

SECOND READING SPEECH

by

THE PRIME MINISTER, THE RT. HON. R.G. MENZIES
IN THE HOUSE OF REPRESENTATIVES, CANBERRA, THURSDAY, 19TH OCTOBER, 1961

RAILWAY AGREEMENT (QUEENSLAND) BILL, 1961

The purpose of this Bill is to seek the approval of the Parliament to an agreement between the Commonwealth and the State of Queensland covering the provision of financial assistance to that State in the work of increasing and improving the facilities of the Collinsville-Townsville-Mount Isa Railway.

Mount Isa is just over 600 miles by rail from the coast at Townsville, and the total distance from the Collinsville coal mines is more than 750 miles. For many years this line has been the main transport link serving the whole of North-western Queensland and in more recent times it has acquired greatly increased importance because of the discovery and development of rich and extensive mineral deposits in the Mount Isa area. The transport task here is primarily a railway operation, but the existing railway has become increasingly deficient in many respects so that it could not possibly provide the capacity to move the tonnages in prospect from the developments likely to occur in that region. Rehabilitation of the railway to the standard now required includes extensive reconstruction of the permanent way to achieve better grades and curves, replacement of one major bridge and a host of minor bridges, considerable replacement of rails and sleepers, new marshalling yards and crossing loops, improved methods of control and administration, the provision of modern locomotives and rolling stock, and so on. This vast project, which is already under way and scheduled for completion by December 1964, has been estimated to cost £30million. The provision of financial assistance to Queensland by the Commonwealth, as in the agreement to which approval is now sought, will enable this work to be carried out.

At this point I must emphasise that the reconstructed line will retain the existing gauge of 3'6" so that the question of gauge standardisation is not involved. It could be argued, of course, that the rehabilitation of a section of a State railway system is purely a matter for the State concerned, and that there is no parallel with other cases where, in the interests of moving towards a uniform gauge link between the principal mainland railways, the Commonwealth has provided financial assistance to certain States. But, in this instance, the very nature and magnitude of the project compels a different approach. It was obvious from the start that the State of Queensland would need some outside help if the complete job were to be done properly and within a reasonable time. Furthermore, the increase in export earnings that will undoubtedly flow from the expansion of metal production at Mount Isa, made possible by an improved railway, gave the Commonwealth good reason for using its best endeavours to ensure that the rehabilitation project would be vigorously pursued. From the outset we expressed a keen interest in the project, and this interest, plus an amount of hard work, has now culminated in the present agreement.

Our approach to the form of the assistance to Queensland has however been conditioned at all times by the fact that this is not a standardisation work, and so should not attract the same measure of direct support as has been accorded by the Commonwealth to standardisation projects. I might add that this view was strengthened when it was demonstrated by the most expert investigations that the revitalised line should have no difficulty in paying its way, including the complete amortisation of its capital cost over a period of twenty years, and making a profit.

The first approach for Commonwealth assistance was made in 1956 by the then Queensland Premier (Mr. Gair) and arose from the declared intention of Mount Isa Mines Limited to increase greatly its production of metals and concentrates provided that the necessary increased railway capacity could be made available. Deposits of silver-lead-zinc ores were discovered at Mount Isa in 1923, and the present Company commenced production in 1931, mainly of lead.

From the outset we contemplated an oversea borrowing, and with this in mind suggested, and the State agreed, that independent experts should be engaged to look at the rehabilitation plan and report on its economic feasibility. This led to the appointment of the eminent American firm of consulting engineers, Ford Bacon and Davis, who made very thorough investigations and reported, initially in November 1957 and finally in August 1958, that the project was in fact economically feasible. Their calculations showed that the rehabilitated railway should be able to pay its way, and as I said before, completely amortise its capital cost from earnings over a period of twenty years.

I mention that Ford Bacon and Davis have been retained by the State to supervise the project, and to undertake various other tasks associated with it and with the general operation of the Queensland Railways.

On the financing side, we had been able to interest the International Bank for reconstruction and development, and at the 1958 Meeting of the Loan Council we sought and obtained unanimous agreement for the Commonwealth to borrow moneys for the Mount Isa project. This opened the way for a formal request to the Bank for a loan. Quite a lot has been said on this subject, and it is well known that the negotiations with the Bank, which at the start gave great promise of success, finally broke down because the Mount Isa Company was not prepared to provide guarantees of freight revenues from the railway of a kind required by the Bank. This was disappointing to us because in nearly all respects the railway was a project admirably suited to finance by the International Bank. I said at the time, and I now repeat, that we in the Commonwealth used our very best endeavours to ensure success. I did not then, nor do I now, criticise in any way the Bank, the Mount Isa Company, or the Queensland Government. It is understandable, of course, that the International Bank must abide by whatever rules it lays down governing the loans it makes and that, having regard to the numerous demands upon it from many countries, it cannot readily make exceptions in particular cases, no matter how credit-worthy it regards a particular project or a particular borrower. On the other hand, the Mount Isa Company made its own business judgment as to how far it could go in guaranteeing the railway freight earnings.

