

FREIGHT ON RAIL GROUP

Submission to the Senate Rural and Regional Affairs and Transport References Committee: Australia's Rail Industry

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This document has been prepared by the Freight on Rail Group (the Group). The Group is a rail freight focussed industry group established to engage with Government and key stakeholders on major public policy issues. It consists of the seven major rail freight businesses in Australia:

Aurizon

Aurizon has rail and road-based freight and infrastructure operations across Australia. Aurizon operates above-rail freight services from Cairns through to Perth, and manages the Central Queensland Coal Network made up of approximately 2,670km of heavy haul rail infrastructure.



Australian Rail Track Corporation (ARTC)

ARTC has responsibility for the management of over 8,500 route kilometres of standard gauge interstate track across Australia. ARTC also manages the Hunter Valley coal rail network, and other regional rail links.



Brookfield Rail

Brookfield Rail manages and operates a 5,500 kilometre open access, multi-user rail freight network extending throughout the southern half of Western Australia, providing access for intermodal, iron ore, grain, alumina and various other bulk commodities.



Genesee & Wyoming

G&W is a global vertically integrated rail freight company with a large Australian presence in SA, NT, Victoria and NSW. G&W owns nearly 5,000 kilometres of track in SA and NT, including the 2,200-km Tarcoola-to-Darwin railway.



Pacific National

Pacific National is one of the largest providers of rail freight services in Australia, providing intermodal, coal and bulk rail haulage services throughout Australia.



Qube

Qube is Australia's largest integrated provider of import and export logistics services. It offers a broad range of logistics services with a national footprint and a primary focus on markets involved in international trade in both the bulk and container markets.



SCT Logistics

SCT is a national, multi-modal transport and logistics company. It operates its own intermodal rail services from the eastern States to Perth, while also providing bulk rail haulage services. It has facilities in Brisbane, Sydney, Parkes, Melbourne, Adelaide and Perth.



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EXECUTIVE SUMMARY

The rail freight industry has a crucial role to play economically, socially and in boosting Australia's global competitiveness. It is also a vital component in supporting liveable, productive and sustainable cities and regions.

The size of Australia's freight task is increasing as the national population increases and the economy grows. Significant growth in freight is also expected through our major ports. An increase in container volumes and bulk freight volumes will flow through to rail networks and the broader transport system, putting pressure on track usage and road links. Meeting future demand can only be achieved if there are long-term planning and policy measures in place that encourage innovation, co-operation and efficiency. Equally, rail needs to be able to compete on a level playing field against other transport modes.

FORG is supportive of the inquiry's direction and this submission aims to acknowledge the industry drivers that support sustainability, productivity and efficiency in the rail sector, and which in turn support the rail manufacturing industry. FORG's perspective is there are the following key industry drivers that need to be recognised:

- **Lowering Costs / Modernising Rail:** Working towards policies and targeted investments that reduce the cost of rail operations and improve supply chain efficiencies, including lifting workplace productivity and investing in technology. In addition the harmonisation of legislation and industry standards needs to be accelerated.
- **Heavy Vehicle Pricing and Investment Reform:** There is a lack of a level playing field between road and rail, particularly in relation to infrastructure pricing.
- **Improving Service Offering:** Planning and investment in infrastructure is required to address challenges for rail operations, decrease transit times and improve reliability. The rail industry needs an increased focus on the location and design of terminals, including the integration of rail freight and logistics freight hubs, and a prioritisation of land and corridor reservation.

INTRODUCTION

The Freight on Rail Group (FORG) values the opportunity to comment on the Senate Standing Committee on Rural and Regional Affairs and Transport Inquiry into the State of Australia's Rail Industry (the Inquiry).

This submission represents the views of FORG, which was established in August 2015 to engage with governments and key stakeholders on major public policy issues. FORG aims to contribute to a policy and regulatory environment that enables the development and operation of an efficient and commercially sustainable rail freight transport sector.

The Group is represented by seven of Australia's major rail freight operating companies and network rail organisations. The members include, Pacific National, Aurizon, Australian Rail Track Corporation, Brookfield Rail (Australia), Genesee & Wyoming Australia, Qube Holdings and SCT Logistics.

