

Transcript

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Item: **NATIONAL PRESS CLUB ADDRESS: 'RESURGENCE IN RAIL - ESSENTIAL FOR AUSTRALIA'S ECONOMIC PROGRESS'.
 INTERVIEWEES: DAVID MARCHANT, AUSTRALIAN RAIL TRACK CORPORATION**

Demographics:	Male 16+	Female 16+	All people	ABs	GBs
	N/A	N/A	N/A	N/A	N/A

KEN RANDALL: Ladies and gentlemen, welcome to the National Press Club and today's National Australia Bank address.

We're pleased today to welcome David Marchant, the chief executive of Australian Rail Track Corporation which manages a network of interstate rail from Brisbane to Perth. Quite a task.

It was set up just over 10 years ago under Commonwealth-states agreement which was intended and does provide a one-stop-shop, so to speak, for the private sector rail operators who use that network.

David - it was given a charter to make sure that the valuable infrastructure that's involved in that network was able to improve the performance and efficiency of the operations on it but I'm sure David Marchant will tell you that that's what's happened.



But we've moved ahead again since those days and it's become obvious that we'll have to do more to deal with the land transport task that lies ahead.

As you've just heard, it's been estimated that in the next 10 to 15 years the freight demand on that land transport system will likely double and it's quite obvious that the road system alone won't be able to cope with that so we look to rail.

And to tell you how it might be done, please welcome David Marchant.

DAVID MARCHANT: Thank you, Ken. Members of the National Press Club, ladies and gentlemen.

We live in a car-centric society, be it from the Holden ute or the Sandman my youthful past, and many of yours, or the SUV of the early 2000s, our vast continent and spread cities has driven us to an addiction, an addiction to cars and trucks for our movements either as individuals or in transporting goods.

Since the 1960s we have doubled our efforts in moving our goods by trucks. Our intermodal freight rail transport system was progressively run down, under-invested for performance, as we embarked on making our truck activities more productive and more efficient.



Today our medium and long distance trucks would be amongst the most efficient in the world. New axel loads, semitrailers extended to b-doubles, and triples, these are just some of the initiatives that have developed an outstanding road freight sector, a trucking sector which is the envy of their American and European counterparts who are severely restricted on truck lengths and routes and who are more and more impacted by user-pays and tolling on top of fuel taxes and registration.

The Australian trucking initiatives from the 1960s to today have opened up our logistic arteries and enabled Australia to cost-effectively move goods in a substantially growing transport market, flowing from the progressive globalisation of our economy.

Our freight transport activity has grown over the last two decades by around 1.6 times our gross domestic product. The question is, can we be reliant on trucks for the movement of our goods and can that be sustained for the next 20 years?

Our challenge for the transport sector over the next 20 years requires confronting some fundamental structural impediments. One, fuel pricing and availability, two, the reduction of CO2 emissions, three, urban congestion and, four, labour force structural and demographic changes.

Although we are presently going through the shock of the world credit crisis and the consequent fall in



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oil prices, we should not take comfort that the recent fall in oil prices is a sustained outcome but rather a short term aberration.

Oil prices were on average in the '90s around US\$20 per barrel. In 2008 it peaked at approximately US\$147 per barrel. In November of this year it had fallen to US\$50 per barrel.

Looking forward, the International Energy Agency released two weeks ago an annual energy outlook forecasting the future with regard to possible fuel prices and in the 2020s it said it would range between US\$50 to US\$124 per barrel. The days of the US\$40 per barrel oil have gone.

Carbon reduction programs and the worldwide movement to carbon trading schemes have significant implications for our land transport sector. At the present time Australia's land transport produces 75 million tonnes per annum of carbon emissions. On the projections for 2030, without significant modal shift, it would produce 105 million tonnes per annum of carbon emissions.

If Australia is to reduce its carbon emissions then land transport of our goods is a major area, a major contributor to carbon problems.

Rail is an excellent option for reducing our carbon footprint. Rail freight is five times more fuel-efficient than road freight per tonne carried.



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Professor Garnaut, on page 524 of his outstanding report, reflects on long distance freight transport when he wrote, and I quote: the development of near zero emission trucks may take longer than for local freight due to the additional energy storage required for long distance travel. There are immediate and growing opportunities for modal shift, particularly from road to rail.

In the long term the development of a more substantial rail freight network, along with intermodal terminals that allow the rapid transfer of goods between trucks and trains could permit an even greater share of freight to be transferred from road to rail.

Professor Garnaut gets it. Transport share of CO2 emissions is currently 14 per cent. If nothing is done transport emissions will comprise 66 per cent of the nation's total target for 2050.

This means it is an area that must be addressed if Australia is to reduce its overall emission levels.

To do so the relative pricing of road and rail for the carriage of freight needs to be placed on a basis that is rational and enables rational decisions by users on the mode to be used.

Over the next decade the method of pricing truck activities and its contribution to infrastructure costs and externalities need to be addressed if we are to



see a rational market and response to carbon emissions.

The bottom line is, freight users will determine their mode based on the cost to them, the end price. Professor Garnaut also says, in section 19 of his final report, on page 457, where he states, quote: it is desirable to have closer links between pricing structures and the full cost of providing infrastructure and services. Reform in this area should be accelerated, he says.

He says the Productivity Commission's recommendations that incremental pricing form a precursor to mass distance location pricing for freight is worth another urgent look.

If our objective is to reduce carbon emissions, a modal shift needs to occur. Fundamental pricing relativity between freight transport modes needs adjustment.

