

FREIGHT ON RAIL GROUP

Submission in response to

Review of Local Government Rating System

October 2016



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

This submission has been prepared by the Freight on Rail Group (FORG) in response to the August 2016 Independent Pricing and Regulatory Tribunal's (IPART) Draft Report in relation to the Review of the Local Government Rating System in New South Wales (NSW). FORG appreciates the opportunity to provide a response to the Draft Report.

This submission seeks to make comment and outline critical concerns that FORG considers relevant to the Tribunal's deliberations in forming recommendations to the NSW Government. Please note, some members of FORG have also individually provided submissions on this matter, which reinforce the recommendations made in this submission.

It is noted that the Draft Report recommends that land used for either residential purposes or commercial activities should be rateable land. The Draft Report at page 80 states that as a consequence of this recommendation freight rail lines will become rateable land.

FORG has strong concerns regarding the Draft Report's proposal to include freight rail lines as rateable land and **recommends that there should be no change to the current treatment of land for freight rail purposes**. In other words, rail corridors used for rail freight transport should continue to be exempt from rates for the reasons outlined in this submission.

Benefits of Freight Rail to Local Governments

Rail lines provide local government areas with an economic and social asset, providing valuable freight transport services to the community and region. The rail industry must be treated as an exception to the statement in the Draft Report that *"commercial activities impose costs on council. Therefore, it is equitable and efficient that those responsible for the costs make a contribution to them by paying rates."*(page 77). In many instances freight rail corridors impose no costs on councils – with overall road maintenance and general investment by rail ensuring local governments are left in neutral or positive positions.

Rail provides a number of advantages as a transport mode choice, both in terms of efficiency, safety and environmental benefit. Local government areas are the recipient of these benefits and reduce the total costs imposed on local communities and their respective governments. To penalise a service that adds significant benefit to the community and local economy, despite its commercial nature, would be detrimental to both the industry and region.

With regard to road infrastructure, rail use significantly reduces the number of trucks on roads and this decreases the amount of damage caused to local infrastructure, particularly as it is heavy vehicles that cause the most damage. This in turn reduces road costs to local government, particularly in terms of repair and maintenance.

Research completed in 2012 into the average external cost for the movement of freight in a non-urban area by an articulated truck was more than ten times greater than by freight rail.¹ This comparison of costs was largely due to unrecovered road use costs and the average risk cost that is associated with articulated trucks carrying freight.

Freight rail provides a low carbon, energy efficient, safe alternative to road distribution. These benefits help to improve not only carbon reduction targets, given freight rail has lower

¹ The Conversation, 2014, *Too many loads on our roads when rail is the answer*, Retrieved from <<http://theconversation.com/too-many-loads-on-our-roads-when-rail-is-the-answer-24118>>

environmental externalities than road, but may also lessen exposure to road accidents by reducing freight volumes on the road network.

It is well documented that rail has a far superior safety record when compared to road based freight transport; with estimates that rail is up to nine times safer. This advantage in safety needs to be considered and recognised as a key benefit to communities and in-turn local governments. It is estimated that the total cost of heavy vehicle road accidents to the Australian economy is around \$3 billion every year.² As such, IPART need to consider the additional benefits that rail provides to the wider community and the social good that rail provides over road.

Environmentally, rail has a number of benefits over road both in terms of noise pollution and emissions. Rail is more energy efficient consuming up to 23 times less energy than road and producing up to 19 times fewer emissions. It is estimated the economic cost of premature mortality from poor air quality generated by vehicles is between \$1.1 and \$2.6 billion.³ The reduction in these road externalities by rail alone helps to improve community health and support more liveable cities.

Impact to Freight Rail treated as Rateable Land

FORG considers that the proposal to categorise freight rail lines as rateable land will be detrimental to the future of rail infrastructure in the state. The major concern is on the potential for a differential taxation treatment of road freight against rail freight, which would result in inefficient economic outcomes and distort the land transport market in the state. In addition, this is at odds with the policy outcomes of the State Government to move more freight on rail.

As such, FORG recommends that if roads used for freight transport in NSW are not intended to be subject to local government rates then freight rail lines should equally not be treated as rateable land in order to preserve the principles of competitive neutrality.

Treatment of Road Freight versus Rail Freight

Road freight and rail freight directly compete in a variety of key freight markets, and FORG strongly believes that government taxation regimes should treat land transport equitably in order to promote competitive neutrality and avoid inefficient economic outcomes. Creating an inequitable taxation regime against competing freight industry sectors works counterproductive to these points.

This principle is actually reinforced in the Draft Report (page 66), which argues that granting exemptions for land used for commercial activities (such as freight roads) is contrary to the principle of competitive neutrality.

Member organisations of FORG have been in contact with IPART and it is understood that public roads are not currently intended to be treated as rateable land even if they are substantially designed and used for commercial activities.

