Road and Rail Freight Infrastructure Inquiry
Productivity Commission
Locked Bag 2
Collins Street East
Melbourne
VIC 8003

By email: freight@pc.gov.au

Short submission to Road and Rail Freight Infrastructure Inquiry

Dear Commissioners,

This company is an investor with current or recent experience as a shareholder in transport sector entities including businesses in:

1. Rail freight operations;
2. Long run prediction and optimisation of road construction and maintenance; and
3. Telemetry for road and rail vehicles.

We are accordingly well placed to make this delayed but well informed comment on various matters before you. Principally and disappointingly, we note the Commission has been unable to answer in any clear way one of its major terms of reference about road costs, finding in your own words 'a lack of adequate data about corridor costs and traffic flows precludes a definitive conclusion.'

We believe that further effort should have been expended on this issue rather than the rather expansive chase of many second and third order issues contained in the discussion draft ('PC Draft'). We also believe that such data could be readily obtained from private sector entities.

This submission will now make comment only on the major issues upon which we are relatively well informed.

Cost attributions

As the PC Draft finds, rail costs are relatively well known, though the poor quality and extent of much of the rail network precludes efficient rail operations in a general sense. Contrary to the PC Draft, road costs are well known in the private sector.

The principal business of a former investee company Pavement Management Services Pty Ltd ('PMS') is in the prediction and optimisation of road construction and maintenance costs. Its clients include holders of major road maintenance contracts throughout Australasia including, for example, Transfield, as well as regional councils. The principal, Dr John Yeaman is a world expert in the field and the company operates a proprietary database including deterioration models across climate modes and a network of reference sites for measuring deterioration and traffic flows. PMS capability can be observed as significantly superior to that of ARRB, upon whom PC appears to have relied.

PMS estimates for long run maintenance contracts (such as those utilised in NSW under the RTA performance specified structure) have been shown accurate over 10 – year plus time frames at an accuracy in the order of +/- 1 %. This capability underpins the commercial basis of the prime contractor's bids. PMS is also active on a similar basis in New Zealand; whose heavy vehicle pricing and system Dr Yeaman believes is far closer to realistic than that in use within Australia.

According to Dr Yeaman, about 50 % of highway construction costs are directly attributable to the heaviest vehicles and in the order of 80 % of pavement maintenance costs.

PAYGO is not credible as currently structured

Given the above, the basis for current allocation of costs to heavy vehicles and therefore the credibility of PAYGO is seriously in doubt. As other commentators have also noted, PAYGO also makes no allowance for local roads, which also tend to suffer disproportionately from heavy vehicle use.

In addition, the PC Draft fails to identify the current Australian position of an accumulated road maintenance deficit, likely to be in the order of $10 billion not included in calculation of PAYGO.

Obstacles to competition

Access pricing aside, the largest single issue preventing a more efficient rail sector is the low quality and limited extent of the rail network. The accession of ARTC has probably seen the lowest ebb pass, but the network continues to shrink, without major addition since about 1960.

Contrast the recent road expenditure of about $500 million for 6 kilometres of divided highway near Tugun in northern NSW (at nearly $100 m/km of capital cost) with findings of 'non – economic results' for a proposed investment of $2,000 million (about $1 m/km) for a level of improvement to the Melbourne – Brisbane rail corridor. Clearly these investment decisions have not been made on any comparable basis.

Critical private sector rail terminal investment in major cities has also been blocked by Governments for short term political reasons, such as recently occurred in Sydney in relation to a rail terminal proposed by Patricks in SW Sydney. This development, in particular would have lowered a variety of externalities (congestion, air pollution, heavy vehicle noise) in major way, as well as lowering costs for exporters and importers of containerised freight.

Accurate estimates for efficient cost is a critical to the work of the PC. We estimate that efficient long – run cost for heavy freight on rail (given equivalent infrastructure) is less than 50 % of road cost similarly measured, excluding 'externalities'.

Telemetry and IAP
The telemetry technology and the underpinning telco infrastructure is now sufficiently mature that it can be used (probably in combination with weight in motion sensors) for a robust location specific mass – distance charging system. A majority of the existing cross subsidisation problem could be eliminated by initial application to vehicles of laden mass greater than about 10 tonnes.

Telemetry costs may be lower than estimated, as most significant operators have already installed these systems or are in the process of so doing. Notably, fleet operators report cost savings from a variety of sources (consistently) in the vicinity of 10 %; arising from improved information, security, utilisation, maintenance and operational control.

Apparent regulatory capture of NTC
We note very substantial NTC concentration (in its submissions to PC) on policies for improvement of road productivity, to the exclusion of the same issue in rail.

As an outside observer, there is a clear appearance of regulatory capture of the NTC by road industry participants.

Should further details be required in relation to any aspect of the above we would be happy to provide them.

Yours sincerely,
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