Price is the most critical attribute. Freight forwarders also rely on the reliability, transit time and capacity.

The influencing factors on the price in the medium to long distance road freight transport costs over the next 20 years will be made up of a number of factors: fuel costs, carbon costs, labour cost and supply, congestion costs and infrastructure access charges.



As indicated earlier, oil prices are unlikely to stabilise at present levels and are more likely to rise in real terms over the next 20 years.

Carbon cost are forecast in the Treasury paper released a few weeks ago to move from \$20 to \$30 per tonne in 2010 to between \$51 and \$90 per tonne in 2030 based on 2005 dollars.

How this will affect fuel pricing for commercial medium and long distance trucks is not known as yet.

Labour costs and the supply of drivers are likely to be a very large influence on the cost for medium to long distance trucking markets.

But 2010 labour cost for medium to long distance drivers has been forecast by the industry to grow by 20 to 25 per cent.

One of the reasons for this is the changing demographics in our society and the X and Y generational changes. My generation, and some of you here, by the look of it, were prepared to hock our houses and raise debt to buy a rig, become a subcontractor to one of the major firms and be away from home for days at a time, sleeping in the rig.

My children's generation have other aspirations which do not including hocking their houses to buy



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a rig and being in a truck away from home for days at a time, sleeping in the truck.

The price for attracting people to this lifestyle is going up, and the number of people prepared to do it is falling against the level of demand.

In July of this year, *The Australian Financial Review* reported that an application was made for 10,000 457 visas to recruit truck drivers. The application was not approved.

The point is, the number of people available will fall, while the price at which they are available is likely to increase in real terms over the next 25 years.

At the same time, our population growth and increases in innovation and productivity will result in the volume of goods to be transported increasing by greater than 75 per cent over the same period.

In the next 25 years, we cannot rely on trucks doing all the heavy lifting of freight that has been so much the growth story for our economy in the last 25 years.

The last 25 years has seen a significant investment in road truck productivity and performance. Infrastructure investments have been focused on facilitating greater freight transport on our roads between our major cities and centres.



Those same 25 years has seen a general deterioration in our freight rail infrastructure and under-investment in improving its productivity and performance.

These policy and strategy settings will need to adjust if our country is to continue its economic growth and reduce our carbon emissions.

The trend since the 1960s between our capital cities of Melbourne, Sydney and Brisbane, our largest infrastructure market - logistics market - has seen freight moved from around 50 per cent of land transport carried by rail in the '60s to less than 12 per cent in 2006.

We've seen the volume of freight increase from approximately 1.5 million tonnes per annum in 1960 to over 25 million tonnes per annum in 2008.

This type of growth above GDP will continue over the next 20 years. This type of growth cannot be adequately handled, or cost effectively undertaken, by continued reliance on road freight alone.

The major planks of reform over the last 15 years in the rail freight sector have predominantly focused on moving above rail operations from the private - public sector to the private sector.



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ARTC was created in 1998 to progress the development of a national interstate standard gauge rail network connecting our capital cities and ports.

ARTC initially took up the former Australian national rail infrastructure in South Australia and part of Western Australia, and the commencement of lease negotiations in Victoria for the Victorian standard gauge main line from the South Australian border to Melbourne and then Wodonga.

And in September 2004, after three years of interesting negotiations, ARTC executed a 60 year lease of the New South Wales interstate standard gauge main line from Newcastle to the Queensland border, from Macarthur in Sydney to Albury, and from Cootamundra to Broken Hill, and the lease also incorporated the Hunter Valley lines from the port of Newcastle to Werris Creek and the Ulan lines.

In each of these leases, Victoria and New South Wales, substantial maintenance deficits were acquired. The average speed in the Victorian network for a super freighter - intermodal container freighter - was approximately 40 kilometres an hour.

Temporary speed restrictions in Victoria amounted to 24 per cent of the track. Train lengths were officially 900 metres.



In New South Wales, the maintenance deficit was estimated by the New South Wales Auditor-General at over \$366 million. Significant temporary speed restrictions were placed on critical assets.

These points are not made to take a shot at previous management. They reflect the lack of priority and commitment to rail as being a value-adding component to our national transport and logistics infrastructure.

They reflect the 30 years of running down of investment and value from the transport policy makers. They reflect the outcome from distorted pricing signals between commercial road transport and commercial rail transport.

When road has investments determined on broad economic terms and cost distributed amongst all users, and non-users, and freight rail where investments are generally commercially based and cost distributed exclusively amongst the beneficial users.

The pricing signals between the commercial trucking market and the commercial rail market will need to be addressed if there is to be a greater shift to a more fuel-efficient carbon friendlier mode of transport.

The infrastructure deficit and maintenance deficit accrued over 30 years is progressively being



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addressed. However, the infrastructure will need significant new investment if it is to meet the challenge over the next 20 years.

Since 1998, ARTC has addressed improvements in transit time, reliability and capacity of the main lines from Melbourne to Adelaide via Perth - to Melbourne, Adelaide to Perth.

Investments were made in the early 2000s to improve the performance of the infrastructure. Temporary speed restrictions were reduced from 24 per cent of the track in Victoria to now below two per cent for the whole journey.

Transit time for super freighters reduced by more than four hours from Melbourne to Kalgoorlie through the provision of more loops, automated keying of turnouts, staff and ticket signalling eliminated from inner Melbourne and replaced with electronic signalling, and a myriad of track improvements.

The result: train lengths and capacity were increased, 1500 metre trains from Melbourne to Adelaide, increases in tonnages and limits through the Adelaide Hills from the limit of 3300 gross tonnes to 5000 gross tones.

