CRT GROUP PTY LTD

SUBMISSION TO THE PRODUCTIVITY COMMISSION

INQUIRY

PROGRESS IN RAIL REFORM

Prepared September, 1998.

INTRODUCTION

The CRT Group is a medium sized transport operator specialising in providing quality services of distribution, packaging storage and inventory management to the plastics industry.

The company operates in all mainland state capital cities and moves its client's material interstate predominantly by rail (97%). The major facilities are in Melbourne and Sydney.

Product is moved in bulk in specialised containers or in 20ft ISO containers with liners by conventional intermodal services as provided by the National Rail Corporation (NRC) via the major intermodal terminals.

North American data suggests that for short haul intermodal operations concentrating traffic through large terminals the road transport legs at either end can represent up to 40% of the total trip cost. The break-even distance for these considerations is variously estimated to be between 400 & 500 miles (640-800km). A Melbourne to Sydney or Adelaide journey is of this order.

Consequently CRT is positioning itself to have direct terminal access in both Melbourne and Sydney with direct train services and expects to be in a position to operate in this manner very shortly.

It is from this position of being both a road transport operator, a long term rail user, and soon a rail terminal operator and specialised service user, that we feel qualified to make this submission.

A long-term association with rails advantages and problems and preparation for becoming a rail operator in its own right has given CRT insight into the industry in some depth. Nevertheless this submission will only deal with those aspects of the inquiry that infringe on our current and anticipated activities.

Finally, by way of introduction, it must be stated that the first reaction to this inquiry was 'Not another inquiry into rail?'
This reflects a widely held attitude within the industry that it has been investigated by various committees with a variety of emphases but with minimal reaction to recommendations and findings, yet still languishes

- without a National Strategy
- without essential uniformity of operating & communication standards
- is still hampered by state border considerations
- with minimal piecemeal injections of infrastructure funding from governments
- little technical innovation except for politically popular urban and intercity passenger trains
- increased levels of bureaucratic, access and safety accreditation along with charges for such that represent additional 'taxes' on the industry and;
- the least level playing field of any country according to would be overseas investors

Detailed Comments

A Industry Structure & Competition

The major structural changes over recent years have been:

- the formation of the National Rail Corporation (NRC)
- formation of the Australian Rail Track Corporation (ARTC)
- standardisation of the Melbourne-Adelaide section of the interstate corridor

- privatisation of previously government owned rail ways
- significant down sizing of the workforce of the railway operators

Taking these in turn please note the following comments

A.1 NRC

The concept was originally hailed as being a major step into the right direction, a means to create an integrated interstate haulier, to eliminate the losses being collectively incurred by the state jurisdictions and to provide a one-stop shop for shippers.

In implementation several factors have marred the achievement of these goals, eg

- NRC management determined to throw off what was conceived as our old and outdated railway culture recruited heavily in middle management people from outside on the assumption that a fresh 'non blinkered' approach would bring about new management concepts and drive creation of a new culture.
  Although not stated, the implication of this move was that industry knowledge was either not important or was easily acquired.
  This error has been evidenced by the slowness of NRC to become effective.

Secondly, the splitting of the Management function over 3 capital cities, eg Sydney, Melbourne, and Adelaide was seen by the rail served industries as ludicrous and has proved to be a difficulty in dealing with NRC.

Thirdly NRC adapted an autocratic attitude towards customers in terms of what they would carry, freight rates and attitudes to the other rail systems.
In short they were not Customer Service Orientated.
This is most clearly demonstrated by major customers opting out of the system and the operation of private trains particularly in the lucrative Melbourne-Perth corridor. This has weakened the tonneage base of NRC's most important corridor.

A.2. ARTC

The formation of this body to regulate access to the National Rail System (Interstate) has been slow in implementation, but latterly refreshing as demonstrated in published access rates for the portion from Albury to Kalgoorlie.
However, the NSW & WA section are still being negotiated and as yet access rates on these sections are not transparent given rise to suspicion of dissimilar rates to would be access seekers. The formation of ARTC for the national route should not be taken as being an acceptable vertical separation model for the remaining jurisdictions (see later comments)

A.3. STANDARDISATION OF MELBOURNE TO ADELAIDE ROUTE

Although an obvious necessity for the national route, in its' implementation significant deficiencies resulted mainly

- The infrastructure is sub standard and is still after several years subject to severe speed restrictions and passing loop and signalling inconsistencies.
- It converted Victoria from a one gauge system to a dual gauge system with resultant ongoing inefficiencies

- It does not serve the rail infrastructure of Geelong, a major origin of rail freight in Victoria (cement, petroleum, and fertiliser).

A.4. PRIVATISATION

Probably the most far reaching structured change is privatisation but the extent to which this is likely to proceed will be determined by state governments which have different agendas and whose attitude may well change with changes of government. This is inconsistent with the concept of a National Strategy.

Although privatisation is only in its early stages with the sale of Australian National (AN), the imminent privatisation of the Public Transport Corporation (PTC) in Victoria, and with the agenda in W.A. QLD& NSW are showing no inclination post corporatisation
The early favourable evidence of privatisation includes
- The essential actions to ensure profitability
- A immediate assessment of the prospects of contracting out non core elements
- The reluctance of American based operator to accept open access
- Injection of private capital
- A more aggressive approach to innovation both technical and managerial

A.5. DOWNSIZING

Little emphasis and/or reporting has occurred on the very significant levels of labour and assett productivity that has occurred in the rail industry over the last 5-6 years in particular. These improvements in most cases apply both to government and privately owned systems in most cases outstrip the improvements that have been achieved in other industries.
The scale of the improvements obviously reflects the extent to which traditional railways were ‘featherbedded’. Nevertheless the improvements achieved are very significant.

