AUSTRALIAN RAIL, TRAM AND BUS INDUSTRY UNION

SUBMISSION ON THE DRAFT REPORT "WHEAT EXPORT MARKETING ARRANGEMENTS"
PREPARED BY THE PRODUCTIVITY COMMISSION, MARCH 2010

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EXECUTIVE SUMMARY

The Australian Rail, Tram and Bus Industry Union (RTBU) is a federally registered trade union that represents employees employed, inter alia, in or in connection with the rail industry. In that regard, the RTBU has, as members, employees who work in the transport of wheat by rail and in the maintenance of the rail infrastructure that facilitates the transport of wheat by rail. Accordingly the RTBU has a direct interest in any matter that considers the current operation and future direction of the transport of wheat by rail.

The draft report by the Productivity Commission on "Wheat Export Marketing Arrangements" sets out to essentially review the marketing arrangements post the abolition of the "single desk" system. However, as part of that review, the Productivity Commission has been called upon to address the issue of the transport of export bound wheat from the farm gate to the port. It is this part of the Productivity Commission's task that the RTBU submission is particularly focused.

The role of rail transport in the movement of wheat has been the subject of a lot of attention in recent years. The RTBU is concerned that much of it has been negative; that rail transport is increasingly unable to compete with road transport in the market place for the transport of wheat. Whilst rail has been and currently is the predominant mode of transport for the movement of wheat for export it has come in for increasing criticism in recent years. Our reading of the draft report by the Productivity Commission leads to a conclusion that it adopts an unduly pessimistic view of the future of rail in the transport of wheat.

The RTBU does not share this view and in this submission elaborates on why it adopts that position. Essentially there are two key points. Firstly, to the extent that competition is seen as the determinant of an efficient industry it is argued that the debate about the relative efficiency of various modes fails to take full recognition and account of the various cost factors that flow from the transport task. It is our submission that when such recognition and account occurs the position for rail is more positive. Secondly, it is submitted that the nature of the transport task in a country like Australia is such that the notion of competition as the engine room of economic efficiency is not an accurate one. In our view this helps to explain the establishment of such institutions as Infrastructure Australia by the Federal Government.

As the draft report adopts, in our submission, too narrow an approach to the question of an efficient transport system for the haulage of wheat for export, the RTBU calls on the Productivity Commission to take into account the points made in this submission when considering its final report.

INTRODUCTION

The Australian Rail, Tram and Bus Industry Union (RTBU) welcomes this opportunity to make a submission to the Productivity Commission (PC) on its Draft Report into Wheat Export Marketing Arrangements (the "Draft Report"). Whilst much of the draft report focuses on the structure and operation of the marketing arrangements for export wheat as a consequence of the system put in place following the removal of the "single desk" arrangements, it also addresses issues going to the transport, storage and handling of wheat for export. This is consistent with the terms of reference which, inter alia, require the PC to inquire into:

"the effectiveness of, and level of competition existing under current arrangements for the transport, storage and distribution of wheat in contributing to a sustainable supply chain from farm gate to export load port."[1]

It is to this part of the report that the RTBU's attention will be primarily focussed.

The RTBU is a federally registered trade union, registered pursuant to the Fair Work Act 2009. The union has a national membership of 33,000 members spread across all of the states and territories. A significant number of RTBU members are employed in the transport of wheat by rail. For example, the RTBU has members employed by major freight operators who are involved in the movement of wheat for export. These include corporations such as Pacific National (PN) and the Australian Railroad Group (ARG). Further, the RTBU has as members, employees of corporations involved in the maintenance of rail infrastructure used for the transport of wheat for export. These include corporations such as the Australian Rail Track Corporation (ARTC), Transfield and John Holland Ltd.

In these circumstances it follows that the RTBU has a direct interest in any consideration of the transport of wheat for export by rail. The jobs and welfare of many RTBU members and their families depend on a continuation of the transport of wheat by rail. Further, given that many of these jobs are located in regional and rural Australia, there is a far greater difficulty in finding alternative employment and in particular, comparable alternative employment in the event of a diminution of the proportion of wheat for export transported by the rail industry.

Historically, the movement of wheat from silo to the port for export has been dominated by rail transport. And certainly rail still plays the dominant role today. However, this situation has begun to change. For a variety of reasons, there has been a steady movement towards road transport. According to the draft report this situation is likely to continue and to

[1] Productivity Commission, WHEAT EXPORT MARKETING ARRANGEMENTS: DRAFT REPORT, Productivity Commission, Melbourne, 2010, p.v

accelerate.[2] Indeed it is our submission that the position adopted by the PC is likely to lead to that outcome. The prevailing neo-liberal economic orthodoxy that underpins the economic analysis in the draft report presents an unduly pessimistic outlook for the role of rail in the transport of wheat for export. In particular it adopts narrow criteria for comparing road and rail from a “competition” or “cost” perspective whilst adopting an optimistic position on the role that competition can play in ensuring the efficient transport of grain for export.

