B A L A N C E R E S E A R C H
P.O. Box 555,
Footscray, Victoria 3011
(03)9689 7555

The Secretary,
Productivity Commission
35 Collins Street
Melbourne Vic 3000

2 October 1998

Inquiry: Progress in Rail Reform

Dear Secretary,

Please receive the attached submission in which I outline the views of Balance Research on the way that railway policy can lessen the total resource drain of the transport sector.

This document is a summary of the proposals being developed by Balance Research.

Yours Sincerely,

E. Michael Isaachsen
Director

"PROGRESS IN RAIL REFORM"

SUMMARY OF BALANCE RESEARCH POSITION

THE KEY PROBLEM
THE POTENTIAL OF RAIL
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THE KEY SOLUTION

It is commonly expected that the total transport task will continue to grow in line with economic and population trends. Total task may double in twenty or thirty years, and reach four times its present level in perhaps fifty years.

Rail-based transportation generally uses less resources than road and air, particularly in terms of marginal resource for increments of task. Yet rail manages to attract far less of the Nation’s task than it could.

It follows that we are using far more resources for transportation than we need to. On current policy, even with the expected "rail revival", this trend will continue.

THE KEY PROBLEM

The key problem in transport is that by the time total transport task reaches four times the present level, rail will be doing well if it maintains its present percentage, on current indications.

Thus, by that time, the road network will reach four times its present traffic level, with at least the same expansion for domestic air traffic.

Such growth outcomes will be unacceptable to most of the community. Governments will then wish to stem that growth, but the fundamental decisions need to be taken now if it is to be avoided.

THE POTENTIAL OF RAIL

Rail-based solutions have the potential to limit this ever-growing demand for road and air traffic.

Rail could absorb most of the increase over coming decades. The governments, acting together, could achieve this with less total transport outlay than under present policy.

Road traffic need never reach four times present levels: indeed by acting resolutely it may be possible to keep it near today's level.

In some cases, road network expansion could be forestalled with only minor improvements to the rail system so long as services are improved to meet the needs of travellers and shippers.

In other cases, major investments would be needed to make rail competitive but in no case would this exceed the long term saving to the community from reductions in road demand.

DRIVEN BY A MARKET DISTORTION

Travellers and shippers are driven to sub-optimal choices of road transport over rail because of systematically differing levels of a number of subsidy factors. These vary from the obvious to the obscure, from direct government outlays to privately suffered costs and from societal damage to global effects.

A leading factor is that rail operators are expected to pay for their infrastructure whereas road systems are not usually required to make any return.

It is almost certain that the total of transport-related costs, both community and government, far exceeds the total of all taxes and charges related to transport usage.

INTER-GOVERNMENT LAND TRANSPORT STRATEGY

Balance Research is proposing an Inter-Government Land Transport Strategy.

This Strategy would have all levels of government, and all departments, cooperate in identifying transport-related costs for each transport mode and task.

Costs must include all forms of resource usage whether cash or not and whether suffered by governments, users or the wider community. Emphasis will be required on separation of network and marginal costs.

This will reveal the extent of distortion in the transport market-place and shed light on its knock-on effects on investment of land transport funds.

The next step is adopting practical measures to eliminate or equalise that market distortion and correct for its past effects.

Once the governments confirm that provision of road space as a free or underpriced good is leading the ongoing problem, and quantify it, they may adopt policies to restore the balance between road and rail to what it might have been without those past distortions.

Systemic underpricing of the mode which uses more resources will make it falsely attractive. Correct market signals can only be sent to users by charging adequately for that mode.

An alternative, of providing the competing mode's owners and operators with money to achieve the same (total) level of under-pricing, will restore the balance but maintain the expected over-demand for all transport.

A decision to maintain effectively subsidised transport is a valid policy objective if it is clearly articulated and its effects made transparent.

The Commonwealth could play a pivotal role in this research and provide incentives for States to make the needed commitments.

An essential policy step, at this point, is that railway operations (including feeder services) must be built up to provide improved service in all domains (metro, country, passenger, freight). This requirement is dictated by the need to compensate for the past false attractiveness of road.

To put this another way, the financial imperative in rail policy must not be the rail industry's bottom line but how rail can improve the bottom line for the total transport structure.

Railway infrastructure owners must not be expected to perform better, or charge more, than road infrastructure owners and must receive the same support. Where they have not so received in the past, this must be treated as a backlog and compensated.

If this cannot be achieved, road traffic will continue to grow and thus total resource usage will continue to be above the optimum.

Inter-government financial arrangements would need to be even-handed as between modes. Even so, the Commonwealth should provide extra assistance for States to catch up the backlog of rail investment due to past policy shortcomings. It might also assist rail for reasons of national goals such as the environment and resource management.

Balance Research does not support calls for a National Rail Highway to be Commonwealth funded. All links in the system are important: the inter-capital links are the ones least in need of support, as they are almost viable at present and will be goldmines when subsidies are equalised.

Not that we say the main interstate links should not be brought up to scratch, and quickly. They must, and Commonwealth "backlog" funding should be used for this.

But to achieve the needed swing from road-traffic-growth to rail-traffic-growth it is equally important to restore freight and passenger facilities at all levels in the system. Rebuilding of industrial sidings. Provision of basic services on under-utilised lines. Moving goods by rail across metropolitan areas. Provision of high quality bus links into every residential area. Upgrading of tracks and services to relieve congestion on nearby roads.

We say, similarly, that the National Highway System and the RONI program should not be funded by the Commonwealth. The Common-wealth should directly support State transport initiatives in road or rail where a beneficial project might not proceed on State finance alone, and to adjust for past shortcomings.

