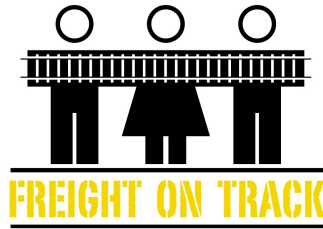


Rail Freight Governance Discussion Paper

KEEP VICTORIA'S



**The Alliance of Councils for Rail Freight Development
May 2010**

The Alliance of Councils for Rail Freight Development

The Alliance of Councils for Rail Freight Development is a coalition representing 35 Councils (including the majority of rural and regional Councils in the State) who have come together to advocate the greater use of our rail freight network.

The Alliance was originally formed in 1997 and has had as a key objective the standardization and rehabilitation of Victoria's intrastate rail freight network, because of the economic, social and environmental benefits greater use of rail freight could offer.

Much progress has since been made on the standardization and rehabilitation of the network, however rail's share of the freight task continues to decline. The Alliance now seeks to advocate governance and management improvements in addition to its long held advocacy for standardization and investment in better rail track. This paper, which was adopted by the Alliance at its Annual General Meeting on 17 March 2010, sets out some of the background and options facing our community in this regard. The Alliance acknowledges the assistance of Professor Bill Russell in the preparation of this paper.

Background

100 Year Perspective

For 140 years, from 1854 until 1994, Victoria's railways including its freight system were provided by Victorian Railways, a vertically integrated state monopoly. Victorian Railways constructed and maintained infrastructure, operated passenger and freight trains, determined tariffs and charges, and marketed services to customers.

20 Year Perspective

Several factors brought these arrangements to an end during the 1990s:

- The Hilmer Report on National Competition Policy on 25 August 1993 recommended the adoption by Australian Governments of National Competition Principles, including the "structural reform" of "state monopolies" [such as the Victorian Railways] and the facilitation of "access principles" under which competition could be developed among private providers of various infrastructure services¹;
- On 25 February 1994 The Council of Australian Governments at its Third Meeting in Hobart adopted the Hilmer principles and established a National Agenda for Micro-Economic Reform; the Keating Government

¹ Hilmer Report (1993) National Competition Policy, Executive Overview, pp xxii – xxiii.

- made certain Commonwealth funding to states contingent on progress on implementing National Competition Policy;
- In June 1995, the Melbourne to Adelaide rail link was standardized, and while this completed a standard gauge route around Australia, it divided the Victorian rail system into two discrete components – the interstate standard gauge component and the intrastate broad gauge component. This project had been proposed by the Keating Government in 1992 through its “One Nation” policies. The rail route from Geelong to Ararat via Cressy was used, together with the former western main line from Ararat to Adelaide via Horsham and Serviceton. This necessitated conversion to standard gauge of branch lines north of Ararat.
 - In 1999, the Kennett Government sold the business of V/Line Freight for \$163m², and thereby privatised the Victorian country rail freight network, entering into a 40 year lease with Freight Victoria, an entity which later evolved into the present Pacific National, a subsidiary of Asciano. At the same time it privatised country passenger services through a franchise to the British company, National Express.

3 Year Perspective

Privatisation was not greatly successful. The privatised operator of country passenger trains, National Express, relinquished its franchise in December 2002 after just three years when Receivers and Managers McGrathNicol were appointed. The receivers and managers operated V/Line Passenger until September 2003 since when it has been operated by V/Line Passenger Corporation, a state owned corporation.

With regard to freight, both country rail track maintenance and intrastate freight traffic declined under private ownership³, relations with government were strained, and alternative providers emerged but had constrained success⁴. The Victorian Government responded by:

- “Buying back” the ownership of the country freight network from Pacific National for \$133.8m in May 2007, allowing government to resume responsibility for the maintenance and management of “below rail

² Russell E W, Waterman, E, and Seddon N (2000), *Audit Review of Government Contracts*, volume 1, p.59

³ Grain moved by Pacific National declined from 3 million tons in FY 05 to 500,000 tons in FY 08, Ref Helen Newell, Asciano, Speech to Alliance of Councils for Rail Freight Development Community Summit 2008.

⁴ Ibid.

infrastructure” while leaving Pacific National and other companies as freight train operators. On announcing the completion of the buy back, the Minister cited insufficient incentive on the private operator to carry out maintenance as one of the main motives for the buy back.