Eighteen hundred metre length double stack trains from Adelaide through to Perth. And real price reductions for access of around 20 per cent.



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The land transport market share has, for rail, moved from just over 60 per cent in the '90s to over 81 per cent on the east and west corridor today.

Rail is generally 30 per cent cheaper per tonne door to door from the east coast of Australia to the west coast of Australia than road.

In the United States, on average, it takes around 73 hours for a US rail freight train to travel 3500 kilometres. On the Melbourne to Perth corridor, it takes 54 hours to travel the same distance, almost one day less than the US.

The United States doesn't have the benefit of the intense competition from B-doubles and triples that we have in Australia, as B-doubles and triples are not able to operate on any US highways, nor generally, in the European Union.

After the take-up of the New South Wales lease, ARTC, with the support of the Australian Government, commenced a major program of improving the infrastructure on the north-south rail corridor, Melbourne, Sydney, Brisbane.

This is the corridor most depleted in performance over the last 30 years. Rail market share had fallen, as I said, from around 50 per cent in the '60s to less than 12 per cent in 2008.



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In 2004, transit time, Melbourne to Brisbane, for the very best super freighter was 32.9 hours. Reliability was around 45 per cent.

Between Melbourne and Sydney, the best super freighter could gain a transit time of 13.5 hours. And Sydney to Brisbane, the best was 19.4 hours with reliability at 45 per cent.

Only some trains could run these corridors at 1500 metres; most were restricted to less than 1000 metres.

ARTC, with the support of the Australian Government, has embarked on a 2.3 billion pro... dollar program to rejuvenate the infrastructure and its performance on the north-south corridor.

The program, which will be substantially completed in 2009, and it will produce a reduction in transit time, Melbourne to Brisbane, to 7.3 hours, 26 total hours. A reduced Melbourne to Sydney by three hours, reduced Sydney to Brisbane by 4.3 hours and reliability from the mid 40s to in excess of 75 per cent, matching the east-west corridor which is more reliable than our airlines.

Ninety per cent of the line will be concrete sleeper, which reduces the impact of heat-related restrictions on rail lines.



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In 2009, the southern city freight line will be under construction with full completion by January 2010.

This line will separate freight from the urban passenger network in the southern areas of Sydney from Chullora to Macarthur. It will overcome the curfew on freight movements in Sydney and especially in the southern area. These curfews substantially restrict freight capacity, as no freight is allowed on the urban system in peak hours from 6am to 9am and from 3pm to 6pm every week day of the year. These restrictions will still apply to northern Sydney.

The southern Sydney freight line will be constructed to the freight line and be connected to the freight line from Chullora to Sydney ports, which will be separated from the urban passenger system and brought under ARTC control.

Effectively, rail freight from Melbourne port to Sydney port will be totally separated from our urban passenger systems.

Through the support of the Victorian Government, ARTC's lease in Victoria has been extended to 2059. And as part of these initiatives, the Victorian Government has handed over the broad gauge track which was adjacent to the standard gauge track that ARTC had and ARTC is presently converting that track to standard gauge.



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This will provide for two standard gauge lines in eastern Victoria and substantially assist in improving transit time reliability and capacity.

ARTC is partnered with Lockheed Martin and Telstra to develop an advanced train management system and to roll out digital communications on the standard gauge interstate rail corridor from Brisbane through to Perth.

A proven ATMS system will enable the removal of physical on-track constraints by improving the capacity of the interstate rail network by replacing old time signals and managing trains through sophisticated computer programs and global positioning systems right into the cabin of the train.

The famous staff and ticket section of the main line between Casino in northern New South Wales to Acacia Ridge in Queensland has been removed and replaced by a modern CTC system.

This is a fine example of the maintenance deficit. The staff and ticket system was an excellent example of rail safety technology from the 1880s which was all still alive and well working on the interstate main line between Sydney and Brisbane in 2008 and in the centre of Melbourne in 1998.

It required a driver to get out of the train at each signal location, get out of the train and go over to



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signal box and out of that signal box go to a dispensing machine and get one of these out.

And this came out of a dispensing machine, it has an individual number and shows the location the driver can go to and he goes, then, the next 20 kilometres, to the next machine, gets off the train, puts this back into the dispensing machine and then gets another one out and signs for it and then gets back onto the train, 4000 tonnes, and drives along for the next 20 kilometres.

It's a bit like a relay in running except the driver has to get out and keep on signing the framework in and getting one of these things called a staff.

There is only one of these staffs for each section, each direction, and the reason it was safe is only one person, one train could ever have the staff and in that fact was brilliant rail safety in 1880.

[Laughter]

It's safe because only one train can have a staff and therefore no other train can enter the section without appropriate staff. Very similar to running a relay. It required a stop every 20 kilometres. Over one hour was lost in transit time as a result of this activity and litres of fuel were wasted.

In 2008 it has gone. It probably should have gone in 1958.



The investment program of over two billion north-south will provide a springboard for rail market share growth. It will not be sufficient to address the market requirements in an environment of increased fuel costs and a program of carbon emissions in the transport sector.

ARTC's submission to Infrastructure Australia in July 2008 outlined our analysis of the transport sector as a whole based on three scenarios and costs predicted for 2017-18.

We have now updated our transport market analysis to take into account the Treasury paper released a few weeks ago entitled The Economics of Climate Change Mitigation and the latest world energy report released by the International Energy Agency.

In releasing it today, the updated analysis of the transport market, we have incorporated a new scenario which takes into account the two new reports and produced our most probably scenario.