This submission by the RTBU focuses on a critique of the draft report’s position on the transport of wheat for export. In that regard the RTBU will submit that the draft report’s position is partial at best. The RTBU will submit that, upon a broader and more relevant analysis, a far more optimistic for rail presents itself and one that is more consistent with some other contemporary reports than have recently addressed this important issue.[3]

Before presenting a critique of the draft report, this submission seeks to address the problem of the absence of reliable, timely and appropriate data on transport issues and in particular transport by rail. It is trite to say that such data is critical to any reasonable analysis of rail transport. Unfortunately however, such is not the case as we shall see. This problem needs to be addressed. In the meantime, account needs to be taken of this limitation.

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[2] Ibid. P. Xxxi, chapter 6

[3] See for example Strategic design + Development Pty Ltd., REPORT PREPARED for FREIGHT and LOGISTICS COUNCIL of WA on behalf of the STRATEGIC GRAIN NETWORK COMMITTEE, Strategic design + Development Pty Ltd., Sydney, December 2009. Department of Infrastructure, Transport, Regional Development and Local Government, NEW SOUTH WALES GRAIN FREIGHT REVIEW, Australian Government, Canberra, September 2009

THE DEARTH OF DATA

In a recent submission to the House of Representative Standing Committee on Economics, the RTBU had the following to say on the definition of productivity as applicable to the rail industry:

"In the rail industry there is no broadly accepted measurement of productivity. We are aware that figures such as net tonne/kilometres and the number of passengers are used as proxies to indicate growth in freight and passenger movements. .... The RTBU submits that the measurement of productivity growth is inadequate for the purpose[*of measuring productivity]* and that the Committee should recommend an appropriate measurement be developed."[4]

The House of Representatives Committee has yet to report. It is unfortunate that such an important concept is shrouded in a lack of clarity and efficacy.

Further, there is, overall, a general lack of data. This was recognised in 2004 when a committee established by the Australian Transport Ministers Council (ATC) published a report recommending the development of relevant statistics and data.[5] Yet, two years later, the Productivity Commission stated:

"However, there is a paucity of information on the potential for productivity gains stemming from reforms in road and rail infrastructure."[6]

Ironically, at a time when structural change in the market place demands a greater collection and dissemination of information and data, the opposite has been the case. A study by the Bureau of Transport and Regional Economics has found:

"Following the growth in private trains since the mid-1990's and the privatisation of the National Rail in 2002, rail freight activity data has become increasingly scarce."[7]

In this context the ATC report observed a tension between public access to information and the notion of "commercial in confidence" so often used by corporations to justify a refusal to publicly release relevant information on their corporate activities. This situation caused

[4] Australian Rail, Tram and Bus Industry Union, OVERVIEW PAPER ON PRODUCTIVITY IN THE AUSTRALIAN RAILWAY INDUSTRY FOR HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS INQUIRY INTO RAISING THE LEVEL OF PRODUCTIVITY GROWTH IN THE AUSTRALIAN ECONOMY, Australian Rail, Tram and Bus Industry Union, Redfern, November 2009, p. 3

[5] Australian Transport Council, NATIONAL TRANSPORT DATA FRAMEWORK, Australian Government, Canberra, November 2004

[6] Productivity Commission, POTENTIAL BENEFITS OF THE NATIONAL REFORM AGENDA, Australian Government, Canberra, 2006, p.101

[7] Bureau of Transport and Regional Economics, FILLING THE GAP IN RAIL DATA: AN INVESTIGATION OF THE GHERINGHAP LOOP TRAIN SIGHTINGS, Information Paper No. 57, Australian Government, Canberra, 2007, p. iii

the RTBU to inform the House of Representative Standing Committee on Transport and Regional Services in 2005:

"The RTBU's experience with privatisation has been that transport data and rail asset conditions are not published. An examination of the annual reports of Wesfarmers, Toll or Patrick's reveals very little information of substance is made available about their railway operations. In fact there is significantly more information available in the US annual report of Wesfarmers joint venture Genesee Wyoming because US company disclosure requirements are more rigorous."[8]

The concern about the lack of data can be found across the rail industry. In 2008 a Senate Committee stated:

"The committee heard consistent evidence from witnesses and submissions of inadequate data, making it difficult for stakeholders at operational, policy, funding and administrative levels to make properly informed decisions and plans or sometimes any decisions and plans at all."[9]

The Committee went on to say:

"The committee also heard evidence about data gaps from transport industry operators, who explained the effect such information gaps can have on business and planning decisions. For example, the South Australian Freight Council stated that the lack of information about current and future employment within the industry is a key challenge in understanding and rectifying skills shortages while the Australian Logistics Council described some of its own data collection activities and the need to expand on these to show variation in workforce situations:..."[10]

