all agree with that, but that is a very wide sweeping statement. What we need are cold hard facts: what is going to be the benefit to this particular region if funding in this field of infrastructure goes ahead? What sort of work has been done on that?

**Dr Craik**—How long is a piece of string?

**CHAIR**—Do you have some examples?

**Mr Ritchie**—The bottom line in terms of NFF doing a lot of this work is that it is very complicated.

**CHAIR**—It is complicated for everyone, but someone has to.

**Mr ADAMS**—That is right. Are there any areas out there that we would want to get out of? Are there any areas out there that we need to get out of?

**CHAIR**—Hang on a minute. Let us just deal with this aspect of the question first.

**Dr Craik**—On the question you asked, I agree it is important and needs to be done, but we have 18 staff who are lobbyists who would lobby the government on issues. Our research budget is not large and I am not sure that it is our role to go out and look, for instance, at the economic benefit to regional New South Wales of the Parkes airport. The Parkes regional development group, or whatever they are called, does that.

**CHAIR**—You might not have those resources, Wendy, with your 18 researchers, but you have farming organisations out in those regional areas who surely are working together with an economic development unit within a local council. Somewhere the information has to be gathered and the benefits have to get through to people.

**Dr Craik**—I would have thought that that was the sort of thing that was done either by government departments or by agglomerations of developers—developers who were going to put particular things in to see if they were going to make a buck out of it and governments who were being pressed to put a dollar into it. I am not sure that it is really our role to do that, and we would have to do it on a national scale, given the nature of our—

**Mr Crick**—You would need 118 researchers to do all that.

**Mr Ritchie**—The other point to make is that up until five years ago, when national competition policy started, there was not the urgency to justify infrastructure. It was readily acknowledged after 100 years of what I consider quite correct economic theory that provision of infrastructure was a government responsibility, and probably the second most important government responsibility. But now we have switched economic theory of 100 years on its head and we have adopted the approach I ascribe to Treasury, and that is user

pays. To be honest, we have been a little bit slow to come to grips with the consequences of that.

With many of these reviews on infrastructure such as electricity and gas we are behind the eight ball on them, because there are at least seven of them that I know of going on in New South Wales and Queensland at the moment and we certainly have not got the resources to put into these inquiries. In fact, one of the recommendations from our Longreach council was that the government should even think about funding user groups, not just NFF but the consumers associations of the world and the local governments, to actually get involved in these inquiries. We just have not got the resources to keep up with what is going on, but we are certainly making a concerted effort to get back into the game on gas and electricity.

If I could just make some comments on your earlier point about electricity, we have a lot of problems with what is happening on electricity. For instance, have a look at the market in South Australia for electricity and see if you could find a better example of economics being turned on its head: the actual marginal price in South Australia is set by the highest cost generator who comes into the system last. That is just ludicrous. And not only that, but generators can withdraw from the bidding system if they think the price that is going to be set is too low. I did not know about that until three months ago but I am certainly aware of it now, and I am going to try to do something about it. We have also got this situation where transmission prices are now going to be paid by the users. Again, if ever there was a case for the actual person who is benefiting most from having those transmission wires there, it is the provider of electricity, yet now we have the system where users are going to pay. People in Broken Hill are going to have to pay more for their transmission costs than people in Sydney. That is just not fair and it is not what economics says should happen.

**Dr Craik**—Could I just make a couple of other points. As I understand, the government announced in the budget that all proposals going to cabinet now would be subject to a regional impact assessment. I assume some of this assessment will be done through the government for proposals that do go to federal cabinet.

The second point I would make is that for an organisation like us it is a difficult ask, particularly when you are dealing with sectors like telecommunications where, if the supply is competitive, for us to get in and get that sort of information would be particularly difficult and the potential impacts and benefits are going to depend very significantly on the level of competition provided in the sector where it is very likely that, if competition increases, price goes down, demand will increase and a supply will increase. So, again, there are a lot of variables there that are perhaps outside our competence, except in a general sense.

**Mr CAMERON THOMPSON**—I have two widely diverse questions. The first one grew off something that the first group this morning had to say. They referred to the system of government we have in Australia, with eight or nine separate jurisdictions running the system, and the difficulties that can cause in infrastructure development and in conflict between those groups. I can think of one example in the gas distribution network where we have each state developing its own little set of gas lines. From an NFF point of view, do you have any views in terms of our system—given that at the moment there is a constitutional debate going on—as to whether there are positive or negative impacts in the way that things

are operating? Are you constantly being frustrated by competition between state and federal authorities, or whatever, or are there any positives in having closer services et cetera? Madam Chair, do you want me to come back to my second question later?

**CHAIR**—I think we will get a response to the first question.

**Dr Craik**—I do not think the NFF has a particular policy on the different jurisdictions. Rail is an obvious example of problems with different state jurisdictions.

