

**DEPARTMENT OF TRANSPORT AND REGIONAL SERVICES'**  
**SUBMISSION TO THE**  
**PRODUCTIVITY COMMISSION INQUIRY**  
**INTO PROGRESS IN RAIL REFORM**

## **INTRODUCTION**

In 1991 when the Industry Commission completed its Inquiry into Rail Transport, it was acknowledged that there were few significant industries in Australia with the problems confronting interstate rail. The core issues of rail reform were identified as its:

- history of ownership;
- status as a monopoly provider of service;
- lack of customer focus;
- inflexibility in the workforce; and
- ad hoc and short-term decision-making.

This submission principally deals with the reforms that the Commonwealth has been involved in progressing in the interstate rail industry since 1991. Since that time significant steps have been made by the Commonwealth to restructure and reorganise the interstate rail system and industry in Australia.

### **The Role of Rail in Australia**

The interstate rail system carries over 12 million tonnes of freight per year, and handles 44 percent of the interstate land freight task (on a net tonne-kilometre basis). It contributes to the distribution of container traffic, steel, bulk products, and serves agricultural, mining, manufacturing and consumer industries. It competes with road and sea transport in a market that has consistently grown faster than GDP, and has a competitive advantage in bulk goods and long distance haulage.

Over the last ten years rail's share of the general freight market has consistently declined in the face of aggressive intermodal competition. Historically no party involved in interstate rail has been satisfied with the service provided by the infrastructure, access or regulation of operations. Since 1991, however, the Commonwealth has taken a leadership role in the reform of interstate rail that has contributed to a significant increase in the rate of reform of the industry.

### **Commonwealth's Role**

Consistent with its constitutional powers and responsibilities, the Commonwealth Government has effectively confined its involvement in rail to

addressing interstate and national level transport issues where State jurisdictional limitations have led to difficulties in attaining access to the interstate rail network, inadequate investment and a lack of a uniform approach.

In practical terms, that has meant a focus on reforming the interstate rail freight sector through firstly the establishment of National Rail (NR) in 1991, then more recently, the introduction of private sector expertise in above rail operations, the establishment of a single point of access for the interstate rail system and the pursuit of uniformity in operating and regulatory standards.

The Commonwealth has also played a facilitative role in the development of opportunities for new rail freight and passenger services in the private sector. In 1997 the Commonwealth, NSW and ACT Governments invited private sector proposals to develop a high-speed passenger service between Sydney and Canberra. A preferred tenderer (Speedrail) has been selected and, subject to the proposal proving viable, it is expected that construction will commence by 2000. The Commonwealth has also announced that it will contribute \$100 million towards the construction of the Alice Springs to Darwin railway by a private sector consortium. The process of selecting the successful consortium is currently being undertaken by the AustralAsia Railway Corporation, which is jointly owned by South Australia and the Northern Territory.

The Commonwealth also plays a role in rail through the Infrastructure Borrowings Tax Offset (IBTO) Scheme. New private sector rail projects are able to apply for the scheme, which provides a rebate on the taxable interest of a resident lender to an approved infrastructure project. This allows the lender to provide the borrower with lower interest rates or other benefits. In return the borrower forgoes the ability to claim the interest payments as a tax deduction.

Projects applying for approval under the IBTO Scheme are assessed against objective criteria including:

- the commercial viability of the project;
- the benefit to the borrower of the tax offset;
- the cost to the revenue of the tax offset;
- consistency with Government policy;
- the degree of public consultation; and
- the economic and social benefits or costs of the project.

Rail projects that have applied for the IBTO include the Alice Springs-Darwin Railway, Bondi Rail Extension, Chatswood-Parramatta Rail Link, Snowy Mountains Railway, Surat Basin Rail Link, and the Sydney-Canberra VHS Train.

Major Commonwealth achievements since 1991 have included:

- the establishment of National Rail Corporation (NR) to place the interstate freight network under unified management and address significant issues in the industry;
- the One Nation infrastructure investment program, which completed the gauge standardisation of the interstate track in 1995;
- the entry of private operators to the interstate freight market, and the subsequent lowering of prices and the arrest of the decline in rail's market share on the East-West corridor;
- the sale of the interstate passenger and intrastate freight operations of Australian National, and a decision to sell the Commonwealth's interest in NR, extracting the Commonwealth from ownership of above-rail operations;
- the establishment of the Australian Rail Track Corporation (ARTC) in February 1998 to manage access and infrastructure developments;
- the pursuit, in conjunction with the States, of a more uniform operating and regulatory environment for rail;
- facilitated specific private investment opportunities in rail, such as the Sydney-Canberra fast train project and the Alice Springs-Darwin railway; and
- initiated infrastructure investment incentive schemes to attract private sector capital to rail infrastructure projects.

