

13th July 1999

Ms Helen Owens
Presiding Commissioner, Productivity Commission
Progress in Rail Reform Inquiry
LB2, Collins Street East Post Office
MELBOURNE VIC 8003

Dear Ms Owens

PROGRESS IN RAIL REFORM INQUIRY

In response to your letter of 7th July, I advise as follows

The NSW Minerals Council would still argue that it is appropriate for a high volume regional network such as the Hunter rail network to be vertically separated if the owner were not a state-owned monopoly. If the owner were a vertically integrated monopoly, but not state-owned, vertical integration would still make impartial treatment of competitors of the haulage arm of the vertically integrated owner difficult to achieve. The transparency necessary for genuine competition in haulage, and for fair access pricing, would also be difficult to achieve. Having such a monopoly state-owned exacerbates these problems by presenting the state with conflicts of interest in establishing and policing an appropriate even-handed access regime and regulatory arrangements.

If a vertically integrated network were state-owned, but not a monopoly, vertical integration would not appear to be such a problem. Such conditions are unlikely ever to apply to the Hunter rail network, however.

The NSW Minerals Council would not support the establishment of a horizontally separated and vertically integrated Hunter rail network, unless the coal industry were to own and control the network. We are aware of arguments in favour of franchising vertically integrated rail networks. These are generally proposed in the context of the railway not being a complete monopoly, but having competition from other modes of transport, generally road transport. This does not apply to the Hunter rail network. Conditions of development consents, mining leases and other relevant agreements require that over 90% of the coal exported from Newcastle be transported by rail. There is no effective competition to rail for the great proportion of coal transported to Newcastle.

Under the circumstances applying in the Hunter, tender prices would simply reflect the opinions (correct or otherwise) of tenderers on monopoly rents that could be transferred from the current Government owner to the winning tenderer. Rail charges would have to be set to

recover the tenderer's expectations of monopoly rent inherent in its tender price. Such an arrangement could result in higher rather than lower rail charges in the Hunter.

A horizontally separated and vertically integrated Hunter rail network would also need to provide for a large volume of

- CityRail traffic
- CountryLink traffic
- interstate freight and passenger traffic
- intrastate grain and general freight traffic

most of which would have its origin or destination or both outside the Hunter network. Unless the operators of all that traffic were part of the vertically integrated railway, this type of arrangement would do little if anything to avoid difficulties in pricing and scheduling of traffic which is not part of the integrated network. It could worsen the difficulties currently being experienced in the Hunter by presenting a clear conflict of interest to the owner of the network in establishing fair access and pricing arrangements to all operators using the network.

Please advise if we can be of any further assistance.

Yours sincerely

Denis Porter
Executive Director