The draft report contains a chapter on "information provision" Unfortunately, however, it is restricted to information about the market in the sense of the supply and demand for export wheat. The draft report does not address the need for an improved data base that will enhance considerations of the "efficiency" and other factors associated with the movement of export wheat by rail. In the absence of such data any analysis will have its inadequacies. It can be seen that much ink has been spilt criticising the lack of an adequate data base, yet little has been done to constructively address the criticisms. It would be of benefit if the Productivity Commission added its voice (again) to advocating for the

[8] Australian Rail, Tram and Bus Industry Union, SUBMISION TO THE HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON TRANSPORT AND REGIONAL SERVICES INQUIRY INTO INTEGRATION OF REGIONAL RAIL AND ROAD NETWORKS AND THEIR INTERFACE WITH PORTS, Australian Rail, Tram and Bus Industry Union, Redfern, December 2005, p.8

[9] Senate Employment, Workplace Relations and Education Committee, WORKFORCE CHALLENGES IN THE TRANSPORT INDUSTRY, Australian Government, Canberra, August 2007, p.75

[10] Ibid. pp. 76-77

development of that data base. Such a data base can only be of advantage to the community.

THE LAND TRANSPORT OF WHEAT FOR EXPORT

As noted earlier, the RTBU submits that the draft report adopts a somewhat pessimistic position on the role of rail in the transport of wheat to the port for export. The RTBU recognises that there is an important role for both the road and rail industries in the transport of wheat; that it's not a position of one or the other. The RTBU also recognises that in some cases certain branch lines are so run down as a consequence of years of neglect that the chances of rejuvenation are negligible and in that case the transfer of the transport of wheat from rail to road is inevitable there being no alternative.

The RTBU submits however that the future of rail in this market should be brighter than that portrayed by the PC in the draft report. The draft report is based on too narrow a reading of the factors that should be taken into account when considering the appropriate mode of transport of goods and commodities. In that regard the draft report reflects an unfortunate bias against the rail industry.

This submission addresses that critique.

The Transport of "Bumper Crops"

No better example of this "bias" can be seen with the position adopted for the transport of wheat during a "bumper" season and where the demand for wheat by foreign customers is high. In other words, how will/should the excess quantity of wheat relative to that produced in a "normal" season.

In commenting on this situation, it should be seen in the context that many in the wheat industry have a preference for transport by rail. As the draft report states:

"Many participants were also of the opinion that rail is better equipped to transport wheat than roads because it can move wheat faster, has less impact on local amenity and is more environmentally friendly than using trucks."[11]

This is not a view that appears to find much support from the authors of the draft report when it comes to dealing with the issue of transporting the additional wheat produced in a "bumper crop". As it says:

"Although rail might be better equipped to deliver grain to ports (in terms of technical efficiency), this does not mean rolling stock capacity should be increased to meet peak demands."[12]

The draft report is critical of increasing rolling stock to handle the additional tonnages of wheat on the grounds that it will lead to excess capacity in rail wagons and that is has an

[11] The draft report, op. cit. p.205
[12] Ibid. p. 206

opportunity cost in that any requisite investment could be better spent elsewhere e.g. coal. Excess demand should be dealt with by "alternative logistic chain solutions"[13]. Two examples are given – differential pricing for peak demand and an increase in the use of road transport.

When it comes to the latter – an increased reliance on road transport – the draft report notes that most port terminals for export wheat are designed for the receival of wheat by rail rather than road. In other words, there is, at present, insufficient infrastructure to facilitate a straightforward increase in the use of road transport to absorb the increased demand. The solution, according to the draft report is to "improve the efficiency of port receival facilities (by trucks)..."[14]

In other words, where there is an increase in the demand for the transport of wheat for export, the solution according to the draft report is increased road transport. The reason for rejecting rail transport – the creation of excess capacity and the cost of investment – appears to present no barrier when it comes to addressing road transport. Funds should not be expended on expanding the rail wagon fleet but it is acceptable to expend funds on expanding the capacity of the port terminals to receive wheat by road. The draft report fails to address the important issue of why reasons for rejecting a rail solution appear to present no problem when it comes to a road solution.

The RTBU submits that the position adopted in the draft report does not resolve the issue of excess capacity. It simply transfers it. Indeed, where any transport infrastructure is designed to deal with periods of peak demand, excess capacity at a time of normal or subdued demand is inevitable. In the case presented in the draft report any excess capacity will exist with road transport infrastructure rather than rail. Further, the draft report suggests that rather than enhance the already existing infrastructure in the port terminals by expanding rail capacity, investment should be made in a mode of transport that the port terminals were not designed to facilitate.

