

## Question on Notice

No. 988

Asked on Friday, 8 June 2007

MS KIERNAN asked the Minister for Transport and Main Roads (MR LUCAS)—

QUESTION:

Will he outline:

- (a) the success or otherwise of initiatives where governments around Australia have privatised the rail network,
- (b) outcomes taxpayers have seen from these initiatives and
- (c) what lessons Queensland can take from these measures?

ANSWER:

I thank the Honourable Member for the question.

I have been advised that as part of the program of micro-economic reform in Australia based largely on the recommendations of the 1993 *Hilmer Report*, the rail transport sector in every Australian State has undertaken varying degrees of restructuring aimed at improving efficiency and opening up the sector to competitive private sector participation. In Queensland this has been successfully achieved by the Government through corporatisation of Queensland Rail (QR) in 1994 and vertical separation of its "below rail" track infrastructure from its "above rail" rolling stock and freight operations within QR. This vertical separation achieved through ensuring effective "Chinese walls" formalised within the organisation allows open access for both Government and private carriers to provide competitive services on the network, overcoming the negative characteristics of what otherwise would constitute a "natural monopoly".

However, the success story we have enjoyed through careful planning here in Queensland has not been repeated elsewhere in Australia. Other States and the Federal Government took this process of micro-economic reform too far and sold infrastructure trading a short term financial gain for loss of control of vital public assets. It is clear that these privatisations have not had the success originally intended and some have totally failed.

The privatisation of the rail freight system in Victoria is a good example. The previous Kennett government sold the network to Freight Australia, a subsidiary of United States operator, RailAmerica for \$163m in 1999 with the track subject to a 15 year lease renewable for 45 years. Pacific National acquired the lease from Freight Australia in 2004 for \$190m, but had to sell it back to the Victorian Government in April 2007 for just \$133.8m. Mr Paul Little, Chief Executive of Pacific National owner, Toll Holdings was reported as commenting that the rail network had struggled to generate commercial returns and that the government's requirements that rail networks be enhanced did not always allow normal commercial returns to be achieved.

The Victorian example is just the most recent example of where micro-economic reform in the rail industry has been taken too far with full rail privatizations, and has failed or has required further assistance from Government. The Federal Government sold Tasrail, the Australian National Railway Commission's Tasmanian business for \$22m in 1997 in an effort to improve performance and end an on-going taxpayer subsidy. However following

threats by Pacific National to shut down the rail freight network, it was announced in March 2007 that the Federal Government and the Tasmanian Government would contribute \$78m to a program of maintenance and infrastructure upgrading.

Privatisation of the rail network in Western Australia has also proved to be working against the public interest. Prior to its sale in 2000 to the Australian Railroad Group, a joint venture between Wesfarmers and Geneese and Wyoming, Westrail's grain freight business was a viable operation in serving its grain producer customers. The Westrail model involved some of the better lines compensating for some of the more marginal services. However, the Western Australian Government has recently expressed concerns that the network has faced serious decline as a result of the structure of the privatisation and about a third of the network is now facing closure unless \$800m of infrastructure upgrading is undertaken.

When public assets such as rail networks that provide services to the community and facilitate regional economic development are privatised their new owners have a prime responsibility to maximize the returns to their shareholders.

In the previous examples of privatisations it was anticipated that taxpayer funded on-going subsidies of the services would no longer be required after privatisation. However this has not proven to be the case with "rescue packages" and buy-backs being required.

As well as private operators not having natural incentives to provide service levels that may not be economic, there have also been concerns that safety levels could also be affected by cost cutting after privatisation. For example the Victorian Farmers Federation was reported in March 2004 as blaming the privatisation of the rail system for a series of rail accidents.

Queensland has undertaken micro-economic reform of Queensland's rail system using a considered and balanced approach so as to avoid the difficulties that have confronted other States and the Federal Government following rail asset sales. Competition and its efficiency benefits have been introduced by vertical separation of the "above rail" access from the "below rail" infrastructure. Other carriers that meet designated high safety standards are now given open access to compete with QR on the network throughout Queensland. For example, Pacific National Queensland has been running trains on the North Coast Line since 2004.

Furthermore, QR and the Government have continued to support Queensland operations with a record \$1.28b expected to be spent on rail capital works in Queensland in 2007-08. Of this approximately \$562m or 44% is expected to be spent in south-east Queensland on projects including Citytrain MetTRIP track infrastructure upgrades, the Springfield line (design and early works), the Corinda to Darra third track (planning and design), the Brunswick Street upgrade and general passenger services projects across the Citytrain network.

The remaining \$716m or 56% will be spent in regional Queensland on projects including Broadlea to Mallowa to Wotonga track duplication, the Timber Bridge Replacement Stage 3 project and various rollingstock acquisitions and upgrades.

Successive Queensland Governments, both Labor and Conservative, have supported the continued Government ownership of our rail track. It is my sincere hope that bipartisan support continues into the future for all Queenslanders.