

AUSTRALIAN RAIL, TRAM AND BUS INDUSTRY UNION

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OVERVIEW PAPER ON PRODUCTIVITY IN THE AUSTRALIAN RAILWAY INDUSTRY

FOR

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS INQUIRY  
INTO RAISING THE LEVEL OF PRODUCTIVITY GROWTH IN THE AUSTRALIAN  
ECONOMY

## INTRODUCTION

The Australian Rail Tram and Bus Industry Union (RTBU) appreciates being given the opportunity to address the Standing Committee on the important issue of raising the level of productivity growth in the Australian economy. It is our intention in this paper – given the lateness of our entry into the work of the committee - to provide an overview of the factors influencing productivity growth in the rail industry.<sup>i</sup>

By way of introduction we inform the Committee that the RTBU is a federally registered union of employees. The RTBU has coverage of employees engaged in or in connection with the rail industry, employees employed in the tramway industry and employees employed by publicly owned bus operators in Sydney, Brisbane, Hobart, Newcastle, Launceston and Burnie. The range of work performed by our members includes work involved in the operation of trains (freight and passenger), trams and buses; work involved in the maintenance and upkeep of railway and tramway infrastructure, and railway, tramway and bus

rolling stock; and the administration and other functions associated with the operation and maintenance of trains, trams and buses and accompanying infrastructure.

The RTBU currently has some 33,000 member employed in both the private and public sector and in each of the states and territories.

The overview paper focuses on the rail industry as it is that industry which has been given the most attention in the area of productivity, in particular the rail freight transport system. There has been a number of reports in recent times focusing on that area.<sup>ii</sup> The RTBU acknowledges however that the role of trams and buses deserves more attention.

#### MEASURING PRODUCTIVITY IN THE RAIL INDUSTRY

The notion of productivity in the rail industry – and doubtless elsewhere – is problematic for two reasons.

The first reason is the absence of an unequivocal and/or agreed definition and measurement of productivity. As the Australian Bureau of Statistics (ABS) has stated:

“There are a number of conceptual and data issues surrounding productivity measurement. Statistical agencies and other involved in the field are still gathering experience in their compilation.”<sup>iii</sup>

In the same report, the ABS goes on to say:

“At a basic level, productivity growth occurs when the volume of output rises faster than the volume of inputs, but beyond this simple notion a range of conceptual and measurement issues arise.”<sup>iv</sup>

Whilst much of the work around the concept of productivity is esoteric, it is, for obvious reasons, important that it do what it is relied on for doing. At this point, that is debatable.

In the rail industry there is no broadly accepted measurement of productivity. We are aware that figures such as net tonne/kilometres and the number of passengers are used as proxies to indicate growth in freight and passenger movements. In this regard the terms of reference of this committee refer to the “adequacy of productivity growth measures”. The RTBU submits that the measurement of productivity growth is inadequate for the purpose and that the Committee should recommend that an appropriate measurement be developed. Importantly such a measurement should be accompanied by a suitable degree of clarity and simplicity. In saying this we do not underestimate the magnitude of the task.

The second reason concerns the lack of appropriate data. In 2004, a working group formed by the Australian Transport Ministers Council (ATAC) released a report making a number of recommendations for the development and release of relevant statistics and data<sup>v</sup>. However, despite this report, some two years later the Productivity Commission was compelled to say:

“However, there is a paucity of information on the potential for productivity gains stemming from reforms in road and rail infrastructure.”<sup>vi</sup>

In 2007 the Bureau of Transport and Regional Economics noted that “Following the growth in private trains since the mid-1990s and the privatization of the National Rail in 2002, rail freight activity data became increasingly scarce.”<sup>vii</sup>

The earlier ATC report had surmised that there was a tension between open access to data and the notion of “commercial in confidence” use by corporations to keep their data in-house. Yet it goes on to note that in the United States there is a “genuine national transport data framework” where a lot of data is provided and where the idea of making data publicly available has not met with the “commercial in confidence” protests as appear to be raised in Australia.

