28 October 1998

Ms Helen Owens
Presiding Commissioner
Progress in Rail Reform Inquiry
Productivity Commission
Locked Bag 2, Collins Street East
MELBOURNE VIC 8003

Dear Commissioner

The National Farmers' Federation welcomes the opportunity to make a submission to the Progress in Rail Reform Inquiry. Attached is a copy of NFF's submission to the House of Representatives Standing committee Inquiry into the Role of Rail in the National Transport Network in November 1997. This submission outlines NFF's major areas of concern.

Since this submission there have been a number of reforms which are likely to result in efficiency gains for the rail sector. NFF particularly welcomes the announcement in July by the then Minister for Transport, Mr Mark Vaile the establishment of the Australian Rail Track Corporation. This reform will help cut red tape and boost efficiency for interstate operators by alleviating the need to negotiate access with numerous state authorities.

The recent announcement as part of the Governments tax reform package to reduce diesel fuel excise for rail and road transport was welcomed by the NFF as a step in the right direction. However, NFF was disappointed that the reform did not go far enough. NFF policy advocates the complete removal of all fuel excise, with the introduction of a road user charge.

NFF is concerned that the remaining fuel excise of around 18 cents per litre for both road and rail continues to place an unfair burden on rail transport.

The National Road Transport Commission has identified that the current fuel excise of 18 cents as a road user charge – or the amount needed to be collected in order to pay for the maintenance and upkeep of the road network.

However, the rationale for maintaining an 18 cents per litre fuel excise for rail is not as clear and places rail at a competitive disadvantaged compared with the road transport sector.

Fuel excise as it currently applies to rail, adds approximately 10 per cent to rail operator costs. In the case of Australia's wheat industry, it produced 23.5 million tonnes in 1996, of which 19 million tonnes were exported. With around 80 per cent of the wheat harvest transported by rail, the cost of rail freight to wheat farmers in 1996/97 was around $300 million. On this basis, a 10 per reduction in the cost of rail freight could have saved Australia's wheat farmers $30 million in transport costs.

For an individual wheat farmer paying approximately $16 per tonne for rail freight, sending 2000 tonnes of wheat to port, a 10 per cent reduction in freight costs would save the farmer $3,200 in a single year if the diesel excise was completely removed from rail.

Clearly such a reform would have significant benefits for the rural sector and would also further improve Australian farmers export competitiveness.

I would be happy to discuss these issues in more detail in the future.

Yours sincerely

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National Farmers' Federation

# Submission to the Inquiry into The Role of Rail in the National Transport Network

November 1997

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# 1. INTRODUCTION

Australia's railways continue to play an integral role in the transport system. In 1995-96, rails freight task teached 105 net billion tonnes, equating to approximately 47 per cent of the total land freight transport task, or approximately 54 per cent of the non-urban land freight transport task.

In addition to its overall freight importance, rail is of special significance for two of Australia's most valuable export earners, coal and grain. Almost all coal is moved to export ports by rail, and about 90 per cent of what exports are transported by the rail network. The high bulk and relative low unit value of these commodities, which in part contributes to their suitability to rail transport, also means that freight costs have a major bearing on the competitiveness of these commodities on international markets. In this context, the efficiency of the rail system must be judged against international standards of performance.

Notwithstanding the commercialisation and other reforms introduced by Australian rail systems, the efficiency of Australian rail freight, is still far from international best practice. As suggested by the many benchmarking studies in recent years, rail freight continues in large part to be relatively high cost, characterised by non-commercial rate setting and with a variable quality of service.

As concluded by the Bureau of Industry Economics 1995 benchmarking study of rail freight; the priority reforms which need to be addressed are restructuring rail systems to encourage competition, promoting competitive neutrality, allowing third party access to rail track, adopting commercial pricing policies, prices oversight, introducing direct and transparent financial support for community service obligations and removal of regulations that tie the transportation of commodities to rail.

# 2. Effectiveness and Efficiency of Rail

Australia's rail network has been managed as a discrete set of State based rail systems owned and operated by governments with parts of their markets guaranteed by monopoly controls. This is no longer acceptable. Today Australia requires a vigorous rail system that promotes competition and is genuinely competitive with road transport and domestic shipping industries.

