



The Protection of a National Railway Network in New Zealand

A Rail & Maritime Transport Union paper to promote discussion on the need to save the rail network

This paper is prepared by the Rail Maritime and Transport Union (RMTU) which has 4000 members who work in rail, the ports sector and inland transport. We have total coverage of the landbased rail workers in NZ. The occupations covered by the RMTU include: administrative, customer services, call centre staff, machine operators, trades groups, cleaners, construction staff, in addition to industry specific occupational groups such as shunters, track workers, traction workers, electrical workers, signals workers, locomotive engineers, remote control operators and train control.

Introduction

Recent events have highlighted the possibility that New Zealand may have to face the loss of a national rail system as part of its transport infrastructure. Tranz Rail Limited, only eight years after the privatisation of the national railway system, has announced a programme of restructuring that includes the withdrawal from three services that are strategically, socially, and economically important:

- Urban passenger rail in Auckland and Wellington
- Long distance passenger rail throughout the country; and
- Freight services on some branch lines to rural centres. At present, the company has discontinued scheduled services between Napier and Gisborne, and has announced that the Rotorua Branch is being reviewed. However, the Main South Line between Dunedin and Invercargill and the Stratford-Okahukura Line, may also be under review by the company. Loss of the foregoing would raise doubts as to the sustainability of the now isolated Ohai Branch Line.

This paper outlines two broad options for retaining a national rail infrastructure network.. Some consequential problems with regulation of the railway system are also discussed.

Background

Tranz Rail Limited bought the assets of the former NZ Rail Ltd, together with a 99 year lease of the rail corridor plus some other associated land, for \$320M in 1993. Despite extensive restructuring that has seen the loss of over 4000 jobs, the company considers that its return on assets has been inadequate. On 10 October 2000 it announced an intended change in strategic direction, including divestment of all passenger services, and contracting out of nearly all service functions. In addition, the company stated that it wished to withdraw from some provincial branch lines.

At the time this major restructuring was announced, the company was already in discussions with the Auckland Regional Council over the sale of rail infrastructure assets in the Auckland Region. The ARC had taken the initiative in this matter due to the frustration it felt over getting an adequate level of urban rail service from Tranz Rail Ltd.

The Wellington Regional Council expressed concern about the proposed restructuring, and has also indicated a wish to have control of the rail infrastructure near Wellington. It appears that neither of these Regional Councils feel secure to leave the provision of adequate urban passenger rail transport to a private railway company. Considerable ratepayer subsidies are required to operate both Tranz Metro operations currently and there is widespread doubt that all of the monies paid have gone to service provision or rolling stock upgrade.

The RMTU is concerned that assets that Tranz Rail Ltd bought at a bargain basement price from taxpayers can now be turned into a windfall capital gain by on-selling to ratepayers in Auckland and Wellington. The RMTU does not believe that this was ever the intention of privatisation in 1993. The public interest must override Tranz Rail's ability to make windfall profits from the sale of railway assets.

The company has negotiated a draft heads of agreement with the Auckland Regional Council to sell control of the access, plus the track and associated structures and signalling in the Auckland urban area, for \$112M, with a further annual payment of \$2.5M per annum. Tranz Rail Ltd will have access at agreed times to run the freight trains. The negotiated capital sum of \$112M is a massive 35.0% of the purchase price for the whole of NZ Rail Ltd in 1993.

Current indications received by the RMTU, however, are that the time slots suggested during the course of negotiations will impair the ability to run freight services effectively on the North Auckland Line, thus placing the viability of this line, which runs via Whangarei to Otiria, in doubt.

The likely cost of purchasing the Wellington operation is unknown but it is speculated to be of a similar amount owing to the superior infrastructure and passenger stock.

It is now apparent that Tranz Rail Ltd could, if it chooses, run an "exit" strategy from the New Zealand transport scene by running down the infrastructure assets it owns, and then closing down all rail services with associated scrap recovery programmes. It is the opinion of the RMTU that many assets purchased by the company on its establishment in 1993 are now in a much worse condition than they were at that time. The current level of capital expenditure is low as a proportion of fixed asset values, with problems showing up in the locomotive fleet, track and signalling renewal programmes.

