

Supplementary submission to the Productivity Commission

Inquiry into road and rail freight infrastructure pricing

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A. Introduction

1. This supplementary submission will again draw on research conducted at the University of Wollongong and supported, in part, by the Co-op Research Centre in Railway Engineering and Technologies (Rail CRC). However, it does not necessarily reflect the views of either organisation.

B. Data deficiencies

2. Obtaining accurate and up to date land freight data in Australia continues to be of concern. McDonnell (1980, Vol. IV, p1/3)¹ noted there were serious data deficiencies affecting the road freight industry. Some 19 years later, the Productivity Commission² (1999, p8) noted that "*There is a lack of up-to-date transport data in Australia, impeding public debate and sound policy formation*".

The Australian Transport Council³ (2004) proposed a national data framework. Despite some recent efforts to improve the provision of comprehensive and up to date transport data, the BTRE (2006)⁴ noted ongoing land freight data deficiencies and that "*the issue of rail data is perhaps the most vexing*".

In addition, the fact that the current estimates⁵ for the cost of road crashes (\$15 billion in 1996) are now 10 years old shows a need for more resources to be applied to timely data collection and distribution. It is understood that the BTRE is updating the cost of road crashes; however, forthcoming BTRE reports at <http://www.btre.gov.au/publications.aspx> do not show any report on the cost of road crashes. Incidentally, information on domestic airfreight was discontinued due to data difficulties (BTRE, 2005)⁶.

This writer remains of the view that as part of a ten point transport plan⁷ encompassing road safety, environmental factors, user pays and polluter pays, and planning, that there should be "*Formation of a National Bureau of Transportation Statistics needs to occur with the publication of accurate, comprehensive and up-to-date information on all modes of transport, including energy use and greenhouse gas emissions.*"

¹ *Report of the Commission of Enquiry into the New South Wales Road Freight Industry*, Volume IV, G McDonnell, Government Printer, Sydney.

² Productivity Commission (1999, p8) *Progress in Rail Reform*

³ *National Transport Data Framework 2004* Australian Transport Council

⁴ *Freight measurement and modelling in Australia*" 2006 Report No 112

⁵ BTRE (2000) *Road crash costs in Australia*, Report No 102

⁶ BTRE Avline issue no 7, p14

⁷ *Back on Track: Rethinking transport policy in Australia and New Zealand* Laird, Newman, Bachels and Kenworthy, UNSW Press 2001

C. More on the New Zealand STTC report

The New Zealand rail freight task in 2002-03 was noted as 3853 million tonne km (TranzRail Holdings Annual Report, 2003), thereafter being conspicuous by its absence in subsequent Toll NZ annual reports. The New Zealand road freight task is about 14 bktm. New Zealand has had in successful use, since 1978, a system of mass-distance pricing for heavy trucks. These charges for the heavier articulated trucks hauling long distances are appreciably higher levels than the combined annual registration charges and fuel road user charges that apply in Australia.

A Surface Transport Costs and Charges (STCC) study was commissioned by the New Zealand Ministry of Transport (2005). The study provided data on the costs and charges during 2001-02 for the movement of freight and passengers for road and rail with a view to answer to the question “*What are the costs of land transport and who is paying them?*”

Vehicle operating costs were estimated at about \$17 billion, including the cost to maintain and operate the network at some \$895m and a capital return on infrastructure (recoverable) at \$750m. The STCC study included estimates for various external costs, including additional costs of road accidents not met by insurance etc (\$670m) and \$111m for environmental costs (including greenhouse gases costed at \$25 per tonne of CO₂ e). The user and related charges were \$2.63 billion including Fuel Excise Duty of \$1079m and Road User Charges from heavy vehicles at \$584m. The allocation of external costs includes \$8.5m for rail freight.

Unit rates of externalities were given (page 155). It was found that the national rail network had environmental costs of 0.8 cents per net tonne kilometre (c/ntkm) with short run marginal costs of 8.2 c/ntkm. By comparison, road freight had external costs of 2.9 c/ntkm (including environmental, accidents and congestion), with an overall short run marginal cost of 12.7 c/ntkm.

A sub section (5.5 The viability of the rail sector) of the summary of the STCC study in regards to freight is of interest and follows.

“At the time of the analysis in 2001-2002, the STCC shows that the rail network as a whole was not financially viable, with a total annual shortfall of \$95 million per annum. The total system revenue (\$406 million) is sufficient to allow for rolling-stock replacement (at similar standards to the existing), but it can cover only a small proportion of the capital charge on recoverable infrastructure assets (\$130 million per annum) which will need to be renewed in the medium/long term. Revenues do not cover the cost of upgrading, improving or expanding the rail infrastructure.