## 2. OWNERSHIP AND REGULATION

Up until the mid 1990s the only owners and operators of railways were government; namely the various states and the Commonwealth.<sup>viii</sup> A decade or so later, other than the Queensland Government, no government in Australia is

involved in freight rail transport. The Melbourne urban rail passenger transport system has been franchised to a private operator and the private sector is also heavily involved in rolling stock, locomotive and infrastructure maintenance. In other words, the rail industry has been the subject of a significant program of privatization.

Concomitant with privatization has come a push for deregulation. This falls into two areas. The first is that of rail safety accreditation and the second is that of rail access regimes.

Rail safety accreditation is a regulatory regime that companies have to satisfy in order to be able to operate a rail transport operation. In essence a potential operator has to satisfy the regulator that their operation will be conducted in such a way that fulfils the various safety requirements. At present each of the states and the Northern Territory have their own safety legislation and regulators. There is, at present, a process of developing a national rail safety regulatory system.<sup>ix</sup> This is currently under development by the ATC and COAG.

The rail access regime operates as a process of allocating access to the various railway systems across Australia. In essence it is a form of rent whereby a rail operator pays for access to the track for a certain time and at a certain time. Like the safety accreditation process there are a number of regimes in place, reflecting the owners of the various pieces of rail track.

It is trite to say that the adherents of privatization and deregulation argue that, amongst other things, they increase productivity. In our view, based on the experience of the rail industry in Australia, such a position is based more on ideological grounds than on practical and real grounds.

On the one hand privatization on the Australian railways is hardly a success story. For example:

- Since the privatization of the railways in Victoria in the mid 1990's, the infrastructure has since been returned to the Victorian Government as has the operation of the intrastate regional passenger trains.

- Since the privatization of the railways in Tasmania in the mid 1990s, both the infrastructure and the operations are now in the hands of the Tasmanian Government.
- Whilst a private operator runs the Melbourne suburban rail system, the Victorian government provides the rolling stock and maintains and upgrades the infrastructure. Practical experience reveals that where and when there is a problem with the rail system, the eyes of the public turn squarely towards the Victorian government.
- Road transport remains the predominant mode of transport of non bulk freight between our capital cities with the exception of the long eastern states—Perth corridor. Rail's share on the Sydney-Melbourne and Sydney-Brisbane corridors is currently less than 10% and has been falling over time.<sup>x</sup>

It should also be noted that the New Zealand railways, privatized in the early 1990s was recently handed back to the New Zealand Government.

With respect to the regulatory model, a regulatory impact statement prepared by the National Transport Commission recently concluded that:

“a single national regulator would deliver an incremental benefit in net present value of between \$36 and \$67 million compared with the status quo over the ten years modeled.”<sup>xi</sup>

Thus, whilst in our view the concept of a national rail safety and investigatory regulator has merit as long as it enhances rail safety rather than diminish it, it can be seen that the current regulatory structure is not a major impediment to efficiency and certainly not the impediment that some claim it is.

A similar situation applies to the rail access regimes. The RTBU is not aware of any access complaints regarding entry to government owned railway infrastructure. The only “access” dispute to our knowledge in recent times concerns access to the

ore lines in the Pilbara region in Western Australia. It appears that when it comes to access the private sector is not exactly forthcoming.

In our submission there has been an inordinate amount of attention focused on regulatory regimes and government ownership for very little outcome. Further, the reality is that some form of regulatory control in an industry such as rail is essential to its efficient operation. As Gunningham states with respect to rail safety regulation:

‘It might be argued that large commercial rail organisations have an enlightened self-interest in maintaining a high standard of rail safety. After all, the consequences of a major disaster in particular, involve not only the horror of multiple deaths, but also incur substantial financial and reputation costs on the relevant operator. Yet there is a considerable history of serious disasters, many of them preventable and resulting from serious flaws in safety arrangements that suggest that it is not sensible to rely on either self-interest or self-regulation alone.’<sup>xii</sup>

To add to this point, it seems to us that the current global economic crisis, founded as it has been in the ideology of neo-liberalism, of which deregulation and privatization form part of the bedrock, sends us a clear message that such measures are part of the problem and not part of the solution.