And the probable scenario has in 2017 oil price per barrel at US\$85, Australian-US exchange rate at 70 cents, labour rates increased by 22 per cent, truck contributions to road access charges increased by 10 per cent, all of these are in 2005 prices.

Given this scenario, and assuming the market responds rationally and infrastructure was in place



in 2020, what would it mean for our transport sector?

Rail market share Melbourne to Brisbane would be 83 per cent, an increase of 3.4 million tonnes per annum or over 346 per cent.

Road market share, Melbourne to Brisbane, would be 17 per cent, a decrease of 2.3 million tonnes per annum or 73 per cent.

Rail market share Melbourne-Sydney would be 45 per cent, an increase of 5.8 million tonnes or 617 per cent and road market share Melbourne-Sydney would be 55 per cent, a decrease of 3.1 million tonnes.

Melbourne-Perth would see a significant increase in sea from approximately less than 24 now to over 40 per cent of goods travelling by sea or 40 per cent of the total market east-west would be in sea, rail would be 56 per cent and road four per cent.

The most dramatic increase for rail would be Melbourne-Sydney, Sydney-Brisbane and Melbourne-Brisbane.

This possible scenario is seeking to put a marker on the horizon and is a clear illustration of why we need to address the infrastructure and structural issues if we want our economy to continue to grow and at the same time reduce our carbon emissions.



We know that the outcome of infrastructure projects benefit generation after generation. The creation of infrastructure has also immediate economic stimulus effects in our sort of economy.

ARTC's prime objective has been to revitalise our rail infrastructure and make it a realistic competitor to road and value-add to our national logistics infrastructure.

We've still got a way to go but we're working on it. Every night though we see an almost endless stream of heavy trucks leaving Adelaide, Melbourne, Sydney, Brisbane and Canberra, heading for interstate or intrastate destinations. Hundreds of trucks. Over one 1500 metre train can replace 100 trucks.

What I've advocated is a transport mode shift to the benefit of our economy and the environment.

There's an ad running in the US television at the moment extolling the virtues of rail over road and I've converted from imperial to metric the figures in the ad, and the ad's message. Just a tonne of freight can be carried 680 kilometres by the use of 3.7 litres of fuel.

Road can't do that. Rail can.

Through AusLink, Infrastructure Australia and through the stimulus package of the Australian



Government we can develop a rail system that overcomes decades of neglect, we can provide a transport platform which adds value to our economy.

The rail sector has a positive role in reducing fuel usage, and our nation's carbon emissions, but to do so infrastructure and rail needs to be addressed. The price settings for commercial trucks and commercial rail for medium to long distance, for the use of infrastructure, needs to be progressively adjusted. Unless we do so, the costs of our goods will substantially increase with the obvious consequences for our economy and our economic prosperity and our national competitiveness.

These are not issues which can be solved tomorrow, however, the road map for the adjustment needs to commence today.

[Applause]

KEN RANDALL:

Thank you David Marchant. As usual we have a period of questions from our media members starting today with Siobhan Ryan.

QUESTION:

Hello, Siobhan Ryan from *The Australian*. How much government funding do you think is needed in order for the rail sector to accommodate the increase in demand that's in your most probable scenario that you've modelled here today?



That's my first question. And the second is where do you stand on the debate on the fuel excise? Because some people are arguing that it should go down. What you're saying is that the road user charges aren't sufficient at present. Do you think it should increase?

DAVID MARCHANT: In answer to the first part of the question our submission to Infrastructure Australia goes through three scenarios and today a fourth scenario. The high case, the medium case and the low case under each of the elements: oil, carbon, labour costs, et cetera, and today we've released the most probable case because we have now more information to actually make assessments around that.

And that has over a 15 year period, horizon, a range of investment options for government of which industry also needs to contribute. Those investment horizons range from four billion through to eight billion depending on which of the trajectories end up being correct.

In that case there also needs to be a look at issues with regard to the incentives in maybe bringing in depreciation allowances faster to have rail rolling stock brought in which is more efficient to carry that framework by giving incentives such as the US do by accelerating depreciation.

And we also need to look dramatically at our terminal capacities in Melbourne, Sydney and



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Brisbane to be able to do the interface between road and rail because road has a very critical part to play and so does rail, but the interface between those must be made much smoother than they are.

So the element in the medium term over 15 years the price can be between five and eight billion depending on what trajectory of growth really does take place and secondly the degree in which the industry should contribute to the repayment of some of the economic activity over an amortised period of time.

So that's the order of magnitude. I'm probably going to give you an answer on fuel excise that you would expect and that is I think fuel excise needs to be retained. Fuel excise for trucks is in fact their only contribution to the road infrastructure they use apart from registration and it's actually aimed to be a payment with regard to maintenance.

However, my personal strong view, and I think Professor Garnaut reflects it, is that what we need to do is get smart as New Zealand has, it's a small island off our continent but sometimes has great policy settings, they've moved to mass distance charging for trucks where, in fact, and they're about to adjust it, where a truck over six tonnes actually pays a distance per kilometre it uses and contributes to the infrastructure it uses, contributes at a higher rate.



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Because one of our distortions, which I was trying to get at, is that every road user contributes to roads maintenance costs, but the commercial road users, long distance trucks aren't contributing to the degree that they're getting their commercial benefit from it and therefore there's a malallocation [sic] of that.

The second positive thing for mass distance charging with new technology is that you can track the truck. You can see the fact the driver's obeying the fatigue laws, you can see that the speed limit's being adhered to and you can see if there's an accident, if the truck falls over, exactly where it is and get emergency services there. You can track it live.

