


Submission 7



Mr Howard Hobbs MP
Chairman
Transport, Housing and Local Government Committee
Parliament House
George Street
BRISBANE QLD 4000ress Line 2

17 February 2014

Dear Mr Hobbs,

Aurizon is pleased to make the attached submission to the Parliamentary Committee on Transport, Housing and Local Government inquiry into freight rail use by the agriculture and livestock industries.

Aurizon strongly supports the first priority of the Government's recent *Moving Freight* strategy: to expand the use of rail freight. Pursuing this priority in a way that best utilises the strengths of rail will help ensure that all forms of freight transport contribute to a more efficient, flexible and integrated freight transport network.

Aurizon is a key part of Queensland's freight and logistics sector, and the company has a strategy that focuses both on bulk supply chains for resources and agriculture, as well as general freight.


Queensland's agriculture sector already represents about 17 per cent of the state's exports by value, second only to coal. Nonetheless, this sector has the potential to produce much larger quantities of high quality, clean food and fibre, and to be part of a 21st century food bowl that will be needed to meet demand from a growing middle class in Asia and India.

The agricultural sector will, however, require greater investment in supply chains, including storage and distribution hubs, to ensure there is capacity and efficiency to underpin future expansion to meet this increase in demand and improve the sector's international competitiveness.

Intermodal freight is also an important area for the future, with demand for both Australian products and imports set to increase in response to population growth. General freight underpins food, manufacturing, construction, wholesale and retail distribution.

Agriculture and general freight are key elements of Aurizon's strategic value creation priorities. We will explore commercially sustainable investments in these markets aimed at enabling us to better serve our freight customers.

The *Moving Freight* strategy comes at a critical time because the financing of infrastructure investment and development is in a period of transition. The capacity of



governments to finance infrastructure has been significantly reduced in recent years because of major fiscal constraints at both the State and Federal levels.

Translating the potential for expansion into actual growth will require effective policy settings and greater coordination of supply chain participants and stakeholders, with particular emphasis on ensuring commercially sustainable outcomes.

If policy settings are to create the best business environment for driving greater efficiencies and promoting commercially sustainable new investment, they will need to prioritise and address the challenges recognised by governments, the freight industry and its customers.

Aurizon recommends that in order to address the significant challenges facing the freight and logistics industry, the Government give consideration to adopting, as part of a clear and consistent integrated freight and logistics strategy, the following inter-related priority components:

- Improving freight network (rail, road, ports and airports) integration and productivity through more effective Government and industry coordination in developing policy settings;
- Developing a freight infrastructure plan that provides critical guidance for industry and investors (both current and future) over the short, medium and longer term, based on up to date information about industry requirements;
- Promoting the development of world class efficiency and productivity outcomes from “fit for purpose” infrastructure;
- Identifying high priority fit for purpose infrastructure projects, based on an assessment criteria agreed with industry;
- Developing a clear model for how Queensland will approach supply chain development in the agriculture sector and other secondary bulk industries;
- Taking a strategic approach to the future arrangements for intermodal terminals as vital supply chain hubs; and
- Developing an agreed approach with other governments to increase the utilisation and the efficiency of strategic land transport corridors, both within Queensland and interstate.

Aurizon stands ready to work with the Government and other industry supply chain representatives (including representatives of freight customers) in the important task of developing a detailed freight strategy that will drive increased efficiencies and greater investment in freight supply chains.

Sincerely,



Allyson Madsen
Manager Stakeholder Relations

IMPROVED EFFICIENCIES & GREATER INVESTMENT IN QUEENSLAND'S FREIGHT SUPPLY CHAINS

A Submission from Aurizon



Contents

Executive Summary	3
Discussion of the Government's Moving Freight Strategy	6
The context for freight and logistics in Queensland	7
Aurizon's business	9
Aurizon's strategy.....	9
Key economic sectors for freight in Queensland	11
Current and future challenges for freight and logistics	12
<i>Geographic and industry challenges for agriculture</i>	<i>12</i>
<i>Underutilisation of rail.....</i>	<i>15</i>
<i>Access to ports and alignment with port development</i>	<i>17</i>
<i>Attracting private sector investment.....</i>	<i>17</i>
<i>Public Private Partnerships (PPPs)</i>	<i>18</i>
<i>Requirement for policies to underpin finance and funding.....</i>	<i>20</i>
<i>Barriers to integration and efficiency improvements.....</i>	<i>20</i>
Recommended policy priorities	22
<i>A long term plan for Queensland's freight network</i>	<i>23</i>
<i>Development of the agriculture supply chain</i>	<i>24</i>
<i>Policy settings that enable market-based solutions</i>	<i>26</i>
<i>Heavy vehicle charging and investment reform</i>	<i>27</i>
<i>Promoting private sector investment in infrastructure.....</i>	<i>28</i>
<i>Recycling infrastructure capital.....</i>	<i>29</i>
<i>Potential improvements to PPPs</i>	<i>30</i>
<i>Safety performance</i>	<i>32</i>
Next steps: Implementation of the freight strategy	32
Conclusion.....	33

Driving Queensland's Future Competitiveness: Improved Efficiencies and Greater Investment in Freight Supply Chains

Executive Summary

As the Queensland Government's recent *Moving Freight* strategy makes clear, lifting Queensland's domestic and international competitiveness is vital to realising the State's aspirations for securing greater export opportunities, strong economic growth and higher living standards.

Increasing the competitiveness of Queensland's industries requires a focus on the inter-related goals of driving efficiency improvements, delivering commercially sustainable outcomes and promoting greater investment in freight supply chains.

Aurizon strongly supports the first priority of the Government's *Moving Freight* strategy: to expand the use of rail freight. Pursuing this priority in a way that best utilises the strengths of rail will help ensure that all forms of freight transport contribute to a more efficient, flexible and integrated freight transport network.

The *Moving Freight* strategy comes at a critical time because the financing of infrastructure investment and development is in a period of transition.

The capacity of governments to finance infrastructure has been significantly reduced in recent years because of major fiscal constraints at both the State and Federal levels.

At the same time, the private sector has taken on a greater role in the ownership of freight and logistics assets extending across rail, ports and roads.

One example of this is the creation of Aurizon, formerly QR National, as a publicly listed private sector company with legal obligations to maximise shareholder value.

Aurizon is a key part of Queensland's freight and logistics sector, and the company has a strategy that focuses both on bulk supply chains for resources and agriculture, as well as general freight.

Aurizon shares the assessment of the Government that the potential for expansion of the State's key industries, especially agriculture, represents a major economic opportunity which, if captured would help deliver significant benefits across the state, particularly in regional and rural areas.

Queensland's agriculture sector already represents about 17 per cent of the state's exports by value, second only to coal. Nonetheless, this sector has the potential to produce much larger quantities of high quality, clean food and fibre, and to be part of a 21st century food bowl that will be needed to meet demand from a growing middle class in Asia and India.

The agricultural sector will, however, require greater investment in supply chains, including storage and distribution hubs, to ensure there is capacity and efficiency to underpin future expansion to meet this increase in demand and improve the sector's international competitiveness.

As outlined in *Queensland's Agriculture Strategy*, one of the Government's priorities in the agricultural sector is to develop suitable transport infrastructure and logistics pathways¹.

Intermodal freight is also an important area for the future, with demand for both Australian products and imports set to increase in response to population growth. General freight underpins food, manufacturing, construction, wholesale and retail distribution.

¹ *Queensland's Agriculture Strategy: A 2040 Vision to Double Agricultural Production*, Department of Agriculture, Fisheries and Forestry, 2013, p. viii.

Agriculture and general freight are key elements of Aurizon's strategic value creation priorities. We will explore commercially sustainable investments in these markets aimed at enabling us to better serve our freight customers.

Translating the potential for expansion into actual growth will require effective policy settings and greater coordination of supply chain participants and stakeholders, with particular emphasis on ensuring commercially sustainable outcomes.

If policy settings are to create the best business environment for driving greater efficiencies and promoting commercially sustainable new investment, they will need to prioritise and address the challenges recognised by governments, the freight industry and its customers.

There are a number of significant challenges to the development of more efficient freight and logistics infrastructure and operations, and these are outlined on pages 14-24 inclusive.

This submission particularly identifies a number of barriers to efficiency improvements. Addressing barriers that restrict productivity on the freight network will significantly improve the ability of the freight industry to meet future growth in demand.

