



RAIL, TRAM AND BUS UNION
Submission to
Productivity Commission Inquiry

Road and Rail Freight
Infrastructure Pricing

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INTRODUCTION

The Australian Rail, Tram and Bus Industry Union (RTBU) have 35,000 members across Australia in the rail, tram and public bus industries. The RTBU was formed in 1993 through the amalgamation of four unions in the rail, tram and bus industry. It is the major union in the rail industry representing 65% of workers in the sector. The rail industry has very high levels of union density.

The RTBU is affiliated to the peak union body in Australia the ACTU, the global union for our sector the International Transport Workers Federation which represents over 5million workers in over 100 countries and the industry bodies the ARA and the UITP.

The RTBU submission argues that the current pricing system for road and rail freight results in under recovery from heavy vehicles. Heavy vehicles compete with railway operators in a number of markets and competitively neutral regime between the two freight modes does not exist.

The under recovery of charges for heavy vehicles has been recognised for many years in Australia and overseas with many countries establishing policies and programs to address under recovery of charges from heavy vehicles. Because use of the wide ranging micro reforms in the rail industry the lack of a level playing field between road and rail freight is a micro economic reform which must be addressed as a matter of urgency.

The RTBU submission argues that the under recovery of costs for heavy vehicles is as a result of the current methodologies for attributing aggregate costs including capital costs. The parameters used to attribute road use costs must be recast and reweighed. Specifically, the methodology used including such issues as the allocation of separable and non-separable costs, the averaging provisions between vehicle classes, the non-inclusion of enforcement costs and the treatment of capital costs must be addressed in order to achieve competitive neutrality.

The RTBU submission argues that current charging system for heavy vehicles based on registration and fuel excise taxes are inappropriate for heavy vehicles. It is a second best solution because as vehicle load increases fuel use increases at a declining rate but road wear increases at an increasing rate.

The charging system for heavy vehicles should be based on mass distance charges and this principle is already applied in the railway industry where rail access charges usually comprise a flag fall charge per train plus a per tonne kilometre charge. Mass distance charging has been introduced in many countries and the rapid development of technology means that effective application of mass distance pricing to heavy vehicles can be rapidly introduced. In addition, the new technology will be capable of including applications such as individual user pricing and externality and /or energy charges.

The RTBU submission argues that there is an urgent need to research and measure the considerable social and environment costs that are not currently calculated or applied to land transport pricing in Australia. The RTBU submission refers to the considerable body of knowledge about social and environmental costs and the methodologies upon which they are based. A priority must be to refine them to the Australian transport market and

then using the information, which needs to be regularly updated, as a sound platform for future transport policy choices.

The current road and rail freight pricing system, which is based on the financial costs of the individual company, must be replaced by a framework that includes all economic costs. This should be the engine for achieving sustainable transport policies in Australia.

The RTBU argues that the artificial distinction between freight and passenger transport and federal/state jurisdictional divides is outdated and acts against the adoption of sound transport pricing principles.

The RTBU submission argues that there is a severe knowledge gap about land transport particularly in relation to the nation's railways and a wide-ranging review and program to address these deficiencies must be instituted. At the most basic level there is no readily available time series information on total rail spending, detailed understanding of rail costing methodologies and the allocation of track access prices based on usage.

Equally as important is the current one-sided analysis of future productivity gains from land transport. Considerable attention is being given to increasing mass limits and new road technologies but even the most elementary work on axle limits and speed and transit time options for the rail industry are all but ignored. The privatisation of railways should not be used as a barrier, as it is currently, to prevent information gathering relevant to the future of land freight transport.

The RTBU submission outlines the very large gap that exists in Australia between the rate of capital formation in roads and railways and the ad hoc and intermittent funding of railways by the federal government over many decades. This has resulted in a legacy of large sections of the rail network, particularly the railways in regional and rural Australia, having to utilise rail infrastructure based on engineering and operational standards of another century. Unfortunately not the one which recently passed. The RTBU submission illustrated the poor infrastructure, marketing, supply chain, investment, regulatory and pricing problems facing railways particularly in regional and rural Australia.

The RTBU submission concludes that the costing methodologies used by governments to allocate road and rail funds should use transparent and common methodology, which includes social and environmental costs. Finally, there is an institutional void in land transport policymaking and application. No co-ordination mechanism exists to give direction on land transport infrastructure pricing, investment priorities and modal integration.

ISSUE: DO PARTICIPANTS AGREE THAT THE COMMISSION SHOULD FOCUS ON ECONOMIC COSTS AS THE RELEVANT MEASURE OF THE COSTS OF PROVIDING TRANSPORT INFRASTRUCTURE?

The RTBU agrees that the Commission should primarily focus on economic costs. Because of the aggregate importance of externalities generated by land transport and a worldwide trend to address the wider issue of sustainable transport it is appropriate and timely for this Inquiry to give shape and direction for future, research, policy, Institutional arrangements and timetables for implementation.

The RTBU supports the comments of Whitelegg in his paper *“Investing in Transport: An International Perspective on Methods, Priorities and Models”* in which he indicates, *“Transport is at or near the top of most political agendas around the world. Many countries have used the experiences of escalating infrastructure costs and rising congestion to re-evaluate and re-cast their transport policies in a wider, objective led and transparent context. This has been the case in very different political and geographical situations (e.g the UK and USA), in the European Union and in global private organizations such as the World Bank and the World Council on Sustainable Business. In all these very different governmental, supra-national and private sector organizations there is a surprising unanimity around the need to tackle transport problems in a new way, the need to embrace demand management and the need to bring use and charges into a more logical relationship with investment decisions and funding. The challenge throughout the world and for Australia is meet demands for access in a sustainable way that delivers economic, environmental and social goals”*.

Whitelegg goes on to make the point *“it is not possible to have an efficient transport investment strategy at national level that does not include a robust, transparent and validated model of charging, pricing and demand management”*.

The research being undertaken world wide, the technological advances being made in estimating the full range of economic costs and their increasing application in a number of counties mean that the issue for Australia should be about setting the framework not about turning away from transparent decision making. This will include a need to fundamentally review institutional arrangements and a timetable for the introduction of a model for charging and pricing for the costs of providing transport infrastructure.

ISSUE: CAPITAL COSTS OF ROAD AND RAIL INFRASTRUCTURE.

The under charging of heavy vehicle road access fees impacts on rail investment in a number of ways. In a number of markets eg inter capital freight and regional rail markets e.g grain freight the low road access charges set the limits rail is able to charge. This is below full rail cost recovery and this flows through to severe constraints on new rail investment and major periodic maintenance.

A major issue affecting capital costs between the modes are the assessment criteria used in making rail and road investment decisions. The implications of this were noted

(DOTRS, AusLink green paper 2002,p27) in the Federal Governments response to the AusLink White paper when it committed to:

“ A new project assessment methodology will be progressively introduced to ensure neutrality between transport modes, proponents and construction and non construction solutions, in assessing the broad range of potential projects... the Committee stresses the longer term is the unified project assessment methodology that is the most important element of AusLink.... Clear project assessment criteria are particularly necessary for the Strategic Regional projects, to avoid accusations that road funding decisions are influenced by political considerations”.

ISSUE: FACTORS AFFECTING RAIL CAPITAL COSTS

Within railways there is no precise means of estimating the link between track usage and infrastructure costs. Decisions are impacted by the underlying infrastructure standard and the maintenance regime. A number of studies of both interstate and intrastate networks have pointed to the lack of historical funding and the poor quality of the infrastructure e.g Engineers Australia 2001 Infrastructure Report Card gave railways a D minus and the ARTC in 2001 estimated a cost of some \$3b to bring the interstate network up to the ATC's modest targets for speed, axle load and train length. The RTBU in its submission to the current House of Representatives investigation: *Inquiry into Integration of Regional Rail and Road Networks* analysed the particularly parlous condition of much of the regional and rural network throughout Australia.

The RTBU argues that a range of factors have enabled road to increase its productivity at a greater rate than rail. Key areas are mass limits and speed. Rail has continually played catch up and funding policies have been detrimental because of their intermittent and fragmented nature of investment over many decades. Major attention should be given to investment, which allows rail to compete with road on both transit times and by significantly increasing axle weights.