The principal shareholders have indicated that they wish to withdraw from the company. Notably, Wisconsin Central in the United States have been bought by Canadian National Railroad, which has already stated that it wishes to divest all railroad investments outside of North America.

The contract entered into by the government at the time of privatisation had three serious flaws:

- The ownership of all the assets on the corridor passed to Tranz Rail Ltd, with no provisions for ensuring that they would be returned in a condition suitable for the safe

running of trains at normal speeds should Tranz Rail either fail financially, or voluntarily withdraw from operations.

- Tranz Rail's ownership of the track and signals effectively barred competition within the rail transport sector.
- The contract gave Tranz Rail the ability to make profits by sub-leasing the access to the rail corridor, at any conditions the company could obtain, rather than by operating rail services itself.

It is the view of the RMTU that rail transport remains vitally important in New Zealand. Key issues are:

- The rail network is an essential part of New Zealand's economic infrastructure.
- Rail can provide economic transport solutions for long distance and bulk haulage. No developed nation in the world has abandoned its rail system, and many countries are encouraging or directly funding investments in rail services.
- Rail can provide environmentally sensible transport options for both long haul freight and urban passenger transport. Rail is both fuel-efficient and land-use efficient by comparison with road transport.
- Tranz Rail's annual report for 2000 states that the company carried 14.7M tonnes of freight, generating just over 4 *billion* freight-tonne-kilometres. The RMTU estimates that if this freight were transferred to roads in 44 tonne rigs averaging 160,000 kms per year at a 66% load factor (since back loads are not available for all trucks) over 1,500 additional truck and trailer units would be required. Each would be 19 m in length, and if placed in a convoy with a mere 60 metres between them, would stretch for almost 120 kilometres. The majority would ply the roads in the Auckland, Waikato, and Bay of Plenty areas. It is an unrealistic and unviable prospect.
- Rail can be used as a tool for regional economic development by central government.
- New Zealand will be always a trading nation. It is essential to have policies that ensure that our ports have ready rail access. In this respect, the potential fragmentation of the network in the Auckland region must be viewed with concern. It is essential that the nothing is done to reduce the proportion of freight passing through the Port of Auckland that is carried by rail as this could exacerbate Auckland's critical transport difficulties.
- If control of the network is not returned to public ownership, there is potential for rail access to the ports at Whangarei, Napier, New Plymouth, Otago, and Bluff to be adversely affected.
- The rail network is a national asset that should be treated as a single entity, managed with a principle purpose of optimising the economic, social, and environmental benefits that can be gained from it.

While Tranz Rail Ltd has made a level of profit since its commencement that the institutional shareholders, largely based overseas, consider unsatisfactory, road transport has also fared badly. By the admission of the Road Transport Forum, independent accountants have estimated that the average return on assets earned by road transport firms during the early to

mid 1990s was negative. By 1998 there was evidence that profitability had returned, but it was very low. The competition between road and rail transport has been fierce. Both modes have made significant investments to achieve productivity improvements, with considerable success. The financial performance of Tranz Rail Ltd is not evidence that rail should be allowed to wither in New Zealand.

Road transport consists of a multitude of privately owned firms operating on publicly owned roads. This potentially enables the roading authorities to make investment decisions based on criteria that meet the public interest, (although much needs to be done to improve Transfund's road bias). Rail, however, consists essentially of one operator, which also owns the infrastructure and consequently the financial burden for infrastructure provision.

Roading is funded out of a national pool fund and does not have to achieve a commercial rate of return to its shareholder. Rail is therefore at a commercial disadvantage. There is clear evidence that there is ongoing undercharging of road transport operators for the true cost of constructing roads strong enough to take their axle loads.