Aurizon recommends that in order to address the significant challenges facing the freight and logistics industry, the Government give consideration to the following policy options:

- Adopting, as part of a clear and consistent integrated freight and logistics strategy, the following inter-related priority components:
 - Improving freight network (rail, road, ports and airports) integration and productivity through more effective Government and industry coordination in developing policy settings;
 - Developing a freight infrastructure plan that provides critical guidance for industry and investors (both current and future) over the short, medium and longer term, based on up to date information about industry requirements;
 - Promoting the development of world class efficiency and productivity outcomes from "fit for purpose" infrastructure;
 - Identifying high priority fit for purpose infrastructure projects, based on an assessment criteria agreed with industry;
 - Developing a clear model for how Queensland will approach supply chain development in the agriculture sector and other secondary bulk industries;
 - Taking a strategic approach to the future arrangements for intermodal terminals as vital supply chain hubs; and
 - Developing an agreed approach with other governments to increase the utilisation and the efficiency of strategic land transport corridors, both within Queensland and interstate.

A number of other policy options are also recommended for consideration, including:

- Opening up new opportunities for further private sector investment in freight including through sales of Government infrastructure assets or long term leases.
- Recycling all funds from any future Government infrastructure asset sales or lease agreements into infrastructure in the same broad asset class.
- Examining the potential for new approaches to using Public Private Partnerships (PPPs) for the financing and development of infrastructure projects.

- Accelerating heavy vehicle infrastructure investment and direct charging reforms, commencing with national highways.
- Introducing greater transparency and contestability in relation to infrastructure development and for freight transport services funded by the Government.
- Ensuring that freight policies are consistent with a continuously improving safety performance by the freight industry.

Aurizon stands ready to work with the Government and other industry supply chain representatives (including representatives of freight customers) in the important task of developing a detailed freight strategy that will drive increased efficiencies and greater investment in freight supply chains.

Aurizon recognises the critical contribution the new freight strategy can make to lifting Queensland's future competitiveness, with significant consequential benefits to the Queensland economy and the wider community, particularly regional communities.

Discussion of the Government's *Moving Freight* strategy

The freight and logistics sector develops and operates the supply chains that link Queensland's industries to local, state, national and international markets, while also ensuring that suppliers in other states and overseas can deliver their products to customers across the state.

Given the importance of freight and logistics to the Queensland economy, and the changes affecting the "traditional" funding mechanisms for infrastructure investment and development, the release of the *Moving Freight* strategy by the Queensland Government is a timely initiative.

As *Moving Freight* makes clear, lifting Queensland's competitiveness is vital to realising the state's aspirations for future economic growth and higher living standards.

The future competitiveness of the state's industries requires a freight and logistics strategy with a strong focus on driving efficiency improvements in local, national and international supply chains. This is particularly important for the agriculture sector where there are major opportunities for growth, but also very significant challenges to developing more efficient freight supply chains that are necessary to realising those growth opportunities.

Greater efficiencies are also needed for supply chains to deliver better value for freight customers and to improve the commercial returns available to private sector operators (both current and future) and investors (both current and future). This will be critical for attracting the investment required to upgrade and expand existing infrastructure, as well as to build the new infrastructure necessary to meet future demand.

Aurizon believes that the major objectives of the *Moving Freight* strategy can summarised as:

- The need to build a more integrated freight and logistics network that is multi-modal, and which provides the most efficient and effective freight solutions for producers, manufacturers, logistics providers and infrastructure owners and investors (current and future):
 - As part of an integrated land transport network, expand the use of rail, and increase the overall proportion of the freight task carried on rail, utilising the respective strengths of rail and road.
- Increasing the capacity and capabilities of the freight and logistics network to meet the forecast 76% increase in demand for all freight (bulk and general freight) by 2021.
- Initiating greater collaboration and coordination involving all participants in Queensland's supply chains to maximise outcomes for freight customers and end consumers.
- Achieving these objectives while adhering to high safety standards.
- Develop policy settings that create the best environment for private sector investment. Aurizon notes in this context that this would necessarily involve:
 - Recognition that major changes are continuing to take place in funding for infrastructure investments.
 - The need for freight businesses to earn a commercial rate of return if they are to be commercially sustainable.
- Develop a long term freight infrastructure plan with significant private sector input and oversight.

Aurizon endorses the Government's view that the freight system should be "continually receptive and responsive to customer needs, changing industry requirements and growing economic activity"².

As Australia's leading national freight and logistics company with major operations in Queensland, Aurizon recognises the importance of the Government outlining a proactive freight strategy with the potential to contribute to the future competitiveness of Queensland's most important industries and overall community welfare.

Equally, the execution of the actions required to effectively meet the objectives of the strategy will be the key to a freight and logistics network that helps drive increased competitiveness and economic growth.

Success will require that the Government and the freight and logistics industry engage key stakeholders in the task of agreeing and coordinating a long term direction for the development of Queensland's freight supply chains.

The context for the freight and logistics industry in Queensland

Queensland has traditionally been a high growth state. A key to continuing this trend is ensuring that we have a highly efficient transport and logistics system that contributes to the short, medium and long term requirements of Queensland's industries as they pursue future growth opportunities. It will also require a transport and logistics system that meets the broader requirements of the economy and global supply chains.

Significant growth in freight volumes is expected to be driven by:

- Population increases: Queensland's population is forecast to grow from 4.1 million now to 5.6 million people by 2021, producing increased demand, including growing demand for:
 - the distribution of products for manufacturing and construction;
 - wholesale and retail distribution.
 - imports of production inputs and consumer products.
- Substantial future growth in agricultural exports to meet global demand for high quality food and other agricultural products, particularly from Asia and India.

It is vital that policymakers and industry focus on identifying and addressing the most important priorities. At the same time, the strategy needs to be flexible enough to respond to new developments such as the emergence of new economic opportunities.

Driving improved efficiencies and lifting the state's international competitiveness requires world-class freight operations. But the freight and logistics industry and freight customers need to be realistic and practical, especially when there are risks of low initial utilisation and profitability with new infrastructure investments.

As a result, it is important that all members of the supply chain, together with the State and Federal Governments, work together to achieve world-class efficiency and performance from "fit for purpose" infrastructure where the maximum benefits will accrue to relevant businesses and the wider community.

² *Moving Freight A strategy for more efficient freight movement*, Department of Transport and Main Roads, December 2013, p. 6.

But new investment in infrastructure by both Government and the private sector is now constrained. As a result, Aurizon believes that maximum economic and community benefits will be achieved through the following approach:

- Extracting the maximum value from existing infrastructure by using it more efficiently, including the removal of bottlenecks.
- Upgrading existing infrastructure where and when this is required and commercially sustainable.
- Building new infrastructure where required that is commercially sustainable.
- Planning effectively for the short, medium and long term.
- Reserving land for potential new infrastructure.

This is particularly important in view of the current environment for investment in infrastructure, which is in a critical period of transition.

A major factor behind this transition is the changed fiscal circumstances for all governments, State and Federal.

The Federal and State Governments have entered a protracted period of Budget repair which severely limits the scope for significant Government spending on major new infrastructure projects. In addition Governments in Queensland and in other states have made it a priority to reduce government borrowings. Current and future Federal Governments are also expected to focus on debt reduction.

While there will continue to be an important role for Government investment in infrastructure, over the short to medium term, State and Federal Governments do not appear to have the capacity to take on major additional borrowings for infrastructure development at this time.

A major additional consideration is the changes in the investment environment post the Global Financial Crisis (GFC).

In the aftermath of the GFC, there was an increase in the cost of capital used for investing in infrastructure projects³. The increase in the cost of capital for infrastructure has persisted. When combined with continuing volatility in global commodity markets and uncertainty about the broader economic outlook, it has become a more challenging environment for the private sector when considering investment in infrastructure.

However in recent times we have also seen increased investment in large scale existing infrastructure in Australia by major overseas pension funds and sovereign wealth funds. This is expected to continue, providing a valuable new source of infrastructure funding, although such investment is much more likely to be in brownfield infrastructure where greater commercial certainty exists.

Notwithstanding these macroeconomic developments – and, in fact, partly as a consequence of the Budget constraints on State and Federal Governments - the private sector has continued to take on a greater role in terms of the ownership and management of freight and logistics assets.

A major example of this development is the creation of Aurizon, formerly QR National, as a publicly listed company. Consistent with the requirements placed on all listed companies, there is a continuing need for Aurizon to demonstrate to investors that current operations, and any future expansions, will increase shareholder value.

³ *Infrastructure Finance and Funding Reform*, Infrastructure Finance Working Group, April 2012, page 5.

Another important example of recent private sector investment in Queensland's freight supply chains is the creation of the Port of Brisbane as a private sector entity.