And you also have the other benefit that you can then price it based on where it goes. So if, in fact, the truck is going into an area, a rural area that has no rail competition and for social reasons we obviously want good transport, you would actually charge it less than where it's competing with another mode which is commercial.

And therefore you can get much smarter with regard to where you create your subsidies and get a better social outcome and financial outcome for the benefits you wish to distribute. So my view is the technology's alive and well today to actually move to mass distance charging and tracking of trucks, large trucks. Not small trucks, large trucks.



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Because effectively you'll get better targeted safety, you'll get better fatigue management, you'll get better occupational health and safety management and, lastly, you can actually target your taxes and incentives according to the market you're after. Where in rural areas and other outlying areas you want an incentive for transport you can subsidise it, but you don't have to subsidise 100 per cent to actually target the areas you're after.

I think that's the policy setting and that's the policy setting Garnaut's suggesting and the technology's around today and we can use our money smarter and safer for everybody. So I think the medium term we can capture that technology and actually do better for everybody.

It can't be difficult. New Zealand's done it.

[Laughter]

KEN RANDALL:

Thank you. The next question's from Sophie Morris.

QUESTION:

Sophie Morris from *The Australian Financial Review*. You spoke of the neglect of rail in the past decades. Is part of that because of the perversities of federation? Are there any sort of responsibilities there that need to be sorted out and should be taken full control by one level of government, the Commonwealth?



And is there any sort of issues still there in federal-state relations that are impeding the sort of change you were talking about that is needed to put rail infrastructure on the footing that's required to take us forward?

DAVID MARCHANT: The historical development of rail has been city-centric. Rail was developed to actually get the goods and services, our clothes, goods and services to our major cities. And effectively the whole rail infrastructure was based on coming to big cities: Sydney, Melbourne, Brisbane.

And because our livelihood at that time was - you know, our food, our clothing actually came from the hinterlands. And it did a great job since federation for the first 50 or 60 years. It wasn't built to actually have a national economy, it was built to be state city-centric and therefore we've laboured with the problem of how to create a national network in a growing marketplace, which is Australia, which is a globalised marketplace.

The clothes you're wearing, the food you're eating, the great bulk of that comes from a range of different locations in and around Canberra. In 1930s and '40s it came from around Canberra and Sydney. So a rail network is city-centric. And what happened is we've been very slow to actually create a national network.



The ARTC objective is to try and create an interstate standard gauge open access network from Brisbane through to Perth. We're still working on that especially in Queensland and Western Australia but, you know, there's hope.

The reality though is the technology to keep rail in the freight game had been dramatically distracted, especially in the last 25 years because effectively the state governments were very much focussed around their urban systems. Why? Urban systems vote, freight doesn't.

And effectively, do they get a big benefit out of a national economic system that's interoperable between the states? They don't actually see that much benefit. So what happened is when they did start to invest money on some of these country networks and something happened in the urban network they correctly, in their view, brought the money back into the urban networks.

Now whether you think they did a good job or a bad job with that depends on which city you live in at the moment. But the reality is money was being diverted away from these sort of freight lines because they weren't seen as economic imperative or politically imperative as the urban systems are.

The ARTC objective, and the reason I think the Commonwealth created the ARTC, was to actually have someone focussed around these issues which



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had an economic imperative for the nation. And to negotiate with the states, it's kind of humorous to have a company negotiate with the states when the Australian Government could have been doing that framework as well, but that has been actually quite successful, strangely enough. Perverse as it sounds.

And I think our relationships in Victoria and New South Wales are reflecting that. There's a great bond between our movement forward and the state governments and they see it as value-adding.

But there was distraction and what happened was when they're all state-centric the things got pulled to the urban systems and therefore you get 25 years of running it down to 45 per cent reliability, temporary speed restrictions, et cetera because it just didn't get the highlight in the state faces.

There's obviously a bigger highlight nationally because it's all part of our national economic drive forward.

KEN RANDALL: Mark Davis.

QUESTION: David, Mark Davis from *The Sydney Morning Herald*. You spoke about the investment that ARTC's undertaken on the north-south corridor particularly in the south of Sydney overcoming the issues of congestion and curfews there and I think you said that that two billion dollar program should be wrapped up next year.



I'm wondering could you put a figure on the amount of investment required to achieve similar improvements to the north of Sydney with the congestion north of Sydney and on to Brisbane?

And how much of a priority should be placed on that as opposed to building an *entirely* new rail link direct from Melbourne to Brisbane at a cost of several billion dollars.

DAVID MARCHANT: Yeah. Firstly I can put an estimated cost on staging an integrated framework for the northern Sydney framework from Strathfield through to Newcastle. Our Infrastructure Australia submission says that progressively with an initial investment of \$800 million we should be able to add paths on the northern side of Sydney to enable four freight trains per hour in that framework and then progressively, as the market grows, join those loops and paths up until eventually you have a stand alone freight track north of Sydney, from Sydney through to Newcastle then connecting to the tracks going north.

So the initial investment's about 800 million and then progressively that goes from 1.5 billion to two billion, but over a period of years and you do it incrementally as the market grows rather than one big hit. That is both economically and physically sound.

The other framework though is an inland rail route and as you would be aware ARTC has been asked



by the Australian Government to do a detailed evaluation of an inland corridor, both its economic framework, its engineering framework, the environmental assessment framework and to get an order of magnitude of realistic cost as well as realistic market it could achieve.