**CHAIR**—I think what the question was going to was this need for a concept of national planning.

**Dr Craik**—We have taken the view on many issues that there is a need for national coordination. We have the government system we are stuck with and I do not see any immediate change to that in the near future.

**Mr CAMERON THOMPSON**—Okay. My second question is on agricultural colleges. There is a whole range of them all across Australia and they have been going through some pretty rough times. I do not know whether it is starting to pick up again, but there certainly appeared to be a drop off in the numbers of people attending them, the types of courses they are teaching. I am wondering what your view is on those, seeing as you have spent a lot of time talking about education and that these things go directly to training people for an involvement in agricultural and pastoral industries. What do you perceive is the future of these types of institutions? Are dollars largely at the moment being wasted?

**Dr Craik**—Again, I do not think NFF has a view on agricultural colleges. We did recently publish a paper by John Chudleigh pointing out that there had been an increase of something like 20,000 to 30,000 in the number of people employed in agriculture nationally. He cannot get enough positions for his graduates from Orange Agricultural College. My understanding is that, with the restructuring of a lot of these agricultural colleges and trying to bring them more closely into universities and to streamline some of the arrangements, albeit difficult, there is an increasing demand for those sorts of courses.

**Mr CAMERON THOMPSON**—Not from students, though: there are not people lining up to get into them. That is the problem.

**Dr Craik**—As I understand, the number of enrolments is increasing slightly as the courses become slightly more attractive to the students and their employment prospects.

**CHAIR**—We have got limited time, so I would like members to concentrate on questions to do with infrastructure.

**Mr NAIRN**—This is on education but I am really after some clarification, because some of the figures you give are a real cause of concern. You say that from 1989, with 25 per cent of rural students entering tertiary education, it is down to 16 per cent in 1997. How did that compare with urban students in the same period? I presume that that is measured as a percentage of students finishing year 12 in rural areas and what they do after that, presumably. Is that right?

**Dr Craik**—It was a figure in Chris Sidoti's *Bush talks* report. He did not do a comparison, as I recollect.

**Mr Grimson**—No, I do not think he did.

**Dr Craik**—I do not recollect a comparison with urban students. It was based on studies that he had read through and reported on.

**Mr NAIRN**—It might be interesting for us to explore that a bit further.

**Mr Grimson**—We did highlight there a study done by the University of Southern Queensland in 1995. It looked at comparisons between a number of so-called disadvantaged groups.

**Mr NAIRN**—Yes, I was going to come to that. They show that in three areas of 'disadvantaged groups'—I notice it is in inverted commas—that is, Aboriginal and Torres Strait Islander, non-English-speaking background, and females—they actually put females into a disadvantaged group—all of those have improved substantially. For females it is pretty marginal, from 1.12 to 1.13, but the other two—

**CHAIR**—We always have to fight hard for any progress.

**Mr NAIRN**—The other two have improved substantially. Presumably it is because of clearly directed policies and programs to overcome that disadvantage that something has happened, whereas at the same time we have seen the isolated, rural, et cetera, decline. I am not really asking you a question about it, but I suppose it is highlighting the impact that programs specifically targeted to groups can actually have.

**Dr Craik**—I think that is probably right. On the one hand, you have got programs targeting those equity groups leading to an increase; on the other hand, you have had farmers in particular with lower returns and so not having the money to send their kids off. So it worked both ways.

**Mr NAIRN**—My related infrastructure question is: do you see that some of the things that have been happening particularly in the last couple of years through telecommunications where universities are getting hub campuses and other things out into some of these areas—in my area I have one going in Batemans Bay and Bega out of the University of Wollongong—are going to help significantly in this area?

**Dr Craik**—They are a really good initiative. Charles Sturt is another good one that does an enormous amount of online education. That is fine if you have got the online services, if the telecommunications is okay, if you are trained and if you have the equipment. So there are a few other issues, but there is no doubt that telecommunications does offer an avenue for complementing those services, or that lack of services.

**Mr NAIRN**—That addresses some of the other problems of the cost of sending students away.



**Dr Craik**—Sure.

**Mr NAIRN**—So you are balancing out potential subsidies from government to fund the cost of sending them away and the social breakup that sometimes occurs if sometimes the kids are gone forever.

**Dr Craik**—Again, it is one of these things where you have several factors compounding on others: if you do not have the telecommunications right, you cannot do that.

**Mr Needham**—A quick comment about telecommunications: that service has to be provided for wherever people want to reside or do their business, not just to the centre of town. It is important if people want to do some remote education or something like that that they have the ability to do it where they want to, and not be forced to go somewhere else to do it. That is an important point: that we are just not looking at particular locations, we are looking at everywhere.

**Mr ADAMS**—Who do you think ought to pay for that infrastructure?

**Mr Needham**—With modern technology and the introduction of things at present, the price of the delivery is dramatically lower than in the past. We have got examples now where the delivery of those services is a fraction of what it was in the past.