Although the buy back extended to the track and 350 staff, Pacific National has retained some 84 locomotives it had obtained in the purchase. These included 32 3000 hp locomotives purchased by the Victorian government between 1984 and 1989 for grain traffic at a cost of \$75 million. 20 of these are now used by Pacific National for coal trains in the Hunter Valley. The other twelve locomotives were sold by Pacific National and are all still in use by other companies. Pacific National also disposed of other locomotives and rolling stock, either for operational use by other companies or as scrap. In this way privatisation had the effect of “asset stripping” or dispersing a significant proportion of the operational equipment of the Victorian rail freight network which had been purchased in previous years by Victorian taxpayers. Some of this equipment was of high quality; although some was obsolete and fit only for scrap. Pacific National also minimised track maintenance during their period of tenure, requiring catch up expenditure after privatisation ended. Finally, Pacific National were unable to maintain previous levels of freight traffic in Victorian markets, and many customers were lost permanently to rail during this period. Poor seasons contributed significantly to this, and Pacific National’s main business lay elsewhere in Australia.

- The Victorian Government subsequently appointed the Victorian Rail Freight Network Review, led by former Deputy Prime Minister Tim Fischer, to undertake a comprehensive rail freight strategy review. This Review recommended in its report, “Switchpoint” released on 21 December 2007. the refurbishment by government of most intrastate freight lines, classified by priority into Platinum, Silver, Gold and Bronze lines
- The Victorian Government accepted the main thrust of the Fischer Report and announced in April 2008 that \$42.7m would be spent refurbishing the gold and silver lines, the core grain distribution network. (The platinum lines had been recently refurbished for passenger trains under the Regional Fast Rail Project or formed part of the interstate network).

Between 2007 and 2009 most intrastate rail lines were refurbished. A special instance was the Mildura line where \$73 million was invested to upgrade the track to allow 80kph operating speeds. However the opportunity to standardize the track was not exercised nor were concrete sleepers (which provide higher operating speeds) specified. These operating speeds have since been compromised by speed restrictions on trains at level crossings.

A separate agreement between the Commonwealth and Victorian Governments provided for the standardization of the north-east railway from Mangalore to Albury, thereby providing double track standard gauge capacity instead of the single standard gauge track which had existed before. The branch line from Benalla to Yarrawonga and Oaklands in NSW was also standardized. These projects, costing \$501m, are scheduled for completion in 2010. However the track has been designed in the expectation of limited intrastate freight. For example there is no freight siding for the city of Wangaratta, and other loading facilities have been removed in Wodonga.

The Victorian Government then commissioned a further study entitled Freight Futures, which recommended heavier trucks on most highways but also recommended a metropolitan freight terminal network of three terminals outside Melbourne, capable of handling intermodal traffic. Such "megahubs" had been recommended by the Fischer Report, so in that respect the new report is consistent with the Fischer report.

Current Position and Pressing Issues

As the above review indicates, the Victorian Government has been quite active in undertaking strategic work and fundamental investment in rail freight infrastructure over the past 3 years.

However very serious problems remain. In summary these are:

- The absolute volume of intrastate freight moved by rail in Victoria has continued to decline, and rail's share of the total intrastate rail freight task has declined significantly;
- In relation to container movements to and from the Port of Melbourne, the government's target of 30% by rail in 2010 has not been met but rather, the rail share of container movements declined to 3.5% in 2008;
- Sydney-Melbourne interstate container movements by rail have declined, despite considerable government modernisation of infrastructure, although the full impact of recent infrastructure investment may emerge later;
- Competition in the marketing of wheat is leading to some degree of fragmentation of wheat transport, reducing the efficiency of its movement by rail and undermining the income base of some freight lines;
- A complex system of rail access continues with several separate providers of rail access in the state (including ARTC, Metro Trains, and V/Line)
- Some one-off subsidies from Government apply to certain rail traffic;
- A unified body to manage and promote rail freight, one of the recommendations of the Fischer Report, has not been created;
- A governance structure for the Metropolitan Rail Freight Terminals Network has yet to be finalised;
- Key policy decisions concerning rail investment and tariffs are made by the Department of Transport (and/or the Victorian Government).

It is probable that there is a link between the fragmentation of governance arrangements and the relative decline of rail freight in the state.

Does it Matter? – What are the Key Arguments for Building Rail Freight's Role in Victoria?