So that then it could be considered, well, how much should government put in, what would the private sector put in, et cetera, and try and get the right balance and I expect that report will come out in October/November next year, and there'll be a number of public reports in the interim period outlining the stages.

But I do want to caution that the inland route is not a panacea to land transport for rail on the eastern corridor and the reason I want to point that out is the figures I mentioned earlier.

There are three markets: Melbourne-Sydney, Sydney-Brisbane, and then there's a bigger market Melbourne to Brisbane. And effectively the inland route attracts and does well, conceptually, for a Melbourne-Brisbane market but you can't ignore Sydney. It is our biggest logistics market in the country and you'd need to get the connections between Sydney and Brisbane, and Sydney, Newcastle and Brisbane and Melbourne and Sydney, in trim shape, if you're to respond to the sorts of scenarios we've outlined today, scenarios which are not unrealistic. In fact, they are probably the most probable outcomes amongst the input costs

and you've seen from those scenarios that that is a significant increase in volumes.

Now, an inland route deals with one of those markets but you're still left with the two biggest markets: Melbourne-Sydney and Sydney-Brisbane stand alone. Melbourne-Brisbane is the smaller of those markets, and you can't ignore that.

QUESTION:

Laurie Wilson, freelance journalist, and I'm a director of the Press Club as well.

You just mentioned the inland route as one of the infrastructure options. You also talked about the order of magnitude of the investment required, in terms of - I think you said the most logical, or the preferred option or scenario that you've outlined.

But can you give us a bit more detail in terms of the actual physical infrastructure that you think will be required? You also mentioned I think the interface at the two ports between road and rail but what else is going to be required, in infrastructure terms, to achieve the outcomes that you think should be achieved?

DAVID MARCHANT: I think fundamentally we have to address the issue of Sydney to Newcastle. We have to address the issue of actually getting the bottleneck out of the Sydney side of that equation, and the curfew issues and the rest.



And that, I think, is plausible commonsense. I mean, this is the biggest national market and the biggest logistic market in the country and we have curfews taking out substantial periods of the day where no freight can operate.

So by far the most critical priority for the rail industry - and this is generally accepted amongst the whole rail industry, I'm not giving just an ARTC view - that the pre-eminent package that must be dealt with is northern Sydney, and progressively moving to a freight line in northern Sydney.

The second issue that needs to be addressed is the issue of terminals at Melbourne, Sydney and Brisbane. I mean, the issue of Acacia Ridge is a great terminal but its volume will not handle this sort of capacity framework.

And we need to get road and rail interface at terminals much better. The rail industry's been very rail-centric rather than seeing itself as a logistics chain, and seeing itself as a critical part.

So in Melbourne, Sydney and Brisbane, we need to move to more sophisticated terminal capacities, more sophisticated interface with road, and a situation which is both cost efficient and productively efficient for both sectors.

We also need to move to a situation where the land planning for that is starting to be undertaken now. I



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mean, our cities are expanding. The sort of terminals we're looking at, the land is just being taken up by urban development of many forms all of which will be a hindrance unless proper land use planning starts to come in for the next 20 to 30 years, early enough to actually make it viable and economically efficient in the future.

Obviously we need to then move to deviations. The beautiful piece of track between Melbourne and Sydney and Sydney and Brisbane was created at a time when the sort of engineering designs taking place and the sophistication of that does have it on the more curvy end of a straight line.

And the reality is that effectively you can on many occasions see the back of the train as you're moving through on the front of it. And that's probably not desirable to get the most efficient transit time and pace on it. We need to take out some of those curves and straighten it out and actually get the average speed up to keep the fuel price right.

All of those things are not big costs. They're about serious thinking through the best and efficient cost of achieving it and they are progressive costs over a decade or so. They are by far the most critical issues.

Then we get to the secondary issues, which I'm trying to suggest today are very critical for our economic framework and that is we've got to



actually address road-rail pricing. We've got to address the situation which gets economic incentive and reality into infrastructure costs.

And if we don't do that, we're going to have distortions in the market for infrastructure investment, which will distort how infrastructure does get invested.

I'll give you one example. When rail does a business case, it's a commercial business case and a revenue stream, but if you did a bad road business case, that is you developed a nice \$500 million piece of road, and it was a failure, it doesn't go broke. Its cost gets sunk into the road user charges no matter how inefficient it is.

In a rail context you go broke. I mean, look at FreightLink. Look what happens when you can't actually get a return on your capital. That is not the equation when you get some massive road decisions around that logistics market.

We do need to get the pricing signals right, even if we subsidise them, we need to get the economic pricing signals right if we're going to have rational decisions in the future.

And lastly, we actually need to get the 25 years of archaic locos rolling stock. The average age of locomotives in Australia is 25 years old. That is probably not at the technology cutting edge.



The US and others have seen a benefit, in both environmental and other terms, not to give government subsidies to private operators and otherwise to pay for their framework, but what they've done is given accelerated depreciation, to enable people to backstock through, get more fuel efficient, get more environmentally efficient frameworks.

We need to look at what incentives we need to put in place, such as accelerated depreciation issues and the rest, to actually get a cleansing through of the rolling stock because not only do we get rid of aged fuel inefficient rolling stock - still more fuel efficient than road - but we also get the greater benefits of greater, more productive greenhouse outcomes, et cetera and when we look at carbon trading and the rest, we need to look at how we actually incentivate transition markets.

They're the sorts of things that are quite critical in our business case moving forward. They're issues that are a holistic view of it.

