

## PUBLIC

**THE LEGISLATIVE COUNCIL GOVERNMENT ADMINISTRATION A COMMITTEE MET IN COMMITTEE ROOM 2, PARLIAMENT HOUSE, HOBART, ON 12 OCTOBER 2015.**

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### **INQUIRY - TASRAIL**

**Mr ROBERT ANNELLS**, CHAIRMAN, **Mr STEPHEN DIETRICH**, CHIEF FINANCIAL OFFICER, COMPANY SECRETARY, ACTING CHIEF EXECUTIVE OFFICER, **Ms JENNIFER JARVIS**, CORPORATE RELATIONS MANAGER, **Mr SHANNON COX**, COMMERCIAL AND STRATEGY MANAGER, TasRAIL, AND **Mr PHILIP HARRINGTON**, PRINCIPAL CONSULTANT CARBON AND ENERGY, PITT&SHERRY, WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.

**CHAIR** (Mr Mulder) - I am to advise you the committee is taking sworn evidence and witnesses are to make a statutory declaration.

These are public hearings of the Government Administration A committee inquiring into the financial sustainability of TasRail. All evidence taken at this hearing is protected by parliamentary privilege. I remind you any comments made outside the hearings may not be afforded such privilege. It means if you say something in here and you repeat those exact words outside the Parliament they are not protected by parliamentary privilege; it pertains only to the evidence as it is given.

A copy of the information for witnesses is available if you have not read it or are not aware of the process. You have an opportunity to read it if you wish to do so.

I advise the procedures we intend to follow are, first you will be provided with the opportunity to speak to your submission, if you like. Following on from that, the committee will address questions to you. We are seeking information in relation to the financial sustainability of TasRail.

After taking the oath would you introduce yourselves and state your role, functions and your expertise in the matter that pertain to what the committee wishes to deal with.

**Mr HARRINGTON** - I am an economist by training; I and my team have put together the analysis that forms the basis of the report.

**CHAIR** - Chairman, I will hand it over to you to make the opening presentation.

**Mr ANNELLS** - Chair, I do not intend to make a statement. Our submission is pretty comprehensive and I do not want to waste the time of the committee by going back through all of that. I am sure the committee will have plenty of questions for us that will enable me to expand on any particular issue. I am happy with our statement.

**CHAIR** - The idea of this committee started to formulate at the time of the last GBE hearings where TasRail came before us. There were some issues about the financial sustainability of rail which would depend upon the efficient movement. Where some of my questions were is a concern about the amount of investment that is going on inside TasRail over

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the 10-year period, and I think we are about halfway through it. By my rough estimates, I think it is somewhere about \$600 million over the 10-year period and that was going to above- and below-rail investment. Can you give us an overview of the source of that capital, how much it was and what sort of areas it is being channelled into in TasRail in terms of building up the value of the asset base?

**Mr ANNELLS** - Chair, I need then to give a little bit of history which many of you have probably heard before so I will keep it as brief as I can.

The infrastructure that represented TasRail when the government made the decision to re-acquire it was in an extremely dilapidated state and not at all fit for purpose as a modern railway. Being a short-haul freight railway is a character-building experience. It is not easy. There is a lot of competition from road. Pretty much around the world it has proven to be a model which is very difficult to make self-sustaining. That is particularly so if you have assets that are very decrepit. You have the consequence of that in an appalling derailment record, you shed customers on a regular basis and the only people who will deal with you are basically people who have no choice.

The decision to re-acquire TasRail as an operating business was taken by a Labor government. As best I recall it was the unanimous decision of the parliament supported by all parties that this occur. I am not sure what happened in the Legislative Council but clearly a majority must have supported it because the necessary legislation went through.

The board and management of TasRail were put in place with a very clear instruction and that is: reinstate freight rail in Tasmania as a legitimate means of moving the large volumes of freight. We expect you to do it as economically as possible and we expect the business you run will be as self-sustaining as it is possible to make as quickly as you can make it.

Freight rail, even on a 600-odd-kilometre track like we have, requires a great deal of investment if you have put virtually no investment in the infrastructure for the preceding 30 years. We inherited a completely derelict railway in terms of both below-rail and above-rail infrastructure, that is, the rolling stock.

The decision to buy back TasRail was supported by the then federal government. In a sense, I do not think they had a lot of choice because they put, and continue to put, very significant funds into the ANRC, which is Commonwealth-funded below-rail business on the mainland. There was no such equivalent body in Tasmania and they did not want to extend the ANRC's remit to Tasmania.

They agreed to put a considerable amount of money in for the first five years and the state was committed to match those dollars. It chose to do so in a range of ways. It chose to find its matching funds through a combination of the expenditure on the Brighton Transport Hub, which had other benefits that were seen at the time of freeing up the railyards in the centre of the city, then proposed for a hospital but subsequently for other activity. They also chose to fund the complete replacement, effectively, of our rolling stock fleet. That has involved us sourcing and purchasing 17 locomotives from the United States and some hundreds of freight wagons of different sorts from China. That was part of the matching arrangement.

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I do not have the number in my head but I would guess we have spent probably in the vicinity of \$466 million at the end of the five-year period, which was 2014-15.

There was a hiatus of a year when there were no funds flowing because the matching arrangements had not been agreed between the state and the Commonwealth, and there was some confusion over what those matching arrangements needed to be. We now have agreement that there will be \$120 million of funds made available, which is \$60 million from both the Commonwealth and the state. The Commonwealth had allocated \$120 million in their own right but the state has only been able to match the first \$60 million of that. At the end of that your number, Chair, is not far from wrong, it will be in the vicinity of \$600 million and the job will not be finished.

The above-rail side of it will be well and truly finished. The one remaining expenditure of any particular note in above-rail is our wheel lathe. We have a 1947 wheel lathe which requires us to actually take the bogies off the train, which is very inefficient. We will spend this year and next roughly \$5 million on a below-ground wheel lathe. The above-rail will be well and truly done.

For the track itself, there will be an ongoing need, which the Commonwealth acknowledged was a minimum of \$240 million because they put up \$120 million expecting the state to match it.

Not all of this is time critical. A lot of it can be spread out over more years and will be. Even then I suspect the job will not be quite done in the sense that maintenance expenditure will not bring the balance of the track to the state that you would like in the perfect world. You can deal with a sub-standard track and a range of operational manners and we do it all the time, mainly by putting speed restrictions on, but in a perfect world you do not have any speed restrictions and you can run a faster service if that is what you need. With us, it is not always what we need. We do not necessarily need a faster service. Often we need a safer service.

We are getting to the end of it and you would say, quite rightly, thank goodness for that. I do not know because I was not involved and no-one at TasRail was involved about the estimates that were made by whoever made the decision to buy TasRail back. I have no clue what they thought the number was going to be. Anybody who did that, who understands rail at all, would know with a most cursory of examinations, that it would be a significant number and the Commonwealth well and truly understood that from day one.

I hope that gives enough background. That is where we sit at this point.

**CHAIR** - One of the issues is the below rail and you have already indicated that after \$600 million - I take it from what you are saying that the Commonwealth funds are really below rail?

**Mr ANNELLS** - Commonwealth funds are entirely below rail.

**CHAIR** - The matching funds of above rail is what state government is picking up.

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**Mr ANNELLS** - They cannot match it with above rail now because there is not above rail expenditure necessary. Of the \$60-odd million that the state is using as matching funds, I am guessing about \$10 million will be in above rail at a maximum.

**Mr DIETRICH** - The majority of it is all below rail. About \$60 million from the Commonwealth and \$60 million from the state for a \$120 million program.

**Mr ANNELLS** - So we are funding the wheel load?

**Mr DIETRICH** - Funding the wheel load by our own original above rail capital program back five years ago.

**CHAIR** - The wheel load. Explain that to me.

**Mr ANNELLS** - All wheels, whether they be on locomotives or on wagons, need to be restructured on a lathe, re-spinning it and re-profiling the wheel itself.

**CHAIR** - To make it round. Because it goes out of shape?

**Mr ANNELLS** - Sometimes to fix flat spots, but often it is uneven wear that leads to a surface that is going to be less than optimum in its surface with the rail. All railways operate on a very thin margin of an inch or two of wheel sitting on three inches of rail.

It is important for safety reasons but it is also very important for your cost of maintenance on your track that these wheels not have imperfections in them if you can possibly get rid of them. We have a very old system where you have to take the wheels off the trains, take them off their axles, put them on to a spinning hook and it is done manually and is very time consuming and costly.

We are going to bring in a below ground so you can drive the train straight over the top of the pit and this will engage the wheels from below. You do not have to take them off and it will spin the wheels and do what it has to do and the train moves on.

**CHAIR** - What is the cost of one of those?

**Mr ANNELLS** - \$5 million. That is our largest expenditure.

**Ms FORREST** - Is that classified as part of the above rail scheme you have? Even though it is going to be below rail.

**Mr ANNELLS** - Below ground but above rail.

**Ms FORREST** - I am trying to understand the classification of the expenditure.

**Mr ANNELLS** - It is definitely above rail and is a complex piece of machinery and quite complex to put it under the ground so you can drive the train over the top of it. There are other ways of doing it but that all requires you to take the bogeys off the trains and that is expensive and takes a lot of time.

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Instead of spending \$3 million, we spend \$5 million, but we then have something that will last a long period and it will increase our turnaround and our utilisation of both our locomotives and our wagons tremendously. Craig, did you want to follow up on the locos at this point? Since you are above rail at this stage?

**Mr FARRELL** - We probably discussed the locomotives a little in Estimates. There were some teething issues - you explained that to us last time - to get an update on how those issues are going and the costs of them, whether that has made the initial purchase price blow out on the items?

**Mr ANNELLS** - The answer to the last bit is no. All of the teething issues that we are experiencing, and still are slightly, are being covered by the supplier. This is going into some commercial stuff but I think that is fine - we are refusing to give final acceptance for them until these matters are complete. There are a whole range of preconditions they have to meet before they get complete acceptance. We are a little way short of that. We are in discussion with them at the moment as to exactly how long it will be before we are in a position to give final acceptance.

The locomotives, out of 10 - nine-and-a-half. They are terrific, but there have been some issues with the bellows. I am on the record last time as explaining that despite this being Caterpillar, which we went for because there were thousands of them, they changed the manufacturer of one component part and it failed on them. They have stepped up to the plate. It has cost us in the sense that we have not had as many of our new locomotives doing as many kilometres as we would like. In the bigger scheme of things, these are a 25 to 30 year investment, and we need to get it right. We are very happy with these locomotives. Their pulling power is terrific. Their fuel consumption is very good. As I say, nine-and-a-half out of 10.

**Mr FARRELL** - Currently you are still running some of the older locomotives. How much longer do you see that you will have to utilise them?

**Mr ANNELLS** - We are using some of the old locomotives partly because we have more business than we expected. There are some non time-critical haulage tasks that we continue to use some of the old locomotives. The intent is to get rid of them as soon as possible but, for example, I think I am right in saying the bauxite business is one which is absolutely non-time critical, and it is pretty flat. The difference between using our old and our new locomotives is pretty minimal in terms of fuel. Where these locomotives are particularly effective is over the early part of the journey, coming out of Brighton where the hills catch the old locomotives out at the tunnel. These locomotives are doing it very easily.

**Mr FARRELL** - Are the new locomotives used on the Melba line yet?

**Mr ANNELLS** - No. We have not put them on the Melba line yet. The Melba line is still not at a standard where we want to put new locomotives on what is a very old track, most of which is still jointed and has not yet had the benefit of welding. We have a big welding program out of this \$120 million. A lot of it is going into the west coast line. We have had a reduction in our demand on the west coast line, which we hope is temporary. We have less ore now because of the closure of the Queenstown mine, CMT, and of course Venture did not get up, but we are still hopeful that it will.

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**Mr FARRELL** - Speaking of Venture, there were several - I cannot remember the exact number, but all wagons - purchased specifically for that project. What has happened to the wagons? Have they been re-used elsewhere?

**Mr ANNELLS** - Not all of them. They will be bled into our system to replace older ones. We can use some of them elsewhere, but basically they are for the west coast line. That is one of the costs of Venture not getting up, and us getting in front of the game. I have explained at Estimates, this is very difficult for the board. At what point do you commit to support something in a very fraught environment? If we had sat and done nothing, not got the wagons, not done the work on the track, and if Venture had got up and could not actually export because they did not have the facilities, we would be the worst in the world. We made a judgment call. It turned out to be wrong, but it is not wasted. It is just that the use of that equipment is just pushed further down in the time line. This again is a 30-year investment in all wagons. They will be used in due course.

**Mr FARRELL** - I have noticed in the last couple of days there has been an announcement that Swire is going to be shipping into Hobart. There is also the mineral to Boyer, that they use for their paper coating. I think it is a clay-based material that is shipped in and then trucked in a bulk movement to Boyer. That happens every month or so. What is TasRail doing to assess the viability of this traffic? Would reopening the line into Hobart be something that you would look at, if the traffic into Hobart port grew?

**Mr ANNELLS** - The answer to that is yes, but a qualified yes. This shipping service is currently talked about in terms of once every nine days. It is a terrific thing. Whether it is a good thing for TasRail is another matter. It is a terrific thing that we have this service out of Hobart. Our preliminary analysis is that on a nine-day turnaround, this is not going to significantly change freight flows in the Tasmanian context. The difficulty for them is, what service can they afford to put in there, against what service do you need to convince people to change long-held arrangements to ship north and out through Toll or others? Our view is once every nine days is not going to cut it.

I do not think we would even contemplate reopening the Hobart line for one product only. For us, it would require that we had a two-way freight requirement. Given the establishment now of Brighton, I suspect that business is always better done on trucks. We have not looked at that specific business. What I can say to you is that we have a very good relationship with the paper company. We are talking to them all the time about how we can increase our business as a share of their total freight. We are already a big player. I think they might have put a submission to you at some point. Our relationship with them is very good. I think if there was a possibility of another freight task for us, we would be all over it. Would we open the line for one thing on that? No. There are too many other issues you would need to consider.

**Mr FARRELL** - What about the transportation of coal to Boyer?

**Mr ANNELLS** - I would be straying into commercial-in-confidence issues. It is certainly a product, haulage task, we have identified. It is one of a number that may be possible, but there are a lot of issues to resolve to do that. We do have the capacity. We do now have the equipment. In a sense, it is bleedingly obvious that a task like that is something we should be pursuing.

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**CHAIR** - There is an issue there, is there not? Currently that coal is going to Boyer via truck, is it not? There is a fundamental question in this. How could rail compete on a commercial basis?

