Speech by

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TRANSPORT AND OTHER LEGISLATION AMENDMENT BILL (NO. 2)

Dr DOUGLAS (Gaven—LNP) (3.58 pm): The transport minister has again presented, on behalf of the Labor government, one of those omnibus bills that makes changes to everything from the rapid transit project on the Gold Coast to marine pollution offences. This legislation amends 25 acts and 12 regulations. It revisits the driver's licence legislation for the third time in a series of embarrassing mistakes and corrections. The marine pollution changes address a series of problems that follow oil spills from vessels that appear to make every nautical mistake that one could manage to make.

The minister in her second reading speech has said that this bill will deliver three significant reforms: firstly, it will deliver a specific legislative framework for the Gold Coast Rapid Transit project; secondly, it will make changes to the marine pollution legislation; and, thirdly, it will create a more robust port planning regime. There is a strange sense of the legislation being written for everything—ranging from being politically driven to providing so-called transport solutions to providing legislation written for problems occurring through incompetence and, even more curiously, writing laws for an industry that the government seeks to sell up and move on from. Critically, the minister highlights these motives for legislative change when she highlights the changes in the bill that facilitate the framework for the future commercial restructure of the Port of Brisbane, the Abbot Point terminal and the sale of Queensland Rail.

The minister states that the Transport Infrastructure Act 1994 will be amended to ensure that QRNational maintains its headquarters in Queensland. A 15 per cent shareholding cap is also imposed on any one person or entity or their associates owning stakes in QRNational. The minister either does not appear to be in the loop of what is occurring in the market or is ignorant of it. The combined coal company group, the Queensland Coal Industry Rail Group—that is, QCIRG—appears to be the frontrunner as the natural owner of Queensland's rail track and the only profitable customer thereof. How much longer they remain profitable under the proposed federal government's RSPT remains to be seen. Most now are suggesting that we will see no new mines; what we hope for is not to see fewer of our existing mines.

Whilst the Labor government has stated that it wants to sell 60 per cent of Queensland Rail under an initial public offering of more than $3 billion, the market is saying that not only is this price about right but also QCIRG appears to overcome all the potential hurdles that have been placed in its way and that the government agrees with this, too. The minister's 15 per cent restriction is irrelevant and demonstrates how reality and politics can clearly deliver the same result but attempt to tell a completely different story to the same constituency. Such is life in politics.

On Monday the market lost $40 billion in Australia, mainly due to the offensive great big tax that is being imposed on our miners and the issue of sovereign risk in Europe. Honourable members, we are a population of 23 million people, an island continent in the Pacific with $100 billion of federal government debt that has been accumulated in just two years and, worse, our future hinges on sales of raw materials to China, where there is a massive bubble in the housing market, and Japan remains in recession. Has anyone considered how rapidly things can change?

The public will not be big buyers of the stock if the market turns down, and those who might well purchase may well stag in the market as QCIRG soaks up the shares of those mum-and-dad investors, as they are often described. I am sure that the Premier will champion this as the initiator of a future QR.

Honourable members, we already own QRNational and selling it to ourselves and then onselling to it QCIRG is not going to make one scrap of difference. In fact, it is likely to cause the opposite.

The experience of the Canadian coalmining companies under the privatisation of Canadian rail is salient. There is no growth in coal exports in Canada and that has been the case for nearly 10 years. That lack of growth is related totally to what occurred to coal mining, exporting and processing in Canada under a change of ownership of rail from government to private. As at 2004, when the last resources boom kicked off, growth is stagnant at two per cent and remains so, compared with Australia's growth of 20 per cent, and which continues to grow.

The best example is Teck in Canada, which is the largest mining house in Canada and one of the biggest in the world. Teck owns the second largest exporter of coking coal—which is essentially used in the manufacture of steel and which is what 80 per cent of Queensland coal goes towards—and that is known as Elk Valley Coal. Elk Valley mines are entirely dependent on rail to transport coal to their customers. There is no competition for rail services at any Elk Valley mines. Each mine is captive to the carrier that services it. Businesses such as those in the Elk Valley are held back from competing owing to the exercise of railway market power. The main beneficiaries of Canadian privatisation—the most commonly quoted comparison of QR and this Labor government—have been the rail companies, which have increased their share prices and capitalisation to the detriment of the coal industry. This issue is quoted in the *AFR* and has also been referred to by the current head of the Queensland Resources Council, Michael Roche.

So there is the evidence on the basis of the chosen model of the state Labor government itself. Not only does the model not work in practice; it drives down growth when combined with the double whammy of the not-thought-through RSPT of the federal Labor government. The end result is to drive down state income, not just in royalties from coal and the income from rail freight but also from the loss of the critical asset that drives our state's income.