**Mr ADAMS**—I did not ask you that. I asked you: who do you think ought to pay for it?

**Mr Needham**—I think a combination of the user and private enterprise should pay for that.

**Dr Craik**—We would see a government obligation to provide a universal standard of service above and beyond which—

**Mr ADAMS**—Mark did say where anyone lives. Remember, we do have a postal delivery service. I have not needed that for a while—I am talking about the isolated rural delivery by aircraft. I take it that that still operates efficiently and effectively.

**Dr Craik**—Once or twice a week, isn't it?

**Mr Crick**—Once a week.

**Mr ADAMS**—That is pretty important to some kids too, but there is a major cost to deliver that. Geoffrey raised some things in relation to the power delivery in some areas. The farm sector has been in decline in some areas and some regions, in its delivery of what it is producing and in its productivity as such. You are arguing for a subsidy of power delivery to some regional areas. I guess that would be to deliver irrigation pumping and other things in that sector. I just want to make sure that that is exactly what you are arguing. You are arguing for a government direct subsidy to make sure that power is available for the rural sector?

**Mr Crick**—This area has traditionally been grazing area for wool production. It is the type of country that lends itself very well to dairy production. Profitability in the dairy exercise compared with the wool exercise is significantly different. Whilst it took a single line—25 kilowatts per property was plenty to run the shearing shed, but modern dairy sheds need something nearer to 50 kilowatts or more—the wires, the infrastructure, are just not there to do it.

There is an expectation that the electricity company should make some level of contribution to the provision of that infrastructure because they are the ones who are going to get the return for the electricity that is sold. The farmer can well make a contribution because he is going to be able to convert his wool enterprise into a dairy enterprise and perhaps get back into profit mode again. For both of those to get to break-even point on their investment, there is still a fairly large gap in the cost of the provision of that electricity. That is where we believe there is a responsibility for government to pick up some of the cost of providing the infrastructure so that electricity can be delivered and the additional production can be made.

Approximately two more workers will be put onto each farm to produce dairy products as against the same acreage for wool. It will provide transport jobs in the transportation of milk; it will provide factory jobs in the changing of that milk to an exportable product. The Australian market is well supplied with dairy products so it will all be exported, and it is all money back into the country. Surely there is a responsibility there for the community as a whole to make its contribution to that effort, not necessarily the subsidisation of the power used—we would not be on for that at all—but making available the infrastructure so that power can be delivered to the site.

**Mr ADAMS**—There are dairy farming areas where farmers would argue that, if we increased their water production through infrastructure, they could increase their production by 50 per cent. Do we make a decision between the region you are talking about and the other region and subsidise the infrastructure? Who is going to make the decision in relation to those matters?

**Mr Crick**—It is possibly a good opportunity, if increased productivity is going to provide employment and provide export income to the country as a whole, for us to consider both. It is the provision of infrastructure generally, whether it be water specific or electricity specific. The other issue that we have not even touched on is the condition of the road system for getting the grain from the farm to the national highway system or getting the milk from the farm to the factory. As far as the bridge system is concerned in the country that I am aware of, in 25 years time we are going to go a very long way around to get to some places with reasonably loaded trucks.

**Mr ADAMS**—Do you think we have to make a decision about where we are actually being productive and where we are not being productive? Maybe we have to change from one area to another to make sure that we are more productive over here than out there where we traditionally have been.

**Mr Crick**—I think participants in agriculture decide whether they are going to shear sheep or milk cows. From a productivity-profitability point of view, I believe the provision

of infrastructure has to be considered on a similar line. There is no point in putting in huge power lines if there is going to be nobody there to use the power at the end of the line. It does not make much sense to me.

**CHAIR**—You made some very detailed points in your submission about the issue of transport and the differences between rail and road. Has the NFF got a position on promoting a more integrated system between rail and road? Do you have a position on how in the future, once again, we are to look at the funding of this?

**Mr Crick**—I do not believe that—some of these people will disagree with me—we have a position on integration of road and rail.

**Dr Craik**—Only to the extent that the whole transport system needs to be more integrated than it is. For instance, we would say that rail to the port needs to be more integrated than it is. Road, rail and port—all of those systems need to be integrated.

**CHAIR**—We are actually interested in some concrete examples. Do you have any that you can give to us? If you do not have them today, perhaps you could send them to the committee.

**Dr Craik**—We would probably need to do some investigation.

**Mr Ritchie**—We have done some work on that, although it is probably a little dated now, as most of it was done in the late 1980s. We will have a look at it to see if it is still relevant.

