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# **Moving forest products by rail**

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I would like to take this opportunity to outline Railfreight's involvement in the forestry industry, our business and the challenges that we face.

I will also touch on some trade-related issues which affect the domestic primary produce market, in particular competition and customer requirements and discuss some of the design and technical developments that will enable Railfreight and the forestry industry to remain competitive in the future.

### *Sale of New Zealand Rail*

Although not directly involved in the sale process, I would first like to comment on the sale of New Zealand Rail and the issues that arise from the change in ownership.

The sale of New Zealand Rail needs to be seen in the context of the radical restructuring the New Zealand economy has undergone during the past decade. It has evolved from a highly protected market into one of the most open in the world.

The corporatisation of Government departments has been a key factor in the transformation of our economy in the last 10 years. New Zealand Rail was one of the pioneers in the corporatisation process and has now become a competitive force in the deregulated transport market.

The rail system has been transformed from a production-oriented railway operator to a commercially successful transport and distribution enterprise. The Government's sale of New Zealand Rail last July, and the settlement on 30 September, was the final step in that evolutionary process.

We believe it is a very positive development and will open up exciting new opportunities for the Company and its customers.

### *Consortium Partners*

To fully appreciate the impact of the sale and the new owners' objectives, we must first look at some of the skills the consortium partners bring to the Company.

Two important factors are expertise in the New Zealand business environment, provided by Fay Richwhite & Company, and part ownership by a railroad operator.

Operationally, Wisconsin Central Transportation Corporation can offer advice based on its expertise. It has forged an impressive record operating a profitable and competitive railroad operation in the United States.

The reasons for its success are simple.

Excellence in customer service delivery is the cornerstone and has become the pivot around which New Zealand Rail's operation has been structured since the sale. New Zealand Rail's business strategies are consistent with Wisconsin Central's - improving quality, increasing revenue, keeping costs low and better utilising our assets.

It has already been recognised by Wisconsin Central and New Zealand Rail that mutual benefit can be gained by sharing information and comparing 'best practices', especially in operational areas.

We believe it will open up exciting new opportunities for both the Company and our customers.

This will be particularly valuable in the forestry sector in which both companies have considerable expertise. Wisconsin Central is a major carrier of forestry products with more than 45% of its revenue coming from that sector.

Like Railfreight, they carry a wide variety of forestry goods ranging from logs to paper products so the potential for information exchange in forestry transportation will be valuable for both companies.

### *Competition*

Having offered an outline of the impact of the ownership change, I would now like to turn to the issue of competition within the transport industry.

Railfreight is the country's largest land transporter carrying more than half the country's exports, by volume, to port. In 1992/93 we carried 8.5 million tonnes, or 2.5 billion net tonne kilometres, of freight.

The key issue facing Railfreight is undoubtedly the fierce competition both within, and between, modes for the domestic transport dollar.

We operate in competition with road transporters, coastal shippers, air operators and recently, barges.

The level of competition is unlikely to diminish in the foreseeable future, in spite of predicted economic growth.

However, we believe we have the infrastructure and expertise in place

to handle existing and forecast volumes of forestry traffic and can do so competitively in the future.

### *Maritime Competition*

Nowhere is this more obvious than maritime transport.

We have competed successfully in this market for more than 30 years through our Interisland Line operation. However, the Company must offer a more competitive service to meet customers' transport requirements.

With pulp and paper client, in particular, being extensive users of these services, and the strong competition we face from coastal shippers, operating the ferries 24 hour a day will help us achieve the service levels our freight customers require.

Railfreight are in the process of introducing a 24 hour Auckland to Christchurch service for which flexibility in the operating times of The Interislander will be vital.

Other recent maritime initiatives include the launching of a coastal shipping service, the Coastliner, between Auckland, Westport and Nelson.

### *Barging*

Barging is also proposed as a viable alternative to land-based transport modes of road or rail, particularly for moving goods such as logs.

Given the extent of Railfreight's involvement as a major transporter for the forestry industry, and other market sectors that barging could be used for, we are monitoring the advent of such competition closely.

