

1 June 2007

The Executive Director
National Competition Council
GPO Box 250B
Melbourne, VIC 3001



SOUTH SPUR RAIL SERVICES

ABN 63 082 313 415

491 Abernethy Rd, Kewdale WA 6105
(cnr of Abernethy & Leach Hwy)

PO Box 2313, Midland WA 6936

Phone: (08) 9360 8200

Fax: (08) 9353 5100

www.southspur.com

Dear Sir

Application for Declaration of the Tasmanian Railway Network – Call for Submissions

Thank you for your letter dated 15 May 2007 referring to the above.

Following is the submission on behalf of the South Spur Rail Services Group based in Perth, Western Australia.

Included is some general company information on the South Spur Rail Services Group.

Group Profile

The South Spur Rail Services Group (SSRS) is a set of companies offering a range of solutions to the rail industry.

The Group offers services in the specialized fields of rail operations and the provision of industry training and personnel recruitment.

The principle activities of the Group are:

- Rail operations and line haul services;
- Supply of specialist railway personnel;
- Training for railway personnel; and
- Operation of a tourist rail service.

The Group has achieved exceptional growth since its formation in 1997. In the financial year 2001/02, it was identified as the 20th fastest growing privately owned company in Australia.

The SSRS Group is a well organized and focused business with clear plans for future growth. Its competitive advantages are derived from its flexible arrangements with its workforce, its strategic position within the market and its ability to respond quickly to opportunities.

The Group prides itself on its standards for safety management and has achieved an enviable record of success in the management of risks associated with rail operations.

GROUP STRUCTURE

The Group currently has six operating divisions:

Australian Rail Mining Services (ARMS)

A newly formed company within the SSRS Group which was conceived out of the requirement to have a specialist railway services company for the mining industry.

Southern and Silverton Pty Ltd (Trading as Silverton Rail)

Locomotive line-haul operations primarily in NSW. Silverton is Australia's oldest continually operating railway company and became part of the South Spur Group in 2006.

Centre for Excellence in Rail Training (CERT)

A Registered Training Organisation scoped to deliver competency based training in line with the National Transport & Distribution curriculum for Infrastructure, Rail Operations, Security & Logistics'. CERT manages internal training and accreditation and provides rail training to government & private external clients.

Midland Railway Company Pty Ltd (trading as Spirit of the West)

A highly successful restaurant and tourist train, 2004 winner of the Gold Plate Award as Perth's best tourist restaurant.

South Spur Rail Services Pty Ltd (SSRS)

Work trains, locomotive operations and hook and pull services. South Spur's core activity is the provision of work trains for infrastructure construction and maintenance projects and currently provides services for WestNet Rail, RailCorp, ARTC and major construction companies. The company also operates several port and short haul operations.

Momentum Rail

Recruitment of specialized rail labour hire and personnel services. Momentum provides personnel both internally to the Group and externally to over 50 national

clients. The company main focus has been locomotive operators, shunter's, safety specialist & infrastructure workers

Each of the six companies operates as separate business entities. These companies have been strategically positioned to provide independent rail services to both major rail operators and infrastructure providers.

The demand for the Groups services are extensive and as a result the Group expanded substantially during 2004 across Australia into New South Wales, South Australia and Victoria.

Internally each component of the Group supports the activates of the others. In this way, it is able to provide composite business solutions to clients.

In early 2006, the Group acquired the oldest private railway company in Australia – Silverton Tramway. This means that the Group can now provide rail operations and shuttle trains in each state with the exception of Queensland and Tasmania.

It is the company's goal to provide all of our services in each state and territory of Australia.

General Comment on the Application for Declaration

South Spur Rail Services (SSRS) is pleased to be invited to make a submission on the application to the NCC by the Tasmanian Government for a recommendation to declare the use of rail tracks and associated infrastructure.

SSRS understands that in the event of the application being declared by the NCC, third party access across the rail network would be allowed for the purpose of operating rail services.

SSRS makes the following comments included in the application and also on the criteria template published by the NCC and used by the Department of Infrastructure, Energy and Resources (DIER) as the Applicant under its Application for Declaration under the Trades Practices Act 1974

1. SSRS applauds the Tasmanian Government as the new owner of network in setting access fees that are exclusive of maintenance and capital costs. This will certainly introduce the lowest access charges in Australia at present.

We also congratulate the Tasmanian Government on imposing on the network Operator a contractual obligation to allow accredited rail operators non-discriminatory access to the Tasmanian railway network.

2. We support the theory that investment in infrastructure by the Tasmanian and Federal governments combined with lower access charges will help and

encourage competition and that benefits from both will reduce costs to customers.

