

**Response to the Productivity Commission's
Discussion Draft on the
“Review of National Competition Policy Reforms”**

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Introduction

The ARA provides the following comments on the Productivity Commission's Discussion Draft "Review of National Competition Policy Reforms" dated October 2004.

The ARA's comments are specifically in response to the following recommendations made in the Discussion Paper:

"COAG should sponsor the development of a longer-term strategy for achieving a national freight system that is neutral across transport modes.

As an immediate priority, COAG should sponsor the development of a national reform agenda for the rail sector that integrates current work in this area and establishes clear timelines for the implementation of reform.

COAG should commission an independent national review of the passenger transport sector to assess the impacts of recent reforms and determine what is now required to deliver further performance improvements in both urban and regional areas."

In summary the ARA strongly supports the above recommendations. There is considerably more that could be achieved in the transport industry with a targeted reform agenda. There is scope to improve competition between modes, provide better transport services to users, and position the industry for the future.

Currently governments do not have a single clear vision of the role of transport in Australia or the direction in which they wish transport networks to develop. Policy tends to consider modes in isolation resulting in different policy levers being used differently across modes. This often distorts and corrupts efforts to generate viable competition within the transport industry.

There is also a lack of recognition that competition policy cannot be a one size fits all solution. For transport to be effective solutions for inter-capital city networks will be different to those for regional networks likewise transport of intermodal freight is different to bulk, indeed mineral bulk is different to agricultural bulk. These differences are often associated with the competitive arrangements between modes and the commercial maturity of the industries for which rail provides transport services.

Transport policy lacks an integrated approach linking governments transport, social, environmental, land use and urban development objectives.

Furthermore, the concept of providing and funding modal choice is naïve and does not reflect investment capabilities. Some state governments have already started to articulate transport policies that establish modal share as a way of managing the broad range of government responsibilities, and targeting investment to deliver against those responsibilities.

National Freight System

To optimise the effectiveness of rail and to best meet the demands of the projected freight task a national freight strategy is essential. The strategy would need to focus on the best economic, social and environmental outcomes achievable from the respective transport modes and have a strong focus on improving the intermodal relationships. The strategy needs to include future port planning. Given the lead time to build land transport infrastructure a national port strategy has to be integrated into the planning process for road and rail infrastructure including terminal facilities.

While Auslink goes some way to providing a more sustainable approach to investment the program is primarily focussed on the inter-capital city networks and does not necessarily include the broad range of regional freight networks or sufficiently cover the urban interface issues.

Rail provides the most economic way of moving freight on the inter-capital city network compared to road (Attachment A) however this does not translate into modal share or provide on some sectors, notably the east coast North South corridor, the level of service expected by customers.

There are a number of reasons why rail does not attract the market share that you would expect given its underlying economic performance. These include investment levels in track infrastructure, access and pricing regimes, safety regulation, and a range of above and below rail interface issues.

Investment

Investment in rail track has traditionally been based on the tattsлото principle, this not only mitigates against effective strategic planning to meet customer needs but also does not foster an environment where above rail operators are confident to invest. While the Auslink Funding, (noting that some of the funding is ARTC borrowings) will assist in redressing the maintenance deficient on the inter-capital city corridors there are no plans to adopt the same approach to regional freight networks, in particular grain lines.

The investment in, and management of, regional grain line needs urgent attention if rail is to continue to move grain ([Attachment B](#)). A combination of under investment and the application of competition policy has dramatically reduced the viability of moving grain by rail. There are options for addressing this taking a multi modal approach to transporting grain through identifying the best modal options for different scenarios and changing the approach to establishing competition within the total land transport sector.

For rail to improve its modal share potential customers need to be convinced of the long term viability of using rail services to justify the switching costs associated with changing modal use.

Access Regimes

There is a concern about the continuing divergence of access regimes and the tendency for each jurisdiction to review their regimes independently. Over time the divergences may lead to such differences that the administrative costs to industry will continue to increase.

There is often limited rationale for regulators to adopt different practices. The ARA would support a more national approach to the development, management and review of access regime to ensure that competition principles are achievable and administrative costs contained.

Pricing

Current government policy is that each mode should be able to function at their optimum level allowing for a market driven modal choice for transport customers. However, this policy is not supported by the required level of investment in infrastructure needed to allow for modal choice. In addition, a range of government policies build in distortions that mitigate against the rail industry being able to function optimally. One key distorting policy is that of land transport pricing and the relationship between pricing and investment.

While views diverge on the degree of subsidisation of the road freight sector the National Transport Commission (NTC) itself recognises that there is currently under recovery of B-doubles and road trains. This is the sector of the road industry that competes directly against rail. Furthermore the basis of road pricing is fundamentally different to rail. Road pricing seeks to recover the cost of expenditure on roads (excluding tollways) based on an averaging methodology. The cost recovery is retrospective in application so lags the current expenditure. It does not cost recover road wear or specifically charge for mass or distance.