“In order to compete with road freight, there has been downward pressure on prices for rail. The average rate charged by Tranz Rail fell from 12.5c/ntkm in 1993 to 10c/ntkm in 2000 – a nominal fall of 20%. At the same time, TranzRail was required to generate rate of return on infrastructure to investors.

“The total cost analysis shows that rail freight users pay on average 82% of the costs they impose on society compared with trucks who pay on average only 56% of their costs. While it is recognised that the recovery rate for trucks on specific roads will vary widely

within the total, so will rail on specific lines. Much of the truck activity included within this 56% takes place within urban areas and is not capable of movement by rail.

“These initial findings suggest however, that if the prices paid by commercial vehicles to use the roading network were raised to cover more of the costs they generate, this could support a shift of suitable traffic to rail which in turn, would be likely to increase the overall financial viability of rail. The alternative to such a policy, given the Government’s stated intention to retain the rail network, is long term and continuing subsidies to the rail network.”

D. Subsidies to rail freight⁸

Over the years, some but not all rail freight has benefited from Government subsidies. Rail freight’s financial situation deteriorated during the 1970s. Although reform was underway during the 1980s (notably with Australian National, Westrail and Queensland Rail), rail systems in Australia had an annual freight deficit of about \$525m in 1989-90 (Industry Commission, 1991 noting one quarter of aggregate rail deficits of some \$2.2 billion). Of this amount, over \$300m was due to losses in interstate rail freight with valuable work in this area undertaken during the 1980s by the Inter-State Commission (ISC - 1986, 1987, 1990). By the mid 1990s, the aggregate rail freight loss had been reduced to the order of \$200m (Bureau of Industry Economics, 1995).

Community Service Obligation (CSO) explicit payments towards the haulage of some intrastate rail freight for 1997-98 included \$90m for NSW, \$6.5m for Victoria, and \$158.8m for Queensland (Productivity Commission, 1999, loc.cit.).

The NSW Ministry of Transport 2005 Annual Report (p44 and 45) notes CSO payments of \$357m in 2003-04 for the Rail Infrastructure Corporation for track maintenance of lines not leased by the Australian Rail Track Corporation (ARTC). This includes Sydney track used by passenger trains. There was also some \$5.7 to ARTC for the lease and operation of the non-suburban rail lines and \$3.8m as a rail freight CSO (for the haulage of petroleum fuel by rail over the Blue Mountains). These amounts were respectively \$133m, \$4.8m and \$1.6m in 2004-05. In addition, on 19 April 2005 the NSW Minister for Transport announced an additional \$13m for grain lines to ensure the maintenance of eleven lines to service the next harvest and beyond.

The 2005 Annual report for Queensland Rail (QR - p58) noted a Transport Service Contract (TSC) and CSO funding where QR is contracted by Government to provide the following service outputs: Citytrain, parts of Traveltrain, some freight services, and Network Infrastructure (for agreed rail infrastructure network standards and capacity). Queensland Transport (2006)⁹ notes, a regional TSC for “... *ensuring certainty in the provision of scheduled general freight train services to western and rural centres of Queensland*” but not directly subsidising for example freight trains operating on the North

⁸ This, and the preceding section is from a forthcoming September 2006 paper of the writer *Freight transport cost recovery in Australia*, Australasian Transport Research Forum, Gold Coast

⁹ Queensland Transport (2006) website accessed 30 June
<http://www.transport.qld.gov.au/qt/RPF.nsf/index/RailRegServ>

Coast Line and Mt Isa Line. In 2003-04 this payment amounted to \$19.1m "...and is additional to government funding of the non-commercial parts of QR's infrastructure totalling \$262 million part of which pays for the maintenance of rail infrastructure in regional Queensland." Such track is used by freight and passenger trains.

Thus, payments made in 2003-04 by the governments of New South Wales and Queensland for freight CSOs amounted to about \$23m. It is not possible to say how much of the \$625m provided by these governments for track CSOs that year is attributable to rail freight. In other states, there has been little or no payment for either freight CSO's or to support track used for intrastate rail freight. However, with the notable exception of Western Australia, where the track was upgraded prior to its long term lease as part of the sale of Westrail in 2000, much of the intrastate track in the three states of Victoria, South Australia and Tasmania has reached a point where it is need of government assistance to prevent closure. In the case of Tasmania, the Federal Government has offered a conditional \$78m package with some State Government support. However, appreciably more than this amount will be needed to rehabilitate the Victorian rail network supporting rail freight.