The Queensland Treasurer does not care who buys the asset as long as he gets his hands on the $3 billion from QR. He is aiming for a float in November or December 2010. That is despite knowing that a privatised QR will not fund major investment in the crucial coal export chain. His model will see coal companies build their own infrastructure and own and operate it. In 12 years, Asciano Group's Pacific National now holds 15 per cent of the market share in Queensland. Today, it has proposed a link with Conzinc Riotinto—the old CRA which is now Rio Tinto and others—in a joint bid for QR if it can pass the competitive test.

The Treasurer thinks that the government regulatory adjustment will offer choice to drive future expansion. Foolishly, he fails to read and study what has occurred elsewhere. He and the transport minister are using regulatory change in this bill to reduce a big cash-flow-positive business that we have in Queensland to a much smaller shipping proportionately but massive cash-flow-positive business that is owned by others. In doing so, we get back $3 billion on a business that yields 14 per cent conservatively at present, but we will strangle all our future mining development. And here in Queensland we are very reliant on resources, particularly at this time. This is at a time when the federal government is going to be taking away our capacity to charge royalties on every tonne of mined ore from the very first tonne of ore mined.

Who is giving this minister, this Treasurer and Labor advice? They are fooling themselves if they have been convinced by the argument that it is better to own 40 per cent of a bigger earning monopoly than 100 per cent of a monopoly player in a growing competitive market. To my way of thinking, that reads far too much into the Telstra saga. The maths of this argument are defeated by fact. If the market only doubles and QR is to have only 30 per cent of that in the market—because there will be other players—it will earn that $3 billion within four years on top of its current income, even after factoring in the cost of capital to fund that growth. But Queensland, when it controls QR, gets two further bites of that cherry. It gets rising royalties, assuming that the RSPT fails, and even if it does not the royalties rise as the market grows. Queensland can also manage the problem that occurs with freight—which occurs in Canada and the US—where the government, having lost control of the rail, has to compete on the same rail to move freight. In other words, it cannot do it on time. This opportunity for a sale of these assets is a no-brainer and that is why we in the LNP oppose it.

This bill goes even further by regulating the changes relating to ports. The bill amends the existing regime in relation to port charging and control powers to allow the Port of Brisbane to be managed by a private sector entity. The amendments in this bill merely facilitate these changes. Similar arguments about the sale of ports can be raised along similar lines to that relating to the sale of QR, which I have raised today, especially at a time when there is massive growth in the market, and especially here in Queensland during the ongoing resources boom, which continues. These changes are completely unnecessary, because selling assets as listed is short-sighted and financially naive and is an action representative of desperate men and women. These are quality assets. To sell a majority share of a high-yielding asset in a growing market to fund recurrent expenditure makes no sense, because these are the very assets that will drive the capital required to fund progressive debt reduction in the future.

Assets to be sold should be primarily those incapable of earning income surplus to requirements, infrastructure linked to businesses that are no longer core businesses or where the price multiples offered in favour of those assets are vastly in excess of the capped value rate. These are standard business practices in managing assets. Large capital assets such as rail have also been considered once-in-a-generation—that is, one in 50 years, one in 100 years for some—investment opportunities. Warren Buffett, who is acknowledged as one of the world's greatest investors, waited 30 years to buy Burlington Northern Santa Fe Corp. He paid $US26 billion—60 per cent was cash and 40 per cent was in a share swap. Unlike trucks, rails do not have to compete on congested highways. Nor do railroads depend on cash-strapped governments to maintain infrastructure. They are the only mode of freight transport that can handle the growth in markets. Only shipping and porting in terms of efficiencies come close. And here we are talking about selling our ports at the same time.

Our lack of coastal shipping services, particularly in Queensland due to the improbable demands of the MUA, merely has meant that rail is the only clear alternative. Our ports represent our only real link to the global markets. QR is probably the best hard asset we have. It is so poorly managed that even if it looked nothing like Canadian National or Union Pacific in the USA, nor Burlington Northern for that matter, if it was managed in the same manner it would be a class one stock. US rail stock such as Union Pacific, SCX, Norfolk Southern and Kansas City Southern are the ones that we should try to replicate. They are each worth over $US30 billion in the market and they carry very little capital debt. We can potentially have a $30 billion asset over the next 10 years in QR. Separated from QR Passenger, it is my measured assessment that currently it is worth probably twice what it is being sold for but in seven to eight years three or four times that in the market.

This can easily be calculated in multiple ways, but the best way to do it, because of the quality of the asset, is pricing it using class one stocks in rail, correcting for their market and adding a six per cent yearly compounding uplift. On that calculation we are looking at a $25 billion entity within that 10 years with a $5 billion capital debt since rail is a capital intensive activity. With no new highways or ports and population growth in Australia of five per cent, economic growth at three per cent, which has come out in the latest reports from the Commonwealth, and potentially a 50 per cent growth—that is by tonnage, and that is very conservative in coal transport in Queensland—in eight to 10 years, the future for rail in Queensland is remarkable.

