

Mr Gary Banks
Presiding Commissioner
Road and Rail Freight Infrastructure Pricing Inquiry
Productivity Commission
LB2 Collins Street East
MELBOURNE VIC 8003

Dear Mr Banks

**Tasmanian Government Submission
Road and Rail Freight Infrastructure Pricing Inquiry**

The Tasmanian Government welcomes the opportunity to comment on the Productivity Commission's Discussion Draft into *Road and Rail Freight Infrastructure Pricing*. Please accept this as our formal response to the Draft.

Context

Tasmania is a net exporter, with a significant focus on bulk commodities, including forestry and mineral products. Rail is a key mode in the intrastate movement of these bulk commodities. It is critical in providing an alternative transport mode to road, supporting competitive transport options for both existing industries and potential major projects such as the proposed pulp mill. In providing modal alternative, it is significant in reducing externality costs associated with road. Over the longer term, and as part of a strategic transport system, the Tasmanian Government considers rail to be an essential element in meeting the needs of Tasmania's growing freight task.

While all levels of government have invested heavily in Tasmania's road network, particularly the AusLink National Network, rail has received limited attention and has been largely viewed as a private sector concern. While under Commonwealth ownership, rail modal share was guaranteed under regulation. This resulted in a disincentive to invest in a productive and efficient infrastructure network. As a result of this historic under-investment, Tasmania's rail network faces significant infrastructure and rolling stock constraints.

In Tasmania, the situation has been distorted by past failures to invest in either new rail assets or adequate maintenance. The result has been a progressive decline in the competitive position of rail, meaning road users have not had any real choice in terms of switching to rail.

Tasmania's unique situation raises the following key issues in relation to the Discussion Draft: the potential impact of road productivity reforms on rail in Tasmania; the consideration of externality costs; and the impact of freight productivity improvements on gross state product (GSP). The Tasmanian Government also has concerns regarding the possible development of a National Road Fund.

Impact of road productivity reforms on rail in Tasmania

The Commission's finding that there is no compelling evidence to suggest that road freight is being subsidised relative to rail under current charging systems, fails to consider the impact of the Commonwealth's historic imbalance in investment over road and rail. Over the past 25 years, the Commonwealth has invested heavily in road freight productivity improvements, while contributing little to rail productivity improvements in Tasmania. This imbalance has had a significant impact on current modal competitiveness, with the road freight industry benefiting from progressive infrastructure improvements supporting larger and more efficient vehicles. In contrast, with ageing infrastructure and rolling stock rail has struggled on what has been a largely uneven playing field. Declining infrastructure and asset quality has impacted on service capability, including in terms of travel times and available routes.

The Commission recommends jointly pursuing productivity improvements across both road and rail. In Tasmania it is critical that the timing and implementation of any productivity reforms consider the current position of rail and the need to support its growth as a key component of the state's transport system. The State has a large and competitive market for inter-modal containers and specialised bulk goods over the relatively short haul between the north and the south of the State. The modal shift that may eventuate from any Government policy that facilitates further improvements in road productivity, in advance of establishing optimum levels of investment in rail productivity, may be the catalyst for cessation of rail services across some lines. If this were to occur, the modal choice and competition offered by rail would be removed, as would its potential to cater to the future needs of industry and major projects.

Under-recovery of rail costs

The Commission's view that rail infrastructure providers are unable to recover full economic costs on many routes (with the exception of bulk commodities) appears to be based on the assumption that rail is performing to its maximum capabilities. In Tasmania, significant scope remains for rail to access a greater share of the statewide freight task. Its ability to do so will further improve its cost recovery abilities.

Recovery of local road costs by local governments

Many Tasmanian local governments maintain small rates bases, with little future opportunity for major growth. In many local governments, particularly in rural areas with a high forestry freight task, the use of local roads by heavy vehicles is significant. In this context, sustainable road maintenance and the use of local roads by heavy vehicles is an ongoing issue for many local governments.

The Commission's view that heavy vehicle costs on local roads are most appropriately recovered through local council rates and developer charges ignores the extremely limited capacity of local government to fund the infrastructure upgrades and maintenance requirements associated with heavy vehicles. The changing spatial and temporal pattern of forestry, in particular, makes it uneconomical to undertake road investment without any certainty as to future use.

Open access regimes and market barriers

The Tasmanian Government considers that vertical separation and an open access regime can support increased competition and that some existing access regimes for vertically integrated rail may impact on rail competition. In this context, delays in access approvals for freight companies seeking to win business using their own train services have been a contributing factor in frustrating new market entrants. These delays have the potential to hold freight rates above what they might otherwise be, particularly where no alternative modal competition exists.

The availability of competitively priced rolling stock from developing countries has increased rolling stock affordability, significantly reducing what was a key barrier to market entry.

Externality costs

The Commission notes that externality costs are generally greater for road than for rail, although it considers that the majority of these costs are currently internalised to a significant degree and are generally a factor of urban areas over major interstate corridors. However, it does not consider the willingness of road users, such as tourists and other light vehicle users, to avoid encountering high numbers of heavy traffic.

The Commission's externality analysis may also significantly underestimate the community's willingness to pay to limit any further increases in the amount of heavy vehicles travelling on Tasmanian roads. Rail carries 44 per cent of Tasmania's contestable freight task by net tonne kilometres, and there are potentially significant externality costs – including community perceptions of safety and infrastructure costs – associated with a shift in this task from rail to road. Currently, local community groups and tourism development organisations involved in transport planning have put forward a case for road freight to be removed from regional roads due to safety and amenity concerns. While these externality costs are currently manageable, any further modal shift from rail to road may increase community conflict.

In terms of safety, it is unclear if the externality costs consider the significant flow-on effects associated with fatalities and serious injuries, the impacts of which are not recovered under existing motor vehicle insurance schemes over the longer term.

Benefits from productivity improvements in road and rail

The Commission's modelling of productivity improvements across road and rail indicates that a 5% improvement in productivity in both road and rail has the most significant positive impact on rail in terms of reduced freight prices and increased modal share. The findings support the Tasmanian Government's decision to invest in the maintenance of rail infrastructure across Tasmania.

National Road Fund

The Tasmanian Government is not supportive of the Commission's proposal to develop a National Road Fund, if it reduces the Tasmanian Government's overall budget flexibility, in relation to either costs or revenues. The concept raises a number of potentially intractable, constitutional, legal, political and administrative issues given existing roles and responsibilities within Australia's federal system.

Thank you for the opportunity to comment on the Discussion Draft.

Yours sincerely

Paul Lennon
Premier