

13 May, 1999

The Presiding Commissioner
Progress in Rail Reform
Productivity Commission
LB2 Collins Street East
MELBOURNE VIC 8003

Email: rail@pc.gov.au

Dear Commissioner,

DRAFT REPORT

Thank you for allowing SCT the opportunity to respond to the Productivity Commission's draft report on Progress in Rail Reform.

SCT supports the majority of the draft recommendations and makes the following comments in respect to certain issues raised and recommendations made in the draft report:-

1. Page XXVII

It is noted that, in respect to access arrangements, different users *"may be prepared to pay different prices to operate at different times"* and auctioning *"may be an efficient way of providing access to preferred train schedules"*.

In our view, access arrangements must provide operators with certainty so as to allow those operators to invest in the rail industry.

Operators will not have this certainty if there is a possibility that other operators are paying lower access prices for "like for like" train paths in the same corridor.

A train path on a Thursday for example, may be a "like for like" train path with one on Friday, if an operator using the Thursday train path is able to take some (not necessarily all) freight from a Friday path. If there was such a shift in freight from one operator's Friday path to another operator's Thursday path, then there is a real possibility that the operator's train service on the Friday path may not have enough freight to make that service viable.

As a matter of practicality, it is difficult to see how auctioning could be an efficient way of providing access to preferred train schedules. Whilst the auctioning process may deliver many benefits in many markets, one would need to understand the particular rail freight market (and its limitations) prior to recommending that process as an efficient way of providing access to train schedules.

2. Page 18, Investment

The report notes that, *"in most circumstances, private train operators are leasing locomotives and rolling stock and are not purchasing new equipment"*.

During the last 2 years, SCT has made large investments in terminals and in purchasing new rolling stock.

3. Page 24, The Interstate Network

The report notes that SCT and TNT (now Toll Rail) began interstate rail freight operations in 1993-1994.

In fact, SCT commenced interstate rail freight operations (in competition with NRC) in June 1995 and TNT followed one year later.

4. Page 105, The Case for Vertical Separation

It is noted that *"the owners of the interstate network may place different values on the same train schedules and a mechanism for revealing whether the allocation of train schedules adequately reflects the highest valuations does not exist"*.

Elsewhere in the report (for example, page XXVII), it is noted that the *"pricing and allocation of train schedules should reflect the value that users place on the track"*.

In our view, it is critical that the Governments in Australia take into account the benefits of rail compared to other modes such as road.

SCT's approach is that, given that Australia needs or wants a particular rail corridor open, then the access pricing should be such as to just make rail competitive with the alternatives.

It is interesting to reflect on the advantages of rail transport over road transport.

A typical SCT train carries 3,000 to 3,500 tonnes of freight.

To transport some 3,000 tonnes of freight from the east coast of Australia to Perth by train and a similar load back requires:-

- (i) A single train;
- (ii) A driver and crew resource of some 250 man hours;
- (iii) An engine capacity of some 6,000 kW; and
- (iv) Approximately 180,000 litres of fuel.

The same job, using conventional semi-trailer trucks, would require:-

- (i) 150 trucks;
- (ii) Some 19,000 man hours of driving;
- (iii) A total engine capacity of some 45,000 kW; and
- (iv) Fuel consumption of some 1,192,000 litres (that is 1 million litres more than by rail).

In addition, the wear and tear of 160 semi-trailers on the highway is much more damaging than a single train on the railway line.

Further, there is obviously no congestion between the train and passenger cars etc whereas 150 trucks can be unpleasant to passenger cars.

In the circumstances, SCT would prefer draft recommendation 7.1 be amended to ensure that the pricing and allocation of train schedules also reflect the value that Governments (and the community generally) in Australia place on the track.

1. Page 145, Characteristics of Well-Designed Access Regimes

Whilst the report deals with a number of the important issues which access regimes must address, the access regime should, at least, address the following:-

- (i) A competitive price;
- (ii) Less than inflation escalation (with particular emphasis on offering efficiencies to operators);
- (iii) Adequate tenure;
- (iv) Competitive Neutrality;
- (v) Be pathway based; and
- (vi) Be provided by a co-operative host.