**Mr ANNELLS** - We have to, like we did with the bauxite. In the end, we have to be a competitive price. We have to include the track access charge in that price, and we do. We are already hauling coal out of the Fingal Valley to Railton. We have already established the loading capacity for us to schedule trains to take it to Boyer is identical, where it is using existing line and a line that is in reasonable condition.

A lot of our freight is contestable and it is not just freight that we have that is contestable by road, but road freight that is contestable by us.

**CHAIR** - The pricing mechanism, though, has to return on the investment, rather than a straight out subsidy which is what lies at the heart of the future sustainability of TasRail.

**Mr ANNELLS** - The question of subsidy - can I come back to that first. The rules under which we operate are very clear. We cannot predatory price. There are plenty of ways in which a trucking operator could hold us to account if it were seen that we were undercutting the market simply to gain business. I can assure you that does not happen. We look at our costs and make an assessment as to what it really costs us to do this business and we put a margin on it, we bid, and if we win, we win, and we don't win we don't.

The question of whether we get a subsidy or not: you could classify all of our below and above rail grants from government as a subsidy if you wanted to. They are cap-ex expenditure by the state and the Commonwealth government on infrastructure and growth. In a sense, it is up to others to decide whether it is a good, bad or indifferent use of resources. It is to provide not only us, but it is providing rail infrastructure that can be used by third parties. There is nothing to stop anybody now starting a rail business in Tasmania if they want to. We all know that is not likely to happen, but they can. I cannot argue about whether the cap-ex is a subsidy or not.

On the other side, on the op-ex, we have received about \$20 million. The year after next it will be down to \$8.5 million. That is an operating subsidy for us that deals with the below rail maintenance cost. It is called BRIC which is Below Rail Infrastructure Contribution. It is the state saying we accept that having spent all this money to upgrade the infrastructure to the extent that you are unable to maintain it the way you should maintain it, we will provide the difference.

We have gone from \$20-odd million year after, next year, it is \$12 million, and goes to \$8.5 million. We are going to really struggle with \$8.5 million but that is what we have and we have been told as recently as last week that it is all we are going to get.

We have to ensure that we make sufficient money in our above rail business that we can live with, and direct any surplus to our below rail costs to minimise our need for that subsidy.

**CHAIR** - It gets to the heart, the long term. What is the maintenance budget long term for the asset? As you have correctly pointed out, this stuff has been done to restore a

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dilapidated system. Let us draw a line under when you have done it all, what is the financial sustainability of TasRail then in both operating costs on the rail and in managing to do the maintenance work?

**Mr ANNELLS** - Like everything in this business, there is no simple answer. You can talk about it in cash terms or you can talk about it in accounting terms taking account of depreciation. We would rather talk about it including depreciation and I am talking here about depreciation of above rail. We are not talking about depreciation below rail. That is out of anybody's ken.

We believe that within four years, the current four year plan that we have submitted to government, we will be cash positive.

**Mr DIETRICH** - Net profit positive of the above rail line.

**Mr ANNELLS** - Net profit which includes depreciation at the above rail line. We are very close to that now. If we had not had a couple of very unfortunate incidents we would be net profit positive right now. We do not have a lot of money to put to below rail. The reason, we believe, that within four years we will be very close, we still have this \$8.5 million, it will be under threat from Treasury. They will be trying to screw that down in the forward Estimates to zero as quickly as possible

There are two ways to get to that. One is we generate increased net operating profit above rail to put into below rail, then there is a question about are we properly dealing with the question of depreciation. Are we putting money aside as distinct from just another accounting sense? There is no secret that the board would much prefer to be putting cash aside. That is not happening. We are putting it into below rail to reduce that subset and that is a Government decision and I am not going to argue with it, it is just the way it is.

The second way of doing it is you artificially decrease your maintenance below that which ought to happen. I cannot speak for future boards but I can assure you that will not happen with this board because it is exactly what got people in this mess. We are very proud of what has happened over the last - it is not without issues and we have not made every right call. On balance the state has a very good deal here and the Commonwealth is very happy with what we have done both below and in the state of above rail. The worst thing that you would want to do is to start skimping on your maintenance.

I have used this expression before and I hope it does not offend people but you cannot be half pregnant in the rail business. You are either running a safe railway or you are not - and safe railway requires maintenance. I cannot give you a date by which we think that all of this will squared away but we are down to \$8.5 million which I understand is a lot of money but in the rail business it is not. From where we have come from, it is an expected reduction because with the money we have spent already on the track, the new gear which is much less demanding on the track, better maintenance procedures, and better asset management programs we now have, people would expect us to be improving and we are.

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Whether we will reach the happy position - certainly not in my tenure which cannot have that much longer to go, surely. We are getting as close as anyone is going to and if we were able to put it into a situation where we did not need a government subsidy then the question would be why is government running it at all? Why isn't it being run by private enterprise? We are all trying to reach a position where at least the above rail business can be taken over and run by private enterprise.

**CHAIR** - We will talk about natural monopolies in a while. As the rebuilding project moves into its maintenance phase, you said that next year it is down to \$8 million and that Treasury is trying to push you to zero?

**Mr ANNELLS** - They are my words. They would deny that probably but in the forward Estimates to date it is \$8.5 million.

**CHAIR** - As a government enterprise, I do not have any difficulty in investing in infrastructure as we do with the roads and then you get the return on that investment coming from the use of private enterprise, or in this case TasRail, running your services on the infrastructure. How long would it take, do you imagine, for that \$8 million to be spent? What would be the ongoing maintenance requirement, the cost, for the below rail system? In going forward irrespective of whether that was being funded by state government or funded by freight charges. When you use acronyms like that, I get lost in what they actually mean. I am just so fascinated by the word.

**Mr ANNELLS** - I think the answer to the first part of your question is, it is about \$16 million per year. Once the capital program is completed, and as I said, the \$120 million that we are putting in now was half of what we originally sought, which was \$240 million. We did not get that. That is fine. It has given us sufficient money to do a decent program over the next five years. When we have expended that money, the number you are seeking is probably about \$16 million. That is the cost of the maintenance of the 611 kilometres of operating track. There are bits and pieces that we spend a bit of stray money on and we do other things, but by and large it is the operating track. About \$16 million we think is what it would take to keep that to a safe and good standard that would enable you to run freight rail on it safely and reasonably quickly. I stress reasonably quickly.

**CHAIR** - We got off the engines, Craig. Did you still have more to do with that or - we moved away from engines and onto below rail.

**Mr FARRELL** - Not at the moment. That is fine.

**Mr GAFFNEY** - You mentioned getting rid of old stock. What process do you use to do that, and what return to you expect or want from getting rid of old stock? I am interested to know how that impacts on the balance line.

**Mr ANNELLS** - There is a whole range of different material that you would classify under a general heading of old stock. It goes from locomotives to wagons, to rails, to everything you can imagine, wheels. A lot of it is scrap metal. It has only scrap metal value. We tender all of that on a regular basis. People come in and they pick it up and take it away and do what they do with scrap metal. Some of our locomotives still have value and we explore the market. I do not think we have actually sold any locos.

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**Mr DIETRICH** - We have sent out an expression of interest for all our old locomotives or the ones that are up for sale.

**Mr ANNELLS** - We get people from darkest Africa and other places saying, 'This will do us, we will happily take these locos'. There is a market there. The total we have received I guess is now decreasing because we have sold a lot of stuff. At its height we might have had -

**Mr DIETRICH** - For scrap sleepers and wagons we probably made around \$2 million.

**Mr ANNELLS** - It is now very much running out, though I live in hope that somebody will come along and buy some of these locos at \$200 000 or \$400 000 each.

**Mr DIETRICH** - We are advertising 13 as we speak.

**Mr GAFFNEY** - When did you advertise and when would you then realise - did you just have that open-ended or -

**Mr DIETRICH** - No. It comes to a close I think at the end of this month. It has been open for a couple of months. It had been advertised in South Africa and so forth. We are holding some for spare and we are obviously using some, potentially more in the future. It is 13 at the moment. We are also holding back three potentially for any historical purposes, for the societies.

**Mr FARRELL** - While we are on scrapping things, I just noticed on the weekend there was an advertisement in the newspapers to tender for the movement of rail from the port to where it is being used. It seems like only a few years ago, railways used to have a purpose-designed train for moving rails, where they had the old wagons with the cranes on them so they could pick the rails up from where they were delivered and drop them off because they were all going to nearby rail lines. Is it more efficient now to move rail by road?

**Mr ANNELLS** - Yes. The answer is we do not have those specialist wagons. Wherever they were, I do not think they were ever available to us when we took over. If they were, I think they were in a state where they could not be used.

We have had a very significant influx of rail over the last five years. We now have a pretty slick arrangement, which we are trying to re-energise through this process, whereby they are picked up by special trucks and taken to where we need them. We would have loved to have had our own purpose-built wagons, but there was not enough work to justify it. As for our sleepers, most of our sleepers were delivered to our depots by truck, which was very annoying, but turned out to be the most economical way of doing it.

**Mr FARRELL** - I cannot remember accurately, but there used to be a row of them stored at Launceston. There was no work going on at the time, so I imagine the decision was made that their scrap value was greater, and they went.

**Mr ANNELLS** - Could have been.

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**Mrs HISCUTT** - In your submission you talk about diverse and new stock sales you have with sugar and recycled metal. Just on one - the sugar freight - that would be fairly small, wouldn't it?

**Mr ANNELLS** - There is a lot of sugar used by Cadburys. They have specialised tanks.

**Mrs HISCUTT** - So you have picked up that?

**Mr ANNELLS** - We have picked up that business, and bring it in from Burnie.

**Mr DIETRICH** - It was on rail once upon a time. They removed it from rail, and we got it back in the last 12 to 24 months.

**Mrs HISCUTT** - I see you have the logs back too, which is good.

Have you thought about an extra commodity of tourism rail - for renting, hiring, leasing, or charging?

**Mr ANNELLS** - I know I am not Mr Popularity in this particular area, which for an ex-head of Tourism Tasmania is very hurtful. I am not sure where to start on this. Are you happy for us to have a discussion about tourist rail at this point?

**Mrs HISCUTT** - How it affects you, or how you could make an income out of it.

**Mr ANNELLS** - We started five years ago, believing - as it turned out naively - that with goodwill on all sides, we ought to be able to find a way through the morass of technical, legal, safety, and other issues that stood between tourist rail and heritage rail utilising the track, and not. Despite what anybody has said to you, we put a huge amount of effort in this. Jennifer, behind me, has led that charge for a very long time. Despite the pressure coming on us, increasing exponentially, to find a way - and that pressure has come from all sources, including my own minister who is very keen to see it, and I have a belief you should try to do what your minister wants, old fashioned I know - we found that the legal and regulatory hurdles that we have to jump to allow passengers on our operating rail component are insurmountable.

**Mrs HISCUTT** - What is the biggest impediment?

**Mr ANNELLS** - There are two. The biggest impediment is probably insurance. Our insurance brokers have told us now, emphatically, that if we allow - not just ourselves - passengers on our operating system, then we will not be able to have insurance placed.

**Mrs HISCUTT** - Who is your insurer?

**Mr ANNELLS** - It is a combination of insurers that our insurance broker finds for us each year. We spend something like \$2 million on our premiums.

**CHAIR** - You have a broker that puts together a package?

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**Mr ANNELLS** - There is a 'beauty parade' each year. We present on what risk we represent. They sit around and do whatever insurance people do. Some of them say, 'We will be in that,' and some of them say, 'No, we will not'. More and more have said, 'Yes, we will,' and our premiums have gone down. But we have been told emphatically that is the situation. Secondly, we have now a new safety regulatory regime through ONRSR - who I notice have put a submission to you - which spells out the hurdles for anybody wanting to do it, but probably does not spell out quite strongly enough the hurdles to us allowing someone to do it. Those hurdles are very formidable, in a safety sense, in maintaining our accreditation.

I now move to non-operating lines: we had thought, expected, and hoped that the obligations and the restrictions from an insurance point of view, and from ONRSR's point of view, would make it a lot easier for us to agree on non-operating lines. That turned out to be a fallacy. It was not correct. We cannot contract away our obligation.

Even giving a lease to somebody who, under that lease absolves us from all obligations, is worthless in the insurance world and the legal world. We have said to the Government that, despite everything that we have tried to do, we cannot find a way to do it under the current structure. We cannot find a way to do it. The only way that we can see, is that our non-operating lines are taken from us, taken out of our master lease with the Crown and are owned unencumbered by the Crown, which then enters into whatever arrangements it wants to enter into with third parties who want to run tourist or heritage rail operations. That is the easy bit.

The hard bit is for these people to actually convince ONRSR that they can be registered, they can be certified as safe and have a licence to operate. You cannot operate any rail in Australia without ONRSR Certificate. We can help people do all that. We are not averse to putting resources into - and we have put a lot of resources in already and we will put in more - into helping people get their accreditation if they are serious, they are geared up correctly, and they have the resource. This is not an easy thing to get. It is not something that five blokes with a couple of oil cans can fix. You do need to have a serious approach to safety and rail engineering, and understand the risks. Then you have to get insurance. The insurance will be very difficult to get because the track, by and large, is not in great condition. It is circular. We are not charged. We have no money, and we are certainly not funded to upgrade the track for a purpose other than freight.

To get back to your original question, which is, why would we not think about doing something, getting the Government to widen our remit - which would require legislation? We would not do it because (a) there is absolutely no money in it, and (b) it would seriously compromise our insurance. We would have to start all over again convincing very sceptical insurance companies they should insure us. Fundamentally, there is simply no money in it. At the end of the day, if there was, we would probably put the money into the track and all that sort of stuff. The Commonwealth and the state have shown no interest in spending money to upgrade tracks for tourist and heritage rail.

We do what the government wants. If the government says, 'This is what you should do,' then we would set out a plan to do it. We would give them a cost. The cost would be very considerable. Not as considerable as if you wanted to turn that line back into a full freight line. You can actually run these trains very slowly - heritage and whatever. We

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would do all the engineering, all that stuff. But we have no money. Absolutely no money and no-one has shown any interest in providing us any money to do this.

It is very frustrating for people who are supportive of tourist and heritage rail. I am a supporter of it, but there is no mechanism I can find, and no funds. That, I am afraid, is that.

**CHAIR** - Just on this point before we go to Ruth. The standard of the rail really does relate to the weight that you are pounding over the top of it, does it not?

**Mr ANNELLS** - Yes.

**CHAIR** - It seems to me that a freight train would be less of a weight considering, for example, a much lighter tourism type of train.

