

20 July 1999



Helen Owens
Presiding commissioner
Progress in Rail Reform Inquiry
Productivity Commission
28/35 Collins Street
Melbourne VIC 8033

Dear Ms Owens

Railway structure

Thank you for your letter of 7 July inviting comment on the preferred structure of Queensland Rail's coal operations. Our response is based on the following principles:

- Profitable heavy-haul railways are very different in nature to loss-making passenger and light freight services. It makes sense to separate them – preferably physically, but at the very least organisationally - so that they are managed separately and have separate accounts.
- Introducing contestability wherever possible is the best way of improving the efficiency of operations and pricing.
- Where contestability is not feasible, its effects need to be simulated through price and incentive regulation, and competitive tendering for inputs.
- In monopoly situations, transparency is essential for establishing confidence in the regulatory regime.

We believe the above are consistent with your principal observations in chapter five of the draft inquiry report, namely that:

- Urban rail networks should be horizontally separated, but vertically integrated, to assist efficient CSO determination.
- Low volume regional networks should be horizontally separated, but vertically integrated, to provide them with the operational and commercial independence they need to compete effectively against road transport.

- High volume regional networks should be horizontally separated from other regional railways, with determination of vertical separation or integration as the preferred arrangement depending on the market and the importance of interface issues to optimisation of the transport chain.

These considerations lead our Council to prefer a structure for QR that reflects:

- separation of coal and minerals from the rest of the network, to provide managerial autonomy and transparency;
- vertical separation of coal and minerals into above and below track services to facilitate competition and monopoly price and incentive regulation.

This approach does not deny the importance of interdependencies between the different elements of the transport chain ie. mines, track, train operations and ports. Improved scheduling and interface management is a key focus of Queensland Rail, the mines and the port operators which will be carried forward in the design of a rail access regime.

Rather, the position recognises that in the government-owned, multi-user, monopoly context of QR's coal and minerals services operations must be adapted to accommodate the need for competition and transparent regulation. In this respect, the Queensland situation is different to the Hamersley example cited in the draft report as evidence of the virtues of vertical integration.

In Queensland, the mining industry needs both efficient operations and assurance against monopoly pricing to achieve competitive rail costs that will have the greatest beneficial effect on investment and volumes.

I hope the above responds to your request adequately. If you have any further questions, please contact me.

Yours sincerely

(Signed)

Michael Pinnock
Chief Executive