**CHAIR**—It would be very interesting to see if anything has happened with the work that you did in the late 1980s.

**Mr ADAMS**—It was work done with grain though, wasn't it?

**Dr Craik**—Yes, there was certainly some done with grain transport systems. Yes, that is true.

**Mr ADAMS**—A lot of work was done in that area.

**CHAIR**—We are almost out of time, but there was one issue that I wanted to bring up with you. We have heard about the importance that you place on government making a commitment. I want to ask you about the provision of health services, particularly in regional areas. I am going to give you a concrete example that happened within my own electorate: a small town, with a population of around 2,500 and no GP, eventually, after combined efforts, managed to get a foreign trained doctor. He was given all the assistance possible in passing the AMC exams, and the local government even provided him with premises in which to practise. As soon as all of that was in place, he made arrangements to go down to the city. This is not an isolated example. I know that you have a very strong position in regard to the provision of health services in regional areas. Is this an area that you have looked at? We get into a constitutional question about where people should work, but is this something that you have done any work on in coming up with some means of ensuring that these people remain

in some of these areas, given the amount of effort that small regional communities put into actually obtaining them?

**Dr Craik**—Mark might wish to add a few comments, but I have a couple of things to say on the short-term issue. My understanding is that recent government initiatives in three states have suggested that they will make it easier for qualified overseas trained doctors to practise in rural and regional Australia. If they practise for a certain period of time—

**CHAIR**—The states might say that, but the AMC still sets the exams.

**Dr Craik**—But I gather they have done a deal with the AMC in three of the states. So we are hoping the others will come on board. If they practise for a certain period of time in rural and regional Australia, they will get access to ongoing training and Medicare provider numbers.

**Mr SECKER**—At the moment they get paid \$3 less: \$17.50 versus \$20.50.

**Dr Craik**—There are all sorts of things.

**Mr ADAMS**—There is a cost for living in regional Australia.

**Dr Craik**—Yes, there is.

**Mr ADAMS**—Maybe the costs are cheaper.

**Dr Craik**—There is the short-term issue of overseas trained doctors. In the longer term, we believe it is important to get more students into Australian medical colleges and get them back. We have got a number of suggestions there, and one of them is this Medicare provider number issue. We have received legal advice, which we would be happy to make available to the committee.

**CHAIR**—This is on a geographic basis?

**Dr Craik**—Yes. We have legal advice, and the proposed scheme that our legal adviser has given us is that there be a number of criteria for anyone who wants a Medicare provider number to operate in a limited number of urban areas—in other words, those that are overdoctored. They would have to meet these criteria to practise in those, but anybody else can practise anywhere else. So it is not civil conscription. Our lawyer—and he is an expert constitutional lawyer—suggests that this would withstand a challenge in the High Court. He goes through the arguments.

So that is part of it, but we are also trying to think about things like reducing HECS repayments for students who go back to practise in rural areas for a period of time and talking to the colleges about making rural practice a criterion for getting into further training—in other words, making it an attractive thing for getting into further medical training rather than a disadvantage. Right now, if you want to go on to specialist training, they say, ‘What would you know? You have practised in rural Australia.’ So we are dealing with a number of those issues. Perhaps we will send the whole rural health policy to you.

**CHAIR**—If you could send that to us, that would be good.

**Mr ANDREN**—One of the other things that is worth putting on the record is the fact that it is the investment in their own infrastructure in these towns that must be considered. They cannot recoup what they have put in, and many communities are looking at purchasing the clinics and so on. There almost needs to be thought given to this sort of infrastructure. There needs to be a support mechanism—for example, long-term low interest loans or something—to enable a community to purchase those facilities, because an individual just will not invest.

**Mr ADAMS**—I would go so far as to strike a rate to supply that.

**CHAIR**—We are unfortunately out of time. We have covered a fair range of the issues that you raised in your submission. Was there a final point that you wished to make to us, just very briefly?

**Mr Crick**—I think we have covered it fairly well. Things are not easy out in the bush, as most of Australia knows now, and if we cannot see some arresting of the infrastructure run-down, I believe that within a year or two there will be serious problems.

There is another issue on the horizon now, the issue of country people getting older and the need for the provision of nursing homes. We have people who unfortunately have a spouse in a nursing home in another town, and they may have to travel 150 kilometres to see their husband or their wife. These infrastructure issues must be addressed. It is becoming rather urgent that they get on the agenda—

**CHAIR**—One of the problems with that is the assessment by the ACAT teams who will make a pronouncement that a particular region is entitled to so many aged care beds.

**Mr Crick**—That is fine. Whether they be ACAT or whether they be this or whether they be that, when they are all put together they are having a significant adverse effect on the social structure of those who choose to live out in the country. If we all chose to shift to the cities, then they have got a whole lot of other problems.

**CHAIR**—Yes, it certainly is a real problem. Thank you very much indeed for coming today, and thank you for your submission.

[11.23 a.m.]

**HINGERTY, Mr Matthew, General Manager, Public Affairs, Tourism Task Force**

**CHAIR**—Welcome. We have received a submission from the Tourism Task Force and have authorised its publication. Before we begin questions, would you like to make a brief opening statement to the committee?