Interstate road links, whether the NHS or any border link, should receive a subsidy from the Commonwealth based on the percentage of interstate traffic on the link. Links within cities would thus attract Commonwealth funding but only for their interstate traffic component. Similar arrangements would apply for rail links.

RAIL-BASED FUTURES PROJECT

"Rail-Based Futures" (RBF) is the name of the package of policies and functional and educational programs being developed by Balance Research to implement the changes required for the Inter-Government Land Transport Strategy to succeed.

The prospect of road traffic ever reaching four times its present level is not what most people want. Governments could adopt a policy of keeping road

traffic more or less at the present level: rail can be made attractive enough to achieve this.

RBF Outcomes

At the target year, when total transport tasks reach four times their present level, successful adoption of the RBF policies will deliver the following outcomes (compared to "present policies" case):

* The road network will be improved with safety and quality measures but no significant net capacity growth for either Metro or Country highways.

* There will be reductions (absolute) in harmful effects of road traffic as emission and accident rates continue to improve on a total traffic task which is not increasing.

* Rail traffic will have grown by factors of up to 8 times (Metro passenger) and 30 times (country), bringing all main lines into efficient, high volume operation. Many marginal or now closed branch lines would reach economic traffic levels, vis-a-vis fully costed road transport.

* A rail freight network will be re-established in all parts of metro areas, with private sidings where warranted and intermodal goods stations every few kilometres. This will take up to 30% of HGV traffic off urban highways in the first decade and carry perhaps 80% of long-term HGV traffic.

* Rail freight will be re-established at most country towns, offering local carriers cheaper connections to the cities and taking much pressure off country roads.

* The road freight industry will be about the same size as today, but with greater emphasis on intermodal operations.

* Inter-capital and other long-distance railways will provide faster transit than the highway both for passenger and freight service.

* Total resource use for transport will be reduced. Less energy will be needed, and much of that will be electricity. Less transport equipment will be imported (most trucks are imported, whereas most locomotives are made here). Far less land will be dedicated to transport. The total transport labour force will be about the same but doing different

tasks.

* Greatly improved and innovative passenger services will attract "non-captive" travellers. In metro areas and provincial suburbs, consistent levels of feeder bus and cross-town service will enable families to be comfortable without a car.

* Road Authorities will be able to counter the myth of "the right to drive", once high quality public transport is readily available. This will make it easier to require that persons unsuitable to drive cannot easily obtain and keep a licence: it couldn’t be done under present circumstances.

RBF Functional Policy

In order to achieve this result, the following inter-governmental policies and financial commitments would be required:

* Assess and publish the road deficit on the same basis as the various rail deficits (urban passenger, intercapital freight, etc). Deficits must include all costs traceable to road use and rail use: all levels of government, private, business, community, cash and non-cash.

* For as long as it it not possible to collect from car and truck users the full cost they impose on the community, adjust rail charges to ensure the same level of subsidy as road.

* As it appears that total government resources used by transport exceed the total fuel taxes, community perceptions would be improved if an amount of the annual tax reimbursements from Commonwealth to States were identified as being transport-related and sourced from fuel tax.

* Recognise that the national transport network is not just the intercapital links. More than 50% of freight on the Melbourne to Sydney corridor does not go the full distance. It is intrastate or country-to-country or country to interstate capital. Rail service for much of this task has been withdrawn, driving highway growth.

* Governments will cover the remaining costs of break of gauge. Either the capital to remove the problem or additional operating costs to move goods across the break at

no cost penalty to the user.

* Ensure protection of all land and other assets that are likely to be required by a future generation for railway purposes. Governments will not allow the present generation to destroy that which a previous generation has put in place just because we don't value it right now.

* Ensure that at least one railway operator acts as "Universal Service Provider" on every line. This operator will be financially supported by operators who provide less than universal service. This is similar to Telecommunications industry requirements. The USP will accept all traffic offering and provide an interface to any short lines or industrial railways.

* Provide mechanisms for railways to be rewarded for adding value to the community and for reducing the extent of urban sprawl and the consequent savings in urban infrastructure.

* Embark on a program of public education on transport issues, to last for at least two generations. That is how long it will take to change the car-loving attitude and the expectation of driving everywhere as a matter of course.

* Ensure cooperation of all levels of government in investing the funds available for transportation infrastructure in a way which produces the most efficient network.

PRIVATE CAPITAL vs GOVERNMENT CAPITAL

These changes could occur with a fully governmental or fully private rail system. As long as governments own the road system and don't charge for it in full, they would need to make equal subsidy to the operators or users of rail services, whoever they may be.

Alternately, private finance could cover the cost of new works and certain increased expenses for rail-based solutions, even if the services continue to be government operated.

In return, governments would need to pledge the savings in road-related costs until full road charging is implemented. When it is, then full rail charging will be possible too and repayments will be derived from revenues.

Using a more ad hoc approach, if governments together spend (say) 25% of total transport budgets on rail-based solutions, the total budget will eventually reduce (relatively) as tasks transfer from road.

THE KEY SOLUTION

Of all the above points, the key factor is equalisation of subsidy. When the effects of excess road subsidy are cancelled out, users, operators, governments and financiers will all see rail as a technically efficient and profitable industry and support it accordingly.

The other strategy items could then possibly fall into place without further political involvement, other than limitation of monopoly behaviour.

To achieve this, and its promise of lower resource demands, governments will need to act on the basis of the "all government, whole community" transport costing and adjust road and rail charges to compete for all traffic on their natural merits.