Progress in Rail Reform

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Progress in rail reform

Introduction

(Slide 1)

The Productivity Commission recently completed a year-long public inquiry into *Progress in Rail Reform* in Australia. I was fortunate to have Derek Scrafton working with me on this inquiry.

We submitted the final report to the Commonwealth Government in August.

I would like to thank the organisers of this conference for inviting me to speak today.

I accepted the invitation hoping that our final report may have been publicly released by now. Given that it isn't, hopefully you will understand if I say we are still at a pretty sensitive stage.

(Slide 2)

Hence I will have to confine my comments today to our general approach rather than specific recommendations.

I will concentrate on three broad areas:

- Progress in rail reform since the then Industry Commission's inquiry in 1991;
- Identifying impediments to further improvements in performance; and
- Some of our general strategies for overcoming these impediments and furthering reform.

It should be noted that we were **not** asked to examine:

- the merits of specific large scale investment proposals such as the Alice Springs/Darwin railway
- other mode of transport (eg light rail)
  - -- we looked at road transport only as a competitor to rail
- intermodal transport issues

Progress in Rail Reform

Productivity Commission
Public Inquiry

Final Report Submitted to Government: 5 August 1999

Outline

- Progress in rail reform
- Impediments to reform
- Strategies for overcoming the impediments

Progress in rail reform

(Slide 3)

There is no doubt that railways have undergone significant reform since 1991.

All jurisdictions have implemented reforms, although they have adopted different solutions to similar problems.

Some railways have undergone substantial structural change. New South Wales is an obvious example. Others have remained vertically integrated operations.

Ownership and governance arrangements have also been reformed.

There have been initiatives to improve the consistency of safety regulation.

And a variety of access regimes have been implemented across jurisdictions.

These reforms have changed the face of the railways themselves, and the environment within which they operate:

- There is now greater private sector participation. For example, the number of private railways has increased from six in 1991 to 19 in 1999.
- Competition between railways has increased, especially on the East-West corridor.
- Employment levels have fallen from around 90 000 workers in 1986 to around 36 500 now. And
- Consumers and rail users have benefited from increased railway efficiency and falling freight rates.