**Mr Hingerty**—Yes, I would, and in opening I would like to apologise for the fact that our chief executive, Christopher Brown, cannot be here today, and nor can Karl Flowers, our policy manager, who actually drafted our report. Karl is a policy whiz and an economist, which I am not, so if you have detailed questions later on I may have to take some on notice, and I apologise for that in advance.

**CHAIR**—Sure, that is fine.

**Mr Hingerty**—The Tourism Task Force is delighted to be able to give evidence to today's hearing into infrastructure and development of Australia's regional areas. I would like to state that we are particularly delighted to appear before this committee because it has been our experience that rural and regional parliamentary representatives, across all parties, tend to understand the importance of our industry to national development better than some of their more urban colleagues.

**Mr ADAMS**—You should get on very well.

**Mr Hingerty**—I would like to make the point then if I can in a non-political way that we have a Deputy Prime Minister who is rural based and who has indicated that when he leaves politics he would like to get involved in the tourism industry. I think that says a lot for the understanding of rural members.

The contribution of the tourism industry to our national economic wellbeing and, indeed, the regional development is profound. Pinning down employment statistics in the tourism industry is difficult partly because ABS data no longer accurately reflects the breadth of the modern tourism industry and partly because the tourism business itself is difficult to define. For instance, it probably is easy to point to a ride operator at Dreamworld as someone who is involved in the tourism business. But what about the person at the roadhouse who has sold a chicko roll and a milkshake to the person travelling to Dreamworld? We would contend that that person is also, for that time at least, involved in the tourism business.

In your state, Madam Chair, the person in a travel agency who sells me a ticket to visit your Melbourne spring racing carnival is probably easily defined as someone—

**CHAIR**—The Yarra Valley actually.

**Mr Hingerty**—or the Yarra Valley or wherever—who is in the tourism business, but what about the jockey who rides the winner of the Melbourne Cup? We would contend that a Damien Oliver for instance would be, at that point at least, in the tourism business. Despite the problems of definition the Bureau of Tourism Research found in 1997 that spending by

tourists contributes to the employment of over one million Australians of which about a third are in regional areas. Tourism generates annually \$59 billion through our national economy. In export income alone it earns \$16 billion a year, which, in deference to the previous group that addressed you, is more than a combined total of wool, wheat, beef, dairy, sugar and cotton or in mineral terms greater than a combined total of iron ore, alumina, aluminium, oil and gas, iron, steel and nickel. This economic performance is achieved with a current total of four million inbound tourists a year. The government's Tourism Forecasting Council has extrapolated that out to the fact that we could be achieving a staggering 20 million visitors by 2020 which is about a third of the current number of visitors to France.

In terms of the terms of reference of the inquiry: the potential for development in regional areas from tourism's point of view is unlimited. We are blessed in Australia with a diverse natural environment that offers a full range of experiences from the tropical to the arid, from the alpine to the marine, from deserts of sand to deserts of ice. We are also blessed with an image of being a warm, caring, open and safe society. The four corners of our continent—its seas, islands, reefs and Antarctic territories—offer unlimited potential for tourist experience and for appropriate sustainable development. The basic infrastructure that we need for people to experience the potential beauties of our land are transport, communications, accommodation and catering.

With reference to the extent to which infrastructure development would generate employment in regional Australia, I have already spoken of the current high levels of regional employment owing to tourism and to the projections for a massive increase in inbound tourism. The implications for regional employment are therefore significant.

In terms of the physical infrastructure that we require, the most important types that government can assist in is the provision of telecommunications and transport. In terms of telecommunications the most important development is access to the Internet. The virtual marketplace has blown away the old marketing paradigms in our industry of travel agents, brochures and a pamphlet at the local railway station or tourism information booth. Like the Deputy Prime Minister's oft used Mick's whips, regional and remote tourism destinations can market their product to the world and it is a world increasingly in search of unique, exotic and remote tourism experiences. And I should add to that, clean and green tourism experiences.

The major physical infrastructure need for regional tourism development is transport infrastructure; better roads, airports, ports and railways all bring with them a potential for tourism development. What then is the role of different levels of government and private sector in providing infrastructure in regional areas? These are issues that the tourism task force has studied in detail and I take the liberty to table those studies if I may for the benefit of the committee.

We conducted a two-part study looking at these very questions. From the point of view of local and state governments, the main impact on tourism related infrastructure is in the area of planning and resolving, I guess, land use conflicts. We have found in our study that state and local governments rated only fairly when it came to providing in their various planning regimes for adequate tourism development opportunities. State governments also have a role in developing adequate transport infrastructure and their performance is so far

mixed. For instance, the ability of regional New South Wales to benefit from the Olympic Games would be greater if the Pacific, Princes and Great Western Highways were in better shape.