Speed and frequency of service, variable load sizes and, particularly in the forestry sector, the ability to carry raw or processed goods may all work in land transport's favour. We do recognise however, that in some areas barging could become a complementary transport mode for rail and road transport for non-time sensitive movements.

However, the trend toward processing at plant sites or elsewhere in New Zealand before export is growing and may impact on some of barging's potential market segment.

### *Roading*

The issue of road user charges is one which, from Railfreight's point of view, has yet to be fully addressed.

As a rail operator, we are 100% responsible for the maintenance and upkeep of the rail network while road freight operators do not have an equivalent responsibility for the country's roads.

To that extent, we have to earn a return on our capital investment in track and structures.

Although road transporters pay road user charges based on the weight and size of their rigs and distance travelled, it has been suggested that they are not currently charged the full costs that they impose on the system.

It has been suggested that road users charges need to be increased by up to 50% to readdress the funding imbalance.

With the anticipated increase in road usage by heavy vehicles, there is a necessity to quickly develop a

cost efficient transport management plan to ensure there is no blow out in the cost of roading due to excessive use.

The Government's joint ministerial study of the country's land transport system is investigating the relative merits and costs of different transport modes. Although the study is not expected to be completed before late 1995, it is proposed that from mid-1995 national funding be provided for projects that offer more cost-effective alternatives to roading investment.

This will improve the effectiveness and efficiency of New Zealand's land transport infrastructure and may facilitate the expansion of the rail network.

### *Transport Partners*

All transporters will increasingly have to look to their natural and complementary transport partners. Road and rail operators must work closely together to increase efficiency for themselves and their customers.

Railfreight already has the infrastructure and expertise in place to handle existing and forecast volumes of forestry traffic in traditional forestry areas, such as the Bay of Plenty, and we will continue to do so in the future.

In many developing forestry areas, Otago for example, railheads are within easy access of secondary roads. As these areas develop, facilities tailored to the new needs of the forestry industry can be put in place, such as processing plants at railheads to prevent double handling, thereby offering competitive choice to the processor.

In conjunction with some of our customers, we are looking at the feasibility of setting up processing and storage facilities at railheads. A variation of this may be the implementation of services that take logs from the skid site through to the port rather than using intermediary transporters to and from the railhead at either end of the journey.

However, in many cases there may be an equally strong argument for the retention of a complementary transport system.

For example, road transport is better suited to short haul from the forest to the railhead while rail has the advantage in efficiently carrying larger loads longer distances. Such a relationship would be cost effective for local and national government, communities, customers and the travelling public.

This principle has also gained some support from Transit New Zealand who have mooted upgrading short lengths of road to prevent congestion and road wear on major routes.

Projects which remove traffic from roads, especially major arterial routes, may be given higher priority in future.

### *Planning*

As local and regional authorities take more responsibility for transport planning, many, especially those with a current or forecast interest in forestry, have indicated a strong preference for rail.

In the long term, the installation of rail may be a more cost effective and beneficial investment for many

regions in terms of reduced congestion and road maintenance.

But more importantly, as councils develop transport plans they are obliged to address the issues of the sustainable management of the environment.

Increasingly, the environmental impact of various transport modes will come under the spotlight. This is a key issue, and an area in which rail has a proven edge over other commercial transport modes.

For example, freight hauled by rail is four times as fuel efficient as road, generates less polluting run-off and road congestion and requires less land.

### *Customer Demands*

As well as facing fierce competitive pressure, Railfreight, like its competitors, faces increasing demands from customers.

As I mentioned earlier, one of Railfreight's key objectives is to improve customer service. We aim to take advantage of forestry sector growth by offering superior customer service.

Producers of forest products demand quality and flexibility at a competitive price. Today, the marketing strategies of producers are aimed at meeting the needs of the end consumer with the degree of processing, and transport mode used, are increasingly being influenced by the end consumer.

In the forestry industry this may mean using a combination of transporters, for example road to rail head and rail to port.

This makes marketing transport services more challenging as customer requirements are influencing the decisions of the producer.

### *Frequency*

We will also see an increase in the need for frequency and regularity of service, such as the Interisland Line services.