The members of FORG have extensive experience in issues associated with a broad scope of infrastructure, transport and supply chain matters.

This submission focuses on the Inquiry's terms of reference on the State of Australia's rail industry and how government procurement and other policy levers can improve the value for money, competitiveness, and stability of work and capability of the rail industry:

- a) The importance of the national rail industry as a regional employer and activity generator, and the potential costs of further decline of rail manufacturing on the national and relevant regional economies,
- b) The state of the rail industry, barriers to growth and improved productivity, and the potential of Australia's rail industry as a skills and technology incubator, supplier of domestic rail needs as well as potential exports,
- c) The potential for Australia to benefit from a nationally-coordinated approach to rail manufacturing standards and rail procurement projects given the size of the Australian rail industry, and

FORG members are key customers of the rail manufacturing sector, (i.e. track, signalling, locomotives etc.) and any weakening of the rail manufacturing sector will affect national and regional growth, impact jobs and the livelihoods of Australians. FORG members support the strengthening of the industry but rather than a protectionist approach, it is recommended that the governments look to provide manufacturers opportunities to compete on the international market.

FORG supports the initiative of the inquiry and seeks that all levels of Australian government develop and implement policies that enable the development and operation of an efficient and commercially sustainable rail freight transport industry. The efficiency of the rail freight transport industry is critical to the competitiveness of Australia's industries in both domestic and international markets.

THE FREIGHT RAIL INDUSTRY

To be commercially viable, railways need to achieve significant economies of scale and freight density. Given Australia's low and dispersed population and vast

geography, the primary challenge for rail, in particular the non-mining networks, is achieving those economies. Rail is suited to high volume, bulk commodities, generally over long and short distances. The nature and strengths of the industry has meant it has traditionally handled the freight market for heavy high-volume products such as agricultural and mining commodities.

Within the provision of non-bulk freight services, rail is generally more suited to longer haul distances. This occurs because of the need to offset the additional handling to facilitate inter-modal operations and the use of 'pick up' and 'delivery' freight movements between rail terminals and customer facilities. It is within this segment particularly that road freight has successfully captured market share from rail over shorter distances. This has largely been realised through the introduction of larger, higher productivity vehicles, which can be accommodated on our national highways following decades of sustained, high value road investment.

The rail freight industry at a glance:

- Added \$13.2 billion to the Australian economy and made 0.7 per cent of the total national economy in 2013.
- Employs almost 15,000 people across Australia, with a large portion in regional areas, paying annually over \$1.2 billion in wages.
- Carried over 1.3 billion tonnes of freight in 2013-14 on Australian railways.
- Has an operational heavy railway network of around 33,000 kilometres.
- Is a cost-effective, efficient and environmentally friendly transportation method.
- The largest proportion of rail's task is bulk freight carried over longer distances, including almost all coal and iron ore, and a significant role in transporting grains, rice, cotton and sugar for processing and/or export.

PART A: REGIONAL EMPLOYER AND ACTIVITY GENERATOR

Historically, rail freight has shaped the settlement patterns of towns and cities across Regional Australia – with local economic activity linked with the movement of goods.

A majority of Australia's rail network continues to cross through rural and regional areas, which generates important employment opportunities for these communities as well as supporting their economies. Different forms of rail freight have differing impacts on rural and regional communities. For example:

- Bulk rail freight, serving agricultural and mining producers, largely originates in rural and regional areas and is a major employer in some regional areas.
- Intermodal rail freight, while largely operating between major population centres has a major presence in some regional areas (for example Port Augusta)

Given the strong presence of rail freight in rural and regional Australia, any job losses will be acutely felt in regional areas. Any losses of direct jobs are compounded by flow-on effects within local communities and along the supply and

logistics chain, affecting thousands of jobs in local communities along the country's major rail corridors.

Projects like Inland Rail, currently on the Australian Government's forward infrastructure agenda, will provide strong benefits to regional communities. The project will provide a direct 1,700 km rail freight corridor between Melbourne and Brisbane and connect south-east Queensland by rail with Adelaide and Perth.