Australia and Queensland are no different from Canada and the US. By copying the Canadian model rather than the US model we risk killing off that which we need to fully repay our future debt and current debt demands. The state Labor government in the minister's speech champions the government's record of investing in infrastructure to improve the public transport system. She rightly points to the complexity of projects, advancing technology, complex urban footprint and the scale of capital investment. Labor's record is appalling. It failed to build the second crossing of the Downs to facilitate the massive expansion of road freight into Brisbane when we needed that income. It strangled development, similarly from lack of investment, on the Mount Isa to Townsville railway line just as the port was massively expanding. We are seeing the port having to stop for up to a week because of simple derailments. I point out these examples because they have led to cash haemorrhaging from state coffers in big leaps. The minister either does not know or does not understand the scale of this problem. Australia and Queensland have major engineering companies who have a proud record of international construction. The debacle at the Tugun bypass is the most defining method of understanding how to quantify the failure of this state Labor government to be able to build, conceive and do anything.

The Gold Coast Rapid Transit system is also considered within the bill. The government strangely is championing it as a green product. I am not exactly certain why that is the case. It is debatable whether the project will really achieve anything like that which is being predicted by this government and the current cheer squad who are supporting it.

Ms Nolan: Do you support it?

Dr DOUGLAS: I will get to that, Minister. Whatever the frailties and the questions about the process and the business case, the project is being rolled out with an end target date of 2016 for $1.8 billion with a $380 million now federal government grant. This bill facilitates the government's dream of a private partnership project. That is really what I want to get to. This is a forlorn dream because PPPs as they were originally proposed are a dead duck. The private entity partner is not prepared to take the risk without guaranteed income. If the government does not give an income guarantee, who else will? The rapid transit light rail project is neither light nor rapid and it is arguable whether it will carry the number of people proposed, nor take 75,000 cars off the coastal strip each day as is proposed. It is electric powered by ugly overhead lines, but it is quiet. It is slower than buses and nowhere in the world has it come close to returning anything like its investment. In a tourist city we need to move people along the linear arteries with a progressive approach to route selection incorporating a route that goes down Surfers Boulevard to Broadbeach. We really need to link it to Helensvale to make it a proper solution and the bridge at Southport needs to be strongly considered.

There are changes relating to the Transport Operations (Marine Pollution) Act 1995. I do sympathise with everyone, but there was too much emphasis on the politics of oil leaks, too much delay in taking action and far too much blame shifting. I support strong penalties, as all members have stated today, but all the penalties in the world will not work if simple things are not supervised or responded to.

The *Shen Neng 1* issue arose because too many piloted ships were taking a known possible high-tide shortcut south of the main channel through the reef. The ship's captain apparently had no navigational skills to rely upon. Too many still think the reef is a line of reefs. It is not. It is a series of inner and outer reefs with channels in between so the tide can move through. It is obvious to all, and many professionals were reporting, that ships were not using the correct channel and were in this so-called channel that was an occasional one south of Douglas Shoal. Action should have been taken at this stage and enforced. The *Shen Neng 1* would never have steamed along at full power into that known shoal if it had been forced and knew that it could not go there because there would be a huge penalty.

The monitoring was unsatisfactory and it needs to be corrected. The *Pacific Adventurer* incident relates to a failure of correct shipping management, a lack of honesty from the captain and crew and government focusing the response on the politics of the matter and focusing on PR with flyovers and a failure to plan. There was no prepared action for all eventualities as should have occurred coming out of Hamilton. We have used the port for nearly 200 years. All good transport operations rely on ideal partnerships. We are greatly reliant on the goodwill of all involved. Governments, just like operators and staff, all have major responsibilities in equal measure.

The penalty issue of the marine act in this transport bill looks to me like they are attempting to paper over some serious issues of failures involved in the *Pacific Adventurer* incident. I decry the offensive statements and threats made to Swires' chair and general manager. John Swire & Sons, a venerable Scottish Chinese trading, shipping and banking company, is a major Queensland partner and has been so for 200 years. Just like we support our allies, we do not dump on our friends. The Premier's language was intemperate and unworthy.

The *Shen Neng 1* is a work in progress and no doubt we will find out what occurred. Whatever recommendations are made they must be implemented. The sale of rail and road as planned by this fire sale announced after the last election has not been thought through. I have given the reasons based on the models the government itself built its plan on on the basis of known facts. As usual, the devil is in the detail. The yield of the assets is insufficient to make up for the loss of the asset. As usual, Labor is betting against the market. It is a logic that is driven far too much by political expediency and not enough by hard data.