There are five main reasons why it is in the public interest to maintain or expand the role of rail freight within Victoria:

- **Cost and Efficiency** – Particularly on longer distance and heavier traffic, rail commands a significant efficiency and cost advantage over road. Per

tonne kilometre, rail requires a third of the fuel of road transport; and one rail crew can replace 150 semi-trailer drivers. It is in the public interest to identify those types of traffic where these efficiency savings are obtainable and to ensure that extraneous obstacles (such as poor governance or regulation; or unfair access charging) do not undermine these efficiency gains.

In Victoria, the long distance haulage of grains, mineral sands, containers, export horticultural products, timber and steel products are examples of goods where rail's underlying cost advantages should be permitted to emerge. Recent commitments to rail transport of mineral sands provide a good example.

- Safety – Heavy road transport imposes a high cost on the community in terms of deaths and fatalities. A significant reduction in deaths and fatalities could be expected if a meaningful shift of freight from road to rail could be achieved. About 10% of B-double accidents are rollovers and a further 30% involve the vehicle running off the road. Such accidents are dangerous to other road users and can involve fires and explosions, as well as damage to roadside properties, as for example when the chapel on the edge of Lake Nagambie was demolished when a semi-trailer ran off the road in June 2003.

During the 12 months to the end of March 2009, 248 people died in Australia from 229 crashes involving heavy trucks or buses. These included:

- 138 deaths from 124 crashes involving articulated trucks
- 90 deaths from 86 crashes involving heavy rigid trucks
- 22 deaths from 21 crashes involving buses⁵

When deaths and serious injuries are included, the national figure is around 1000 per year. Thus a 10% shift of freight from road to rail might save 100 serious injuries and 25 lives per year, other things being equal.

The long distance transport of dangerous goods such as petrol is a particular example. Petrol tanker accidents can involve additional risks of fire and explosion and the reduction of the number of road tanker movements is highly desirable.

By contrast, rail freight accidents are relatively unusual, rarely involve fatalities, and minimise damage to third parties as derailments usually occur on railway right of ways and less frequently involve human bystanders, third party vehicles or structures.

⁵ Source: Australian Government, Department of Infrastructure, Transport and Regional Services, Fatal Heavy Vehicle Crashes, Quarterly Bulletin, January-March 2009, published 28 Oct

- Congestion – The number and size of heavy trucks on our highways and within cities is growing rapidly. One measure is the number of containers (TEUs) moving through the Port of Melbourne, which grew from 1.2 million in 2003 to 2 million in 2009 and is expected to reach 7 million by 2030.

Such numbers of truck movements will impose significant additional congestion on road systems and require massive additional freeway investment. Rail capacity to move these containers can be provided at lower cost, with less land requirements, and with less threatening impact on motorists.

- Environmental Superiority of Rail – Rail freight requires a third of the fuel and gives rise to half the greenhouse emissions associated with the movement of a similar amount of freight by road.

A single freight train from Melbourne to Sydney can replace 150 semi-trailers, use 45,000 litres less fuel and give rise to half the emissions produced by the road transport required for the same task;

- Avoidance of Cost Shifting - If significant levels of heavy freight – especially grain and mineral sands – are transferred to road transport, local councils will have to pick up the cost of rebuilding roads and bridges to cope with heavier axle loads as receipt points may not be on highways maintained by Vicroads, and as trucks will need to detour from time to time when state highways are closed due to weather events, maintenance, or accidents.

What Governance Involves

Governance is critical to achieving the best outcome from any organisation, and it is apparent that fragmented and ineffective governance is handicapping rail freight development in Victoria. It may be useful to consider governance arrangements in relation to several issues: the legislative framework; rail service delivery; access provision; policy and strategy; marketing and promotion; and research and development.

Legislative Framework

The legislative and regulatory framework provides the basis under which governance operates in the transport sector in Victoria. The legislation creates a range of separate entities but no strong body to manage rail freight, in marked contrast to the strong bodies responsible for roads, rail track, and regional passenger services respectively.