However these same developments will place even greater pressure on the freight and logistics industry to prioritise capital and resources into areas that have the prospect of maximising returns to shareholders and investors. This has and will continue to place an increased focus on ensuring that activities are economically sustainable and generate commercial rates of return.

Aurizon's business

Previously known as QR National, Aurizon is an Australian Securities Exchange (ASX) top 50 company with a market capitalisation currently equating to about \$10 billion. It is the largest rail freight company in Queensland and across Australia.

In the agricultural sector, Aurizon transported the following agricultural products in 2012-13:

- 784,000 tonnes of grain
- 1.366 million tonnes of sugar
- 87,000 tonnes of molasses
- 76,000 tonnes of cotton
- 162,000 tonnes of livestock.

The company also moved about 295 kilotonnes of road freight in intra state haulage, which was the second largest total for intra state road freight in Queensland in 2012-13.

Aurizon's strategy

Aurizon's strategy comprises the following three pillars:

- Transformation of Aurizon's core business to become a world class operator that runs disciplined operations and engages closely with customers.
 - A key measure of success in the near term will be the achievement of an operating ratio of 75% by 2015.
- Expand Aurizon's role in existing and new bulk supply chains.
 - Continue to operate, develop and integrate bulk supply chains. This will see the company seek to pursue new growth opportunities in not only coal and iron ore, but also other mineral resource areas, agriculture and general freight.
- Develop and drive greater coordination and efficiency from an integrated intermodal and general freight and logistics business.

Aurizon's commitment to safety within our operations is integral to all components of the company's Strategy.

Aurizon shares the aim of the Queensland Government to expand the use of rail freight. This objective underpins Aurizon's corporate growth strategy, while recognising that greater use of rail freight depends on continuing to develop a more integrated freight and logistics network. A more integrated network involves both rail and road, as well as working with other freight operators (particularly at the smaller end of the operational scale.)

Because Australia's industry supply chains often require the transportation of products across different combinations of rail, road, sea and air freight, we – as well as industry and the Government - need to pay

particular attention to how efficiently each part of the supply chain operates and how well it links to other components.

Our history sees the company having scale operations in the resources sector, particularly coal haulage.

Aurizon also has a strong presence in the provision of rail and road freight and logistics supporting the agriculture, livestock, general freight and industrial products markets.

Agriculture is a key sector with strong future prospects for growth. The Agricultural sector has the potential to produce much larger quantities of high quality, clean food and fibre to meet increasing global demand for these products, particularly in Asia and India.

Aurizon therefore supports the focus in *Moving Freight* on the future requirements of the agricultural sector.

General freight is also an important area for the future, with demand for both Australian products and imports set to increase in response to population growth.

The growth prospects for agriculture and for general freight will see Aurizon assessing the commercial viability for broadening participation - and for driving future growth - in these parts of our business.

By way of example, over time this will potentially see Aurizon operating out of major freight hubs that offer economies of scale and facilitate more efficient supply chains.

This approach would deliver efficiencies that would benefit operators, customers and the wider community through lower overall costs. This may involve contractions in some parts of Aurizon's business and in areas of the state. However, at the same time, it would create opportunities for small to medium operators (both current and future) as the relevant freight will still need to be delivered to customers. There is a highly competitive market for transport services in Queensland with an array of medium and small operators to fulfil such tasks.

The aim of capturing greater efficiencies is to create a sustainable and commercial freight forwarding business for Aurizon. As a publicly listed company, Aurizon has legal obligations to maximise shareholder value. It is therefore important that our activities and investments generate a commercial rate of return. The net outcome will also be positive for the overall freight sector and the wider community by maximising efficiencies and use of the state's - and the nation's - scarce resources.

Aurizon also recognises the need to ensure that any consequential changes in our business are managed sensitively, having regard to all of the potential impacts on relevant local communities.

The emphasis Aurizon places on driving greater efficiencies in our agriculture and general freight supply chains will help address the fundamental challenges for agriculture and general freight supply. The challenges are principally caused by the sheer size of the state and its wide population and producer distribution (outside South East Queensland). Seasonality is another major challenge for agriculture. These challenges are discussed below, commencing on page 14.

Key economic sectors for freight in Queensland

Agriculture

Agriculture is a vital industry for the state, with the relatively high value of agricultural exports generating export revenue that is second only to coal when ranked on value, worth about \$9 billion in 2011-12.

The structure of agriculture is very different when compared to the coal sector, with many small and medium producers involved in agricultural production and dispersed widely across agricultural regions. The implications of farming enterprises being widely dispersed across significant parts of the state is a critical consideration for the competitiveness of agricultural industries as it creates major challenges .

In relation to freight and logistics, key tasks across the agricultural sector include:

- Grain haulage and transfer;
- Livestock transportation;
- Meat distribution;
- Sugar;
- Produce; and
- Cotton.

Queensland's *Agriculture Strategy* aims to work with industry to create a sector that is efficient, innovative, resilient and profitable⁴.

The agriculture strategy points to the opportunities for agriculture from a growing global middle class, and from population growth in Australia, which will drive increased demand for high quality food, fibre and other agricultural products.

Currently, we have world class participants entering the agricultural sector, which reflects their confidence in Queensland's ability to supply Asia's increasing export demand for our agricultural products. There is the potential, with a growing middle class population in Asia and India, for Queensland to be part of a food bowl for this rising middle class over coming decades.

Established and new agricultural enterprises will require, however, greater investment in supply chains to ensure appropriate capacity to meet this demand and greater efficiency to ensure the competitiveness of Queensland's agricultural products in supply chains and markets.

The National Farmers Federation's Blueprint for Australian Agriculture 2013-2020 stated that one of its goals of the blueprint is to improve and upgrade critical infrastructure⁵.

Also, the Chief Executive Officer of Graincorp, Alison Watkins, recently emphasised the importance of this issue.

"As a country we have a significant ocean freight advantage to service Asia, but it's critical that there is investment to keep the costs of other parts of the supply chain down, or we risk losing the advantage". *Quote from Alison Watkins, Australian Financial Review, 15 August 2013, p. 15.*

The Queensland Government's vision to double agricultural production by 2040 reflects the considerable opportunity for the state's producers. It is appropriate that there is a strong focus on the future requirements of agriculture in the *Moving Freight* strategy.

General freight

Demand for general freight, transported in containers or in other transport packages, is also an important component of the freight and logistics industry in Queensland.

⁴ *Queensland's agriculture strategy*, Department of Agriculture, Fisheries and Forestry, p vi

⁵ *The Blueprint for Australian Agriculture 2013-2020*, National Farmers Federation, February 2013.

The *Moving Freight* strategy identifies the fact that demand for general containerised freight is being driven, to a significant extent, by growth in imports, as well as growth in some Australian produced goods.

There is an important alignment between agriculture and general freight.

General freight includes manufactured goods, construction products and wholesale and retail distribution of goods and packaged foods.

Both businesses and households are purchasing increasing quantities of goods delivered by general freight.

Because general freight involves the transportation of diverse goods across complex supply chains, it often relies on different forms of transport. Many general freight operations work more efficiently when there is access to an integrated freight network that can utilise the most efficient mode for a particular freight task or combination of tasks.

Capacity in the general freight sector will need to be substantially increased to meet the forecast growth in demand for general freight. Increased demand for general freight is expected to result from future population and economic growth in Queensland.

Current and future challenges for freight and logistics

Geographic and industry challenges for agriculture and others reliant on general freight

The geography of Queensland as a large state, with a dispersed population outside the south east, presents a substantial set of challenges for the many industries, including agriculture, which are reliant on general freight supply chains.

i. Agriculture

The structure of agricultural industries, with many small and medium farming enterprises dispersed across large regions of the state makes it difficult to develop and maintain “economies of scale” supply chains similar to those achieved in the transportation of coal.

In addition to the dispersed locations of production, a large proportion of farming enterprises involve food or fibre production that is seasonal. Seasonal production adds to the challenges for supply chain efficiency. The consequences of seasonal production are:

- Large fluctuations in production, with very large production volumes entering the supply chain during harvest season or peak production season.
 - Some industries have a very short peak production period when output is significantly higher than during other parts of the broader harvest or main production period.
- As a corollary, there is no, or very little, on-farm harvesting or final production during other times of the year, with the non-harvest or non-peak production season often accounting for six months of the year or more.
- Variations in the timeframe for getting agricultural products to markets.
 - Some food products are perishable, and are of higher value if they can be delivered direct to markets and to customers in a very short timeframe.