Australia's railway funding has been ad hoc and irregular as an examination of federal government expenditures on road and rail have revealed eg Laird and the Senate May 2005 Report in examining the consequences of the AusLink Bill noted in chapter 2 that in the 25 years to 1999 that Commonwealth spending on roads was \$43b of which \$18b was for the national highway system whereas Commonwealth capital spending on rail has been irregular and small .In the 25 years to 1998 it spent \$1.2b.The 2004,05 and 06 budgets have begun to address these issues. It still needs to be kept in mind that the recent Federal Budget allocations favoured road over rail 7 to 1.

Australian railways because of ownership changes and mandated access regimes have undergone a radical transformation in recent years. The BTRE in its 2003 Report *“Rail Infrastructure Pricing: Principles and Practice”*: Report 109 noted in its conclusions commencing on p187:

“Reforms aimed at widening access to rail infrastructure have moved further in Australia than elsewhere in the world.... Australia is unique in mandating through national policy arrangements, third party access to privately owned or managed essential infrastructure.)

The report analyses different policy objectives pursued by governments across the world. In Australia privatisation, contracting out and access regimes were policies aimed at promoting on track competition. It noted, “ *that access and access pricing arrangements vary across countries, in part due to differences in the relative emphasis placed on the competition, cost recovery and cost recovery aspects...*”

European policy emphasises seamless logistics through mergers or joint ventures between operators ...other than the UK, European access pricing regimes do not seek anything approaching full cost recovery and are maintained by public subsidy. North American policy by contrast gives primacy to full cost recovery for its private railway owners and railway mergers have been permitted even where there is a lack of competition in order to improve economics of traffic density and coordination.”

The report concluded ‘*rail access pricing is still in its infancy and the infrastructure usage cost link is based more on broad judgements than on scientifically causal relationships.... There is wide dispersion in usage related charges. It seems clear, moreover that this knowledge gap undermines pricing that promotes efficient use and of investment in rail infrastructure.*’

The research program for rail needs to be comprehensively reviewed. The current work program of the NTC is looking at the margins when it comes to productivity improvements that could be gained by addressing knowledge gap issues and operating efficiencies that could be realised by new technologies. The NTC, and its predecessors program, has over its 15-year life considered a comprehensive range of technological improvements for road. The role of traffic densities on rail networks is very little understood in Australia compared to the United States and Canada where cost recovery is much higher and long distance rail traffic holds a considerably greater market share than in Australia.

As the BTRE report indicates railways in Canada hold two thirds of that countries freight task and in the US the railways carry around 40% of the country’s intercity freight. The report noted that several studies have found that ‘*evidence of economy of scale, scope and density suggest that fragmenting rail freight businesses can make them uneconomic.*’

Australia should rethink policy the policies of mandated access and on track competition. They have serious flaws. The recent spate of mergers and acquisitions has seen the emergence of two dominant transport groupings, one forming around Toll following one of the most bitter takeover battles in Australian corporate history and the other around the publicly owned, Queensland based, Queensland Rail. The major beneficiaries of the consolidation have been the shareholders of Tolls, Patricks and ARG who have seen the mergers reap windfall bonanzas in the hundreds of millions of dollars without an extra NTK being carried. Australia has led the world in pioneering multi modal transport conglomerates whose focus is the transport supply chain. The intentions and ideologies of the post Hilmer reforms 12 years later have resulted in structures diametrically different to that envisaged by policy makers.

The BTRE report in Chapter 5, Lessons from international experiences, under the heading, Policy Objectives makes the following comment, “ *in conclusion, then, we have identified a range of objectives in policies to undertaken to increase rail efficiency. In practice more than one objective is pursued –notably enhanced competition, greater*

interoperability and improved cost recovery. Objectives may conflict, however. A consequence of this conflict is, in particular, that the 'danger exists that none of the objectives are ultimately met and moreover that some form of decay of the rail system may follow'.

From the many experiences of the RTBU across Australia that the decay is already apparent in many areas of the rail freight industry. Reappraisals of policies, which focus on renewal, are urgently required.

ISSUE: COST RECOVERY

Another factor which impacts on cost recovery, investment levels and cost of capital is the uniquely Australian experiment with mandated access and access regimes the majority of which are based on the vertical separation of railway operations and railway infrastructure. It was a leap of faith, which needs to be re-examined, and policy changes made.

A number of reintegrations and renationalisations have occurred. These include New Zealand in 2004 taking back the track into the public sector after the run down of assets, safety concerns and little investment since it was privatised in 1993. In the UK the infrastructure has been effectively taken back into the public sector and the franchising of maintenance wound down. In Australia the urban rail passenger and track maintenance operations in NSW were combined into a vertical integrated rail company as a consequence of the recommendations of Justice McInerney following the Glenbrook and Waterfall train accidents. PN in Victoria have take track maintenance back in house in Victoria.

The rail industry has seen its policy position on vertical separation alter in recent years, as the relationships both operational and financial between rail and operations and track are better understood. There has been a diversity of views on the most contentious issue throughout the rail industry internationally. The RTBU and Queensland Rail have argued for the benefits of vertical integration in Australia.

The ARA in its 2005 publication "the Future of Freight" on p38 under the heading "*negative impact of structural separation has not been properly overcome through alternative vertical co-ordination mechanisms*" said, "*As has been recognised by numerous studies, rail differs from other network industries (electricity, gas and water). The nature of the close physical interaction between the network (rails) and the network users (trains) For example, rolling stock design, maintenance and operations and vice versa.... industry participants recognise there is a need for much improvement in the way above and below operators interact to optimise the industries performance.*"

The report identified four types of "vertical market failure." There are more. In Europe the importance of the wheel –rail interface has been recognised with the formation of Wheel Interface System Authorities.

ISSUE: PROPORTION OF COSTS OF PROVIDING AND MAINTAINING BOTH ROAD AND RAIL NETWORKS REGARDLESS OF LEVEL AND TYPE OF USE

The BTRE report 109 is one of the few e.g.'s of detailed commentary on this issue in Australia and the RTBU comments are mainly derived from that analysis. The RTBU makes the point that the road industry in Australia has had considerably more research undertaken on this issue, that the aged nature of much of Australia's rail infrastructure together with irregular investment are factors impacting on this issue.

Rail infrastructure costs are divided into traffic sensitive costs, incurred when an operator runs trains and non-sensitive costs refers to costs incurred irrespective of train operation (head office and signalling and non sensitive maintenance costs.)

The BTCE makes the point that in the USA there has been a long-term development of principles relating to cost variability with track usage and this has been formalised into a set of policies.

The main conclusion drawn by the BTRE about the consequences of track expenditure *“is that fixed costs of provision dominate at low levels of track useage. Variable costs dominate at high levels of usage... it is likely that tonnage on many lines is very light so cost variability in Australian lines is likely to be below 30%”*

In the Australian rail industry it is only in recent years that widespread attention has been given to track quality issues and the recording of track quality indexes. In NSW the regulator is required to report on track quality for the non -ATRC network and the widespread privatisation has diminished the available information upon which judgements can be made. Australia has a very poor disclosure regime, which should be strengthened.

In relation to maintenance costs and infrastructure maintenance standards it is to be noted that the safety regulators in both Victoria and NSW have suspended operations on branch lines due to safety concerns and reports by the ATSB into railway incidents have raised similar concerns about maintenance practices. A continuing feature of rail maintenance costs in Australia are that the old technologies have an historical legacy eg poor alignments chosen, the low rail weight, extensive use of wooden bridges and signalling systems and multiple gauges to name a few.

The BTRE comments in relation to claims that it is possible to calculate by harmonising cost methodology *“ we, however believe it is unlikely this can be achieved: there is a trade off between the level of investment in infrastructure/standard of infrastructure, the level of performance permitted (e.g axle loads and train speeds) and the level of maintenance that is then required.*

...Nonetheless there is abroad understanding of the factors that influence the generation of resource costs... the strength of the link between usage and resource cost is not known”.