**Mr ANNELLS** - Sorry, that is what I tried to say. The standard they would have to bring the rail to is probably not as high as we would if we wanted to run freight back over.

**CHAIR** - This is in relation to the Derwent Valley, for example?

**Mr ANNELLS** - Yes.

**CHAIR** - Whereas I think the question might have been on your operating line.

**Mr ANNELLS** - On the operating line I simply can't help you. I have no solution whatsoever to the twin problems of ONRSR certification on the one-hand for us and the insurance issue on the other. I do not have a solution.

There is only one person who has shown any interest in running on the main line in recent times, and the person refuses to provide us with any meaningful information.

**Mrs HISCUTT** - You wouldn't say the person would you or that company?

**Mr ANNELLS** - No, I am not at liberty to do that.

We have people who want to run it on the Derwent Valley line, we have some people who have talked about doing it on the Hobart-Brighton line. Don River Railway, which is on a spur line, wanted at one stage to come on to the main line but it seems to have dropped that idea.

When they confront the new regulatory environment, which all of us have found very difficult to adjust to, it has upped the bar considerably. It has seriously changed the game. Before it might have been possible to stretch the interpretations a bit or it might have been all right to do a little bit, particularly once we had our train control system up and operating which we now have, but those days have gone. It is all being run out of Adelaide and they are not mucking around.

**CHAIR** - On the existing lines what is it they need to get up to speed on? The operating system? If they are running, for example, their own rolling stock and using your freight

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systems, speed controls, and things like that, apart from the insurance aspect, what is it about the infrastructure above and below rail that is this new hurdle for them to get over?

**Mr ANNELLS** - In terms of the infrastructure there is no particular new hurdle. We now have our train control system fully operational which was out big technical issue before. They are going to have to demonstrate to ONRSR they have the technical capacity to run a railroad, albeit a small operation. We have to be able to demonstrate we can deal with all of the risks involved in running passengers on a freight railway. The obligation falls on to us to demonstrate to ONRSR we can do that and to demonstrate to our insurance company our risk profile has not been increased. The fact of the matter is it has, because we are unable to contract out of our risk. We cannot pass it to anybody else, which we thought we might have been able to, but the legal advice now is uncompromising. You can't.

**Mr FARRELL** - From the discussions I have had, most of the tourist and heritage operators would be more than happy to stay out of TasRail's way, not operate on TasRail's lines if there was an alternative.

**Mr ANNELLS** - There is a committee that has been set-up. Allan Garcia is chairing it, involved in it, I think you are meeting with him at some point. It is being driven by us saying to the government, if you want to see this happen and there are lots of people who do and I am one of them, you need to take these lines back from us. Get them out of our lease and you deal with them. It does not mean we cannot be a consultant, there is nothing to stop us consulting to the Crown as long as we do not own or have control of the rail whether we are operating on it or not. Under the lease we currently have, it is indivisible - what is operating and what is not operating it is all the same.

**Ms FORREST** - It is the government policy position you are talking about, Rob?

**Mr ANNELLS** - The government in the end will be confronted with a decision - do we take back some or all of these lines? It is not just for tourist and heritage and rail there are people who want to make bike paths and all sorts of walking tracks and goodness knows what else. The only other complication in all this is who can sit here and say there will never be a need to run freight railway further up the Derwent Valley out past Burnie. This is what frightens me and it frightens government. Who can say that you are never going to need to do it? Who can say that you can pass away the ride into Hobart because you are never going to need it because once it has gone, it is gone.

**Ms FORREST** - It is giving up the corridor.

**Mr ANNELLS** - It is giving up the corridor - 99 per cent of these rails are useless for us. If we were to go back on them we would have to rerail the whole thing and probably resleeper it and that is what makes it so expensive. Heritage and tourism not necessarily, they may be able to run on that existing track. Once you start getting serious degradation in your sleepers, it is hard to fix. You get age creep. Sorry, Craig, you know more about this than I do. It is very difficult.

You might only be running your train once a week but you have to inspect that line in advance of that train every time. If you have the slightest doubt about a particular area, you have a sink hole, some poor drainage, a bit of a flood, there's been a landslide, you

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have to stop. If you are a tourist operator you are unable to guarantee you are going to go because the track is inherently poor, so it is a very difficult road to hoe to make a business out of it.

Puffing Billy works because it is on a track which is not a bad standard and it runs every day and everybody knows it runs and it does very well but we do not have a Puffing Billy type opportunity easily identifiable. If we do find it we cannot touch it in the end, for all the reasons I have explained.

**Ms FORREST** - We cannot find an operator for the ABT railway, can we? It is probably outside your area.

**Mr ANNELLS** - I have been ducking that for some years. We have put a lot of effort into the ABT railway, we have put a lot of technical skill into it. We have given them all sorts of gear, we have done all sorts of things but we are not running it because we are a freight railway.

**CHAIR** - The bottom line is that you have to get enough punters paying enough money to carry themselves or their goods to make it pay. That is the fundamental issue for the freight side of the business as well as the passenger side.

**Ms FORREST** - I want to pick up some things you said earlier and tied a bit to the comparison with road versus rail. You talked about whether you get a subsidy. We have some submissions that have been quite interesting from people who have done a lot of research and who work in the area of rail. I will read you part of one of them. He is commenting on the ongoing and financial future performance of TasRail in regard to the state and federal funding. Our media release, which I assume he is referring to in relation to this inquiry, mentioned mass investment in TasRail. He says,

With all due respect, I don't consider investment to be 'massive' and definitely not 'massive enough'. I believe \$10bn for one new freeway in Sydney (WestConnex), or the \$500 million Swan Valley Freight Bypass in WA, or the \$2bn + \$4.5 bn respectively for new road and rail crossings of the Toowoomba Range could be called 'massive'.

He is making the point that the investment in TasRail is not massive, it is necessary and probably less than could have been used. He says TasRail is playing catch-up for decades of neglect but importantly does not include axle load and therefore pay load on the main Hobart-Brighton-Burnie route, so there is not increased productivity in that most important respect. For ongoing financial sustainability for TasRail, it is about getting paying customers on the above, using the service.

When we compare that with road, one could argue that road gets a significant subsidy because all of us pay. We do not have a user pay system on road in that we do not pay for the amount of road we use or that heavy vehicles should pay more. If you quantified it trucks would probably have to pay a lot more to use roads than we do. When the log trucks come out of Strahan, and the caning the Apsley Road took, it was turning to gravel on parts.

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The question as to whether it is a subsidy, one could argue that the roads get a massive subsidy. I have had one man ring me and tell me he hates trucks after a comment like this in the past. If he is listening he will come back again, 'I hate trucks'. Effectively there is a big subsidy and one could argue that we cross subsidise the road used for trucks on roads.

In terms of the investment that has been made in dollars, do you really believe that the upgrades that have been done and the work that has been done does maximise the benefit to increase your freight task to the point where you could run more, run quicker? The other points he makes is that there are not extensions of crossing loops to allow for any longer trains. The axle load is one thing, but if axle load is a problem then they couldn't make the trains longer. His claim here is that the extensions of crossing loops would not allow for the running of longer trains.

There is obviously a balance here. The topography we have is challenging in parts and there has been some work done on that. In terms of making our freight task more effective, what do we need to do, and to make TasRail not need so much brick in the future, but have the benefits and the profitability coming from the above-rail operations to fund the below-rail maintenance?

**Mr ANNELLS** - Well, we have to keep growing our business. We have to utilise our above-rail infrastructure. We have to work it harder. We have to work it more profitably. We have to run longer trains. I am not aware that we have a crossing loop issue with our current train lengths. I do not know that the longer trains that we would run using these locomotives are going to run into that issue of the crossing loop length. If that is what it is, we can fix that easily.

**Ms FORREST** - With money.

**Mr ANNELLS** - Yes. Putting in an extension to a crossing loop is chickenfeed in the bigger scheme of things. I am not aware of there being any axle load issue. Our issue is not axle load; it is actually centre of gravity. That is our issue. Our ability for our customers to fully load containers is somewhat compromised by our concerns over centre of gravity because it is a narrow-gauge railway.

When I appeared before the Estimates Committee I remember having a discussion about whether we should be seeking to implement a wide gauge. If we could, it would be fantastic because it enables you to run very much more quickly. There is no doubt about that. You can have heavier loads because you are not worrying about this centre of gravity issue. I do not think there are infrastructure issues that are holding us back. Eventually there will be, and that will be a happy day.

When we get to that point and we have not got enough locomotives and we are back in the market to buy another four or something and we are looking to buy another 200 wagons, I will be long gone, but whoever will be sitting here will be justly proud that the volume has risen. To do that, because most of the potential volume is contestable with road, we are going to need to continue to offer a much-improved service as a competitive price. There are some really interesting signs now in the marketplace.

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Things keep changing on you. Swire suddenly decides to come into Hobart - what does that mean? You have to think about what it means. It will change the balance to some extent, but we do not think tremendously. We have long-term contracts for paper. We have long-term contracts for zinc. We have never had them before. We now have them. We have long-term contracts with virtually all of our customers. There is not much more we can do to protect what we have currently.

What the future holds will be largely determined by people like Toll and SeaRoad actually continuing - in Toll's case continuing to take us seriously and put more and more of the freight task on us - and for SeaRoad, which is just starting to think about us because we have provided a Devonport service, really deciding that this is the way to go rather than running a huge fleet of trucks up and down.

I will not touch the area of whether the road gets subsidy or not. The Chair and I had an exchange about that last time and I think he won. I will not go back over that. We do not think the playing field is tilted in our favour, on balance, at all. It is not tilted the other way either. Our destiny is in our own hands. We can no longer fall back on 'we don't have the kit, we don't have the locomotives, we don't have this, we don't have that'. We have everything we need basically, except a track that is completely restored. That we don't have.

**Ms FORREST** - On that point, again this is from a person who has done a lot of work in the area and the submission is on the website there for you to read if you wish. He has made the comment that the amount of investment in TasRail is not adequate to upgrade the railway to the higher productivity levels required to compete against road freight. Upgrade to heavier rail would have allowed the higher axle loads and higher payloads per unit of train movement and locomotive use.

He goes on and quotes from a DIER report of 2012 that says that government recognises that over the long life of transport infrastructure, future proofing needs to occur now to support changing demands. Similarly, works currently being undertaken and those proposed on the rail network are being done with a view to the future. Works such as concrete sleepers and replacing life-expired bridges and bridge refurbishment and replacements will result in the network being capable of increased axle loads up to 25 tonnes except for the 15-tonne axle load on the Emu Bay line and the 18-tonne north-south line. However, there are a number of bridge structures that will be limited to current axle load constraints as these assets are not included within the current proposed program of works.

This one goes on and quotes the transport planner Barry Donaldson, who says in the argument about the wider gauge, a modern well-aligned rail structure between Hobart and Launceston with passenger trains of speeds up to 140 kph - yes, on narrow gauge - provided to our transit times on a corridor of just 30 metres wide will cost in the order of \$1 billion, with an annual maintenance cost of \$12 000 per kilometre.

In contrast, Midland Highway full duplication would cost up to \$3.4 billion as well as having a easement of a least 150 metres. DIER says that it is not justified for decades and is installing Swedish-style 2 by 1 sections which will need to be rebuilt at significant cost if ever there is to be four lanes. This is the road versus rail thing continuing.

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He goes on to make the points in a couple of places that, in his view, the narrow gauge is not the issue with speed in itself, and the stability of the train.

**Mr ANNELLS** - It is not the issue if you have spent a fortune on your track alignment, a fortune on your sleepering and the build-up of your foundation. You have concrete sleepers throughout and you have high-quality rail throughout and your bridges are all up to standard, and all your culverts are re-done and all your drainage is right and so on.

The questions is then, what extra freight am I actually going to get in my business when I have spent all this money and I can do a two-hour, four-hour, six-hour - whatever it is, compared to an eight-hour? What extra freight am I going to get? The answer is: in the current climate, very little. Most of the freight that we are taking is not time-sensitive.

There is not much time-sensitive freight that is ever going to go on rail. It is truly time-sensitive and it often is looking at travel times of four hours, et cetera.

The gentleman that you are quoting from has clearly done a lot of work and I am not going to in any way disparage it, but I don't think he understands what the market is for the freight. That is the other part of the equation.

There is really interesting commentary there about axle loads. If I had a quid for every hour of discussion we have had around the board room of TasRail, in the early days particularly, about axle loads, I would be a wealthy man.

The reality is that it is always a compromise. It is a compromise of cost for the rolling stock but mostly it is a compromise about how much you have to spend on your bridges and your culverts. If you have a track that has a lot of bridges and a lot of culverts, then just making a simple decision that you are going to go from 18 tonnes to 20 tonnes, suddenly it is another \$200 million of bridges and culverts.

You are trying to find a balance here of the funds you have. We were given a great deal of money but I agree with the author on that; in the context of what is spent on infrastructure around Australia, \$600 million, as big as it sounds, is not a fortune. Trust me, it is just not, when you have a system where the infrastructure has been so let down, and so let go. We had to do the four bridges on the north-west coast. One of our first tasks. It was \$24 million straight away out the door. I do not know how long that section of track is, but four bridges in 20 kilometres or 30 kilometres.

**Ms FORREST** - We have some nice rivers up there. We have to get across them.

**Mr ANNELLS** - Lovely rivers. I hope people are happy with what we did. We put a lot of effort into trying to ensure that the bridges we built were attractive, in the right place, and structurally very sound. Pitt and Sherry were fantastic in that regard. They are just four bridges of dozens.

**Ms FORREST** - On that point, it sounds like a lot of money, but really, it is not when you look at some of the other infrastructure investment in terms of supporting the freight tasks around the country. Is there any appetite at Government level to look at spending more in upgrading this? The potential to opening other lines? There is a comment from

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that same gentleman about the Nyrstar. I am going to ask the Government about this, but I will ask you while you are here:

Additionally, the plans to try and coat the rail line at Brighton overlooked the fact that 280 000 tonnes per annum comes from Nyrstar. Whilst this tonnage previously was trucked to Hobart Railyard and then railed north, the new arrangements are no better. The potential to rail direct from the works will be lost forever if the Bridgewater Bridge is built for road only, as is currently planned. The potential to lower overall state emissions and lower emissions directly into Hobart will be lost.

He is talking about the environmental impacts there.

There is an existing unused branch line directly into Nyrstar works, but in reality that would mean the rail line would need to be added to the plans for the \$750 million new Bridgewater Bridge across the Derwent.