## **REFORMS 1991 TO NOVEMBER 1996**

### **Establishment Of National Rail Corporation**

Until 1993, interstate freight services were operated by individual state organisations, each using their own equipment, standards and operating procedures. Inefficiencies in these operations resulted in an annual deficit for interstate rail of more than \$300m. Recognition by the respective governments that this situation was unsustainable led to the incorporation of the National Rail Corporation in 1991. All mainland States were parties to the IGA to establish NR and had the option of becoming shareholders in the company, but only the Commonwealth, New South Wales and Victorian Governments chose to do so.

Under the Shareholders' Agreement, NR has the right to nominate and have access to assets from shareholders' systems by either direct transfer, long-term lease, or by grant of access at marginal cost. NR utilised this right to obtain control of significant quantities of rollingstock and locomotives, and

also purchased a large quantity of new equipment. When it commenced operating interstate rail freight services in 1993, NR gave Australian users a seamless interstate freight service for the first time.

In its first year of operation, NR lifted rail's market share of inter-capital city freight by 4.4 percentage points to 39 percent. NR also successfully negotiated in its first year a 'greenfields' enterprise agreement that reduced the number of unions from approximately 30 down to 2, reduced the number of job classifications to 9 from over 2000, and rationalised salaries and conditions. The agreement became a benchmark for industrial arrangements and flowed to other railway businesses.

Since its establishment, NR has also significantly reduced the annual operating losses of the interstate rail freight system from the previously stated over \$300m to around \$60m in 1995/96. However, in 1995 NR began to face competitive pressure with the entry of private operators on the east-west corridor, the most lucrative route and the one generating significant proportions of the company's revenue. This has significantly reduced NR's revenue base, and was reflected in NR's performance in 1996/97, when operating losses from freight operations rose again to approximately \$80m.

The trend in the transport industry as a whole is toward complete logistic services, and a company able to offer only the point-to-point options of interstate rail freight services will find it increasingly difficult to remain viable. The two main options indicated for NR are to expand into intrastate rail operations, or expand its business to incorporate other modes. While partly Commonwealth Government owned, constitutional restrictions have meant that NR has had to seek legislative approval from individual States to operate intrastate services (although most mainland States have given or are in the process of giving that permission), and the modal expansion of NR's business would require large injections of capital and expertise. The barriers to NR adopting either or both of these options was a major factor in the Commonwealth's decision in 1996 to extract itself from above-rail operations, and sell both its equity in NR and the operational sections of AN.

Measures to effect the sale of NR are proceeding but there has been a dispute between the shareholders on assets to be included in the sale. Once agreement is reached, and NR is privatised, the company is expected to become a more competitive and flexible entity as it sheds the shackles of government ownership. The sale is also likely to result in the injection of considerable capital and private sector experience to the interstate rail industry.

### **Impact of Competition Policy on Interstate Rail**

One of the most significant impacts on rail reform in the last five years has been the introduction of competition. While only one of several industries affected by the Commonwealth's competition policy reform package

announced in April 1995, the rail industry has been a major beneficiary of the package.

In response to recommendations made in the report of the Committee chaired by Professor Fred Hilmer on National Competition Policy in August 1993, the Council of Australian Governments agreed, in April 1995, on a National competition policy reform package. The package contained agreed principles for structural reform of public monopolies, competitive neutrality between public and private sectors, prices oversight of utilities and other corporations with significant monopoly power, a regime to provide access to essential facilities and a program of review of legislation restricting competition.

Prior to the introduction of competition policy reform, general freight rail operations were typically provided by vertically integrated and government owned operators. Interstate freight rail services were provided solely by NR, being established for that express purpose. Interstate passenger services were provided by the then Government owned AN, and a combined V-Line/SRA operation between Melbourne and Sydney. Private rail operators only provided small niche type intrastate services on which the government owned railways did not operate.

Although bound by the Competition Principles Agreement to providing third party access to rail infrastructure, the States have been slow to develop rail access regimes that are acceptable to the NCC. To date, only NSW and Queensland have applied to the NCC for certification of their access regimes. The NCC is still considering these applications.

As part of the development of access regimes, the vertically integrated government owned railways have also needed to develop commercial mechanisms to manage track access, including pricing regimes which are also acceptable to the ACCC. It had not previously been necessary for government owned railways to price track access with any particular justification or methodology. Third party access was essentially provided to utilise spare capacity around the track owners' own rail services, essentially priced at whatever the market would bear. AN, NSW and Victoria each responded to the requirements of competition policy reform by either corporatising or separating the rail access aspects of their businesses from the above rail aspects of their operations. Westrail and Queensland Rail have retained their vertically integrated railways, however they are currently in the process of separating access from the remainder of the operations to act as independent business units.