The position adopted in the draft report also implies that there is a sufficient excess supply of trucks to take up the additional demand during a "bumper season". There is, however, no evidence that this is the case on an ongoing basis. It also begs the question about the capacity of the current truck fleet to simply put on hold what it is currently doing to spend a relatively short period of time transporting wheat.[15] In that regard, it needs to be kept in mind that it is predicted that the freight transport task will double in the first 20 years of this

[13] loc. cit.
[14] Ibid. p.207
[15] This also assumes that the truck operators have the requisite trailers to haul grain.

century.[16] The draft report appears to simply assume that the number of trucks will expand to take up the necessary work no matter how seasonal or periodic it may be.

The notion that road transport is flexible enough to adapt to changes in the market place regardless of the nature and extent of the change is one that fails to recognise the costs to truck drivers who will be expected to fill the void and meet the additional demand. In recent years the impact on truck drivers of having to adapt to market pressures created by others has come under additional scrutiny. The Transport Workers Union, for example, has been continually frustrated with the situation of drivers being compelled to take risks to their occupational health and safety to meet tight schedules so as to make a reasonable wage. This has led to its “safe rates” campaign which advocated that truck drivers be released from the pressure to meet unreasonable and unsafe time frames in order to make a reasonable income. The National Transport Commission released a report in 2008 on these problems in the road transport industry.[17] In December 2009 the Federal Government established a tripartite Safe Rates Advisory to address the problems in the road transport industry.[18] It is not acceptable that persons who make a living driving a motor vehicle pay the price for the cheaper movement of goods and commodities by road. This position is not mentioned in the draft report.

The position taken in the draft report can be contrasted with that in the recent review of the NSW grain supply chains. That report states:

“Both surge demand and bumper supply require additional logistics resources. The simple solution of investing in additional rolling stock is considered to be unlikely – at least as a response to short term peaks. However, the capacity of the grain rail transport system is not rigidly fixed. Discussions with the Task Force suggest that there are a number of strategies that could be employed to handle peak grain production. These include:

- Ensuring that there are no restrictions on 24 hour rail operations into port terminals
- Improving the rate at which grain can be outloaded from rail at Newcastle
- Refining operations to maximise the number of train paths available at critical points in the network

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16 Department of Transport and Regional Services, AUSLINK WHITE PAPER, Australian Government, Canberra, June 2004, p.4

17 National Transport Commission, ADDRESSING THE UNDERLYING CAUSES OF UNSAFE PRACTICES IN THE ROAD TRANSPORT INDUSTRY, National Transport Commission, Melbourne, October, 2008. See also, Quinlan M., & Wright L., REMUNERATION AND SAFETY IN THE AUSTRALIAN HEAVY VEHICLE INDUSTRY: A REVIEW FOR THE NATIONAL TRANSPORT COMMISSION, National Transport Commission, Melbourne, October 2008

18 Gillard J., MEDIA RELEASE: ESTABLISHMENT OF THE SAFE RATES ADVISORY GROUP. www.deewr.gov.au/Ministers/Gillard/Media/Releases/Pages/Article_091215

- Harmonising technical and safety standards between the states to facilitate the relocation of equipment

The introduction of peak period pricing on rail could also help to smooth demand within the year."[19]

Clearly there are rail based solutions that go beyond simply increasing the rolling stock. Further the Grain Freight Review does not rule out altogether the solution of increasing the rolling stock but rather regards it as having limitations. It is unfortunate that the draft report chose not to cast its net wider in its considerations of the role of rail in the transport of wheat for export.

Infrastructure Costs/Charges

Whilst the draft report calls for the application of "cost-benefit analysis" in determining the appropriate transport system for transporting grain for export, the RTBU submits that the pessimistic outlook for rail transport adopted in the draft report reflects a failure to take into account all the factors necessary for reaching a proper conclusion. In that regard a number of issues going to the impact on roads of increased road movements of wheat are worthy of consideration.

The recent report on wheat transport in Western Australia states:

"Excessive costs are being incurred by local governments to maintain a very large number of roads on which grain trucks are currently allowed to operate under permits issued by Main Roads WA."[20]

The recent report on wheat transport in New South Wales states:

"Indiscriminate use of roads by heavily laden road vehicles imposes a heavy burden on local government and communities."[21]

The NSW report goes on to say:

"Local councils are not well placed to handle the inevitable increase in road costs."[22]

The report also notes that the impact on road costs does not only apply to those roads in the immediate vicinity of the wheat crop:

"To the extent that additional trucks spread out across the network, using a wide variety of roads of varying standard, the costs to the road system are likely to increase significantly.

[19] NSW Grain Freight Review, op. cit. p.62
[20] WA Grain Report op. cit. p. 10
[21] NSW Grain Freight Review, op.cit. p.11
[22] Ibid. p.12

This is particularly likely where closure of a branch line leads to a redirection of grain into different markets.