In the case of interstate track, in 2003-04, the ARTC received \$100.4m in access revenue for its South Australian owned and Victorian leased standard gauge track; and, in 2004-05 with the inclusion of NSW interstate mainline track from 5 September 2004, access revenue was \$238.7m (ARTC, 2005, p44). However, this revenue was not sufficient to cover long deferred maintenance and some upgrades that do not include any track straightening. The ARTC 2004-09 track upgrades are now underway at a cost in excess of \$1 billion, plus AusLink funding from June 2004 to June 2006 amounting to \$820m.

E. Oil vulnerability

If oil prices continue to increase, then it is quite possible that more use will need to be made of rail and less of road for either some high volume or long distance freight. Getting the transport policy settings improved to better direct investment into rail track is a challenge in any event. It will be even more important if oil remains expensive.

However, predicting future oil prices is difficult. For example, in the Sydney Morning Herald 'Plenty of argument over outlook for oil' (25 July 2006) one analyst said oil prices will reach \$US100 per barrel, possibly this year, another (Louise Yamada) who predicted in July 2004 that oil would reach \$US67 within 'months to years' would not be surprised "to see oil in excess of \$US100" whilst a third analyst says only a US recession could stop the advance to \$US100 by the end of 2007. A fourth analyst said such a price is unlikely unless there are large physical disruption.

As recently as 15 June 2006, a scenario was raised at the BTRE Colloquium held at Parliament House in Canberra that within two years, oil prices will have fallen below \$US40 per barrel. However, if we go back to a February 2005 BTRE report¹⁰ we read (with emphasis added): "*The 12 months to October 2004 saw world prices rise around 70 per cent, reaching historical highs (in nominal terms) of US\$55 a barrel. However, unsettling as the dramatic price rises were, none of the professional market analysts suggested that they signalled a long-term decline in world oil reserves. Rather, they were*

¹⁰ BTRE (2005) Working Paper 61 'Is the world running out of oil? A review of the debate' page 23 IEA 2004b denotes the Paris based International Energy Agency's World Energy Outlook 2004.

attributed to a variety of factors including unanticipated growth in demand from China and a series of relatively minor supply disruptions coupled with the 'geopolitical risk premium' from the instability in Iraq and the Middle East.

*"The question exercising the minds of the analysts is whether October 2004 was a market aberration or a sign of future price trends. The IEA's World Energy Outlook (October 2004) concluded that '**prices reached in mid-2004 are unsustainable and market fundamentals will drive them down the next two years** (IEA 2004b p. 47). Consistent with this view, the IEA anticipates prices (in US\$2000 a barrel) to decline to \$22 by 2006, climbing again to \$29 by 2030 ..."*

If we go back further to a CSIRO, ABARA and BTRE 2003 report¹¹ we read in part *While oil prices have been at historically high levels in recent years, some easing of prices is expected in the near term, with further easing in the period 2008 to 2012, to around US\$23 a barrel (in 2003 dollars) in West Texas Intermediate terms. The Australian dollar is projected to return, over time, to a trend level of US 65 cents.*

F. AusLink and rail freight infrastructure

The foreword of the draft Sydney Melbourne Corridor Strategy released in early August 2006 by the Department of Transport and Regional Services on the AusLink website (<http://www.auslink.gov.au>) notes in part: *Consistent with the spirit of AusLink, the Sydney-Melbourne Corridor Strategy is a collaborative initiative that was developed by:*

*Australian Government Department of Transport and Regional Services;
NSW Department of Planning;
Roads and Traffic Authority (NSW);
NSW Ministry of Transport;
Department of Infrastructure (Victoria);
VicRoads (Victoria); and
Department of Urban Services (ACT).*

Both the Australian Rail Track Corporation or ARTC and RailCorp (NSW State Rail) are conspicuous by their absence in this list. The inclusion of road authorities and exclusion of rail authorities is also a feature of the Brisbane - Cairns and Perth - Adelaide corridor strategies. In the original spirit of AusLink, it is suggested that competitive neutrality should extend to the final strategies for each corridor being developed and owned by rail track authorities as well as road authorities. Factors such as road and rail track pricing, external costs and oil vulnerability are also important.

The Sydney Melbourne Corridor Strategy is of interest as this corridor joins Australia's two largest cities. It also has other special features, as outlined in this writers primary submission to the present inquiry. These include the high expenditure to date on the Hume Highway (over \$5 billion to date from 1974 to 2004 in todays terms with a further \$1.4 billion to 2009), the relatively low expenditure to date on the Sydney - Melbourne railway, and, the need for major upgrades including track straightening.

¹¹ CSIRO, ABARA and BTRE 2003 report 'Appropriateness of 350 million litre biofuels target' re Viability of ethanol page 20