AN established the Track Access Unit in 1995 to independently manage access to the mainline interstate rail network owned by the Commonwealth. Similarly, NSW and Victoria separated the track management and access functions from their rail organisations to form the separate corporate entities, Rail Access Corporation and VicTrack Access respectively.

As a direct result of the combination of competition policy reform and the completion of the gauge standardisation exercise undertaken under the One Nation program, several private rail operators have commenced interstate rail services since 1995 in competition to National Rail. There has also been some increase in private operations on intrastate services. Specialised Container Transport (SCT) provided the first private interstate rail service in July 1995. The SCT service between Melbourne and Perth commenced as a niche operation which focussed on van traffic following the withdrawal of NR from this type of traffic, preferring to deal exclusively with containerised traffic. Commencement of services by other private operators TNT (subsequently taken over by Toll Ltd) and Patrick soon followed.

Several other services have been the subject of applications to the NCC. While not all applications have resulted in declared services, the NCC's processes do appear to be having an impact on increasing competition in the Australian rail industry. An example of the influence of the NCC process in the rail industry on a service that was not declared, is SCT's application for access to the Sydney to Broken Hill line under the jurisdiction of the RAC. The NCC's recommendation that the NSW Premier declare the service was the subject of an appeal to the Australian Competition Tribunal by SCT when the NSW Premier declined to make a decision on the service. NSW subsequently finalised negotiation with SCT over the service, with agreement being reached, and the appeal was withdrawn by SCT.

The interim result of the application of competition policy reform and the Competition Principles Agreement on the interstate rail industry is the entry of private operators, predominantly on the east – west corridor operating either in direct competition with NR or operating in niche sectors of the market previously ignored by NR. The current structure of the interstate rail industry is characterised by a dominant NR which captures more than 80 percent of the market with the three smaller private operators, SCT, Toll and Patrick, making up the balance. As a result of this competition, freight rates on the east-west route have declined by around 25 percent since 1995. The current concern for the rail industry with this result is that the decline in prices appears to have only succeeded in diluting the bottom line revenues of the combined industry which may indicate that growth in rail's market share is yet to respond to the lower freight rates. It is possible however that the decline in price has arrested market share losses and any future improvements in productivity (or prices) will see an increase in market share.

Despite the apparent impact that competition policy reform is having on industry structure in the interstate rail sector, in the short term, the length of time taken in the NCC's processes for considering declaration of services may be a deterrent to other potential operators. The time and effort involved in the NCC's process may exceed the window of opportunity available to the applicant. However in the medium term, as track owners' access undertakings are certified by the ACCC, the NCC's current processes will become unnecessary.

## **REFORMS 1996 TO PRESENT**

In November 1996, the Commonwealth Government announced a major rail reform package. Its key features were an injection of private sector enterprise through the sale of the Commonwealth-owned above-rail operations and intrastate systems, and the establishment of an organisation to manage and provide access to the interstate track. The Government's intentions were to extract itself from above-rail operations and concentrate on improving the operational environment.

### **Sale of AN**

The first significant step in progressing the Commonwealth's reform objectives was the commencement of the sale of Australian National (AN), previously fully owned by the Commonwealth. AN consisted of passenger services (the *Ghan*, *Overland* and *Indian Pacific*), intrastate freight operations in South Australia and Tasmania, and the interstate track from Kalgoorlie (WA) to Broken Hill (NSW) and Wolseley (Vic), and from Tarcoola to Alice Springs. By June 1996, AN was carrying debt of \$780m and recorded an operating loss for 1995/96 of \$256m. This was partially due to the fact that many profitable components of AN had been transferred by the Commonwealth to NR when it was established. The interstate track was retained by the Commonwealth to become the backbone of the new track access corporation planned in the reforms. The other component parts of AN were sold in 1997 and netted \$95.4m for the Commonwealth. It should be noted that several factors other than price (specifically expertise in rail operations) were taken into account in selecting the successful bidders.

Early successes of the new privatised operators of the former AN businesses vindicate the Commonwealth's decision to sell these operations. The *Ghan* has increased passenger levels by around 13 percent, and Tasrail is profitable for the first time in 130 years.

### **Rail Summit**

In September 1997, Commonwealth and State Transport Ministers met in Melbourne for the National Rail Summit to discuss issues affecting the future of the public rail system. Ministers agreed that:

- there should be a designated interstate track system consisting of the tracks joining the mainland major State capital cities and ports, with connecting lines to Whyalla, Port Kembla, Newcastle, Alice Springs and Westernport;
- the most urgent need is for the interstate network to be operated as single network with respect to investment, access, and pricing;

- safety, operational practices and standards on the network should be developed in a way that achieves uniformity over time;
- operators should be able to access the network through a single point of entry providing seamless access and operations across the network;
- new infrastructure and access arrangements should include commercial principles, mechanisms and incentives in the relationship between track management and operators; and
- there should be a binding arbitration process to resolve disputes quickly and fairly.