For instance several Task Force participants expressed the view that, should the Weemelah-Moree line be closed, grain currently exported through Newcastle would be redirected north across the Queensland border, either into the domestic market in southeast Queensland or for export through the port of Brisbane. This would involve a significant additional load on local roads that are poorly equipped to cope with it."[23]

The NSW Report is also critical of the notion of a "user pays" approach in current circumstances. In that regard the NSW Report states:

"Moreover, it is far from clear that a full "user pays" approach would produce the desired result and avoid increasing significantly the volume of grain carried by road. There are manifest imperfections in the current system of charging for road services. The recent Productivity Commission (2006) report on freight infrastructure pricing has indicated that at a system-wide level, there is no systematic under-recovery of road costs from road users. However, transport decisions are made at the local rather than the system-wide level. The balance between the cost of road use by heavy vehicles and charges levied for that use vary greatly from road to rail. Adding 100 additional trucks per day to a low standard, lightly trafficked rural road is likely to lead to a significant increase in road costs – whereas adding a similar volume to the Hume Highway between Berrima and Goulburn would increase costs by much less. Most of the roads would experience significant increases in heavy vehicle traffic if the grain lines were closed fall into the former category."[24]

It is interesting to note that as a consequence of changed marketing arrangement for export grain as a result of the disbandment of the single desk there has been a move in rail transport to what is termed "site based pricing". In the past the rail freight charge was the same regardless of the actual cost whereas under the new regime charges can reflect the actual cost on transport wheat by rail in the particular line in question.[25] In other words, to the extent that actual costs varied across the different rail lines, a degree of cross-subsidisation occurred The removal of this cross subsidisation is seen by the authors of the draft report as a positive thing as it reflects the true cost of the system. To that end:

"This will lead to greater efficiency in the supply chain, as inefficient transport options become unviable and growers respond by seeking more efficient routes."[26]

On the other hand, when it comes to some cross subsidisation in the distribution of road costs the report does not make such criticisms other than to recognise that it exists.

[23] Ibid. p. 37
[24] Ibid. p.40
[25] Draft Report, op. cit. pp.189-191
[26] Ibid. p. 191

The draft report gives some consideration to road costs. It argues that it is "generally agreed" that road recovers the economic costs of it provisions although it concedes that the "estimated costs of provision might be conservative."[27] This is hardly a ringing endorsement about cost recovery for roads. Firstly the reference to it being "generally agreed" implies that there is no consensus on this point. Secondly, it concedes that even where it is "generally agreed" what is agreed may not be an accurate reflection of the actual cost structure. Further, the draft report recognises that a situation exists where "some road networks cross-subsidise others."[28]

The NSW Grain Review report, as noted above, observed the "manifest imperfections" as a result of costs being levied on a system wide basis continues to operate. This situation means that with respect to costs, road transport can enjoy an advantage over rail. On this point, the draft report remains silent. It should be noted here that the RTBU does not have a philosophical objection to cross-subsidisation – in many cases it is an important, indeed critical, economic and social tool. The problem here is that is that the draft report appears to adopt a different position on its application to the different modes of transport

Further, as the earlier quotes in the section of the report connotes, the movement of the transport from rail to road is leading to a significant increase in the cost of maintaining those roads – a cost that is borne largely by local government. It is by no means clear that the actual costs of such changes are being properly reflected. In that case it is simply not possible to compare the relative costs of road and rail in the transport of wheat for export.

<u>Externalities</u>

The recognition of externalities in transport is a critical consideration when realising the economic and social costs of any particular transport system[29]. In this regard the RTBU recognises that we are only addressing one component of the overall transport system and that the costs of externalities need to be considered in that context. Nevertheless, costs do exist.

In recent years – not only in transport but generally – the issue of greenhouse gas emissions has become a critical issue of public policy. In that regard, the transport sector is the third largest contributor to greenhouse gas emissions. Within the transport sector road transport accounts for 90% of those emissions as compared to 3% for rail transport.[30] The Australasian Railways Association estimates that one train takes 150 trucks off the road, saves 45,000

[27] Ibid. p. 213
[28] loc. cit.
[29] In this context we do not address the issue of road costs which are addressed elsewhere.
[30] National Transport Commission, FREIGHT TRANSPORT IN A CARBON CONSTRAINED ECONOMY, National Transport Commission, Melbourne, 2008, p.6

litres of fuel and saves 45 tonnes of green house gases.[31] The Total Environment Centre states:

"Emissions from road freight vehicles dominate with 87% of 2006 freight transport emission coming from light commercial vehicles, rigid trucks and articulated vehicles."[32]

The economic and social cost of increasing levels (or even constant levels) of greenhouse gases cannot be underestimated. Certainly the Federal Government does not underestimate them. In a recent report it stated:

"Climate change is the largest and most significant challenge to Australia's environment. If climate change is not addressed, the consequences for the economy, water availability and Australia's unique environment will be severe."[33]

Part of the transport contribution to greenhouse gases comes from traffic congestion in the cities. Further, congestion has economic costs that are over and above the increased level of greenhouse gases. As motor vehicles sit in virtual carpark productivity is adversely affected, fuel is wasted, pollution increases and frustration levels build. Each of these has an economic cost – an economic cost associated with transport by road and an economic cost that can be reduced by increasing the use of rail as the mode of transport. As the WA Grain Report states:

"Rail can be viable if Government meets resleepering costs and its competitiveness will increase as diesel fuel and carbon costs increase in future."[34]

As this quote implies, a broader approach to the cost of transport needs to be taken. It reveals a combination of externalities and direct costs.

