
1 Introduction

Australia's first railways began operation in the 1850s. At that time the only viable alternatives were bullocks, horses and in a few instances, steamships. The new found technology seemed set to change the face of Australia:

When the first steam train ran in Australia, the puffs of smoke were like the opening of a magician's act. In a land where settlers had wandered far from the coast and navigable rivers were few ... steam locomotives seemed likely to transform the country. (Blainey 1983, p. 227)

In many respects railways *did* transform transport in Australia. They became vital in linking Australia's cities and ports to the rural hinterland, facilitating the expansion of Australia's exports as well as allowing governments to pursue social and political objectives.

However, a lot has changed since then for both Australia and its railways. Today, travellers and Australian industry enjoy the flexibility of a range of transport options — on land, sea and in the air. Although railways play a significant role in the intrastate carriage of bulk commodities and in urban public transport, they are not faring so well in other transport markets. The Victorian Government commented:

We are overdependent on air for many purposes, and on road freight for many other purposes, just because of the disgraceful lack of productivity of the maritime trades and of the rail industry. So we have a sparse continent, the tyranny of distance ... in which our two most prospective long-term modes are disabled by history... (trans., p. 949)

Railways must now look to the future — but that future is uncertain. What the industry and governments do in the next few years will determine whether rail is an important part of the transport system in the 21st century. As Hearsch commented:

Australia's rail industry is at an important crossroads ... Rail can make a very much larger contribution to Australia's economic development and provide substantially greater benefits for Australia as a whole. (Hearsch 1998, p. 28)

This inquiry is about giving the Australian rail industry an opportunity to secure its future.

1.1 This inquiry

The then Industry Commission conducted an inquiry into rail transport in 1991 (IC 1991b). The report examined factors leading to inefficient resource use in Australian railways and recommended action to remove such inefficiencies.

In recent years there has been increasing public focus on improving the performance of Australia's railways. With this focus, Commonwealth, State and Territory Governments, and the rail industry, have implemented substantial reforms to Australian railways since the Commission's 1991 inquiry. However, these changes have varied, both in nature and pace, across Australia.

The Commonwealth Government has asked the Productivity Commission to inquire into progress in rail reform since 1991. The terms of reference direct the Commission to undertake a stocktake of reforms already made within Australian railways, identify areas where further reform may be warranted and any resulting benefits and costs. Specific matters on which the Commission was asked to report include:

- the current structure of the railways and associated industries in Australia;
- the nature of recent reforms affecting railways, including access arrangements and their implications;
- strengths and weaknesses of the Australian rail industry, drawing on international and intermodal comparisons as appropriate;
- impediments which constrain the efficiency and performance of rail transport;
- the implications for rail and the economy generally of regulations, charges and arrangements affecting competing and complementary modes of transport;
- the changing roles of the Commonwealth, States and the private sector; and
- implementation strategies for measures that could be taken to remove impediments to improved efficiency and performance.

The terms of reference for the inquiry are set out in full on page XVIII.

The inquiry is broad ranging, covering freight and passenger rail systems, and interstate, intrastate and urban rail operations. A key focus is on rail freight activities. For the purposes of this inquiry the infrastructure of railway networks, the operation of trains on these networks and associated industries (such as railway workshops) are defined as the 'rail industry'.

The Commission has not examined in any detail:

- the technical aspects or merits of specific private sector (or joint private sector/government) rail infrastructure investment proposals;
- other modes of transport, including light rail. The inquiry has covered aspects of road freight and other transport only insofar as they are competitors with, or complementary to, rail transport;
- intermodal transport issues, such as the efficient movement of containers from ports on to the rail network; and
- issues relating to environmental costs (such as greenhouse gas emissions and atmospheric pollution) and congestion costs. These are examined only in the context of the relative performance of rail and road transport.

