The Secretary,
Productivity Commission
35 Collins Street
Melbourne Vic 3000

21 May 1999

Inquiry: Progress in Rail Reform

Dear Secretary,

Please receive the attached submission

in which I offer the response of Balance Research to the

Commission's Draft Report.

Yours Sincerely,

{{ scan Michael Isaachsen's signature in here }}

E. Michael Isaachsen
Director

Balance Research is the trading name of E. Michael Isaachsen, a private, unfunded researcher into public policy in the fields of transport and communications.

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

Submission to:

PRODUCTIVITY COMMISSION INQUIRY "PROGRESS IN RAIL REFORM"

BALANCE RESEARCH REPLY TO DRAFT REPORT

PART ONE - INTRODUCTION

Competition

In its Draft Report, the Commission is acknowledging the need to have road and rail competing in the market on a fair basis. It is

calling for full cost recovery from road users, or at least some of them.

> But it is silent on the means, or the need, to correct the distorted market while waiting for full cost recovery.

Improved Efficiency

The report credits the railway industry with improvements in efficient operations. The reduced costs per unit task is not disputed, of course.

> The report does not however examine the extent to which these improvements are due to shedding of less profitable tasks and whether these tasks, now on road, use more resources than before.

The Yardstick of Success

In considering the future of the railway industry, the yardstick seems to be whether the industry will be commercially successful.

> The opportunity was not taken to consider the alternative measure of railway policy, namely success in controlling the growth rate of road traffic.

Tax Reform and Transport Resources

The report considers the effect of proposed tax reform including reductions in taxes on diesel fuel. It records likely reductions in operating expenses for rail and road.

> These reductions would be expected to increase total demand for transport and also to induce a further swing from rail to road. Alternatives could be devised which might avoid these effects while still achieving the government's aim of helping rural business.

PART TWO

Competition:

COMMERCIAL OPERATION OF HIGHWAYS

The main thrust of the Draft Report, in regard to future directions, seems to be that the road industry should move towards user charging with the result that both road and rail would operate commercially.

In terms of the need to reduce the resources used by transport, such an outcome would be very welcome. That is to say, the elimination of all subsidies to transport would effect a substantial modal shift to rail and it would also lower the demand all for transport. The effect on resources demanded for transport would thus be a significant reduction, which would be good news for the community's wellbeing.

The limitation of this approach is that it may take many years to have effect and it is doubtful whether governments would ever be willing to collect from road users the totality of subsidies.

Elimination of all subsidies is but one permutation of the notion of equalising subsidies.

The submission of Balance Research was that while effective road usage charges are not in place, rail usage should be subsidised to remove the market distortion. As governments introduce RUC's, subsidies to road and rail would decrease in unison. In the submission it was argued that funds spent on equalisation of subsidies would be less than the savings in road-related costs.

The necessary precursor to subsidy equalisation is a study of all subsidies, overt and hidden, cash and non-cash, by governments and by the wider community.

The question of equalising subsidies is one of allocative efficiency and of choosing whether to continue favouring a particular mode. This is doubly important if the mode presently being favoured is the one which uses more resources per unit of task.

The question of whether there should be any subsidies at all is more political than economic. Cheaper transport has benefits socially and industrially and for this reason it may be unwise to rely on governments exacting substantial charges on road users as a means of redressing the imbalance in subsidies.

PART THREE

Improved Efficiency:

EFFICIENCY IMPROVEMENTS BY CHOICE

It is also noticeable that the rail industry is credited with having become more efficient in recent years. Balance Research does not dispute that the resources used per unit of railway task

have decreased, indicating an improved technical efficiency. However over this time the composition of the rail task has changed, with vast increases in bulk tonnages and some decreases in general cargo.

In order to assess the potential benefits and resource savings of policies which might transfer tasks from road to rail we must confine our gaze to those tasks which are contestable as between road and rail.

And in that arena, railway operations have become more efficient mainly by shedding tasks which were less profitable. These tasks have gone to road in which they use up more resources than on rail but have the appearance of efficiency.

PART FOUR

GENERAL COMMENTARY

The Major Economic Challenge

Balance Research believes that the greatest challenge for the transport and economic communities is to chart a course which will avoid the major expansion in transport-related resource usage which under present policies seems inevitable.

It seems to be widely accepted that the total transport task will continue to grow more-or-less in line with economic development.

That total activity and presumably total transport task will eventually double is not widely disputed. Just the time-frame for the doubling is open for debate. For example, elimination or reduction of transport subsidies will downgrade the link between economic growth and transport task growth. Debates over the nation's target population widen the range of the time-frame. Long-range outcomes for major mining projects are capable of greatly influencing the eventual date of doubling.

It is a useful exercise to remove from consideration of the growth rate of transport any significant tasks of a kind which are never likely to use the highway system. These are mainly mine output flows which use shipping or rail.

