



**Submission to the House of Representatives  
Standing Committee on Transport and  
Regional Services**

**Inquiry into the integration of regional rail and road  
networks and their interface with ports.**

**24 May 2005**

## **Submission by the ARA to the House of Representatives Standing Committee on Transport and Regional Services' Inquiry into the integration of regional rail and road networks and their interface with ports.**

The ARA in this submission specifically addresses the terms of reference relating to “policies and measures required to assist in achieving greater efficiency in the Australian transport network” and “The role of the three levels of Government and the private sector in providing and maintaining the regional transport network.”

### ***Introduction***

The rail industry is a major contributor to the movement of goods for the export market and in some cases represents world best practice with its rail operations. However, performance is not consistent across the country nor across commodity groups. There is considerable scope for improvement in service levels; some of these will require infrastructure investment and an improved policy framework. There are a number of issues within the rail industry and in the connections with the road and ports infrastructure that impact on the ability of the rail industry to improve its performance in moving these commodities.

While the rail industry’s economics are optimal for bulk and distance there are a number of policy arrangements that mitigate against world best practice in this field. These include:

- Industry structure
- Access pricing
- Quality of track
- Competition policy
- Intermodal connections and terminals infrastructure
- Inconsistent policy and regulation
- Skilled labour shortages

A discussion of these issues follows, in addition there are specific issues relating to the movement of grain and the relative roles of the three levels of government.

### ***Industry structure***

Past reforms in the rail industry have significantly contributed to the increased efficiency of rail. In particular, privatisation and competition policy have seen an increase in service quality and a reduction in freight rates.

However, some aspects of the privatised structure have increased costs for the industry and may now need careful reconsideration.

Vertical separation of track infrastructure from operations was undertaken to stimulate competition. For lighter density regional lines, particularly grain lines, it is becoming apparent that the inefficiency, transaction costs and misalignment of objectives associated with vertical separation may drive investment and rail operators away from these lines. This is best illustrated by the dilemma facing rail operators with investment decisions on rollingstock. Without clarity of the future infrastructure investment plans of the separately owned track, investment in purpose specific rollingstock is high risk. Re-integration could be achieved in such a way that access can still be offered to a third party at a future time through a more efficient commercially negotiated access arrangement rather than through a regulated open access regime, where already pervasive truck haulage does not provide sufficient competition. This would require a much lighter touch regulatory approach than is currently the case.

Similarly, owners of light density regional lines are reluctant to, or cannot justify, heavy maintenance or investment in these lines because market conditions, continual pressure to reduce freight and/or access rates, competition from road and the tenuous viability of the grain industry make investment impossible.

Evaluation of vertical integration of light density regional lines may now be in order.

In terms of improving overall rail performance and service levels the industry has in place a broad agenda to address these issues. The agenda includes the development and implementation of Codes of Practice, improving the alignment of above and below rail investments and development of a strategy to improve recruitment and training in the industry.

While the need to allow for priority scheduling of passenger trains is recognised, on integrated and high usage passenger and freight lines delayed passenger trains impose a cost on freight operators. Likewise breakdowns of freight trains can disrupt passenger services. Where rail lines are reaching capacity a more rationale approach may need to be adopted to minimise disruption of late running passenger trains without imposing a significant cost burden on freight operators meanwhile ensuring freight operations do not disrupt passenger reliability targets. Dedicated freight lines may be the only viable option for high density traffic lines to ensure effective rail transport for exporters.

### ***Rail infrastructure access pricing regulation***

While it is understood that the governments' intentions in regulating track access pricing were to underpin the vertical separation of infrastructure from operations and provide a level of certainty on access pricing for operators, the practical outcomes fall short of the intentions. In some jurisdictions, access pricing regulators fail to allow for a track manager to recover their full costs or provide

clear pricing signals to operators. This failing mitigates against the establishment of a sustainable rail industry both through under investment in track and lost opportunity to improve operational efficiency in response to pricing signals.

In addition, track managers, within the relevant regulatory framework, also discount due to competitive pressures from the trucking industry. The competitive arrangements are extremely distorted as the trucking industry receives substantial government subsidies through the provision of road infrastructure and the absorption, by government and the community, of their social cost impacts.

The regulatory setting of pricing caps can also work to limit investment, particularly were both operators and shippers would prefer to see a more aggressive investment program to support growth in their respective operations.

Given that access and pricing regimes are in large part state based States may need encouragement to promote investment in rail infrastructure.

### ***Quality of the track infrastructure***

Rail track is of varying standard across the freight network. The standard is highest where it has been constructed to specifically support mining operations, is generally good across the inter-capital city network (taking into account proposed Auslink investments), but is in many cases of generally a significantly poorer quality on regional freight lines. This does not necessarily reflect the track access pricing structure but often does reflect past under investment.

