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Mr Paul Neville MP
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House Committee on Communications,
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Parliament House
CANBERRA ACT 2600

25 MAR 2003

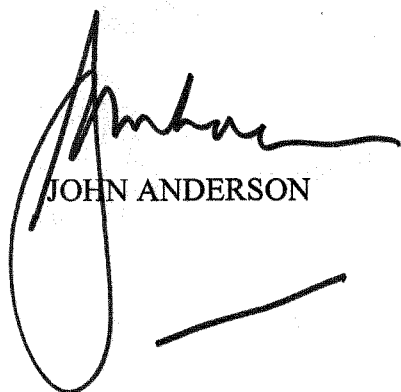
Dear Mr Neville ^{Paul}

I am pleased to inform you that the Government's formal response to the Committee Report *Back on Track*, reviewing progress in rail reform, has now been tabled. A copy of the response is attached for your information.

In line with my advice of 11 September 2002 the response details a number of initiatives that have taken place since the report was first published, which I believe to have a strong bearing on progress in rail reform.

Thank you for your patience.

Yours sincerely



JOHN ANDERSON

**RESPONSE OF THE FEDERAL GOVERNMENT TO THE HOUSE OF
REPRESENTATIVES STANDING COMMITTEE ON COMMUNICATIONS,
TRANSPORT AND THE ARTS REPORT**

'BACK ON TRACK'

THE HON JOHN ANDERSON MP, DEPUTY PRIME MINISTER,
MINISTER FOR TRANSPORT AND REGIONAL SERVICES

In July 1998 the House of Representatives Standing Committee on Communications, Transport and Microeconomic Reform presented their report, *Tracking Australia*, on the role of rail in the national transport network. This report was followed in April 1999 by the report of the Rail Projects Taskforce *Revitalising Rail* and in late 1999 by the Productivity Commission report *Progress in Rail Reform*. Each analysed different aspects of rail reform and the rail industry.

The Commonwealth recognises that all transport modes play important roles in an efficient transport system, and encourages an integrated transport system where each mode efficiently performs the tasks to which it is best suited.

The Government provided a response to the three reports in April 2000. The response described Commonwealth measures to pursue reforms that are focussed on allowing rail to integrate more effectively with other modes. To do this, rail needs to be efficient and to have good links with other modes. Rail reforms focus on reducing rail costs and improving rail service levels through:

- improving the quality of interstate rail infrastructure;
- increasing harmonisation and minimising duplication between jurisdictions;
- improving rail safety; and
- removing barriers to new entrants into rail markets.

The combination of responsible economic management allowing business profitability and an efficient rail system, with good rail service levels, will encourage private sector investment in terminals to enhance cross modal interfaces.

The House of Representatives Standing Committee on Communications, Transport and the Arts commenced a "mid-term review" of progress in rail reform in late 2000, completing it in April 2001. The Committee report, *Back on Track*, is an assessment of whether the rail reform benchmarks established by the Government in its April 2000 response to the three rail reports will be achieved.

The review summarises an industry seminar held by the Committee. It also includes the conclusions of the Committee as a result of that seminar and written submissions provided by industry representatives. It concludes that some areas of reform will not be achieved within the proposed Government time scale without more direct and forceful Commonwealth intervention. It recommends the Commonwealth legislate a solution and commit to a substantial long-term rail infrastructure investment programme.

Commonwealth constitutional powers over interstate and international trade and corporations would allow it to substantially regulate the industry. However, Commonwealth legislation is not a quick-fix solution. Developing legislation in consultation with industry, States and Territories and passage through Parliament could take several years.

In addition, the Government does not consider that total Commonwealth regulation of the rail system, as the Committee suggests, is the best mechanism to achieve reform.