The current legislative arrangements include the following:

In relation to track, Section 2 of the *Rail Corporations Act* established VicTrack with the following powers and functions:-

- (a) To establish, manage and maintain railways and rail infrastructure;**
- (ab) to establish, manage and maintain tramways and tram infrastructure;**
- (b) to direct, control and charge for access to, and movement of rolling stock on, railways and tramways;**
- (ba) if directed to do so by the Minister by Order published in the Government Gazette-**
- (i) operate rolling stock for the purposes of providing passenger services;**
- (ii) to operate services ancillary or incidental to its rail passenger or tram services;**
- (bb) subject to section 13F, to develop, and promote the development of, land vested in it;**
- (bc) to efficiently deal with any complaints concerning the way it carries out its functions;**
- (c) any other functions conferred on Rail Track by this or any other Act.**

In relation to regional rail passenger services, Section 18 (1) of this legislation established the V/Line Passenger Corporation with the following powers and functions:

- (a) to operate rural rail passenger services;**
- (b) to operate services ancillary or incidental to its rail passenger services, including road transport passenger services;**
- (c) to efficiently deal with any complaints concerning the way it carries out its functions;**
- (ca) to report on the activities of any person carrying out a function specified in paragraph (a), (b) or (c);**
- (d) to do anything else it is required to do by this or any other Act.**

The *Rail Corporations Act* also established the Victorian Rail Access Regime, administered by the Essential Services Commission, and provides some statutory guidance or principles for that regime.

In addition to the provisions of the *Rail Corporations Act*, the *Transport Act* gives some critical powers and functions to the Minister for Transport and the Secretary of the Department of Transport. These too are important parts of the rail freight governance picture.

However the legislation established no entity with significant powers to pursue the community's objectives with regard to intrastate rail freight.

The key relevant legislation is the *Rail Corporations Act 1996*, and the *Transport Act* which divides the governance of rail freight among the following entities:

- The Minister for Transport
- The Secretary of the Department of Transport
- The Director of Public Transport
- VicTrack
- The Essential Services Commission
- V/Line Passenger Corporation.

The new Transport Integration Act will provide a step forward for the transport portfolio in this regard but it may not provide the focused intrastate rail freight body that is needed for rail freight's revival.

Despite the number of parties involved, there is no one body responsible for championing rail freight to government and for marketing rail freight to provide seamless service to customers, who must deal with a variety of private rail service providers. Businesses appearing at the 2008 Rail Freight Summit organised by the Alliance spoke of frustration in trying to arrange bulk rail shipments caused by this complexity.

In turn these rail service providers may have to deal with a variety of access providers, including V/Line Network Services Division, the Australian Rail Track Corporation, Metro Trains and the Port of Melbourne Corporation.

Toward Better Governance

At the time of privatisation, consultants viewed fragmentation as a positive outcome. On the Melbourne suburban train and tram network they split operations among four companies, as well as separate companies for track and train maintenance. However it is notable that Vicroads was not subjected to this doctrine. It is a highly effective public authority with continuity in role and expertise over many years. It was created not by fragmentation but the reverse – the merging of many disparate roads bodies to create a single strong professional body (the bodies merged included the former CRB (Country Roads Board), MRB (Motor Registration Branch), TRB (Transport Regulation Board) and RoSTA (Road Safety and Traffic Authority). The success of Vicroads does

suggest that in difficult infrastructure development roles, where engineering continuity, strategic coherence, and advocacy effectiveness are important. Integration rather than fragmentation may be the way to go.

Fragmentation may allow business incentives to be clarified, but also can diminish strategic coherence, and make it difficult to deal with customers effectively when communication lines are so complex. The excessive fragmentation of the suburban network's management is now widely recognised – but the freight network remains fragmented and there is a case for an overarching body to draw together some of these dispersed functions once again into a single statutory body.

The Fischer Report also identified the “Canadian Model” of Governance as an option for very lightly used railways which he classified as Bronze lines. These are lines that may only be used for seasonal traffic.

In North America, there are several instances where locally governed co-operatives have taken over railway operations from mainline railway companies, for example:

- The Mississippian Railway Co-operative took over a local branch line in 1986; it is governed by a local cooperative, has purchased the line. It operates at a modest profit and moves 100 wagons per week.
- The Battle River New Generation Co-operative in Alberta, Canada began loading grain in 2003 and in 2009 purchased the local grain line for \$5M from Canadian National and loads 650 rail wagons per year with grain⁶.

While such arrangements are probably not needed at the moment in Victoria, the co-operative management model could allow cost savings.

The Canadian model was developed to allow strong “short lines” to be developed, and the model does not simply transfer to Victoria, where remaining routes tend to be former long distance lines more integrated with the network. However it could be applicable in some cases.