As such it follows in our submission that if this Committee wants to address real and concrete issues regarding the best way to increase productivity in Australian industry, then it should pay little attention to those pushing the neo-liberal agenda of deregulation and privatization.

### 3. INFRASTRUCTURE AND CAPITAL.

Together with labour, the notion of capital—including infrastructure—is seen as a prime ingredient for the growth of productivity. In the case of the railway industry, it is no different.

With respect to capital investment, the railway industry is coming from way back in the field. On the other hand, its major competitor—road—is up there with the best of them.

The dearth of investment in rail and the surplus of investment in road has caught the rail industry in a vicious circle. Because of the absence of modern technology and new and/or upgraded infrastructure, the ability of the rail industry to increase productivity and thus attract a larger share of the freight task and passenger patronage cannot be achieved. It then follows that as the share of freight and passengers declines relative to its major competitor the incentive to invest in capital works declines.

To exacerbate the problem, whilst rail infrastructure has deteriorated, road infrastructure has improved significantly as has truck technology.

To add to this problem, the operation of railways has traditionally been regarded as a function of the States. Thus, the Federal Government has tended to steer clear of the railways. This can be seen (with some exceptions) in the absence of funding from the Federal Government over the years.

In recent times this has begun to change. The current Labor Federal Government has/is taking a far greater involvement and interest in transport infrastructure as it is with infrastructure generally. In this context it should be noted that whilst a lot of the impetus for increasing infrastructure spending has come from the overall strategy to attack the global economic crisis, the notion that the Federal Government should invest in railway infrastructure preceded that crisis.

To that end:

“The Australian Government is investing more than \$2.4 billion in rail infrastructure improvements on the National Land Transport Network and the interstate rail network. Around \$600 million has been provided for rail projects. A further \$820 million in untied grants has been provided by the Government to ARTC which is investing these funds on a range of investments on the Melbourne-

Sydney-Brisbane rail corridor. The ARTC also invests its own funding into projects.<sup>xiii</sup>

Whilst the rail industry is coming from behind, it is a breath of fresh air to at last see a Federal Government that is taking the rail industry and the modernisation of the industry seriously. It is hoped that the current installment is the first amongst a number of future contributions to improving rail infrastructure.

Of course, it is one thing to have a modern, technologically advanced infrastructure, with infrastructure in this context meaning track, signals and communications, bridges and structures, terminal, depots, stations and other ancillary equipment. It is another to have modern locomotives and rolling stock traversing the infrastructure.

Unfortunately, Australia's stock of locomotives and rolling stock is in dire need of upgrading. According to the Australasian Railways Association, there were 1,609 locomotives in Australia in 2007—approximately 50% are older than 17 years and 24.1% are older than 32 years. With respect to wagons some 50% are older than 25 years and 33.8% are older than 32 years. These assets are critical to the productive transport of freight. There is ultimately little point having a first class infrastructure with second class locomotives and rolling stock. As the transport of freight by rail is essentially a task of the private sector, it clearly has a responsibility to come to terms with the issue. It is hardly reasonable for employers in the industry to complain about the state of the infrastructure when things don't look so good in their own backyard.

Accordingly, it can be seen that with respect to increasing productivity in the rail industry there is a need to update the infrastructure, the locomotives and the rolling stock. This involves both the public and the private sector. It has been mentioned that the freight task between 2005 and 2020 will double in Australia. As such there will be ample demand for transport services. The rail industry must make the necessary investment in capital to ensure that it gains its fair share of the transport task.