A.6 Vertically Segregation of Rail Authorities

Vertical segregation is:
- Implicit in the formation of ARTC
- Implicitly rejected by QR
- Has been incorporated in the Corporatisation of the NSW system
- Is completely rejected by would be buyers based in North America
- Is incorporated in the privatisation of British Rail (BR)

Qualified opinion varies from one extreme to the other
The separated model is relatively untried, but separation means that
- Operators are not in complete control of their business
- The ‘below track’ owner has monopolistic control
- Capital funding may be directed by agendas that differ to the requirements of the operator
- Operators (government or private) will not invest in infrastructure they don’t own or control.

Furthermore the road/rail analogy is a flawed argument because on rail
- Access will always be controlled & regulated
- In most cases alternate routes are not available
- There is no equivalent in the rail case of the private motor car.

A.7. INCREASED COMPETITION

The major component of the industry requiring increased competition is intermodal terminals. With the formation of NRC all the best terminals in Australia came under their control and operation, and only NRC trains are serviced.

Whilst, it could be argued that other operators can establish their own terminals, the size of the current intermodal market is inadequate to justify more terminals and suitable locations close to capital city CBD's are not competitively available.

Terminals should be owned or lease to third party professional competitive operators. If and when the traffic expands, market forces will determine funding for new and alternative sites.

A.8. CTC

Contracting out depends on informed decisions based on
- The costs in house as against CTC for the required level of service
- Delivery of that service
- The operators own concepts of what is core businesses.

There is a significant rail services industry already in existence in Australia. Market forces will determine whether it needs to grow.

B. Capitalisation & Communication

No further comments other than those included in 'A' above

C. Community Service Obligation

No pertinent comments as it is not applicable to our situation

D. Access Regimes and Regulation

Current Situation

- National Rail Highway – Albury to Kalgoorlie via ARTC – rates are published and therefore transparent.
- NSW – via Rail Access Corporation (RAC) on application and rates not transparent
- SA – other than interstate route-not generally available for freight infrastructure is under control of A.S.R. (Australian Southern Railway)
- W.A. under control of Westrail - not transparent
- VIC – under control of Vic Track – not transparent
- QLD – no access other than QR
- TAS- trackwork under control of ATN.

Requirements for access do vary between jurisdiction. Pricing is generally on the basis of a 'flag fall' for the path plus a G.T.K. rate per train.

On interstate routes negotiations for an acceptable path can be time consuming and difficult. The J. IT influence concentrates (at least on the eastern seaboard) access applications over the hours of darkness so as to provide next day deliveries.

The North-South & Melbourne-Adelaide corridors are at or near saturation at night whilst in day light hours traffic is light. In this scenario, obviously existing operators have the most sought after paths available to them to the exclusion of new comers.

Urban access is a major problem in the Sydney area because of morning & evening curfews to allow for commuter traffic.

Access in Victoria has been granted to
- Its two country passenger services
- To Patrick, Toll and S.C.T. on Melbourne- Perth Services
- To GNR for shunting services within the Melbourne area
- To Austrac for a NSW to Melbourne freight service

In addition to the Access regime, further charges accrue to operators for Rail Safety Accreditations

These are charged separately by all states and apply also to terminal operators who do not have access to the main track infrastructure. Fees are charged which are purported to cover the costs of operation of the Safety Accreditation process.

Accreditation in one jurisdiction normally gives accreditation in others virtually automatically. In the second jurisdiction in which minimal costs are involved full rate schedules are charged. Operators therefore pay in all jurisdiction as distinct for road where the registration fee virtually covers access anywhere in Australia, is payable once in any state or territory.

E. *Ownership*

Not specific comment except as in A4 above.

F. *Investment Issues*

CRT finds the Neville report recommendations to be soundly based.

With respect to further standardisation, the broad gauge infrastructure in Vic & SA with the exception of the suburban networks would need an injection of funds of the order of $150m, and has been subject to some studies which the Commission may find advisable to consider

Standardisation of signallings operating procedures & communication systems as recommended by the Neville Report is of prime importance.

G. *Competitive Networks*

See Neville Report plus attached extracts from North America operators re ‘open access’

The Coalition Tax Reform Package although partially relieving the burden of diesel excise will favour road transport costs per tonne-kilometre more than rail because it is a less efficient user of fuel.

It is difficult to understand how rail use of diesel fuel does not fall into the ‘off-road’ category.

As mentioned above rail access and safety accreditation is more of a ‘tax’ burden for rail than road industry charges.

For example, access charges on a normal sized train from Sydney to Melbourne of 1000 nett tonnes cost $5.50 per tonne. A similar journey by B-double assuming a 40 tonne nett payload, registration charges equate to $0.55 per tonne.

CO_2 omissions from B-Doulbles from Melbourne to Sydney are an excess of 1 tonne per trip. Omissions by rail are approximately 1/3 of road.

H. *Intergovernmental Issues*
No additional comments

I. *Performance of the Australian Industry*
Statistical evidence of performance indicators will need to be drawn from existing government and private operations.

J. *World Best Practice*
No specific comment

K. *Adjustment Issues*
No specific comment

L. *Priorities*

Infrastructure rehabilitation

- Sub standard sections – particularly in Victoria (see Neville Report)
- Extend passing looks to 1500m minimum and review locations
- Standardise signalling, operating and communication practices (see Neville Report)
- One-stop access and safety accreditation not confined by state borders
- Upgrade infrastructure at least to 23 tonnes axle load capacity with a longer time view to 25 tonnes.

Initiative is needed by Federal Government to:

- Set up a National Rail Transport Reform Commission as for road or combines both into a Land Transport Reform Commission
- Establish a rail transport strategy
- Provide initially adequate funding to redress the total inadequate funding to rail as compared to road over recent decades

Private investment in infrastructure will not occur until investors see government initiative.