You'll actually see, from the package we've done today - although it sounds very rail-centric - you'll see from our market analysis, we've actually suggested that sea is going to do wonderfully well in 20 years time especially when Australia is concerned about its domestic sea framework. It lost money, it's basically closed down. Our sort of figures actually show that Melbourne-Perth, Brisbane-Perth, et cetera, will actually be quite an



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encouraging area for sea so, you know, we are trying to look objectively and rationally at what in the end will be the best outcome and those sort of elements which include accelerated depreciation for trucks, as well as rail, and for sea, would actually have a better long term benefit to reduce our costs in land transport.

QUESTION:

Peter Phillips, Mr Marchant, director of the National Press Club. In your address you made a pretty compelling case, and gave a very positive picture of efficiency improvements, of cost effectiveness improvements in rail freight, per se, but one wonders about the improvements in effectiveness in intermodal operations, between rail and other modes of transport.

The most compelling images which I have of the effectiveness of rail are the sorts of things which one sees in major resource precincts. For example in the far west, iron ore between crusher and rail freight and ship and off to market, and there goes another 400,000 tonnes.

One doesn't get the same impression of effectiveness of intermodal operations in urban settings on the east coast and elsewhere, which obviously are of critical importance to rail freight, and to rail freight's future.

What's the forum for the improvements in intermodality, which I think are required? When



one looks at it, one encounters the horror of interaction between public and private sector, local government, state government, et cetera. Is it a COAG - is COAG an ideal forum? How does ARTC approach that?

DAVID MARCHANT: I think your perception is accurate. The road-rail interface issue and the whole logistics interface issue is an area that needs active attention by all segments and sectors of the market, road, rail and sea.

It's been an issue which the Australian Logistics Council and others have actively been addressing over the last few years and you're beginning to see a coalition of thinking and strategy between all parts of the sector, to try and improve upon it.

But your observations are correct. I mean, you look at rail terminals at the present time in Melbourne, Sydney and Brisbane, in freight senses, and you'll see rail terminal configurations that reflect the beautiful engineering of the 1940s, and where rail was in fact there to create employment generation as a social obligation.

It wasn't involved in competing with road then, because effectively the road market was not very good, the road infrastructure wasn't very good. In the '40s, you know, rail institutions, all publicly owned, all government operated, were also seen not



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just as a transport sector but as part of the employment fabric of the nation.

The reality is that the '60s and '70s changed that dramatically, more so for the road industry, and rail's actually been caught a little bit behind by its public sector ownership in many cases, and its confusion between urban passenger issues - very critical - and freight issues.

And that's really being addressed. I mean, you've seen private sector entities come in, become rail operators very aggressively moving forward. You've seen major reforms in those government ones such as QR and the rest taking place, really coming to the forefront in the coal and other frameworks.

But our intermodal framework is a work in progress and our terminals reflect it. They are old shunting yards, in many cases only 600 or 700 metres long, and yet where're moving to 1500 and 1800 metre trains.

So a train comes in and it gets shuffled around, there's people there playing around in the yard all the time to move it up and down and put it together like a Meccano set et cetera and in a logistics form that's not smart.

I mean, you want to move in quickly, you want to lift quickly off, put it onto the other sector and on



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the other side pick up and run and you want the thing to keep on moving. You don't want to break trains up if you can. You put the whole thing in for service. You keep the cycle going.

So you move from individual lines where the train gets broken up and shunted, you've probably all gone past a rail shunting yard and been fascinated by all the movement and activity that takes place.

Most of it is non-productive, most of it is totally inefficient with regard to the operations or logistics framework but at the time it was done, it was state-of-the-art. But the reality is we've got to change the art because the rest of the world has moved on.

And that means looking at new terminals at Melbourne, Sydney and Brisbane. The last thing anybody is looking at is replicating the existing ones. We're into loop frameworks, keeping a train rolling in, unloading from one side loading from the other, keeping the movement going, doing maintenance and other frameworks outside that element and keeping the whole utility of that going.

That requires land space in a different form than we're used to. It requires a situation where the hubs between road and rail are properly planned. You don't put a major highway over here for b-doubles and trucks, totally out of the way of where you are going to put your rail terminal and then find the citizens of the town are absolutely distressed in the



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big cities as hundreds of trucks go past them to go to the rail terminal to actually unload.

You put the locations of these co-located in a framework where you can optimise your movements in and out and there are a lot of things to learn from our brilliant lessons of the past and if we're intelligent enough we can actually grow from that. And effectively the terminal attacks are attacks about bringing us into the 2000s, bringing the mobility of road and rail closer together.

Remember nearly all policy a decade or so was totally modal. You had an air division - there used to be Department of Air at one stage. You had a sea division in the departments at state and Commonwealth level.

You had a separate road division and a separate rail division, never should they talk because they were all individual things there to attack each other. In fact, the public servants in those days were there to build their empire in that area.

They didn't look at logistics in a management sense of how do all these things interface, et cetera. They were all their born empires, right? And the reality is that's the way the industry has operated as well. Rail management at that time they saw themselves as an end in itself.



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Roads were an end in itself. That thinking has gone. I mean, it's gone across the rail sector, it's gone across the logistics sector. What we're needing to do is undo and get rid of the albatross of the past which has actually held us back from getting the sort of rational planning and rational configurations.

All of this is not difficult. It's the issue of concentrating your policy settings to achieve it. It's the issue of getting a combination of agencies, local government, state government, federal government actually starting to coalesce. And I think the good news out of that is, I mean, how many times have we seen COAG meet this year? How many heavy agendas have you got on that?

You've got for the first time premiers and prime ministers agreeing to maybe even have a single national rail regulator. Brilliant, country of 21 million people, single national rail regulator rather than eight of them.

