Regional Rail Revival – a background discussion paper

The aim of this paper is to provide some relevant information which may be of interest to participants in the Regional Rail Revival seminar at Blayney on 10 May 2013. The paper addresses issues which are likely to be discussed when regional railways are proposed for development or revival. It aims to stimulate an informed debate. It is not intended to be a comprehensive documentation of ‘facts’. It is intended to promote discussion about regional railways, and should be considered a work-in-progress.

I am indebted to several people who made comments on an earlier draft of this paper.

Background

1) The Blayney-Demondrille revival project – the ‘Cowra lines’
The decision to hold the seminar and workshop was prompted by the findings of a New South Wales Government Ministerial Task Force which inquired into the viability of the Blayney-Demondrille regional line and its branch to Greenethorpe – collectively known as the ‘Cowra lines’. The Task Force decided to take further steps towards confirming the availability of freight for the line and its viability. The initial feasibility study (see http://www.cowraregion.com.au/home/2981/COWRARAILLINENETWORKREVIVALSTUDY_FINALDec %202009.pdf) was commissioned by the councils of Blayney, Cowra, Weddin, Young and Harden, through which the line runs. Another study was conducted by Booz and Co. for the NSW Government’s transport department: Transport for NSW. Although differing in the bases of their conclusions, both studies indicated that the lines may be viable railway operations.

The NSW Government subsequently decided to advance the project subject to private participation. In order to do so, it has been negotiating a Memorandum of Understanding with the five councils. The negotiations have proceeded well and a call for expressions of interest in redeveloping the ‘Cowra lines’ may be released in the near future.

2) In its Draft Freight and Ports Strategy published in November 2012, Transport for NSW states that it sees potential for a model to emerge from the Cowra lines project which ‘may have applicability to similar regions, or to other tasks’ (p. 106). The emergence of a model with broader application remains a strong and promising possibility. This seminar and workshop were organised in order to help to secure a future for the ‘Cowra lines’ and advance the possibility of broader application of a model on a basis of sound information.

3) The administration and governance of regional railways is in a state of flux due to

- a review being undertaken by the NSW Government into the most appropriate form of governance for regional lines. The review has arisen from recognition that, despite the NSW Government’s undertaking to the Australian Competition and Consumer Commission with regard to creating conditions conducive to competition, vertical separation and open access may not be appropriate for regional lines where above-rail competition is likely to be weak.
Issues

Governance

The issue of governance looms over other considerations with respect to the Cowra lines, largely due to the absence of an alternative local model to the current open access/vertical separation arrangement. The current access review is considering this issue in principle. The Ministerial Task Force suggests a franchising system for the Cowra lines. At this stage, it may be worth outlining some of the relevant considerations.

Vertical separation has at least three significant shortcomings when applied to regional railways.
1. lack of above rail competition
2. difficulty coordinating operating and infrastructure needs
3. absence of an identity of interest shared between the railway and its locality – regional operators come and go from/to anywhere
1 and 2 have been considered through the Ministerial Task Force process and all would likely be prominent in the Access Review deliberations. 3 may be less widely appreciated than 1 and 2. Under the current access model, operators compete for business offered by industry wherever it might suit them to operate. No operator has any particular interest in growing their business in any particular area. There is no incentive to ensure that maximum use is made of the available infrastructure. The absence of a mechanism which does so could be considered a sustainability issue (see below). Franchising would help to connect local business with railway interests, but only for the term of the franchise. Specifying a term would involve trading off long term commitment to a line and the need for renewing franchises by competitive tender (to the extent that such competition is likely). The tendering process would ideally involve criteria which refer to capacity to maximise use of the available infrastructure, and have local interests represented in the process. (See also allocation of risk below.)

From the Cowra lines experience to date:

The work of the five councils has shown that local efforts to seek potential business for a railway can be effective. A local or regional committee can have effective input into railway governance.

Sustainability

Before considering sustainability, it is necessary to address the ‘chicken and egg’ problem which confronts freight railway revival. Where there is no operating railway, there is no freight made available to a railway. To re-establish a railway operation, it is necessary to have freight made available to it. But this is very difficult without a demonstrably viable operation in place. It is important to appreciate that the problem is not viability; it is about obtaining firm commitment from those who would use the line and those who would invest in it.

Given that very few branch lines have been returned to use, there has been no opportunity to observe their capacity to continue operating successfully. Privatisation in some states has not been successful, particularly ‘below rail’. The Blayney to Cowra line was itself returned to useable condition in 2000, but later reverted to disuse mainly because no freight traffic was made available to it. In addition to capital and operating requirements, sustainability can be affected by
- access to rail loading and unloading points

1 Although the Victorian government has facilitated the revival of two lines during the last 18 months.
• efficiency of transhipment and/or availability of suitably located sidings
• availability of backloading (highly desirable but usually considered difficult)
• efficiency of relatively small operations
• seasonality of freight
• efficiency of interfacing main line operations upon which a regional line depends

Concern has been expressed that, if a railway proves to be unviable after money has been spent on restoring it to usable condition, the money spent will have been wasted. This is an argument for obtaining commitment from potential ‘shippers’ before investing in a railway. Experience in North America has shown that where shippers are involved in the process, local railways can be successful. The experience of ‘reopening’ the Cowra line in 2000 is certainly not an argument for failing to make the investment. It only shows that if no shippers are involved, the railway will fail.