Roading authorities use forward planning for road expansion but this is almost absent from rail despite foreseeable growth in certain commodity traffics.

There are some minor railway operators in special niches, such as the Taieri Gorge Railway, but none are significant by comparison with Tranz Rail Ltd. Tranz Rail's decisions are directed towards the shareholders interests, without necessarily taking a wider public interest into account.

Regulatory Issues

Road transport firms are heavily regulated for safety reasons. Commercial road vehicles must undergo certificate of fitness tests at six monthly intervals, and their are continual checks on the roads for safety issues such as vehicle dimensions, axle loads, load security, drivers' log books, and compliance with dangerous good regulations.

By contrast, an entirely different approach has been taken with rail transport. The operator is required to have a written safety system, and an external audit annually (although the auditor is selected and paid for by the operator). However, it is not an offence under any legislation to breach the safety system, and there is no equivalent external surveillance by Police as there is for road transport. The safety system is required to contain such standards as the operator wishes to specify for the railway, but it is largely up to the operator to set the standards. The HASIE Act has no application within rail operations by virtue of section 6h of the Transport Services Licensing Amendment Act.

The situation would change dramatically if many train operators were to have access to the infrastructure. Essentially, only three train operators other than Tranz Rail have had some limited access to Tranz Rail tracks. They are the Taieri Gorge Railway, Steam Incorporated, and Mainline Steam Trust. In each case Tranz Rail has set out a specific and limited interoperability agreement. Some of the conditions have been very restrictive and expensive, and have drawn complaints from the operators to the Commerce Commission.

This would not be a satisfactory way to allow a more general access by train operators to the rail network. Standards of equipment, training and certification of staff, and train running

rules will have to be clearly and unambiguously set out, and enforced. A “rail regulator” will be essential, with powers to license operators, set technical and operating standards, inspect and audit for compliance, and to issue cessation or improvement orders at short notice.

Options for Preserving a National Railway Network

If rail transport is to have the opportunity to contribute fully to the economic, social, and environmental development of New Zealand, the RMTU believes that one of two broad options must be adopted:

1. Ideally, **Tranz Rail should return to public ownership** as a state owned enterprise, operating to achieve goals and objectives set out by the government.
2. A lesser option is for the **return of the infrastructure to public ownership**, to be operated as a state owned enterprise, with a mission to optimise access to the rail network for a mixture of rail operators providing services that are important to the economic, social, and environmental development of New Zealand.

These options are briefly outlined in turn.

1. Public Ownership of Railways

The return of railways to public ownership as a State Owned Enterprise would offer the government maximum flexibility to achieve transport goals. The full costs of providing inland transport in New Zealand would be transparent, and investment and pricing decisions could be devised to optimise the economic, social, and environmental outcomes.

The Rail SOE would ensure that correctly maintained track, rolling stock and locomotives were available to maintain essential rail services to regions in accordance with government policies.

The RMTU recognises that this would require the reversal of the privatisation carried out in 1993, with consequential costs. With the under-investment in the infrastructure since 1993 there is also an amount of deferred maintenance.

2. Public Ownership of the Rail Infrastructure

The most essential element of the rail transport system is the national network of track, with associated bridges, tunnels, signals, overhead catenary systems and communications. These comprise the fixed infrastructure, and are essentially irreplaceable as an entity. If the national network is fragmented by sales of parts of it to frustrated regional authorities, or to private companies, the opportunity to use the network to optimise national transport outcomes will be lessened or even destroyed.

Governments in Australia and the United Kingdom have recognised the importance of the rail infrastructure, and have taken steps to ensure that the networks are kept intact for a mixture of rail operators. The major reforms they have made aimed to separate the ownership of the infrastructure from the rail operators, as a spur to competition. Significantly, the UK government, and the government of New South Wales, have made mistakes in their first attempts at reform, but are quickly moving to fix the problems rather than to abandon the concept of keeping the networks as an entity in public ownership and control.