- Many food products, even those that are perishable, can be stored as a way to address fluctuations in supply, and reduce the impact on market prices of a rapid increase in supply in a concentrated period.
- Some food products, and almost all fibre products, can be stored for significant periods of time and transported in regular quantities throughout the year, adjusted for changes in demand – thus smoothing out peaks and troughs in supply and transportation.
- A further aspect of seasonality is the fluctuations in production influenced by the weather in any particular season.
 - Favourable weather conditions can boost both the quality and quantity of production.
 - Unfavourable conditions can be expected to adversely affect the quantity and quality of production, and can also alter the timing and the duration of harvest.

A key challenge is also the reliability of supply, resulting in risks associated with the quantity, quality, availability and timing of production. Each of these risks can have a significant impact on the efficiency of supply chains.

Seasonal fluctuations in production require careful planning and management of agricultural supply chains. There are major costs associated with having freight transport available to meet peak production periods. If freight services are not utilised efficiently and to their full capacity, this reduces the overall efficiency of supply chains, and has a negative impact on costs – with consequential negative impacts on competitiveness and producer returns.

A question for government, the agricultural sector and the freight transport sector - which would require careful examination - is whether there could be further improvements to the management of fluctuations in production through actions by producers and/or freight transport operators.

In considering this issue, one possible option could involve the development of larger or improved storage arrangements to allow a more even flow of product to markets. If fluctuations could be more effectively managed, there is also the challenge of whether such an approach would be commercially viable. However this approach could generate benefits to offset the additional capital and operating costs of new or improved storage facilities; e.g., through higher overall pricing (on average) and lower freight transport capital costs.

In this context it is noted that many agricultural industries have used on-farm, or centralised bulk storage facilities, over many decades. Furthermore, storage capacity for some agricultural products has continued to grow, utilising new technology for the storage of perishable food products. Examples of good practice can inform the potential for further improvements in agricultural storage more generally.

Another potential option for addressing seasonal fluctuations is to consider further improvements to coordination between different agricultural industries - and potentially general freight - that use the same or similar freight transport services. This is considered in more detail below.

The focus of these considerations would necessarily be on whether larger scale and more efficient freight handling, storage and distribution networks can be developed on a commercially sustainable basis. As noted above, this could generate benefits that would help offset the additional costs involved.

It is submitted that this would necessarily involve an approach to freight infrastructure planning that requires greater coordination of freight network developments.

In the absence of effective coordination, smaller producers would be more likely to focus on the particular requirements of their operations, rather than industry wide requirements. Freight infrastructure and operational developments could also be undertaken in response to immediate pressures facing one

particular operator or set of operators. It would be more beneficial to the requirements of freight customers if planning and development is undertaken in accordance with a more strategic industry or multi-industry assessment of short, medium and longer term requirements.

A further challenge is the need to coordinate state and national freight development planning.

ii General Freight

The challenges of relatively dispersed populations (outside South east Queensland) and distance could be addressed by larger scale hub and spoke models that are based on driving greater efficiencies from freight transport.

An effective hub and spoke model would require:

- A strategic approach to planning major collection and distribution locations; i.e. the most suitable locations for intermodal terminals, including:
 - How best to utilise both rail and road freight by capturing the benefits that rail offers with hauling larger loads over longer distances, and that road offers in moving freight over shorter distances.
 - The need to reserve corridors and sites for future development.
- Coordination to identify requirements for different industries, and to propose arrangements for sharing infrastructure whenever this is possible in order to help reduce costs and ensure efficient links to export markets through ports.

Well designed, larger scale hub and spoke models offer the potential for efficiency gains by increasing the volume of the freight hauled between hubs or from hubs to ports in the case of export freight. This could potentially involve rationalisation and/or expansion of some existing facilities, as well as new developments.

iii Shared infrastructure: Agriculture and General Freight

A number of the challenges – and responses – applicable to agricultural supply chains are also relevant to general freight in Queensland. As a result, it is important to consider the requirements of the general freight sector when considering agricultural freight, particularly in terms of future co-ordination and planning.

General freight customers would also stand to benefit from the potential development of larger scale freight handling and distribution networks that generate efficiency improvements – with the potential to share these facilities. In addition, there may be ways that non-agriculture freight services can be utilised to at least partly address some of the challenges of seasonality in many agricultural industries; e.g., potential shared use of rolling stock.

A more efficient approach to agricultural and general freight could also involve a greater proportion of freight that is:

- Transported by road from dispersed production locations to larger, centralised, regional storage and terminal facilities.
- Transported by rail from the regional terminal to ports, or to capital cities or to other major regional centres, depending on the requirements of customers.

All of this would necessarily involve an approach to freight infrastructure planning that allows improved coordination in the development of a freight network that can handle larger volumes, provide efficient storage if required, and in doing so deliver greater value to customers and the wider community.

Coordination would also need to extend to state and national infrastructure planning and to bulk and general freight requirements for agriculture and freight customers in other sectors.

Underutilisation of Rail

A strategic approach to planning of efficient freight infrastructure requires that the respective strengths and weaknesses of rail and road freight should be well understood, with a view to better utilising each form of transport. This will improve the way in which the two are linked, and combine to contribute to a more efficient transport network overall.

Rail freight potentially offers significant efficiency gains when it is used to deliver general containerised freight over longer distances. It is less suited to providing freight services over shorter distances and for transporting smaller quantities.

The freight industry relies on using many combinations of road and rail transport for meeting particular freight tasks.

Aurizon supports the following two policy objectives which are contained in *Moving Freight*:

- Expanding the use of rail so that rail provides an increased proportion of the overall freight task.
- Increasing road freight network access for higher productivity heavy vehicles. This is aimed at allowing freight operators to achieve efficiency and productivity improvements.
 - Aurizon submits that increased access could, however, only be provided where the infrastructure meets the standards required for heavy vehicles and the loads that they carry. It is also submitted that given the commercial benefits from using high productivity vehicles, an appropriate road freight charging regime would be required.

There is the potential, however, for these two policy objectives to work against each other, with the possibility that greater access for higher productivity vehicles could lead to road transport carrying an increased proportion of freight.

Although there has been some attention given to increasing the proportion of containerised freight carried by rail, there still exist some challenges within the freight industry in Queensland and on interstate corridors. Figures for the Brisbane-Sydney-Melbourne corridor show that less than 15 per cent of containerised freight is transported by rail; with most freight moved by road and a small proportion by sea freight⁶.

The absence of heavy vehicle charging that is directly linked to the reform of infrastructure provision for heavy vehicles is likely to favour road transport over rail. As Infrastructure Australia (IA) has noted, this is because of potential distortions in road transport infrastructure provision due to the infrastructure being supply driven, rather than demand driven.

IA has also noted that if there are distortions, the potential for them is greatest in “general freight markets with relatively long distance line hauls or high traffic densities”. Furthermore, these are on “highways and main roads which run parallel to rail lines, including to urban ports”⁷. Aurizon agrees with this analysis, and submits that the supply driven approach to road infrastructure provision does result in distortions on

⁶ *The True Value of Rail Report*, prepared for the Australasian Railway Association by Deloitte Access Economics, August 2011, p. 45

⁷ *National Land Freight Strategy Discussion Paper*, Infrastructure Australia, February 2011, p. 17.

long haul routes, and contributes to a high proportion of freight continuing to be transported by road on longer haul routes within Queensland, as well as interstate corridors.

Access to ports and alignment with long term port development

Ports serve a critical role in Queensland's supply chains. Continuing to improve access to key ports is an important challenge now, and must continue to be a priority in the future, with efficient rail lines, access roads, bulk terminals and intermodal terminals all critical to the efficient operation of ports.

The future development of ports, and coordinating this with the development of access to ports, is another area where effective planning, involving governments and industry, can help to ensure Queensland's export and import infrastructure contributes to the competitiveness of key industries.

Effective planning will need to take account of expansion of international trade and the requirements of Queensland's ports, and the challenges of also providing infrastructure for other uses, including community requirements. Infrastructure Australia has noted that long term plans for ports and port access are needed to create greater certainty "for ports, local communities and the supply chains that feed into and out of our ports"⁸. Aurizon supports this position and notes that effective planning can provide the basis for decisions to be made on the development of infrastructure that is critical to port access and for the timely implementation of those decisions.

Attracting and maintaining private sector investment

Improving the efficiency of the current freight network to meet growth in demand will require additional investment from both the private and public sectors. This investment will need to be commercially sustainable.

Additional investment is required to:

- Upgrade existing infrastructure.
- Develop new infrastructure where it is required to augment or expand existing infrastructure.
- Invest in the capacity, capability and flexibility of operations, e.g., the introduction of new technology.