1. Page 155, Pricing and Allocating Train Schedules

Once again, this section of the report deals with draft recommendation 7.1 which we have dealt with above.

The Commission is quite correct in pointing out that auctioning may be an inefficient process because large operators could abuse their market power etc.

The Commission also notes that spot pricing could be used as part of the negotiation process for allocating train paths.

In our view, it is difficult to see how spot pricing, like auctioning, could work to produce an efficient outcome in the allocation of train paths.

The provision of spot pricing, like auctioning, would give rise to a great deal of uncertainty in the market which in turn would not allow investment to take place in the rail industry.

We outlined above the consequences of a track access provider offering a lower access price for a train path on a different day in the same corridor. The use of spot pricing and auctioning techniques could produce a similar result (that is, lower access prices on certain days) and consequently give rise to uncertainty insofar as the investment plans of another operator are concerned.

2. Page 159, Issues for operators on the Interstate Network

Once again, the Commission notes that an *"important principle in setting economically efficient access prices is that the user valuations of different train schedules should be recognised in the access price"*.

Once again, for the reasons noted above, the *"user valuations of different train schedules"* should not, in our view, be the *"important"* principle recognised in the access price. The value which Governments and the general community places on the track, as noted above, should also be recognised in the access price.

3. Page 187, Advancing Regulatory Reform

SCT supports the establishment of a National Safety Regulator covering all rail systems in Australia, with responsibility for the development and enforcement of national regulation.

4. Page 195, Competitive Neutrality Across Rail and Road Transport

The Commission notes that railways could face greater competitive pressures from sea transport if reforms to coastal shipping were further progressed.

The Australian Shipowners Association was recently reported as stating that foreign shipping lines can marginally cost freight, because they are heavily subsidised by their governments and will consequently win business from the rail industry.

We believe the Commission should recommend to the Treasurer that an inquiry be held to determine the effect of coastal shipping on the progress of rail reform in Australia.

5. Page 204, Alternative Approaches to Investment

Whilst we understand the Commission's concerns as to the Swedish approach to competitive neutrality (and in particular, the possibility that this approach could skew economic activity towards the transport sector away from other sectors), we believe there needs to be further consideration given to the alternative commercial approach recommended by the Commission.

Whilst we agree that investment in rollingstock, track and terminals should generally proceed if the private sector expects to receive an adequate financial return on the investment, it is important to note that this return will, to a large extent, be dependant on the access pricing for certain train paths.

As noted earlier, access pricing should, in our view, be such as to just make rail competitive with the alternatives.

Whilst it may be desirable for the private sector to be allowed greater scope to determine investment and pricing in railways, the Governments, in practice, still need to play a part in determining investment and pricing in a particular rail corridor if Australia needs or wants that particular rail corridor open.

6. Summary

In summary, SCT makes the following comments concerning the draft report:-

- (i) The pricing and allocation of train schedules should also reflect the value that Governments (and the community generally) in Australia place on the track;
- (ii) Given that Australia needs or wants a particular rail corridor open, then the access pricing should be such as to just make rail competitive with the alternatives;
- (iii) Track access arrangements must provide operators with certainty so as to allow those operators to invest in the rail industry. It is difficult to see how auctioning, spot pricing and other similar techniques (which have been promoted by the Australian Rail Track Corporation Limited) could be used as an efficient way of providing access to train schedules. Whilst it is possible for "like for like" schedules to be offered at lower access prices than other schedules, the rail freight market is such that operators will be left with uncertainty in respect to their existing train schedules;
- (iv) In view of the recent comments by the Australian Shipowners Association that foreign shipping lines can marginally cost freight because they are heavily subsidised by their governments, we believe the Commission should recommend to the Commonwealth Government an inquiry be established into the effect of coastal shipping on the progress of rail reform in Australia; and
- (v) In relation to investment in railways, we believe that the Governments

need to play a part in determining investment (in conjunction with access pricing) in a particular rail corridor if Australia needs or wants that particular rail corridor open.

Should you require any further clarification in relation to the above points, would you kindly contact the writer.

Yours faithfully

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