The RTBU notes the need for detailed work to be done on this relationship and the fact that the centrality of different axle weights to assessing the costs of marginal costs in road usage and the implications of moving to performance based systems. The focus of policy

at this micro level masks the absence of policy on a macro issues including social and environmental issues

ISSUE: THE DIRECT COSTS OF PROVIDING ROAD AND RAIL INFRASTRUCTURE AND FURTHER STUDIES THE COMMISSION SHOULD BE AWARE OF

The RTBU refers to *the European Conference of Ministers of Transport: Report of the 125th Round table on Transport Economics: European Integration of rail Freight Transport (November 2002)*. On page 80 the comment is made “*a number of studies have suggested that road haulage does not even, on average bear the costs that it causes in terms of wear and tear and environmental and congestion costs.*” The article refers to the work of Sansom et al (2001) (*Surface Transport Costs and Charges. (Great Britain 1998, Institute for Transport Studies, University of Leeds)*) and two tables are referred to: table 2 infrastructure, operating and external costs for rail freight, 1998 and table 4 Rail percentage of rail plus road total. The conclusion is drawn “*Whilst rail is paying slightly more than marginal cost, road haulage is paying considerable less. These figures apply to 1998, since then taxes on road haulage have been substantially reduced as a reaction to the fuel price protests of the year 2000*”.

Modern Railways March 2006 refers to an upcoming report by Eddington in the context of the British Government belatedly recognising that transport needs some long-term strategic thinking and policies. The reference is in an opinion piece by the UK Rail Freight Group and it says, “*We believe that comprehensive road pricing is essential. It must allow for location and the availability of alternative forms of passenger transport, time of day and the external costs imposed. The charge must be high enough to influence modal shift rather than just be fiscally neutral and the revue should be used to provide investment in more sustainable forms of transport, including rail-for passenger and freight traffic.*” This policy position has been adopted in a number of European countries and in the US Transport Equity Act and is supported by the RTBU.

Whitelegg in the paper referred to previously points to the European Transport Policy White Paper, Brussels, 2001 which he indicates “*sets out a clear analysis, solutions and funding mechanisms. The detailed policy consists of 60 measures in 3 main areas*

- *Charging (infrastructure charges on roads to be used to pay for new rail infrastructure) and to cover external costs*
- *revitalisation of alternative modes to the road*
- *targeted investment in the trans European network (road, rail and air)*

Whitelegg further comments on p13 “*from a political point of view the commitment to charging is remarkable and has been agreed by all member countries*”. The White Paper refers to this policy in the following terms “*Alignment of the principles for charging for infrastructure use, the integration of external costs must also encourage the use of modes of lesser environmental impact and, using revenue raised in the process, allow investment in new infrastructure, as proposed by the European Parliament in the Costa Report... whilst ensuring fair competition between modes of transport, and more effective charging and ensuring that quality is maintained*”(European white paper p16)

Whitelegg refers to an influential study by Small, K.A Clifford Winston and Carol Evans (1989) "Road Work: a new highway pricing and investment policy" Brookings Institute, Washington DC.

The PC issues paper includes road and rail costs, selected studies and the NZ "Surface Costs and Charges Study, 2005" prepared for the Ministry of Transport. As a follow up the NZ Government in May 2005 released its "National Rail Strategy to 2015." The RTBU refers to the linkage between the evidence provided in, the study the development of a transport strategy and the their application to New Zealand transport through the Land Transport Management Act, 2003 and the 2005 National Rail Strategy.

ISSUE: ROAD AND RAIL COST STUDIES-COMMENTS ABOUT THE ANALYSIS OR METHODOLOGIES USED IN THE STUDIES

The RTBU refers to the comments on p96 in the ARA 2005 "Future of Freight Study" that the current road user-charging regime only approximates the true damage incurred as a result of the activities of an individual vehicle. It can be seen that the NRTC's current charging regime over recovers from smaller freight vehicles and under recovers costs resulting from heavier vehicles.

A major weakness of current charging regimes in Australia is that current excise and registration based charging regimes are favourable to larger freight vehicles travelling longer distances. The ARA sums it up in the following terms " *the BTRE and NTRC as well as transport economists in other countries are increasingly recognising the distorting effect this has on cost recovery. As a result the logic for and experience with mass distance charging 9i.e charging for truck per tonne kilometre is increasingly rapidly.*"

The NTC in its paper "Regulatory Reform in land transport" on p9 under Road Pricing raises a number of key issues

- that there is under recovery within the class of vehicles which are heaviest and travel the longest distances
- the third determination will not include fundamental changes in methodology or institutional arrangements (based on rapid change to heavy vehicles particularly B Doubles. The charges for the heaviest vehicles were substantially increased although the overall heavy vehicle share of costs shrank from 28% to 24%)
- that the intention of the second review by the then NRTC would set heavy vehicle road prices on the basis of infrastructure pricing principles to be developed by the National Transport Advisory Council and endorsed by ATC. In order to optimise the efficiency of land transport in Australia the primary objective of refined road pricing system would be to more directly link road use, road wear and road expenditure, particularly for freight vehicles. Road prices based on location, vehicle type and time of day would facilitate the application of externality pricing.

ISSUE: ENFORCEMENT COSTS

The RTBU argues that enforcement costs should be included for the cost base of road charges. The poor economic returns for many employees and particularly for owner-

drivers have been documented over many years. (McDonnell, Hay, NRTC and House of Representatives Report in 2001 into fatigue. In part the discussion about enforcement costs highlights a much larger issue, the avoidance of law and regulations by many participants in the road industry and the avoidance of adequate social conditions for heavy vehicle drivers because of the competitive conditions in the industry. This includes, speeding, overloading and higher damage to roads and widespread substance abuse. These are issues, which are lacking from the NTC enforcement paper. The NTC Risk Assessment into road transport fatigue management in 2003 made the following comments

- heavy vehicle driver fatigue is a relatively important factor in crashes involving driver fatalities and injuries (estimated to cost \$243m annually)
- fatigue impairment is a regular part of the experience of many drivers
- significant minority of drivers resort to stimulant drugs as a method of coping with fatigue
- Road transport has a rate of fatal workers compensation cases that is six times the all industries average.
- Sizeable minority of drivers resort to working very long hours of 72 hours or more per week with 50% of drivers reporting that they always breach working hours. A quarter of drivers say they do so in order to keep their jobs and a third in order to make a living.

The risk to public safety and the workers in the industry require active enforcement policies. In the rail industry enforcement can take a number of paths. For example companies such as PN and ARG undertake random breath and drug testing. Although the number of cases exceeding the prescribed limits is very low several thousand tests per year are undertaken. This is borne by the individual enterprise.

All rail locomotives and suburban and inter city trains have recording devices from which a number of findings can be made including the detection of speeding. Employees can be subject to internal disciplinary codes for breaching of railway rules and regulations and these costs are borne by the individual enterprise. There is an increasing use by rail infrastructure managers to use mobile rail vehicle weighing machines to check vehicle loads and to ensure vehicle loads are in accordance with track and vehicle load standards. Once again these costs are internalised.

The RTBU believes enforcement costs should be included in cost base for road charges. The RTBU is opposed to the Federal Government's Independent Contractors Act, which is designed to break the link between labour law and contractors. By allowing contractors who are dependent on a single business for work to be 'deemed' as employees, industrial tribunals have ensured these workers have access to superannuation, workers compensation and some legal recourse when treated unfairly. Furthermore under this legislation if you are a contractor you will have no 'choice' about being represented by a union in negotiating a contract. In early May following industry and Union pressure the textile and trucking industries have won exemptions from these odious laws for the time being.

ISSUE: ACCESS CHARGES FOR RAIL INFRASTRUCTURE GENERALLY. DO PARTICIPANTS AGREE WITH THE COSTING METHODOLOGIES?

Comments in many jurisdictions, recent statements by regulators and overseas experiences suggest a number of costing methodologies have shortcomings and do not provide for full cost recovery, periodic cyclic maintenance or upgrading of the asset. At one end of the spectrum is Tasmania, which does not have an access regulator. In November 2004 the new owner, Pacific National threatened to close the system down unless government provided rail upgrading funds. Railways in Tasmania were privatised in 1998 and the announcement that Tasrail had made its first ever profit in 2000 was hailed as an important signpost for the success of rail privatisation.

The RTBU extensively analysed the recent history of railways in Tasmania in our submission to the House of Representatives “Inquiry into Integration of Regional Rail and Road networks and their interfaces with Ports” and in particular the lack of investment, the antiquated nature of the rolling stock and track and the importance of Federal Government funding for roads. (an extract from the submission is attached as *Appendix I*). The Tasmanian and Federal Governments both had independent reviews undertaken, both of which are not publicly available. Press reports in mid May 2006 indicate that a \$108m investment package is about to be agreed to between the two governments and Pacific National. The reasons for the package which included the fact that commercial charges did not cover long term infrastructure costs, maintenance was deferred and management lost direction when a decision was made by the new overseas owner to divest itself of its railway properties in Australia and New Zealand. These reasons parallel the approach adopted by the NZ Government in adopting a \$200m rail infrastructure package and take back the infrastructure into the public sector in 2004.