This is really more of a question for Government, but are those the sort of things that we should be looking at, and Infrastructure Tasmania should be taking to the Commonwealth? In times of hardship, we know it is an economic reality we should be spending money on infrastructure. Some of us know. Not everyone seems to understand.

**Mr ANNELLS** - We have been very lucky that, by and large, we have received these funds. They have not been easy to secure. The Commonwealth process is very rigorous and painstaking. We were pleased, in the end, that we actually got through the second tranche of all of this, because at one stage I did not think we were going to. Then we would have been left half baked.

With the establishment of Infrastructure Tasmania, Tasmania has a much better structure to actually convince the Commonwealth of the sort of issues you are talking about. Infrastructure Australia has always been, in my experience, a very professional, rigorous organisation, but I suspect it will get even more professional and rigorous. It therefore needs a counter party from Tasmania, who is equally as credible, to argue the case. Things like train access across the Bridgewater Bridge, things like the future replacement of the ship loader in Burnie, are all issues that are of state significance, and need to be thought of in the context of a plan.

**Ms FORREST** - A state infrastructure plan.

**Mr ANNELLS** - A state infrastructure plan. We will have a role to play in that. We will put submissions to it, but these things should be looked at holistically. If I have a criticism of the past, it did not appear to me that it was necessarily as holistic an approach from the state as it could have been - or the Commonwealth for that matter. I am pleased to see now that that is all tightening up. I think they will be in there arguing for the balance of the 240. We would not have put it up if we did not think we needed it.

**Ms FORREST** - Are you \$60 million short?

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**Mr ANNELLS** - We are \$120 million short. We got \$120 million. The Commonwealth has said the other \$60 million is available if the state matches it.

**Ms FORREST** - Only if we match the \$60 million.

**Mr ANNELLS** - Yes. The state has made a judgment that it cannot afford to do that. I am not here to say that is wrong, right, or indifferent. We will be in there fighting, trying to get a balance of that \$240 million.

**Ms FORREST** - I want to go to risk management at some stage.

**CHAIR** - We might just follow up on that particular one. Some of the things you are talking about - are you referring to the August 2012 submission - the Tasmanian Revitalisation Program?

**Mr ANNELLS** - Yes, I think that is the one we put in for the \$240 million.

**Mr ARMSTRONG** - What is the gauge of Tasmania's rail?

**Mr ANNELLS** - It is narrow gauge.

**Mr FARRELL** - Three foot six inches.

**Mr ANNELLS** - Thank you, Mr Farrell, very kind of you. I was stumped. Not wide enough was the short answer.

**CHAIR** - I hope I have not lost that document. I fear it might be the only one that exists.

I thought I heard you say it, but to clarify this, is the \$120 million you need, that you do not have yet, that you want to do further things like the Burnie port upgrade, which is contained in your submission -

**Mr ANNELLS** - We have managed to do that outside of that.

**CHAIR** - That \$120 million available is needed, but the Commonwealth has said there is \$60 million on the table, and it is the state government that has not come up with the remaining funds to meet that.

**Mr ANNELLS** - That is what I said. If I could correct the record, apparently the state did issue a statement at the time of the Budget, which said they would do the \$60 million in the outyears, without specifying what years.

**CHAIR** - So they have not done it yet?

**Mr ANNELLS** - They have not done it yet.

**CHAIR** - The money is on the table but -

**Mr ANNELLS** - The Commonwealth money is on the table for the balance of the four years -

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**Ms FORREST** - Does it have to be received within those four years?

**Mr ANNELLS** - It has to be spent within the four years. The challenge for the state is going to be either to get their matching funds within the period, and in time for us to spend it, or to get the Commonwealth to agree that the state money could come after the end of their particular funding tranche. That may or may not be possible. That would very much depend on the attitude of Infrastructure Australia.

**CHAIR** - While we are on the rail upgrades, I asked this question before at the Estimates. It might have been your chief executive officer who mentioned it. I am trying to get a handle upon the profitability or the financial return, whether you are able to break that down? The west coast line, the Melba line for example, operating on bulk cargo - is that profitable compared to - each of these lines would have different operating costs. They would have, shall we say, infrastructure maintenance requirements or upgrade requirements for starters. I think you have already pointed out. They would also have different maintenance requirements once they are upgraded to a suitable standard.

I am interested in the north-south line, in the fact it is that area that in all your reports you continually talk about curves, steep grades, which make difficulty. All of them are, as you rightly pointed out, as you try to wind your way up out of Brighton and get up into the area of Tunnack. With this upgrade, is there a concern we need to spend an awful lot more money pulling up on Ruth's lines on the Midland Highway? All the time we talk about rail, we talk about four lane highway taking freight versus the rail line taking freight, which would obviate the need.

My question is, do we need to spend more money solving this problem of the southern end of the south line before we can start to say rail is a better way of moving gear up and down the north to the south of the state? It seems to me that is where most of your diversified freight is.

**Mr ANNELLS** - We are solving the problem of the southern end of the north-south line by buying locomotives and wagons that can handle the grades, and can handle the tunnel. There have been numerous proposals to straighten the line. There have been proposals to take it up through Brighton, Bagdad, and out that way, and not go up and over the hill. There have been all sorts of proposals. None of them from us, I might say. We have accepted we have what we have. Is it holding us back? No, it is not. We have locomotives that can handle those grades and pull much bigger train consists than we currently need.

Is it, or at some point will it be a limiting factor? Probably, but the cost of the alternative was so high that the Commonwealth, in our discussions with them - and I am not blaming them, I am just saying that in our discussions with the Commonwealth and with the state officers at the time - it was pretty obvious that we were not going to get a billion dollars to put a new line up through Brighton and Bagdad.

**CHAIR** - Which is the figure that I heard for that line.

**Mr ANNELLS** - Who knows if it is the right figure, to be honest. It is the figure that gets bandied around but history tells me that it is probably more than that. Let us say that it is

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two-thirds of it; it is still the sum total of everything that we have got to this point, both above and below rail, \$600 million. It was never going to happen.

**CHAIR** - Let us come to Ruth's point though about if we are going to either bite the bullet and become future-proof - I hate to use the word because who knows what the future is, how do you proof against it - but something we can say, for the next 100 years, this is going to be a better rail line than continually trying to patch up and upgrade the other one. One of the advantages is that if you had the north-south rail line, we won't be able to get it up to the standard grade. We are running on sandshoes and not stilettos. We are taking loads up the highway. I am getting to the point about the cost of it. I think Coffey Rail did an inquiry into TasRail operating systems in 2009.

**Mr ANNELLS** - They certainly have done some work for us in the early stages.

**CHAIR** - I have come across a number of documents in my research which make reference to Coffey Rail's assessment of the rail infrastructure. I am wondering, obviously you cannot tell me what it actually says because you are as perplexed as I am about what it says, but is it possible for you to get that report and give it to the committee, the Coffey Rail Report?

**Mr ANNELLS** - I can certainly see whether we can find it. This is the Coffey Rail Report into our total - is it a report into just the north-south line or all of it?

**CHAIR** - No, I think it is into the whole rail infrastructure. It might have been part of the Bureau of Transport Communications and Economics. They made some reference to the Coffey Rail Report at the time they were doing their assessments. I do take your point. All those assessments did nothing about the state of the rail or the infrastructure but Coffey Rail might have done some work. It would be interesting to tap into that.

**Mr ANNELLS** - To answer your broader question, are we building something that will last us all 100 years, the answer is no.

**CHAIR** - No, that is my concern.

**Mr ANNELLS** - Again, we agonised over should we put most of our money into really making the bottomless north-south line as good as it can be made. We had all sorts of plans to straighten it out at Colebrook so that the trains can get a decent run at it. Their problem coming from the south is that they have to get enough speed up to get through the tunnel.

We did endless studies into how these trains had to breathe in the tunnel and half of them died halfway through and had to back out and have another run at it. It was a nightmare for our drivers. It was an absolute nightmare. In the end, we solved it by getting much better locomotives that had the pulling power and didn't worry so much about the curves. Because of the curved track and the tunnel, do they represent barriers to the sort of service you would like to run in another 20, 30, 40 years? Quite possibly.

Could you come back and retrofit and straighten that track out so that you could run longer trains up there? The answer is yes. All the plans are done. I have plans of bridges, cuttings and goodness knows what else, all the way up there. It is all done. We

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just made judgments that we could not justify the cost, given that we had to do the north-south bridges and all the rest of it. It is fit for purpose today and tomorrow but into the longer-term future, someone will need to revisit it at some point.

The upgrading of the Midland Highway, I would have suspected, has much more to do with - how can I put this in a way that won't get me into even more trouble? It is more about the ordinary passenger car, commuters and tourists than it is about freight, in a way, therefore that is never going to go away.

**Ms FORREST** - There were a couple of points in your submission that I wanted to clarify. Part 4 of your submission, page 15, you are talking about Tasmanian and Australian government funding. You said:

The group represents an annual operating contribution to assist the maintenance of the rail system and is provided by the Tasmanian treasurer of TasRail as a source of income, therefore BRIC is not included in the impairment of capital.

Can you explain why that is the case? I don't really understand that.

**Mr ANNELLS** - Because we are allowed to classify it as income, there is no impairment against it. The rest of the money is classified as capital injection and because it has no saleable value or a return it has to be impaired.

**Ms FORREST** - Just going to the Pitt & Sherry report.

**Mr ANNELLS** - Would you like Phil to come to the table?

**Ms FORREST** - He may be better placed to answer it. You may wish to comment too - it is about increasing the freight task. Point number 1 on page 1 of your report, under 'railways is an important element of Tasmania's freight system'. It is talking about it becoming increasingly important. Table 1 and table 2 on page 1 and 2 talk about the Tasmanian freight task and rails market share 2012-13 to 2018-19 and the other one is projectable contestable land freight tasks. There is an expected forecast growth in the freight task and rails market share from 2014-15 to 2015-16 and then it flattens out again. Whilst there is some increase in rail, it is minimal; and with a projected contestable land freight tasks, the same sort of picture.

I am wondering why you have come to that position because as I said future profitability and financial sustainability of TasRail relies on freight and getting more freight. Hopefully we will see the expansion in some areas of our economy, particularly in agriculture and others that may and may not. There is a lot that happens in the far north-west where the corridor still exists but there are no tracks or bridges. I am interested in why we are seeing a flattening out there and not a more ambitious target, so Phil might be able to explain why we got that.

**Mr HARRINGTON** - There are a couple of different things going on there. One is the underlying growth in the freight task. On page 13 there is a table 19 that shows we are expecting the total freight task to grow, picking up, and then levelling off at 2 per cent per year. We have a chart on page 14 that shows that over long periods of time the rate

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of growth in the freight task and the rate of growth in the economy are pretty tightly linked, usually with freight growing a little faster. That is true across Australia and in Tasmania. We have built those assumptions into our model going forward.

The second overlay is how much of that is captured by rail. We have a growing freight task based on TasRail's own projections of what they think they can win from the contestable market. We show the share that TasRail captures going up to about 27 per cent of that total net tonne/kilometres, measuring it by tonnes. That 27 per cent caps out in percentage terms but it is applied to a growing base so the freight task continues to grow. The not growing beyond 27 per cent represents a commercial judgement about the kinds of freight tasks that are winnable by rail.

**Ms FORREST** - Does this take into account things like CMT getting going again, potentially mineral prices improving and eventually getting going. Potentially others on the west coast in mining, or is this assuming they are unlikely to factor?

**Mr HARRINGTON** - We have taken a reasonably conservative approach, just mapping out what the freight task is likely to be - does include, as we referenced, Australian Bauxite Ltd coming in. That is a significant jump which helps to explain the lift from 22 per cent to 27 per cent of the freight task.

**Ms FORREST** - This does not include CMT, 22? It was done after CMT closed operations, was it not?

**Mr HARRINGTON** - I think so, yes.

**Ms FORREST** - Potentially, it could improve further with CMT?

**Mr HARRINGTON** - Absolutely.

**Ms FORREST** - MMG are looking at increasing their output too.

**Mr HARRINGTON** - That is right.

**Ms FORREST** - Do they use the rail, MMG?

**Mr HARRINGTON** - Yes.

**Ms FORREST** - There was an announcement the other day that they were looking to substantially increase their operations. They have at least a 20-year mine life last time I spoke to them. Are you saying this is fairly conservative potentially?

**Mr HARRINGTON** - Yes. I do not have full transparency into the underlying assumptions that comes from TasRail based on their commercial understanding, over that period through to really 2015-16, then looking at that broad correlation between growth in the economy and growth in the freight task of about 2 per cent.

**CHAIR** - On the future growth forecast and things like that, how many boxes on average are we moving daily up and down the central south line, to Burnie and back?

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**Mr DIETRICH** - The internodal train is probably moving 60 TU, 20-foot equivalent containers south bound. We max out on weight before we max out on capacity with the north bound trains due to the heavy load, the zinc. So probably 40 TU, for example. Then the paper train has facility for about 60 TU each way as well. Potentially 120 TU south bound and 120 TU -

**CHAIR** - How many runs a day do we do?

**Mr DIETRICH** - We are running both services, the paper train and the internodal train, the freighter train, six days a week. We are basically doing two down and two up every day. Four trains across -

**CHAIR** - In terms of pursuing the market - have there been any discussions with Forestry, for example? I heard they are fairly desperate to move their woodchips out of the south of the state. It seems to me they have a lovely little line up the Derwent Valley. If you could get some money to fix that up, a private operator would put the chip mill at Karanja. Then you would be able to run it up to Burnie quite quickly. Has any thought been given to that idea? Have any numbers been done in terms of pursuing the bulk freight task?

**Mr ANNELLS** - If I could wear two hats for a moment without compromising -

**CHAIR** - I was trying to keep them separate.

**Mr ANNELLS** - The answer is a resounding yes. We have done a lot of work with Forestry and vice versa on the freight task northwards of logs because at the moment the chipping is done at Bell Bay. We deliver logs to the company that chips it and exports it. The real issue is how you get back loading. One of the challenges has been that up until recently we did not have equipment to cart logs one way and containers the other. We now have that through the log trailer, whatever it is called, that has been developed using Commonwealth monies, which enables us to do that.

Our preference would be to take logs both ways. There are, believe it or not, a lot of logs that come from the north to the south. They are a different sort of log. They are a pulp log and they are coming to Boyer basically. We are in very advanced discussions to see whether we can't pick up that business going back the other way.

There are a lot more logs going north at this point than we carry. We carry 95 000 tonnes out of a 350 000-tonne task. The trick is to try to minimise that task as carting logs to chip and export is not a profitable business. The Government has currently an expression of interest out there to see what alternatives there may be for utilising this wood in the south of the state.