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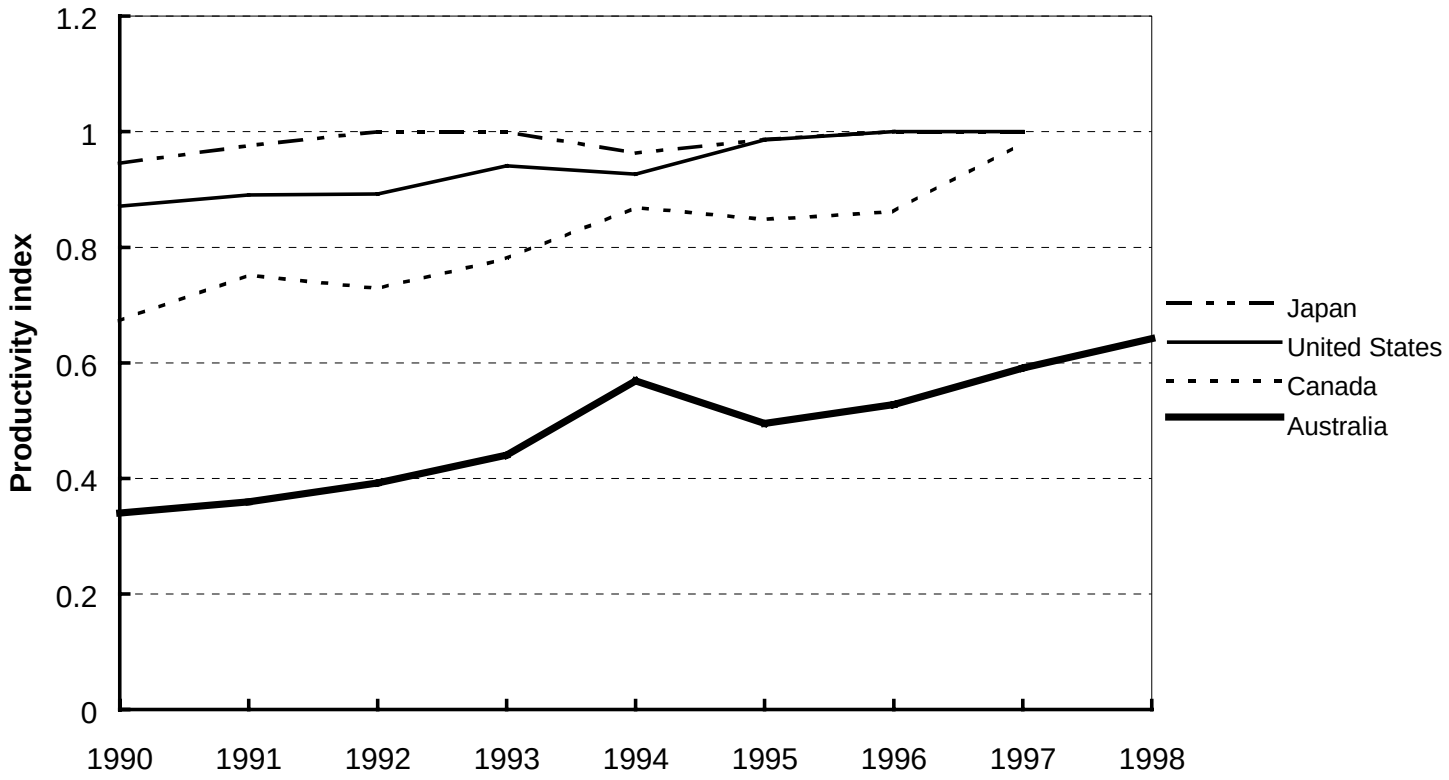
On average, Australian government-owned railways have experienced productivity growth of around 8 per cent per annum since 1989-90 (and real freight rates decreased by 30% between1990 and 1998).

Productivity growth was higher than that achieved in Canada, Japan and the US over a similar period. However the level of productivity achieved in Australia is still significantly less than in North America, even allowing for differences in scale and other factors.

Progress in rail reform

- **There has been significant reform since 1991**
- **This has led to**
  - » an increased number of private railways
  - » falling employment levels
  - » increased railway efficiency and falling freight rates

Productivity levels of national rail systems, 1990 to 1998



Impediments to reform remain

Despite these reforms and the higher productivity and lower freight rates achieved, progress in some areas has been slow and impediments to further improvements remain.

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Many government-owned railways are losing money (even after inclusion of payments for non-commercial services) or are barely viable.

Despite corporatisation, these railways are still not sufficiently commercially focused.

Inadequate investment in rail infrastructure has been a particular problem.

Current arrangements do not ensure competitive neutrality between government and private railways, nor between transport modes.

The introduction of access regimes has been slow. And the complexity of arrangements in some jurisdictions is hindering industry performance.

Finally, there are still inconsistencies in safety accreditation fees and operating procedures and standards across jurisdictions.

The Commission's approach to reform

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The overall objective of reform should be to achieve an efficient transport system.

Improvements in railway efficiency can come from a number of sources. The Commission identified 3 broad areas of efficiency gains.

Many of the gains achieved so far come from the first source — making better use of existing inputs. To some extent these are the 'easy gains'.

The second source of efficiency gains — introducing the most appropriate inputs and technology — involves making dewa

Achieving competitive neutrality

- **Between rail and road transport**
  - investment levels and funding criteria
  - road user charges
  - access regimes, safety regulations and operating procedures and standards

Notwithstanding these comments more needs to be done to promote competitive neutrality between rail and road transport.

(Slide 13)

There are several approaches to achieving competitive neutrality.

