

20 October 1998

Ms Helen Silver  
First Assistant Commissioner  
Industry Commission  
Locked Bag 2  
Collins St East  
MELBOURNE VIC 8002

Dear Ms Silver

I am writing to forward a submission from the Department of Foreign Affairs and Trade to the Industry Commission's Inquiry into the Progress in Rail Reform.

The main issues of interest to the Department of Foreign Affairs and Trade are:

- . The effect of rail reform on Australia's trade competitiveness
- . Issues concerning Australia's obligations under the World Trade Organisation's (WTO) General Agreement on Trade in Services
- . Issues concerning Australia's obligations to reduce greenhouse gas emissions that would arise upon Australia's ratification of the Kyoto Protocol of the United Nations Framework Convention on Climate Change (FCCC).

### *Trade Competitiveness*

International trade has always been important to Australia's economic well-being. With increasing globalisation this is likely to be more so in the future. As Australia becomes more integrated into the world economy, the essential mechanisms of international trade, such as local transport infrastructure, will need to become more competitive and efficient to maximise international trade's growing benefits to the Australian economy.

Rail transport has been an essential element of the infrastructure necessary for Australia to conduct international trade, in particular its role in linking in-land Australia with coastal ports. Any assessment of rail reform would need to consider its impact on Australia's trade competitiveness. In this respect, introduction of greater competition in the rail sector is likely to contribute positively to enhancing the competitiveness of Australia's export industry by reducing their costs. It is important for Government policies affecting the provision of rail services to be continually reviewed in light of the changing importance of rail services to Australia's export sectors, including tourism. This means also responding to developments in the rail sectors of other countries, in particular productivity growth, which benefits Australia's competitors.

It is important that Australia's rail sector keeps pace with international competition by adopting international bench-marking standards and best-practices. According to the Department of Transport and Regional Development, the productivity of government rail workers employed in freight activities increased 200 per cent between 1987-88 and 1996-97,

and cost per net tonne kilometre has declined 25 per cent. But other studies have suggested Australia may be lagging behind other countries with similar characteristics. The Productivity Commission's analysis and assessment of this issue would be valuable.

We suggest that national interests are served best by ensuring that Australia's export industries have ready access to fully competitive rail transport. In the pursuit of an appropriate policy on rail services the Government will need to consider deregulation, liberalisation and privatisation of the industry in response to the changes in the global market. Any policies aimed at facilitating private-sector investment, including foreign investment, into Australia's rail sector, should be given positive consideration.

The Productivity Commission's inquiry is a good opportunity to assess more precisely the contribution of the rail sector to Australia's trade performance, including in specific industry sectors, and to identify systemic inefficiencies. Rail transport is an important component of costs for many of Australia's key export sectors, including mining and agriculture. Some of these exporters have raised concerns about the pace and scope of rail reform. For example, Australian coal exporters have raised the issue of inefficient rail services and, in particular the state governments' pricing policies, as a significant negative effect on their international competitiveness. The Australian Peak Shippers Association has raised the issue of the Inland Carriage Liability Legislation hindering international trade by discouraging the use of Combined Transport Bills of Lading. The Productivity Commission's recommendations on these issues should contribute to the development of policies which will increase the efficiency of rail transport, and consequently, improve Australia's trade performance.

Australia has considerable expertise in rail services, technology and equipment which it has exported overseas. According to the Department of Transport and Regional Development, Australia's railway industry exports increased rapidly in the past three years to reach \$530 million in 1996-97. Greater domestic competition in Australia is likely to facilitate continued product development, introduction of new technology and productivity gains which will contribute to increasing Australia's exports in this area.

#### *Australia's obligations under World Trade Organisation (WTO)*

The General Agreement on Trade in Services (GATS) concluded under the World Trade Organisation (WTO) provides a multilateral framework of rules for trade in all services, including rail services, and a timetable for the progressive liberalisation in the sector. During the Uruguay Round of negotiations, Australia did not make a specific commitment in relation to rail services. However, the Productivity Commission Inquiry provides a timely opportunity to identify Australia's national interests in this sector in the lead-up to the services negotiations mandated to begin in the WTO by January 2000.

If the Government were to introduce liberalising reforms in this sector, Australia could examine the possibility of binding these reforms, in exchange for concessions in sectors of interest to Australian exporters. Although rail services may be of less interest to potential foreign investors, recent negotiations do provide a guide. In the recent telecommunications and financial services negotiations, Australia used an offer to bind liberalising reforms which had recently taken place in these sectors to extract valuable offers from others.

The response to the Productivity Commission's report will be relevant to negotiations in WTO's Working Party on GATS Rules on the development of a set of multilateral disciplines governing subsidies in the service sector. These negotiations are at an early stage. Members

are still to agree on a definition of service subsidies, and the type of disciplines which will emerge from the negotiating group is unclear. It is important that we are kept informed of any changes in the government involvement in rail transport, so that we can take this into account in our position in these negotiations.

*Australia's obligations which would arise upon Australia's ratification of the Kyoto Protocol of the United Nations Framework Convention on Climate Change (FCCC)*

More efficient rail transport has been suggested as a possible element of Australia's strategy to reduce its greenhouse gas emissions. Any consideration of this issue will need to take account of Australia's obligations which would arise upon ratification of the Kyoto Protocol to the FCCC, adopted in December 1997.

The Kyoto Protocol sets greenhouse gas emission commitments for industrialised countries. The commitment listed for Australia would require Australia to limit growth in greenhouse gas emissions to 8 per cent above 1990 levels by the period 2008-2012, although this target would be qualified by a number of alternative methods of meeting such a commitment including the possibility of enhancement of sequestration of carbon by forests and the purchase of emission credits generated in other countries. The Protocol does not specify how the emission commitments should be achieved or what policy instruments should be implemented. Under Article 2 of the Protocol, parties shall implement and/or elaborate policies, in accordance with their national circumstances, drawing from a list of policies covering the full spectrum of emission sources. Introduction of these policies is not mandatory.

In relation to transport, no specific policy instrument is mentioned in the Protocol. Rather a general reference to controlling emissions is made - " limitation and/or reduction of methane emissions .... in the transport sector." Therefore, the Kyoto Protocol does not specify any direct implications for the rail industry, although there may be implications for the rail industry as a result of policies introduced as a means of achieving a particular emission commitment.

Thank you for the opportunity to contribute to your inquiry. If you would like to discuss the Department's submission and views further, please contact Paul Wojciechowski on (02) 6261 1897.

Yours sincerely

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