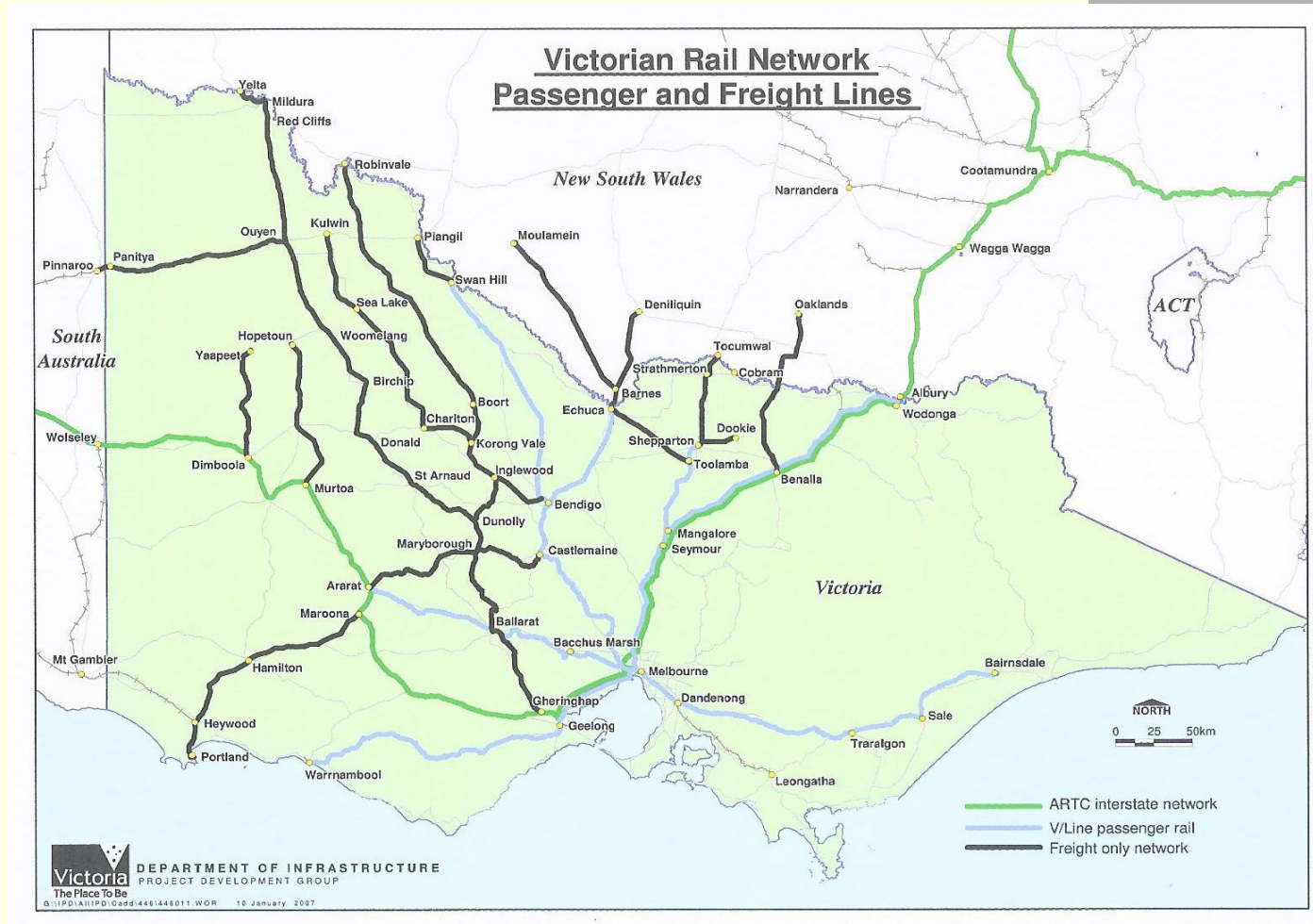

RTSA Regional Rail Symposium
Wagga Wagga
1 February 2007

Victoria's Regional Rail PPP:
Past, Present, Potential
John Hearsch

Historical Perspective

- **Network developed from 1857 (Geelong line)**
- **1862 reached Ballarat and Bendigo, Echuca in 1864**
- **1870's reached Wodonga, Portland, Colac and Sale**
- **1880's to early 1890's frenzy of building new lines**
- **1910 to 1920 – infill branch lines and into wheat areas**
- **1942 reached - maximum size of 7668 route km**
- **1950-60's – closure of numerous branch lines**
- **1980's – branch and secondary line closures accelerated**
- **1995 – Melbourne-Adelaide, Portland, Hopetoun and Yaapect lines converted to standard gauge**

Victoria's regional railway - 2007



Victoria's Regional Railway - Today

Route kilometres as at January 2007 (excludes interstate and metropolitan passenger lines)			
	Broad gauge (route km)	Standard gauge (route km)	Total (route km)
Combined passenger and freight lines	1712	- -	1712
Freight-only lines	1673	368	2041
All services suspended	290	86	376
Totals	3675	454	4129