Another externality is the cost of motor vehicle accidents. The overall cost to Australia is massive. A recent report by the Bureau of Transport and Regional Economics estimates that in 2006 the social cost of road crashes is $17.85 billion.[35] Whilst the road transport of wheat for export is only a fraction of the overall transport task the point here is to reinforce the view that there are external costs that should be taken into account.

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[31] Australian Railways Association, The Green Paper Completely Ignores Rail, PRESS RELEASE, Australasian Railways Association, Canberra, 20 July 2008

[32] Total Environment Centre, THE CONTRIBUTION OF FREIGHT TRANSPORT TO AUSTRALIAN GREENHOUSE GAS EMISSIONS AND OUTLINE OF STRATEGY, Total Environment Centre, Sydney, 14 July 2008

[33] Australian Government, AUSTRALIA TO 2050:future challenges, Australian Government, Canberra, 2010, p.xvi

[34] WA Grain Report, p. 7

[35] Bureau of Transport and Regional Economics, COST OF ROAD CRASHES IN AUSTRALIA 2006, Research Report 118, Australian Government, Canberra, 2009, p. v

Investment Decisions

The draft report calls for the need to ensure that any future investment "does not 'lock-in' supply chains, and prohibit them from adjusting to the new deregulated environment."[36] With respect to rail this appears to be a recipe for doing nothing with the consequence of making a bad situation worse.

Part of the problem for the rail industry is that it has suffered from a recent history of "doing nothing". Thus we have a regional rail system that has collapsed in places, is on the verge of collapse in other places and the subject of pragmatic patch up work elsewhere. Thus there exist railway lines that still have wooden bridges, railway lines with paralysing speed restrictions, railway lines that can only deal with light axle roads, railway lines with poor ballast and a range of other problems that have manifested themselves in the current problems. As the NSW Grain Review states:

"For many years, the rail branch line network has been deteriorating and contracting through closures. The branch lines currently have (load and speed) restriction on their use due to poor track condition."[37]

On the other hand, as the draft report states, the economics of road transport has been assisted by an increase in the actual technical efficiency of road, an improvement in road infrastructure and an increase in the capacity of road vehicles.[38]

In the current environment the "do nothing" approach does not augur well for the future of the transport of wheat for export by rail.

In contrast the NSW Grain Review states:

"A consistent message conveyed by a wide range of parties was the need for long term planning and certainly in the approach in both State and Commonwealth governments to infrastructure."[39]

The Federal Government has in recent times adopted a more strategic position towards infrastructure based on long term planning. This can be seen in the creation of Infrastructure Australia. As the Government states:

"In 2008 the Government established Infrastructure Australia (IA) as an independent, statutory advisory council to help drive the development of a strategic, national approach to infrastructure planning and investment."[40]

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[36] Draft report, p. 210
[37] NSW Grain Freight Review, op. cit. p. 34
[38] Draft Report op. cit. p.189
[39] NSE Grain Freight Review, op. cit. p. 46
[40] AUSTRALIA TO 2050, op. cit. p. xxi

The requisite infrastructure for the transport of wheat for export – whether it be road or rail – will be expensive and once constructed, is difficult to change. Accordingly it requires a strategy and a plan for the long term transport needs. It cannot sit back and wait for the "deregulated environment" to sort itself out, nor can it adjust easily to whims and fancies of such an environment. Dealing with transport infrastructure is not something that is quick and easy to change.

It is noted that the draft report supports an earlier Productivity Commission report that adopted a position of vertical integration for the regional lines.[41] The report states that competition will not be promoted by vertical separation and given the characteristics of the regional rail networks the benefits of vertical integration outweigh the costs of separation. This, of course, is in the context of private ownership of the vertically integrated operation.