While Auslink is an improvement in providing an integrated national infrastructure plan for the inter-capital city and some regional rail lines it does not provide for a fully integrated national infrastructure plan. To do this a much greater level of cooperation would be required between the three levels of government which currently is not evident.

### ***Intermodal connections and terminal infrastructure***

While port and rail interfaces have improved over time through direct negotiations at specific locations, this needs to be supported by integrated infrastructure investment planning. This would need to include alignment of private and public investments in port, rail, road and terminal facilities. The lack of a national port infrastructure plan creates an uncertain environment in which to invest in rail and supporting terminals. Given the lead time for transport infrastructure investment a mechanism is needed that allows for infrastructure owners, whether government or private entities, to jointly plan major future investments. Lack of alignment of investment reduces the operational value of individual investments and increases risk.

### ***Inconsistent policies and regulation***

The current level of duplication of safety regulatory arrangements for the rail industry is exceptionally high. The industry considers itself a national industry irrespective of whether it travels across state borders or not. There are significant benefits from having consistent operational, engineering, staff management and training practices across the country. It is continually a challenge to develop and implement best practice in these areas when faced with multiple safety regulators with often conflicting objectives and practices. While this is at its worst in respect of safety regulation it also applies to occupational health and safety, workplace relations and environment legislation / regulation. Australia has seven rail safety regulators for a population of 20 million people compared to the USA with a population of 285 million people with a single rail safety regulator.

In addition to the inefficiency costs it places on industry, it also undermines safety performance and increases direct costs as regulators seek to increase their cost recovery practices.

While the National Transport Commission is working on reform to safety regulation (and to a lesser extent environment) there is no mechanism to address the other regulatory arrangements. The ARA is also concerned that despite the best efforts of the NTC, wavering commitment from some States may result in the NTC not being able to deliver reform within the agreed timeframes.

### ***Competition policy***

While some bulk commodities are solely transported by rail and competition from other modes is not feasible there is a significant percentage of freight that is modally contestable. While competition between modes is helpful in focussing on quality of service to shippers and keeping downward pressure on price the current distortion caused by road transport operators not paying for the full cost of their activities impedes the rail industry's capacity to compete.

The governments' policy reforms for rail have been predicated on the rail industry fully funding its own infrastructure renewals however where there is direct competition from the trucking industry the rail industry cannot price in a manner that will allow for this. While the level of subsidy to the trucking industry through the under recovery of full road infrastructure costs is not exactly known, it is known that the trucking industry does not have to pay for sunk capital costs, rate of return on investment and dividend payments to either private or government entities, as is the case for rail.

In addition to these subsidises the transport industry also does not accept responsibility for its social costs including, the impacts on air quality, noise pollution, congestion costs, accident costs, and climate change. This further distorts investment in the transport sector.

While revision of the pricing framework would address current distorted competition policy and allow for improved maintenance and renewal of track, it would not of itself necessarily deliver an optimised transport chain.

### ***Skilled staffing shortages***

The rail industry, like the transport industry generally, will face over the next few years an increasing shortage of labour in key skill areas, in particular train crew. The industry is seeking to address this through our Rail Skills and Careers Council but the problem needs a national focus. The recruitment into the industry also requires better support from the vocational training industry. Train crew training is currently fragmented across states and in some cases between companies. While ANTA has established, and is continuing to improve, the core competencies the application of the training against the competency sets and accreditation of the workforce is highly fragmented. This issue is compounded by state based workplace relations practices. For example, the rail industry has been trying to establish a single national train driver licencing arrangement, similar to the system adopted by 23 European countries, but has to date been unsuccessful due to different regulatory arrangements across the country.

Skilled rail workers need to be included as a priority employment group in Government immigration policies. In addition, to government policy to further assist the rail industry to train technical workers.

### ***Grain lines***

The movement of grain raises a specific set of issues that warrant the development of dedicated policies. The reason why grain is considered to require a different policy framework is that the grain industry has not historically paid full economic rates for the movement of grain and past policies have frustrated the development of an efficient transport chain for grain. Grain handling inefficiencies flow through to the efficiency of the transport chain, therefore a priority focus should be a policy framework that allows economic signals to drive increased efficiencies in the grain handling function.

There have been significant structural changes to the grain industry in recent times. Grain traders now have bulk handling capabilities, bulk handlers have marketing capabilities, rail operators/marketers/bulk handlers have been privatised, State demarcations have disappeared, and so on. The supply chain has changed dramatically and relationships within the chain have changed even more. The only way the chain as a whole will become sustainable in the long term is through policy and regulatory change to encourage participants to work more cooperatively together.