This project is an important strategic investment in Australia's infrastructure capability, providing capacity to serve the east coast freight market for the next half century and will enhance productivity and open up new export markets and employment opportunities for areas of regional and rural Australia.

The majority of the construction and capital expenditure will occur in regional areas. The project is estimated to create up to 16,000 direct jobs during construction, and an average of 600 jobs per year when Inland Rail becomes operational.

FORG is also supportive of projects like the Adelaide to Tarcoola Rail Upgrade which has seen the Australian Government commit \$252 million to replace approximately 1,200 km of rail on the section between Tarcoola and Adelaide and bring forward an order for approximately 73,000 tonnes of steel from Arrium over the next three years and create up to 130 direct and indirect jobs over the life of the project.

This project is providing support to the Arrium owned Whyalla Steelworks which was at risk of closure due to falling steel prices and the supply of cheaper imported alternatives to Australian steel products. Further projects of this magnitude and focus would enhance the capacity of rail networks while also providing a boost to local economies.

PART B: STATE OF THE RAIL INDUSTRY (CHALLENGES AND OPPORTUNITIES)

In a globalised economy, no industry is totally immune from international competition, be it a domestic industry competing with imports or an export industry. In this context, access to an efficient and effective freight transport system underpins Australia's ability to compete in global markets, allowing businesses to reduce production costs and in turn improve competitiveness. Efficient and effective freight transport systems are vital to continued national productivity growth and improving living standards.

When looking at freight rail policy, there is a need for government and industry to consider strategies that will help lower the unit cost of rail freight transport and in turn lead to greater efficiency and productivity in the sector. From a freight perspective this is problematic given Australia's dispersed population and vast distance between major centres. The nature of the rail industry with high fixed costs and underutilised capacity, hampers the efficient use of rail infrastructure. This, together with current regulatory and operational arrangements that vary across state borders and a legacy of poor planning and underinvestment in some rail

infrastructure and terminal precincts has led to gradual inefficiencies, despite rising freight volumes.

Road Pricing: Levelling the Playing Field

The freight transport market requires the use of both road and rail networks. These networks compete in some freight tasks and are complementary in other freight tasks.

A commercial reform of rail networks, through privatisation or corporatisation has occurred in Australia over the past two decades. All freight rail networks in Australia are subject to independent economic regulation which have varying degrees of prescriptiveness dependent on the commercial and competitive characteristics of the network. In this sense the rail network is not dissimilar to other utility networks such as electricity, gas and telecommunications. These networks all have independent regulatory oversight of pricing, access and investment .

This is in stark contrast to Australia's road networks, which have not been subject to any meaningful economic reform and regulation. While the concept of a heavy vehicle charge for road usage is accepted and implemented in part through the current PAYGO scheme, it is limited in a way that is not apparent in other utility prices. The ability to price in an economically efficient manner is not possible and the governance structures around road pricing are at best confused and at worst conflicted. As such, this heavy vehicle road usage market operates in a highly inefficient manner with no meaningful link between supply, demand and price.

FORG welcomes the Australian Government response to the Infrastructure Australia Audit which will progress heavy vehicle road charging reform. FORG hopes that this work will seek to address the distortion that exists between freight transport modes – which every review that has touched on freight transport markets has also recognised, including the Harper Review, the recent Infrastructure Australia Audit Report, along with the findings and recommendations of separate reports by the Productivity Commission and the National Commission of Audit, the Henry Tax Review and the Garnaut Review into Climate Change.

These high profile reports consistently support the position that road pricing reform should be a key priority for government, outlining that the absence of infrastructure reform is resulting in ineffective road investment, inefficient use of limited government expenditure and a failure to invest in alternative modes that offer better economic and supply chain outcomes.

