THE AUSTRALIAN BLACK COAL INDUSTRY

**Comments by Easton Business Consultants on
Draft Industry Commission Report**

1. OVERVIEW - Transport Infrastructure

(a) p. XXXII

The Report does not attempt to identify the quantum of past and current excess charges, represented by tax in the form of monopoly or mineral rent. As a consequence, the implications for the coal industry currently and in recent years are not clarified. The excesses have been and are, especially in Queensland, such as to impair competitiveness and/or viability and development.

(b) p. XL

The Commission is correct in its reference to complexities and costs of a resources rent tax. However, the real cost to the economy involved in uninformed and discriminatory differential pricing of rail transport on a within industry basis is more costly, distortionary and inequitable.

2. CHAPTER 7 - Coal Rail Transport

(c) p. 152

In the last paragraph, the Report states that "reforms have included .....winding back monopoly prices". As shown in Submission 47, this has not been the case in Queensland, where for many miners aggregate average payments per tonne to QR' have not varied significantly since 1992-93. Therefore the excess of total payments over rail costs has demonstrably varied little. In the light of substantial improvements in QR's efficiency and volume economies the real gap has probably widened.

This gap assumes increasing importance in the light of current economic and market circumstances associated with the crucial Asian developments.

(d) p. 156

It is suggested that the data for hauls of coal over comparable distances in the USA, Queensland and NSW shown in Table 27 of my thesis [p. 141] and repeated in Table 6 of Submission 7 [p. 7] are preferable to the more general BIE data shown in the last paragraph" .

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i Including the royalty element.
ii The BIE figures overstate QR excesses and understate SRA.

(e) p. 158

Frankly, I see no value in Table 7.3. I share the Commission's view that cents per tonne kilometre is an imprecise and misleading method for comparing rates unless distances and conditions are similar. The data in my Table meet these criteria

(f) p. 169/170

Freight rates charged by QR (exclusive of royalty elements) are well in excess of commercial levels[iii]. Reference to p. 5 of Submission 7 will show that operating costs as published by AR in 1991 were close to my cost estimates which indicated heavy overcharges. Costs have probably decreased since then[iv]. Capital charges are not as significant in Queensland as in NSW' . Furthermore, costs of capital and therefore required return on assets have decreased substantially since 1990-91.

(g) p. 180-183

My only comment is that reference to Freebairn's views in support of historical cost valuation of rail infrastructure, quoted at page 9 of Submission 47, may be appropriate. Of all economists, Freebairn is, in my view, the most knowledgeable on coal rail transport.

The commission's conclusion on nominal / real rates and their application to historical / replacement asset values is timely. Some public corporations do not recognise this self-evident truth, or ignore it for other reasons.

3. GENERAL

It is surprising that the Report does not refer to the importance of ensuring equitable division between supplier and user of cost-benefits flowing from greater productivity. The capped (CPT minus x) approach is an imperfect tool. A preferable method adopted by the ICC is discussed briefly at pages 21/22 of Submission 7 and, in greater detail, at page 138 of my thesis.

I note that the Commission addresses the lack of transparency which has been a bad feature of coal rail charging in the past.

iii See pages 3/5 of Submission 7.

iv As a result of greater efficiencies, technological improvements and volume economies.

v Volume economies.