We do however point out that although the current network operator is obliged to provide access to the railway network on terms that are no more discriminatory than the terms on which the Operators own rail operations use the network, the Operator does not pay access fees and charges which any third party operator will need to do. Furthermore the Operator will be able to charge a 5% margin on the access fee and any costs associated with terminals as outlined in Section 11.3 of the Declaration Application.

These extra terminal charges which are to be reflected in either a container cost or cost per tonne for bulk freight will immediately place a third party operator at a distinct cost disadvantage compared with that offered by the Operator.

As pointed out in the Declaration Application particularly Sections 8 and 9, much of the Tasmanian rail freight task is export/import through the three northern ports. This is all terminal orientated. Again a third party operator will be at a significant cost disadvantage due to potential terminal costs imposed by the Operator.

We also point out that in Section 3.1(b) declared rail terminals are stated to be at Burnie, Devonport , Launceston and Hobart. We enquire about the status of Bell Bay as this is a most important terminal.

We understand the former Port of Launceston Authority now part of Tasmanian Ports Corporation was responsible for Bell Bay. Does this mean that the terminal at Launceston also includes Bell Bay?

If it does not this is a very significant advantage to the Operator who would be the monopoly operator into the Bell Bay terminal which has a flourishing container market. There is also major future potential for this line segment, particularly logs transport to supply any possible pulp mill development.

3. We also have concerns with the 10 year Declaration limit. Clearly after 10 years there will be the temptation to decrease or stop infrastructure maintenance by the Owner and to increase access charges to offset some infrastructure maintenance costs.

On top of this the non-discriminatory charges from the Operator may be subject to increase which would further affect third party operator competitiveness.

4. We have looked at the data supplied in Section 9 and support the comments made by the Applicant in regard to the future potential of the rail freight task, particularly when it is clearly shown that after 2003 the volumes carried by rail dropped alarmingly.

5. We also support the statements made by the Applicant based on forecasts of freight rail demand, although we believe that these forecasts can only be realized if infrastructure funding is allocated to lines that are currently closed e.g. Wiltshire line west of Burnie, the North – East Line, and the Zinc Works Line.
6. We also suggest that the 1.5 million tonnes of woodchips ex Hampshire Mill which are shown in Table 3 in Attachment 3 for 2006 should be removed completely as this has not been eventuated and the woodchips are still being carried on road. We do however accept that this is a potential rail customer if terminals at both ends of the operation are constructed.
7. We are also unclear whether the 1.5 million tonnes of woodchips from the Hampshire Mill will form part of the access allowed for third party operators or if this is for private negotiation only with the Operator.

Rail operations to this mill and the mill terminal will have to use the Melba Line which does not form part of the Applicants Declaration and is privately owned by the Operator. Clearly third party operators will be at a great disadvantage for this traffic.

Comments Addressing the Application for Declaration Criteria

8.1- Criterion (a) – That access (or increased access) would promote a material increase in competition

We support the comments by the Applicant that the key downstream market is that for the provision of line haul services on the Tasmanian narrow gauge network. Clearly the freight statistics over recent years demonstrates the need for rail infrastructure funding as rail line haul tonnages have decreased significantly and have been lost to road transport. Access and increased access will promote competition as long as the infrastructure is there and adequately maintained to support such access.

8.2- Criterion (b) – That it would be uneconomical to develop another facility to provide the service

We support the comments that the volume of traffic and the significant unused capacity on the Tasmanian network makes it impractical to consider a further facility to provide the service.

However for future consideration significant improvement to the cost structure and efficiency of the network could be gained through an alternative facility that realigned the current infrastructure particularly through the Southern Midlands.

8.3- Criterion (c) – That the facility is of national significance

We fully support the comments made by the Applicant.

8.4-8.5-8.6- Criteria (d), (e) and (f)

We support the assertion by the Applicant that these criteria are satisfied.

Conclusion

In general SSRS supports the Application for Declaration.

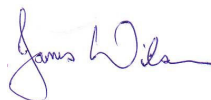
We consider this to be a much needed and welcome model which is encouraging for accredited rail operators to test the Tasmanian market.

There still remains some obstacles for the system to be fully competitive particularly with the terminal and other charges that the Operator can impose. Recent experience in Western Australia of the importance of open access to rail terminal at competitive rates has proved the need to ensure that this aspect is taken into consideration when setting up an open access system to achieve competition.

We also believe the 10 year ceiling to be a future concern that may hinder commitment and investment particularly in the second half due to uncertainty over potential cost increases.

We trust that this information assist in the process to continue the development of open access and revitalize the rail sector to assist in the future sustainable transport need of our nation. Should you like to discuss any aspect of this submission please contact the undersigned.

Regards,



James Wilson
Director
South Spur Rail Services