When however the negotiations with the Bank ended in mid-1959, one thing was perfectly clear. Money had to be found for the job. Neither we nor the Queensland Government were prepared to let the matter rest where it stood. We intended to try - and did try - to secure loan finance from overseas sources other than the International Bank. Meeting, however, with no immediate success in that direction and believing that the project was of the greatest urgency and importance, we decided to offer to guarantee the Queensland Government the money for it ourselves, even if our efforts to secure overseas finance should fail. Towards the end of 1959, I therefore wrote to Mr. Niclin to tell him the Commonwealth was prepared to underwrite the provision of the additional £20million required (that is, the amount over and above the £10million which the State had indicated it could finance itself), on virtually the same terms and conditions as would have applied had the loan from the International Bank been forthcoming - terms and conditions which, I might add, Queensland had always indicated it would be quite happy to accept. In effect, despite the burden that it would place on our resources, we undertook to put ourselves in the position that the International Bank would have occupied if it had provided a loan of £20million.

The Premier of Queensland wrote to me a few days after I had made the offer, accepting the offer and expressing satisfaction at what was, for both of us, a very notable event. With one exception which I shall mention presently, the terms and conditions which were offered and accepted by Queensland were the terms and conditions which have now been embodied in the Agreement which this Bill seeks to approve.

As we intended, this offer assuring the State of the finance enabled proper planning of the work to proceed immediately, and the work went forward, without having to wait the results of any further efforts we made to borrow overseas for the project. The Queensland Government wasted no time, and the actual work commenced some time ago. I am pleased to say that, on the information I have, it is proceeding very satisfactorily. Queensland has been able to meet expenditure so far from its own agreed contribution to the project. However, the time is now approaching when the Commonwealth will have to start making its contribution, and it is, of course, necessary for this Agreement to be approved before that can be done.

I have mentioned that, in one respect, the proposed terms of the Commonwealth's assistance differ from what was offered and agreed at the end of 1959. This is in regard to the matter of the interest rate on the Commonwealth's advances. As I have said, our intention was to put ourselves in the position that we had hoped the International Bank would occupy, and offer Queensland the same terms as would have applied to a loan made by the Bank. So far as the interest rate was concerned, we offered to charge Queensland whatever happened to be the ruling rate for International Bank loans of about the same duration at the time we provided the money, subject to a reduction in that rate if we were successful in borrowing more cheaply elsewhere overseas. At the time we were negotiating with the Bank, the ruling International Bank rate was in the vicinity of 6 per cent per annum. Although the State accepted this arrangement initially, we, following receipt of a later suggestion by the Premier, reconsidered it. In an attempt to settle a firm rate once and for all and avoid unnecessary complications and arithmetic later, we subsequently suggested instead that we charge Queensland the average rate of two particular oversea loans then being raised, the full proceeds of which would, with Loan Council approval, be allocated to the Commonwealth, instead of being apportioned between the Commonwealth and the various States in the normal way. The Premier agreed to this, and the necessary Loan Council approval was secured. The average rate of interest on these two loans was $5\frac{1}{2}$ per cent per annum and this is the interest rate that the Agreement provides will be charged to Queensland on advances made by the Commonwealth under the Agreement.

There were subsequent discussions with the Queensland Government about other aspects of the financial arrangement but I feel that I do not need to go into details of these matters here and I do not propose to do so. It is sufficient to say that full agreement was eventually reached on the basis I have outlined and when this Bill is passed these arrangements can be put into operation.

Apart from the interest rate, the other main terms on which the Commonwealth is proposing to provide financial assistance are -

Amount - Two-thirds of the actual cost, up to a maximum of £20million. As I mentioned earlier, Queensland had indicated that it would be able to provide up to £10million towards the cost of the project. The Commonwealth's advances will be made under Section 96 of the Constitution, and are thus outside the provisions of the Financial Agreement governing ordinary State borrowings.

Term - The Commonwealth advances are to be repayable in full over twenty years, commencing from 1st January, 1965, after the work has been completed. Interest is to be capitalised during the construction period. Twenty years is the period over which the expert consultants estimated the railway would be able to repay the money from surpluses earned; it will be most unlikely to impose any burden on the Queensland Government's finances. On the contrary, the Queensland railways seem likely to show improved results as a consequence of this undertaking.

This, then, is in brief the story of how the Agreement which the legislation embodies has come about. I am convinced that it will prove to be one of the most successful and rewarding examples of co-operation ever undertaken between the Commonwealth and a State. For not only will it assist the effective development of vast resources already known but it will almost certainly help to unlock potentialities for growth exceeding anything we can now envisage. It is much more than a State or regional undertaking; it is a national project in the truest sense of that term.

I have great pleasure in commending this Bill to the House.