For both business and safety reasons, the infrastructure operator has to set tight technical and operating standards, and implement a quality assurance regime to ensure compliance. In the United Kingdom, the government privatised the infrastructure operator (RailTrack), but also formed the Office of the Rail Regulator to license operators of railway assets, including RailTrack. Subsequently, finding that the railways were not making satisfactory progress under “free market” conditions, the UK government has formed the Strategic Rail Authority to provide overall direction for railway reform and development in the United Kingdom.

There is a significant body of opinion in the UK pressing for the return of the network to public ownership.

The RMTU believes that the correct structure for controlling the rail infrastructure in New Zealand (in the case where the preferred option of full rail ownership were not followed) would follow these lines:

- Rail Services NZ would be an SOE charged with:
 - owning, on behalf of the Crown, the rail infrastructure.
 - management of the infrastructure assets prudently and economically to ensure their ongoing viability.
 - the maintenance of the formation, track, bridges, tunnels, signals, and communications to standards that would have to be agreed with the Land Transport Safety Authority.
 - setting of technical and operating standards for all train operators using the infrastructure.
 - allocation of access times and places on the network
 - Operation of a train control centre
 - Setting qualifications and certification levels for rail occupations by the operation of a National Rail Training Establishment

- Rail Services NZ would obtain revenue from:
 - track user charges for all trains
 - capital grants from government (through Trans Fund), Regional Councils, or private firms for the construction of new infrastructure facilities.
 - operating grants from Trans Fund to maintain track as an alternative to road expenditure.

- The Land Transport Safety Authority would expand its role through a properly resourced Rail Regulatory Office (RRO), charged with:
 - licensing all operators of railway assets, including Rail Services NZ, to ensure capability and safety standards
 - setting and approving technical and safety standards for all aspects of rail operations.
 - inspecting and auditing all operators of rail assets for compliance with technical and safety standards.
 - issuing of compliance orders, or cessation orders in urgent situations.

- The RRO would obtain revenue to cover its operating costs by a levy on the rail user charges, plus licensing fees.
- Occupational Safety and Health (OSH) would investigate accidents and incidents in the railway workplace, as intended in draft legislation at present. The specialist skills required could be provided by transferring the rail investigators currently allocated to the Transport Accident Investigation Commission (TAIC) to OSH. TAIC's role in ensuring rail safety has not been particularly successful, and there is a need for more focussed attention on rail accidents and incidents and enforceability of recommendations made as a result of incident investigation. The RMTU believes that such attention would come from investigations under the provisions of the Health and Safety in Employment Act.

The RMTU believes that it may be possible to provide incentives to Tranz Rail Ltd to return the infrastructure to public control at low up front costs. It seems likely that the company would see some advantage in paying only for the access to the tracks that it actually uses (rail user charges being analogous to Road User Charges) without having to provide the resources to manage the track itself. This is an immediate gain to Tranz Rail Ltd's bottom line and places it on an even competition footing with road transport. It would therefore be better able to compete with road and coastal shipping following the lifting of capotage on the NZ coast.

Conclusions

1. There is a significant risk that the national railway network will become fragmented, and parts of it may be closed, because Tranz Rail Ltd will follow a logical business policy of maximising returns to shareholders.
2. The RMTU believes that there are wider reasons for retaining a railway than returns to shareholders. Returns to shareholders are measured in dollars alone, and the focus is probably quite short term. There are longer-term economic, social, and environmental views that should be taken in considering the future of railways in New Zealand.
3. The most critical immediate issue is the protection of the national rail network. Once fragmented or shut down, it can probably never be restored. The only sure way to safeguard the network is to restore it to public ownership.
4. The simplest approach is to take a controlling interest in Tranz Rail Ltd, or to buy it completely. All issues of standards, time-tabling, nature and location of services are then simply resolved.
5. Another approach is to return only the rail infrastructure to public ownership. Competition among train operators could be encouraged, and the cost to the government would be reduced because the train operators would also be providing some capital. This option has significant regulatory implications, although both Australia and the United Kingdom have made significant advances from which we could learn.