In the past, shielded from the discipline of operating in a competitive market, rail has failed to respond to changes in customer requirements. Rail's core customers, the urban CBD commuters and those shifting bulk commodities long haul have remained loyal; they have had no other choice. But rail has forsaken opportunities in growth areas of freight transport, particularly haulage of interstate containerised products.

Rail has been unable to meet the road challenge. General freight customers have abandoned slow, relatively inexpensive methods of transport in favour of paying a price premium for high frequency, flexible, door to door services. Rail authorities with their extensive bureaucracies were ill-suited for competition with small, flexible trucking companies, including thousands of owner operators.

The Industry Commission report into rail transport published in August 1991 was a damning indictment of the performance of Australia's rail system. That report thoroughly documents the costs of the inefficiencies and the high margin by which rail performance lags behind foreign systems.

Among the causes of inefficiency were, the shielding from, and avoidance of, competition especially through regulation.

In the absence of the discipline of competition, rail authorities built up a backlog of unproductive work practices. Some work restrictions tracing back to the days of steam, but continuing irrespective of the effect on productivity.

In recent years, evidence suggests that Australia's freight systems have improved significantly in terms of their overall performance.

An international benchmarking study of rail freight in 1995 by the Bureau of Industry Economics suggested that in 1989-90 Australian freight rail systems as a whole had cost structures which were estimated as being 52 per cent above achievable best practice. This had declined to 31 per cent by 1993-94. However, the report noted that the extent of improvement varied considerably between systems. Labour and capital productivity was found to have climbed over the period, a result of reducing large surplus of employees, locomotives and wagons.

However, despite the improvement, corporate overheads, signalling/control and locomotive and wagon maintenace costs remained well in excess of world best practice costs. In addition, corporate overheads for all Australian systems exceeded estimated achievable best practice by about $160 million, which was nearly a third of the entire gap to best practice.

In the long run, it is vital for Australia's exporters that rail meets international best practice.

**NFF recommends that a first step in this process is to bring all Australian operators up to the level that the best domestic operator is able to achieve. For example, in the case of grain cartage, each system should aim to achieve similar locomotive and wagon productivity as is achieved by Westrail, with human resources productivity at similar levels to that achieved by Australian National Freight.**

## 2.1 Taxation

Another essential element of the reform process must seek to address the issue of taxation in the interest of competitive neutrality amongst transport modes. Among the taxes on rail freight, fuel excise is by far the most pernicious and costly. In 1995-96 rail operators paid $157.7 million in diesel fuel excise.

The 1991 Industry Commission report "Rail Transport" and the 1994 Industry Commission report "Petroleum Products" both recommended that railways not pay diesel fuel excise because it increases rail transport costs and distorts transport decisions.

Much of the concern by rail operators and users with diesel fuel excise is that in the past it has been collected on the premise of a road user charge.

In 1992, the National Road Transport Commission determined that heavy road vehicles should be subject to an 18 cent per litre road user charge. This 18 cent per litre road user charge adversely affects rail operator's costs, adding $84.2 million to their fuel bill in 1995-96. Rail operator's payment of diesel fuel excise is exacerbated by also paying track access charges for the purposes of maintaing the track infrastructure.

It is also relevant to note that in the case of rail freight, the vast amount of freight is for business purposes. Work undertaken by the National Transport Planning Taskforce Secretariat in January 1995 which found that fuel excise paid by the rail industry accounted for over 12 per cent of rail operating costs. A strong case can therefore be made for the removal of diesel fuel excise from rail on the sound economic principal of removing such taxes from business inputs. Such reform is exremelty relevant for larger export industries such as grain industry whose producers are burden with the full cost of these cascading taxes.

**NFF therefore recommends immediate abolition of fuel excise on fuel used by rail as part of wider reforms to the current taxation system due to the distorting and cascading effects which fuel excise has on business and, in particular, exporters.**

## 2.2 Rail Infrastructure Adequacy

Recent studies suggest that most of Australia's rail network, deficiencies in track infrastructure occur along corridors east of Adelaide. Work by BTCE for the National Transport Planning Taskforce – January 1995 found that about $3 billion of investment in rail infrastructure was warranted obe the next twenty years.

It was suggested that theSydney-Brisbane and Sydney-Melbourne corridors are each estimated to warrant around $1 billion each, while the Melbourne-Adelaide, Brisbane-Cairns and Adelaide-Perth require lesser amounts. In addition the study found maintenance costs to amount to around $3.5 billion over the next twenty year period if the above infrastructure spending was implemented. If no investment in infrastructure was undertaken, maintenance costs were estimated to be some $1 billion higher over the period.

