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10 November, 2006

Mr Gary Banks
Presiding Commissioner
Road and Rail Freight Infrastructure Inquiry
Productivity Commission
Locked Bag 2
Collins Street East
MELBOURNE VIC 8003

Dear Mr Banks

Road and Rail Freight Infrastructure Inquiry

Latrobe City is pleased to be able to provide the following response as input into the *Road and Rail Freight Infrastructure Pricing Productivity Commission Discussion Draft*. We respond particularly to the request for information regarding the potential costs and benefits of re-integration of specific rail networks.

Our comments are based on our immediate experiences in the Gippsland region, and specifically those within the Latrobe City. Our regional economy is resource based and growing steadily; in 2005 over \$1 billion of investment was announced or commenced. We are receiving genuine overtures from freight owners wishing to use rail to transport their products into and out of this region. This interest has increased with shifts in the relative costs of road and rail transport as fuel increases in price and road access to Melbourne becomes more congested.

Context

For some years, Latrobe City has made extensive efforts to re-establish a rail freight forwarder to the former Gippsland Intermodal Freight Terminal. In addition, we have made extensive efforts to obtain additional rail access to a Logistics Precinct proposed to be developed by Council adjacent to that Terminal. These efforts have been made in response to substantial economic development proposals received by Council. Each of these proposals has been predicated on access to realistically priced rail freight services.

To date, all efforts to provide this rail access have foundered. This inability of the current Victorian access regime to accommodate the reopening of the terminal, the establishment of a proposed new siding connection to the main Gippsland line and the introduction of alternative rail service providers to operate commercially viable rail freight services to and from Gippsland has meant a serious reduction of investment in the recent past. The net result is that we have moved from an active terminal in 2001 to a paddock of overgrown weeds today. In the interim potential investors have had to turn to other alternatives.

The local experience of demand for freight and logistics services correlates with state and national projections for the doubling of the freight task over the next 15 years. Indeed our expectations are that growth in Gippsland could be more accelerated than this national average. Rail transportation has a vital role to play in terms of facilitating and promoting logistics activities and the consequential investment attraction and business retention and expansion. The importance of efficient transport to the Latrobe region cannot be underestimated. We have growth in resource and manufactured products that have competitive pressures to reduce input costs such as transport costs. Efficient rail supply is an important factor in achieving improved cost outcomes for a number of shippers of freight. We are concerned that the current rail ownership model makes that distinctly unlikely.

Our position

The Victorian model of a vertically integrated rail system that comprises the Victorian broad gauge system has failed to deliver improved freight rail services to Gippsland. Latrobe City thus raises its concerns regarding the draft findings of the Commission in relation to support for vertical re-integration of rail line networks. We see that the poor economic development outcomes for our City in relation to a decline in rail accessibility are a direct result of an access regime embedded in a vertically integrated rail system. It is therefore the view of Latrobe City that vertical integration is not without its own costs.

Furthermore, if the premise for considering reintegration of rail lines is to encourage above-rail competition, Latrobe City contends that the Gippsland and greater Victorian experience indicates that the previous and revised Victorian rail access regime have not led to any real above-rail competition. The Commission may note the failure of vertical integration in New Zealand, Tasmania and as one understands there is a prospect of Victoria 'buying back' the below rail infrastructure after less than a decade of less than successful experimentation with a vertically integrated system.

We would urge the Commission to re-consider any enthusiasm they may have for a system that enables a single firm to be an access provider and an access purchaser at the same time for the same piece of publicly owned infrastructure. In our view no amount of central price regulation can cope with such a model in the rail industry.

In concluding, may I in general commend the Commission on its draft report. It is a refreshingly readable document with welcome attention to the institutional and funding issues that are urgently in need of addressing.

If you would like to discuss this submission further please contact Allison Jones, Manager Economic Development on 51285446 or via email allisonjo@latrobe.vic.gov.au

Yours sincerely

PAUL BUCKLEY
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