The BRTE 109 report makes a number of observations, which are relevant to this issue and include

- page xiv under summary –freight market- the level of competition can impact on commercially set charges, which as a consequence the commercial charges may not recover, long run infrastructure costs.
- Page xxvi cost recovery –the privatised entities(in Australia) are recording profits but there is no long term track record to establish whether assets are being run down ,that is, whether the profits are consistent with long term viability
- P93 cost recovery levels “*we note that ARTC recorded a profit of \$20 m in 2000/01. We note from the ACCC assessment, however, that is a return that is below full cost recovery and that ARTC’s return appears to be well below the full economic cost of providing the services. ARTC concludes that it is not in a position to price at levels that recover the full economic costs of its assets.*”-This issue draws attention to how the balance is set between the costs recovered through access charges and the costs underpinned by the taxpayer.”
- ARTC’s corporate strategy is based on ARTC’s investing in network enhancements and providing train operators with the opportunity to make productivity gains and hence reduce the unit cost of track usage which will in turn lead to greater amounts of traffic being attracted to rail due to lower unit costs.

The Victorian regulator in late April 06 issued a draft decision, which effectively rejected PN's plan for competition on the state intrastate rail network. The Age reported on 20/4/06 that the regulator said "*PN's proposed rail access arrangements did not contain explicit commitment to maintain the rail network in a fit for purpose standard ... and PN had proposed a pricing approach that did not provide for full recovery of efficient costs of freight services...a PN spokeswoman said the Victorian network was facing funding and viability issues.*"

The issues of mandated access regimes, investment in enhancements and the expectations of owners to generate sufficient rates of return on their investment on light density branch lines were issues, which caused considerable tension between the previous American owners of Freight Australia and the Victorian government. At the minimum it was certainly a different environment to that which operated for its parent in the US railroad industry. Freight Australia was certainly reluctant to invest in this environment. The company was heavily reliant on grain and was severely impacted by the worst drought in a100 years. One phrase used at the time was an investment strike. This combined with the sudden withdrawal of National Express, one of the two franchises of the urban rail operations in Melbourne suggests that the policy framework for the privatisation was seriously flawed and underwent further change as has occurred in Tasmania and New Zealand.

The Victorian Essential Services Commission as part of the access application commissioned a study on the condition of the intrastate freight network—"work program to address the maintenance deficit –Victorian Regional Network. The ESC developed a rail infrastructure maintenance program to address the so-called maintenance deficit (defined as the activity or work scope required over and above that which could have normally been considered as being a steady state sustainable "levelised" program of activity.) The catch up program is proposed to span a 5-year period to commence in 2006/2007. The total Maintenance Deficit is assessed at a value of \$149m. The consultant recommended that before actual work programs were created that a comprehensive inspection and risk analysis be undertaken.

ISSUE: FULL ECONOMIC AND SOCIAL COSTS OF ROAD AND RAIL FREIGHT

The issues paper poses a range of questions ranging from the general about the major externalities associated with rail and road freight infrastructure use and how they are related to infrastructure, are there Australian and overseas studies and how do their studies translate to Australia. The paper refers to a number of complications such as isolating the effects of transport emissions from other pollution as being problematic, how should greenhouse gas be valued and how a quality adjusted life year be valued.

The RTBU believes the approach of the PC Inquiry should be to provide a direction and timetable for further work that needs to be done to refine the already considerable body of work to Australian conditions and methodological issues that may need to be addressed by further research. The PC, in the view of the RTBU, should

- analyse the copious work done overseas and in Australia on external costs including noise and local air pollution, greenhouse gas emissions and congestion

and make a series of recommendations to Governments about estimated costs, controversial issues etc and ask for comment

- create as a joint project by federal and state governments a research program which develops a methodology which enables it to be applied to both freight and passenger transport throughout Australia
- a timetable for its application to land transport in Australia.

The approach of the issues paper indicates how far some sections of the community are behind international developments when no mention is made of policy, methodological and technological issues, or developments which have transformed the issue from the hypothetical and drawing board stage to a reality.

A succession of reports over the last 15 years have detailed the external costs of land freight transport in Australia. Laird in his paper to the 2005 Australian Transport Research Forum referred to a long list of Australian studies and gave particular attention to six external costs of road and rail freight operations in both metro and non metro areas.

The six external costs covered accidents, air pollution, noise in capital cities, greenhouse gas emissions, road congestion metro only and a cost for the under recovery of road system costs from articulated trucks. This list covers the overwhelming majority of external costs and should be used unless the evidence suggests other wise as the benchmark.

The paper referred to earlier by Professor Whitelegg made the point that it is not possible to have an efficient transport investment strategy at a national level that does not include a robust, transparent and validated model of charging, pricing and demand management ... *“the challenge throughout the world ad for Australia is to meet demands for access in a sustainable way that delivers, economic, environmental and social goals”*. Whitelegg further notes that *“many countries around the world have still to make the connections between transport strategies and policies and the achievement of wider objectives.”*

The approach being pursued in NZ provides a number of markers for a framework for this issue. The 2005 Surface and Cost Charges Study were designed to provide baseline data on the costs and charges associated with the road and rail network. (The study was able to conclude *“The total cost analysis shows that no one is overpaying and that all land transport users are underpaying to varying degrees, Cars directly pay 64% of their costs, trucks directly pay 56% of their costs, bus users pay 68% of their costs an rail users directly pay 77% of their costs”*). The study will provide an information framework for future decision-making. The aim of the study was to answer the question *“what are the costs of land transport and who is paying them?”* It argues the approach goes to the heart of a sustainable transport policy. The STCC approach had three main components total costs and charges analysis, fully allocated costs and charges and marginal costs.

The STCC identifies

- the costs that road and rail users are paying at present
- the costs they impose on society as a whole
- who besides the users pay for land transport
- what he consequences of these findings might be.

The study makes a number of points about where the costs and charges are out of balance and notes that simply altering charges to match costs is only one way of addressing the issues identified. It refers to tax recycling and that if, for example, road users were

eventually to pay some additional taxes to deal with one or more costs identified that these costs could be offset by reduced taxes and charges elsewhere in the economy. The real question is who should pay.

In relation to dealing with congestion the study said it not just a matter of price and that the overall issue can only be tackled by new pricing systems combined with new road construction, better management of existing roads, provision of high quality alternative public transport systems and encouragement of low impact modes such as walking cycling.

In a similar vein the report in respect of environmental externalities of road and rail notes, *“that simply altering user charges is only one way of addressing the issues, there is a wide range of measures, regulation design, education and taxation –that can be taken to reduce environmental externalities”*.

The STCC study provides a benchmark database and makes no specific policy proposals. It argues that the findings of the STCC are consistent with international studies. It was indicated that further detailed work be undertaken on costs to the health and welfare system of road accidents. Other negative health impacts such as vehicle emissions are currently being investigated by a detailed study funded by the Health Research Council and the Ministry of Transport.