FORG understands that the position that roads should be exempt from rates is due to issues related to land ownership rather than land use. This position seems to be at odds with the principle of competitive neutrality and the stated IPART recommendation (Draft Report, page 6): *Eligibility should be based on the use of the land, regardless of who owns it, to ensure comparable land uses attract the same rating treatment.*

² Australasian Railway Association (ARA), 2010, Towards 2050: National Freight Strategy, The Role of Rail, ARA.

³ Bureau of Transport and Regional Economics, 2005, Health Impacts of Transport Emissions in Australia: Economic Costs Working Paper, Commonwealth of Australia p.63.

Furthermore, the New South Wales Government has a policy to shift freight from road onto rail, as stated in the 2013 *NSW Freight and Ports Strategy*:

“Opportunities exist to shift more freight onto rail and this remains an important priority for the NSW Government.⁴”

This policy includes a target to double the proportion of freight carried by rail to and from Port Botany between 2013 and 2020⁵. The rail lines used to transport containers to and from Port Botany include the sections of the ARTC managed network, the metropolitan network and the country network of New South Wales.

Meeting this policy commitment requires that rail freight services carry a greater proportion of containerised freight compared to road freight.

The proposal to treat freight rail lines as rateable land, but not to treat roads as rateable land, is inconsistent with the specific policy commitment to double the proportion of containerised freight to and from Port Botany, and with the wider policy to shift more freight onto rail. Furthermore, such a proposal would work directly against the effectiveness of other policy actions that have been taken to increase the proportion of freight carried on rail, including improved cargo coordination across the network. This is an important consideration, particularly given that the policy actions taken by the NSW Government have already begun to contribute to an increase in the proportion of freight carried by rail to and from the port.

Competitive Neutrality

The Draft Report at page 77 states that ensuring there is competitive neutrality should be one of the reasons why land used for commercial activities should be rateable. FORG supports the principle that government policy settings should be consistent with competitive neutrality. We submit that the application of rates to rail corridors would contravene this principle while other transport corridors are not subject to rates.

The implementation of rates on freight rail lines may impact on the ability of marginal freight rail lines to continue to support commercial activity⁶, resulting in a potential loss in rail services to some regions and industries.

In addition to the above issues classifying freight rail lines as rateable land would hinder future competition in freight markets and discourage new entrants to these markets, and would also reduce investment in land preservation needed to future proof freight supply chains.

Public Transport Cost

Given many rail lines serve dual purposes, carrying both freight and passengers, causing freight rail lines to become rateable land could negatively impact on passenger rail in the public transport network as costs to the broader rail industry increase. This is in conflict with the NSW government's commitment to encourage a greater uptake in public transport and improve infrastructure for this service.

⁴ New South Wales Freight and Ports Strategy, November 2013, page 19.

⁵ Ibid, page 24.

⁶ For example the IPART 2012 Review of Access Pricing on the NSW Grain Line Network contains information on the marginal nature of many regional NSW rail lines.

Benefits of Linear Infrastructure to the Community

FORG believes that linear infrastructure (such as rail lines, arterial roads, electricity lines etc.) facilitate and enable broader commercial activity. Councils in turn benefit from the rates generated by these commercial activities. Introducing rates on linear infrastructure such as freight rail would be expected to have a negative impact on commercial activity thus reducing the rates generated by these commercial activities.

Service Provided by Local Government

It should also be noted that in the event freight rail lines become rateable land the freight rail lines would not receive council services even though they are paying rates. For example, the freight rail lines would not use services such as waste management or road infrastructure maintenance. The Draft Report (for example page 66) argues that commercial activities impose costs on councils and so these activities should be subject to rates, however this argument does not apply in the instance of freight rail. In this instance freight rail lines which do not use council services would be cross subsidising other rate payers.

Challenges to Determining a Reasonable Market Value for Improved Land

In the case of determining improved land value – FORG believes it would be problematic for the Valuer General to determine a reasonable market value for rail corridor land, which is used to transport freight, on an improved basis. One of the reasons for this is that the capital cost of constructing rail infrastructure could not be used as a basis for determining value. The value of rail corridor infrastructure is generally a function of both capital investment in the development and maintenance of track infrastructure, as well as the investment in management experience and business capability, which is necessary to manage access to rail infrastructure within a highly complex regulatory and legislative environment.

Additionally, freight rail and passenger rail lines often share one land corridor and have common underlying infrastructure (i.e. signalling, telecoms, crossings, etc.). These are all necessary for ensuring the efficient, cohesive and safe operation of rail transport infrastructure. There are many rail transport networks that are used by both passenger and freight trains. It would be a difficult and complex task to attempt to determine how to treat these shared networks under the proposal to categorise rail freight corridors as rateable land.

As such, FORG recommends that there be no changes made to the existing methodology for determining statutory unimproved land valuations.

RAIL CROSSING
CROSSWAY

STOP

LOOK
FOR
TRAINS

