FREIGHT ON RAIL GROUP

Submission to:

2017-18 Federal Pre-Budget Submission

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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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Introduction

The Freight on Rail Group (FORG) values the opportunity to provide a submission to the Australian Government on the priorities for the 2017-18 Budget.

FORG is a group of seven major freight rail companies 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 members of FORG have extensive experience in issues associated with a broad scope of infrastructure, transport and supply chain matters. FORG looks forward to working with the Australian Government on transport policies and priorities for the nation.

While there are several important issues for the Australian Government to address in the freight rail industry, FORG considers the priority in this year's budget should focus on:

- Investment in innovation and technology.
- Introducing a mechanism to dedicate federal investment funds to freight rail and associated intermodal infrastructure, in order address the disproportionate funding towards road.
- Acceleration of heavy vehicle road pricing reform and a single access and pricing regulator.
- Development of a transport mode incentive scheme that supports freight to be moved from road to rail.

Innovation and Technology

Effective innovation through technological development and implementation is essential to ensure the freight rail sector is robust and dynamic. Given the high-cost of adopting new technologies and a general reluctance by the industry to adopt technology at an early maturity level, government support and schemes for innovative technology uptake are needed.

The development of advanced vehicles linked to new technology is growing rapidly and it is plausible that rail will be competing with technologically advanced trucks in the foreseeable future. These productivity developments on the road are taking place against a background of continuous upgrades to the interstate road network. Greater government investment in areas like, for example, new in-cab train management and safety rail technology will support optimal capacity on tracks, help to change rail's service offerings, increase safety through the addition of automatic safety overlays and improve cost effectiveness when handling smaller volumes.

FORG sees investment in innovation as fundamental and encouraging greater advanced technology adoption through Government investment strategies will assist in diminishing road congestion, particularly in the transport of inter-capital containerised freight.

Road Pricing and Investment Reform

Reform of road pricing for heavy vehicles should be accelerated and be the key priority for the Government, recognising their use of the road for commercial gain and to address the fundamental pricing distortion that exists between freight transport modes.

FORG was pleased to see that the Australian Government, in its response to the Infrastructure Australia Audit, has agreed to progress heavy vehicle road charging reform based on a discussion paper to inform consultation on options for an independent price regulator. However, FORG is concerned with the Government's announcement that pricing reform would be developed on a forward looking cost base and that it may take up to five years to implement.

FORG would recommend that any reform be based on a building block model that incorporates a regulatory asset base. This is a well understood and utilised model in Australia, and provides a strong framework to achieve a revenue and funding framework for roads that is consistent with other utility networks. This would also involve the introduction of pricing based on direct mass, distance and location to ensure that heavy vehicles operators are charged for actual road use reflecting the mass of the heavy vehicles.

FORG supports the move to an independent regulatory model and recommends that pricing should be by an independent economic regulator which covers both freight rail infrastructure and heavy vehicle road infrastructure to help address the current disparities between rail and road infrastructure pricing. A single economic regulator would also allow the increase in movement of freight by rail across state borders by ensuring that there are the same rail access rules apply across Australia. It would reduce uncertainty by delivering a consistent approach to the application of key regulatory rules (i.e. cost of capital, network rules) and reduce the risk of regulatory capture.

FORG supports a national trial of heavy vehicle user charging in an effort to progress heavy vehicle pricing, taking into consideration mass, distance and location. These trials should demonstrate how the model would work operationally on designated freight corridors. FORG is supportive of the announcement that a trial will commence in South Australia in order to uncover practical challenges and determine how these lessons can be applied on a national scale. In the interim, we would encourage the Government to include road pricing reform as part of the objectives of the Commonwealth's National Partnership Agreements or Memorandums of Understanding with the States and Territories for the funding of infrastructure projects, to ensure work will be accelerated in this area.

Introduce a new mechanism to direct dedicated investment into Rail and associated infrastructure

Efficient land freight transport services are vital for the competitiveness of Australia's industries and underpin productivity and economic growth.