Having said that, we recognise that state governments are constrained by their budgets and it is in this respect that the federal government plays an important role. The federal government does play a role in the provision of physical infrastructure. For instance, Sydney airport is our nation's most important piece of tourism infrastructure. We keenly await the government's response to the Badgerys Creek EIS. Nevertheless, it is in the areas of fiscal and financial policy that the federal government can have the most impact on the provision of regional infrastructure. Most importantly, we crave a taxation environment that encourages private investment in public infrastructure and to that end our submission makes a number of recommendations, many in response to the Ralph review. These include a dramatic increase in the availability of a form of modified infrastructure borrowings tax offset scheme and that widely held infrastructure on property trusts should be included in a definition of collective investment vehicles. In the tourism industry, we think the remote regions should qualify for FBT exemptions for staff accommodation as does farming and the mining sector. Issues such as landscaping should be subject to economic life depreciation and export marketing development costs should be treated in the same fashion as research and development and be deductible in the year of expenditure.

In conclusion, I would just like to reiterate what we see as the importance of the role that tourism plays in regional employment. In the mining, manufacturing and agricultural sectors over the last 200 years, labour has consistently given away to capital. You are never going to be able to invent a machine or a computer that can help you to paddle a river raft on the Tully River, to recreate the unique atmosphere of the cafe at the base of Mount Canobolas, to take you wildlife spotting at night in a state forest, to guide you to a trout in the Tasmanian highlands or to stand behind a counter in a winery and guide your specific tastes to the bottle of wine that would suit you. There will always be sustainable jobs in the tourism industry. All we are seeking is some help in providing the communications and transport infrastructure to realise those jobs.

**CHAIR**—Thank you very much. You have painted a mental image for all of us, I think. Thank you for your submission and your opening comments. Given the importance of tourism to our national economy which you have so ably demonstrated, what do you see as the major problems preventing infrastructure development partnerships between government and private enterprise?

**Mr Hingerty**—There are those structural and policy issues which are outlined in our submission and which I think were ably outlined earlier by AusCID in their submission with which we largely concur. There is a second element and that is a cultural and political element. The tourism industry is still a young industry. The modern tourism industry is basically only 20 years old. The mining, agricultural and to an extent manufacturing industries have been with us for all our history. There has been 200 years of mining and agriculture and they have ingrained themselves in our institutions, particularly this institution here. There have been countless reams of statistical data gathered on mining, for instance, by countless PhDs in our universities. Many of the representatives that have gone through this and other parliaments have had involvement in those industries. The tourism industry is yet



young. It has not had its time to ingrain itself particularly into our governmental culture. To that end, we find that it is always hard to put our arguments forward to gain credence. Regrettably, we believe there is still an element in parliaments that believe that, unless you are digging something up, chopping it down or welding it together, then it is not a real job. We often find that tourism issues of great national state policy are an afterthought.

I heard discussion earlier of a potential national infrastructure audit. That is something that we would be delighted to be involved in if the committee were to recommend that. We would like to play a leading role in it, not a role as in, 'We should ask tourism as well.' Even as recently as the debate on the new tax system we struggled to get our arguments forward, and I think that was a good illustration.

But it is not just at federal government level; it is also at local government level. In a previous life I had some involvement in the mineral sector, particularly in the Byron Shire. You find there that one person's unique regional friable sandstone quarry is another person's ecotourism opportunity is another person's housing estate opportunity is another person's sacred site. Too often in the past the tourism industry has lost out in those land use conflicts, so there is a role for groups like the Tourism Task Force, the Tourism Council and others to keep developing ourselves into a mature industry and keep our arguments before parliament and other decision makers.

**CHAIR**—I am aware that you have been present when other submissions have been made to us here this morning. You would have heard other groups mention the need for a more coordinated approach and the concept of having national planning. What would be your organisation's input into that line of argument?

**Mr Hingerty**—We would be most supportive of greater national coordination.

**CHAIR**—What would you see as the benefits from that?

**Mr Hingerty**—I guess it would be to study items of infrastructure that would have multiple uses, if I can refer to a land use terminology. We heard earlier about the Alice Springs to Darwin railway line. I am sure, from a layman's perspective, that the tourism value of such a railway line could add an extensive argument for it to occur. It is also up to us to put our arguments not only to you, the government's representatives, but also to other industry groups which are involved.

**CHAIR**—Could I just stress this is a committee of the parliament? This is not a committee of the government.

**Mr Hingerty**—Of course. We are doing that in our relationship with AusCID. Listening to the previous submission, I thought it was interesting that the Farmers Federation did not mention tourism. I think that says again a lot about the cultural relationship between our industry and other sectors of our economy.

**Mr ADAMS**—One prime example in the state of the nation report that the Industry Commission has done is that, basically, where the tourism is growing some of the infrastructure is not falling away from some of those towns and regions. Where it is not,

they are still losing people. I just want to touch on the Net changing travel agents' structure. That is going to be a plus for regions as well, is it?

**Mr Hingerty**—We think so. Worldwide the tourism industry is one of those industries that are taking great leaps forward in the use of new information technologies.