The NSW Grain Review comes to a completely different conclusion:

"To ensure that those who are most likely to benefit from investment in rail track improvement are also those who are in a position to undertake that investment, there is some attraction in vertical integration or privatising the grain rail infrastructure. The Review considered this approach. However:

- multiple users of many sections of the grain rail network make aligning interests through privatisation problematic – and may raise concerns that control of the of the infrastructure stifles the development of competing supply chains;
- previous experience with vertical integration/privatisation of rail infrastructure in Australia and New Zealand has not been encouraging;
- the Task Force discussions revealed substantial doubt as to whether any market participants would have an appetite for acquiring the rail track."[42]

In our submission the statement about vertical integration/privatisation not being encouraging is an understatement. The experience in New Zealand, Victoria and Tasmania were all ultimately unceremonious failures and resulted with the State being compelled to take the infrastructure back under public ownership. For that reason amongst others it is perfectly understandable that the NSW Grain Review recommended that the branch rail lines remain in the hands of the State.[43]

[41] Draft Report, op. cit. p. 198
[42] NSW Grain Freight Review, op.cit. p. 49
[43] Ibid. p50

SOME COMMENTS ON THE EXPORT MARKETING ARRANGEMENTS

The draft report considers the export marketing regime that replaced the "single desk" regime. In doing so, it recommends the eventual abolition of the accreditation system for export marketing corporations and access undertakings by export marketing corporations that also own and operate export grain terminals. The draft report essentially concludes that the cost of administering the accreditation and access scheme is not worth it; that there is no evidence that they have any medium to long term benefit and that alternative ways of dealing with anti-competitive behaviour exist.

This is not a view shared by everyone. Indeed there are a number of industry participants who opposed the abolition of the single desk in the first place.[44] This criticism is extended here to a failure of the draft report to make any comment on the single desk system or to make any comparison between the current system and the one it replaced. In our submission, this criticism has some force. It seems to us that if one wants to judge the effectiveness of a system, a comparison with the system it replaced is not only a logical thing to do but is essential to reaching a reasoned conclusion. The RTBU does not accept the position adopted in the draft report that the timing and scope of the inquiry prevented such a comparison and that advice from the Department of Foreign Affairs and Trade was to the effect that a single desk would not be permissible under rules to emerge from the Doha Round of trade negotiations.[45] On our reading there is nothing in the terms of reference for this inquiry that prevent a consideration of the single desk. Further, what happens in the Doha Round is not to the point. Not only have such negotiations shown a high level of unpredictability but as a means of analysing the current arrangements, what is happening in the Doha Round is simply irrelevant.

A further criticism of the inquiry goes to its capacity to form a reasoned judgement of the new system given that it has only operated for one grain season and in that case it was an unusual season that produced a bumper crop.[46] In our submission this criticism also has force. Whilst it is true that the PC did not determine the timing of the inquiry, it nevertheless has the capacity to take this into account when reaching its conclusions. There appears to be nothing in the draft report that suggests this has been the case.

In any event the RTBU submits that by focussing on a "competitive market" for the export of wheat; by operating on the assumption that by making the system more competitive efficiency will be enhanced, the report – particularly with respect to the transport of grain for export – underestimated a more important consideration. Two important issues raised in the draft report are indicative of this point.

[44] Draft Report, p. xxi
[45] Ibid, pp. 2-3
[46] Ibid, p. 4

Firstly, the draft report is critical of the port access regime on the ground that it could stifle investment in critical port infrastructure (and potentially other infrastructure). The reasoning is based on the argument that says why anyone would want to invest significant funds in transport infrastructure only to be compelled to open that infrastructure to others, including competitors.[47]

Secondly, the draft report supports an earlier report of the PC to the effect that vertical integration of the wheat rail lines is an appropriate way to go. Whilst this position opens up other considerations going to such matters as public or private ownership, the point being made here is that it is a system that is not based on arguments of vertical separation and the asserted efficiency dividend of competition that results from vertical separation.

In our submission, these point are an acknowledgement that in circumstances such as those here, with expensive and limited infrastructure, competition does not necessarily enhance efficiency and can have the opposite effect. The RTBU submits that the nature of the transport system for the movement of wheat for export is not one that is conducive to the notion of competition as the driving force of efficiency. The point is to ensure that the infrastructure in place is modern and capable of dealing with the demands for the movement of the good or commodity in question. This raises issues of planning and strategy and an analysis of the demands and requirements of the industry in question. In our submission, this has been recognised by the current Federal Government with the establishment of bodies such as Infrastructure Australia. Infrastructure Australia's web site states:

"Infrastructure Australia will develop a strategic blueprint for our nation's future infrastructure needs and – in partnership with states, territories, local government and the private sector – facilitate its implementation."[48]

In that regard it is noted that Infrastructure Australia is currently working on a National Freight Network Plan.[49] This work accentuates the need to have an accurate and up to date data base upon which to base decisions.

In our submission, the focus of the PC on "competition" as the basis for the efficient transportation of wheat for export has resulted in the draft report overlooking a number of issues that, in the context of transport of wheat for export, are critical to such transport. Accordingly, the draft report is deficient.

