



NEW ZEALAND
RAILWAY & LOCOMOTIVE SOCIETY
INCORPORATED

Thomas McGavin Building - North Street, Petone

PO Box 5134, Wellington, New Zealand Telephone 04-568 4938
Email nzrls@actrix.gen.nz Fax 04-586 5554
Website railsoc.org.nz



1 October 2009

- 5 OCT 2009

The Executive Director
National Infrastructure Unit
The Treasury
P O Box 3724
WELLINGTON

Dear Sir

National Infrastructure Plan

Thanks you for the opportunity to make a submission on the National Infrastructure Plan.

The submission from the New Zealand Railway and Locomotive Society Inc is attached. Should you wish to discuss issues raised in our submission with our organisation, please contact us,

Yours faithfully

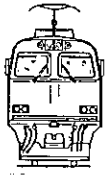
G T Carter
President



NEW ZEALAND
RAILWAY & LOCOMOTIVE SOCIETY
INCORPORATED

Thomas McGavin Building - North Street, Petone

PO Box 5134, Wellington, New Zealand Telephone 04-568 4938
Email nzrls@actrix.gen.nz Fax 04-586 5554
Website railsoc.org.nz



INFRASTRUCTURE: FACTS AND ISSUES

Submission to the National Infrastructure Unit of the Treasury

1 October 2009

Background to New Zealand Railway and Locomotive Society Inc

New Zealand Railway and Locomotive Society Inc (NZRLS) was founded in 1944 and at present has 843 members. NZRLS publishes a bi-monthly magazine *The New Zealand Railway Observer* (which has a total circulation of about 1500 copies) together with other publications regarding railways in New Zealand, and has a large archive. The constitution of NZRLS states that the Society's first object is –

To facilitate the interchange of information and comment concerning the design, construction, operation and development of New Zealand and other railways, their locomotives, facilities, plant and equipment.

Executive Summary

It is the opinion of the NZRLS that:

- The rail network should remain intact and, where market opportunities exist, expanded.
- The level of work on improving the infrastructure that began in 2004 should continue until the backlog of deferred maintenance has been reduced to a level where it does not impede operations.
- By ascertaining the true level of roading infrastructure costs to be borne by commercial users and recovering those costs from the users, rail could become more competitive. An improved and more reliable infrastructure would facilitate obtaining new and increased traffic, so that the reliance on State subsidies could be decreased or eliminated.
- In the last decade the growth of rail traffic throughout the world has been dramatic, and most rail operators have been required to fund more rail infrastructure improvements and renewals. In many cases Governments have been willing to invest more. How can New Zealand go against these world changes by believing that road can transport this increased traffic with huge taxpayer backing and ignore the need to reduce carbon emissions?
- KiwiRail is being unequally treated in having to make an explicit return to the taxpayer on its capital, the majority of which consists of infrastructure, whereas NZTA as custodian and operator of the national roading system has no such obligation. (In this regard we note that in

the Crown Financial Statements at 30 June 2009 State highways are valued at \$20.9 billion compared with the Rail network at \$11.6 billion.)

Submission

General Comments

This submission is directed mainly to the *Transport: Rail* section of the discussion document, as covered in paragraphs 99 to 119.

NZRLS believes that the rail network has a vital role to play within the internal transport system of New Zealand, and is a complementary mode within the transport mix. It is concerned, however, that for many years transport policy has had an inherent bias in favour of road, and in particular when evaluating transport projects. Attention is drawn to an article on that subject published in the April–May 2009 issue of *The New Zealand Railway Observer*, starting on page 5, a copy of which is attached.

Attention is also drawn to the example of the Republic of Ireland, until recently held up as an exemplar of good policies but (according to a recent report) now facing a fall in GDP this year of 9.2% and unemployment expected to peak at around 17% next year. Nevertheless, investment in improved railway infrastructure is not being curtailed, showing foresightedness in the future of rail transport that New Zealand would do well to follow.

In New Zealand there are enough recent examples to demonstrate how investment in better infrastructure, equipment, and services results in significantly greater traffic to draw the conclusion that now is not the time to consider rail investment as a “second-best” option.