While there appears to be a concensus that the network has sufficient capacity, significant concerns exist in relation to the quality of the infrastructure. The under-investment in rail infrastructure has resulted in the quality of the infrastructure impeding rails ability to compete with other modes, particularly road.

Some of the major areas of deficiency which impose on the rail sectors ability to offer a more competitive service include:

- Rail weights along most of the lengths of all corridors are below the benchmark;
- The greater part of most corridors have timber sleepers which results in greater speed restrictions and higher maintenance costs;
- All corridors east of Adelaide are deficient in clearances. These restrict loading heights;
- Some gradient deficiencies exist on all eastern state corridors. Steep grades necessitate greater locomotive power, restrict trailing loads and adde to fuel consumption; and
- Curves are particularly bad on the Brisbane-Cairns and Sydney-Brisbane corridors and the Sydney-Junee link. Tight curves restrict speed and increase resistance and wear and tear on track and rolling stock.

**NFF recommends that the committee recognise the need to increase investment in Australia's rail network, and that this be done on a full cost recovery basis, ensuring the more profitable freigth lines do not subsidise urban commuter traffic.**

# 3. Opportunities to Increase Participation of the Private Sector in Rail Industry

With Government owned railways cocooned from the discipline of the market place, there has been a strong push to see greater competition from the private sector.

Already, initial evidence suggests the introduction of private sector operators is exerting significant downward pressures on the cost of rail transport. For example, with the likes of Specialised Container Services and TNT establishing their own services between Melbourne and Perth, it appears that the rates charged by the government owned interestate freight operator, National Rail Corporation, have been forced down by between 37 to 57 per cent for various traffic.

For this reason the NFF welcomed the recent signing of an agreement between the Commonwealth and the States on the need for interestate rail reform. In particular, the recognition of that need for the interstate rail network to be operated as a single network, including arrangements for investment and uniform access.

The need for such arrangements is evident in light of the predominance of rail applications to the National Competition Council under Part IIIA of the Trade Practices Act. By September 1997, four of the nine declaration applications made to the NCC had related to rail services. The number of rail applications is attributed to the lack of progress towards the development of a specific National Access Regime for rail services. It should be noted that national regimes covering access to gas pipelines and electricity grids are already well progressed.

Therefore, the Agreement between the Commonwealth and the States is an important first step towards the establishment of a National Access Regime for rail, which will facilitate greater competition from private sector operators.

As part of any uniform access arrangements, consideration needs to be to the establishment of transparent access charges to facilitate and encourage new entrants into the market.

While track access arrangements do already exist, these arrangements vary between States. Operators are at present compelled to deal with several different track access bodies to operate a single interestate freight-train. Currently, in the case of moving grain from Western Victoria to Port Kembla in New South Wales, an operator would be required to negotiate with the Victorian Rail Track Corporation and the Rail Access Corporation of New South Wales.

**NFF recommends that the proposed National Track Access Authority assumes control for all interstate movements, regardless of their origin and destination points. If established in this way, potential train operators will be able to deal with one application as opposed to being required to submit multiple applications to various state and federal track access organisations.**

# 4. Opportunities to Maximise Access and Utilisation Of the Rail Network

In developing a national access regime for the rail network, consideration should also need to be given to the standardisation of other procedures and regulations which will facilitate greater resource mobility.

As in the case of road transport, the National Road Transport Commission has made significant progress in introducing uniform laws and regulations amonst the States. The establishment of national driving licences, unifrom registration charges, common mass and dimension limits and loading rules, common roadworthiness standards etc have now been introduced or are scheduled to be introduced in the not too distant future.

Such a program of reforms in the rail network is required to ensure uniform regulation such as locomotiotive driver accreditation and other work practices, national standards for rolling stock etc which would encourage new entrants and facilitate competition across State boundaries.

Most countries have nationwide railway systems running on tracks of uniform gauge. However, nearly one hundred years after Federation, the Australian railway network is still characterised by separate incompatible systems.

The use of three different gauges impairs the movement of rolling stock between, and in some cases within States. For example, in Victoria inefficiencies in grain handling occurs due to the existence of both standard and broad gauges. In addition the movement of grain from the Riverina coming into Victoria is double handled due to the difference in the gauge size on either side of the border.