**Mr ADAMS**—The younger generation?

**Mr Hingerty**—No, not just the younger generation. One of the problems that we found in one of the reports that I have tabled is that too often you have older people who are retired or made their investments and been economically successful. They try to get into the tourism business, particularly in a region, a B and B or whatever, and they do not do sufficient marketing or they do not have the marketing expertise at their disposal. They do not have the ability to sell their product to the rest of Australia and to the world. The Internet gives them that capacity to do so. It is also a duty of organisations like ours, private sector tourism organisations and government tourism organisations to make these things known to them and to help them to take them up. I think we have an optimistic view in the tourism industry of our relationship with the government, with parliaments and with local governments in the provision of such infrastructure.

**Mr ADAMS**—That was a very good point you made on the Farmers Federation. The other thing is, with ecotourism, how much do you think other industries are taking notice that ecotourism can be a threat, if they are paying not too many royalties these days and not employing very many people? As you say, capital has certainly taken over from labour. There is different thinking on what is being delivered by this industry if ecotourism or tourism itself can deliver more dollars and more jobs to this region.

**Mr Hingerty**—Ecotourism itself is the niche that led the way. I think this has given us, particularly in the last 12 months or so, a greater entree into the decision making process. People are realising that tourism provides sustainable jobs, provided the development is not inappropriate. There are still one or two dinosaurs in the tourism industry who are giving us a bad name. Nevertheless, it has come a long way. People realise that it provides sustainable jobs, provided we look after the country. They realise that these jobs can go on ad infinitum, whereas a coalmine will eventually run out, as we have seen recently in Sydney. Changing conditions and world consumption patterns can affect agriculture.

**Mr ADAMS**—One of the problems I have encountered with mining is that kids who grow up in a mining town and in a mining household have a mining culture. It is difficult to change them over to a tourism perspective when the growing industry is tourism and they probably will not be going into the mine any more. Has your task force looked at that problem from the educational perspective?

**Mr Hingerty**—We have. Tourism education has come a long way. My chairman, a former character around this place, John Brown, tells us that when he was first starting out we had to import people to staff our hotels, whereas now we are exporting hotel staff to the world. It is a cultural thing. There are still plenty of well intended people who go into smaller tourism businesses and fall over because they have not done the research.

**CHAIR**—But that is the same for any small business.

**Mr Hingerty**—Yes, but we believe that the industry associations in particular have a role to play.

**Mr ADAMS**—Tasmania built an international hotel in 1972, the Wrest Point Casino, and then realised that Tasmanians were not really good at international hotel service delivery. They had to build a whole infrastructure, I think.

**Mr Hingerty**—Yes, indeed, but having spent my summer holidays in Tasmania, I think it is probably getting a lot better.

**Mr ANDREN**—Talking of regional and rural tourism, what do you see as the limitations to promotion of regional tourism? Would one of them be what I suspect is the continuing parochialism between, say, large town city council based tourism promotion and the need for regional promotion? I give as an example the gold from Ophir for the Olympic medals. I may get rapped over the knuckles for this but I sense that there is a want to own it concept between Orange and Ophir because the gold belongs to Ophir. It strikes me that the concept of gold medal tours could go on for 200 years if only the region looked at your Hill Ends, your Sofalas, your Mudgee, your Gulgong, and used it as a unified thing. Do you see that as a continuing difficulty?

**Mr Hingerty**—It is an interesting argument. I guess you all would be better versed in that sort of parochialism than I am. From our point of view it is getting the people there. Regional tourism associations can give those people a friendly nudge and try and explain to them that it is the total mass of the region's attractiveness that is the important thing. But from that region's point of view it is a matter of infrastructure. It is getting people there safely and quickly from Sydney, basically, and making sure that people are aware that they can get to that region safely and quickly.

**Mr ANDREN**—But are we missing opportunities in a broad sense? You talk of the Net. If you had gold medal tours on the Net, for instance, it strikes me that you would be mad if you did not push Sofala and Gulgong.

**Mr Hingerty**—In that particular area it is not just the gold medal tours, it is also the developing fresh food industry and the wine industry. You have to market it in a holistic sense. Of particular interest is the backpacker market. We tend to think of backpackers as not being very profitable. In fact, they are the most profitable sector of the tourism industry, not because they spend much on a day-by-day basis but they spend consistently over a long period of time. That is a market that probably could be better developed in that region.

The other important thing about the backpacker market is a political element in that these people tend to be from the higher educated strata of their societies, particularly in Europe. They go back and become decision makers and leaders in business and in politics in their communities. Hopefully, they take back with them a good view of Australia.

**CHAIR**—So there is a whole networking there that we are missing out on?

**Mr Hingerty**—I think it is happening informally; it is not happening formally.

**Mr ADAMS**—I think that happens with chefs too, doesn't it? I know that when you train chefs in your own area and they utilise local regional products, they are inclined to want to take those products or import those products when they go back to their country.