Ministers also agreed on a set of service targets for the rail network, including:

- under 2 percent of the interstate track subject to temporary speed restrictions;
- targets for the speed of trains with specific axle loads;
- infrastructure to be upgraded to be capable of handling trains 1800m long on the east-west corridor, and 1500m on the north-south corridor; and
- in the longer term, clearances should be raised to allow double stacking.

The targets are to be achieved over a five year period.

### **Intergovernmental Agreement**

An Intergovernmental Agreement (IGA) was signed at the Australian Transport Council meeting on 14 November 1997 reflecting the principles agreed to at the Summit. The IGA established the framework for the Commonwealth to create the Australian Rail Track Corporation as a single point of access for the interstate rail network. The IGA envisaged control of the former AN and Victorian tracks being transferred to the company with the right to sell access to new capacity and the transfer of existing access contracts in NSW, QLD and WA from the incumbent state organisations to the company. It is a five year extendable agreement that also provides for the track access company to:

- manage track maintenance and construction, train pathing, scheduling, timetabling, and train control on track it controls;
- develop and promote uniform safeworking technical and operating requirements; and
- manage an interstate track investment program with commercial funding and grants from the governments involved, in consultation with rail operators and track owners.



The IGA also includes commitments from the NSW Government to address the issue of sufficient freight train access through Sydney.

## **Maunsell Report**

At the November 1997 meeting, the Australian Transport Council also agreed to commission work to document the more important safety, technical and operational standards and requirements in use on the national track system and how they differ as operators move through both the interstate and intrastate tracks. In February 1998 Maunsell delivered its 'Study of Rail Standards and Operational Requirements'.

The Maunsell report provided a basis for the rail industry to move forward on the issue of uniformity. Prior to the Maunsell report, there was much talk about the requirement for uniformity across jurisdictions in rail operations. However, the term was used very broadly without identifying where it was required. The Maunsell study has identified where uniformity of operating standards and requirements will benefit the rail industry, and challenged the notion of uniformity for uniformity's sake.

Major findings of the report include:

- uniformity should not be a goal in itself, but that the object of reform should be to remove impediments to efficient interstate freight movements;
- however, uniformity is required at interfaces between rollingstock and infrastructure, and interfaces between operating personnel on the train and personnel controlling the infrastructure;
- performance-based rather than prescriptive standards are preferable because prescriptive standards inhibit change and innovation by tying standards to existing technologies;
- standards should be developed by the industry as a whole, rather than by the network owner (as is presently the case); and
- a body such as the National Road Transport Commission with a research body similar to Austroads supporting it should be established for rail.

It is now the responsibility of Rail Group (see below) to progress the findings from the Maunsell study.

## **Rail Group and Progress on Uniformity**

At the Rail Summit in September 1997 and the subsequent Australian Transport Council (ATC) meeting in November 1997, Ministers agreed to a range of rail reform tasks aimed at improving the efficiency and competitiveness of the Australian rail industry (Attachment A).

The Standing Committee on Transport (SCOT) was asked to progress these rail reform tasks and the SCOT Rail Group (chaired by the Director-General of the NSW Department of Transport, Mr Jock Murray, and comprising senior government rail officials from the Commonwealth, States and Territories) was established for this purpose. Rail Group, in turn, established a number of Task Groups to address each of the following key reform tasks:

- facilitate rail uniformity;
- advise on barriers to private investment in rail;
- develop more open accident and incident reporting;
- examine options for establishing a decision making mechanism for rail;
- monitor progress on upgrading of the interstate network;
- examine competitive neutrality issues relating to rail; and
- develop a "Rail Model" for use in investment decisions.

The various task groups will be reporting to ATC over the next six months on how to progress these issues. Detail of current progress is at Attachment B.

### **Establishment of ARTC**

The Commonwealth's principle response to the requirements of competition policy reform in the interstate rail industry has been to establish the Australian Rail Track Corporation (ARTC).

In developing a framework for streamlined interstate track access arrangements, the Department's approach in seeking to establish the ARTC was supported by advice received from operators who were consulted on their needs. One significant anecdote was an operator's claim that to commence an operation from Melbourne to Perth, negotiations were required with some 13 different authorities. This process took more than 12 months and imposed excessive legal and resource costs on all parties. Further support was provided in a submission to the NCC by TNT who expressed concern that there were no uniform pricing principles across States, no transparency of track management costs and access prices, no mechanism in any State to ensure costs were driven down to reflect efficient practice and competitive neutrality between State owned operators and private sector operators was not guaranteed.

