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Ms Helen Silver
First Assistant Commissioner
Productivity Commission

Re: Progress in Rail Reform Draft Report

Thank you for the opportunity to comment on the draft report.

Report Structure

On such a wide topic, the Commission has been given an unenviable task to report on a diverse set of businesses. For the most part, as noted in the report, the businesses in rail are now separate and should therefore receive separate enquiry and particularly recommendations.

In relation to 'The way ahead' could the commission treat those recommendations in separate sub-chapters.

It would also be advantageous for the recommendations to be clearly identifiable rather than to have them incorporated into prose.

Report Objectives

Productivity Issues

It is noted from the Terms of Reference that no mention is made of 'productivity' as a particular objective of the review. Nevertheless, as this was a review of the progress made since the last enquiry it is recognised that productivity was a key aspect of the previous enquiry.

The point about ‘productivity’ and ‘efficiency’ in today’s context is that the industry now recognises that these aspects are fundamental, if not ‘givens’. The industry has, with the rest of the Australian economy, moved on from the 80’s mentality, where political compromise was made on these matters. It is now almost irrelevant to dwell on the issues of productivity and efficiency per se, except to acknowledge that there will always be the need for improvement and the pressure should always be on. It is agreed there is still much to do to improve access pricing and monopoly rents and this will be accomplished through efficiencies, particularly in infrastructure.

There are particular problems, as noted in your report, concerning the measurement of productivity in any case. For instance, where large quantities of outsourcing has been performed, the measurement of productivity is distorted because of the impact of the contracting organisations.

The matters concerned with productivity are becoming less strategic and more tactical.

Market Issues

The more important issues for a report which will help shape the industry for the next decade before another report is done, are the issues concerned with the market. These matters are showing themselves up as being strategic.

As noted in the report, the US railways benefit from economies of scale and the best practices noted are heavily influenced by the imperatives concerned with servicing the market. The irony is that low volume markets seem to attract the lowest productivities. Perhaps this is because those markets attract Government sponsorship and funded deficits. The markets that are large enough attract competition.

The parallels of the Australian experience now with that of the US two decades ago are very close. Simply, the US deregulated and wrote off billions of dollars of debt at the time of the Staggers Act in the late 70’s. Now in Australia, the industry is being deregulated, and through the means of privatisation is writing off billions of dollars of debt. The sale of AN was an exercise that wrote off many millions of dollars of debt.

Therefore, if we are now paralleling the US of 20 years ago, and the US is held as some benchmark, we should look to the way the US industry has approached its ‘rebuilding’ over that period.

In particular it has approached its markets with a series of initiatives such as market segmentation and the notable expansion of the ‘short line’ network. This was accompanied by the retraction from these markets by the large railways and their own rationalisations based on market segments.

The rationalisations have resulted in market focus where the customers lobby the government for improvements in government policy, not just the railroads. The industry is now not only seen as the railroads, it also includes the customer, and the customer ultimately has a bigger voice than any other group.

These things are happening in Australia, albeit in a rather haphazard way. This is the ‘way ahead’ for the railway industry in Australia.

In summary, it is time strategic advice and comment about the railway industry dealt with matters that a company board might deal with, that is, the externalities and not the internal efficiencies. Certainly, they need attention as they always will, but the railway industry in Australia needs to change its paradigm from being on the back foot to being on the front foot. This can best be accomplished by dealing with matters at the front end of the supply chain, that is, with the market.

Appropriate measurement parameters for the market that should be established now in order for there to be a means of comparison in a decade’s time are:

- Market share
- Customer satisfaction
- Return business
- Price competitiveness with competition (ratio)
- Service quality

on top of the ongoing productivity measures.

Report Details

In Figure 4.9 it is indicated that Westrail and AN achieved large ROA’s. The results make a mockery of the analysis and the results should be normalised (by removing the abnormals or other distortions) so that a reasonable result is portrayed in order to emphasize your arguments.

In figure 4.12, as noted in the report, accurate comparisons are difficult because of economies of scale, local tax treatments, and other distortions. Another distortion comes from not being able to distinguish the service scope being delivered. Where railways provided a number of value added services, such as stockpile management or warehousing, the rates could appear high. In Australia, because of the low volume of freight, there is a concerted effort by railways to add value wherever possible.

On page 243, reference is made to the improvements in the performance of Tasrail since privatisation. Whilst I have no disagreement with the statement, the report presents no evidence to support the conclusion. In particular, I wonder whether the large write down of asset value, and the corresponding decrease in depreciation and interest charges may not have had a large influence on 'operating result'. In other words, it is highly probable the business was previously over-valued with large debt burdens.

As well I wonder whether its 'share' of charges for the Port Augusta workshops and other AN mainline expenses under the previous AN structure, adequately reflected Tasrail's use of these facilities. In summary, I think it is too early to conclude that Tasrail is performing better. When the Government subsidies are concluded and Tasrail experiences a cycle of asset replacement, an analysis at that time may show it to be performing better. The same comments are applicable to other sale identities.

On page 250, reference is made to Tranz Rail's approach to locomotive replacement. This approach had been evident in New Zealand long before privatisation. In part, this strategy was adopted for a number of local conditions, not because of any 'initiative' applicable to the Australian environment. Certainly, the Australian railways need to be more innovative in their problem solving, but this is an inappropriate example. Where appropriate, Australian railways adopt the approach of reconditioning locomotives.

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