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[47] Ibid. p. xxx
[48] www. Infrastructureaustralia.gov.au - this quote is taken from the home page.
[49] Submissions to Infrastructure Australia on this plan were due by 10 March. The RTBU has made a submission on the subject to Infrastructure Australia.

SUMMARY AND CONCLUSION

The transport of wheat from the farm to the port has been the subject of much inquiry in recent years. The focus of that inquiry has been on determining the most efficient means of that transport. In turn, much of that has been driven by changes that have occurred in the rail and road modes of transport.

Historically, wheat has been overwhelmingly transported by rail. Indeed, with respect to wheat for export that remains the case today. During the 19th century a patchwork quilt of railway lines was constructed throughout the various regions of Australia. It was designed specifically to transport wheat (and other commodities and products) from inland to the port for export. However, after many years of neglect the quilt is looking decidedly tatty. In certain parts the rate of deterioration is such that it is finding it difficult to perform the task originally given to it. Further its restoration is a task and involves a cost that its owners have shown a reluctance to meet and where some argue that it is not worth it in any case as there is a cheaper, more efficient alternative means of transport, namely road transport.

In contrast to the situation with regional rail infrastructure, successive governments have undertaken massive expenditure over the years on improving the road network. This has been accompanied by an improvement in the technical capacity of road transport – an improvement that has taken place with the assistance of government.

In these circumstances has arisen the issue of the most efficient means of transporting wheat for export. It is an issue that arises in a context where, for a variety of reasons, those involved in the production and marketing of grain have a preference for transport by rail. Nevertheless it could and if only by neglect, is argued that the preference given by successive governments to road infrastructure and road transport generally is simply a fact of life and whether it was correct or incorrect, it is the hand that has been dealt. Whilst rail may be a sentimental favourite it cannot meet the demands placed on it by a demanding contemporary market place; that when it comes to the demands of the competitive market place an increasing share of the wheat transport task by road is inevitable. This is not to say that rail has no role to play. Rail transport does and will, with respect to the transport of wheat for export, continue to be the dominant mode. The point is that road will increase its share. This point then raises the issue of where infrastructure investment should appropriately occur.

The RTBU submits in this submission – as it has done elsewhere – that consideration of the transport task for export wheat is not so simple. It is not simply a case that rail lacks the competitive element to maintain its position. The RTBU recognises that the transport of wheat to the ports for export will be undertaken by both rail transport and road transport. However, upon analysis, there should be no reason to conclude that the incursion into the current rail task by road transport will be as significant as suggested in the draft report. Two points need to be made here.

Firstly the RTBU submits that when the costs of transport are considered in their broader but no less relevant context, the argument in favour of continued rail transport is a positive one. It is our submission that the draft report, to the extent that it considers the transport of export wheat, fails to properly consider the actual cost structure of the transport task. That being the case, it adopts a view that in many places the rail system is not up to the task; that where competition between road and rail is applied rail cannot compete and as a result the proportion of the task undertaken by rail is likely to fall. This submission identifies a number of areas that when taken into to the cost equation will reveal a more rosy picture than the one painted for rail in the draft report.

Secondly, the draft report suggests the driving force of economic efficiency in the transport of wheat for export is competition. The more players the better, it seems. Whilst competition may have its place, it is the RTBU submission that in the situation of transport where the nature of the freight task in a country with a massive land base and a relatively small population concentrated in the south east corner and where the level of investment in transport infrastructure is complex, costly and focused on the long term, the notion of competition is of less importance than it may be in other markets. Rather, the focus should be on determining what will be the demand for transport services and how best they can be delivered from both an economic perspective and in the public interest. As noted in this submission, organisations such as Infrastructure Australia have been established by the Australian Government to address such issues.

The RTBU makes the observation that a number of recent report that have also considered the freight task for grain in Australia and the conclusions reached in them are far more positive for the rail task that the conclusion that one draws from the draft report.[50] Particular reference is made to recent reviews of the freight task for wheat in Western Australia and New South Wales – the states with the largest freight tasks for the movement of wheat. Part of the reasoning behind such conclusions, in our submission, is the adoption of a broader set of criteria upon which the freight task was considered. Whilst the RTBU recognises that even those reports reveal that there will be some rationalisation of the rail task it is clear that they are more positive than the draft report on the future of rail transport in the task of transporting wheat for export.

The RTBU recommends that in light of this submission, the PC adopt a wider analysis when it comes to an analysis of the transport requirements for the movement of wheat for export. This is important as reports such as those prepared by the PC are taken into consideration

[50] It is interesting to note that the draft report states that "the Commission has not examined closely the assumption used in the analysis of these reports..." Draft Report op. cit. p. 208. It also spends little space discussing the notion of a "thorough cost-benefit analysis" ibid. p. 211

by government and other interested parties when considering investment decisions in the broader transport industry. In our submission a wider criteria will more realistically reflect the requirements of the task going forward and meet the broader public interest.

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