**Mr Hingerty**—Yes.

**Mr NAIRN**—Over the last decade or so, there have been a lot of major tourism projects—I can think of quite a few—that really have struggled to survive in their early days. In fact, it has been only the second or third owner that has ultimately made some money. What is the basic problem in that respect? Is it the incredible capital cost in the first instance? Are there other things that could be done to overcome that? Is there a reluctance by local government planning areas to maybe contribute to some of the infrastructure? I think some of these would have planning conditions on them to provide a fairly hefty contribution towards headwork and all those sorts of things, which front-end loads a lot of the capital cost. The third owner usually makes a squillion because they buy it for far below the actual replacement cost. Do you see some changes that could be made in that area?

**Mr Hingerty**—We certainly agree with that analysis, and they are addressed in the three reports that I have tabled. Part of our role is to convince not only political representatives, governments and bureaucracies of the importance of the tourism industry but also the investment community. You were correct. There were, in the earlier stages of our industry, some high profile problems. In fact, there still are in some areas, but they are more cyclical rather than profound problems. We are hoping to address that through the reports that we have made in the past. I should state that some of our reports into local government planning in relation to tourism have been taken up in droves by local government areas. We are grateful for that and hope that will make a change. I think that accurately defines some of the problems, but we think it is improving.

**Mr NAIRN**—Has taxation been a part of that problem as well? I see that you have gone a fair bit into the taxation area.

**Mr Hingerty**—This submission was written before the final agreement was struck on the new tax system. Yes, taxation—as we have addressed it in our report—does have a profound influence.

**Mr NAIRN**—I was thinking more of the investor part of it.

**CHAIR**—Barriers to investment.

**Mr NAIRN**—Yes, and things like capital gains tax and those sorts of areas.

**Mr Hingerty**—I think those issues are part of the overall decision to invest or not to invest. We are certainly using structures such as this inquiry and the ANTS inquiry to forward individual suggestions on how the taxation regime can be better improved to assist our industry.

**CHAIR**—I want to expand on that a little. This really is addressing the problem of the data and the information and getting that to the relevant authorities, as well as the investment sector. You are obviously looking at that, but are there barriers to getting this data and this information out, or is it something to do with your own resources?

**Mr Hingerty**—There are two. One is simply a function of time. Again, it is a young industry and to be able to build up meaningful patterns of economic cycles and investment cycles takes time. The data that has been collected in the past, I am told, has been inadequate to meaningfully see where we have come from so that we can extrapolate where we are going.

**CHAIR**—And part of this is in your opening address to us. You mentioned the ABS.

**Mr Hingerty**—Yes. From memory the so-called tourism heading for ABS data is ‘accommodation, cafes and restaurants’. The tourism industry is so much bigger than that. It is airlines, airports, entertainment, theme parks.

**Mr ADAMS**—Wine trails.

**Mr Hingerty**—Yes, it is all those sorts of things and they are not really covered in that one narrow structure. We have made representations to the Minister for Financial Services and Regulation about this and we are hopeful that there will be some advancement. I think other service industries, not only the tourism industry, suffer from this paucity of data. It is not a government problem either; it is the industry as well. We also have to lift our game. There is indeed a worldwide movement to establish a satellite account for tourism for the tourism business.

**Mr SIDEBOTTOM**—I am just interested—it is probably very specific—whether your organisation has any attitude towards the Passenger Equalisation Scheme for Bass Strait and also in what is going to become even more relevant very soon, the national highway equality status argument for Bass Strait. Has your organisation discussed that?

**Mr Hingerty**—The latter I am not aware of and I will take it on notice. We are highly supportive of the former. Having experienced the Devilcat myself recently, I am very much in favour of it.

**CHAIR**—It is an adventure experience—ecotourism.

**Mr ADAMS**—We want to be treated the same way as people who can drive between Melbourne and Sydney.

**Mr SIDEBOTTOM**—The question of the national highway status is an interesting one and, certainly, just looking at the implications—

**Mr Hingerty**—I would like to make the point that we are not coming cap in hand to the parliament or to governments to say, ‘Dole out more money for infrastructure.’ We are looking for the appropriate regimes to encourage private infrastructure. An excellent example recently is in Mount Hotham where a private company, BCR management, has built a

private airport for \$17 million. Although it is too early to show what the impact of that is on regional employment, I understand from regional property prices—which I think is a fair indicator—that the previous record in the past for the price of a chalet in that area was something like \$160,000. They are now going for about \$650,000, and that is a direct indicator of a benefit of a piece of regional infrastructure geared wholly towards tourism.

**CHAIR**—Are there any other questions? Thank you very much for both your submission and attending here. Are there any points that you wanted to make in closing that we have not covered?

**Mr Hingerty**—No, I think that covers it.

**CHAIR**—Thank you to members for attending.

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

That pursuant to the power conferred by section A of standing order 346, this committee authorises the publication of evidence given before it at public hearings this day.

**Committee adjourned at 11.53 a.m.**