The integrated approach involves centralised planning and a heavy reliance on government funding.

Another option, what we have called the Swedish approach involves subsiding the rail sector to offset the competitive advantages of the road sector.

However, the Commission's prefers a more commercial approach as a better way of promoting competitive neutrality.

This approach would involve:

- allowing rail to operate on a commercial basis — that is, operate and invest only where services are viable;
- non-commercial objectives would be provided by using a purchaser-provider model in funding CSOs; and
- a more commercial approach being adopted for the provision of roads.

Having said that, we have identified some significant problems relating to the existing infrastructure which may require additional Commonwealth funding in the short term.

Safety regulation

(Slide 14)

Safety regulation is an important element of any reform package. It has not only economic implications but also has significant social implications in terms of the health and safety of both customers and rail workers.

This has been made abundantly clear by the tragic loss of life at Paddington in the United Kingdom a few weeks ago.

We noted some progress has been made to reduce the inconsistency of safety legislation between jurisdictions (which should help new entrants and small operators).

Approaches to competitive neutrality between rail and road

- **Integrated approach**
  - centralised planning and heavy reliance on government funding
- **Swedish approach**
  - subsidises rail sector to offset competitive advantages of road sector
- **Commercial approach**
  - better way of promoting competitive neutrality

Safety

- Some progress in reducing inconsistent regulation
- But accreditation fees remain duplicated across jurisdictions
- Safety and operations must be separated

However, issues such as the duplication of annual accreditation fees across jurisdictions remain (which don't apply in the road transport industry).

And it is still unclear whether mutual recognition under the revised national guidelines will work in practice.

Progress should be reviewed within say 12 months. It it doesn't work then consideration should be given to an alternative regulatory approach (possibly based on a single national regulator as applies in civil aviation and road transport).

Steps could also be taken to establish a permanent process for progressing harmonisation of operating procedures and standards.

It is essential that any outstanding inconsistencies and confusion be eliminated.

This will benefit not just operators on the interstate network, but those moving into intrastate networks in other states. And the Australian community needs to be reassured that its railway system is as safe as possible.

What should each jurisdiction do?

Achieving an efficient transport system requires action by both the Commonwealth Government and individual jurisdictions.

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The Commonwealth Government has a significant role to play.

It can lead the reform process, both where it has direct responsibility and where a national approach is required. The Commonwealth can:

- Facilitate the on-going harmonisation of regulatory arrangements — especially safety regulation.
- Establish a single network manager for the interstate network. And
- Ensure a more commercial approach to road provision. As part of this the Commonwealth should establish an inquiry into the provision funding and pricing of roads in Australia.

(Slide 16)

Individual jurisdictions need to implement appropriate policy packages for the different networks.

What should Governments do?

- **Commonwealth has a role in**
  - facilitating the ongoing harmonisation of regulatory arrangements
  - establishing a single manager for the interstate network
  - ensuring a more commercial approach to road provision

What should individual jurisdictions do?

- **Jurisdictions need to implement appropriate policy packages for different networks**
- **Policy areas include**
  - ownership
  - structure
  - access

In some cases this will require reform of ownership and structural arrangements and the introduction of appropriate access regimes.

Some jurisdictions have already made changes in these areas. Others have a longer way to go. In our final report we have spelt out in some detail the implications of our recommendations for individual jurisdictions.

Conclusion

So in conclusion our report acknowledges that Australian railways have undergone significant reform since the Industry Commission's 1991 inquiry. But it is now time to look to the future and that future is still uncertain.

Further reform must be pursued if our railways are to play an important role in Australia's transport system in the 21st century. (At one extreme no one here would like to see railways limited to carrying coal and other bulk commodities.)

We have made a number of recommendations for further reform which (if accepted) would yield significant benefits to consumers of rail services. Passengers would benefit from better services.

And we could see further reductions in freight costs and improved service quality which would benefit not only Australian industry, but also the economy more widely.