

**Australasian Railway Association Inc.**

**Submission to the Productivity Commission's Inquiry  
into National Competition Policy Arrangements**

**9 August 2004**

# **ARA Submission to the Productivity Commission's Inquiry into National Competition Policy Arrangements**

## **Introduction**

In 2003 the rail industry contributed \$5.3 billion in value to the Australian economy. The industry provides jobs for over 41,000 employees directly. Further economic value and jobs are provided in the support industries, such as rollingstock manufacture, track and equipment suppliers and the tourist sector. Significant parts of this workforce are employed in regional Australia.

Rail offers a significant cost benefit, for example rail moves inter-capital city freight for a cost of 3.6 cents per net tonne kilometre compared to a cost of 6.3 cents for road.<sup>1</sup> Rail as a passenger transport service offers very significant savings over the increasing costs of accommodating private metropolitan car travel. Rail can also contribute to the urban planning environment through its requirement for a much smaller land take for developing new infrastructure.

In addition rail offers significant benefits in reducing the costs of accidents, environmental damage and congestion.

## **Background**

The ARA specifically wishes to address the following terms of reference:

“4 b) at the Australian, State and Territory level, areas offering opportunities for significant gains to the Australian economy from removing impediments to efficiency and enhancing competition, including through a possible further legislation review and reform programme, together with the scope and expected impact of these competition related reforms.

5a) to focus new review and reform activity on areas where there is clear evidence of significant potential gains, in particular where clear gains are possible in Australia's international competitiveness, in the efficiency of domestic markets or for Australian consumers; to ensure possible reform activity considers appropriately the adjustment and distributional implications and its contribution to achieving other policy goals.”

The introduction of competition policy to the rail industry has resulted in the adoption of the “vertical separation” model on large parts of the Australian rail network. Freight rail

---

<sup>1</sup> Rail and road costs, unpublished ARA research undertaken by Port Jackson Partners 2004

operations have largely been privatized, the main exception being Queensland Rail. In addition, some public transport operations have been franchised.

Intermodal rail freight primarily competes for business against the trucking industry and to a lesser extent coastal sea trade. Hire and reward bulk freight is subject to internal rail competition with, in some cases, narrow margins. On some parts of the rail network there is no alternative mode of transport. Rail passenger transport competes primarily against private car travel and the bus and taxi industries.

The size of the market and the scope of competition from other modes will continue to see the number of major rail freight operators limited to 2-3 on the major inter capital city routes. This could be supported by a range of niche operators, providing either specialist services or dedicated bulk haulage although competition would be limited by the quality of the infrastructure compared to alternative modes.

The current vertical separation model applied to some regional networks may not be sustainable, particularly where volumes are low. This is because of the added costs imposed by the creation of a disconnect between above and below rail investments and operations.

The Auslink process is a significant step towards providing for a multi-modal planning and investment strategy that will improve rail competitiveness through creating certainty in the level of track integrity and contribution to ongoing track infrastructure upgrading resulting in an increase in investment in train operations, i.e. rollingstock, terminals etc. However, some infrastructure is covered by either Auslink or current State/Territory investment programs.

## **Further Reforms**

To alleviate impediments to efficiency a range of further review and reforms are needed. These include:

- Access pricing
- Industry structure on non-competitive parts of the rail network (in particular regional grain lines)
- Regulation
- Public transport and Government Owned Enterprises

## ***Pricing***

Generally access pricing for rail is based on what the market will accept where strong intermodal competition exists. In recent years prices have, on parts of the network, reduced in real terms. The relationship between access pricing in a commercial environment, overall industry operating costs, investment in track and cross modal competitiveness needs review to ensure long term sustainability of the network and a degree of surety of pricing to foster investment in train operations.

The ARA supports an early review of surface transport pricing. The review needs to consider a broad range of issues recognising the competitive environment that land transport operates within, and the different modal costs structures, including the need for track owners to meet/contribute to the costs of infrastructure and provide returns to shareholders.

### ***Regional grain lines***

Regional rail networks move the majority of Australia's rail freight and play a significant role transporting goods for export markets. Currently there is no national strategy to manage investment in this critical infrastructure. While in some cases regional strategies exist this does not allow a national response to significant customers, such as the Australian Wheat Board.

Several of Australia's current regional networks, primarily those handling agricultural exports, are at risk of failure, a maintenance backlog and irregular income streams threaten the capacity of the industry to meet customer requirements and in some cases the long term viability of the track is questionable. In the past much of the grain crop was moved by subsidized government owned entities.

If market failure is to be avoided urgent planning is required to consider options for the medium to long term movement of grain. Planning needs to take into account the most efficient options; recognising that this is not a highly competitive sector of the freight market.

Issues relating to transport modal options and costs incurred by different levels of government should also be factored into any review. There is an argument that the movement of grain should be exempted from competition policy under the public interest test.

### ***Regulation***

Industry efficiency and safety is impeded by the multiplicity of regulatory frameworks. The most critical of these is the safety regulatory arrangements but also access regulation, occupational health and safety regulations and environment regulations.

A single safety regulatory framework based on co-regulation would bring certainty to the industry. Co-regulation is where the industry's self-regulatory processes are recognized and prescriptive Government intervention minimized. Harmonised rail regulation and standards makes rail more attractive to financiers in terms of residual value and risks. It would also assist industry with securing competitive insurance rates.

The multiplicity of regimes imposes costs on the industry in order to meet the differing state requirements; it also mitigates against the establishment of a strong national rail safety culture and imposes opportunity costs through duplication of paperwork.

In association with a national safety regulator a single national incident investigator would also improve efficiency by reducing investigation costs, and ensuring national outcomes to improve safety.

### ***Public Transport and Government owned entities***

There are a number of reforms that would assist in improving the efficiency of public transport and reduce government costs. Further review is needed to assess the potential benefits that could be derived from such issues as a review of the current fringe benefits tax arrangements, adopting of a national approach to the provision of public transport allowing for greater uniformity in operations and equipment, and sharing of technology for example the adoption of a single communication and train control technology.

The options for increasing competitive tendering for commercially viable aspects of government owned enterprises is also an area warranting review.

### **Summary**

While competition policy has contributed to significant improvements in some aspects of rail operations such as inter capital city intermodal freight, other aspects of the network have not benefited and if review is not undertaken market failure could occur, such as on regional grain lines.

The significant efficiency improvements in the industry would also benefit from a broader microeconomic reform agenda addressing such issues as access pricing to improve the competitive arrangements between surface transport providers, and the streamlining of regulation to reduce costs and enhance efficiency.

Contact Officer: Kathryn Rayner  
Manager, Policy  
0400 377 715