In examining the issues raised by this inquiry and formulating its recommendations, the Commission in accordance with its Act has considered the interests of the community as a whole. The Commission has had regard to the overall performance of the economy, taking into account the social, regional development, economic growth, employment and environmental objectives of government.

The Commission has sought to offer solutions to the remaining problems in the rail industry that will encourage it to fulfil its various roles in the economy. The rail industry consists of diverse sectors — ranging from urban passenger transport to interstate freight transport — which differ in terms of their characteristics and the impediments constraining their performance. The Commission's approach has been to tailor its recommendations to each sector.

There is often more than one policy option to improve the performance of each sector. The Commission has tried to identify the options and then formulate a reform package for each sector which it believes will provide the greatest benefits.

1.2 Other inquiries and reports

The Commission has taken into account previous inquiries and reports which discuss the rail industry. In particular, two recent reports have been complementary to the Commission's inquiry: House of Representatives Standing Committee on Communications, Transport and Microeconomic Reform, *Tracking Australia, an Inquiry into the Role of Rail in the National Transport Network* (HORSCCTMR 1998b); and Rail Projects Taskforce, *Revitalising Rail: the Private Sector Solution* (RPT 1999).

Other reports which have been drawn upon in this inquiry, in addition to the 1991 Industry Commission inquiry on rail, include:

- Hilmer et al. (1993) *National Competition Policy*;
- Industry Commission (IC 1994b) *Urban Transport*;
- National Transport Planning Taskforce (NTPT 1994) *Building for the Job: A Strategy for Australia's Transport Network*;
- Steering Committee on National Performance Monitoring of Government Trading Enterprises (SCNPMGTE 1998) *Government Trading Enterprises Performance Indicators, 1992-93 to 1996-97*; and
- Productivity Commission (PC 1998a) *The Australian Black Coal Industry*.

1.3 This report

In preparing this report the Commission has drawn on evidence from a wide range of sources, seeking input from those with an interest in, and knowledge of, the rail industry. On 30 March 1999 the Commission released the Draft Report, and invited comment on the draft recommendations contained in the report.

Over the life of the inquiry, the Commission received 128 submissions from individuals and organisations, including public and private rail operators, users of rail services, industry associations, freight forwarders, community groups, and Commonwealth, State and Local Governments and agencies. The Commission also held two sets of public hearings before and after the release of the Draft Report (appendix A).

The Commission has benefited from visiting many interested parties around Australia for discussions (appendix A). These included tours of various terminals, signalling facilities and stations, and inspections of the track (Melbourne-Adelaide and Sydney-Cootamundra-Parkes-Bathurst-Sydney) in order to gain a greater understanding of rail operations. In addition, the Commission travelled on various freight, urban and interstate passenger trains. It also visited organisations in New Zealand and Europe to obtain knowledge of rail reform in those countries.

The Commission held two technical workshops and a public workshop to discuss the analysis of railway performance presented in chapter 4.

The Commission was encouraged by the participation in this inquiry from groups across the rail industry and other transport sectors, and from governments and agencies. The Commission thanks participants for the effort, thoroughness and thoughtfulness of their submissions.

The structure of this report reflects the approach described in section 1.1. The rail industry is described, and key reforms summarised in chapters 2 and 3. The performance of Australian railways is analysed and compared to that of other countries in chapter 4. Chapter 5 outlines the Commission's approach to assessing the best policies to overcome impediments to improved rail performance. The following six chapters, 6 to 11, each cover a major issue for this inquiry. The objectives of, and gains from reform of industry structure and ownership are assessed in chapters 6 and 7 respectively. Chapters 8 and 9 discuss regulation relating to access arrangements, safety and operating procedures and standards. Competitive neutrality between rail and other modes of transport, particularly road, is the focus of chapter 10, while chapter 11 discusses a framework for government implementation of broader social objectives, such as employment and regional development. These chapters are drawn together in chapter 12 which outlines the priorities for further reform and the role of government and the private sector in this process.