ISSUE: CALCULATING ECONOMIC AND SOCIAL COSTS FOR ROAD AND FREIGHT TRANSPORT IS NOT NEW

Rail unions were involved in a project established in 1986 by ATC to develop and recommend a medium and long-term strategy to improve the viability and competitiveness of the rail industry. (*See Rail into the 21st Century: A Railway Industry Council Discussion Paper, May1990*) AN important aspect of the Council’s work program was to investigate the social costs of transport. (P58)

Relevant comments from the discussion of the Social Cost model include

- *“In July 1989 a Prime Ministerial Statement on the Environment signalled a determination by the Commonwealth to recognise the importance of the environmental costs of transport. It also specified objectives for ensuring that such costs are reflected in transport investment decisions and infrastructure pricing.”*
- *“ the means of securing the Federal Governments objective in relation to accounting for environmental costs, and more generally, the social costs of transport have not been specified. It is RIC’s view that a combination of recent BTCE research and transport policy developments in overseas countries (for example Sweden) provide a basis for developing models to account for the social costs of transport, investment decisions and infrastructure use”*
- *“In Sweden, the Government has addressed the financial and social cost issues associated with transport use in an innovative and integrated manner. The Swedish transport policy for the 1990’s explicitly recognises that reductions in the social costs of transport can be facilitated by a modal shift to rail. The policy also recognises that this objective has been severely constrained by modal distortions in the system in the system of land transport infrastructure pricing and an inefficient structure of charges for infrastructure use. In response, the Swedish*

Government the Swedish Government has established a so called ‘Road transport model’ to equalise the institutional arrangements and pricing methodology for road and rail infrastructure use... similar to road transport the rail authority now pays a usage charge which is calculated according to the same methodology as that used for road transport vehicles”

- *It should be noted that the social cost objective inherent in the Swedish “road transport model” entails a financial cost penalty to the Government in the short term, this arise because the infrastructure equalisation process requires the development of rail infrastructure charges which reflect the same methodology and level of subsidy as that which applies to road transport vehicles. To ameliorate the problem, the system of infrastructure pricing was restructured as part of the changes which accompanied the introduction of the ‘road transport’ model. The infrastructure pricing system now places greater emphasis on mass/distance factors and includes an energy surcharge”*
- *“renewed attention is being given to the major social costs of transport around the world and in Australia. The allocation of transport resources within cities can be specified by explicit identification of the various social costs associated with particular travel modes. However, existing constraints which narrow the range of urban transport investment options are unlikely to be overcome without fundamental change in governments urban transport and land use planning framework”*

Throughout the world transport is key item on the political agenda. A number of countries have assessed the full economic and social costs of providing and maintaining road and rail freight infrastructure and have followed through with a range of policies. These experiences are not new and have become widespread since the Swedish road cost model was introduced 18 years ago.

The RTBU argues that it is demonstrably feasible to assess the full economic and social costs of providing and maintaining road and rail freight infrastructure. A number of countries have established research programs which address issues within an individual countries or economic union as in the case of the EU.

An interesting example is the ExternE (External costs of energy) European research network, active from the beginning of the 90’s. It consists of multidisciplinary teams of researchers who have adopted a common methodology and conducted case studies throughout Europe. See *European Commission: External Costs: Research results on socio environmental damages due to electricity and transport 2003(EUR 20918)* The authors indicate that the ExternE methodology has been applied to a large range of projects and national studies to give advice for environmental, energy and transport policies. The latter includes the environmental costs of lorries (a study to incorporate environmental costs in vehicle excise rates in the UK)

A chapter devoted to applications of the methodology indicates *“For the transport sector, this methodology developed in ExternE is applied in a broader context within the European projects UNITE and RECORDIT. Fair and efficient pricing of transport infrastructure use is a fundamental aspect of developing a sustainable transport policy that takes account of the full social costs and benefits of transport. The project UNITE (Unification of accounts and marginal costs for*

transport efficiency) supply policy makers with the framework and state of the art estimates to progress this policy.”

A similar project RECORDIT (Real cost reduction of door to door intermodal transport) is a comprehensive methodology applied to intermodal freight transport.

Concerning the calculations and development of an appropriate methodology for environmental and social costs the RTBU argues that the heavy work has been done. The broad picture has been established and in the Australian context the task is to fill in the details by a federal and state government agreed research timetable underpinned by adequate resources. The RTBU notes that the AusLink legislation allows for funding transport and innovation projects and that in November 2004 the ATC endorsed a National Transport Data Framework. The Productivity Commission should recommend that COHAG champion a Surface Costs and Charges Study to answer the question “ what are the costs of land transport and who is paying them in Australia”. The Productivity Commission through this Inquiry has ability to ensure this project hits the ground running.

ISSUE: OPTIONS FOR PRICING REFORM COMPETITIVE NEUTRALITY

The RTBU in the debates around the Hilmer review and its subsequent implementation following the competition principles agreement argued that the interpretation of competitive neutrality was based on a view “that government owned enterprises to charge prices that reflect all costs that a private sector enterprise delivering the same goods or services would face” was biased against the public sector. It failed to take account of competitive disadvantages compared to the private sector and these should be taken into account to ensure that a government owned enterprise had no net disadvantage due to government ownership.

In papers produced at the time the RTBU argued for state and federal Governments to recognise and evaluate

- the impact of industrial awards and agreements on the wages and conditions applying in the public sector compared to industrial conditions in the private sector
- the superior superannuation schemes in the public sector
- higher public safety and Ohs regimes in the public sector
- higher parliamentary, ICAS and FOI reporting requirements in the public sector
- higher standard of EEO legislation in the public sector
- unfair impact of tax equivalent regimes imposed in the public sector
- impact of public benefit policies imposed on public transport, such as Treasury banking services, location of corporate headquarters, support for state policy on apprentice training and role in state disaster plans.

The RTBU makes the point that the original CN principle was based on the financial costs to the firm and did not include externality considerations. . The RTBU's preliminary view is that there is a difference between CN pricing principles for transport modes implying an absence of differential subsidies eg access charges and an argument which takes another step and argues that “full cost recovery would require that there be no subsidies at all related to freight infrastructure use”.

The COHAG communiqué of 10 February referred to developing proposal of road and rail freight infrastructure “ in a manner that maximises net benefits to the community, in particular rural, regional and remote Australia.” The RTBU would like the opportunity to make further submissions about the PC Issues paper about the assumption in relation to full cost recovery and this requiring that there be no subsidies at all related to freight infrastructure use.

ISSUE: HOW EFFICIENT ARE CURRENT CHARGING ARRANGMENTS FOR HEAVY VEHICLES?

The RTBU argues that for a number of reasons the current charging arrangements for heavy vehicles are inefficient and that the existence of undercharging for heavy vehicle access is broadly accepted (e.g see comments of Senate Committee report at 3.69) and that the size of the current pricing distortion is significant. The reasons for the inefficiency include the current costing methodologies used by the NTC. The ARA in their 2005 report refers to 3 mechanisms through which relative access pricing between road and rail are flawed.

The currently employed methodology is out of line with the emerging international evidence and theory. Three categories of charging methodologies are referred to equity allocation approach which seeks to allocate costs between users in an agreed fashion; engineering models based on vehicle pavement interactions and the econometric which is based on empirical studies of road use and pavement cost data.

The ARA study raises a number of issues about cost allocations of allocated and non-allocated categories and the division of costs into separable and non-separable costs. These are issues, which the PC is well placed to comment on as well as the strengths and weaknesses of the various methodologies.

Furthermore the reason for a low allocation to heavy vehicles flows from the use of engineering and econometric approaches which it is argued would significantly reweigh non separable costs and more expenditure would be allocated by vehicle mass or axle loads that is currently assumed. Other research suggests that loaded axles per vehicle rather vehicle mass per se is a better parameter for the allocation of separable expenditure and are a better predictor of the costs an individual user will impose on the road system.

It is noted that the BTRE have commented on the NRTC methodology and made suggestions on the alteration of expenditure allocation parameters. The ARA Report noted that these assumptions might themselves be too conservative.

The ARA analysis makes the important point “*that as much of the research in these areas has been initiated in Australia, refinement of these models could be done relatively quickly.*”

The AusLink Green Paper noted “*those trucks that carry greater than average loads and travel greater and travel greater than average distances bear less than the costs attributed to them by the NRTC.*”

The second major issue concerning the efficiency of heavy vehicle charging regimes is the use of fuel excise as a charge for marginal road wear costs because as vehicle load increases fuel use increases at a declining rate but road wear increases and this favours

the heaviest vehicles. An allied issue is that registration charges are set on fleet average utilisation, which favours vehicles carrying more mass and/or travelling above average distances.

In recent years there is been a significant change to the numbers of the heaviest vehicles such as B doubles and this has magnified the amount of undercharging of the heaviest vehicles.

The RTBU favours the adoption of mass distance charging for heavy vehicles instead of registration and fuel based charges, and notes tis form of charging has been introduced in a variety of counties. An examination of these schemes by this Inquiry should answer the questions such as the impact of pavement types, readjustment costs; differential impacts ad timeframes for implementation.

The PC paper raises the issue whether mass distance charges will raise sufficient revenue to cover the full economic costs of providing road infrastructure and how should additional revenue be collected?