Specific Comments

Project Evaluation, Prioritisation and Decision-making – paragraphs 65 to 71

This is clearly an area requiring the comprehensive measurement mentioned in Question 3 in the Note to Reader on page ii of the document. It is not apparent that at present this requirement is given sufficient weight in the current systems of assessing the merits of project alternatives. We again commend to your attention the article referred to above and attached.

Efficient use of existing infrastructure – paragraph 96

Much of the rail network is at present clearly not being used to its potential efficiency. This is in no small measure the result of it being allowed to run down with the consequent inability to offer new services using new and improved equipment. Many parts of the State highway network are also not used to their potential, but there is no suggestion that they be closed down. As for curing congestion by building more road space, paragraph 45 of the

document explicitly makes the point that 'building our way out of congestion is unlikely to be an affordable or efficient strategy'.

Background and history – paragraph 100

Railways have always had a mix of freight and passenger traffic and lines were built to connect production areas with manufacturing areas or ports. New Zealand's first railway was the Dun Mountain Railway, built in 1862 to link the chrome mines of the Dun Mountain with the port of Nelson so the minerals could be exported to England to be used in the processing of cotton.

The same purpose of lines that resulted in them being built is still applicable in 2009 even though land uses might have changed. For example, the lines from Palmerston North to Hawkes Bay and to Taranaki were built to develop the land (stock and farm supplies), and are now used for the transport of up to one million litres of milk in each train from Oringi to Whareroa.

Background and history – paragraph 101

New Zealand having a so-called narrow-gauge rail system is not a constraint. Japan, South Africa, Queensland and Western Australia have the same gauge and operate efficient railways, for both freight and passenger traffic. The constraints on average speed are the curves of the track, tunnel clearances, grades, and bridge standards, not the gauge. For a number of years South African Railways held the record for hauling the heaviest freight trains in the world. Speeds up to at least 160 kph are regularly scheduled for trains in both Japan and Queensland

It should be noted that our so-called narrow gauge has the same loading gauge as the standard gauge British rail system. Over the last decade New Zealand has obtained over 100 former British carriages, and apart from fitting new bogies, little exterior alterations have been required to enable them to run on the network.

By continually improving the quality of the infrastructure, speeds can be improved. If the design criterion for an Expressway road to allow a maximum permitted speed of 100km/h were to be applied to rail infrastructure the speed advantage of road transport would be significantly reduced.

It is not clear what the high fixed costs of rail tracks, formations, and signalling systems are that differ from those of roads. If the reference is to capital costs the point is debatable given the amounts of money being talked about to be spent on, for example, the Waterview motorway connection and an Expressway through the Kapiti Coast district. A major fixed annual cost of the rail network is probably the return on its capital valuation that KiwiRail is required to make, a cost which is not required to be met by NZTA and passed on in the user charges imposed on road users.

Background and history – paragraph 104

The period of private ownership of the rail system from 1993 might have resulted in some improvements and nominal operating profits. But it was

clearly a financial and economic disaster because any such profits came at the expense of a lack of investment in maintaining and improving the infrastructure and equipment. All of the benefits of this 'improvement' were plainly converted to the private benefit of the shareholders, such that at one point the total Stock Market capitalisation of Tranz Rail was of the order of a paltry \$200 million.

If the network is deliberately run down the only obvious consequence is an inability to generate sufficient traffic and revenue. To argue that the run-down was the result of an inability to generate revenue is perverse.

Funding and pricing – paragraph 113

Surely, KiwiRail also funds its operations partly from user charges in the form of passenger fares and freight charges. The omission is puzzling.

Funding and pricing – paragraph 116

It is stated that there *is little current evidence* to support the premise that rail offers positive externalities (such as reduced congestion, emissions, and accidents) and that road transport does not pay for its full social costs, reducing the ability of rail to compete. Such evidence existed as recently as 2005 in the Ministry of Transport's *Surface Transport Costs and Charges* paper. That paper was based on 2001-02 figures, but showed that trucks cover no more than 56% of their total costs. The situation might or might not have changed since then, but to contend that the premise is now false because of a lack of evidence is surely unsupportable.

Indeed, paragraph 45 of the document questions the soundness of Road User Charges and Fuel Excise Duty in charging road users for the full costs they generate. It is time that the Ministry of Transport produced an updated report on the allocation of Surface Transport Costs and Charges.