An innovative and efficient land freight network should utilise the particular strengths and benefits of both road and rail freight, allowing for many freight tasks to be performed using both rail and road services, while recognising that there will also be many tasks that use only one mode.

FORG supports the Federal Government's policy objective of developing an integrated and efficient national freight transport network.

While road and rail are and should continue to be complementary freight transport modes, FORG is concerned of the disproportionate trend towards funding more roads as opposed to rail which has a growing rail freight task that provides additional safety, environmental and social amenity benefits to communities.

Australian Government contributions to state government rail projects have effectively halved, making up less than 5 per cent of the $8.6 billion infrastructure spend in 2015-16.

The Australian Government's long-term approach to infrastructure funding that prioritises roads over rail will not address the long term transport needs of our growing cities. Investment priorities should support the objective of an efficient and integrated national freight network.

The assessment of FORG is that the current imbalance of investment favouring road and associated infrastructure is undermining the objective of an efficient national freight network. This is demonstrated by a long term loss of market share to road on corridors where road and rail compete.

FORG emphasises that we are not seeking an advantage, but rather investment policy settings that are neutral in terms of enabling road and rail infrastructure to meet the requirements of freight operators and customers. There are a number of rail corridors where the standard of the rail infrastructure and the supporting infrastructure, e.g. intermodal terminals, has not been maintained and is declining. These include corridors where major investments in road infrastructure are improving the service offerings for trucks, including improved access for heavier and, in many cases, higher productivity vehicles.

The consequences of the decline in the standard of rail infrastructure compared to road is resulting in:

- A continuing shift from rail to road on important corridors,
- A reduction in the options for freight customers who have previously used a combination of rail and road services, with a negative impact on freight innovation,
- Increased congestion, and
- Increased safety costs due to the higher accident rates from using road freight.

In relation to the impact of congestion, Infrastructure Australia's *Australian Infrastructure Audit* found that:

> *"The cost of congestion in our capital cities, estimated at $13.7 billion in 2011, is expected to increase to around $53.3 billion in 2031, or around 290 per cent, in the absence of additional capacity and/or demand management.[1]"*

A major focus for both additional capacity and demand management should be the increased utilisation of integrated rail and road infrastructure, particularly where the rail has particular strengths, e.g. long-haul corridors and high volume short haul rail infrastructure such as port-rail shuttle services.

FORG believes the Australian Government can play a greater role in building a productive and sustainable freight rail network, and that this can be achieved by introducing a new mechanism or mechanisms to direct dedicated investment to:

- Rail and associated infrastructure projects that involve upgrading and improving the standard and service offerings of existing rail corridors;
- Land perseveration;
- The development of freight precincts that promote the utilisation of both road and rail freight; and
- Continued investment in Inland Rail informed by the findings of the current market testing process.

[1] Infrastructure Australia, Australian Infrastructure Audit Report, May 2015, finding 48, page 9

FORG recommends that consideration be given to dedicated funding mechanisms for rail and associated infrastructure that include offering to meet 80 per cent of the costs of approved rail infrastructure proposals prepared by State and Territory Governments, consistent with the funding of major road projects. FORG also recommends that consideration be given to public private partnerships relating to rail infrastructure.

Inland Rail

The Melbourne to Brisbane Inland Rail project is a nationally significant infrastructure investment. FORG commends the Australian Government for providing planning and pre-construction funding toward the project and strongly recommends the Australian Government commits to funding the delivery phase of the project in the upcoming Federal Budget informed by the findings of the current market testing process. Given the advanced stage of planning works, a further commitment to the project will provide both the community and industry with assurance that the project will be delivered as well as allow industry to prepare for the commencement of operations.

FORG believes 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 beyond. The project will be a game changer for the industry and will enhance productivity and increase consumer freight chain options.

