SUBMISSION TO THE PRODUCTIVITY COMMISSION REVIEW OF ECONOMIC COSTS OF FREIGHT INFRASTRUCTURE AND EFFICIENT APPROACHES TO TRANSPORT PRICING

Lachlan Regional Transport Committee Inc.

Introduction

For efficient competitively neutral pricing regimes to exist between the use of road and rail infrastructure, the costs of use, must be reduced.

It is bad economics to increase the costs of the use of road freight infrastructure in the belief that road infrastructure will then be more equitably paid for, as a result of such increases.

The corollary, that a more appropriate use of rail freight infrastructure will follow because road use costs have increased is quite fallacious. Competitive neutrality can only be gained between the use of road and rail by making rail infrastructure more accessible (including re-opening lines) and cheaper to use, than experienced at present.
Essentially, the corporatising of rail infrastructure (initiated under National Competitive Policy) has progressively discriminated against rail use in favour of road use.

Rail infrastructure freight charges, presently as a result of corporatisation have to reflect: -

- cost recovery of infrastructure development, use and maintenance.
- a desirable profitable return on investment to the corporation, the owner.

No such requirement exists for the use of road infrastructure.

Rail infrastructure upgrade

Capital expenditure to repair the exponential damage occurring to rail infrastructure, nationally, has to be adopted to undo the years of neglect which have created such inefficiencies, which have forced commodities onto the road system: -

- failure by government to execute the many statutory requirements enshrined in legislation
- the requirement that economic viability has to be proven

are the major pre-determining factors allowing rail regimes to be shut down.
(ref: *Address to CWA - July 2005,* **attachment 1).**
Consumers/producers, wishing to use rail transport are denied access to infrastructure, significantly in contravention of the Trade Practices Act Part IV. Attempts to bring this to the notice of government have consistently failed.
(ref: *Australian Competition and Consumer Commission, Submission, May 2002* - **attachment 2)**

Externalities

These so far, have not been factored into the "equation", for the current pricing of road and rail infrastructure use. If such are to be charged for, then they should be included as *"a tax or excise "* on the fuel which is consumed by both road and rail freight operators. The amount of such charges would therefore be commensurate with the distance traveled and the region through which traveled.
(**ref:** *Queensland Transport - 2003, Rail Studies* - **attachment 3).**
It is generally accepted that *"externalities"* for road use approximate x7 those of rail use.
(ref: *Department of the Parliamentary Library Research Paper 28, 1999 - 2000)*
Whereas road freight has a higher social cost averaging approx. x7 the number of fatalities per tonne.km cf. to rail freight.
(ref: *Freight Rail Corporation, Sale Bill 2001, Rural and Regional Impact Statement).*

The methods used to restrict/reduce the use of rail infrastructure which result in an increase in road burden

Because rail infrastructure is the property of a corporation, government or private consortium owned, there is no obligation to sustain rail infrastructure other than for economic purposes.

Corporations can impose restrictive path booking, suspend operations or close respective tracks at will.

Road use will continue regardless of any accelerated deterioration of a road, particularly of those alternate routes which experience increased traffic because of a line being taken out of service. With roads some exceptions for closure can occur (short term) due to road works, safety concerns or wet weather but never for reasons of roughness or poor trafficability. No road is just closed, period.

The national status of roads

The Australian Constitution does not mention roads or road funding while rail is referred to as a State responsibility.

Under AusLink, the federal funding of roads and the range of roads identified to benefit from new money in the future has increased dramatically.

The funding under AusLink of rail infrastructure, despite being part of Australia's land transport system is restricted to interstate corridors, inter-modal developments and some special projects and is miniscule by comparison to that of roads.

Some AusLink funding is reaching local government directly for road works but is not compensating local councils required to shoulder the burden on local roads because of *"closed"* railway lines.

Roads being used in lieu of rail transported commodities were never designed for B-doubles, road trains or the increased axle loads that 6 axle semi-trailers are now carrying. It is expected that *"triples "*, a heavy road vehicle configuration will soon be operating on many of these regional and local roads. In the period 1974 - 2004 $24.6 bn were spent on the National Highway System. $58.0 bn on all roads, while only $2.2 bn were spent on rail capital works and $1.8 bn on urban public transport, a similar trend now seen in the 2006/2007 budget.

It is not new that calls are being made for expenditure to be made to develop alternate efficient rail infrastructure nationally to take the pressure off all roads.

(ref: *Colin Hollis MHR - HANSARD 08 February 1999).*

The then Deputy Prime Minister Mr John Anderson (2004) acknowledged the futility of up-grading the Pacific Highway, if the net result was to have freight taken off rail and onto an improved highway.

Regional Rail

Across the nation many thousands of kilometres of *"branch"* lines are closed or are under immediate threat of suspension. It is believed erroneously, that in particular, with grain transport now being undertaken by heavy road vehicles, (6 axle, 9 axle B-doubles, 11 axle road trains and the anticipated 16 axle triples) then such use must be cheaper and therefore more efficient.