Since privatisation, which embedded diverse private operators in fields previously seen as “natural monopolies”, like state railways, a variety of rail service providers has emerged. In Victoria, this diversification has been limited by the nature of the privatisation implemented by the Kennett Government, which made Freight Victoria (and its successor Pacific National) the dominant provider of intrastate rail freight services. It has also been limited by the rail gauge issue, since the remaining Victorian broad gauge network is diminishing in size and business potential yet requires dedicated broad gauge locomotives and rolling stock (albeit some of this is gauge convertible).

⁶ “Farmers take ownership of CN Track”, Edmonton Journal, 28 August 2009.

There are some benefits from the presence of alternative suppliers, able to use common rail infrastructure through the access regime that guarantees and prices access to infrastructure. These include the possibility of new entrants to service provision if existing providers do not service customer demand; the possibility of innovation; as well as competition benefits if the market is working well.

There are also some disadvantages. Victorian intrastate rail freight is a relatively small business with limited opportunities for expansion and freight services must sometimes compete for track space with V/Line passenger trains, which have priority under Section 38(H) of the Victorian *Rail Corporations Act*. For larger companies, Victorian rail freight may be seen as a marginal market not justifying investment or priority managerial attention. The market is so small that it is questionable whether the model of separated private service providers delivers the operational benefit that may be possible on a massive national railway system such as the UK, from which the model was copied.

In relation to regional passenger train services, the main private operator National Express and other passenger providers such as Hoy's in Shepparton and West Coast Railways withdrew from service delivery and were replaced by V/Line passenger as an integrated public enterprise providing train and bus services to regional Victoria. V/Line also at the time of the freight system buy back became a key access provider through its Network Services Division. The current arrangements allow interstate passenger train operators access to Victoria and the re-emergence of some private intrastate passenger trains (perhaps for tourists) is possible.

Service Delivery Options

The service delivery options for intrastate freight now available are:

- To continue with the current hybrid model – where V/Line provides track access and regional passenger services but Pacific National and other operators provide freight services;
- To establish a Victorian Rail Freight Authority or enhance the powers of V/Line to develop a capacity to promote and support rail freight services, to lease rolling stock to private freight operators, and to serve as an “operator of last resort” in case of market failure;
- To provide for a fully integrated publicly owned rail service provider to provide all intrastate rail passenger and freight services in Victoria
- To explore whether performance based franchises could be selectively awarded to private operators to provide freight services for particular lines or market segments
- To provide scope for local government or farmers' co-operatives to operate lightly used grain lines.

The first of these options (the status quo) has been shown to be workable, but the investments of government in track upgrading have not been matched by private investments in new rolling stock, or by the desired outcome of a reversal of the move of intrastate freight traffic from rail to road. The continuance of this option may require government assistance beyond track rehabilitation and temporary subsidies. Such additional assistance might involve assistance in the provision of rolling stock.

The second of these options would be feasible because V/Line passenger has an administrative mechanism, crews and locomotives, capable of the relatively modest expansion needed to provide freight services. This contrasts with New South Wales, where the state government no longer owns locomotives, as all rail freight is privatised, and no locomotive hauled country passenger trains are operated by Countrylink, which is the NSW counterpart of V/Line Passenger Corporation.

Therefore a newly created Victorian Rail Freight Authority or an enhanced V/Line could in principle provide selected freight services where no private operator was prepared to provide a service. This is the concept of “operator of last resort”. It could occur if for example a major private operator decided to “pull out” of Victoria to obtain better returns on its capital elsewhere- an example of which occurred in June 2009 when Pacific National withdrew from the provision of rail freight services in Tasmania⁷.

The third of these options would parallel the development of the successful regional rail passenger services in Victoria where the private franchisee has been removed from the picture; however such a move would require justification under the Competition Principles Agreement, and would also place further capital demands on the state government. Nevertheless it is worth consideration. Pacific National has not been able to build the freight market in Victoria; has its main business elsewhere; and has re-located locomotives purchased by previous Victorian Governments into its interstate business.

The fourth option – the awarding of selective performance based franchises - has potential. As outlined elsewhere in this paper, the franchise system both in UK and in Victoria has delivered uneven results. However it may be that a franchise could be awarded to a private operator to deliver intrastate freight services over a range of lines or market segments, with performance rewards and sanctions for building traffic. As with other franchises in Victoria, government might be placed in a role of complementing such a franchise with investment in rolling stock. This option is attractive in that it can be contractually and geographically specific, be time limited, and have explicit rewards and sanctions attached.

⁷ Tasmania Hansard, 11 June 2009, pp 11-40.

