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Mr Alan Johnston
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Dear Mr Johnston,

**NATIONAL ACCESS REGIME INQUIRY**

1. Thank you for the copy of the Position Paper and arrangements to appear before the Commission at Sydney on 6 June 2001.

2. Please accept this letter as a further submission to the present inquiry. This submission is made in a personal capacity and although it has drawn on research conducted at the University and supported, in part, by the Rail Infrastructure Corporation, it does not necessarily reflect the views of either organisation.

3. It is submitted that the Commission should interpret the terms of reference for the present inquiry to include interstate rail access issues.

4. The reasons for having any access regime are briefly examined in the Position Paper, which notes, inter alia, page xv, that the access regime *"... has proved to be a significant, but often controversial, piece of economic regulation."*

The value of infrastructure assets affected by the regime is noted, page xv, as at least $50 billion, and *"The services these assets provide are of major importance to the fortunes of most Australian businesses. They are also vital to the quality of life enjoyed by Australian households."*

On page xvi, it is noted that *"In most circumstances, competition between suppliers of goods and services will result in lower prices, a wider range of products and better services for consumers."*

The tier 1 list of proposals, includes, page xxii, a proposal *"relating to the efficient use of, and investment in, essential infrastructure facilities"*, commenting that there is a strong case *"for providing investments in essential infrastructure"*.

5. The value of the national rail track network (which is in need of precise definition) of length about 8000 km could be well in excess of $12 billion.

A more robust estimate would be helpful.

Numerous Government inquiries, including 1998-99 inquiry by the Commission into Progress in Rail Reform have found past under-investment in the national rail network, and that more investment is required.

Investment, either private or public in the national rail track would lead to significant benefits, as detailed in the following Federal Government inquires.

House of Representatives Standing Committee on Communications, Transport and Micro economic Reform Canberra (1998) Tracking Australia

Productivity Commission (1999) Final Report on Progress in Rail Reform

Rail Projects Taskforce (1999), Revitalising Rail: The Private Sector Solution, Department of Transport and Regional Services, Canberra

Substandard national track has also been revisited in the ARTC Track Audit released in May 2001, whilst the April 2001 report 'Back on Track' of the House of Representatives Standing Committee on Communications, Transport and the Arts has asked Government to look again at improving the track, the regulatory regime, and interstate track access.

It is hoped that the Final Report for the present inquiry will give more attention to interstate rail track access and investment than the Position Paper did.

6. Sustained Federal Government in the National Highway system, and relatively cheap access pricing for heavy trucks, does impact on the viability of rail and the ability to raise funds to improve what must be regarded as 'essential infrastructure.' these factors can surely not be regarded as totally irrelevant to the present inquiry.

By analogy, the corresponding situation with the National Electricity Market would have been for the Federal Government to remain indifferent as to whether new or improved interstate connecting grids had been built, and, to have poured at least $700 million per year to develop a National Gas Grid System.

7. It is also of note that in each of Canada and the United States, the Federal Governments play a much larger role than in Australia in the regulation of rail systems and the operation of intercity rail passenger services.

The question as to whether rail systems should be vertically separated and open access granted is a valid one. Elsewhere, to the Neville Committee in 1998, this writer argued the way it was working in Australia had shortcomings.

*From Vol 7 of submissions, pages 1589 to 1591 - edited.*

Australia now appears, by design or accident, to be conducting two giant experiments.

**A. To see if rail can successively compete for medium sized land freight tasks in the face of extensive 'highway subsidisation'.**

**B.To see if vertical and horizontal disaggregation of rail systems can assist rail in winning land freight in a highly competitive environment.**

On the basis of much evidence presented to the Committee, it would appear at best that these two experiments are inconclusive, and at worst, they are dismal failures. However, the situation is somewhat clouded by:

i. The demonstrably poor state of much of the mainline interstate rail track, and in some cases, mainline export track.

ii. The propensity of the Federal Government, and some State Governments, to encourage heavier and/or longer trucks, in a regime of low road track access pricing.

Medium sized land freight tasks include interstate freight movements, and certain bulk movements, where road and rail compete for freight. As such, these land freight tasks exclude large bulk export freight tasks such as iron ore, most coal, and some wheat that are well suited to rail, and, urban goods movements that are well suited to road.

