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## 5 The Commission's approach

Jurisdictions have undertaken a range of reforms intended to improve the efficiency and performance of their railways (chapter 3). The experience to date indicates there has been improvement in performance as discussed in the previous chapter (chapter 4). However, there are also indications that there is scope for further improvement with a number of impediments remaining, as outlined in chapter 3. This chapter outlines the Commission's framework for analysing and identifying the best policy responses likely to overcome these impediments.

### 5.1 Objectives of reform

The overall objective of reform is to move towards an efficient transport system, which meets Australia's freight and passenger transport needs. Along with technological development, future reform will determine the extent to which rail is an integral part of the transport system in the 21st century.

In such a system, customers will be able to choose which transport mode best meets their needs on the basis of price, service quality and a range of other characteristics. Rail will simultaneously compete with other modes for business, and complement them in providing a seamless transport service for customers.

Governments and the community are likely to continue to have non-commercial objectives, both social and environmental. The Commission's proposed policy framework also takes these objectives into consideration.

### Sources of efficiency improvements

In order to take its place in an efficient transport system, railways must continue to improve their performance. Improvements in the efficiency of railways — and ultimately the transport system as a whole — can occur in three broad areas:

- making better use of the existing equipment and infrastructure;
- introducing the most appropriate infrastructure, rollingstock, and technology; and
- optimising the use of rail in the transport logistics chain.

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This is consistent with the view expressed by National Rail Corporation:

... there is a phase, which I think we have almost got all the way through ... which is about the inefficient use of resources within the present production function. There is too much fuel consumed, there are too many wagons in use, too many locomotives, too many people and so forth ... The second area of change is changes in the production function, which is what I've concentrated on in my comments — by changing things like axle load limits, train length limits, train height limits for double stacking and so on ... The third stage of productivity improvement is where the railway system starts to integrate itself very much more thoroughly into the total logistics chain. (trans., pp. 1001, 1002)

To some extent, the 'easy gains' have been realised by the reforms undertaken to date. There is scope to improve the performance of railways further by implementing an appropriate mix of other policy reforms.

It is considered that most of the improvements in performance achieved since 1991 have come from the first source. Realising efficiency gains from the second and third sources will be more difficult than those generated by improving the efficiency of the existing rail system. These additional gains will take longer to achieve and will rely on adopting a package of reforms.

Achieving the more difficult efficiency gains will require working through a logical framework of analysis in order to implement the most appropriate combination of reforms to deal with impediments to performance (box 5.1).

#### **Box 5.1      Impediments to improved performance**

Impediments to improved railway performance identified by participants include:

- a lack of commercial focus and government involvement which interferes in the operation of some government-owned railways;
- inadequate investment in rail infrastructure;
- a lack of competitive neutrality between transport modes and between government and privately-owned railways;
- the extraction of monopoly rents from the coal networks;
- complex and multiple arrangements for access to rail infrastructure; and
- inconsistent and complex safety regulation and operating requirements.

## **5.2      Areas of potential reform**

Some of these impediments have been addressed by governments to varying degrees, particularly those relating to monopoly rents, safety regulation and taxation

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arrangements affecting competitive neutrality. However, the potential exists to undertake further reform across a range of areas to deal with those that remain:

- railway structure — including consideration of vertically separating track and train operations and horizontally separating railways geographically or by function;
- ownership — exploring a spectrum of options from commercialised or corporatised government-owned railways through to franchising and full privatisation;
- access arrangements — examining whether they should be light-handed or strong and prescriptive;
- operating procedures and standards — removing remaining inconsistencies and duplication to improve the efficiency of rail operations; and
- competitive neutrality — addressing a range of outstanding issues both within the rail industry and across transport modes.

### **5.3 Railway networks**

The Commission has identified three broad types of rail networks in Australia, interstate, regional and urban passenger (chapter 2). The identification of these network types is important because the nature of the businesses and impediments to improved performance differ between these networks.

Differences between networks can be characterised by the extent of interface problems, actual or potential rail competition (both for the market or between train operators), intermodal competition, and by their commercial sustainability (chapter 2).

The nature of the problems and impediments to improved performance will also differ between networks (chapter 3).

Thus a range of reforms will be required to achieve the overall objective of an efficient transport system. Reform in a single area (eg structure or ownership) is unlikely to achieve this objective.

#### **Reform packages**

The Commission's approach is to target reforms to specific problems and performance impediments facing each rail network. This can be achieved by developing a reform package for each network, selecting the most appropriate

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reforms from the available options. While some elements of each package may be similar — reflecting a broad systemwide approach — it is likely that the package for each network will not be uniform across railways because of differences in markets, network characteristics and the differing nature of impediments to improvement.

In developing each package, the Commission intends to identify those reform elements which are most likely to create an environment that will yield the greatest gain (box 5.2).

**Box 5.2      Getting the environment right**

The reform packages should contribute to an environment within which commercially focused railways are able to compete with, and/or complement, other modes of transport. Important elements of this environment are:

- Competition — which can take several forms including competition for the market and competition in the market. Intermodal competition can also influence rail performance;
- Commercial focus — a spectrum of approaches from commercialisation and corporatisation to privatisation can improve performance and provide railways with the freedom to make timely business and investment decisions;
- Community service obligations — can be accommodated within a commercial environment through the rigorous implementation of a purchaser-provider framework;
- Consistency in access and safety regulation — to reduce costs, increase certainty and promote innovative and competitive behaviour; and
- Competitive neutrality — both within the rail industry and between rail and road transport so that railways are free to compete on the basis of price and service quality.

## **5.4      Subsequent chapters**

The following chapters consider the appropriate reforms for each of the three railway networks, and where appropriate, the systemwide reforms. Each of the potential reform areas are discussed in turn:

- structure (chapter 6);
- ownership (chapter 7);
- access arrangements (chapter 8);
- safety regulation and operating procedures (chapter 9); and
- competitive neutrality (chapter 10).

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The social dimensions of railways, including consideration of appropriate mechanisms for pursuing non-commercial objectives are considered in chapter 11. Finally, chapter 12 draws the preceding discussion together to outline the reform packages for each of the three networks.