- The States and the Northern Territory (NT) generally do not support Commonwealth legislative solutions for rail reform and most question whether the blanket application of reforms nationally will maximise economic benefits.
- It is not appropriate for the Commonwealth to regulate local or urban rail systems. State and local governments are much closer to the needs of these systems and control the town planning and land use processes that complement the systems. There are also state-based

processes for safety accreditation. Commonwealth intervention without State cooperation would likely come at some risk to safety in the short term.

- The Commonwealth needs to ensure that it is not simply creating an additional layer of jurisdictional involvement, multiplying existing concerns with additional duplication, complexity and the risk of moving safety and harmonisation break of gauges from state boundaries to the margins of the interstate network with local and urban systems. This would be a very real risk unless the States and Territories fully cooperate with Commonwealth legislative initiatives.

For these reasons and because alternative approaches may be more effective, the Government has been reluctant to use its legislative powers and has pursued a cooperative approach to reform with State and Territory governments and industry. However, the Commonwealth has committed to legislating to allow the Australian Transport Safety Bureau (ATSB) to investigate accidents and incidents on the interstate rail system, with the Transport Safety Investigation Bill 2002 passed by the House of Representatives on 24 September 2002. The Bill is currently before the Senate.

It is important not to lose sight of progress in reforming rail in Australia through a cooperative approach.

- The establishment of the Australian Rail Track Corporation (ARTC) to provide non-discriminatory access to track for accredited rail operators and to coordinate Commonwealth infrastructure developments on a network basis.
- Removal of duplication and improved operational efficiencies from consolidation of management of the interstate track from Kalgoorlie to the New South Wales (NSW) border, and for access from Perth to the NSW border.
- Reduced transit times, increased train lengths, higher axle loads and efficient track management costs leading to higher yields for operators on many corridors.
- Establishment of the Australian Rail Operations Unit to work with industry and the States to develop a national voluntary Code of Practice for the Defined Interstate Rail Network, that will assist in harmonising operational and engineering procedures across the industry. The first four volumes of the Code are now being implemented.
- Private sector investment in the industry as evidenced by the SCT terminal investments and the purchase by the private sector of government rail businesses notably the sale of National Rail Corporation and FreightCorp to a private consortium now called Pacific National Pty Ltd.
- Private operators have been more responsive to customer needs and more logistically focussed, winning back freight from road, generating market share increases on many corridors and even reopening corridors previously closed by public rail authorities.
- Recent utilisation of the ATSB by States for open and independent systemic investigation of rail incidents to enhance rail safety and the Bureau's work with the States and the NT on a national rail safety database to enable comparison of safety performance.
- A comprehensive assessment of the performance and investment needs of the interstate network, identifying and quantifying the costs, benefits and priorities for the development of the system.

Back on Track reports a clear perception by industry and the Committee that reform has stalled and that stronger measures are required. This gives insufficient weight to the above gains and continuing progress in areas such as independent investigation and the development of the Code of Practice.

Nevertheless, the Government accepts that progress towards seamless access, seamless accreditation arrangements and clarification of regulator and industry roles has been slower than expected. Initiatives are in place that have the potential to achieve greater progress, while maintaining the cooperative approach. If these processes are not successful, the Commonwealth may need to review its approach.

The September 2001 *Status Report of the Progress of Rail Reform in Australia* conducted by Acil Consulting, on behalf of the National Transport Secretariat (NTS), documented issues relating to progress with rail reform raised by industry stakeholders. This is part of a broader project addressing cross modal and national transport policy issues. This work has identified impediments to improved performance of the rail sector as perceived by industry. These impediments are similar to those the Government has been seeking to address under its rail reform process ie, enhanced operational uniformity, standardised rail safety accreditation, independent incident investigation and seamless access arrangements for the national network. Actions to address the report's findings are currently being pursued from a collaborative basis across jurisdictions, following Australian Transport Council (ATC) endorsement.

To speed up progress in these areas the Government made changes to the \$250m infrastructure upgrading programme. The changes make investment on NSW mainline track conditional on corridor based network management arrangements that generate improvements in corridor performance.