If this does not occur, each participant can only improve their individual activity within the chain at the margin. Stakeholders generally know what needs to be done, i.e. reduce the number of depots, close low volume branch lines, improve loading rates at depots, improve asset utilisation, alter operating hours, develop road/rail hub and spoke activities etc. By closing small inefficient depots, some branch lines, and using a planned and coordinated road/rail transport system, the limited government and industry funds would be focussed on long term infrastructure improvements rather than being spread across investments that give short term, but unsustainable long term, benefits.

The following are key considerations for grain:

1. Rail or truck preferencing for grain transport

Rail is a volume driven industry in large part. Many grain lines suffer from lack of sufficient rail volume density; almost all suffer from deferred maintenance.

By splitting movements between rail and truck the viability of rail is undermined. An approach that focuses on optimising the broader transport chain would help to address the sustainability of the total transport network, including typically overlooked impact of road investment and maintenance costs (particularly damage to regional roads). This could involve a rationalisation of competing rail and truck movements to integrated rail and truck movements. This would not only increase rail densities therefore viability but reduce overall road costs with investment going to a small number of targeted roads where rail is not a viable alternative.

2. Grain lines maintenance infusion and subsidy

In general, Australian grain lines either need maintenance subsidy or capital infusion now, or they will in the next five to ten years. In almost all cases, lines which were privatised were passed to their operators in less than optimal condition.

Private and government operators struggle to justify raising grain line maintenance standards because of poor grain line economics brought on by light densities; poor physical condition, overzealous competition policy, and lack of effective logistics chain coordination between grain industry participants.

3. Vertical integration on light density lines

The threat of rail to rail competition on light density lines is excessive, and helps insure that private operators struggle to make returns satisfactory to invest in the business.

In Western Australia, for example, 40 % of the grain moved in the State moves by road. This is more than sufficient competition to keep rates down.

Work would need to be done to establish density/profitability criteria for eligible lines and consideration given to reintegration of track and rail operations. Taking into account the range of current legal arrangements in place throughout the country makes this a longer term consideration

#### 4. Grain equipment investment stimulus

Accelerated tax depreciation and/or investment tax credits for grain locomotives, locomotive overhauls, wagon acquisition and unsubsidised line upgrades could be a positive. Recent US experience has shown tax credits for line movements have assisted in maintaining the viability of grain networks.

The first two issues could be addressed in the relatively short term while items 3 and 4 need longer term policy consideration.

### ***Three levels of government***

The current misalignment of charges and costs for road and rail transport between the three levels of government appears to contribute to sub-optimal transport policy. A clear example is the recent closure of three grain lines in NSW resulting in movement of grain in these areas being transferred to road, in some case unmade roads deemed by some trucking operations to be unsafe. While this approach allows the state government to rationalise rail investment to the most used rail lines it does not take into account the need for additional road funding by local governments.

Also not taken into account, particularly in respect of regional freight is the role of Commonwealth economic, agriculture and export policies. Agricultural produce has no value unless it can be cost effectively transported to markets.

### ***Summary***

Rail plays a significant role in transporting goods for export but has the potential to play a greater role. The current capacity for the rail industry to do this is constrained. The ARA considers that the following strategies are needed to ensure a sustainable freight transport industry:

1. Development of a national freight strategy which includes:
  - National transport infrastructure plan committed to by the three levels of governments;
  - Policy and regulatory frameworks to encourage development of alliances between modes to optimise the transport chain, eg multi modal hubs; and



- Increased opportunities for public and private investment solutions
2. Reform of competition policy including:
- Establishment of transparency of government subsidies to individual transport modes in order to develop more sustainable transport policies, particularly in respect of pricing and investment; and
  - Transparency of the social costs of transport operations and agreement on equitable payment of these costs for each transport mode.
3. New rail reform program including, in priority order:
- Completion of the NTC safety regulatory reform as a first step in the reform of safety regulation;
  - Rebalancing of economic regulation to better recognise the legitimate business interests of rail owners and to foster long term sustainability; and
  - Streamlining of the range of regulatory bodies that govern the rail industry.

The ARA would welcome engagement with governments on these issues. The Commonwealth has the capacity to play a strong leadership role on these issues particularly through a renewed competition policy reform agenda and further development of the Auslink program.

### **Attachments**

Australian Rail Industry Report 2003, ARA 2004  
Infrastructure: Getting on with the job, CEDA 2005  
The Future for Freight 2005, ARA 2005  
Management of Export Grain Railways Systems – the need for a national perspective, Strategic design and Development 2005

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