Rail pricing is forward looking and seeks to recover full economic costs including depreciation and return on assets. Essentially rail has a commercial approach to pricing as opposed to road which is more of a public benefit analysis ([Attachment C](#)).

The different approaches impact on the investment environment. Rail cannot meet the full economic costs through pricing but rather has to peg prices to the road sector. This raises issues about how the revenue shortfall is to be met to allow for future investment. If it is not met what is the investment environment for above rail investment?

Alternatively, if prices do increase what are the impacts on above rail commercial viability? The failure of rail in many corridors/networks to be able to effectively charge for the full economic costs is resulting in an uncertain investment environment due to uncertainty over track quality and sustainability. While there are indications that the Auslink investment program will assist, it does not address the pricing uncertainty or cover regional networks.

The impact of cabotage, in particular the use of single voyage permits is also impacting on modal share for a variety of reasons. Overseas ships being able to price at marginal rates will further distort the land transport pricing framework.

Social and Environmental outcomes

Rail as a mode of transport offers significant social and environmental benefits, these include, relieving road congestion, less greenhouse gas emissions, less accident costs, smaller land take (Attachment D). However, none of these social and environmental benefits deliver a return to the industry. Transport customers do not pay for the externality costs associated with their choice of mode and the benefits of rail are not factored into road and rail investment decisions. For example, the cost impacts on the national health bill of injuries sustained in accidents is not paid for by either the transport sector or its customers.

ATSB figures show that in the period 1925 to 2002 169,458 people died as a result of road fatalities this compares to 189 rail fatalities for the same period. For the five year period 1998-2002 rail accident accounted for 2% of all transport fatalities with road accounting for 93.5%. The ATSB also estimates that in 1996 Australia's road accident costs were in the order of \$15 billion compared to rail accident costs in 1999 of \$196 million. Furthermore, ATSB data shows that rail passenger fatalities are trending down reflecting the effort the rail industry has put into ensuring that our safety record is continually improving.

Australia's rail industry safety record compared with OECD countries shows our downward accident trend is also reflected in one third of OECD countries and our accident rate of 1-3% compares favourably with the two thirds of OECD countries who have an accident rate not exceeding 5% in any one year.

For significant improvement in the social and environmental impacts of transport there needs to be some mechanism for the costs to be factored into the choice of mode. Externality charging is one option.

National reform agenda for rail

Rail would benefit from its own reform agenda. The ARA sees this as a joint government industry agenda that covers the inter-capital city network, regional networks and passenger transport.

The focus should be on the further commercialisation of the industry, realistic approaches to competition and an agenda to meet customer expectations in terms of service levels, reliability and safety.

More specifically the reform agenda should focus on:

- Establishing sustainable investment frameworks;
- Development of long term strategic below rail infrastructure plans that are funded;
- Reduction in regulatory costs and inconsistencies, in particular safety but also including access, OH&S and environment regulations;
- Improved interface management between above and below rail operations;
- Technological advancement - particular in the area of train management and early detection of track and rollingstock maintenance requirements; and
- Strategies to meet customer requirements.

Passenger transport

The recommendation on passenger transport is welcomed and the ARA sees a clear role for COAG in identifying the need for further reforms in the sector.

The ARA fully supports a more multi-modal approach to passenger transport and in conjunction with the Bus Industry Confederation and the International Public Transport Association (UITP) has formed a passenger transport alliance. The Alliance is currently developing a work program identifying areas for reform.

Given the cost of providing passenger transport and the range of pressures being placed on transport services, such as ageing demographics, internal migration trends, customers expectations on service levels, there would be clear benefits in viewing the industry as a national industry. The ARA is of the view that harmonisation of operational practices and collective purchasing of equipment are just some of the options to improve the investment return in the passenger transport sector. Further options for commercialisation should also be explored.

The Alliance in its work plan is seeking to identify issues where an industry government approach is needed in addition to a range of actions that the industry itself can pursue. For rail this includes further harmonisation of operational and engineering practices.

The current transport portfolio responsibility for passenger transport does not easily allow for good integration in achieving government objectives in respect of land use planning,

urban development requirements or environmental and social objectives. Nor does it allow for consideration of Commonwealth taxation issues that could be used to foster greater use of public transport.

Summary

The rail industry is not suffering from reform fatigue but sees significant opportunities for further reform. A major reform agenda is currently being pursued within the industry on a number of fronts but for real optimisation of the mode significant government reform is needed.

Strategic planning for transport across modes for both freight and passenger movements is the key headline reform issues.