I mean we deal with seven regulators, seven different rules, seven frameworks. Our colleagues in the US not only have the benefit of not having b-doubles and triples, they only have one rail regulator for 201 million people.

So you've got movement taking place in structural terms. You've got logistics thinking, ALC, each state logistics council starting to work on it. So I actually think there's upside but the upside requires



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focus and concentration and also recognising we need to undo much of the past and produce a new paradigm, given the sort of transport options we have in the next 20 to 25 years.

KEN RANDALL:

The next question is from Christopher Jay.

QUESTION:

Christopher Jay, freelance, Sydney. In view of the world economic turmoil the fact that Iceland is about to melt and various other problems of that order, if the federal Government needed some rail investment projects to hold up employment and economic activity, would you have at the ARTC some good economically useful projects which you think you could implement immediately?

DAVID MARCHANT: One thing ARTC has learned over its decade of being a company whose shares are owned by the Commonwealth of Australia is you should always have in your pocket the next round of strategies.

And you can be pretty well reliant that seeing the economic downturn and the financial and credit crisis that goes with it and obviously the exercise at pump priming to stimulate our economy is not something which should be taken lightly. And you would want to have a situation where if there was going to be pump priming, you'd want to see the money go into those things which actually help build our productivity for when we lift out of the economic framework.



ARTC would use that opportunity, as you'd expect, to bring forward value-adding propositions that fit that overall 15 year strategy which we have put forward in Infrastructure Australia. And our strategy is very detailed and we did put forward a very detailed framework over 20 years.

We've obviously reflected on that in the last few months and seen are there some elements of this that could actually be brought on reasonably quickly which would add to the outcome in the long term so when Australia starts to move back up and the world economy moves back up there are investments that have been put in place which helps our competitiveness move faster and our recapture of market framework.

And I can assure you we've certainly suggested to the decision makers we have some options in there which would be realistic, achievable and which from next February could be brought online, creating employment immediately. And I'm looking forward to a situation where the Government's looking seriously at how they can actually help our economy move forward, how they can with all governments worldwide that have committed to working at ways of stimulating national economies. We're certainly in there batting, Chris, to get a good share of that and a share which can be brought to direct employment in both the producers of goods and services in this country and in outcomes and infrastructure which value-adds to the country as we lift back out.



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And we've certainly got a range of packages which we're more than happy to talk to any government official about. And if you're unlucky to be walking around Canberra walls in the next few days you can be sure if you haven't met me to see and hear those programs, you must be the only public servant who isn't, around Canberra at the moment.

KEN RANDALL:

Thank you. We'll have a final question today from Mark Carter.

QUESTION:

Mark Carter, *Rail Express* magazine. David, you mentioned in your - I think in response to one of the questions earlier, the issue of - there are no freight - there are no votes in freight and that state governments are very urban-focused when it comes to their rail issues.

Is there any - in order to get a greater appreciation of what rail can do, are there any benefits from the works that you're doing to make freight better that are actually sort of have flow on effects for the urban rail networks in Australia?

DAVID MARCHANT:

Well, Mark, although I've concentrated on freight and the story around it, let me just touch a few things. The southern city freight line, which I've mentioned has started construction, will be finished in January 2010. Moving freight off those passenger systems outside the curfew et cetera, what does that do?



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It actually frees up 100 passenger paths which can be used and saves capital investment in New South Wales for 100 passenger paths outside the curfews. It actually also frees up paths around the curfews because on the head and sides of each curfew you need to put freight trains away.

So that program alone, and we haven't made a big thing of it, actually produces 100 new paths for urban passenger systems and saves New South Wales having to invest in some urban framework by us taking the freight away.

The interesting thing on the northern Sydney one, which I just want to plug again is the highest priority for rail, is northern Sydney between Strathfield and Newcastle, that a progressive investment there starting at \$800 million and moving through to a couple of billion over 10 years to actually separate all the Central Coast through freight from the passenger system actually also has very significant direct benefits to urban passengers especially from the Central Coast and Hornsby back into Sydney because, again, you'd start to free up 100 to 150 paths especially in areas such as the Central Coast where the growing population and actual congestion issues of getting urban trains in and out.

So each of the projects we're looking at have direct benefits to urban systems.



The area we're doing in Melbourne, I mean, the separation of the double tracking in and out of Melbourne. Melbourne only had one rail track into it for freight, into the centre of Melbourne. We now have two developed in the last few months and by next January we'll bi-directional signal that and there'll be four times the capacity in and out of Melbourne just by bi-directional signalling.

It actually has another benefit. Some of the passenger systems that used to cross through that area that used to go to the regional centres will now be separated from the freight centres, again, improving capacity for that framework.

And lastly, the Victorian Government handing over the broad gauge track and us standard gauging it has now produced a situation where in fact a number of standard gauge passenger trains will run more frequently and more reliably in Victoria on that line with a direct benefit to passenger services in regional Victoria.

So there are kick-off benefits which flow through even though your focus is on one element. The kick-off benefits do have value and therefore you can actually have win-win frameworks by addressing freight and seeing it as valuable, many times, as passengers.

Thank you very much.



KEN RANDALL: David Marchant, thank you very much, we haven't had an all-trains experience for a while and it's been very instructive I can assure you. We'd like you to have this souvenir of the occasion and a membership your ticket which might bring you back with a progress report sometime in the next year or so.

DAVID MARCHANT: Thank you very much.

KEN RANDALL: Thank you very much.

* * **END** * *

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