The Commonwealth and NSW Governments agreed to an examination of the access and track management arrangements for interstate track in NSW, with a view to transferring management responsibility for this track to the ARTC. This agreement, made in the context of the joint sale of the National Rail Corporation and FreightCorp, reflects the commitment of both governments to establish seamless interstate rail access arrangements on the east coast. The Commonwealth and ARTC have submitted a formal proposal to the NSW Government who is currently assessing its merit. If negotiations prove successful and the proposal is accepted, improved track management arrangements will be implemented shortly thereafter.

As part of the proposal to NSW the Commonwealth and the ARTC have proposed an investment of more than \$870 million in rail infrastructure over the next five years, if ARTC is successful in obtaining a lease over the NSW interstate rail system.

The National Road Transport Commission Act (NRTCA), which is due to expire on 14 January 2004, has recently been reviewed; as has the Inter-Governmental Agreement for Rail Operational Uniformity and the role of the Australian Rail Operations Unit (AROU).

Recommendations include:

- Extension of the road transport reform model to rail and intermodal operations. This means that a National Transport Commission (NTC) will be established to replace the National Road Transport Commission.
- Rail transport reform will include developing further the national approach to rail safety regulation, to achieve a more effective mutual recognition regime; and focussing on procedures and standards to manage major risk factors, such as fatigue. There will also be capacity to look at the broader array of rail regulatory issues.

- Governments will support industry broadening and deepening the Code of Practice for the Defined Interstate Rail Network, so that it can be extended to the intrastate network.
- Significantly improved mechanisms for industry consultation.

With the agreement of Commonwealth, State and Territory Heads of Government the Commonwealth will establish the NTC by legislation. The NTC's mandate and processes and the role of jurisdictions will be set out in a new inter-governmental agreement replacing the Heavy and Light Vehicles Agreements. Developmental and transitional work is currently underway, including consultation with the rail industry, on implementation of the NTC.

Furthermore, in May 2002 the Government announced a new long-term land transport infrastructure planning and funding initiative called *AusLink*. The Government's Green Paper *AusLink: Towards the National Land Transport Plan*, was released on 7 November 2002 and was supported by a series of consultation meetings in metropolitan and regional Australia. The *AusLink* Green Paper was open for comment until 7 February 2003. A formal policy statement, or White Paper, will be released in mid 2003.

The Commonwealth's approach aims to take a more strategic cross modal approach to land transport infrastructure funding. *AusLink*, given its logistics rather than modal focus, will provide a further boost to rail infrastructure funding and address the need for greater consistency and clarity in planning. In this context rail will be put on an equal footing with all other modes in planning and assessing land transport infrastructure priorities for the first time.

Transport Ministers at the 8 August 2002 ATC agreed to move forward collaboratively towards the development of the National Transport Plan. Ministers also agreed that a working group of officials and the NTS develop an inter-governmental agreement for the establishment of the National Transport Advisory Council (NTAC). The Council's purpose will be to provide Ministers with strategic analysis and advice on priorities for national infrastructure investment and reforms to support intermodal integration.

The following provides the Government response to the specific recommendations of the April 2001 House of Representatives Standing Committee on Communications, Transport and the Arts Report *Back on Track*.

Recommendation 1

The Minister for Transport and Regional Services should take a leading role in continuing to reform the Australian rail industry by:

- **legislating to establish a national rail network manager;**
- **legislating to establish a national rail transport commission, modelled on the National Road Transport Commission, to be responsible for strategic planning in the industry and establishing harmonised accreditation, operational and safety standards on the national network; and**
- **considering again the establishment of a single land transport commission (involving all States and Territories and incorporating the National Road Transport Commission and the rail transport commission proposed above) to ensure that national transport planning is conducted in a coordinated fashion across all transport modes.**

Response - National Access Manager

The Government would only consider this option should processes currently in place not be successful.