The difficulty faced by rail in competing in Australia for medium sized land freight tasks is highlighted by the ongoing annual losses of National Rail (NR). Despite some errors of judgement on NR's part (including turning away certain East - West traffic in 1994 leading to introduction of competition for Melbourne - Perth freight in 1995) NR has worked hard in the area of rail reform. The failure to make an operating profit is now mainly a reflection of Australia's unique land transport policy environment. It is also relevant that National Rail does not have possession of mainline interstate track as per the 1991 Shareholders agreement. ...

Some other topics follow.

**What is the cost of disaggregation of rail systems in Australia ?**

When the Committee in an earlier life produced in 1989 its landmark report "Rail - Five Systems - One Solution" there were five Government rail systems involved in the supply of rail freight services. The solution would appear to have been to contract the number of systems, and instead, a new one, National Rail, was created. If that was not enough, we now have an even greater number when the new rail track authorities are included.

At the end of the day, the main question is: Have the new arrangements assisted rail to win a larger share of the nation's land freight task ? Given that Australia continues to have the largest road freight (net tonne km) per capita in the world, the answer could be negative. Thus, the concerns of the 1989 Committee repeated below would

still appear to be valid :"*...The plain fact is that a greatly increased amount of freight could be carried across the continent by rail more efficiently and with greater safety than it ever could be by road. Road has been preferred because it is seen as providing reliable transit times. If rail were more efficient and carried the amount of freight it should, lives would be saved, less non-renewable resources would be used and less pollution would be generated.....Australia is paying the price of neglect and bandaid solutions in an endeavour to solve problems in its rail systems. ... Rail has been starved of funds and rendered inefficient."*

... upgrading interstate mainline rail track and Adelaide - Melbourne rail track under the Keating Government's rail capital works program ... was, as recognised in reports in 1991, only the beginning of the capital investment needed to allow for efficient and competitive interstate rail freight operations.

The costs of disaggregation of rail systems are not only transaction costs, but also delays in track improvements. As well as the **large piles of concrete sleepers** that may be seen at or near Maroona in Victoria, and have been there since May 1995, there are the delays by National Rail in getting longer crossing loops. A further example is the **lack of a triangle** in Parkes, NSW to allow through running of Sydney - Cootamundra - Broken Hill - Adelaide/Perth trains. The absurdity of this situation, which has persisted for five years since National Rail (NR) commenced freight operations, is frequently shown. Take for example, the progress of SP5 (NR's Sydney - Perth container train) at Parkes on the Friday afternoon of May 29, 1998 (after the official opening of F.C.L. Interstate Transport Services Pty Ltd's new intermodal interstate freight terminal at Goobang Junction near Parkes).

The 1100 metre long Sydney - Perth container train, with two NR locomotives hauling in front, was coming up from Cootamundra via Forbes and heading west. However, at Parkes, it could not turn to the west but instead had to come into Parkes Station. Because of the length of the train, two FreightCorp locos then had to haul the train into Goobang Junction. The NR locos, then followed, and using the longer Goobang loop, moved to the front of the train. After the loss of nearly an hour, the train proceeded to Broken Hill. During some of this shunting operation, the Newell Highway was blocked, and for some time, another road was also blocked (two level crossings affected).

Perth/Adelaide trains moving to Sydney/Brisbane via Cootamundra also face the same problem. This has been going on ever since the early 1990s, when NR took a reasonable operating decision to run these trains via Cootamundra to avoid the steep grades and rail congestion of the Blue Mountains.

That such basic infrastructure could be denied to NR operations for so long is an indictment on vertical disaggregation of rail systems. If one tenth of the effort, and

expense, that had gone into disaggregation of rail systems had instead gone into track upgrading, I would suggest that the Parkes triangle would have been built long ago.

Updating (June 2001) on matters raised in the above submission. The 'giant sleeper pile' at Maroona, Victoria, stood from 1995 to 1998-1999 when it was inserted in the track by contract for the Australian Rail Track Corporation Ltd (ARTC). The ARTC formally commenced operations, as a company owned by the Federal Government, pursuant to a November 1997 Inter Governmental Agreement. Thus, it took the Federal and State Governments, and the various relevant rail systems, in the order of four years to finally perform the necessary and long overdue installation of concrete sleepers. Such work would have been performed by an integrated rail system in a matter of months rather than years. The ARTC in its 1999 Annual Report was able to report that Melbourne-Adelaide premium train transit times was able to be reduced from over 13 hours to 10.5 hours.