The 1980-90's transformation

- **Completely revamped grain operations – new locos and wagons, block trains, Central Receiving Points with long sidings, Geelong Grain Loop, Portland line upgrade**
- **Average size & weight of grain trains more than doubled**
- **Block container trains from regional terminals**
- **Extensive track maintenance catch-up and upgrading**
- **Closure of over 1200km of lightly-used lines**
- **Major reduction in shunting task – closure of many yards**
- **Scrapping of thousands of old 4-wheel wagons**
- **Statewide train-to-base radio communication**
- **Large reductions in staffing – reform of work practices**
- **Two-person crewing of freight trains – no guard's vans**

The 1980-90's changing task for rail

- **Road captured most general and some bulk traffics**
- **Virtual elimination of casual wagonload traffic**
- **Freight-only network became largely reliant on grain and some intermodal business**
- **Drastic reduction in numbers of scheduled trains**
- **'As required' services for grain traffic**
- **Bunker storage eliminated most peak harvest movements**
- **Train services pre-planned to meet shipping programmes and domestic grain orders**
- **Consolidation into full train loads or wagon blocks on scheduled trains.**

Rail Privatisation – 1999 to 2006

Structure and Investment

- **V/Line Freight sold May 1999 to Rail America for \$163 million – ‘above rail’ assets, freight contracts and 45-year infrastructure lease (PIL). Traded as Freight Australia.**
- **Sept. 2004 – on-sold to Pacific National (then 50-50 joint venture Toll Holdings & Patrick Corporation)**
- **2006 – Toll acquired 100% of Pacific National**
- **Effectively zero ‘above rail’ investment since 1999**
- **A few new and upgraded locos and new wagons but some 400 grain wagons (half fleet) transferred to NSW and approx one-third of locos (mainly newer ones) re-allocated to NSW or used on Melbourne-Perth intermodal services**

Rail Privatisation – 1999 to 2006

Infrastructure (1)

- **Pre-1994 - regional network maintained on a planned ‘steady state’ basis after 1980’s major catch-up programme**
- **From mid 90’s – changed culture, network considered over-maintained, cost cutting, major sleeper renewal gangs disbanded. Asset base began to degrade but relied on redundancy from catch-up**
- **PIL post-1999 – no specific maintenance obligations for freight-only network – some for passenger lines**
- **1999-2006 – almost zero major maintenance or investment on freight-only lines – only essential ‘fix when fail’ repairs**
- **Today – some lines inoperable, others nearing same, most under speed restriction mainly due to very poor timber sleeper condition**

Rail Privatisation – 1999 to 2006

Infrastructure (2)

- **May 2001 – Vic. Govt. announced approx. 2000km of broad gauge network to be standardised - \$96m allocated, did not proceed due to non-agreement with Freight Australia**
- **Since recognised that standardisation no longer feasible without major work to overcome maintenance backlog**
- **Some major work done on regional passenger lines – all funded by the State and V/Line, e.g. Regional Fast Rail**
- **Passenger projects are little or no benefit to freight services**
- **Freight trains now largely excluded from Ballarat and Bendigo lines except at night, Latrobe Valley limited paths**
- **Victoria's regional rail infrastructure given poor ratings in several engineering surveys and most recently by Australian Industry Group**

Rail Privatisation – 1999 to 2006

Traffic Task

- **Average freight task on Vic. regional network has fallen by estimated 20% since late 1990's (before privatisation) despite strong State economic growth**
- **Attributable to increased road competition (particularly B-doubles) and seasonal conditions**
- **Degradation of freight network also a factor – impacts operating efficiency and causes loss of customer confidence**
- **Only traffics to increase are export containers, logs and quarry products**
- **Major declines in grain, also petroleum, cement and paper**
- **Paddy rice, gypsum, sand, fertiliser no longer on rail at all**

Rail Privatisation – 1999 to 2006

Commercial realities

- **Expectations of privatisation in better marketing and developing regional freight business not realised**
- **Anticipated efficiency gains generally not realised – undue optimism of new owners, little appreciation of earlier gains**
- **Trucking productivity gains not matched by regional rail**
- **Competitive pressure on freight rates and margins**
- **Increasingly thin utilisation of freight-only network**
- **No part of network commercially viable and some unlikely to ever be economically viable – no incentive to invest or to spend maintenance dollars**
- **Final outcome – infrastructure residual life now largely consumed – ‘asset stripped’, benefits to shareholders through maintenance cost savings and sale proceeds**