**Ms FORREST** - You could lose that effectively, Bob, is that what you are saying? That task could be lost - not lost but changed.

**Mr ANNELLS** - We think that you cannot be in the freight business if you are not an optimist. We think that because we only carry 95 000 tonnes of the 350 000 tonnes, there will still be a freight task needed for logs going north for quite some time. Under the current administration of Forestry - which is another possible thing I could shed - no

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doubt there is preference for trains over trucks because there are serious benefits in terms of emissions and in terms of social and other pickups. In this case we can take them from a pretty good destination, which is Brighton, and deliver them to the front door of the chipper and unload them into his yard. This is one of the examples that really work. It is a very nice, neat, well-organised, cost-effective way of doing it.

**Ms FORREST** - You mentioned previously, Bob, that chipping wood is not profitable business. Unless that changes and prices change in the pulp wood market, then the focus is always going to be on value-adding in Tasmania with some other process for that timber which may or may not mean shipping with another product up the road on a train to be shipped out of Burnie port potentially.

**Mr ANNELLS** - It could be.

**Ms FORREST** - It could be the downstream-processed product that we ship out.

**Mr ANNELLS** - Could I make the point with the dollar at 72 cents, chipping is very profitable as long as you do not have to cart the logs too far. It is useless if you have to cart them from Hobart to Bell Bay but if you have to cart them 50-odd kilometres into Bell Bay then suddenly the whole dynamic changes. Then there is at least one company and probably more in Tasmania making a very nice living out of chipping but absolutely it is all about the cart.

**Ms FORREST** - And the current dollar.

**Mr ANNELLS** - And the current price. Then you get a drought in some Chinese province and the biggest mill in China sits in that province and cannot get any water. Therefore it just goes out of the market for six weeks and the train business looks easy.

**Ms FORREST** - To lead into that discussion perhaps, the Pitt&Sherry report, when you look at rail versus road and other service transport modes - you talk about the potential savings there of \$26 million, around \$7 million of Boyer Road accident cost and \$1 million saved environmental costs, and \$9 million in the Boyer Road maintenance costs, and \$9 million reduction in operating costs to commerce and industry. Has that information been used to pursue the argument for more spending on rail? That is a significant saving in addition to the other benefits of having a freight task that is profitable.

**Mr ANNELLS** - I do not think we have used those specific numbers in pursuit of funding; it was out of whack timewise. We were pursuing our second round of funding a year or more ago so we had to put proposals to the Commonwealth that, in a sense, were based on an assumed benefit. This was a piece of work we had done to try to firm it up a bit. It is like all economic analysis, I am sure Phil won't mind me saying this, like beauty it is in the eyes of the beholder.

**CHAIR** - More jiggery in the program.

**Mr ANNELLS** - I come from a major events background where economic benefit that flows from the Grand Prix is \$400 million.

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**CHAIR** - It depends who wants to know and how much they want it to be.

**Mr ANNELLS** - Give me a number and I will write you - that is not the way it is done here.

**Ms FORREST** - He does provide some commentary about how he got to that.

**Mr ANNELLS** - He does and knowing Phil very well and his work, I would not have any hesitation in fronting up to the Commonwealth for this work. That is the ultimate test. I do not want to go to the Commonwealth for something that their people are going to blow out of the water or Infrastructure Australia are going to say this is nonsense. I would be quite happy to go with this, but we have not done it yet. I have no doubt we will.

**Ms FORREST** - With TasRail - your risk analysis and your risk mitigation and strategy. How do you manage that? We hear about, less of late, derailments and a few little carriages down the King River, as I understand it, from many years ago. Not under your watch Bob, but the odd little incidents along the way. It used to go off the rail in Penguin quite a lot. That hasn't happened again for a while, I don't think.

**Mrs HISCUTT** - I haven't seen it for a while.

**Ms FORREST** - Not far from Leonie's place.

**Mr ANNELLS** - I have not. You will get me into trouble with the Penguin people.

**Ms FORREST** - Not always a good look. They are problems that are known, the derailments. What about the other risks associated with the business?

**Mr ANNELLS** - Like any board, we take assessment of risk and then risk mitigation very seriously. You have to. I will separate general risk from OH&S type risks because they are equally important and we spend a lot of time and effort trying to improve our safety of our people.

There is nothing particularly sophisticated about the risk process. It is hard work identifying those aspects of your operation that are most likely to cause you a problem and then working hard and consistently on risk mitigation strategies. We do that and we have a subcommittee of the board who do nothing else. Their job is to monitor risk. The whole board gets involved on a regular basis in looking at the assessment of those risks.

In relation to derailments, we are running a derailment prevention strategy group because we were mortified at the particularly big derailment we had coming through Colebrook, six months ago now or more. The fact that it was human error does not do us any good. From our point of view, you then look at the training, what did we do, what did we miss, what risks. Most of those risks were mitigated by a train control system which came along three weeks after the accident. You cannot win. Derailments remain our biggest risk, both in terms of risk to our staff and to our reputation and our finances.

**CHAIR** - Annoyance of your customers.

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**Mr ANNELLS** - We work really hard. I am not going to say derailments are inevitable. We don't accept that. We believe we ought to be able to run this railway even in its imperfect state now, without derailment. We have only had one track related derailment in 12 to 18 months. That turned out, when we looked at that, in part it was a failure of our risk system. We had identified that this area was a problem along with a number of others. We had put in place some risk mitigation. Our new equipment got through this particular problem area, but in this consist we had a couple of old wagons and they did not. One of them did not get through. It didn't have constant contact side bar. I suspect there might have been some issues with centre of gravity. You go back and look at that and say how do we ensure this problem does not occur again. We then put in place a whole series of things to try to prevent that.

All those things cost money. It takes people to go out there physically now instead of assuming we can get a train through that particular problem area of track and we will come back in a month and fix it.

In this case it deteriorated on us very quickly, literally overnight, because of irrigation water that was not supposed to be there, but at the end of the day, it is our problem.

We are now running our trolley car over each of these problem areas every couple of days where we were doing it every fortnight or whatever. Risk mitigation is always that you are balancing the risk on the one hand with the cost of implementing risk mitigation. You cannot run a railroad with any credibility when you have speed restrictions that stay for very long periods of time over 20 or 30 per cent of your track.

At the moment we are well up into the 20s with speed restrictions, just below 20 per cent. It has been higher. The board monitors this every month, and we are saying, 'Hey, what is going on here?' Speed restriction in your number one defence against derailment but you have to pick up the problem first. We inspect our track visually every 96 hours. Somebody has to drive the track in an above-rail vehicle. It is boring.

**Ms FORREST** - The train control system then that would come in a few weeks after the major derailment, how does that work? Is that adjustable? Is the track maybe upgraded or improved? Is it an area-by-area system?

**Mr ANNELLS** - Yes, absolutely. It would have alerted the driver that she was going much too fast for the track she was on. She lost what is called situational awareness, which is not difficult to do - half light, early morning. She had been over the track. She was qualified to work on it and to run the train, but she lost track of where she was. If the train control system was there, alarms would have gone off like crazy. She was actually accelerating in the lead-up to the corner when she doing 60 kph or 65 kph, and it's a 35 kph corner. She just lost situational awareness. If our system was in place, she would have been getting an alarm like crazy.

**Ms FORREST** - That is in every loco, that system?

**Mr ANNELLS** - Yes.

**Ms FORREST** - Even the old ones?

## **PUBLIC**

**Mr ANNELLS** - Yes - no - all of them?

**Mr DIETRICH** - Yes, and Hi-Rail vehicles.

**Mr ANNELLS** - Look, will it stop all accidents due to inattention or losing situational awareness? Nothing ever stops everything, but it would have stopped this one, I suspect.

**Ms FORREST** - What was the overall cost of that incident, as one example? Obviously that is the biggest one.

**Mr ANNELLS** - That incident cost us exactly to date \$2.4 million.

**Mr DIETRICH** - The train control system cost us \$11 million.

**Ms FORREST** - That came out of what bucket of money?

**Mr ANNELLS** - Out of the state money.

**Mr DIETRICH** - The state above-rail program.

**Ms FORREST** - Thanks.

**Mr DIETRICH** - Just one clarification on risk, we do run two separate risk systems. We have a very detailed operational risk system, which has about 250-plus identified risks. They all funnel up to about the top 20 or 25, which is what the board committees and management monitor. There is a lot of risk mitigation.

**Ms FORREST** - And that covers all areas of the business?

**Mr DIETRICH** - It covers all areas of the business. It is very highly regulated and risk is a big focus.

**Ms FORREST** - Is that a publicly available document or not?

**Mr DIETRICH** - Not really. The operational risk register - there are risks in there that are pretty generic to most trains.

**Mr ANNELLS** - If you want to come and have a look at it, I am more than happy to -

**Ms FORREST** - Take a train at 65 kph around a 35 kph corner and see how we go.

**Mr ANNELLS** - It nearly got through. It has CCTV on it and it nearly got through. The locos got around the corner.

**Ms FORREST** - It's just that the wagons didn't follow so well.

**Mr ANNELLS** - The first four wagons got around the corner. The fifth wagon, for whatever reason, went and it took everything, both ends of it.

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**Mr DIETRICH** - Talking about centre of gravity, we have even improved that with our technology with rolling stock. The new intermodal wagons with the constant-contact side bearers are allowing us to up the centre of gravity so we can take bigger payloads because they have the new technology steering bogies which all our old equipment did not have. It is risk mitigation as well.

**CHAIR** - There are a number of other areas. The time has come -

**Ms FORREST** - Just one quick question: when do you expect your annual report to be tabled?

**Mr DIETRICH** - In two weeks' time.

**CHAIR** - Annually is the answer.

**Mr ANNELLS** - Are you so short of a read that you are hanging out for our annual report?

**Ms FORREST** - I could have one for when I can't sleep at night.

**CHAIR** - Which leads me to my concluding remarks. There is obviously a lot more that the committee would want to have a look at and we look forward to inviting you back, probably after we have heard from some other stakeholders and people of interest in this particular area. One of the issues that continually comes to my mind when we are talking about above and below rail - and I do not really expect an answer now, but I am just wondering - you might like to give some thought to an idea that has been put forward a number of times. The above- and below-rail - is there any thought to saying, like our road system, the below-rail becomes public infrastructure that is funded, maintained, repaired and upgraded from the public purse, and that private enterprises, or in the case of monopolistic GBEs, then run their systems over it, the way we do with the rail and the way we should do with telecommunications, for example?

It is just a model of getting out of this inevitable thing where an operator comes along and says, 'Provided you maintain the track and the below-rail, I am prepared to lease the above-rail stuff off you for this rate', which would then get you onto a proper commercial footing. That would then decide whether or not the social benefits are worth it to your customers.

**Mr ANNELLS** - I look forward to that conversation. I think this Government has sort of said that is where it wants to get to.

**CHAIR** - We will get an opportunity to put the same proposition to them shortly. Thank you very much to you and your team for coming along. We look forward to having you back with some more interesting questions.

**Mr ANNELLS** - Thank you.

**THE WITNESSES WITHDREW.**

## PUBLIC

**Mr ALLAN MICHAEL GARCIA**, CHIEF EXECUTIVE OFFICER, AND **Ms SOPHIE REID**, ASSISTANT DIRECTOR POLICY, INFRASTRUCTURE TASMANIA, WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.

**CHAIR** - All evidence taken here is protected by parliamentary privilege. Any comments you may make, even if you are repeating stuff you have said in this committee, outside, may not be afforded such a privilege. The privilege only extends to what you say, when you say it inside this committee room. A copy of the information for witnesses is available if you have not read it, or you are not aware of the process. If you would like an opportunity, feel free to read it if you wish. The evidence you present is being recorded on *Hansard*. A version will be published on the committee website when it becomes available. The procedure we intend to follow is to give you an opportunity to speak to your submission, if you so wish. Following on from that, members of the committee will have questions for you. The main purpose of this is this inquiry is seeking information in relation to the financial sustainability of TasRail. If you would just like to give them an overview of yourself, and each of you, of your particular role and expertise in this matter.

**Mr GARCIA** - I am the CEO of Infrastructure Tasmania, and how I fit into this process is that a branch of State Growth, the infrastructure strategy branch, reports directly to me. It supports the work of Infrastructure Tasmania. TasRail falls within that framework.

**Ms REID** - I am Assistant Director Policy in the Infrastructure Strategy Branch. I have been working there for quite a few years and on rail.

**Mr GARCIA** - Our submission outlines the funding and operational elements of TasRail. State Growth's role in relation to TasRail is to provide advice to the portfolio minister on matters that he refers, or matters we consider he should be aware. This is particularly in the area of freight. In regards below-rail elements, the Treasury generally advises the Treasurer on those.

State Growth and Treasury meet monthly with TasRail to discuss achievements, milestones, and targets around the corporate plan. The freight strategy is due for release shortly. That strategy acknowledges the significant role TasRail has in moving traditional and new freight around the state. TasRail's key focus has been in the area of bulk minerals, paper products, and timber, but an enhanced network infrastructure and rolling stock have increased reliability and performance, which have allowed greater capacity to compete with road for general freight.

State Growth has previously assisted TasRail in funding submissions to Infrastructure Australia. Future funding tranches and requests will be evaluated and progressed by Infrastructure Tasmania. State Government expectation of operational sustainability above rail is by 2018-19. Any surplus is to be attributed to maintenance of above rail stock or below rail. [inaudible] dividend is payable by TasRail.

We are also working with TasRail. We recently established the steering committee to look at non-operational rail lines. Associated with that, but not necessarily relevant to TasRail, is the issue of light rail in Hobart, which Infrastructure Tasmania will be looking into. That is all I need say.

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**CHAIR** - We will get to the funding arrangements. I appreciate this has been over some time. My understanding between state and Commonwealth funding arrangements - there is something very close to the order of \$600 million over a 10-year time frame, which we are about halfway through, relating to both above rail and below stock. From the Government's perspective, can we explain how and where your state Government funding, as opposed to Commonwealth Government funding, is being directed at TasRail?

**Mr GARCIA** - Am I going to pass this to you?

**Ms REID** - Yes, you can. There have been a number of funding sources over a number of years, initially prior to TasRail being established as a state-owned business. With regard to the Tasmanian Government's funding prior to the establishment of TasRail, that was through the rail maintenance and management deed towards maintenance on an annual basis. Subsequent to that, it has been through the establishment of the business and investment to support the above-rail infrastructure, so locomotives and wagons. The Tasmanian Government also provides an annual grant each year, which goes towards above rail maintenance and below rail maintenance.