Estimates of cost reduction when the need for rail infrastructure maintenance is removed, often fail to fully take into account the excessive costs that are simply transferred to the wider community

(ref: *Railway Technical Society of Australasia to the NSW Grains Infrastructure Advisory Council-2004)*

Regional rail has to be included in the *"equation "* despite the emphasis now being placed on AusLink, which is funding the Australian Rail Track Corporation, for it's leased or owned regimes, as well as other privatised rail infrastructure projects.

(ref: *Regional Rail Solutions - Associate Professor Ian Gray, CSU, Wagga Wagga* - **attachment 4)**

It is a fact that the cost of not having an efficient rail network is really the same as the cost of increased road usage, which is being borne more and more by local government. Rail cannot compete on this basis as the cost of road works benefit from significant cross subsidisation funding.

The restoration of regional rail infrastructure can only occur as a result of the removal of the corporate status of rail regimes, nationally. To assist this, funding must be provided through local government for rail works and not at the expense of road works. Likewise special rail infrastructure projects should not be decided upon solely by local government.

(ref: *LRTC Inc. to The Hon. Jim Lloyd, MP Minister for Local Government - 31.03.2006.* **attachment** 5)

It is also important that anti-competitive procedures be removed, which make open access to rail infrastructure at present, unworkable.

Anti-competitive charges and procedures which discriminate against rail infrastructure use
Rail access charges currently exceed road user charges, despite rail freight operators not having to pay excise on diesel fuel used.
Access to rail regimes have to be negotiated, between the operator and the owner of the track. The owner can impose impediments at will, with out explanation or reason.
(**ref:** *Negotiating an Access Agreement. Rail Access Corporation October 1996.* **attachment 6**).
By contrast there is open access to road infrastructure except for minor imposed restrictions.
The owner of rail infrastructure can declare a regime uneconomically viable, unexplained. It is also possible for the owner to make access too expensive by imposing charges on an operator's use of track.
(**ref:** *Rail Access Charges - Rail Infrastructure Corporation 2004.* **attachment 7**).
(ref: *Rail Access Charges -Australian Rail Track Corporation July 2005.* **attachment 8).**
A marked disparity has been documented between rail infrastructure maintenance costs as charged by Rail lnfrastructure Corporation, to between $28,000 and $44,000 per kilometre while Australian Rail Track Corporation charges are between $13,000 and $20,000 per km**.** ARTC charges are 45.6% to 46.4% less.
(ref: *NSW Farmers Federation : Road/Rail Task Force, Green Paper, November 2002 p.8).*
Consumers/producers wishing to use a particular railway line which is in need of restoration (re-opening or upgrading) must pay for the work. Once the line is back in service the rail freight operator then pays the charges for the use for the line.
By contrast the same *"interest"* preferring to use the alternate road route, pays for it's upgrade. Maintenance thereafter is the responsibility of either state or local government.
(**ref:** *Australian Zirconia Ltd. Toongi Development, 12 August 2603.* **attachment 9).**
The current attitude of track owners to maintenance ie *"fix when fail only "* creates uncertainty for rail freight operators. Instructions are clear on this issue to track managers. The deterioration of track then gives the grounds for *"closure "* as the line becomes too inefficient or dangerous to use.
(ref: *Case studies LRTC March 200.* **attachment 10).**
(ref: *Blayney/Cowra line. Instructions to ARTC re MPM and Capital Works, 26.10.06.* **attachment 11).**
Similar tactics were used, instructing only minimal maintenance to be carried out thereby allowing certain lines to be closed.
(ref: *SRA Instructions re wheat lines, December 1986.* **attachments 12a, 12b).**
It is now clear that the over estimating of maintenance costs are used deliberately to justify the suspension of rail infrastructure use.
The operation of rail infrastructure is plagued by entrenched public service institutions renowned for *"over the top pricing".* Progressive attitudes to rail infrastructure Use would be better served by *"best practice competitive tendering"* leading to reduced overheads.
(ref: *Railway Digest, May 2004).*
Sustained cases for re-opening disused lines
Rail Access Corporation (NSW) 2000 ignored (despite statutory requirements) valid sustained economic, social and environmental arguments presented by community groups and respective local government councils, to have re-opened several closed railway lines in NSW.
Greenethorpe/Grenfell, Cowra/Eugowra, Cootamundra/Tumut and Narrandera/Tocumwal were four lines in particular.
The decision to not re-open these lines was made purely on the basis of alleged un-financial/ non-economic viability. The decisions were not contestable. In any case all lines regardless, have to have proven financial viability in advance, before work might commence. In the case of Cootamundra/Tumut, (103km line), some 70 km of track has gone missing. The cost of replacement therefore has to be included in the cost of restoration. No attempt has been made to prosecute those responsible for the theft which is the case with many other lines now out of service.