#### 4. LABOUR

A skilled workforce is critical to improving productivity. In this regard we apply the term “skilled” across the board to all forms of work performed in the rail industry. There is also a need for skills recognition across the country. In that regard the Transport and Logistics Industry Skills Council has been formed to assist in the development and maintenance of an appropriately skilled workforce.

The RTBU is concerned that insufficient attention is given to the acquisition of appropriate rail based skills. For example, with respect to locomotive drivers there has been lack of training in recent years. One company that we are aware of determined to place its newly trained drivers on ‘bonds’ where they would be compelled to pay a certain amount of money if the employee left the company to take up a driving job at another company within a certain time period. There were a number of companies complaining about “headhunting” by other companies

In addition to skills a number of other factors of employment are important. The conditions under which they work are critical to productivity. It should be kept in mind that the industry is one that works 7 days a week, 365 days a year; work is performed under a variety of conditions, occupational health and safety is a constant theme and many employees are required to spend regular periods away from home. A number of these items can act as a disincentive to working in the industry. Attempts by employers to cut costs by adding to this inconvenience are hardly likely to aid in increasing productivity.

For many years the rail industry was bedrock of full time permanent employment. In recent years the industry has seen increasing levels of casual, part time and temporary employment. Further we see an increasing use of labour hire companies where the employees of those companies are employed on a casual basis. Much of the distinction between these forms of employment can be found in the notion of job security. The use of such forms of employment as casual and labour hire is predicated on high levels of job insecurity. Many are also based on poor levels of training. Where an employee is concerned about job security, it is also hardly conducive to increasing productivity.

There is also a need for workers to have a sense of being able to positively contribute to the operation of the workplace. To do this requires the appropriate avenues in the workplace to express one's views without fear or favour and the right to be represented by a Trade Union. For example, a recent study in the United Kingdom on effective worker representation in occupational health and safety found that two of the six prerequisites are "effective autonomous worker representation at the workplace and external trade union support" and "consultation and communication between worker representatives and their constituencies."<sup>xiv</sup>

It is our submission that each of the issues mentioned here are vital to a productive workforce. An employer cannot pick some and ignore others. They ignore some or all at their cost and at the cost of productivity.

## 5. CLIMATE CHANGE, CONGESTION AND FUEL DEPLETION

These three issues are emerging as critical not only in a public policy sense but for reasons on productivity in the workplace.

The need to alleviate the consequences of climate change will place enormous pressure on industry in the years to come. It is a cost they will have to bear as society grapples with this critical threat to our planet's future. It is already a problem and will—if not attacked—become a bigger one.

Traffic congestion, particularly in the larger cities, is a problem. Employees stuck in traffic, goods stuck in traffic, time being wasted, and fuel burning whilst nothing is moving.

Finally, there is the issue of fuel depletion. If we are not at the peak of our oil supply, we are close to it. The cost of burning fossil fuels to move goods and people will only increase in the years to come.

The use of rail as a means of transporting goods and people is essential to positively addressing these issues. With respect to land transport, rail is by far the most fuel efficient mode of transport. The Australasian Railways Association has

observed that one train takes 150 trucks off the road, saves 45,000 litres of diesel and saves 45 tonnes of greenhouse gas.<sup>xv</sup> The Total Environment Centre also notes that 87% of 2006 freight transport emissions come from light commercial vehicles, rigid trucks and articulated vehicles.<sup>xvi</sup> With these figures in mind it is hard to escape the conclusion that the rail industry has a major role to play in increasing Australia's overall productivity level within the constraints imposed by the need to simultaneously attack climate change, congestion in our large cities and the depletion of oil.

## CONCLUSION

This paper seeks to present an overview of the factors that impact on productivity in the rail industry. It does not seek to do so in detail given the limits of time on its preparation and the time commitments on the Committee.

We hope that this paper provides the committee with 'food for thought' for its deliberations on this important matter.