**CHAIR** - What is the quantum of that annual funding?

**Ms REID** - *In totum*, over -

**Mr GARCIA** - I think you have listed it on page 5. Annual operating grant contribution, \$12 million in 2015-16 and \$12 million 2016-17, and \$8.1 million in the years following, 2017-18 and 2018-19.

**CHAIR** - Is that money just out of consolidated revenue, or is it hypothecated out of - I think it is TasNetworks, is it not? Is there not some cross subsidy from TasNetworks?

**Mr GARCIA** - There was a TasNetworks contribution. The annual operating comes from -

**Ms REID** - from the state Government

**Mr GARCIA** - Consolidated Fund

**CHAIR** - We heard there is a further \$120 million needed in the four years in relation to the operation of TasRail. TasRail has given evidence that the Commonwealth has said \$60 million of it waits there, that the state Government has said that it is still committed to the \$60 million, not legally, but will be placed in the outyears.

**Mr GAFFNEY** - You said, 'In need.' I think it was on offer. More so than they could probably need more, but what was on offer is the \$120 million.

**CHAIR** - Yes, sorry. It was not what they needed. There was an offer of \$120 million on the table funded 50/50, matching funding. The Commonwealth had said, 'It is there,' and all that is required was the state Government to say, 'Yes, we are going to do our bit.' It has said that it would be available, but it had said it was in the outyear.

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I am wondering if (a) you would like to confirm that, and (b) what do you envisage the out years to be?

**Mr GARCIA** - We can confirm it. The out years are 2018-2019, 2019-2020.

**Ms FORREST** - Which could be late. I understand the feds require it to be spent four years. That was what we were told.

**Mr GARCIA** - Certainly the out years. Happy to come back to you with confirmation as to whether we have the correct out years. Certainly, it is the latter of the years. It is later than earlier.

**CHAIR** - Is there any particular reason for that, given the fact that TasRail is in need of this money on an ongoing basis? Its view was any hold up in that money simply meant a deferral of what are basically essential works and therefore -

**Mr GARCIA** - My understanding is there are essential works in train at the present time, and certainly, there is a job of work to be done. I also understood it was a delivery over a period of time. It was not all in a single year. From that perspective, it was understood there was a rollout over a period of years, and at the appropriate juncture, when that funding was required, it would be available. I was not aware it was all going to be needed this year, or next year.

**CHAIR** - No, no that was a question of the eight years. The fact is that we have now hit a hiatus in that funding where it is actually not flowing at the time there is ongoing work.

We are probably getting a little bit deep. Some of the detail that was work where it has unnecessary speed restrictions, which are affecting the operation of its business. It has had to put additional speed restrictions in, which causes a lot of knock-on effects with their customers, et cetera, on the basis of the fact that we should be addressing the risk by spending money, rather than addressing the risk by reducing speed.

**Mr GARCIA** - The commitments were made well in advance, so if that being the case that TasRail requires that funding at a point earlier, I suggest that that is a discussion that TasRail probably needs to be having with the minister and the Treasurer.

Certainly, the commitment to the funding was on the basis of a rollout over a period of year. One would have thought the program was based around the funding, rather than the essential necessity. The funding was allocated on the basis of availability, not on the basis of all the things that need to be done by TasRail next week, or next year.

**CHAIR** - I am not going into an argument about what was said at a meeting neither of us were present at. We were certainly given the information that it was a question of the Government that Treasury, in its forward projections, had said, 'No, not this year, but we will deal with it later,' which would seem to be at odds.

**Mr GARCIA** - As I indicated, I will come back to you with some detail around those out years and what they are.

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**CHAIR** - In terms of the whole project, and I appreciate the fact that when this was taken back over it was a decision of another government, but obviously it is something you are totally committed to. It is a fairly massive investment over a fair period of time, but of course, as others are quick to point out to me, massive compared to what? Given the fact that it was a run down state. Is the government committed to a rail network for a really long period of time or are we getting to a stage where we set it on its feet, and then demand that it runs on a reasonable return on investment?

**Mr GARCIA** - As an indicator, our expectation is above rail, it would be financially sustainable from 2018-19. I think TasRail is even more hopeful that will be earlier than later. With regards to the infrastructure, that is a circumstance where we do not expect for quite a while, indeed if ever, that TasRail will generate adequate funds to necessarily maintain and upkeep that under-train infrastructure. Certainly, from an operational perspective, our expectation is TasRail will hit the money sooner than later.

Are we committed to it long term, as an entity and as a piece of infrastructure? I do not think anyone is wanting to spend this money and say, 'Well, let us close it down by 2020, because it is not quite going well'. The answer there is we are committed to TasRail. We certainly would not want to see ourselves in a situation where we found ourselves with Pacific National where, basically, we did not have a railway service, or not one that was reliable, cost effective, and meeting the needs of customers using the rail.

**CHAIR** - When you talk about long-term future, the current spending is designed to create a railway network which will last 50 or 100 years, rather than two or three years, as we have done in the past. What I am talking about is a modern railway network that is going to last into the future. There are all sorts of issues around that. I am wondering whether the Government is of the view that that is what they are building.

**Mr GARCIA** - I am not a rail expert, but my understanding of the upgrades presently taking place, the useful life of those upgrades is of the order of 30, 40 years. The anticipation is there may still be required, from time to time, to do things like track realignment or get improvements in the system. In terms of funding actually going into the network itself, my understanding is we are looking at useful life factors of 30, 40 years. That is not to say there will not be expenditure required. I expect as long as everything stays stable, and we do not have any geological problems in those areas - and I am sure there will always be room for improving the alignment of the network. A lot of it would depend on what is being carried. I know in regards to things like paper from Boyer, it took a long time to ensure that the loads were stacked in the right way. There were places on the line that were problematic. As you become used to carrying what you are carrying, that might have an impact on alignment, or where upgrades may be required. It is certainly not a three year exercise, no.

**CHAIR** - I do not want to get into the details of load balancing systems, or particular aspects of the roadies, other than to say that in a lot of the submissions that I have been able to see, the \$600 million is only part of what was asked for to build a future rail network with a lot of the issues, as you have pointed out, if we need to realign it, then we will do it later.

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The questions I am getting at are, we are either over investing in something that is dying, or under investing in something we want to live. The halfway house seems to be an issue the Government has to grapple with in terms of its long-term commitment.

**Mr GARCIA** - A lot of it will come down to funding, of course. This has been a bipartisan approach by federal and state governments. There is limited funding available. In the context of what is there to get the network to a level where it can meet current demand, and ideally future demand as well, I expect the money that is there is achieving a level of service that is necessary now. Is more money required in the future? You have had the people in here before that could probably tell you better than I that what is on the table should provide a robust network for some time to come.

**CHAIR** - I will make particular reference to the most difficult area of the line, which everyone will tell, is climbing out of Brighton and getting up through the Rhyndaston Tunnel, which is characterised by steep grades, curves. The ubiquitous narrow gauge railway relating to balancing overloads, derailments, being managed by speed reduction. I believe there are numbers floating around about what it would take to build a decent railway line on new alignment which would last well past 40 years.

Those submissions have been made today. There are decisions that have been made which say that is all you are prepared to tip into it now. I am asking for your observation, so I go back to my first question: how committed are we to a railway network to take us beyond the next generation?

**Mr GARCIA** - I have nothing.

**Ms REID** - On the specific piece of network you raise, the Midwestern Tunnel, we would have to come back to you with information.

**CHAIR** - I am posing the question because we are talking about future financial sustainability. If you have a railway network which can only chug containers up and down the highway - which today is perfectly acceptable that it takes 47 hours for them to travel from Melbourne to Hobart - in future it may not be successful and people may go back to the road because of the speed network.

**Mr GARCIA** - I think the important differentiation we need to understand between rail and road is time sensitivity. Rail is not trying to push product up the road which is perishable or time sensitive.

**CHAIR** - I am not talking about that but for the type of cargo you are talking about now. Given the loadings, trains are likely to become bigger and longer especially if the freight objectives are being met. From the submission that has been put to government in the past, there needs to be some serious money thrown at that particular section of the railway line if we are to have a north-south freight service.

**Mr GARCIA** - I am unaware of any proposal in recent times to upgrade a significant portion of the track in that area. I am happy to take it on notice and if there has been any recent information provided to the Committee.

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**CHAIR** - I am looking at the issue. It is something to put to Government. I am not saying there is an immediate answer to it. This Committee will be looking at whether we are putting too much money into rail. Are we putting not enough money into rail? Or are we putting in the right amount? I am giving you some scenarios. We may be trying to be half pregnant here.

**Mr GARCIA** - I think what we are doing is meeting the need. We inherited, if we can use that term, a rail line in reasonably bad shape. Are we half pregnant? What we have sought to do is take a piece of infrastructure that was literally defunct and make it serviceable and safe for a rail service on top of that rail line. Could we realign it to improve it? I anticipate we could do that and there would be significant cost involved.

The question would then be, does that business case stack up? For a 50 or 60-year investment, is it valid or not? The answer is, I am not sure. The funding provided has largely been attributable to rectifying the line, on the current alignment, to the extent we possibly can to obtain the maximum use for life out of it with the safety in place to allow for new rolling stock to meet the service needs now and within a foreseeable future.

Could we have a better railway service if we totally realigned the whole line? I am damn sure we could. Are we going to do it? Highly unlikely. I expect the payback on it is not valid. Are there segments of the track that could possibly be afforded additional funding for realignment to improve current status? I am sure there is that one and others which could. My anticipation is within the funding envelope available it is unlikely we could comprehend that level of expenditure.

**Mr GAFFNEY** – Thanks, Allan, I think you confirmed what analysts have said to us. The suggestion for that section of track was \$1 billion and that was a guess. He said even if it were two-thirds it would be \$600 million which would be the whole budget.

My question is more about your role in working with the minister. Where does rail infrastructure sit in a priority to other funding requests you may make of the federal government for funding? I want to know how the Government equates what they see as the most important when it comes down to funding requests. Within your capacity, where does it fit or align itself?

**Mr GARCIA** - If we go back and use the current funding that has been provided, we have to look at where the rail system was. We understand that it was in very bad shape and needed that investment at that time for what we have now. In the future, if it came to pass that we had rail competing with road, competing with, let's say, boats across Bass Strait or whatever it might be, we would put those through a more rigorous process to make that. That is why Infrastructure Tasmania exists. We will be looking at those in the context of the most effective infrastructure for the purpose at the time.

At the present time I would say that rail probably has - I will not say it has equal rating, but there is no differential between, say, rail and road at the present time, other than that road has dedicated funding in the sense of your Commonwealth funding and generally an allocation from the state. It is built into the process. To the extent that TasRail is, it is a relatively smaller amount, but if we were contemplating in the future, say, a major upgrade or a major expenditure, I do not think we have any criteria right now about whether we would put rail in front of any other thing.

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**Mr GAFFNEY** - I might ask Ruth if she would like to ask a similar question as she asked before about the capacity of the Bridgewater Bridge taking a rail -

**Ms FORREST** - I was going to go down that path. There are a couple of points I wanted to raise that go into that sort of issue. One of the submissions we have is from someone who has done a lot of work in rail and the history of rail and the effectiveness of rail over the years. A couple of points were made in this submission. You may have read them all. It is talking about the use of other lines that are not being used by TasRail at the moment. It might be a while before I get to that question. It is in context. This is what he says:

Additionally the plans to truncate the line at Brighton overlooks the fact that 280 000 tonnes come from Nyrstar, while this tonnage previously was trucked to Hobart railyard and then railed north. The new range is no better. The potential to rail direct from the works we lost for ever. The Bridgewater Bridge is built for road only, as is currently planned.

It goes on about the state of our emissions and that sort of thing. Then he says:

There is an existing unused branch line directly into Nyrstar works, but reopening that would mean that the rail line would need to be added to the plans for the \$750 million new Bridgewater Bridge across the Derwent.

He goes on to say recently he also suggested a rail bypass be considered with Perth in the Launceston-Burnie corridor, in conjunction with and along the easier line with the proposed road bypass that have been submitted to IA's funding, ensure alignment, and would remove up to 13 level crossings, he is suggesting,

Unfortunately a lukewarm response from the state minister and referral to TasRail was never responded to.

This is before Infrastructure Tasmania time, to bring a context.

In 1998 when a road bypass was to be built near Westbury, he suggested that the rail line be re-routed along the same alignment. In short, 'No, we do not plan road and rail projects together,' was the reply, 'We would eliminate six level crossings,' et cetera. In the Government's submission you noted in your opening comments that:

Infrastructure Tasmania is to lead a stringent planning and coordination of Tasmania's economic infrastructure. This includes identification of the state's infrastructure priorities and development of the uniform project assessment methodology. Consistent with all infrastructure projects, it is expected that future rail progress will be assessed by Infrastructure Tasmania under this framework.

Are we going to see a more coordinated integrated approach to this? It makes, in my mind, very little sense to look at rebuilding a new bridge across the Derwent at Bridgewater and not looking at future potential need in railway. We have already the

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train taking paper and that sort of thing. Do you want to comment on that as far as Infrastructure Tasmania's role, as well as the -

**Mr GARCIA** - Let us start from your Nyrstar to the Bridgewater Bridge.

By shifting the rail hub from Macquarie Point out to Brighton, fundamentally we have not given up but we have a freight corridor that is now not utilised. It is not intended any time soon to return that back to a freight line. It was not intended at the time.

At the present time there are two projects. One is looking at that line in regard to light rail per se, but if not light rail then what else? The 'what else' will be how should we deal with the strategic corridor that is the rail corridor presently.

The secondary issue is in regard to the Bridgewater Bridge. The reason I am reviewing that is because we have an unfundable bridge at the present time. Regardless of whether or not rail is included on the current bridge design, it is too expensive and the federal government will not fund it in its current form.

**Ms FORREST** - The bridge generally?

**Mr GARCIA** - The bridge generally. If we have a bridge that does not have rail attached to it that is costing in the order of \$750 million, of which it cannot be funded, the likelihood of having a bridge with a rail capacity on it, that would likely extend that even further, is highly unlikely but not out of the question.

Moving product from Nyrstar to Brighton is done by truck now and I understand efficiently so. I am not sure how long it has been since the spur has not been used.

**Ms FORREST** - Some time.

**Mr GARCIA** - I think it has been quite some time. The current design that was proposed for the Bridgewater Bridge does not have provision for rail. On the basis of any cost associated with a train may be turning up sometime in the future at significant cost, it is unlikely that it would have a capacity to carry one.