The RTBU makes a number of points. The continuing debate about road funding has generated much comment about the revenue raising ability of the current system so this is not a new debate though the recent federal government budget decision and the refusal of the ATC to endorse the NTC third determination are new twists to the ongoing debate about revenue adequacy and connections between central agencies and revenue. The RTBU suggests the PC make best guesstimates of the impact on revenue of a mass/distance-charging regime before different proposals are analysed. We believe it is very difficult to make comments without knowing the size of the problem. There may be a range of options for increasing revenue shortfalls should they eventuate.

The issues paper comment also raises by implication a number of issues about demand management strategies, energy efficiencies and how they could be promoted together with discussions about the impact of significant fuel price increases, Australia's decreasing oil production, its impact on current account deficit and the global issue of the implications of peak production for oil being reached in the near future.

The issue about the adequacy of resources for transport investment and maintenance are above all political and the balance between various expenditures whether they are health and education or defence and transport is, in the final analysis, a political not economic matter.

Another issue, which involves competitive neutrality, is the current use of different assessment criteria for road and rail investment. This matter has been already referred to a number of times in the RTBU submission and it is not new having been around for over 20 years. The RTBU notes and supports the 2004 AusLink White Paper, which said "A new project methodology will be progressively introduced to ensure neutrality between transport modes." The RTBU makes the point that transport pricing principles should be formulated to cover passenger as well as freight.

The RTBU notes that COHAG has initiated an inquiry into urban congestion and a significant amount of the material before the current inquiry will no doubt provide a key input. There are many interlinked issues between freight infrastructure pricing and congestion particularly in urban areas although there are a number of congestion issues in

regional areas eg Port Lincoln and Portland. The sheer magnitude of the increase in congestion costs and truck numbers in urban areas outlined in the AusLink Green Paper and elsewhere underscore the close interrelationship between these two issues. (The BTRE forecasts imply that one in four vehicles on metropolitan roads will be a light commercial vehicle or truck by 2020(BTRE, 2003) The estimated cost of road delays to increase from \$12.8b in 1995 to \$29.7b in 2015(Chair SCOT urban Congestion Working Group, 2005)

The policy challenges are significant ones in our federal /state political structures. The overlap of funding responsibilities with recent AusLink funding allocating over \$500m to improving port- rail connections is illustrative of the overlap of responsibilities. The Port Botany area in Sydney is a good example of the overlapping responsibilities with the State Government having responsibility for the port and the Federal Government responsibility for the airport with both projecting massive traffic increases over the next 20 years. An extract on land transport access issues to ports from the RTBU's submission to current House of Representatives Inquiry is attached as **Appendix 2**.

ISSUE:IMPACTS OF DIFFERENT PRICING REGIMES

The RTBU makes the following general points:

1.Little research has been undertaken on freight markets, pricing and modal choice in Australia and how few resources of the major transport research organizations are allocated to these extremely important issues. The Australian Rail Research Organization and the BTE looked at these issues in the 1980's and little systematic work appears to have been done since then. The AusLink program generated corridor strategies, which will be a contribution towards addressing this deficiency.

2.The issues paper states "*some estimates suggest that only 10-20 per of the freight task could feasibly be carried by either road or rail.*" This range will be impacted by a number of factors such as relative service levels, the condition of rail infrastructure and supply chain co-ordination or lack of it eg Eyre Peninsula grain traffic, are relevant factors in determining modal share. Attached as **Appendix 3** is a submission prepared for an inquiry into grain handling on the Eyre Peninsula. In Victoria a number of potential rail users have referred to the dual gauge operation of the intrastate network as a key issue affecting their modal choice. In a number of land transport markets eg Tasmania there is strong competition between the two modes for most of Tasrails traffic task. The RTBU notes that the NZ Surface Transport Costs and Charges Study looked in detail at a number of regional land transport freight markets and the opportunities that existed for rail. Of interest are the comments of the STCS in relation to the viability of the rail sector "*the total cost analysis shows that rail freight users pay on average 82% of the costs they impose of society compared with trucks who pay on average only 56% of their costs ... 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*"(Summary of Main Findings and Issues,5.5)

3.The RTBU argues that to gain a better understanding of modal split a range of service and quality options would need to be considered. This is essentially the approach of ARTCs investment package which will significantly improve rail operations, allow longer

trains, increase reliability, reduce transit time with the objective of improving rails market share in the north south transport market. The RTBU notes that a number of state governments have set market percentages for container traffic to be carried by rail in urban areas due to severe congestion issues eg Victorian Government 30% and NSW Government 40%.

4. Anecdotal evidence abounds as to what drives decisions about modal choice .For example the SCT Logistics Director is quoted in the *May 2006 Supply Chain Review* “(he) maintains SCT’s reliance on the (rail) mode is simply a question of economics...in some ways I see the role of rail on SCT as being similar to the use of the photocopier machine in your average business. If you make a presentation to a client you want that copier to work well”. The same edition had an interview with the CEO of medium logistics supplier Linfox who indicated that they focussed on 35 customers in 4 markets and that rail was a key part of their strategy, with talks centred around a partnership with emerging national player, Queensland Rail.

5. A major issue not covered in the issues paper is the potential impact of the Australian led phenomena of transport companies offering multi modal and supply chain solutions. This is evidenced by Tolls recent \$6.1b takeover of Patrick’s. The new business will generate annual revenues of \$8 billion plus total assets of \$11b –creating a top 25ASX listed company with global operations across 17 countries. This company has a major impact on land transport in Australia. What influences its modal choice now and into the future? Significant amounts of public money are being spent through the AusLink program which will impact on the profits of this company. What is its' role in investing in land transport? The competition questions are certainly exercising the minds of competition regulators but the economic impact on freight infrastructure and pricing has received little attention so far. The outcomes of the rail infrastructure package agreed to by the company and Federal and State Governments in Tasmania is an interesting case study of the new transport environment.

ISSUE: INSTITUTIONAL REFORMS

A widespread view exists that there is a large gap in the co-ordination of transport planning in Australia for both freight and passenger transport and that the still born commitment of the AusLink package to establish a National Transport Advisory Committee should be activated as a matter of urgency.

To the issue of /whether there should be a National Transport Advisory Council the Senate May 2005 Report on the AusLink Bill said in indicating that almost all submissions supported a NTAC “*in the Committees view it is essential to have a forum for co-ordinating policy on the three areas suggested in the White paper as roles for the Council advice: investment priorities, modal integration and infrastructure pricing*”

The NTC in their February 2006 position paper said under the heading Transport Planning and Investment “*there remains a policy gap in the co-ordination of the National Freight Transport planning agenda that has only been partially filled by the development of Austin... a single resourced national decision making framework. ... Which should involve industry representation... responses to the urban congestion issues that are of*

particular concern to the sustainability of land transport could also well co-ordinated ... it could also assist in development of data development, management and dissemination procedures.”

The silo mentality, which affects so much transport decision-making in Australia, needs to be radically revised between all levels of government. The 19th century inherited transport thinking is not addressing the need of Australians in the 21st century. The artificial and nonsensical divide between freight and passenger transport and the federal/state jurisdictional divide with urban mass transit a “state” responsibility’ is highlighted by Whitelegg in his conclusions *“In Australia there is a very strong case for a complete re-think of national transport policy so that it is fair, equitable and transparent and deals with all modes in the same way and introduces severe test for value for money, effectiveness and efficiency in supporting other, social economic and environmental objectives. The European Union has shown that this can be done in a context where it is imperative to protect the interests of 15 national governments a national transport policy should not be an excuse to centralise and impose the will of Canberra.. It is the purpose of national transport policy to protect the tax payer, pull together all the strands of government and provide the funding and innovative funding and charging mechanisms that will ensure enough resources are applied to the job.”*

The decision of the ATC not to implement the NTC 3rd heavy vehicle determination would appear to be about funding and no guarantees that the resources that would carry it through to implementation could back policy changes. The decision of the budget not to index fuel excise was the time-honoured trotters in the trough for core constituents. The wider issues are unconnected and uncoordinated policies, which often masquerade behind the comfort zones of federal/state responsibilities, fiscal responsibility or a fetish with surplus budgets and a reluctance to resort to public sector borrowings and examine innovative funding mechanisms. If Australian transport problems and outcomes were a contender for a jersey in the world cup we wouldn’t have made the final 16 by a large margin.

From a rail industry union point of view the role of the federal government with its often-ill thought through transport/competition policies has been enormous. The Australian political process is not strong in transparently appraising policy changes and moving in a new direction. By any measuring stick the last 10 years have turned the Australian rail industry upside down with privatisation, contracting out and open access. The rationalisation of jobs has seen the rail workforce in regional Australia decline by 75% in the last 15 years and the overall number of jobs decline by over 50%.