The ARTC was formally established in February 1998 and commenced operations on 1 July 1998. To date, the ARTC is responsible for the track between Albury and Broken Hill to Kalgoorlie and Tarcoola to Alice Springs (the former AN and Victorian track). The intention of the IGA is that

arrangements will also be negotiated with NSW, Queensland and Western Australia to provide ARTC the ability to sell access for interstate rail operations in those States. Since its establishment, the ARTC has successfully taken over the operations of the former AN Track Access Unit and management of the interstate track in Victoria. Over the next 12 months the ARTC will continue to introduce new efficiencies in its management of the Victorian interstate network as well as pursuing the establishment of arrangements in the other States whose interstate track is still to come under the umbrella of the ARTC.

Until the remaining States sign up to arrangements with the ARTC which provide the capability for it to operate as a one stop shop for operators seeking access to the interstate network, the full impact of the ARTC will be diluted from that envisaged by signatories to the IGA for its establishment.

### *Impact of the ARTC to date*

Despite not all mainland States yet being under the umbrella of the ARTC, the advantages of the ARTC are already evident through the efficiencies that the organisation is able to introduce into management of the track it controls. The ARTC will implement standardised processes in relation to train control procedures and protocols and will obtain efficiencies through the maintenance contracting arrangements that the ARTC will manage.

The ARTC has identified substantial potential efficiency gains in the way it will manage maintenance works on the track under its control. A movement from inhouse maintenance crews to contracted maintenance arrangements, the introduction of a risk sharing approach where the ARTC shares risk of failure with the contractor rather than the contractor bearing all the risk, and introduction of train fault monitoring systems which identify train faults likely to increase wear and tear on the track are examples of efficiencies that the ARTC plans to introduce within its first year of operation.

Another efficiency that the ARTC will introduce over the next few months is in its pricing regime which it released for industry comment recently. The proposed pricing regime results in an approximate 2 percent reduction in the rates posted by the Track Access Unit in October 1995. The pricing strategy is designed to provide simplicity, transparency and greater utilisation of the ARTC's network. The proposed regime incorporates a surcharge for "over-length" and "out of gauge" trains which will be used to service capital requirements to enhance the network to accommodate longer length trains.

The medium to long term future of the ARTC will be dependent upon a number of factors, not least being its ability to reduce the impediments to and requirements of operators for gaining access to the interstate rail network. A review of the ARTC will be conducted at the end of the fourth year of the 5 year term prescribed by the Intergovernmental Agreement, to assess whether it is achieving Governments' objectives. On the basis of this review, Governments will decide what the next steps in the reforms of access arrangements should be.

### **Westrail sale**

Of immediate concern to the Commonwealth is the WA Government's proposed sale of Westrail's freight operations as a vertically integrated package including the Westrail owned interstate track between Perth and Kalgoorlie. The decision by WA is potentially the first decision point at which rail reform deviates from the industry structure envisaged by the Intergovernmental Agreement and puts at risk the chances of success of the ARTC.

Although WA has indicated that it will abide by its commitment to the IGA on Rail, the Department is concerned that a privately owned vertically integrated

Westrail may be in a position to affect the overall structure and performance of the interstate rail freight market.

In the likely circumstances that a privately owned fully integrated Westrail seeks to enter the interstate freight market it could use its ownership of a critical component of the East West corridor to gain significant market share, notwithstanding ARTC being the sole seller of interstate freight paths and the introduction of an access regime which restricts monopolistic behaviour.

Any movement away from the competitive market that has been created on the East West corridor will put at risk the gains made by the reforms introduced into the rail industry. These reforms have delivered a decrease in freight rates of some 25 percent (or \$40m pa) since the introduction of competition and provide more capacity for rail to compete effectively with the road transport sector.

A privately owned fully integrated Westrail could also add weight to calls from potential operators for the Government to reverse its policy of separating the track from above rail operations. This pressure is likely to significantly diminish the chances of ARTC achievement of a single point of negotiation for access to the interstate track and reduce the potential for competition and growth in the interstate network.

The Department's preferred approach would therefore be for the WA Government to follow the lead set by Victoria and the Commonwealth ie to place the interstate track under ARTC control (for a financial consideration) and sell only the intrastate network and operations. This would create the best climate for the continuance of competition and still provide a platform for the privately owned Westrail to re-enter the interstate market and compete for traffic on the intrastate network.

### **Investment Objectives**

At the Rail Summit the Commonwealth Government announced that it would invest \$250m over 4 years to upgrade the interstate mainline track. While it is acknowledged that significantly higher levels of funding are required to enable the interstate track to deliver optimal levels of service, it is anticipated that this level of funding will be supplemented by joint funding proposals from State Governments and the private sector.

To assist in developing its capital works program the Commonwealth commissioned an independent consultant to examine the benefits of potential projects. An initial list of projects valued at \$2 billion was shortlisted to \$800 million worth of projects for detailed analysis and prioritisation.