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<sup>i</sup> A more detailed exposition of the views of the RTBU on productivity and the rail industry can be found in our submissions to a review by the National Transport Commission (NTC) into productivity in the rail industry. This work involved two submissions. A copy of each submission shall be made available to the Committee. The reports are also available on the NTC web site.

<sup>ii</sup> See for example, National Transport Commission, FREIGHT RAIL PRODUCTIVITY REVIEW: FINAL POSITION PAPER, National Transport Commission, Melbourne, 2009, Productivity Commission, ROAD AND RAIL FREIGHT INFRASTRUCTURE PRICING, Productivity Commission, Melbourne, 2006, Senate Standing Committee on Employment, Workplace Relations and Education, WORKFORCE CHALLENGES IN THE TRANSPORT INDUSTRY, Commonwealth of Australia, Canberra, 2007

<sup>iii</sup> Australian Bureau of Statistics, INFORMATION PAPER: EXPERIMENTAL ESTIMATES OF INDUSTRY MULTIFACTOR PRODUCTIVITY, (cat. 5260.0.55.001), Australian Bureau of Statistics, Canberra, p. vii

<sup>iv</sup> Ibid. p.1

<sup>v</sup> Australian Transport Council, NATIONAL TRANSPORT DATA FRAMEWORK, Commonwealth of Australia, Canberra, November 2004

<sup>vi</sup> Productivity Commission, POTENTIAL BENEFITS OF THE NATIONAL REFORM AGENDA, Commonwealth of Australia, Canberra, 2006, p.101

<sup>vii</sup> Bureau of Transport and Regional Economics, FILLING THE GAP IN RAIL DATA: AND INVESTIGATION OF THE GHERINGHAP LOOP TRAIN SIGHTINGS, Information Paper No. 57, Commonwealth of Australia, Canberra, 2007, p.iii

<sup>viii</sup> It is acknowledged that a number of mining companies also operate a rail system in conjunction with their mining activities. They do not, however, engage in the general transport of freight.

<sup>ix</sup> This is together with a national rail accident investigatory system.

<sup>x</sup> Department of Infrastructure, Transport, Regional Development and Local Government, ROAD AND RAIL FREIGHT: COMPETITORS OR COMPLEMENTS?, Information Sheet 34, April 2009, p.6

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- <sup>xi</sup> National Transport Commission, SINGLE NATIONAL RAIL SAFETY REGULATORY AND INVESTIGATION FRAMEWORK REGULATORY IMPACT STATEMENT, National Transport Commission, Melbourne, September 2009, p.110
- <sup>xii</sup> Gunningham N., BEST PRACTICE IN RAIL SAFETY REGULATION, Working Paper 31, National Research Centre for OHS Regulation, Australian National University, Canberra, 2004, pp 7-8
- <sup>xiii</sup> See [www.nationbuildingprogram.gov.au/funding/projects/rail.aspx](http://www.nationbuildingprogram.gov.au/funding/projects/rail.aspx) For further details see the list of rail projects provided at [www.economicstimulusplan.gov.au/road\\_rail/pages/default.aspx](http://www.economicstimulusplan.gov.au/road_rail/pages/default.aspx)
- <sup>xiv</sup> Health and Safety Executive, The Role and Effectiveness of Safety Representatives in Influencing Workplace Health and Safety, RESEARCH REPORT NO. 363, Health and Safety Executive, Sudbury, 2005, p.113
- <sup>xv</sup> Australasian Railways Association, The Green Paper Completely Ignores Rail, PRESS RELEASE, 20 July 2008
- <sup>xvi</sup> Total Environment Centre, THE CONTRIBUTION OF FREIGHT TRANSPORT TO AUSTRALIAN GREENHOUSE GAS EMISSIONS AND THE OUTLINE OF STRATEGY, Total Environment Centre, Sydney, 14 July 2008