The sustainability issue should be viewed over a long term and take a regional perspective. Use of rail freight by each industry that uses it helps to make rail freight available to other industries in the region. So each has an interest in the others’ continuing interest. A regionally-based operation may be better placed to observe and respond to the needs of regional industry, and thereby ensure sustainability, than one based remotely.

From the Cowra lines experience to date:

Significant potential freight volumes and a range of freight types can be identified by working at the local level. There are actions which local government can take to facilitate and encourage use of a railway so as to lower dependence on seasonal products and increase use of the infrastructure. These may involve planning, application of local knowledge and business networks (see local economic development below) and extending networks to origins/destinations at a distance. It may also include appropriate load limits on local roads so as to facilitate access to railway sidings and transhipment points.

It is also necessary to ensure that use of the railway is optimised so that local industry continues to obtain maximum benefit from it. If road transport deflects one industry’s traffic away from the railway, the railway may lose viability. As a consequence, other industries may lose their viability and in the longer term, when road transport suffers increasing costs, the industry which moved to road transport may itself suffer.

Roles of federal, state and local government

The Commonwealth Government has constitutional power to build railways and/or acquire them from States, with the consent of the States. It has only used this power significantly in order to build and operate the Trans-Australia Railway after Federation and the other components of the Commonwealth Railways system, and in the 1970s to acquire the government regional system of South Australia and the government railway of Tasmania. It has funded railway development, such as the Alice Springs to Darwin line, and has participated in rescues of regional lines, notably those it had or had had responsibility for. It has been heavily involved in interstate main lines and others through the Australian Rail Track Corporation (ARTC), but at the moment ARTC has no direct interest in the Country Regional Network in New South Wales – including the lines like Blayney to Demondrille and its branch which could be considered for revival2. Railways have been a State responsibility since their inception and that remains the case with respect to the regional lines of interest to us.

2 Arguably ARTC should be interested in regional lines as they may deliver additional traffic and thereby access revenue to the lines ARTC controls.
Local government has had virtually no direct involvement in railways in Australia. Nevertheless, local government has an interest in railway development through its concern to minimise road costs and improve local environments. It has responsibilities for local roads, which remain its highest if not its only transport infrastructure priority and airports. Most rural railways span more than one local government area, as in the case of the Cowra lines which span five.

The Commonwealth should arguably be interested through concern to maximise the efficiency of regional freight, especially but not only where regional freight crosses state borders.

While the Cowra lines’ project has been notably successful in coordinating the requirements of councils, it may not be necessary for such coordination to occur in all cases. And in some cases the development interests of a council which does not have a line within its area could be served by revival of a line which passes nearby. A state or even national level agency would be better placed than individual councils to coordinate the rail transport needs at origins and destinations of freight movements. Nevertheless, councils have shown themselves capable of building appropriate liaisons with other councils and industry.

*From the Cowra lines experience to date:*

Local and state government can work in partnership to revive railways and improve their sustainability. See also *Sustainability* above regarding the involvement of local government by way of its regular planning and other activities.

**Local economic development**

As a rough rule-of-thumb, industry substantially reduces the overall costs of transportation in comparison to road when it places its products on trains. This is because the cost of operating trains is generally much lower, often down to half the cost of operating trucks for each unit of freight moved. As well as being relatively costly, road transport is more susceptible to rising fuel prices, driver shortages and labour costs. However, rail needs to move sufficient volumes over sufficient distances to take advantage of its inherent efficiencies. And there has to be a train service available for the cost advantages of rail to become available. A threshold volume of freight to be moved over sufficient distance is needed to make a rail service and a railway line viable and hence to make a lower price of freight achievable.

If its lower transport (plus any necessary transhipment) costs translate into lower freight charges, rail can become attractive to industry and even make local industry viable. As the volume of freight moved on rail increases, the financial security and profitability of the railway also increases. So if locally based and in a position to build its business, a rail operation might become a profitable local business in its own right. If use of the track is maximised, operations and infrastructure can be optimised. Locally based railway enterprises cannot be expected to develop spontaneously, however. This is partly because there is no tradition of rural rail enterprise which could provide the necessary combination of skills to form a starting platform, and possibly also because of the discouragement effect of regulation (see *regulation* below).