The consultant's analysis is being considered in the development of the Ministers program of works for utilisation of these funds. On the basis of that

advice, extension of crossing loops and the upgrading of control systems have been determined as the two major priorities for Commonwealth funding.

## **FUTURE DIRECTIONS**

### **The Commonwealth Vision For Interstate Rail**

In line with its overall objective to improve the national transport sector, the Commonwealth is committed to making interstate rail an efficient, safe, commercially sustainable and environmentally responsible component of Australia's transport system. In order to achieve this objective, the Commonwealth believes that for interstate rail to prosper a number of institutional and operational changes need to be implemented.

In the next 5 to 10 years, the Commonwealth intends to extract itself from above-rail operations, and encourage its replacement with a variety of private operators offering a diverse range of services. The newly privately owned above-rail operations should be characterised by high levels of investment, innovation, and customer focus. In line with other industries, commercial incentives and imperatives should be in place with revenues from above-rail operations able to cover all above-rail costs and all below-rail ongoing operating costs.

The Commonwealth will continue to develop an institutional regime that facilitates the entry of new operators on the interstate rail network. To this end the Commonwealth has identified the interstate track network that it will support, and established a company (ARTC) to manage access to the interstate track. As stated above track access revenues will need to cover all below-rail ongoing operating costs and the ARTC will be required to act as a commercial entity with no on going subsidy from Government.

The Commonwealth will also take the lead in forging a national approach to rail transport regulation, including safety, operational and technical standards. This will be facilitated in the first instance by the Australian Transport Council processes drawing on substantial rail industry involvement.

In addition, the Commonwealth will seek to leverage additional funds from the private sector and the States to complement the \$250m four year funding program to upgrade the interstate rail network.

### **Neville Report Recommendations**

The House of Representatives Standing Committee on Transport, Communications and Microeconomic Reform, chaired by Mr Paul Neville MP, tabled its report to Parliament on the role of rail in the national transport network in August 1998. The report made a number of recommendations on what was required to ensure the viability of the rail industry into the next

millennium. A number of these recommendations are already being addressed by the Commonwealth Government. For others, whilst it is agreed that actions are necessary, there is some debate as to whether it is the Commonwealth's responsibility to provide the identified action.

For example, the Committee has recommended that the Commonwealth invest up to \$3 billion over the next 13 years in rail infrastructure of national and strategic importance. Although some of this investment may be needed to upgrade the rail network of Australia it is debatable as to whose responsibility it is to provide this investment. The Commonwealth's position on investment is that it should be undertaken jointly between the Commonwealth, the States and the private sector. Where there are commercial gains to be made from infrastructure investment, it should be undertaken by the private sector. Other investments provide benefits to track controlled by State Government owned entities which the Commonwealth has no jurisdiction over. These investments are more properly the responsibility of State Governments. The Commonwealth should retain responsibility for investment principally on track that it manages through the ARTC where net national benefit accrues from the investment but for which there is not a commercial benefit to attract private investors.

In addition, the Neville Report recommends several other issues for the Commonwealth to consider, including:

- assuming a leadership role and consulting widely in developing an integrated national transport strategic plan;
- declaring a national track and addressing chronic deficiencies on that track;
- taking a strategic approach to providing consistency in rail safety standards and practices for the national track;
- providing a one-off grant to standardise signalling, telecommunications, radio and safety operations for the national track;
- developing national qualifications based on consistent curricula for rail employees;
- establishing for the national track a rail safety authority and rail incident investigation unit;
- developing a national regulatory framework to promote consistency in accreditation practices, operating procedures and standards;
- adopting a transparent and accountable pricing regime for ARTC access;
- developing a more consistent and equitable approach to transport infrastructure charges to ensure competitive neutrality;
- developing a National Land Transport Commission; and
- giving a higher priority to land transport infrastructure investment within total budget outlays.

The Government is considering all the recommendations made in the Neville report and will provide its response to Parliament early next year.





## **Rail Projects Taskforce**

In response to several major rail proposals involving substantial private sector investment (the Darwin to Adelaide rail link, an inland rail bridge from Melbourne to Darwin, and a very fast train to link Melbourne, Sydney and Brisbane), the Prime Minister announced in May this year that such projects required a more coordinated response from governments as opposed to the State based approach that has provided the basis of the existing interstate network. He therefore asked Mr Bob Mansfield, the Government's Strategic Investment Coordinator, to convene a private sector taskforce to evaluate how governments can better facilitate viable major rail investment proposals developed by the private sector.

The Taskforce was established on 12 August 1998 and it is intended to focus on aspects of specific projects that have implications for other projects and general policy direction. These implications may relate to other components of the transport system, access arrangements and competition. The Taskforce is to report to the Government in early 1999.