The existence of different gauges results in each operator to keep wagon and locomotive fleets which are larger than reqluired to cope with the average harvest.

If all lnetworks shared the same common gauge, the capacity for greater rolling stock utilisation would be possible. A common gauge would encourage greater competition between rail operators and would greatly reduce the barriers for new entrants.

# 5.

# 6. International Best Practice

Numerous past studies have shown that Australia's rail network has lagged well below world's best practice. Most recently studies by the Bureau of Industry Economics showed that despite the sizable improvements in performance, freight operating costs needed to be reduced by 24 per cent or some $500 million to match achievable best practice.

Key areas of operating costs which exceeded 1993-94 best practice levels included; corporate overheads, signalling and cotrol, and rolling stock maintenance.

In total, it was that these areas accounted for about 60 per cent of Australia's cost gap.

Other areas which were found to be in need of further reforms included:

- Service Quality – it was found that trains carrying general freight arrived on time about 70 per cent of the time. In contrast, previous work by BIE suggests that competing truck operators arrived on time about 96 per cent of the time. Therefore, the competitive position of rail versus road is highly dependent on improving service quality.

- Labour Productivitiy – despite improving strongly, remained well behind best observed overseas performance, with significant opportunities for improvement remaining.

- Capital Productivity – locomotive and wagon productivity were found to have improved substantially, track productivity improved at a much lesser rate. A study by the BTCE for the National Planning Task suggested

investments in rail infrastructure estimated at $3 billion were found to be warranted over the next twenty years, mainly to upgrade the Sydney-Melbourne and Sydney-Brisbane corridors. In addition, an estimated $3.5 million over twenty years to cover maintenance costs.

However, an important finding stated that performances amongst Australian systems varied significantly from system to system, with the largest gap being 27 per cent and the smallest being 12 per cent.

This finding suggests that further reforms need to be coordinated at a national level to ensure the improvements in efficiency and performance take place across all jurisdictions.

# 5. Rail Infrastructure Adequacy

Recent studies suggest that most of Australia's rail network, deficiencies in track infrastructure occur along corridors east of Adelaide. Work by BTCE for the National Transport Planning Taskforce – January 1995 found that about $3 billion of investment in rail infrastructure was warranted over the next twenty years. It was suggested that the Sydney-Brisbane and Sydney-Melbourne corridors are each estimated to warrant around $1 billion investment each, while the Melbourne-Adelaide, Brisbane-Cairns and Adelaide-Perth require lesser amounts.

It should be noted that if the $157 million which the rail sector pays in fuel excise annually was re-directed back into rail infrastructure, this would pay for the $3 billion in future investment required over the next 20 years.

While there appears to be a consensus that the network has sufficient capacity, significant concerns exist in relation to the quality of the infrastructure. The major concern being this under-investment in rail infrastructure is significantly impeding rails ability to compete with other modes, particularly road.

Some of the major areas of deficiency which are affecting the rail sectors ability to offer a more competitive service include:

- Rail weights along most of the lengths of the corridors are below best practice;
- The greater part of most corridors have timber sleepers which results in greater speed restrictions and higher maintenance costs;
- All corridors east of Adelaide are deficient in clearances. These restrict loading heights which significantly restricts rail's potential, especially in relation to container transport;

- Some gradient deficiencies exist on all eastern state corridors. Steep grades necessitate greater locomotive power, restrict trailing loads and add to fuel consumption; and
- Curves are particularly bad on the Brisbane-Cairns and Sydney-Brisbane corridors and the Sydney-Junee link. Tight curves restrict speed and increase resistance and wear and tear on track and rolling stock.

In addition, further reforms are required to ensure the full adoption of commercial pricing policies. Further competition from private sector operators will undoubtedly assist this process. Large cross-subsidies between bulk freight and general freight and passenger services have been evident in the past. Work by Applied Economics for the NTPT in 1995 noted the continued existence of these cross-subsidies stating "charges for bulk freight recover or over-recover costs and tend to cross-subsidise non-bulk freight traffic. Rail passengers are heavily subsidised".

**Therefore, NFF recommends that the committee recognise the need to increase investment in Australia's rail network, and that this be done on a full cost recovery basis, ensuring the more profitable freight lines do not subsidise urban commuter traffic.**