*From the Cowra lines experience to date:*

Local government economic development activity can be an important component of a railway-led development. Some form of state or federal government support may be necessary to foster the development of small to medium enterprises in rail.
Engagement with stakeholders

The range of stakeholders is potentially very large, but those closest to a railway are the industries to be served, the communities the line passes through and the railway businesses involved. Under the state government systems and during the current period of private operation, responsibility for regional railways and their operation has been located remotely from many of the stakeholder communities and the industries the railway can serve. The only railway businesses headquartered in regional New South Wales tend to be small and limited in scope. There is no regionally-based rail operator which focuses on its own region. This is partly an artefact of the current vertical separation model, but is also a relic of state railway organisations headquartered in state capital cities.

From the Cowra lines experience to date:

There are indications that rail operations could be based locally. This appears more likely to occur under vertical integration.

Coordination of operations

Where a line has only one source of traffic, coordination of traffic is simple or unnecessary. However, where there are multiple sources of traffic, coordination is very necessary from the points of production, through train loading and train running. Perhaps the best example of such effective coordination occurs in the Hunter Valley where extensive infrastructure spending has been avoided and huge volumes achieved.

From the Cowra lines experience to date:

With the addition of some rail expertise to the local skill set, such coordination could be achieved at the local level. This could be facilitated through local councils or other committees.

Allocation of risk

Risk is usually related to infrastructure capital cost but also involves ongoing costs where risk is significant due to seasonality of product or fragility of local industry. There may also be concern where a rail service has not been provided for a long time and a railway would be like any other new entrant in the transport industry. Some Australian experience of regional rail infrastructure privatisation has left some areas with very degraded track and facilities.

From the Cowra lines experience to date:

A developed and stable relationship between railway and local industry could help to alleviate risk. Local councils or other local committee created for the purpose might aim to foster such relationships.

Safety regulation

Railway regulation under State administration has been carried out by a government agency, independent of the transport department and railway organisations, known as the Independent Transport Safety Regulator (ITSR). In January of this year ITSR commenced acting as an agent of the new national rail safety regulator: the Office of the National Rail Safety Regulator (ONRSR) under...
nationally agreed legislation. With some relatively minor changes to, for example, regulations regarding drug and alcohol testing, the State regulatory framework remains in place.

ITSR commenced operation in 2004. Its establishment and early development were heavily influenced by two fatal accidents on the metropolitan passenger system. ITSR, in its own right and now as an agent of ONRSR, has not sought to develop any regulations specific to a regional freight system. The current regulatory environment has been criticised for being onerous and cumbersome for railway operators, and possibly detrimental to public safety to the extent that it is thereby indirectly responsible for an unnecessarily large and rapidly growing number of heavy vehicles on country roads. This interpretation depends on specification and application of the concept of ‘fit for purpose’ in the context of the purposes of regional freight railways. As ONRSR has a mandate to ease the regulatory burden, there is some prospect of change with respect to regional railways. However, the ONRSR agenda would have to include specific recognition of the issue of the regulatory burden in the regional context.

From the Cowra lines experience to date:

It is too early to tell from the Cowra lines case if railway development is discouraged by excessive regulatory burdens. Nevertheless, anecdotal evidence has indicated a level of potential discouragement.

Intermodality

The integration of road and rail transport modes with a view to lowering overall costs has become a mantra. Recent NSW transport policy has added the concept of integrating transport and local development planning, so that the accessibility of industry is maximised at minimum cost. In theory, local government should be well placed to help achieve both kinds of integration.

From the Cowra lines experience to date:

Evidence from the work to date tends to confirm this possibility, in that local development planning can guide industry towards locations where access to railways can be facilitated. This would require an accurate assessment of the usefulness of existing road and rail infrastructure. With respect to rail, it may call for an understanding of railway operational needs and opportunities.

Branch and main line interface

It is intuitively reasonable to expect that the greatest efficiencies in railway operations will accrue when trains can operate over long distances using the same locomotives pulling block loads. The extent to which this is possible can only be determined on a case by case basis, but it has been argued that the present fairly common practice of using light locomotives on branch lines where heavier ones could operate is inefficient. This may be an issue for consideration. If locally-based operations do emerge in a vertically integrated environment, there may be some minor issues about how far those operators operate, and whether or not they exchange loads with other operators.

From the Cowra lines experience to date:

These issues may arise at the Expression of Interest stage.
**Main line efficiency and access to/from end points especially ports**

While main lines would benefit from the additional traffic which regional lines might generate, regional operators would benefit from any improvement in the capacities of the main lines which they feed. The industry overall would benefit from a cooperative environment among all operators.

*From the Cowra lines experience to date:*

These issues may arise at the Expression of Interest stage.

**Urgency**

Certainty is needed: ‘Commercial imperatives regarding strategic logistics options, however, mean that industry needs some certainty regarding the future of the lines by June 2012.’ Ministerial Task Force Final Report

The greatest stimulus for railway revival will come from a visibly promising launch of a revived rail service.