While the rest of economic activity continues to expand, it is possible that mine output will not. A decline in mine output could entirely mask a pattern of continuing growth in general transport. The result of that could be that while more and more traffic is demanding more road space in most parts of the country, aggregated statistics could show that there is no problem because the total transport task is not growing.

Doubling Again?

It is also possible that the total task will double again so reaching four times its present level. Again this will be influenced by eventualities in population, transport subsidies, including or excluding mining flows, and economic conditions.

Despite reservations, it is probably safe to act on the assumption that having doubled, the growth of demand for general transport will continue at some rate and may eventually reach four times.

Inter-Generational Equity

On continuation of policies as now envisaged, most commentators would seem to be quite content if rail maintains its overall share of passenger and general freight tasks.

If this comes to pass, future generations will feel the impact of four times the car and truck traffic.

To cater for this, highways will need to grow substantially in country and populated areas. Injury and death from road traffic will continue to grow despite improvements in the statistical rates. And land which could have been retained for railway use will in many cases have become alienated, making it extremely costly to engineer a solution.

Depletion of oil and gas is also a matter of inter-generational equity.

Within the 20th century we have used mp most of the accessible deposits laid down over billions of years. We are largely ignoring opportunities to convert transport to other sources of energy, and are using oil and gas at a faster rate each year. When these useful fuels become scarce, our successors will not thank us for using it up so quickly without thought for them.

Federal Issues

The Commonwealth should play the lead role in this reform. That's not to say they should pay out all the money. Their role would be to lead, persuade and facilitate.

Reform of something so fundamental as road and rail must be the work of all three levels. A study of government involvement with transport must cover all governments and all departments.

The outlay by all governments of one dollar to facilitate subsidy equalisation will lead to a benefit of perhaps two dollars. The Commonwealth's contribution may be in the nature of a catalyst.

The Challenge for Railways

For road traffic to grow less than now contemplated, rail must do more, much more, than maintain its percentage of the transport task. However efficient the industry may become, it will not increase its overall share of general transport while the market remains distorted.

It is a credit to the innate efficiency of rail that despite the distorted market it can provide, for example, intercapital transport at prices competitive with road and require just a very small subsidy ... far less than the unquestioned subsidies to highways.

Railway Viability vs. Transport Efficiency

A number of commentators have couched their views on the future for railways in terms of whether the railway industry will be viable. Will there be a place for rail, and can it expect to attract sufficient traffic to make it commercially worthwhile?

Balance Research offers the opinion that these are not the critical questions when considering the future needs of the nation for efficient transportation.

The critical question is whether rail-based solutions can be found which will lead travellers and shippers to choose not to use the highway. If so, the growth of highway traffic can be controlled and the long-term outlook for resources improved.

Solutions must include not only the technical improvement in efficiency but the correction of market signals accompanied by changes in attitude.

The attitudes of travellers and shippers, governments and academics, and providers of transport services are not well-tuned to a major swing from road to rail. Many accept that there should be some change but are only expecting marginal growth.

Privatisation, level playing fields, harmonisation of systems, one-stop negotiations, with improved technology and management, will all make rail's future more certain. But these will count for little in economic outcomes if not accompanied by changed attitudes.

Balance Research believes that with the right signals and the right attitudes, substantial changes are feasible which would save governments and the wider community from the ever increasing costs, losses and resource drain which they will otherwise face from transport.

APPENDIX "A"

The Arithmetic of Trans-Modal Growth

To study the kind of rail growth that may be needed in decades to come, an informative exercise is to see what rail system growth is required if the nation decides to reduce road traffic growth to zero, that is to keep road traffic at its present (say year 2000) level by improving rail-based services.

Future traffic task is assumed to reach four times its present level in the year "X4".

Example A

A corridor where rail presently carries 50% of the task:

Year 2000: total task 100 units

Rail task 50 units
Highway task 50 units

Year "X4": total task 400 units

Rail task 350 units
Road task 50 units

Thus rail traffic needs to grow seven-fold to absorb the increasing task without expanding the road system.

Example B

A corridor where rail presently carries 20% of the task:

Year 2000: total task 100 units

Rail task 20 units
Highway task 80 units

Year "X4": total task 400 units

Rail task 320 units
Road task 80 units

Thus rail traffic needs to grow sixteen-fold to absorb the increasing task without expanding the road system.

Example C

A corridor where there is no rail traffic at present:

Year 2000: total task 100 units

Rail task 0 units
Highway task 100 units

Year "X4": total task 400 units

Rail task 300 units
Road task 100 units

Thus rail traffic needs to be established and carry three times the present road traffic task.

Of course it is not certain that rail could totally absorb all task growth, but if governments made it their aim to do so, these examples indicate the implied scope of rail development.

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