Funding and pricing – paragraph 117

All costs in maintaining rail infrastructure are borne by KiwiRail. Costs of maintaining the roading network are borne by both private and commercial motorists, and district and city council ratepayers, with an ongoing argument as to whether commercial users pay their fair share of such costs. By increasing rail utilisation and hence operating revenue, fixed costs become a lesser percentage of total costs which in turn could lead to a decrease in the subsidy paid to KiwiRail.

The statement that 'much of the rail network is uneconomic, even when taking into account the environmental value of rail's greater fuel efficiency', together with the succeeding references to rail's social and environmental contribution seems to be little more than a half-argued assertion. How, exactly, was this 'uneconomic' position arrived at? What values have been placed on the greater fuel efficiency and the social and environmental contribution and how were they calculated?

Again, the statement that 'it is also possible that road freight prices are on average close to the economically correct level *[whatever that is]* across the

country' surely cannot be supported solely on the grounds of an apparent absence of contrary evidence. What evidence has been looked for, and does any available evidence actually support or contradict such a "possibility".

The final sentence is confusing, to say the least. What is the connection between 'road prices and optimal prices' on the one hand and 'rail funding' on the other? And if the 'further work being undertaken' is a reference to the Ministry of Transport's research on Understanding Transport Costs and Charges which is due for completion by the end of 2010, is it not at best premature to be considering decisions on long-term transport infrastructure before the results of that research are available?

Funding and pricing – paragraph 118

Rail's primary market strength is in the transport of bulk commodities, both short-haul and long-haul. The advent of container trains servicing ports from inland container terminals in Auckland and Christchurch are examples of new short-haul traffic. With New Zealand facing a swathe of wood maturing in forests over the next decade, current uneconomic lines have the potential for greater utilisation and to become economic, such as North Auckland and the Napier – Gisborne railways. Such traffic needs to be pursued by rail, and any road/rail alternatives need to be "measured comprehensively" so that they can be compared on equal terms.

Funding and pricing – paragraph 119

The rail system operates as a network, and while some sections may be perceived as uneconomic when taken in isolation to abandon them will reduce the efficiency of the network as a whole. Branch lines provide important traffic for the main lines, and if these branches are allowed to wither, then main line utilisation suffers. Once a line is removed, the ability to service new industries is lost with the cost of reinstating infrastructure invariably being prohibitive. Four examples are:

- The Stratford–Okahukura line is nominally uneconomic, but is an alternative route should the line from Marton to Taumarunui be closed. With the recent announcement of milk product traffic from Fonterra's Whareroa plant being transferred from the Port of Taranaki to Auckland, Tauranga and Napier this line is able to carry some of the additional rail traffic. The alternative of transport by road would, at best, be impractical.
- Traffic on the Castlecliff Industrial Line has been suspended since 2002, but with the establishment of a milk powder factory adjacent to the line, it is being reopened. Should the tracks have been removed shortly after 2002, rail would not even have been in a position to compete for this new traffic.
- In the early 1980s consideration was given to closing the Rolleston to Greymouth line. Should that have occurred, the West Coast export coal industry would not have the transport cost advantages it now has. New Zealand would have lost out on the major tourist revenue earning passenger service, *The Tranz Alpine Express*, known as one of the world's great railway journeys.

- The establishment of a freight hub by Fonterra on the Taieri Plains in the former Fisher and Paykel factory will mean additional business for KiwiRail using part of the Otago Central Railway branch line. This initiative is driven entirely by the need for the greatest commercial efficiency in the dairy industry.

In the United Kingdom, the longer-term implications of many of the “Beeching” cuts of the 1960s are now being expensively faced because of increased traffic brought about by the resurgence in, especially, passenger patronage. That situation has resulted from a number of causes, including new and improved facilities and equipment (also following years of Government-dictated underinvestment) and the relative cost and convenience of rail transport compared with the alternative of increasingly congested highways.

Conclusion

NZRLS believes that much more, and better, consideration needs to be given to the factors that will determine future priorities and funding of long-term transport infrastructure. The document produced is a start, but no more than that.

NZRLS is fully prepared to play its part in contributing to all future consideration given to this important issue.

G T Carter
President