FORG is of the view that while reform is absent in the primary transport mode (that is road), then rail will continue to be challenged. **FORG recommends that road pricing needs to be achieved through a heavy vehicle user-charging framework comprising mass-distance-location charges, reflecting the full cost of heavy vehicles accessing and using road infrastructure, including return on capital, with independent regulatory oversight.**

Reducing Transit Times

Distance is a key determinant of both transit time and cost for rail. For rail to be competitive it needs to have a lower cost structure than road and achieve transit times that meet market requirements thus avoiding the addition of extra costs to the supply chain.

To be effective, track investment should target opportunities to create shorter routes and improve speed on existing networks, as these are two fundamental factors when considering transit times. Growth in train numbers, particularly on single-track corridors results in increased crossing delays and thus increased transit times. As volumes are expected to grow, in the absence of specific initiatives to offset the increase in train numbers there will be increasing levels of delay unless there is also investment in additional crossing loops and / or double tracks.

While rail is often able to compete on long-distance road corridors, there are a number of corridors where rail suffers from an indirect route that makes it less productive and less competitive, despite a lower cost relative to road. This is particularly the case for freight from Brisbane to Melbourne, and Brisbane to Adelaide and Perth, both of which currently transit through Sydney. Transit time is an important service quality issue in both intermodal and bulk markets and is also a driver of train operating costs. The impact to service quality is addressed later in this submission.

To address this, FORG recommends further government planning and potentially investment in infrastructure to decrease transit times and improve reliability.

FORG is supportive of existing track investments, such as Inland Rail, which are an investment in strategic infrastructure for the future, providing capacity to serve the east coast freight market for the next half century and beyond. Further investments of this nature are needed to not only reduce rail freight operations but also to improve service standards, as this is a key influence for customers. In a report completed by Ernst & Young, it was found that freight customers of Australian shippers indicated that long transit times and poor punctuality were a main concern when considering the use of rail for interstate intermodal freight movements¹.

In the long-haul intermodal market, transit times are generally meeting market requirements. In the short haul market next day delivery is growing in demand. While rail is close to road transit times in these corridors the effect of pick-up and delivery times make it difficult for rail to compete in this market. For an industry which competes on a time basis, and its competitiveness grows as transit times are reduced, efforts by government need to be focused on how to assist the industry with this, as this will serve to make rail a more preferable option, especially on time sensitive contestable freight.

¹ Ernst & Young, 2006, *North–South Rail Corridor Study, Executive Report*, Commissioned by the Department of Transport and Regional Services.

Higher Volume and Longer Trains

The speed, length and axle load of trains all impact on the cost structure of freight train operators. The axle loads and length of trains differ depending on the purpose and requirements of the freight task. However, despite the variance, and at times a fit-for-purpose rationale, there are usually benefits from moving towards heavier axle loads and longer trains to increase productivity and enhance capacity.

Double Stacking

Double stacking on the rail network has the potential to increase productivity, improve rail efficiency and competitiveness, encourage modal shift on key corridors and improve infrastructure utilisation. While the barriers for double stacking across the interstate network are significant and centre largely on height and width clearances, the long-term benefits to the economy outweigh the initial cost. Amongst other impediments, the limitations of single stack clearance bridges and road tunnels together with the need to operate in electrified metropolitan areas have prevented double stacking opportunities.

Current double stacking between Adelaide and Perth provides great cost savings. It is expected that introducing double stacking across the interstate network would offer operating cost savings in the order of up to 10 per cent. Trains with double stacking capability carry up to 40 per cent more freight by weight than single stacked trains using the same locomotive power.² **It is for this reason that FORG recommends Government investment into targeted feasibility studies for high-volume, long distance corridors, as a means to ensure the industry is able to meet future demand and address capacity constraints.**

Short Haul Rail

Achieving effective competitiveness with road over short haul distances is important in the context of road and rail freight corridor congestion, especially in higher population density areas along the east coast. Various groups have expressed concern that there is no compelling commercial proposition for this type of service. Internal analysis by FORG suggests that there is a wide range of cost differentials between rail and road depending on a number of factors (container size, origin/destination and empty container handling requirements). These are all considerations that need to be recognised when determining if short haul rail services can become a competitive option.