**Ms FORREST** - Back to the question then, are we looking at road and rail infrastructure together? Re-aligning rail lines when you are doing major road works - that sort of thing? Infrastructure Tasmania should be looking at all infrastructure and this is where we have run into problems in the past. We half fix something but do not look at the whole picture. We do it in Health all the time.

**Mr GARCIA** - In answer to your question, many decisions in the infrastructure area have been made largely on where is the core of funds coming from, or which government is being re-elected or up for election. So we have had a very -

**Ms FORREST** - Pork barrelling.

**Mr GARCIA** - I would not call it pork barrelling. I would say the infrastructure decisions in this state and in this country have been politicised. What Infrastructure Tasmania is

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aiming to at least try, as other jurisdictions are also trying, is to depoliticise that as much as we can.

Whether or not road and rail decisions where you have a circumstance of re-aligned of one, whether the other one should be as well. In a perfect world if that made sense, and even if it did not make sense, the question is what is the problem we are trying to solve? You have a gentleman or a lady who has given you a submission saying an opportunity was lost when we re-aligned the road to put the rail corridor into it and we could have overcome a range of level crossing issues. We might have been able to resolve the level crossing issues without re-aligning the rail. The question is what is the problem we are trying to solve?

At the present we have a totally functional rail line that is operating. It just happens to have a range of level crossings. Do we need to fix the level crossings or do we need to fix the line re-alignment? The answer to the question is dependent upon what the problem is we are trying to solve.

From my perspective, if there is a deficiency with the rail line and it could be resolved through a line with the road to overcome serious barriers, whether they be speed or public safety or interface arrangements with roads existing, then more than happy to put that in a strategic context and framework. A lot of it will still come back to where is the funding coming from? So a lot of the decisions on this become possible for putting into play if funding becomes available. If there is rail funding at a point in time but there is no matching road funding at the same time, how do you get the outcome you want?

The proposition the gentleman says is an opportunity that was lost. An opportunity may have been possible if there also had been funding available from somewhere to realign the rail line at the same time.

**Ms FORREST** - It requires Infrastructure Tasmania and others to take the lead on this. I do not know whether this is an urban myth on the West Coast or not, and I have heard it is not, but the road between Queenstown and Strahan has, I think, up to 900 corners. I have been told by a number of sources that it is not an urban myth. The reason there are so many corners is - and if you are driving as the crow flies, you would be there in 10 minutes - there was money for roads but not for bridges when that road was built. That is why it goes the way it does.

This is the sort of thing I am talking about. We have a bucket of money for road, or we have a bucket of money for rail. It does not happen to be in the same place. Isn't this about integration, having a plan, a statewide infrastructure plan, that takes into account all those views? In your bailiwick are you doing anything about it, because this to me is the most important thing not just for rail but road and other forms of infrastructure.

**Mr GARCIA** - The answer is yes and yes. It is my bailiwick and it is within my framework to develop that. We might have a policy position that says that we will seek to have road running beside rail all the way from go to whoa, if that was of strategic benefit.

It comes back to that problem we are trying to solve. Is the current rail alignment okay, is it great, does it need upgrading? What is the problem? Is it that there are level

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crossings? Victoria is going through a process of trying to sell a port to fix rail crossings. That is how expensive it can be.

I expect the treatment of rail crossings, if that is the limitation, is probably cheaper than a realignment of a rail network.

**Ms FORREST** - You have to look at, not just that one rail crossing, but the whole rail line. That one rail crossing you probably could fix for less than realigning the rail.

**Mr GARCIA** - I agree.

**Ms FORREST** - It is having a big picture and that is what infrastructure strategy would look like in my view.

**Mr GAFFNEY** - Following on from that, and as Ruth pointed out, where there has been a bucket of money for one and a bucket of money for another, for you to be able to tick off on the buckets of money, you have to get certain tasks undertaken.

Is there going to be flexibility within the current government, under your folio? If there is money for here and for here, and you decide you would be better off to spend some of that money over here for the future betterment of the state, will there be that flexibility to be able to say to the minister, you have given us  $x$  amount of dollars for this and  $y$  amount of dollars for this but we think some of  $y$  should go over to  $x$  to make it a better service for the next 10 years, instead of trying to piecemeal projects as has happened in the past and a lot of that has been politicisation or pork-barrelling of issues.

I am wondering how you are going to be able to manage that.

**Mr GARCIA** - Strategically, I can come up with a plan that says in the perfect world this is how things should be delivered. This infrastructure, this time, in this place, or contingent upon this delivery this should also happen at the same time; or this is a priority but if we did something over here that can resolve a whole lot of other issues.

I make the point again and you people have been around long enough to know that where the money comes from tends to make the decision. I could come up with a plan that says the top 17 priorities for the state are these and let us assume a Commonwealth bucket of money that comes in says, but what about priorities 25 to 28, which happen to be pretty handy in that -

**Ms FORREST** - In a marginal electorate.

**Mr GARCIA** - I would not have said that, but perhaps that did happen. Which ones do you think are going to get funded?

**Ms FORREST** - In the Mersey electorate, I reckon it was.

**Mr GARCIA** - Yes, Ruth, I think the answer is we do need a strategic plan for infrastructure delivery -

**Ms FORREST** - That can guide decision making.

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**Mr GARCIA** - That can guide decision making and some of that decision making at times will depend upon where the funding comes from.

**Mr FARRELL** - When we are talking about the movement of zinc from Hobart, and I suppose it goes back to a decision made by TasRail to look at A to B point to point running and not looking at local pick-up freight like a lot of other countries have gone back to, picking up roadside freight. That is the current policy of TasRail so it has to be worked with.

The line from Hobart to Brighton used to carry the zinc from Hobart. Now the zinc is going on road. It might be working pretty well. Travelling that road as often as I do, you notice on the outward lane there is a lot more damage to the road than there used to be. It may be a coincidence. It has happened since zinc's moving out there. Does your role involve looking at the costs of wear and tear on the road? I think the big reason for closing that line, apart from establishing freight up at Brighton, was that TasRail constantly complained about the cost of maintaining all the level crossings. That was a cost to TasRail, which is state government. The cost to the road repair is also going to be state government.

It would be interesting to see the difference in cost. Whether repairing signals is cheaper than repairing roads. Do you take all that into your equation when looking at projects? Or are projects very much, 'A bucket of money for this and a bucket of money for that'?

**Mr GARCIA** - It is probably a bit simplistic to say the reason TasRail moved to Brighton was because it was costing a few bob on the interface with road, on the junctions. The reason is it out there, there is a transport hub there, is about a whole distribution network. It was around trying to achieve a whole range of efficiencies beyond rail, by virtue of having a hub. I suppose this is a uniform arrangement around the country and the world. You have greater efficiency by having your networks come in close and distribution away from that.

Would it be costing us more on the road versus the rail in regard to management, maintenance, or heavier load? I do not know the answer to that. I would not suggest it was coincidental they were deteriorating at a greater rate. I am happy to ask the question as to what we think that might be.

In terms of a decision for infrastructure, my issue will be in terms of giving the Government guidance is about the type of infrastructure they need, and when they need it. If it is a decision between one or the other, we do not have to do that very often. It is never an 'either/or'. It is generally, 'We will have this one, and then we will have the other one follow.' We tend not to do too many choices. It is like saying, 'Do I open a new wing of the hospital, or do I build a new school?' In essence, we need them both. It is a question of when one will turn up.

In terms of the work I do, I do not ever get down to a point of saying, 'We might do a business case around if we were going to close a rail which carried a high degree of freight, what do we then expect the impact then might be on the road?' We could do some analysis. There would be some engineering analysis available. At a point in time, if asked to do that, we could do that comparative effort. The issue becomes, is it as

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simple as a straight line comparison or are there other matters at play? Such as, will we obtain more efficiency out of our broader system by achieving that, of which the deterioration over here is a minor component. I could become involved in that. It would depend on whether that was the issue we are wanting to solve.

**Mr FARRELL** - It has just come to light there will be a new shipping service into Hobart. Already, Norske Skog are taking clay to their mill on a regular basis. That corridor may suddenly become more appealing at some stage, if freight levels build up. Is that sort of thing something Infrastructure Tasmania would look at funding options for, say, expanding the Brooker Highway to carry more freight? Is it something you would suggest to Infrastructure Australia, that this is the better funding model?

**Mr GARCIA** - In the context of an Infrastructure Australia submission, a lot of the questioning goes around to, if this is your solution, what other matters have you considered that you are not going to go ahead with? What are some of the options? Let us make an assumption that we were talking about reinstating a freight line from Brighton to Hobart, and we had to go through a process. Some of those would be, what would be the cost of what you are currently doing, versus the cost of what you want to do? In terms of major funding submissions, beyond the business case, there is a process whereby you have to demonstrate that you have looked at alternative options, so that would come into play.

**CHAIR** - We were talking about, there is now a need to move cargo from the Hobart waterfront to the thing. When you look at those particular options, are we saying, 'Well, road's too dear. We do not need to do anything with the roads'? Or are we taking a business case approach to each particular situation saying, 'Given the potential growth projections of a Hobart port - which are only semi potential now - do not forget your entire rail business is built upon future rail increasing freight projections.' There comes a tipping point when it says, 'Sorry the cost for the road infrastructure, even if anecdotal, is all we have at the moment.' That is to say, we have to look at utilising an existing transport corridor, be it road or rail.

Getting back to one of Ruth's questions, when we are looking at the issue of transport, be they people as commuters, bulk freight, or diversified cargo in the form of containers, every time we get a new movement, do we go through the exercise of saying, is the time to build, reactivate a rail line? Is there a business case that says, this is what it would cost to do this, compared to this is what it would cost to upgrade the road infrastructure? The question is, are we looking at these things together, or something comes into Hobart, 'No, roads we got, we do not have to spend any money on that, we will stick it on the road'?

**Mr GARCIA** - Sometimes it is hard to go back.

**CHAIR** - That is the business case.

**MR GARCIA** - Sometimes it is hard to go back. If you pick up a rail hub and you move it away, and then you fill up the rail hub with a potential iconic development, you have a working port, but not a lot of places to park trains, and put a lot of containers, or hold a lot of stock on a port. The likelihood of being able to return to what was there is probably outweighed by the fact that a strategic decision has been made previously. Sometimes, it may not be possible to go back. The business case will not be worth the

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paper it is written on, unless you determine that you are not going to have an iconic precinct to progress and develop.

There will be circumstances where comparisons are possible. If we are talking about understandings of future growth, and future capabilities, and you can actually measure that, then, yes, those decisions should be made around the comparative business case. How pure can that business case be in all cases? It is hard to say, but you should get an indication of whether or not one is significantly better than the other, or worse. There are opportunities to make those comparisons, but when you get extraneous things like, 'We might do a Macquarie Point,' and therefore, take up a whole footprint where a rail might have been able to turn around, or load and unload, those things become much more difficult in the context of reinstatement. I am not saying it could not happen. What I am saying is, they become a little more problematic.

**CHAIR** - The business case for the Brighton Hub. How did that come around, and how did that factor in these potentials? Basically isolating the Port of Hobart through a failure to build a bridge with a rail connection to the Port of Hobart, assumption of the land. Are those the sorts of things that were factored into the Brighton Hub that basically spell the death knell for the freight Port of Hobart?

**Mr GARCIA** - I am not in a position, I simply do not have the - no.

**CHAIR** - Was there a business case for the Brighton Hub?

**Mr GARCIA** - I would have to take it on notice. Clearly a decision was made, and the basis of the decision was made by the previous government. I am not sure as to what the details were around that.

**CHAIR** - I am happy for you to take that on notice. I would be interested to see what that business case was. It effectively spelt the death of Hobart as a freight port.

**Mr GARCIA** - What has to be remembered - and it is quite right you point it out - for a period of time Hobart was a dormant port. The future business of Hobart was to be cruise ships and perhaps the occasional Antarctic vessel turning up.

You might have suggested, with the selling off and redevelopment of Sullivan's Cove, there was a range of decisions being taken on whether that port was going to continue to be a working port.

I anticipate those who were the drivers of the hub at Brighton saw this as a port that lacked potential in the future as a working port with most of the options being through the northern port into Bass Strait. The decision was likely taken around the fact it was not possible at that time to see what freight task could be derived from Hobart to go anywhere.

What we have seen is at least one shipping company prepared to do this one day in nine. We have also seen some other opportunities that I do not think have been announced yet but are in play at the present time.

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**Mr GAFFNEY** - The Brighton hub - in 2008 evidence for that went through the Public Works Committee. That is when that whole discussion would have happened. That is on transcript.

**Mr FARRELL** - The Brighton hub is there and is working and it should not prohibit the line into Hobart being used as a spare line if there is sufficient freight to warrant it. I would not have thought that would mean the line would have to close forever if the port attracted more freight.

You would not have to run a full passenger train as before and load and unload. You could run a much smaller shuttle train picking up zinc along the way. That is obviously a model for TasRail to look at.

**Mr GARCIA** - At the port I am not sure about the capacity to do a lot of work at the port off-rail. I do not know the answer to that. Logistically and operationally it would be worthwhile speaking to TasRail about their capacity to be able to continue to operate in that environment.

There is a line that goes almost all the way into the port which is preserved. That is part of a currently non-operational line. There is a tiny little tract of land which still is the rail corridor. Feasibly it is possible to have a train down there.

What would have happened in the past is there was a whole range of tracks down there where you could reallocate carriages. The task coming in might have been different to the task going out. I assumed there would be a change of locomotive. I do not know if one pulls and one pushes.

At the present time there is a line in. What you might need to do to get out is another thing. Basically, the Macquarie Point development has taken the footprint which was effectively the rail line.

Once these decisions are made you might be able to go back but it might become difficult. It may not be in the best interest if you are trying to develop something on the basis of what exists and suddenly rail freight starts coming down past your iconic development. There are those issues to consider.

**CHAIR** - Putting on your broader infrastructure hat, not only for TasRail sustainability. The Auditor-General reports we are now entering the first year it was anticipated TasRail would be -

In relation to above-rail operations TasRail is forecasting to break even and commence recorded surplus results from 2015-16 onwards.

That is after the infrastructure is in. We now have it on an above-rail sustainable footing. In terms of the below-rail infrastructure costs which is always going to be, I would suspect, run at a loss a bit like roads, at what point does the Government decide the investment in a bigger and better road is an alternative to investing in a bigger better railway.