The cost of this restoration would have to be recouped through infrastructure use charges. The restoration costs of the 4 lines listed above were given as:
(**ref:** *Rail Access Corporation - Disused Lines - Summary Table 2000.* **attachment 13).**

Up grading of roads to cope with increased traffic
The consequence of suspended or closed railway lines is an increase in the use of heavier 6 axle semi-trailers, B-doubles, road trains and the likely introduction of *"triples"* onto roads which have not been designed for such use.
The Roads and Traffic Authority (NSW) requires local government to comply with certain minimum standards for their local roads which will be required to take on this new role:

- 6 metres, minimum seal
- 1 metre, shoulders

These up-grade schedules create vastly increased costs to provide:

- trafficable widths
- roughness or riding quality, which is usually indicative of pavement failure, and requires lime/cement stabilisation.
- drainage works
- ancillary work eg survey, design, delays.

It is estimated that the cost of total reconstruction of regional roads to cope with this increased level of use of legally loaded vehicles would be $200,000 to $235,000 per km.
(ref *NSW Grain Infrastructure Advisory Committee Report on Rail/Road Options January 2004).*
After up-grade then will follow greatly increased maintenance costs as a result of the new unprecedented use which further escalates costs.
The strengthening/replacement of bridges will be unique to individual roads and could cost up to $400,000 or more per item.

Damage to road surfaces by vehicles
Presented to the Royal Commission into Grain Storage Handling and Transport (October 1986) were figures prepared by the Department of Main Roads NSW, in response to Option 3 (closure of grain lines). This demonstrated the cost increases for roads as a result of closed grain lines. Upgrading $39.7m, maintenance $0.5m **(ref:** *DMR Report on Roads, October 1986.* **attachment 14).**
As a counter argument the State Rail Authority NSW claimed that the closure of 21 branch lines associated with the roads receiving increased usage would save SRA $30m in reduced costs. There was no apparent evidence that these savings would be transferred in real terms to road works.

In the past one 6 axle legally loaded semi-trailer attributed at least 10,000 times the damage of that of an ordinary car (Land and Environment Court 1987), when GVM was 38 tonnes GVM has increased significantly to 2005. B-doubles have a much higher *"Equivalent Standard Axle Loading"* therefore the wear and tare they cause to the average road would be at least 20,000 times that of an average car. GVM increases since 2000 can be expected to increase that damage.
The increasing local government responsibility for roads
The Roads and Traffic Authority (NSW) is in the process of reclassifying roads from a *"state"* responsibility to a *"local government"* responsibility. Such is the case with the Mid Western Highway (SH6), Marsden to Cowra which traverses both Weddin and Cowra Shire Council areas. These reclassifications usually occur after much *"cosmetic "* road works have been undertaken to make such a transfer an attractive proposition.
Road maintenance
Road maintenance is almost an unwritten mandatory requirement of local government, even if only to a bare minimum standard regardless of cost or limited available funds.

Some local government councils are on the verge of closing some minor roads to allow work to be done on roads experiencing ever increasing use, due in part to *"closed" '* associated railway lines.
Current figures of budgeted local government road expenditure calculated as a % of available budgeted funds from all sources are high at the expense of other essential services

- Weddin Shire Council 38.0%
- Cabonne Shire Council 29.0%
- Lachlan Shire Council 29.0%
- Bland Shire Council 26.0%
- Dubbo City Council 37.7% (on the high side due to the unique nature of the urban area - CBD).

The variation in these figures is due to the diversity of road classifaction in the Councils' areas.
Most Council areas contain the following road classifications and the works required may be on any or all of:

• State Main Roads	Routine Maintenance
	Specific Improvement
	Projects
• Regional Main Roads	Routine Maintenance
	Projects
• Local Roads	Routine Maintenance Seal
	Routine Maintenance Un-sealed
	Specific Maintenance Un-sealed
	Specific Maintenance Seal
	(reseals, heavy patch, traffic, facilities)
	Projects (FAG)
	Projects (R2RP)

CONCLUSION

To effect competitive neutrality between *Road and Rail Freight Infrastructure Pricing* for all freight operators it is necessary to remove the following:

- mass distance charging of rail freight operations
- flag fall charges applied to each rail sector traveled
- the principle of cost recovery from rail infrastructure use
- train length surcharges on *"above length"* for trains on certain sectors or track
- the need for return on investment (profit)

It is also important that:

- excise be charged on fuel consumed by rail operators as an infrastructure use charge based on distance, as is the case at present for road freight operators.
- rail infrastructure to be funded for development and maintenance from revenue on the basis of need rather than that of economic return or viability

In the case of road pricing for heavy road vehicles then:

- any application of *"mass - distance charging"* (equivalent to the *tonne. km* currently charged on rail) is impractical. It will only increase the cost of road freight pricing.
- excise on fuel as a *"distance use charge "* of road infrastructure should be retained.
- road infrastructure funding from revenue on the basis of need should be retained also.

Consequence

Road and rail freight operators will pay the same proportional contribution for the use of the respective infrastructure road or rail, a charge towards the cost of development and maintenance. Excise on fuel then becomes a *"distance charge "* for both. A *"component charge "* added into the cost of fuel would pay for the *"externalities"* already mentioned. These charges will be in addition to the operational costs borne by both road and rail operators for such things as: depots, wages, insurance, maintenance, replacement, fuels, oils, greases, safety requirements, licensing, registration and training.