As the *Moving Freight* strategy states, the current fiscal environment for governments is constrained⁹. A constrained fiscal environment is expected to continue for a number of years at both the State and Federal level.

There are also constraints on the availability of investment capital in the private sector, as has been outlined earlier in this submission. However, as also noted previously, overseas pension funds and sovereign wealth funds are now increasing investment in existing infrastructure.

It is for these reasons that Aurizon has concluded that the current environment for investment in infrastructure is in a critical period of transition, and new approaches to funding will need to be considered.

Aurizon submits that Governments and industry should consider different ways of financing and funding freight and logistics and broader transport infrastructure, including:

⁸ *National Infrastructure Plan Report to the Council of Australian Governments*, Infrastructure Australia, June 2013, p. 50

⁹ *Moving Freight. A strategy for more efficient freight movement*, Department of Transport and Main Roads, December 2013, p. 26

- Opening up new opportunities for private sector investment in transport and freight and logistics infrastructure through sales of Government assets or long term leases.
- Capital recycling by government following sales (in the future) of existing assets/leases, with the funds being fully invested in the same broad asset class. (E.g. the sale of long term lease of Port Botany and Port Kembla by the New South Wales Government. The net proceeds of these long term leases, together with other asset sales, have been provided to the NSW Government's infrastructure fund, Restart NSW, which will in turn provide finance to transport and other infrastructure priorities in the state, with 30 per cent of the Restart NSW funds being directed to infrastructure in regional areas.)
- The Government funding construction of new infrastructure (e.g., toll roads) and holding ownership until the revenue generated delivers a commercially viable business. At the point in time where the asset was commercially viable, the Government would then sell the asset and reinvest the proceeds in new infrastructure on a similar basis. This would involve a "rolling" capital recycling program that recognises the need for Government funding of new infrastructure in the early years of infrastructure operations, when usage, and therefore, the revenue generated may be insufficient to deliver a commercial rate of return. I.e., the Government taking, in the case of toll roads, patronage and traffic risk in the early years of the project.
- Governments issuing long-dated (20 to 25 year) debt securities linked to specific new infrastructure projects, with the securities being sold into Self Managed Retirement Funds, as well as other superannuation funds.
- Increased use of user charges with requisite arrangements for users to have greater influence over infrastructure investment, including heavy vehicle charging for heavy and higher productivity vehicles on national highways.
- Use of public private partnerships (PPPs), structured to overcome specific challenges relating to PPPs (outlined below), to finance future infrastructure requirements.

Public Private Partnerships

In the current environment, particular attention could be given to the use and role of public private partnerships (PPPs).

PPPs have, over recent decades, played a substantial part in infrastructure development. However, there have been financial failures in the recent past which have raised questions about the appropriateness of the prevailing model for PPPs, and highlighted the need to develop different PPP models in response to lessons learned.

In addition, since the GFC, debt and equity investors are far less willing to take on the risk involved with greenfields and other infrastructure projects. As a consequence, the cost of private sector finance has risen. This has, for example, meant:

- The evaporation of funds from traditional sources (banks and governments) for financing major projects.
- A more rigorous and project-specific analysis of risks has been adopted, including specific allowance for maintenance costs. This has meant that whereas an enterprise-wide approach may have been previously adopted, there are now requirements for detailed quantitative and qualitative analysis, as well as scenario stress testing to evaluate the true risk-adjusted returns from competing investment options.

As a result, there is now a need to find more effective ways of utilising PPPs and addressing the fundamental concerns of investors.

A key issue here for investors has been user-pays pricing arrangements. User-pay pricing mechanisms are effective insofar as commercial returns and the economic management of resources are concerned, but they can expose the private sector to demand risk. This risk, depending on the nature of the project and the economic outlook, may be too significant for investors to be willing to accept, either fully or in part.

As a result, other countries, including the United Kingdom, have given consideration to availability payments - which are paid for performance in relation to the development and provision of infrastructure, irrespective of demand. These payments have been used as a way to mitigate demand risk for private sector investors. The possible use of availability payments, however, has potential implications for governments in terms of bearing a larger share of the demand risk versus the position of private sector investors and operators, and in determining the appropriate pricing for this re-allocation of risk.

The limited ability to vary PPPs is also an important issue. Taking account of the inherently long-term nature of infrastructure projects, breaking contractual commitments can be extremely expensive, thereby elevating risk concerns and causing potential participants to reconsider their willingness to be involved.

This may also have the effect of stifling innovation where the financial consequences of failure outweigh the benefits of developing and trying new approaches.

Appropriately structured variation mechanisms (with complementary dispute resolution/avoidance functions) could potentially provide participants with the flexibility they need to alleviate their risk management concerns. Greater flexibility may be an issue, however, that is best addressed in the negotiations over agreements relating to specific projects, rather than through a particular approach being specified using policy settings.

A number of other specific issues that have impeded the effectiveness of PPPs have also been identified by separate policy reviews undertaken by the Government of the United Kingdom¹⁰, and by the Victorian Government¹¹. Both reviews took place within the last 12 months.

Issues identified by these reviews include:

- Whether the cost of project bidding and the arrangements for bids were deterring some potential investors.
- Some PPP arrangements were not suitable for smaller projects such as upgrades to existing infrastructure.
- The need for value for money assessments to be applied to help guide negotiation and decision making, but to also be balanced against longer term benefits from the development of infrastructure.

PPPs have the potential to play a critical role in future infrastructure development in Queensland. However, it is submitted that there is a need for a reconsideration of how PPPs should be utilised as part of a broader approach to future infrastructure investment.

Given that Queensland faces an investment environment that is in transition, it may be prudent to keep all payment models on the table before exploring which model, or combination of models, is best suited to particular projects in the future.

¹⁰ *A New Approach to Public Private Partnerships*, Her Majesty's Treasury, United Kingdom, December 2012

¹¹ *Partnerships Victoria Requirements*, Victorian Department of Treasury and Finance, May 2013.

The importance of effective policy settings to underpin finance and funding

Developing new approaches to the financing and funding of infrastructure that will prove to be effective in strengthening the competitiveness of Queensland's most important industries will require well considered policy settings in place that provide for infrastructure requirements in:

- The immediate future, 3 to 5 years.
- The medium term, 5 to 15 years.
- The longer term - which can be up to 30 years or more, recognising the relatively long planning and operational life of many infrastructure assets.

The issues identified in this section highlight the importance of policy settings that give a high priority to creating a business environment that enables market-based approaches and innovation, and which provides clarity and confidence to investors and shareholders that they have the opportunity to earn an appropriate commercial rate of return.

Policy and regulatory barriers to an integrated freight network and to improved productivity

A focus on building a more efficient network also requires careful consideration of barriers to network development and efficiency on the existing freight network.

The Government identified in the *Moving Freight* strategy the importance of properly addressing the state's "ageing road and rail infrastructure and its increasing maintenance demands" as an important challenge¹².

The capacity limitations of existing infrastructure are particularly important because if they are not addressed, they can inhibit efficiency improvements in the overall supply chain.

A significant barrier to addressing aging infrastructure - and to the consequential development of an integrated, more efficient freight network - is:

- Current heavy vehicle infrastructure investment and charging arrangements result in road infrastructure investment not always being directed to where it is required; e.g. to address first and last mile access restrictions.
 - Current road access and usage charges for heavy vehicles are not directly linked to the cost of the infrastructure provision and access on specific roads. Furthermore, revenue from heavy vehicle charging does not go to road infrastructure owners, i.e. Queensland's road infrastructure agency. This prevents the infrastructure owner from responding to signals from heavy vehicle users.

Another potential barrier to developing an integrated network is:

- The failure to maximise the efficient utilisation of intermodal terminals, particularly in regional Queensland. Intermodal terminals have a key role in the integration of the supply chain, allowing freight to be transported efficiently to meet the differing requirements of customers.

In addition to allowing integration, intermodal terminals provide value add services, which include:

¹² *Moving Freight A strategy for more efficient freight movement*, Department of Transport and Main Roads, December 2013, p. 26.

- Logistics coordination points where loads can be combined, reconfigured or split into different parts.
- The warehousing and storage of freight.
- Facilitating customs and quarantine processing and clearance.

In providing these services, intermodal terminals help to prevent bottlenecks at ports or on major transport corridors, thus increasing efficiency and productivity.

Terminals also allow freight and logistics businesses to develop more efficient combinations of freight transport. This can include, for example, using road services for a short distance to and from a terminal, and rail for a longer distance to and from a port.

Efficient intermodal terminals will be a vital component of what is required to carry more freight on rail.

The location, capacity and arrangements for access and use of intermodal terminals, both currently and in the future, are all important considerations for the efficiency of freight networks.