Current perspectives

Grain industry, local government & communities

- **Grain industry seeking further transport and handling cost reductions**
- **Impact of drought and future climate change**
- **Ongoing grain transport task disaggregation**
- **Dissent re prospect of ‘single desk’ dismantling**
- **Grain trucking options becoming more attractive**
- **Inevitability of further facility rationalisation**
- **Increasing awareness of declining rail lines condition**
- **Concern at more heavy vehicles on local roads**
- **Most local roads under maintained, not designed for heavy vehicles, particularly B-doubles**
- **Councils being squeezed for funding**

The 2006-07 Regional Rail buy-back

- **State to buy-back 45-year infrastructure lease (PIL) for \$133.8 million from Pacific National**
- **Buy-back includes some other commercial leases**
- **Staff in PN's Network & Access Division to be re-employed by the State**
- **A new division of V/Line will manage infrastructure assets, maintenance, train control and 'above rail' access**
- **PN to maintain existing leases at South Dynon terminal, Spotswood and parts of Tottenham Yard. Dynon freight terminal previously surrendered**
- **Final details currently being negotiated**
- **Change of control expected late February 2007**

Regional Rail viability a national issue

- **SA Eyre Peninsula grain lines - \$15m AusLink funding for upgrade subject to matching funding**
- **SA broad gauge grain branch lines no longer used**
- **Tasmanian rail network to receive \$78m federal funding for upgrading and \$40m State maintenance funding over 10 years with track reverting to the State**
- **1000km of WA lines under threat without subsidy**
- **NSW & Qld have significantly funded non-coal 'below rail' regional network and grain branch lines**
- **Some NSW grain lines now non-operational and concern re continued services on others after PN's grain haulage obligation expires later in 2007**

Victoria's rail freight policy

- **To increase rail share of freight movement**
- **Achieve 30% rail share of all port-related freight by 2010. (Currently estimated around 16%)**
- **Approximately 70% of regional rail freight is export oriented**
- **No State subsidies have been provided for rail freight or freight-only rail infrastructure to date**
- **Given trends of recent years, 30% market share target will be a considerable challenge for the regional network**

Threats for rail (1)

- **Grain traffic (and most of the freight-only network) now facing a vicious circle and a real threat of major losses to road transport**
- **Trucks getting even larger – push for B-triples**
- **External factors include deregulation of domestic grain market, potential dismantling of ‘single desk’, production volatility, climate change, product segregation, road transport availability and on-farm storage**
- **Rail industry factors include seriously degraded network condition impacting operating efficiency, opportunities to re-deploy equipment elsewhere, isolation of broad gauge fleet and reducing critical mass of traffic driving up unit costs**

Threats for rail (2)

- **Rail now very capital intensive – its viability relies on economies of scale. Critical volume thresholds determine both commercial and economic viability**
- **If a critical mass of grain business goes to road, very few lines will survive**
- **Should the State remain non-interventionist (irrespective of reversion to State control), within 3 to 5 years most lines will be inoperable, almost all export grain will be on road and most regional intermodal hubs will no longer be rail-served**
- **Should the grain industry cease its primary dependence on rail, the asset will disappear and is most unlikely to ever be reinstated**

Opportunities for rail (1)

- **Buy-back should enable the State to manage network investment (including upgrades) and address the maintenance backlog**
- **Under the right conditions, rail can be a highly productive and efficient part of the logistics chain**
- **A case exists for government subsidies, for at least a transitional period, for non-commercially viable rail infrastructure that can be economically viable**
- **For now, operator access should be free or at very low cost**
- **Limited subsidies would encourage rail operators to maintain services whilst the grain logistics network is re-structured for greater efficiency and to become self-sustaining**

Opportunities for rail (2)

Scope exists to significantly reduce costs and improve efficiency of the grain logistics chain by:

- **Creating a national market for grain haulage by rail to at least cover Victoria, NSW and much of SA with a combined annual traffic task (normal seasons) of 10-14 million tonnes**
- **Rehabilitating the retained core grain network to allow reasonably efficient ‘above rail’ operations and re-introduce a ‘steady state’ maintenance programme**
- **Converting most of the retained Victorian broad gauge network (about 1300km) to standard gauge to allow unrestricted movement of rolling stock**
- **Providing high throughput grain facilities at several new or existing key locations to replace smaller facilities**

The Line Ahead

A window of opportunity to break the vicious circle

Given that some lines will close, the challenge is to retain overall volume on the retained core network. This requires:

- **Creation of a national rail grain haulage market as a primary defence against further disaggregation of the transport task – provides an attractive opportunity for several rail operators**
- **Limited operating subsidies on a transitional basis**
- **Restoring 1600 route km for reasonably efficient rail operations - would cost around \$190m (including \$73m for Geelong-Mildura – already announced) over 3-4 yr period**
- **In conjunction with rehabilitation, standardisation of most remaining Victorian BG freight-only lines for unrestricted movement of rolling stock – estimated cost <\$110m**
- **Provision of high throughput facilities by grain industry at new or existing key locations to replace smaller facilities**

The Line Ahead

The vicious circle must be broken to prevent regional rail fading into oblivion. It can and must be done!