Rail continues to be challenged in short haul markets, mainly due to a general perception in the wider logistics sector that rail is more expensive and less reliable compared to road transportation. Despite this perception, short haul rail does not suffer market failure characteristics itself but is challenged by a history of underinvestment and poor road interfaces.

The Bureau of Infrastructure and Transport Regional Economies' report released in March 2016 "Why short-haul intermodal rail services succeed"³ lays out some of the

² eex.gov.au, *Double Stacking*, Retrieved from: <http://eex.gov.au/double-stacking-2/>

³ BITRE, 2016, 'Why Short-haul-rail intermodal rail services success', Research Report 139, Department of Infrastructure and Regional Development

key challenges and opportunities to the cross metro shuttle services in the major cities in Australia (i.e. Port Botany, Port of Melbourne). The commercial viability of the shuttles has been mainly driven by the capacity constraints and the time limitations on container storage at the wharf in Port Botany. In addition to minimising container lift costs, further improvements in port handling will provide opportunities for this service to become more competitive. In other capital cities, for example Brisbane, the starting position is worse as there is no dedicated freight corridor to the Port from the North, West or South of Brisbane. In the case of Melbourne port shuttles will compete for capacity with higher yielding interstate freight services or passenger trains being afforded priority by government.

FORG recommends that greater government investment and planning in the use of port shuttle/short haul rail infrastructure is required as a means to improve supply chains and provide a solution to the management of freight corridor congestion. This, along with other initiatives, to improve technology and practices at stevedores or common user terminals together with enhancing the rigid slot management system will provide opportunities for short haul rail to become more competitive. It is also appropriate to consider how short haul can benefit from the adoption of longer trains and higher axle loads to improve efficiencies.

Terminal Location and Design

Investment in infrastructure needs to be focused on the location and potential development of large terminals and warehousing precincts with strong rail connections (including short-haul rail services) to and from ports.

The performance of rail freight services, including supply chains, is highly dependent on the availability and efficiency of rail freight terminals. Existing terminals in key population centres are generally duplicated, constrained by adjacent land uses, and support single-user operations. Ideally, these terminals need to be complemented by additional terminals located in a more areas that meet rail system and industry needs. This includes greater consideration of multi-user operations, industry relationships, land-use requirements, and options to facilitate economies of scale.

An expected growth in rail freight requires new fit-for-purpose terminals reflecting the distribution patterns necessary to service markets. Terminals need to be close to the distribution centres of major retailers and contain reliable rail access with sufficient rail paths to support increasing traffic volumes. **FORG recommends an accelerated investment plan for terminals, including working towards the integration of rail freight and logistics freight hubs.** FORG would encourage the Commonwealth to work with States to support a consistent focus on preserving potential terminal sites, along with planning for future rail connections.

A key lesson in terminal development is the need to ensure planning is undertaken at a very early stage. Consultation within the FORG membership suggests there is a current lack of relatively cheap and large industrial land parcels that can be developed. This presents a serious barrier to future growth of the rail sector and as such this needs to be supported by sound land release policies to enable the development of freight precincts. While in some instances there is no practical

solution for land acquisition there is likely to remain a role for government around investing in ancillary infrastructure to enable terminals to advance.

Increased Integration of Rail Supply Chain

Greater integration of services enhances supply chain coordination and in turn leads to greater efficiencies and productivity gains for customers. Fragmented supply chains with uncoordinated arrangements and low interoperability decreases the freight network's efficiency. **Governments need to remove barriers to effective supply chain co-ordination and inter-operability in an effort to achieve higher integration and a whole-of-transport policy framework.**

Land Reservation

Land and corridor reservation for freight rail must be considered as a lack of suitable land for rail corridors and terminals restricts freight rails productivity. FORG recognises that opportunities to preserve long, linear corridors for future freight purposes are few and far between, and are reducing. It goes without saying that a continued scarcity of urban land impacts the ability for future investment in transport corridors and terminals. Although rail lines have previously been allocated in State Development Plans, these allocations have not been realised as cities and towns have expanded.