The proposed reforms, which will flow from the application of fair, equitable and transparent policies for pricing land freight are long overdue. The road transport industry and governments have been successful in avoiding for over 20 years reforms that are common place in many countries. The case for change in our view is overwhelming.

Appendix 1: Examples of regional rail infrastructure after privatisation and corporate change.

Tasmania

The State and Federal Governments have set up joint independent assessment of Tasmania's rail system. It will focus on two major issues. The commercial/financial viability of the Tasmanian rail system and the economic and other impacts of rail on the Tasmanian economy. The report is due in early December. There have been strong exchanges between the federal and state governments and the rail operator about PN's claims for their investment in it's track without which PN have said they will close their rail intermodal services in Tasmania.

PN claims they will invest some \$38m in rolling stock upgrades over 10 years. The current work conditions for locomotive drivers are very poor due to the 30-year plus-old locomotives, which struggle to maintain a reliable service due to frequent breakdowns.

It is estimated by the company that \$78 m capital investment over 10 years plus \$4m a year on ongoing maintaence is required to make the business viable. The basis of these claims need to analyse and made public. How much investment in track and rolling stock has occurred over the last 30 years and especially since the company was privatised in 1997? A significant component of the required investment is for rail bridge upgrades/replacement.

A guidepost to the state of the rail infrastructure in Tasmania is the 1990 report of the BTCE: " The Future of the Tasmanian Railway System: A Cost Benefit of Options". The report noted on P8 "Tasrail is a small railway system .It also operates with some severe handicaps, such as Tasmania's difficult topography, a small population and industrial base, isolation from the mainland and an inheritance of run down infrastructure, transferred from the state in 1975, which has since resulted in large debt incurred for rehabilitation and other maintenance costs." (The government supplement to Tasrail declined from \$41.9m in 1977/78 to \$16.6m in 89/90;(\$356.4m in total for the period. At sale in 1997 Tasrail was a break even business)

P9 "Over the 13 years to 89/90 Tasrail's freight task increased by 87%."

P12 " the Joy Report in (1977) concluded that only 6% of Tasmania's railway track was laid to a "high standard". The remainder of the State's track ranged from fair to very poor condition. As a result of these findings, in 1978 the Federal government undertook to provide funds for the rehabilitation of the per way. Since 1976/77 \$38.4m was spent on track rehabilitation...at 30 June 1990 track rated as "very good" was 36.8% and "good" was 38%. Track rated as "fair" was 16.1% with the remaining 9.1% –a potion rarely used-was rated as poor. The percentage of track under speed restrictions was reduced in 1989/90 to 5.6% from 6.8% in 1988/89"

P13 "Tasrail has now reached the point where operations in several areas have to be upgraded is the company is to remain competitive."(Tasrail's number of employees fell from 1686 in 1978 to 200 in 1997)

The RTBU argues that the lessons to be learnt from the past is the need for regular investment to maintain the assets, up to date information on the quality of the asset and a clear role for government in adopting an overall transport funding policy which includes rail.

Tasmania-need for new planning, co-ordination and funding mechanisms.

There are serious planning issues involved in Tasmania both at private and public sector levels and between levels of government. The emergence of transport logistics companies such as Pacific National with interests in road, rail, shipping and ports and the ability for inter company modal transfers emphasises the need for new planning and co-ordination mechanisms going beyond individual company investment decisions being made on a short term basis.

The overall transport picture both within Tasmania and between Tasmania and the mainland needs to be addressed simultaneously. Tasmania unlike a number other states has always struggled economically and finds it particularly difficult to fund transport infrastructure upgrades. This was the reason Tasmania and South Australia were the only states to take up the Federal Governments offer in 1975 to take over all non-urban railways.

The idea that Tasmania should reinvolve themselves in railways some 30 years later is not one embraced with enthusiasm. They have a role to play in planning and co-ordination. As Australia's only island state, combined with a meagre financial base, the dollars come hard. Tasmania has a number of transport subsidies, the ferry service to the mainland and the long-standing Tasmanian freight equalisation scheme funded by the Federal Government.

The Federal Government plays a significant role in funding roads in Tasmania through AusLink, blackspot, roads to recovery and regional special projects, in total \$68m pa.

A paper breakthrough was made when the AusLink announcement added the mainline link to the national rail network but no dollars flowed. In the overall transport budget small dollars are involved for the upgrade of the national network once a new transport policy framework has been adopted.

Tasmania's intermodal rail link faces the possibility of being the first section of the recently proclaimed national land transport network to be closed down. There are potential new rail markets in Tasmania with a new mill to be opened. The rail access to Tasmania's three northern points are not optimal, current track layout leads to inefficient rail operations, road /rail and rail /port co-ordination. In some instances rail expansion at ports is limited.

The Tasmanian Government has given in principle support to the amalgamation of the States four port entities. A Committee of Review recommended the creation of a single port corporation with a prior recognition that the existing four ports would continue as working ports.

Appendix 2: Land transport access to ports

In many areas of regional and urban Australia land access to ports is becoming a major issues as freight volumes expands significantly and place increasing pressure on surrounding residential suburbs and/or commercial precincts.

The AusLink Green Paper forecast that total container traffic is expected to increase by 66% between 2001 and 2011. In a master of understatement the paper said “ *the expected significant growth in container throughput will test the capacity of the land transport infrastructure*”.

Congestion a major issue

A few examples will assist in understanding the problem.

Sydney’s Port Botany presents a challenge to all levels of government. In October 2005 the NSW Government announced its decision to approve a 51-hectare expansion of Port Botany. The port was tipped to take 2.9m containers by 2020, more than double the current volume. It is planned to construct 5 intermodal terminals within the metropolitan area.

Increasing rail modal share a must

The report calls for freight carried by rail from the port to double to 40% of all container movements. It was reported that much of the infrastructure would be funded by a proposed \$30 levy per container per trip, rising up to \$375 m per year. If the rail plan fails the number of trucks on the city’s entire road network will triple. Currently rail journeys can take more than double the time compared to container movements by road.

For the communities surrounding Port Botany there is also the traffic generated by Sydney Airport a Commonwealth Government planning responsibility that is expecting a doubling of passengers in the years to 2020. Once again the interconnectedness of transport planning is highlighted across modes and the role of differing levels of government in co-ordination.

Freight gridlock in Sydney predicted.

A report released, at the same time as the Governments announcement, by the NSW Governments Freight Infrastructure Advisory Board predicted that “ *the city’s already inadequate network road network will grind to a halt and be clogged with fleets of semi trailers within years.... an overhaul of existing transport strategies was crucial*”.

Although the report emphasised the doubling of freight carried by rail it forecast a huge rise in truck traffic in suburbs surrounding the port

The issues in Sydney highlight:

- The interconnectivity of regional transport networks with those in urban areas,

- The increasing congestion and conflict between heavy vehicles and passenger vehicles both public and private on route to from ports and other parts of the network,
- Conflict between urban rail passenger and freight movements with limited windows, best exemplified in Sydney with the proposed \$330m dedicated freight line in urban Sydney
- Those considerations about ports have to give attention to ancillary facilities such as terminals and storage yards, which are land intensive and coming under pressure from capacity increases and social and environmental constraints.

Appendix 3: Eyre Peninsula

Introduction

The Rail Tram & Bus Union represents the train crew and track maintenance workers in the Eyre Peninsula narrow gauge rail network. The Union protests at its exclusion from discussions and workshops of stakeholders held prior to the distribution of the *Eyre Peninsula Grain Transport Issues Paper* in October 2002.

The RTBU and its members are deeply concerned at the condition of the track and rolling stock in the Eyre Peninsula system, and recognise the validity of statements made in the Issues Paper about the potential for the rail transport system to cease functioning.

The rail system was in poor condition at the time of the AN sale in late 1997, and the new owner, ASR, has not invested in any upgrade of its asset. The deregulated transport market provides no incentive for ASR to do so.

The RTBU strongly supports the investment of public funds in the rail system because the grain and gypsum industries in the Eyre Peninsula cannot operate in the medium to long-term without an effective rail system.

However, this investment should only occur as part of a long term transport plan, with government regulation to ensure that the benefits of public investments are shared by all parts of the community, and by the state and nation on a broader scale.