The taskforce will advise on:

- The scope for private sector investment
- Unwarranted barriers to private sector investment and what governments could do to remove these barriers
- External benefits and costs associated with projects that are not appropriately taken into account by private sector investors and what governments could do to ensure this occurs
- Other issues relevant in assessing the role of government in such proposals

## **CONCLUSION**

Since the Industry Commission Report into Rail in 1991, the interstate and intrastate rail industry has undergone significant changes with the introduction of more efficient operations, outsourcing of previously vertically integrated operations and the separation of the track from operations in many areas.

From the Commonwealth's perspective the establishment of NR to consolidate the interstate services into one organisation, the sale of AN (and impending sale of NR), the establishment of the ARTC and the push towards greater uniformity in operating and regulatory standards bear witness to the considerable rate of change occurring in the interstate rail sector.

The last 7 years has also witnessed the completion of the standard gauge link between Melbourne and Adelaide and the advent, for the first time anywhere in the world, of real head to head rail sector competition with its dramatic results in costs to freight forwarders.

Despite the quite rapid rate of change in the industry, the Department is of the opinion that more is still to be achieved and, following the sale of NR, the push for greater uniformity and consideration of the role played by the ARTC will continue to be the major areas of focus in the next few years.

## **Attachment A: Summary of Australian Transport Council (ATC) Decisions on Rail Reform**

At the Rail Summit in September 1997 and the subsequent ATC meeting in November 1997 Ministers agreed on the following set of rail reform tasks:

- commission work on safety, technical and operational requirements and develop for consideration by SCOT a paper which sets out the issues and priorities and time table for addressing uniformity in rail
- advise on the need for the establishment of a decision making process (eg a national rail body along the lines of the National Road Transport Commission (NRTC))
- report on rail safety uniformity, in particular the removal of “additional requirements” required by individual States in relation to mutual recognition of rail safety accreditation
- development of a uniform train control protocol for the interstate rail network
- develop more open accident and incident reporting, possibly on the BASI model
- advise on barriers to private investment in rail
- advise on the need for the establishment of a rail research body
- monitor and advise SCOT and ATC on progress towards the achievement of the objectives set by Ministers for the upgrading of the interstate rail system and the development of additional interstate freight train capacity through the Sydney suburban system
- commission a study on competitive neutrality (re tax treatment) as between rail road and sea.
- development of a “Rail Model” for use in investment and development of the rail network.

**Attachment B: Summary of Standing Committee on Transport (SCOT) Rail Group Task Groups**

**Rail Uniformity**

**Structure:** Chair: Ms Robyn Beetham (Commonwealth DoTRS).

**Objective:** To review rail safety processes, technical standards and operational requirements (as applicable to the interstate network), identify impediments to efficient operation and determine priorities and means of achieving uniformity (where required).

**Progress:** The rail uniformity report (Maunsell) identified over twenty uniformity priority tasks which can be separated into two broad categories, namely, rail safety and operational requirements. Accordingly, the Rail Uniformity Task Group (through the SCOT Rail Group) established the Rail Safety Committee of Australia and the Industry Reference Group, to address these uniformity tasks:

*Rail Safety Committee of Australia*

The Rail Safety Committee of Australia (formerly the IGA Rail Safety Working Group) was asked to progress those uniformity tasks relating to rail safety. This Committee is chaired by the Commonwealth and comprises membership from state Accreditation Authorities and four industry representatives. The Committee is currently progressing a range of uniformity tasks, including:

- streamlining rail safety accreditation processes. A set of nationally consistent rail safety accreditation processes, aimed at streamlining current arrangements and facilitating mutual recognition of accreditation, will be finalised by the end of the year;
- examining alternative options for regulating rail safety within Australia. An options/ issues paper should be finalised by early 1999;
- reducing overlaps between Occupational Health and Safety and Rail Safety legislation. Initial discussions have been held with ComCare Australia and it is intended that a memorandum of understanding to clarify responsibilities be developed by early 1999;
- developing a national approach to rail safety accreditation fees. An options/ issues paper should be finalised by December 1998; and
- developing a national incident reporting database. A new national database will be in operation by December this year.

### *Industry Reference Group*

The Industry Reference Group (IRG) was established by Rail Group to progress those uniformity tasks (12 in total) relating to the development of uniform rail standards and operational requirements. Mr John Hearsch (rail industry consultant) was appointed by Rail Group to chair the IRG and membership comprises representatives nominated by the Australasian Railways Association (ARA).

The IRG is currently working on the development of nationally uniform standards, protocols and codes of practice covering issues such as train operations, rolling stock, railway (civil) engineering, and information exchange/ communication. The SCOT Rail Group has made \$100,000 available to the IRG to undertake this work. The ARA is also contributing \$100,000 for this task.