More efficient intermodal operations could also generate positive benefits for transport networks in the wider region, allowing these networks to share in potential efficiency gains.

There are other significant barriers to lifting productivity that represent an important challenge for industry and Government including:

- Bottlenecks on specific infrastructure corridors.
 - Rail freight bottlenecks; e.g., sections of the North Coast line and the South West line.
- Access restrictions for rail freight services operating on metropolitan lines within Brisbane, in recognition of the community priority for passenger services at peak periods during the day. It is noted that where there is a shared metropolitan network for passenger and freight rail services, it will be important that the competing passenger and freight priorities are actively managed to prevent access restrictions impeding further growth in the utilisation of rail freight.
- The capacity of current infrastructure prevents productivity improvements.
 - An example of restricted capacity is the limit placed on the length of freight trains that can operate on the North Coast and other lines. The use of longer trains can assist in increasing freight volume outcomes from the existing number of freight train paths.
- Inefficiencies due to outdated technology. An example of outdated technology involves the need to update signalling systems on key rail lines.
- Congestion, particularly on roads in South East Queensland.

In relation to Queensland's rail infrastructure, a number of the barriers to improving productivity reflect an immediate need for infrastructure managed and operated by Queensland Government organisations to be upgraded. By way of example, as has already been mentioned ageing rail infrastructure was identified as an important challenge in the Government's *Moving Freight* strategy¹³. Aurizon welcomes the steps the Government is already taking to address this issue, with decisions to lower 11 tunnels on the South West Line through the Toowoomba Range and Lockyer Valley, which was announced in

¹³ *Moving Freight. A strategy for more efficient freight movement*, Department of Transport and Main Roads, June 2013, p. 27.

August 2013. This followed the decision to construct two more passing loops in the same section of the line.

A further issue of concern is that there has, in the past, been insufficient attention and resources committed to the maintenance of infrastructure, which has contributed to some of the capacity limitations, and the need for upgrades. This was one of the findings of the Queensland Commission of Audit, which stated that:

“The approach to asset management needs to be improved. There has been an over-emphasis on investment in new capital, to the neglect of maintenance and other whole-of-life costs. This has resulted in significant maintenance backlogs across key departments, especially Health, Education, and Transport and Main Roads¹⁴.”

Unless barriers that restrict productivity on the freight network are addressed through policy measures and other actions, the ability of the freight industry to meet future growth in demand will be restricted. Furthermore, the cost of inefficient infrastructure access and operations will be borne by industry and by freight customers, to the detriment of the competitiveness of Queensland business and overall community welfare.

Recommended policy priorities

In developing a strategy to respond to the major challenges outlined in this submission and improve the productivity and competitiveness of Queensland's freight network, it will be important that the Government and industry work together to identify and coordinate policy priorities. It will also be important that there is up-to-date industry input in the preparation of an over-arching infrastructure development plan.

Critically, whether such a plan proves to be effective will depend on its implementation.

A long term plan for the freight network

Addressing the opportunities and challenges for Queensland's freight network requires a focus on industries that have the potential for growth, but which face obstacles to the development of an efficient supply chain that will support domestic and international competitiveness.

As outlined above, the geography and dispersed location of many producers and suppliers in the agriculture sector, and in industries that rely on general freight, represent a particular challenge for Queensland. In developing an efficient freight network, there is also a need to consider the changing circumstances for government and the private sector in the area of infrastructure funding and the need for a strong focus on the opportunity for earning commercial returns from infrastructure investment.

A key priority for the freight industry should be the development of a longer term freight network infrastructure plan for Queensland, taking account of:

- Infrastructure requirements over the short term; i.e. up to 5 years from now.
- The medium term; i.e. 5 to 15 years
- Over the longer term, i.e. from 15 years to 30 years and beyond.

A long term plan for the state, which is consistent with national long term freight infrastructure planning, is important because it:

¹⁴ *Queensland Commission of Audit, Final Report, Volume 1, February 2013, page 1-18.*

- Provides guidance and confidence to industry in relation to current and potential future private sector investment.
- Increases the prospect that efficiencies will be realised, provided that planning is based on rigorous assessments of different options to ensure that they are commercially sustainable.
 - There should be a focus on driving efficiencies by utilising rail and road freight in ways that reflect the strengths of each of these forms of transport. I.e., rail is more efficient when used over longer distances with large loads, while road is more efficient for shorter and medium distances with varying load sizes, including small loads.
 - A larger scale hub and spoke model for agriculture and general freight offers a way to capture efficiencies from an effective strategic plan.
- Ensures that immediate and short term infrastructure activities are consistent with medium and longer term requirements.
- Reduces economic costs by ensuring future transport corridors and terminal sites are preserved, and other preparations are made that avoid expensive property acquisitions and delays when the infrastructure is due to be developed.

It is submitted that the development of a freight network infrastructure plan for Queensland should:

- Involve industry participants in its development, including infrastructure owners and operators as well as freight customers.
- Include the identification of high priority fit for purpose infrastructure projects, based on assessment criteria agreed with industry. This process should include potential projects to upgrade existing infrastructure or parts of that infrastructure.
- Take a strategic approach to the development of the most important transport corridors including:
 - Key freight network corridors within Queensland, focusing in particular on export supply chains. This should include addressing capacity constraints on existing corridors, and giving consideration to issues that can impact on productivity, including, for example, flood proofing of major rail lines;
 - This should include collaboration with the New South Wales and Victorian Governments and the Federal Government on the utilisation of the current rail and road corridors between Brisbane, Sydney and Melbourne. When comparing the utilisation of the current coastal rail line between Brisbane, Sydney and Melbourne with other rail lines of comparable length, it is underutilised, with a relatively large proportion of freight being carried by road. This, in part, reflects current heavy vehicle charging and infrastructure investment arrangements that contribute to rail being underutilised; and
 - Over the short and medium term there should also be coordinated work on the potential development of an Inland Rail line between Brisbane and Melbourne, including an assessment of the project by Infrastructure Australia, and the identification and preservation of preferred corridors, where these are yet to be identified.
- Give a high priority to effective planning for port access that is aligned to expansion requirements for Queensland's ports, and to commensurate short, medium and longer term port development planning.
 - Port access planning needs to consider the development of key rail, road and terminal infrastructure that is linked to ports.

- Take a strategic approach to the future arrangements for larger scale intermodal terminals as vital supply chain hubs.
 - This should involve coordination between the Government and industry in identifying locations for centralised larger scale terminals, and preserving land and access corridors.

Aurizon anticipates that the statements of intent of Queensland Government owned corporations or statutory authorities in the transport sector would be considered as part of the development of the freight strategy. We also anticipate that, as far as is possible, each organisation would ensure that future statements of intent were aligned with the freight strategy and, in particular, the freight network plan.

Development of the agriculture supply chain

There is an opportunity for the agricultural sector to work with the freight and logistics industry and with the Government to develop freight solutions which can efficiently meet the particular requirements of agricultural producers. This could involve an approach that aims to:

- Develop a clear approach to how Queensland will approach supply chain development in agriculture and other secondary bulk freight markets, which Aurizon recommends should include the following components.
 - Prioritise supply chain development for particular markets. For example, whether there should be an initial focus on supply chains for grain given the significant value of grain production to the state. Equally, whether there should also be an initial focus on livestock transport given the value of livestock and meat production to Queensland.
 - Infrastructure requirements should be consistent with industry priorities and planning such as, for example, *Queensland's Agriculture Strategy*.
 - Extend existing networks to open up new access opportunities and lift capacity.
 - Identify and recommend infrastructure where there is a commercial case for undertaking the necessary investment.
 - In cases where there is not a commercial case for undertaking the relevant freight transport activity or investment, Aurizon recognises that the Government may decide there is a community need for that activity or investment. In such cases, the Government's decision should be transparent, the relevant activities should be fully contestable and the involvement of the private sector should be based on the ability to earn an appropriate commercial rate of return.

The development of an effective freight infrastructure plan for Queensland should also:

- Set out a process for the assessment of potential projects, with the process to be coordinated with assessments made by Infrastructure Australia.
- Clearly identify priority projects, including upgrade projects for existing infrastructure, ensuring that there is consistency with projects identified by Infrastructure Australia.
 - Priority projects should be those that will contribute to the improved productivity and competitiveness of one or more major industries over the medium and long term, and be commercially sustainable.
- Be consistent with the strategic plans and anticipated requirements of key industries.