Without capacity planning, increasing freight volumes and population growth will place additional pressure on the network, creating further congestion and restricting economic growth. **To address these challenges, FORG recommends that governments prioritise land and corridor reservations as a means to create additional freight rail capacity and linkages to terminal precincts, and develop incentives for this capacity to be utilised as efficiently as possible.**

Cost of Regulation and Compliance

While the rail sector has been through significant change and expansion in recent times it remains weighed down by a history of separate and fragmented state-based development and regulation. This legacy has meant today's rail landscape is characterised by state based systems, varying jurisdictional standards and differing legislative requirements.

The need for customers and freight rail operators that work across different states to procure a number of access contracts and deal with a range of state based track providers and regulators remains a frustration and cost impost on their business. FORG has advocated that access regimes be brought into alignment where possible and that rail competition regulation fall under a single national regulator. While there is merit not to adopt complete uniformity in standards, **FORG strongly recommends the Commonwealth accelerate the review of both legislation and industry standards as a means to support future productivity and efficiency.** Consistent arrangements will provide network users with greater certainty and will help instil confidence when using and investing in the rail network, rolling stock and its supply chains.

Harmonisation of Legislation

In the area of environmental legislation, harmonisation is critical to increase efficiencies in the rail sector. The rail industry currently has over 150 pieces of environmental legislation across jurisdictions that it is required to navigate. With wide ranging licencing regimes and regulations there are significant cost impacts on national supply chains. The industry has engaged with government agencies but to date there has been no progress on this, despite it being such an encumbrance.

FORG strongly recommends the acceleration of the streamlining of Australian freight rail legislative and regulatory reforms.

Use of Technology in Rail

Effective technological development and implementation is critical to ensure the rail sector is robust and dynamic. **However, given the high-cost outlay that is required to adopt new technologies together with the need for maturity before application, government support and schemes for uptake are needed.** It is important to note that, effective interoperability in rail must also be considered as part of the implementation of technology. This will ensure operations aren't stifled by incompatible systems causing inefficiencies in the supply chain and extra costs to all users.

In order to promote improved information technology systems, and train and rail management systems there must be cooperation between jurisdictions and businesses in the rail industry. There needs to be an application and adoption of common standards, including the harmonisation of guidelines and policies so that consistent technological solutions can be applied - these solutions must be supported by all industry participants including rail track owners and operators.

PART C: NATIONALLY-COORDINATED APPROACH TO MANUFACTURING STANDARDS AND RAIL PROCUREMENT

FORG recognises the potential benefits of standardisation and harmonisation of practices to promote safety and efficiency. FORG is generally supportive of a nationally coordinated approach to rail manufacturing standards in Australia and rail procurement, on the condition that it is based on the principle that it be economically sound and practically feasible.

There have been significant gains in the last five years to improve inefficiencies and harmonise requirements, seen through the establishment of the ONRSR and the Rail Industry Safety and Standards Board (RISSB). These bodies have been important, not only for safety improvements in operations, but future planning on rail corridors, like the removal of level crossings, to reduce the cost of down-time from a rail safety occurrence.

RISSB has done significant work over recent years to create harmonised standards for rolling stock and has recently separated from the Australasian Railway Association to enable it to more effectively drive uptake of standards by industry participants.

FORG understands that at present RISSB is working with the Victorian Transport and Economic Development Department to discuss how RISSB standards might help to harmonise Australian manufacturing of rollingstock and rollingstock components.

FORG supports RISSB's efforts however, suggests any harmonisation of manufacturing standards should ensure it does not inhibit innovation and limit rail operator access and choice to foreign manufactured locomotives and equipment. Without this consideration, harmonisation may result in increased costs to the rail industry. This task could also look at what the implications would be for local manufacturers' ability to export into foreign markets while supporting domestic demand.

FORG would welcome an assessment (maybe jointly by government and industry) of the annual number of locomotives and wagons procured by the freight industry and whether this represents sufficient scale to support a domestic manufacturing base and a comparison to its competitiveness internationally.

RAIL
CROSSING
CROSSING
WAY

STOP

LOOK
FOR
TRAINS