Response – regulatory reform

The Government strongly supports the recent Australian Transport Council (ATC) decision to establish the National Transport Commission (NTC). The NTC will have the capacity to bring a national approach to rail safety regulation including improving the current co-regulatory framework and expanding mutual recognition.

The Commonwealth also agrees with the ATC's decision to support the industry in accepting ownership and management of the Code. Discussions are underway between the Commonwealth and industry on appropriate transfer arrangements. Furthermore, governments agreed to support industry in expanding and deepening the coverage of the Code to address interface issues.

Industry ownership and management of the Code of Practice and the establishment of a national approach to rail safety regulation should address many of the long standing concerns of industry and the Commonwealth, with a view to improving the efficiency of the interstate rail network.

With implementation of the first four volumes of the Code of Practice for the Defined Interstate Rail Network, a foundation has been put in place for the rail industry to realise a number of operational efficiency and safety benefits, on the interstate network. Adoption of the Code will assist the industry in moving towards a seamless operating environment. The rail industry is steadily progressing its implementation of these first four volumes of the Code.

With major industry input, the Australian Rail Operations Unit is continuing to facilitate the development of Volume 5 of the Code dealing with Rollingstock. Finalising this Volume will enable further efficiencies and improvements on the defined interstate rail network through uniform practice.

These results are being achieved through industry and government cooperation, with industry financial and human resource contributions totalling over \$3 million. The co-regulatory

environment provides incentives for industry commitment of resources and potentially enables achievement of reform more quickly than through government legislative processes.

Response - national transport planning

On 21 May 2002 the Government announced a new initiative *AusLink*, to provide a coordinated approach to transport planning and integration of the national transport logistics network.

AusLink will be developed collaboratively with other levels of government. Transport Ministers at the 8 August 2002 ATC agreed to work together to progress the plan and associated Green Paper, which was released for broad public consultation on 7 November 2002. The *AusLink* Green Paper was open for comment until 7 February 2003.

Ministers also agreed that a working group of officials and the National Transport Secretariat develop an inter-governmental agreement for the establishment of the National Transport Advisory Council (NTAC). The Council's purpose will be to provide Ministers with strategic analysis and advice on priorities for national infrastructure investment and reforms to support intermodal integration.

As part of the National Plan the Federal Government will sponsor the development of an indicative rolling 5-10 year transport infrastructure development plan. By establishing a long-term vision and funding structure for our national transport systems *AusLink* will enable transport planners to better identify and address the big challenges, such as the growing freight task and need for more integrated and efficient transport systems.

AusLink's national land transport network will be a major step forward in developing a national approach to logistics and modal integration. *AusLink* will mean improved freight logistics, through an integrated approach to the land transport network and its linkages with ports and airports. Road freight will have a more viable future through a growing economy and more competitive logistics. There will be a more environmentally sustainable transport system with rail having a more significant role to play in freight transport.

AusLink will not involve a reduction in the Commonwealth's transport expenditure. It will not affect any of the current projects funded by the Federal Government, or any projects that the Federal Government has made a firm undertaking to fund.

Recognising that regional communities are dependent on land transport to provide economic and social connectivity *AusLink* proposes a component of the new funding programme be earmarked for regional transport improvement, through an approach consistent with the broader *AusLink* philosophy.

AusLink is a decisive and visionary initiative with straightforward aims. They are to:

- develop an integrated network of land transport corridors of strategic importance to the nation, including road and rail links and intermodal connections to ports and airports;
- develop a unified, long-term national infrastructure plan for the development of this network, based on clear national objectives and priorities that focus on the major transport challenges facing Australia;

- establish a coherent national framework that can implement this plan in an effective, workable way, by directing funds and effort to the best uses; and
- develop a broader National Land Transport Plan to take improvements to the national network further by integrating improvements to infrastructure, systems, regulation, safety and other important land transport issues.

Recommendation 2

The Minister for Transport and Regional Services should, when considering the package of reforms we have recommended, give the highest priority to declaring a national track for interstate rail services on the standard gauge network from Brisbane to Perth.