- Publish and regularly update the long term infrastructure plan, with the full details of the analysis and costings to be included.
- Recognise the need for Government to give a high priority to reserving corridors and sites for future infrastructure development, and the corresponding requirement for funds to be available for this purpose.

Policies that enable market-based solutions

Aurizon shares the assessment of the Queensland Government that the potential for expansion of the state's agricultural industries represents a major opportunity which, if captured, would secure widely shared benefits.

Realising these outcomes, however, is dependent on policy settings coordinated with industry, the future business environment for freight and logistics, especially in agriculture and general freight, and the availability of capital for infrastructure investments.

Effective engagement by industry, including freight customers, on the development of policies by government to enable more efficient supply chains will therefore be critical.

As a result, Aurizon supports a mechanism for coordinating policy development and implementation, taking into account the respective strengths and the weaknesses and costs of both rail and road, and aligning policy settings so that both are utilised efficiently with market-based arrangements for charging and investment.

Significant efficiency benefits can be realised from improving policy coordination between industry and government in relation to specific barriers or capacity constraints on the freight network. Coordination should involve the sharing of information about freight priorities and assessments of options for policy settings.

It is submitted that if Queensland is to develop a more efficient freight and logistics network, coordination between the Government and industry should focus on:

- Identifying the most important barriers to lifting productivity, and prioritising infrastructure upgrades to address the most significant barriers identified.
 - Upgrades should be focused on reducing access restrictions for freight operations and easing infrastructure constraints and bottlenecks across all freight transport modes.
 - By way of example, infrastructure constraints restrict the length of freight trains using the North Coast Line. A recent discussion paper released by the Organisation for Economic Cooperation and Development (OECD) contained analysis that found restrictions on freight train length have a major impact on efficiency¹⁵.

An example of where there has been effective coordination is on the South West Line where rail services can only carry 8' 6" freight containers, due to the height of tunnels on the line, when the international shipping standard is 9' 6" containers. Queensland Rail will be undertaking work to lower the level of rail tracks in the tunnels that will allow the transportation through the tunnels of standard 9' 6" containers.

This will make an important contribution to lifting productivity and competitiveness of the agricultural producers who use these containers to export their produce.

¹⁵ *Railway Efficiency*, A discussion paper from the International Transport Forum (Organisation for Economic Cooperation and Development), May 2013

Effective Government and industry coordination provides a basis for the Government to make well informed policy decisions, and for ongoing monitoring of the implementation of decisions.

Policy responses developed by the Government should also be aimed at allowing freight businesses to use innovation, flexibility and market-based responses to overcome barriers to improved integration and efficiency.

Market-based responses are more likely to result in sustained productivity improvements. This is because productivity improvements generate efficiencies that benefit customers and enable businesses to grow, and therefore businesses have an incentive to maintain them.

In addition, Aurizon supports a regulatory approach that provides for transparency and contestability in relation to infrastructure development, and for freight services directly or indirectly funded by the Government.

Consistent with this general principle, the regulation of freight and logistics should be based on an approach that produces market-based responses, greater flexibility and innovation. Regulation should also recognise the imperative of private sector infrastructure owners and providers to earn an appropriate commercial rate of return.

In relation to intermodal terminals, we support multi-user and open access arrangements for terminals. This is because multi-user terminals allow competing freight businesses to drive efficiency gains from using different combinations of transport, storage and distribution.

Regulatory arrangements for intermodal terminals should be consistent with medium to longer term planning objectives in which larger scale, centralised terminals would operate to enable more efficient hub and spoke freight networks for agriculture and general freight. Policy settings should also provide the best business environment for asset owners and operators to, wherever necessary, rationalise terminals that are not fully utilised or which have capacity restrictions.

Heavy vehicle charging and investment reform

As outlined earlier in this submission, there is a need for heavy vehicle infrastructure investment to be directed to where it is most needed to improve the efficiency of heavy vehicle road infrastructure and the wider freight network.

In order to achieve this objective, Aurizon recommends that the reform of heavy vehicle infrastructure investment and charging should be a high priority.

The reforms should provide for:

- New, more accountable arrangements for road infrastructure planning and spending.
- Direct charging of heavy vehicles above 4.5 tonnes for road access and use based on the distance travelled, the mass of the vehicle and the location of the road or roads used. The pricing for the access and use of applicable roads should be determined using a building block regulatory model.
- Direct charging of heavy vehicles should only be introduced on national highways and major arterial roads owned by State Governments, and should be introduced at the same time as infrastructure investment reform.
- The establishment of commercially based provider-customer relationships between road agencies and heavy vehicle users for the first time. This is the best way to achieve improved infrastructure provision which, in turn, would enable heavy vehicle operators to achieve

productivity improvements directly related to the infrastructure improvements for which they are being charged.

- Direct charging to be regulated by state economic regulators such as the Queensland Competition Authority.
- Revenue from the introduction of direct heavy vehicle charging to be fully hypothecated to state road agencies in return for providing specific access and infrastructure service standards. Road agencies should be accountable for making sure these access and infrastructure service standards are fully provided.
- Direct charges to be a source of user pays revenue that better enables the state government to meet specific infrastructure upgrades for heavy vehicles, as outlined in relation to public private partnerships.

In light of the benefits, including much needed investment being directly provided for road freight infrastructure in response to signals from heavy vehicle users, options for accelerating the adoption and implementation of these reforms should be explored as a priority.

These reforms also offer a way to address increased access for higher productivity vehicles. They provide a mechanism through which targeted investments can be made based on the willingness of heavy vehicle users to pay for specific upgrades that improve heavy vehicle access.

Promoting private sector investment in infrastructure

The Queensland Commission of Audit highlighted some of the key advantages of private sector ownership and management of infrastructure and other assets compared to the public sector. The advantages include:

“Private sector operators can move faster and with more agility to deal with emerging risks and exploit opportunities.”¹⁶

Given the current, and continuing, restrictions on Government to finance freight and other essential infrastructure, investment by the private sector is now even more crucial in order to:

- Upgrade existing infrastructure.
- Develop new infrastructure where this is required and can be commercially justified.
- Develop and deliver public private partnership projects (as outlined below).
- Introduce new technology and innovation.

Although the GFC has led to constraints on much of the private sector, there has been increased investment in existing infrastructure in recent times from overseas pension funds. There has also been increased interest from sovereign wealth funds. These developments, together with the importance of continuing to attract private sector investment, should inform and shape the objectives and the development of policy settings.

Consistent with the Commission of Audit’s findings, Aurizon recommends that one of the aims of the Government’s broader freight and logistics policy settings should be to create the best possible business environment for attracting and maintaining greater private sector investment.

¹⁶ *Queensland Commission of Audit*, Final Report, February 2013, page 1-7.

The most important policies to support this aim include the considered development of a short, medium and long term infrastructure plan coordinated with industry. They also include approaches to regulation that promote, to the greatest extent possible, market-based solutions to ensure that the resultant infrastructure investment is commercially sustainable based on commercial rates of return.

Many infrastructure investment decisions involve long term considerations and commitments, and can be impacted by future infrastructure investment decisions by both government and the private sector.

Therefore, long term planning by policymakers can, provided the planning is rigorous and involves coordination with industry, create a better investment environment for investors when making such long term decisions.

Aurizon also recommends that:

- Greater recognition should be given to the important role of unsolicited project proposals, and to ensuring that there is a clear and well understood process for the submission and consideration of these proposals.
- The potential for opening new opportunities for the private sector to invest in freight infrastructure currently owned by the Government should be considered.
 - Opening up further opportunities for private sector investment could include the potential future sale or leasing of infrastructure assets currently owned by the Government.

This priority reflects the requirement for additional investment in freight infrastructure and operations if the capacity of Queensland's freight system is to be increased and recognises the current restraints on Government infrastructure funding.

Recycling of infrastructure capital

In relation to funds received by the Government from the future leasing or asset sales to the private sector, Aurizon recommends that:

- All funds from any future sale or leasing of assets should be recycled into freight infrastructure in the same broad asset class.

This recommendation is based on an assessment that there will continue to be a requirement for government funding to invest in new infrastructure in accordance with a long term infrastructure plan. It is expected that such investments will be expected to be subject to greater discipline in terms of value for money.

Consideration could be given to using recycled capital for upgrading or improving the efficiency of existing infrastructure where, as the Government's *Moving Freight* document has stated, there are requirements for additional investment.

Funds that might be realised in the future from infrastructure assets could potentially be recycled into infrastructure developments that contribute to medium or long term improvements in freight efficiency but might not, at least in the early stages of utilisation, generate commercial rates of return. This reflects the potential for the Government to make a longer term assessment when it comes to the return on investment.