Recommendations

It is recommended that the government give urgent consideration to ensuring that a national rail network is retained, by:

Either

1. Taking a controlling interest in Tranz Rail Ltd, or purchasing the company outright;

Or

2. Assuming control, by negotiation with Tranz Rail Ltd, of the rail infrastructure network, and vesting it in a State Owned Enterprise.

The second option also requires the establishment of appropriate regulatory structures, which have been discussed in the report.

Why We Need To Keep A Rail Network – Fact Sheet 1

Rail is environmentally friendly

Trucks use around five times more energy and produce around five times more CO2 emissions per tonne kilometre than diesel powered trains. NZ's central North Island is an electrified area which is even more environmentally friendly. Trains carry about 13% of freight but only account for around 4 % of energy used in moving freight.

Rail Maintenance Is Run-down

Tranz Rails capital investment in its tracks and signalling nationally has barely kept pace with depreciation excluding some specific large projects like the Christchurch Freight Centre. A considerable amount of Centralised Train Control Colour Light Signalling systems have been removed and replaced by a lower safety margin system called Track Warrant Control (TWC). In 1995 international rail consultants GHD Transmark said the TWC system was vulnerable to human error.

Long distance passenger rolling stock date back to the 1930's in some cases and do not meet modern safety standards.

Track Maintenance gangs have been downsized and are under-resourced and are unable to do needed maintenance within operating windows between train movements.

More Trucks Mean More Accidents

Trucks were involved in 97 out of 508 road fatalities in 1999 (almost 20%). ACC employee premium levels per \$100 of wages are revealing as an indicator of safety and accident levels as;

- Road freight transport = \$3.06
- Rail transport = \$1.62

Too Much Reliance On Road

NZ has one of the highest vehicle per capita ratios in the world:

- 1 registered motor vehicle per 1.35 persons.

We transport 61% of freight by road, 13% by rail and 26% by coastal shipping.

Logging Problem

As more long term forestry projects come on stream our inland transport infrastructure is about to come under major pressure. It is forecast that wood supplies are to increase from the current 18.3 million cubic metres to 30 million cubic metres by 2006. In Northland up to 700 truck movements a day could be needed for freight from the new deep water port at Marsden Point if no rail link is provided connecting to the North Auckland Line. The Waipā Mill is situated near the Rotorua line which is earmarked for closure. On the East Coast when the forests come on stream it is projected that truck movements will grow from the current 10-20 a day to 300-400 a day largely to the under-investment in rail.

We Need A Rail Strategy

The Government don't have a national rail strategy but say they are developing one. It is essential to retain Auckland as part of a national rail system and not have it become isolated given that the Auckland region has almost a third of NZ's population.

Why We Need To Keep A Rail Network – Fact Sheet 2

Cost Too High

\$112m is too high a cost for access alone just for Auckland when Tranz Rail Ltd purchased the whole of NZ Rail Ltd (including bridges, track, signals, buildings, rolling stock, locomotives, forklifts, trucks.....) for \$320m. This after the NZ Government wrote off \$1.2b in rail debt. Tranz Rail Ltd pays the NZ government \$1.00 a year for the lease to the land which the tracks sit upon and have a 99 year lease from 1993.

Unfair Competition Between Road/Rail

- Roads don't have to earn a rate of return. Rail investment comes entirely from the private sector, whereas roading investment comes from the public sector, including both road users and local ratepayers.
- Trucks pay for only 45% of the annual costs of the road network whilst rail pays 100% of the cost of the rail network
- Road's don't face their full safety costs. Rail has a more stringent safety system regime than road users and is making further improvements in consultation with the Union.
- Road users don't face the cost of environmental damage. The global and local environment costs of roads and their use are huge and well documented.
- Rail has to pay 50% of the cost of installing level crossing protection alarms where road intersects rail whereas where light road traffic intersect heavy truck access roads and additional protection is required then the roading authority pays 100% cost.