The fifth option (co-operative or municipal ownership or operation) may be relevant to the governance of bronze lines in the future but is considered not to be immediately necessary.

Access Regime Options

The concept of access provision is intended to allow the entry of new players into the rail business, support competition; and allow for consistent contributions from access users to costs of track maintenance.

The Essential Services Commission of Victoria has recently reviewed the Victorian Rail Access Regime and has asked stakeholders to comment on whether such a regime should be retained. It is understood that most stakeholders see merit in retaining the regime. The regime provides an opportunity, at least in theory, for innovation, and the entry of new providers at transparent access charges.

The access regime in Victoria is complicated. There is not one but an array of access providers. V/Line Network Services Division is the main access provider for the intrastate rail freight network; Metro Trains provides access if a freight train needs to pass through the Melbourne suburban area; while the Australian Rail Track Corporation controls access for standard gauge lines in the state. The ESC has raised the question of whether a “one stop shop” would assist in simplifying these arrangements and will report on this matter shortly. However a “one-stop shop” in regard to access is a relatively minor issue compared to the need for overall integrated governance and strategy for intrastate rail freight as a whole.

Access charges for intrastate freight in Victoria are set by the Government, which also provides some specific subsidies that at the moment offset the impact of some access charges.

Governance is therefore complex in relation to access with several physical access providers and government as access charge and subsidy setter.

During the current transitional period, when the rail freight system is being rebuilt, the access regime may need to be retained but there is no case for access charges to be levied within the Victorian Rail Access Regime. The reintroduction of access charges could be considered once rail freight has been rebuilt and then only if road user charging is raised to better reflect road provision costs.

Strategic Options

For any business, the setting of strategy and policy is critical to success. For intrastate rail freight in Victoria, the setting of policy and strategy is divided and not altogether transparent.

The state government is the critical player in intrastate rail freight in that it provides \$27 million in operational subsidies per year and has undertaken over \$200 million in track upgrades on the intrastate network in response to the Fischer Report. As key funder of the system, it is not surprising that government has been the key determiner of strategy; however this task sits between the Department of Transport and the State Treasury, overseen by Ministers. V/Line may provide some advice but is not a key strategic player in rail freight.

Government publishes a variety of strategy documents including its response to the Fischer Report; its Freight Futures report; and various reports on ports policy and intermodal terminals. The Department of Innovation and Industry Development, Vicroads and the Port of Melbourne Corporation also make strategic inputs in relation to their functional areas.

At an operational level, major intrastate freight players such as Pacific National and AWB also have their own corporate strategies. While these are the subject of some disclosure to the stock exchange and in the business press, such policies are not designed for the public arena and a full understanding of their corporate intent is not always easy to ascertain.

Once again recalling the limited financial scope of intrastate rail freight business, the question arises whether the above arrangements are effective.

Options include:

- Business as usual, whereby strategies and policies are fragmented and the modal share of rail continues to decline;
- A more integrated operational strategy for the intrastate rail business.

Means of achieving a more integrated strategic approach range from the improvement of state machinery –for example by according a strong strategic role to a new Victorian Rail Freight Authority as was accorded to the Port of Melbourne Corporation in the 2004 reforms down to an approach based on a Memorandum of Understanding among key players.

Regardless of the approach adopted, the State will continue to play a key role in supporting the rail freight sector while it transitions from its present parlous state towards a fuller role in intrastate logistics. It will be better able to accomplish this transition if there is a competent and professional state body (a new Victorian Rail Freight Authority); that, like Vicroads and the Port of Melbourne Corporation, can develop plans, strategies and proposals in an independent and professional manner. All these corporations are primarily dependent on state funding, so the objection that funding dependence requires all decisions to be taken by the Treasury or the Department of Transport is invalid.

Options for Promoting Rail Freight

A significant drawback of the institutional fragmentation of Victoria's small and transitional rail freight market is that there is often no marketing or promotion capacity to discuss with businesses how their needs can be met. Logistics managers have reported to Forums held by the Alliance that they find difficulty in obtaining the kind of customer service they need.

Such marketing and promotion is not a question of display advertising but rather having a capacity to develop markets through constant liaison with established and emerging regional businesses, to ensure that business opportunities for rail are identified, services provided and contracts secured. Local government Economic Development Officers have an important role to play here.