The ARTC in a media release of 1 May 2001 was able to point to a growth in rail's market share of freight on the interstate corridor connecting Perth to the eastern states to a level of 77 per cent. This is due to many factors, including infrastructure upgrades (Australian National's concrete resleering and Adelaide - Melbourne gauge standardisation) underpining rail - rail competition where three rail operators now offer Melbourne - Perth rail services.

The Parkes triangle featured in Railway Digest for July 1998, with an article highly critical of the delays. Work subsequently started when National Rail and the NSW Rail Access Corporation finally reached agreement on scope of work and payment.

On June 11 1999, Deputy PM Tim Fischer 'opened' the Parkes Triangle, which was in place on 1 May 99. The event was a National Rail function, who took the initiative for the $2 million investment to gain substantial savings in transit time for Sydney - Perth trains - up to 3 hours. Again, such work could have been performed by an integrated rail system in a matter of months rather than years.

. There are many current examples of substandard track and antiquated safeworking systems on the mainline track linking Australia's three largest cities. Two stand out:

A. On November 6 1998 the ABC 7.30 Report feature antiquated Casino - Brisbane safeworking arrangements. The report showed a train stopping at a NSW croossing loop to change staffs etc, at unattended crossing loops, and noted the delays to train working.

Improvements in Superfreighter Performance: Melbourne - Sydney and Sydney - Brisbane Corridors, Maunsell McIntyre Pty Ltd, Australian Rail Track Corporation,

B. The rail bridge over the bridge over the Murrumbidgee River now has a 20 km per hour speed restriction imposed on all trains. About $12 million was spent on the bridge approaches under the 1992-95 'One Nation' project to lift a then 20 km/hr speed restriction, reduce maintenance and allow for heavier trains and better reliability and safety. However, the main spans of the bridge date back to about 1880, and the bridge has now reached the end of its economic life. Benefits of the new bridge, at a cost of some $16 million (see the Track Audit report cited above, page 60), include improved train reliability and the ability to allow the passage of double stacked containers.

The delays over many years to remedy these deficiencies are, in part, a result of vertical separation of rail operations, leading to scope for agencies to look to others to bear the necessary cost.

8. One consequence of substandard national track is excessive reliance on long haul trucking. It is clear that when all costs are considered: drivers' well being (subject to Federal and NSW inquiries in 2000), road system costs, road crash risk costs, environmental externalities; that line haul trucking is a high cost option.

Road transport lobby groups relentlessly argue that the taxes and charges that they pay far outweigh the outlay by Government on roads. On the other hand, a succession of Government inquiries has found significant under-recovery from road system costs from heavy trucks. As of 1 July 2000, the Federal diesel excise was lowered from about 43 cents a litre to 20 cents a litre, with 20 cents a litre nominated as a road user charge. Although excise was removed from diesel used in rail operations, as rail is about three times more fuel efficient than road for line haul freight, the change further distorts competitive neutrality (BTE,1999).

The cost of a road crash fatality was noted by the BTE (2000) in 1996 as $1.5 million, the cost of a road crash requiring hospitalisation as $325,000, and the average unit cost of other injuries as $12,000. With Roads and Traffic Authority data for 1996 for NSW road crashes involving articulated trucks indicating 56 fatalities, 208 serious injuries and 439 other injuries, the cost of NSW road crashes involving articulated trucks in 1996 is estimated as nearly $157 million. From ABS (2000b) estimates for the road freight task for articulated trucks operating in NSW in 1998-99 as about 32.9 billion tonne kilometres, the average unit cost of NSW road crashes involving articulated trucks is about 0.48 cents per net tonne km. We suggest a unit cost in Australia of 0.5 cents per net tonne km. Based on average fuel use by articulated trucks and their freight output in the late 1990s of about 36 tonne km per litre, this equates, on average, to a hidden road crash risk subsidy of about 18 cents per litre.

For allocation of environmental costs of noise and air pollution, the Inter-State Commission (1990, p 227) suggested inclusion of an externality charge of 8.1 cents per litre for diesel on 1989-90 data. Indexed to 1997-98 using data, this is 9.96 cents per litre for diesel. Thus, the total hidden subsidy for road crash risk and environmental externality costs for articulated truck operations in NSW is an average of about 28 cents per litre.

In summary, the present national track access arrangements, and substandard track, are only serving to increase rail costs to shippers and to increase dependence on line haul trucking between Australia's three largest cities. They are in need of improvement.

Yours sincerely,