



26 October 2006

Freight Inquiry
Productivity Commission
Locked Bag 2, Collins Street East
Melbourne 8003, Australia.

Road and rail Freight Infrastructure Pricing

Thank you for the opportunity to respond to the discussion draft issued on September 27, 2006. The VFF is very concerned with the entire issue of road and rail pricing and we would like to draw your attention to some of the key points from our perspective.

The VFF will take this opportunity to point out some of the general issues and concerns, but we will be working with the National Farmers Federation on a more detailed response on these issues.

a) Draft Recommendation 11.1 – Corporatisation model more strictly applied to Government owned railways

The VFF is currently proposing the Victorian government to consider a buy back of the track lease. In this case we would certainly be in favour of greater transparency and clarity in the governance of the track assets.

The success of a future lease buy back by the Victorian government will hinge on all the aspects of this recommendation. The priorities being; clarity of objectives, improved transparency of the external governance role of ministers, and a strengthening of accountability are all necessities of an efficient program. We are strong supporters of the principles behind this recommendation.

We are also very much interested in transparency in funding of the Community Service Obligations.

b) Draft Recommendation 11.2 – National Consistent regulatory frameworks

We fully support a Nationally consistent and coordinated rail regulatory framework. This should be done as quickly as possible, but our concern is with the funding of this program. Clarification of how this project is funded is needed.

c) Mass distance charging

The averaging system currently used to determine registration charges creates a situation where the ancillary large vehicle users are basically cross subsidizing the primary large vehicle users. Most agriculture producers use their freight vehicles as an ancillary aspect to their business, which translates to low kms travelled and a high C/km rego charge.

More research should be conducted to determine the level of cross-subsidization and the viability of putting a more equitable charging system in place.

d) Independent road fund (Draft Finding 11.1)

The VFF feels that there is potential for an independent road fund to be established in Australia, similar to the fund created in New Zealand. This of course, will require a large amount of research and planning. Some of the many questions that will require an answer before an independent road fund could be established are;

- i) What revenue streams would contribute to the fund?
- ii) Who and how is the fund managed?
- iii) How is the fund distributed, both inter and intra – state?

As pointed out, the current road funding arrangements can lead to inefficiencies (Draft finding 9.3). An externally managed independent road fund which is accountable to the efficient use of the fund has the potential to remove many of the inefficiencies that currently exist.

e) Rail infrastructure need for Subsidies (Draft Finding 5.8)

While this is true, in addition to the economic benefits that rail transport can offer, there are also many social benefits. As pointed out in *Draft Finding 6.3*, the external costs are lower for rail movement over road movement. The social benefits should not be overlooked when measuring the level of government support and when comparing competitive neutrality between the two modes of transport.

The VFF looks forward to continued dialogue on this Report and Thank you for the opportunity to comment on the decision draft. As mentioned previously, our views will also be detailed further in the response from NFF.

Regards,

Geoff Crick
Chairman
Victorian Farmers Federation Economics Committee