

BUhcbU`bZUghfi Wi fYI bjh

From: M Mellor [mmellor1@gmail.com]
Sent: Sunday, 4 October 2009 11:33 p.m.
To: National Infrastructure Unit
Subject: National Infrastructure Plan submission

Follow Up Flag: Follow up
Flag Status: Flagged

I would like to make the following submission on the draft National Infrastructure Plan.

I am concerned that the document's discussion of the economics of rail transport appears to be somewhat superficial, with a number of unsupported assumptions and untested assertions. I have added comments on paragraphs 116 and 117 below, prefixed MM.

116. The argument for ongoing public subsidisation of the network tends to rest on the premise that rail offers positive externalities (e.g., reduced congestion, emissions and accidents) and that road transport does not pay for its full social costs, reducing the ability of rail to compete. There is little current evidence to support this.

MM: there is detailed evidence in the Ministry of Transport's 2005 Surface Transport Costs and Charges document, which shows that trucks cover no more than 56% of their total costs (p 51), while rail cost recovery was significantly higher.

117. Much of the New Zealand rail network is uneconomic, even when taking into account the environmental value of rail's greater fuel efficiency. While there may be a case for subsidising rail up to a certain point, based on its social and environmental contribution, it is an unresolved question about whether this would be sufficient to cover the full capital costs of the entire rail network. It is also possible that road freight prices are on average close to the economically correct level across the country (or at least there is no contrary evidence). If this were the case, there would be less justification for subsidising rail freight on this basis. Nevertheless, further work is being undertaken to determine the relationship between current road prices and optimal prices, and will be used to inform future government rail funding policy.

MM: it would be useful to have been given an indication of the evidence that much of the rail network is uneconomic, and also the implied corollary that road transport is economic. There is evidence in the MoT STCC document that road freight prices are well below the economically correct level: table S1, p ix, says that total road provider external costs were likely to have been \$5.59bn, charges \$2.63bn. The third sentence appears not to display a neutral or dispassionate stance: it is also possible (if not probable, given the evidence) that road freight prices are below the economically correct level, which would give more justification for subsidising rail freight. The further work being undertaken is presumably the MoT's Understanding Transport Costs and Charges, due for completion by the end of 2010. To my mind it would be premature (if not worse) to make decision on long-term transport infrastructure while such a report was in the offing.

I note that a source for some of the above seems to have been the NZISCR research report "The History and Future of Rail in New Zealand", which does not appear to have been peer-reviewed, but the peer-reviewed MoT STCC paper quoted above is not listed as a source.

I would suggest that these matters should be addressed before the Plan can be relied upon to provide certainty and confidence about infrastructure investment.

My background is that I have an honours degree in economics; I am a Chartered Member of the Chartered Institute of Transport in New Zealand and a Member of the Institute of Transport Administration; I have worked in road and rail freight, and in the small road passenger service industry; and I am the environmental sustainability representative on the Wellington Regional Transport Committee.

Regards

Michael Mellor
11 Newport Terrace
Seatoun
Wellington 6022