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Is there a particular formula with which you would work through this thing, to make the decision about social benefits? Although the social benefits are worth having, they are not worth having at a given cost compared to building a new road which is partly the Hobart line. I would suggest that the government strategy and the advancing of agriculture is going to open up some real questions about freight movements from the now discontinued east and western branches of the north coast line

There comes a stage when we have to say we either invest in a very expensive rail network to move our produce or we build new roads, or we massively upgrade the ones we have, to carry the truck freight.

**Mr GARCIA** - There is no formula but there were a couple of issues you raised. At what point will the government become sick of paying for the under train stuff. Having made the investment you do not keep on flogging a dead horse, but remember the horse was dead, we brought it back to life and we continue to intend resuscitating it, if need be. There might be a time in the future where you would look at that contribution that is being made and you would ask the question as to whether that investment continues to remain valid versus an investment you could make elsewhere. There is no magic formula at the moment. I do not think we are forecasting the need for that. If you have made this investment to bring your rail service up to a level, and you are satisfying the customers' needs, then it is going to take quite a lot to say, now we are going to begin to disinvest in this network which we have now put together.

It is like roads, not one dollar that is spent on roads ever gets cheaper. We might get efficiency but the demand, the satisfaction level, seems to always go up. You make the point about how are we going to get our freight around. We have a very dispersed freight task in this state. If everything started at Brighton and finished at Burnie, we would be laughing, but it does not. With irrigation, the way it has been it is dispersed, and with the new farming we are going to see a lot of concentration in areas that we previously have not had to either take inputs for farming, or take outputs to freight elsewhere. There is going to be a challenge on the freight network and the general road network overall. Last mile where councils are. Significant investments.

**CHAIR** - It is accepted though that the pick up points are diversifying as they always do, but the delivery points continue to remain predominantly around the ports. People talk about the northern port, as if there was one. There are a number, there is Bell Bay, there is Devonport, there is Burnie and you start to wonder whether once you have it on the rail, whether it is not seriously time to look at a single port, in the north, accessed by rail from a broader hub and spoke model, where Brighton becomes the southern hub, connected to a northern hub, connected to a port.

**Mr GARCIA** - At the present time, there is not a port in Tasmania that can carry all the freight and all the ships that leave Tasmania, a northern port. Bell Bay - bulk materials that are provided to and from the industrials up there, are we going to take those to Burnie and train them over? We could do that.

**CHAIR** - I am saying, shipping is changing, it is the nature of the port that will be driving a lot of your hubs and spokes.

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**Mr GARCIA** - The answer is there will be a greater focus on Burnie as the priority port in the state for particularly containerisation, bulk materials.

**CHAIR** - The others all have navigation ships of course.

**Mr GARCIA** - Burnie has its own limitations. If greater mineralisation out of the West Coast became an eventuality, the commodity price - and there is a range of other things with some of the external interests that would want those minerals - in the future there is potential that they will say we will only take those out if we can get scale with regard to the shipping that comes in. Potentially, you would be looking at a major redevelopment of Burnie.

**Ms FORREST** - There is always Port Latta.

**Mr GARCIA** - There is Port Latta. Let us get another one up there.

**CHAIR** - The point Ruth makes is valid and we should get to it. Sooner or later we have to start thinking about a greenfields port that is not stuck in the middle of a city.

**Mr GARCIA** - You would be aware that Tasports is shortly to release its 30-year strategy so that at the present time will be the Government's response. Burnie - from a freight perspective and when we release the freight strategy in the near future - will be a priority port and Tasports have a range of plans around this.

**Mr GAFFNEY** - If you look at Cement Australia, that section is viable and profitable because of how close the resource is to the port. It is a shallow port so it is not suitable for other things. When Tasports releases its annual report it is not like other things where you can say we need a port somewhere to service the whole north. That may not be the most cost effective way of delivering the service that is needed because of the disbursement of the population base and the resource material.

**Mr GARCIA** - It is a combination of the resource material, the shipping companies. We can incentivise and seek to influence shipping companies to move to other ports but in many cases that requires significant investment. If we determined tomorrow we were going to have a greenfields port it would probably be billions rather than millions. What would we do with the current port infrastructure? Would we close that down? In essence it is still usable, it is still servicing the needs of the state and while the single powerful port might be an answer, the question is, again, what is the problem we are trying to solve? If we can put everything through a single port wouldn't that be great but we have redundancy already so why would we create something else that creates greater redundancy.

**CHAIR** - This is not the case for individual ports because I am sure if you were exporting three apple cases a week then the wharf at Nubeena is perfectly acceptable for your particular freight needs.

I am talking about our freight network, not a single commodity line, but the freight network in various ports. Tasports is about to release their 30-year strategy, did you say?

**Mr GARCIA** - Yes.

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**CHAIR** - I am not sure if TasRail has a 30-year strategy but the question is since rail and ports are inextricably aligned what is the Government thinking about aligning those two strategies, if not the two organisations, to turn it into a freight logistics strategy rather than a rail/ports/roads strategy?

**Mr GARCIA** - There has been significant dialogue between the two entities on needs, their infrastructure growth and where they are going. The state's freight strategy is the missing link. It is a logistics exercise that tries to bring together shipping ports, road, all air freight, all the things around freight sits in another place. It sits in State Growth and it is under my tutelage at the moment of Infrastructure Tasmania to bring that to fruition.

In regard to whether TasRail has a 30-year strategy, I do not know. You probably spoke to them before and they probably told you how long their strategy was. In terms of ports there is massive planning required for their infrastructure upgrades. Ideally they are looking at that 30-year horizon and they believe that is the appropriate framing on which they should be making their decisions.

**CHAIR** - That is to come. There has already been a lot of work and money spent in Burnie and the loading system and the up-grades of those sorts of things. That is basically at the behest of the rail driven freight requirements.

**Mr GARCIA** - Yes, there are discussions that have to happen at Burnie about a range of things around movement in and around with TasRail so there will be an on-going dialogue.

**CHAIR** - The proposition I have put back to TasRail for them to think about is - and I am not sure whether you are in a position to question it - is it time to stop seeing TasRail in terms of above and below rail and start to see it in terms of publicly funded below rail infrastructure where, like our highways, the public good that comes from train usage is dedicated to the thing and then we leave it up to private operators, or even a GBE, is it going to be monopolistic to run a separate business on the infrastructure?

In other words, one entity owns the rolling stock and runs around there paying rent for the track, as user-pay charges for the track, and another entity so because we have this continual cross section about do we keep the money from the profits and declare the dividend that the government is so keen to get or do we invest it in the infrastructure or the up-grade or the future. If you pulled it apart like roads, I am wondering if Infrastructure Tasmania has given much thought to that particular model of operating all its infrastructure facilities in the future.

**Mr GARCIA** - Infrastructure Tasmania has not given much thought to that. Well raised though. In a practical sense, at the present time, the responsibilities are not clear cut. TasRail upstairs, State Government responsibility downstairs. That is it.

Where you are going to, is not as clear cut. If there is a cross-over on, let us say, profitability, then the question is, should any of the funds from TasRail be invested downstairs on the rail? That is possibly the weak link.

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In effect, we currently have that separation. The infrastructure down is State Government, the stock above and the operation above is TasRail. We could, under another circumstance, if the state deemed it appropriate, that at a point in time TasRail was a saleable commodity, not that there is any privatisation policy at the present time, but a future government may contemplate that.

When it went to Pacific National in the past, the whole lot went and it became not a good outcome. The track was degraded, the rolling stock was not up to scratch. Any future decision, the likelihood would be that the state would retain the rail infrastructure and any other entity, TasRail or ABC company, could appropriately run above line.

The issue then becomes the negotiation between an owner of a rail service and a provider of an infrastructure base, as to what level you would like to get involved in. Things like realignments and up-grades.

**CHAIR** - It those sorts of things were to occur, the first thing you have to do is, like the energy businesses, break them into the entities so they focus on a core business.

**Mr GARCIA** - That is right.

**CHAIR** - Because they are conflicted.

**Mr GARCIA** - They are.

**CHAIR** - Whereas if you had two entities running, they could both be corporate government entities, but one dealing with infrastructure and one dealing with the service delivery.

**Mr GARCIA** - You are right.

**CHAIR** - And the model is that the rolling stock is like the guy who owns the truck. You would then get a situation where once you have the infrastructure in place, surely the economics show that one diesel or three diesel locomotives dragging 400 tonne, or whatever it is, up the highway, has to be more financially do-able than running 400 trucks up.

I do not expect an answer from the Government, but it seems to me that it is about time this business was split into its two separate entities and one became a financially sustainable operation and the other became an infrastructure being built for the public good.

**Mr GARCIA** - I think it probably goes to scale, Tony. In terms of what you would set up to run the rail infrastructure vis-a-vis the skills you might have above rail, there is probably a complementary set there. Not being around when it was established, I anticipate the thought process behind that was about what would this entity, that actually ran the rail infrastructure, be in its own right. I expect the right answer is, it goes to scale. In the future, if you move to a model where you had an above and below rail arrangement, the likelihood is you would need to have either a contract or an entity that did your bidding on the infrastructure. You would outsource the other two to a private operator. At the present time, it is a scale outcome. Whether that is the most perfect business solution in

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the current environment or not, I am not sure, but that is the one we have at the moment. It really does go to that capacity, rather than having another entity doing it.

**Ms FORREST** - I assume you have seen Pitt and Sherry's report for TasRail. In terms of our terms of reference - the social, economic and environmental benefits of rail transport when compared with road and other transport modes, and it also relates to some of the others - under *The use of rail reduces the need for road maintenance and upgrades*, they make the point:

There quite some is debate about whether the National Transport Commission, which applies fuel and registration charges on the basis of heavy vehicle type, does fairly allocate the real road infrastructure cost of individual freight passenger vehicles. All road users do pay for some share of the roads but the costs are average across the types. Under the current charging system it cannot reflect the real impact of each individual vehicle. Both the Australian Treasury and Productivity Commission have recommended changes to the system.

It goes on to say that heavy trucks travelling on the lower-standard roads do significant damage, and it is debatable whether the resultant costs are fully met by the heavy vehicle charges. I did raise this with TasRail as well. They go on to say that the network rail lines potentially offer some solutions there, too.

Is this something you would look at, in terms of it is a policy decision that needs to change about how we manage our motor taxes and charges? More a user pays type system? We do not have a very equitable user pays system [4:37:54] payroll tax review. Do you have a comment on that in terms of your role? With the terms of this report from Pitt and Sherry, it does provide a lot of good information about savings in terms of reduced road crashes, and low maintenance, et cetera. When you are putting submissions to Infrastructure Australia, or preparing on behalf of the Tasmanian Government through Infrastructure Tasmania, will you be using this information to support those positions?

**Mr GARCIA** - Let me make a comment first. Yes, it is an imperfect allocation of taxing or charging arrangements across the state.

**CHAIRMAN** - Are you talking there about the registration costs and the public vehicle license fees, or are we talking about the fuel excise? That is where the bulk of the taxation on road use comes from.

**Mr GARCIA** - There is some very discrete charging. Heavy vehicles pay discrete registration charges. What this raises is, are they absolute in terms? There is an average cost across the board. In my previous life, when I worked in local government, we would have said, 'No they do not ever reach local government to the level they need to.' In terms of that, I do not think it is as pure as it could be, because I am not sure you get down to that last mile. Until you have things like intelligent access, so you know where the road went, how many kilometres it did, what sort of level of damage - probably not going to be in a position. I look at this in the context of ITAS - what was the question?

**Ms FORREST** - It is more a policy question. It may be outside your area, but in terms of the government of the day - the last government was not keen to look at it, and I am not sure

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the current government is either - having a proper review of the way user pays system works in terms of taxation regime, and those sort of things. What they are saying is, it is not truly reflecting the costs of road maintenance. We know exactly, almost within the dollar, what it costs for rail. A lot of this cost for road is hidden in many ways.

**Mr GARCIA** - Because of the mixed use arrangement as well.

**Ms FORREST** - Yes. If roads are depreciated, below rail is impaired. There is a different way of treating it. We understand what the true cost of rail is. You can work out what the return is. It is very different for road. We do not expect the road to make a profit. It is a different mindset. Is this something, in your view, should be considered in part of the process in looking at how we value rail?

**Mr GARCIA** - It is a hard one, because of where those taxing decisions and those charging regimes are made. In large part they are made at a national level, of which we are a contributor to the discussion. In terms of how, you are an expert in this area, maybe I could call upon you. It is not as simple as saying, 'This is a methodology we are going to adopt,' or otherwise. It fundamentally flows through from a higher order than what we might do in this state. There is a range of national bodies looking at these charging regimes, and how they flow through. In terms of the mixed use, you could say, how do you attribute damage from a heavy vehicle, 17 cars going across, 27 000 bikes or 1 700 motorbikes? There is no definitive thing there in regard to what it is a heavy vehicle does and what the costs should be.

**Ms REID** - The National Heavy Vehicle Charter - that is set nationally, which CMTC does. That is not something jurisdictions participate in. That is a national policy process governments participate in, which is for heavy vehicles registration and road user charging component for heavy vehicles. I think what you were saying more broadly, there is a light vehicle component, which does not have that regime attached to it.

**Ms FORREST** - You could argue the costs are apportioned unevenly.

**Mr GARCIA** - In terms of whether we would use this information and this specific data, in arguments we present and things we put forward supporting projects, we use similar materials. Whether we use this proprietary or specific information, we would certainly have a look at it and see whether or not it accords with what we are seeking to achieve.

**Ms FORREST** - It is good data to go with. One of the comments made - and TasRail seemed to support my contention that while we might have spent \$600 million on below and above rail, it is not a lot of money in terms of infrastructure spend for the tasks it is there to achieve. If there is an opportunity to receive more money to improve our rail network, there are a lot of savings in that report that should form the basis of a submission to the federal government to cough up a bit more.

**Mr GARCIA** - Absolutely. We talked about future rounds and tranches of money. Certainly this sort of detail is the type of thing, it is presented well, it covers a lot, particularly the social issues. We have a lot of that information.

**CHAIR** - It goes back to that issue as to what extent are you prepared to stick money into rail to achieve the social as well as the economic benefits of spending it on the rail. On the

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terms of taxation, it is the distribution. The big question is why is only one in three dollars of fuel excise returned to roadworks? Do not worry about how much, worry about how what is there is being divvied up.

Allan and Sophie, thank you very much for coming.

**Mr GARCIA** - Thanks for having us. On that business case for Brighton, are you satisfied, having gone through the Public Works Committee process, that should satisfy that requirement?

**CHAIR** - We need to have a look at the costs and benefits of it. I am not sure there was one. If so, I would like to know what the impact would be.

**THE WITNESSES WITHDREW.**