The RTBU has always been sceptical of the alleged benefits of unfettered free markets as promised at the time of rail privatisation in 1997. The Union opposes propositions for open access on the Eyre Peninsula rail network, and the separation of port and grain storage infrastructure ownership from provision of services. These proposals are quite impractical given the scale of infrastructure and responsiveness needed within the grain transport chain in the Eyre Peninsula. Regulation and cooperative arrangements are a far better formula for efficient grain transport operations.

In South Australia and Tasmania, state governments have not invested in freight rail networks since 1978. In Victoria, the Kennett government starved the rail system of investment in the years preceding privatisation in 1999. But just closing ones eyes to infrastructure has turned out to be a mistaken policy. The Victorian Government is now investing heavily in its country rail network. South Australia must do the same.

1. Grain Product Diversification

While grain product diversity is a growing trend, the scale of production of almost all grains will remain in the bulk category, and bulk transport economics will apply. This means that for a journey of over 60 kilometres, rail transport will be more efficient than road transport – as long as the transit times of rail and road are approximately equal. Given the quality of road infrastructure compared to rail infrastructure today in the Eyre Peninsula, this assumption does not hold.

However, any rational transport system will provide an improved rail network. Farm to silo journeys will be by truck, and silo to silo and silo to port journeys should be by rail, except where farms are around 60 kilometres from ports.

2. Continued Growth in Grain Production

The RTBU is not qualified to comment on industry projections of increased grain production. However, the union is impressed with the expanded production of the last five years and will work with the projected increase of 30% over the next 15 years. It is clear that the rail network cannot substantially increase its contribution to the grain haulage task within these growth projections. It is also clear that the road network will also not be able to fulfil this increased task without substantial public investment.

It also appears to be true that the silo system will not be able to cope in the high-intensity transport phase from November to February, with these projections.

3. Operational Efficiency of Eyre Peninsula Rail

The RTBU has consulted its members about the issues raised about the current operational efficiency of rail in the Eyre Peninsula. The feedback is set out below:

a) Summer Heat Restrictions

When temperatures reach 36 degrees, loaded trains do not depart before 8.30 pm. Empty trains only run during daylight hours. On the light rail between Minnipa and Poochera, when the temperature exceeds 34 degrees, a maintenance company worker has to pilot the train. Train crew have to check the temperature at Minnipa or Poochera.

b) Inland Silo load-out rates

These rates vary from 60 tonnes per hour to 200 tonnes per hour – IF everything is going well.

c) Track Speeds

The track speed on the Eyre Peninsula is 50 kilometres per hour, due to track / vehicle interaction, loaded or empty. But on a typical journey, say the 280 kilometres from Pt Lincoln to Buckleboo, only 34 kilometres is open for 50 kmh. The rest is mainly at 20 kmh or 30 kmh, with a section of 43 kilometres at 40 kmh.

Pt Lincoln to Thevenard is about 434 kilometres. Only about 85 kilometres is open for speed at 50 kmh. The rest is mainly 20 kmh or 30 kmh. At present, without shunts, this trip takes 17 hours.

A Pt Lincoln – Wirrulla return journey, with five shunts, takes 26.5 hours. Of this only about 2 hours is at 50 kmh, the rest is on speed restriction.

d) Port Lincoln wagon discharge rates

No 1 discharge shed has an optimum rate of 400 tonnes per hour. No 3 Shed has an optimum 600 tonnes per hour. And No 2 shed is not used at present. These discharge rates vary a lot depending on which block the grain is discharged to.

e) Short crossing loops

Trains have to follow each other out of Port Lincoln, and crossing happens only between Pt Lincoln and Cummins, usually at Grantham, Wanilla or Edillilie. Coomunga is a short loop. Track work can cause crossings anywhere and the following stations can accommodate normal length trains i.e. 40-44 wagons and three locomotives to cross: Cummins, Yeelanna (1 train has to split), Lock, Warrambo (1 train has to split), Minnipa, Poochera (1 train has to split), Wirrulla (1 train has to split), Nunjikompita, Wharminda (a tight squeeze), Rudall, Waddikee (1 train has to split), Kimba.

f) Grain receival time at Pt Lincoln

Terminal management dictates these times. It usually takes 2.5 hours to unload a whole train of 40-44 wagons. But if there are a lot of road trains unloading at the same time, then the train takes longer to unload. If departure time is approaching and all the wagons are still being unloaded, then spare wagons are used to make a new train. ASR may call them 'spare wagons' but they are not really spare at all.

g) Track and loco quality

The abysmal state of the track is the beginning of all the woes of the Eyre Peninsula railway. If the track was up to scratch, RTBU members would cope better with driving some of the oldest locomotives now working in Australia – average age is 35 years. ASR may appear to have a 'spare locomotives' but they are not really spare, since operating locomotives often fail and need to be replaced.

4. Security in Grain Supply to Export Shipping

The RTBU believes that the trend to larger grain carriers will continue, and that the demands of shipping companies for fast ship turnaround will place unachievable

demands on both road and rail haulage of grain to port. Better planning of port usage should be achieved by cooperative arrangements with Flinders Ports. However, rail transport and higher speed unloading facilities at Pt Lincoln and Thevenard is the key to coping with this demand.

5. True Cost of Road Transport

The RTBU has long argued the case for Road Transport charges to be increased to recover the impact of heavy vehicle damage and to pay for the externalities of congestion, air and noise pollution, non-renewable resource use, and injuries and fatalities. The RTBU has also argued hard for equity in transport infrastructure investments so that axle loads, average speeds and transit times for road and rail modes are the same. If this were done, there would be a major shift in freight from long haul road to rail, with significant economic, social and environmental benefits.

In the Eyre Peninsula, there cannot be a special local road access charge, but there can be a major boost in rail infrastructure investment to lift the quality of rail grain services.

6. Cooperation in a networked industry

The institutional power of AusBulk and AWB and Flinders Ports does make it possible for road freight rates to be increased in areas where rail haul is the best transport option. But that should only happen when rail is capable of the task. AusBulk, AWB and Flinders Ports, backed by government regulation, can make it viable for ASR to invest in new locomotives and rolling stock. If ASR does not respond, these grain and ports agencies and the SA government can encourage the replacement of ASR with a more willing operator.

SA government investment in the rail infrastructure should be based on the transfer of the asset to the SA government. This would ensure that the government had genuine leverage in the grain transport chain.

The Hunter Valley Coal Transport Chain in NSW is a positive example of cooperation between multiple producers, the railway and the port loading agencies to obtain very efficient results and to largely eliminate heavy road coal vehicles from most public roads.

7. Structure of Eyre Peninsula Grain Export Industry

The RTBU notes that the deregulation model applied in the economy generally and in the Eyre Peninsula in particular has not produced good outcomes. The privatisation of the railway, the ports and the demutualisation of both AusBulk and AWB has produced a dysfunctional outcome for all stakeholders.

However, the *Issues Paper* suggests that these problems could be overcome by going further down the deregulation pathway, by separating port ownership from port services, and grain handling facilities from grain transport, and separating rail ownership from train operations.

This would produce even greater disincentives to cooperation and networking by stakeholders, and worse outcomes than at present.

While rail is crying out most for investment, it is clear that the silos and the ports also require further investments. But greater uncertainty and shareholder demands for profit in a more fragmented competitive arrangement will only reduce incentives to invest.

8. Sustainable Grain Transport Operations

The RTBU argues that the strategic silo investments of recent years are dysfunctional for all stakeholders except AusBulk, because they require farmers to truck grain further, and greatly increase the amount of grain moved in trucks, sharply increasing local and state

road costs, and also reducing road quality. The damage is greatest around the strategic silos located away from the rail network.

A long-term plan, at least with a 15 year horizon, is needed, with the highest priority for rail upgrading, but also for the location of silos with higher speed loading facilities to re-balance transport tasks away from long haul road operations toward long haul rail operations. Port facilities also need to be upgraded and Pt Lincoln should be managed so that Thevenard continues to take a substantial part of the shipping task. The RTBU argues that in the rail sector, only public investment will achieve the required goals, and that as part of this commitment, ownership of the track infrastructure should revert to the SA Government.

In the highly privatised grain industry in the Eyre Peninsula, a government-owned railway will give the SA government the leverage required to make a cooperative regulation regime work for all stakeholders.

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