Inland Rail will be an important contributor to national productivity by reducing train operating costs and improving service standards. This project will provide significant benefits during construction and operation to the east coast states and more broadly the connectivity of the national rail network in Australia. Inland Rail provides a second "rail spine" for the eastern freight network and will promote economic benefits through the efficient movement of both manufactured and fresh products between some of Australia's largest domestic markets. The project aims to reduce the transit time (of less than 24 hours) for freight between Melbourne and Brisbane – boosting rail freight competitiveness against road transport.

The project will deliver enduring benefits over the long-term by linking Victoria and Regional New South Wales with Queensland – making it one of Australia's most important pieces of logistics infrastructure.

Land Reservation and Freight Precincts

The 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 will impact future investment in transport corridors and freight precincts (freight terminals). Although the Australian Government is not directly responsible for planning, it is able to work with states to plan and reserve land and provide funding to support projects that will reserve land for the now and future.

Without effort in this area, increasing freight volumes and population growth will continue to place pressure on the transport network, creating further congestion and restricting economic growth. To address these challenges, FORG recommends prioritising land and corridor reservations as a means to create additional freight rail capacity and ensure effective linkages with terminal precincts.

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 freight rail services is highly

dependent on the availability and efficiency of rail freight terminals (relative to road). Existing terminals in key population centres are generally constrained by adjacent land uses. Over time these terminals will need to be complemented by terminals located in areas which are now more consistent with the rail system and industry needs. This includes greater consideration of multi-user operations, land-use requirements, and options to facilitate economies of scale.

FORG encourages the Australian Government to work with state and local governments to support the preservation of potential terminal sites, along with planning for future rail connections, like the Western Intermodal Freight Terminal in Victoria. FORG believes projects like these are important and are unlikely to be developed or accelerated without the Australian Government's support and involvement.

Transport Mode Shift Incentive Scheme

States have a good track record in encouraging mode shift in recent times. For example, Victoria had introduced a target of an overall 20 per cent mode share for rail by 2025. The introduction of a Mode Shift Incentive Scheme encouraged a market shift for containerised freight moving from road to rail with very limited investment. This scheme has been important because it provides assistance to the maintenance of intermodal freight rail in regional corridors. FORG understands that this scheme, while small at $20 million over the next four years, has produced real results for the industry by taking freight off rural and regional roads and putting it onto rail. For example, in 2013-14 over 49,000, 20-foot equivalent unit containers were moved by rail rather than road, up from 33,500 in previous years.

Similarly, NSW also identified a target to double (increase to 28 per cent of mode share) freight carried by 2020. These types of programs incentivise companies who would not ordinarily use freight rail, to consider mode shift when they would otherwise not make a considerable commercial gain to do so. This not only promotes rail but also accounts for the negative impacts in the transport sector. Despite this, there is no national strategy to address or review this area.

The Government's Emissions Reduction Fund (ERF) has a methodology that currently makes it difficult for modal shift proposals to receive funding. This is due to the complexity, risk and cost associated with the bidding process and administration.

Furthermore, the current auction bid process means that modal shift has to compete against all other sectors, which may only have one specific benefit. Modal shift offers a number of benefits by reducing negative externalities beyond just emissions, such as addressing the growing congestion issue in our major cities caused by heavy vehicles as well as the additional benefit it will provide to communities (cleaner air, i.e. safety).

FORG recommends the Australian Government introduce a modal shift incentive scheme that encourages industry to shift more containerised freight from road to rail. Targets in this area could be facilitated via the Commonwealth's National Partnership Agreements with the States and Territories. This in turn would build confidence in the sector and allow the private sector to plan and make targeted investment decisions relative to expected growth in volume forecasts.

Furthermore, funding could be provided as part of a national incentive program to increase efficiency and cost effectiveness in the freight sector and reduce congestion on roads in and around freight and port precincts.


RAIL
CROSSING
WAY
STOP
LOOK
FOR
TRAINS