- it is expected that these standards/ protocols/ codes will be finalised by the end of 1999. Implementation is expected in early 2000.
- the expected total cost of developing and implementing the standards, protocols and codes is estimated at \$600,000. The ARA has indicated that it is prepared to commit an additional \$150,000 for this task. SCOT recently approved an additional \$250,000 to finalise the various standards, protocols and codes.

Consideration is also being given to establishment of a mechanism to ensure that the uniformity work being undertaken by the IRG will be adopted and applied in a nationally uniform manner. A mechanism to ensure periodic review and update of the uniformity work is also required.

### **Rail Accident and Incident Reporting**

**Structure:** Convenor: Mr Rob Burrows (WA DoT). The Task Group comprises representatives from the Commonwealth, NSW and Bureau of Air Safety Investigation, supported by a legal representative.

**Objective:** To develop a uniform system of investigating and reporting for rail which has as its aim the prevention of accidents through open publication of reports and concentrating on the systemic factors which contribute to accidents and incidents.

**Progress:** A review of State and Territory rail safety legislation has been undertaken to examine what administrative process amendments are required to establish more open process for reporting and investigating rail accidents and incidents. A final report and recommendations should be available for ATC consideration in December 1998.

## **Barriers to Private Investment in Rail**

**Structure:** Task Group jointly managed by Mr Tony Moleta (Commonwealth DoTRS) and Mr Andrew Rooney (South Australia, SA Transport).

**Objective:** Advise on barriers to private sector investment in rail and how to facilitate, more effectively, such investment.

**Progress:** A survey has been undertaken of current railways and potential new entrants to determine current and proposed rail investment and perceived investment barriers. It is expected that a final report be available for ATC consideration in December 1998.

## **Options for a Decision Making Mechanism**

**Structure:** NSW Department of Transport to prepare initial options paper, and Rail Group members are to coordinate relevant tasks.

**Objective:** To develop proposals for a decision making mechanism to ensure progress in achieving uniformity and reform of the rail industry.

**Progress:** An issues paper has been prepared which describes options for the establishment of some form of decision making mechanism for rail. The options include:

- the establishment of a Rail Transport Commission;
- the establishment of a Land Transport Commission (incorporating the NRTC and expanding its role to include rail);
- the establishment of a Rail Transport Commission which will be amalgamated with the NRTC to form a Land Transport Commission within 3 - 5 years; and
- the establishment of a Transport Commission (covering all transport modes).

Work still needs to be completed on what type of functions the various bodies (as described in the above options) will undertake.

It is anticipated that a revised paper will be submitted for consideration at the 4 December 1998 Australian Transport Council (ATC) meeting.

## **Competitive Neutrality Issues Affecting Road, Rail and Sea**

**Structure:** Commonwealth DoTRS co-ordinating preparation of a paper on state-of-play in fuel excise.

**Objective:** To examine, in the short term, the application of the diesel fuel excise on rail and its impact on the industry. In the longer term, to examine the broader issue of competitive neutrality between transport modes.

**Progress:** A paper has been prepared for endorsement by Rail Group on the application of fuel excise to road and rail with an expectation that it will be submitted to the Productivity Commission.

### **Upgrading the Interstate Network / Dedicated Sydney Freight Track**

**Structure:** Chair: Mr John Austin (NSW Department of Transport). Task Group comprises Rail Group members from all jurisdictions (except Tasmania) and a representative from the Australian Rail Track Corporation (ARTC).

**Objective:** To advise SCOT and ATC on the means of achieving and monitoring progress towards upgrading the rail network to improve levels of service. Also to provide options for the development of dedicated freight track(s) in Sydney.

**Progress:** Ministers envisage that the interstate network should provide the following levels of service within five years:

- less than 2% of track subject to temporary speed restrictions;
- at axle loads up to 21 t, a maximum speed of 115kph and an average speed of 80kph;
- at axle loads between 21 and 25 t a maximum speed of 80kph and average speed of 60kph; and
- train lengths of 1800m on the east-west corridor and 1500m on the north-south corridor.

A survey of rail industry participants has been undertaken to determine baseline network performance measurements. Once work has commenced on upgrading of the network (including the provision of a dedicated freight track in the Sydney metropolitan area) further surveys will be conducted to determine performance improvements as related to the initial baseline measurements.

### **Rail Investment Model**

**Structure:** Chair: David Bailey, (VIC Department of Infrastructure). Key role to be played by the Australian Rail Track Corporation (ARTC).

**Objective:** To develop a model which provides detailed information on the most efficient and effective investment and upgrading priorities.

**Progress:** Preliminary work on the development of a 'Rail Model' including an issues/ scoping paper has commenced. Further work on the model is awaiting the outcome of the work being undertaken by Booz Allen & Hamilton on the evaluation of the interstate rail track capital program (\$250m) to see whether their model could be readily adapted to produce a more generic investment model for Rail Group.