Together with the threat of increased competition there will continue to be downward pressure on transport prices.

At Railfreight we know that keeping customers satisfied is the key to successful business and that means delivering quality service at cost-effective prices.

Customer's requirements for more flexible and higher quality service has seen us develop purpose-built wagons that are multi-modal and industry specific.

Railfreight is working with customers to develop and build new wagons to meet their requirements such as the high capacity Pulpliner.

The JQ wagon has been specifically designed as a high capacity wagon for newsprint which can be either top or side loaded depending on the customer's equipment.

Some Railfreight customers in the steel industry are now looking at adapting the JQ for transporting steel coil.

Developments in our short and long log wagons have been made in consultation with our customers to better suit their requirements.

These include the building of light-weight log wagons with a 52 tonne capacity and 'drop centre' to assist with the loading and unloading of logs.

We also have a number of other prototypes which are being trialed by customers to assess performance before they are put into production.

Railfreight has also an increasingly broad fleet of high capacity wagons for palletised and general goods such as the Spaceliner and the new Spaceracer, a slightly larger and squarer version of the Spaceliner, which allows a larger payload than the wagons it replaces.

### *Different Demands*

The benefits to the customers of such wagon development will be the ability to move different configurations of freight and therefore greater cost efficiency.

To be competitive with road transporters, we must continue to develop customer specific wagons.

We are also rebuilding and turbo-charging our existing locomotive fleet and developing remote controlled shunt locomotives for greater efficiency.

We are helping customers install rail sidings so that products can be packed onto wagons on-site, eliminating the need for intermediary transporters.

In the forestry sector we are working for better access to ports, such as Port Chalmers, which at present are not fully geared up for an increase in forestry traffic.

We are offering comprehensive distribution packages so that our customers can get their products to their customers with minimum delay.

### *The importance of quality*

Another way Railfreight can improve its service is to continually strive and attain higher quality standards.

We are spreading the quality ethos into all aspects of our operations, for example by achieving ISO 9000 certification for key parts of our business such as our workshops in Hutt Valley and Dunedin.

The quality focus is paying off.

We are running a more efficient network, and minimising the cost of poor quality both of which have a positive flow on affect to customers.

### *Reducing costs*

Like any business, minimising costs is vital if customers are to regard us as a competitive transport option.

We have to be innovative, keep our costs down, maximise our resources and maintain high service standards.

We are doing that by better using our assets, particularly our staff, wagons and locomotives.

Productivity of staff involved in freight movements, one of our key performance measurements, has more than doubled in the past five years, a 'win-win' situation for Railfreight and its customers.

### *Technology*

New technology is also enabling us to reduce costs.

Our radio network, for example, has enabled us to improve productivity by introducing single person train crewing and centralised train control. Single person crewing means one driver taking 2000 tonnes of freight by train, instead of more than 50 truck and trailer units and their drivers.

A major project has been AMICUS, a fully integrated computer system to manage marketing, sales, fleet distribution and train operations. AMICUS is helping the Company better service its customers through quicker and more timely information.

Developments such as Electronic Data Interchange, EDI, and Track and Trace, are further steps towards instantaneous, paperless transactions and information sourcing for customers.

EDI allows electronic exchange of information, such a service data, between customers and suppliers, thereby reducing the paper war and ensuring accurate information.

Track and Trace, which Railfreight will have in place by next year is used through EDI and allows customers to access Railfreight's computer network to find out the status of their freight in transit.

It is another step toward instantaneous and paperless transactions and information sourcing for customers.

Both EDI and Track and Trace will become increasingly important sources of competitive advantage, allowing closer links between Railfreight and its customers.

### *Future of Railfreight*

As we have seen, there are many factors that will influence Railfreight's performance in the coming years, none more so than competition and the drive for customer service excellence.

I believe we are poised to create and seize market opportunities because of the framework we now have in place and our desire to be a market leader. We have identified forestry as one of our key growth sectors during the next decade more particularly in the non-traditional forestry areas.

We believe we have the ability to provide better transport solutions for our customers, and increase our market share.