Response

Declaration of a national network is one way to define the geographic scope of any Commonwealth rail legislation. As such, declaration would need to be considered within the context of any Commonwealth legislative intervention measures, should the current cooperative approach to rail reform stall.

Recommendation 3

Upon receipt of the results of the Australian Rail Track Corporation's national infrastructure and performance audit, the Minister for Transport and Regional Services should urgently put in place a 10 year below track infrastructure redevelopment programme of a magnitude comparable to that recommended in *Tracking Australia*. This programme should be in addition to funding already made available to projects such as the Alice-Springs (sic) to Darwin rail link and the Sydney freight corridor.

Response

The Government considers there is little justification for Commonwealth investment if there is no national network, only a series of state-based systems. Accordingly, progress will need to be made on network integration issues before additional Commonwealth investment will be considered. Further, there is no current justification for a programme of the magnitude recommended in *Tracking Australia*.

Tracking Australia, *Revitalising Rail* and *Progress in Rail Reform* all called for Commonwealth investment in rail track. *Progress in Rail Reform* was the only one that indicated a priority for investment and none quantified the benefits of investment.

The April 2000 Government response to these reports committed to a process that would identify and quantify rail investment priorities and the business case for investment. Since the Committee reported to Parliament, the Australian Rail Track Corporation (ARTC) has completed its *Audit* of the performance and investment needs of the interstate rail system. The ARTC's *Audit* represents the first time that investment needs on the interstate network have been examined from a market driven perspective, enabling the costs, benefits and priorities for the system to be identified and accurately costed. It identified an economically justified investment of \$507 million over the next 5 years.

While supporting investment, the *Audit* concludes that the benefits of investment will only be achieved if there is more streamlined access to the track between rail jurisdictions and a single

set of management priorities and principles for each corridor. This reinforces the conclusion of the Productivity Commission that benefits from investment in the existing system are dependent on network management improvements.

Consistent with this the Commonwealth and the ARTC have proposed an investment of more than \$870 million in rail infrastructure over the next five years, if the ARTC is successful in obtaining a lease over the NSW interstate rail system. This investment is consistent with the findings of the *Audit* and reflects new information obtained from the due diligence process undertaken by the ARTC as part of the lease proposal, which identified that the infrastructure investment required for interstate track in NSW was greater than initially thought.

It is proposed that the funding would come from the Federal and State Governments, ARTC, and the private sector. The investment programme would include:

- the construction of a new Southern Access Corridor into Sydney from Macarthur to Chullora at a cost of \$180 million. The new corridor would remove 36 freight and country passenger services a day from the CityRail network, which would free up capacity for more suburban services;
- \$145 million in infrastructure upgrades to the Hunter Valley rail system, which would increase its capacity from 85 million tonnes a year to 100 million tonnes. The upgrades would boost employment and development in the region;
- a \$316 million programme of rail and foundation strengthening, bridge replacement, and re-sleepering to improve the condition of the core rail infrastructure and reduce ongoing maintenance costs;
- \$86 million in improvements to train control, signalling and safe working systems to improve the safety and efficiency of rail operations by investing in new technology and replacing outmoded equipment and systems;
- \$32 million for new and extended crossing loops to enable trains of up to 1,500 metres in length to operate on the north-south corridor; and
- \$113 million for other development works.

The investment programme would deliver enormous benefits for the rail industry, road users and the economy. Rail would capture greater market share through improvements to key market determinants, such as transit times and reliability. Rail transit times between Sydney and Melbourne would be cut by 3 hours, from 13 hours 30 minutes to 10 hours 30 minutes. Transit times between Sydney and Brisbane would be reduced from 21 hours to 17 hours 30 minutes. The reliability of the rail system would also improve dramatically. It is estimated that the investment would take 111,000 heavy truck movements a year off the north-south corridor, which would reduce congestion and pollution, including greenhouse gas emissions.