The Fischer Report recommended that a body to fill this gap should be established but the government has not done so. Once again, there are a variety of options, some of which are not mutually exclusive. They include:

- Expanding the role of Department of Innovation and Industry Development, whose officers are involved with regional freight centre development, to act in marketing and promotion for rail freight;
- Briefing local government Economic Development Officers, who are generally across regional business developments, to promote, explain and make connections supporting rail freight;
- Providing enhanced capacity within the Department of Transport's Freight and Logistics group to perform this function;
- Utilising one off consultant studies to examine the freight potential in particular lines, regions or market segments;
- Expanding the staff of the Victorian Freight and Logistics Council to undertake this role;
- Enhancing this capacity within a new Victorian Rail Freight Authority or retasked V/Line organisation;
- Leaving it to rail operators (an option that has had limited success to date)

Each of these options is possible; however the success of Port of Melbourne Corporation and Vicroads suggests that placing Marketing and Promotion closest to operations is likely to provide the greatest incentives for success.

Research and Development

Finally, it is apparent that one pre-requisite for rail freight to successfully compete and achieve its potential is that its offerings must be state of the art, not based on

outdated technology or a lack of understanding of regional business developments or economic trends.

At the level of technology, road transport fleets are continually being replaced with new equipment that is lighter and more efficient yet intrastate rail freight in Victoria still uses heavy wagons 40 years old. An important government role could be to purchase state of the art rolling stock for on-leasing to broad gauge operators, and to provide a capacity for an operator of last resort in the event of market failure.

Level crossing technology must be made cheaper, safer and more effective and continuous research is needed. Business trends in regional Victoria will determine future contact opportunities; once again some capacity is needed for rail freight planners to plug into discussions in regional cities and with regional producers as to likely markets and trends.

All of this requires a research and development capacity that is not supported by current fragmented governance arrangements.

Such a capacity could be provided either in a new Victorian Rail Freight Authority.

Conclusion

- It is extremely important that the current decline in rail freight's role in regional Victoria be turned around;
- The Government's worthy investments in rail track since the Fischer Report will be wasted unless this is done;
- Notwithstanding the new Transport Integration legislation, the current governance arrangements are extremely fragmented and are unlikely to provide the leverage and direction needed;
- Government dominates the finances of intrastate rail freight in Victoria and thus a model similar to Vicroads and the Port of Melbourne Corporation should be adopted as these are proven institutions for transport provision where there are monopoly circumstances, important economic, social and environmental issues to be managed, and a situation where funding primarily comes from government;
- To achieve this integrated effort, a new Victorian Rail Freight Authority should be established.

Subject to Ministerial direction, the powers of a Victorian Rail Freight Authority should be:-

- To promote intrastate rail freight services in Victoria;
- To own freight locomotives and rolling stock, and to lease them to or from other intrastate freight providers;
- To develop and maintain operational strategy for rail freight in Victoria including the identification of new markets, new technologies; new lines or sidings, new intermodal facilities or any

- other measures leading to the objective of enhanced modal share for intrastate rail freight;
- To propose capital investment strategies for intrastate rail freight in Victoria
 - To provide rail freight services as an “operator of last resort” on any line or market segment where there is market failure;
 - To undertake research and development of technical and economic matters in relation to rail freight in Victoria;
 - To co-operate with other public agencies, especially V/Line, Vicroads and the Port of Melbourne Corporation, in the implementation of Freight Futures and/or other state government freight strategies that may be adopted from time to time.
- Within this legislation, one or more performance based franchises to deliver intrastate rail freight services on particular lines, markets or regions could be considered, with rewards for traffic building.

Governance improvements alone will not bring about the resurgence of rail freight’s role that Victoria needs, however a more cohesive, professional and integrated approach, based on explicit strategy, will be an important move in the right direction.

Call for Action:

The Alliance of Councils for Rail Freight now calls upon the Victorian Government to:

- Achieve levels of rail freight performance such that 30% of port traffic is moved by rail and 50% of export grain traffic is moved by rail by 2020 through:
 - Creation of a Victorian Rail Freight Authority, responsible for state strategy, planning and marketing of intrastate rail freight;
 - Government investment in new high tech freight rolling stock that can be leased to private operators or used by VRFA as an “operator of last resort”;
 - Selective use of performance based franchises for intrastate rail freight operators;
 - An accelerated program of high speed safe treatments of all country highway level crossings and removal of artificially low speed restrictions for trains on level crossings;
 - A 5 year holiday from rail access charges, pending a level playing field with road as to pricing.