Aurizon views the recycling of capital as an important policy priority for the government given the requirement to increase the capacity of the freight network at a time of significant restraints on Budget funding.

Potential improvements to PPPs

There is also the potential for public private partnerships (PPPs) to have an increased role in facilitating investment in transport infrastructure, given the constraints on both government and the private sector that have been outlined.

A number of issues have been identified as potentially deterring many private sector investors from future involvement in PPPs, particularly given the long-term nature of projects and their exposure to policy cycles.

A number of these issues are concerned with the carrying and the pricing of risk, balanced against the need to earn a commercial rate of return. Addressing these issues may also have implications for Government's value for money objectives.

Aurizon submits that a reconsideration of how PPPs can be utilised could be undertaken as part of a broader approach to future infrastructure investment.

In view of the need for a range of different infrastructure financing and funding approaches, it may be worthwhile keeping a number of different models on the table before exploring which model, or combination of models, is best suited to particular projects in the future.

With a view to increasing the potential role and contribution of PPPs to infrastructure development in Queensland, Aurizon recommends that:

- The Government give a high priority to more effectively utilising PPPs for investment in freight infrastructure through improvements to PPP policy settings, and through the promotion of their use.
- Potential improvements to public private partnership (PPP) arrangements in Queensland should be identified, drawing on lessons learned in Queensland and the reforms introduced in other Australian states and in countries such as the United Kingdom.
- Potential improvements to PPP arrangements should take account of the possible implications for existing and potential new private sector investors in infrastructure in Queensland. In particular, consideration should be given to the possibility of improving PPPs by addressing the following issues:
 - Examining barriers for infrastructure PPPs in gaining access to long term debt finance.
 - Arrangements under which the Government could be a significant minority equity holder, alongside one or more private sector investor, for the development of new infrastructure or the upgrading of existing infrastructure. This would also need to involve giving consideration how to prevent the Government crowding out of potential private sector investors.
 - Arrangements to increase competition during the bidding process for infrastructure projects. This should include consideration of options for reducing bid costs. Potential options could include improving the consistency of bid processes and documentation for projects of a similar scale, and a commitment to timely decision making, recognising that delays in decision making add to costs.
 - Arrangements for reducing PPP risks, including patronage and traffic risk, with these risks to be addressed during the bid process though independent assessments of patronage forecasts.

- Consideration could also be given to the use of availability payments to be paid for performance in relation to the development and provision of infrastructure, irrespective of demand. Availability payments are an option for mitigating demand risk during part or all of the life of the infrastructure asset. However, the potential for availability payments to then create potential Budget risks for government would need to be considered.
- Potential arrangements for increasing the flexibility of PPPs, through variation mechanisms, particularly for medium and longer term projects. The potential benefits and costs of variation mechanisms would need to be considered.
- Introducing a streamlined PPP process that can be used for smaller projects, including infrastructure upgrades.
- Continuing to update assessment arrangements to ensure that PPP proposals are assessed in a way that balances value for money for the Government and for the community, against the longer term outcomes and benefits that the infrastructure will provide. This would involve considered use of Public Sector Comparator assessments, allowing a reference comparison of the risk allocations for a project with those that would be made for a project using the most efficient form of government delivery¹⁷.
- Provide greater transparency, including an annual report on all PPPs which provides details about the equity arrangements for projects and up to date information in relation to project risk.

Aurizon anticipates that PPPs could form an important component of future freight infrastructure investment and development projects in Queensland, including the upgrading of existing infrastructure.

Safety performance

The commitment of Aurizon to high safety standards has been noted above.

In relation to safety, an enterprise culture that promotes a safe working environment will, in important ways, contribute to greater efficiency and productivity. Primarily, this is because people will work more efficiently and effectively in a safe working environment, with less time lost due to injuries and the need to address safety concerns.

In relation to policy settings, it is vital that freight and logistics policies and regulation are consistent with, and promote continuing improvements in, safety by all businesses in the freight and logistics sector.

Next steps: Implementation of a freight strategy for Queensland

Realising the potential future benefits of a freight strategy for Queensland will require effective implementation of the priorities identified.

In addition to the proposal for improved coordination between Government and industry to address freight industry barriers outlined above, Aurizon also recommends a more formal coordination mechanism with a specific focus on the implementation of the freight strategy for Queensland.

In view of the importance of the freight strategy and its implementation, Aurizon recommends that:

- An industry advisory body, reporting to the Minister for Transport, should be formed to:

¹⁷ *National Public Private Partnership Guidelines: Volume 4 Public Sector Comparator Guidance*, Infrastructure Australia, December 2008, p. 7.

- Ensure there is ongoing current advice about the market opportunities for Queensland's industries and supply chain requirements.
- Provide advice on the implementation of the freight strategy.
- Provide advice on areas where the strategy might need to be updated.
- Provide advice on the alignment of the strategy to national priorities and the National Land Freight Strategy.
- The advice should address priorities and actions for the short term (2 to 5 years), the medium term (5 to 15 years) and the long term (up to 30 years and beyond) to ensure consistency.

Aurizon also recommends that the industry advisory body:

- Provide advice on the assessment criteria for identifying priority infrastructure projects.
- Provide advice on coordinated implementation plans and timetables.
- Monitor and providing feedback on the implementation of actions and whether plans need to be adjusted or additional actions need to be taken.
- Providing advice on updating the strategy to incorporate responses to new developments.
- Provide advice on potential initiatives to improve the efficiency of existing Government owned infrastructure.

Further, an industry advisory body could oversee specific working groups that focus on key issues, such as:

- The priorities for agriculture; e.g. the potential need for a specific grain freight strategy and a specific livestock freight strategy; and
- Potential opportunities for utilising freight infrastructure and operations in ways that complement the requirements of the agriculture and general freight sectors.

It would be important to ensure that an advisory body only acts in an advisory capacity, and there is a clear recognition that the focus should be on policy priorities to create the best possible environment in which business can pursue commercial outcomes.

The industry advisory body should operate in an accountable and transparent way by producing an annual report to be tabled in Parliament by the Transport Minister within a specified timeframe.

The Government should also provide a timely response to the annual reports of the advisory body, with this response to be tabled in Parliament by the Transport Minister.

The approach to implementation should also be consistent with the National Land Freight Strategy.

Conclusion

Greater efficiencies in the freight and logistics industry will generate improved value for the industries that rely on freight transport, assisting those industries to develop and grow.

This will result in improved competitiveness for Queensland businesses, both in Australia and in vital export markets. A more efficient and productive freight and logistics sector will therefore boost economic activity and improve overall community welfare.

Driving these efficiencies will require further investment from the private sector and from government in upgrading and further developing a more integrated freight network.

Government finance for infrastructure, however, is constrained as the Queensland Government and other governments seek to repair their Budgets, including through reducing debt.

Access to private sector investment has also been made more difficult following the GFC. This has been accentuated by lower global commodity prices.

There has been, however, increased investment in existing infrastructure in recent times from overseas pension funds and sovereign wealth funds.

The combination of these developments means that finance for infrastructure investment is now at a critical transition point. This makes the development of a Queensland Government freight strategy particularly timely.

In this period of transition for infrastructure investment, effective policy settings will be essential to attract the increased investment necessary for enabling the freight and logistics sector to pursue and capture efficiency gains that will benefit customers and the wider economy. This investment will be needed to meet the forecast increase in demand for freight, which is expected to be 76% higher in 2021 compared to 2010.

It will be important that there is a focus on ensuring that demand by exporters is not only met, but that the freight industry contributes to the future competitiveness of Queensland's vital export industries.

Queensland's agriculture sector has the potential to produce much larger quantities of high quality, clean food and fibre, and to be part of a 21st century food bowl that will be needed to meet demand from a growing middle class in Asia and India.

The agricultural sector will, however, require greater investment in supply chains, including storage systems, to ensure there is capacity and efficiency to underpin both future expansion and international competitiveness.

Similarly there continue to be opportunities to grow Queensland's resources exports. At the same time, there is strong growth forecast for general freight.

In order to efficiently meet this increased demand, an important objective will be to expand the use of rail and to increase the overall proportion of the freight task carried on rail as a key component of an integrated freight network that utilises the respective strengths of rail, road ports and airports.

More broadly, Aurizon recommends that the focus should be on what infrastructure will be fit for the state's current and future purposes, and investing where the maximum benefits will accrue to relevant businesses and the wider community.

The potential for developing larger scale hub and spoke arrangements, based on a strategic approach to using intermodal terminals, should be carefully considered.

Sustained efficiency gains, whether through larger scale hub and spoke arrangements or other approaches, will be the result of innovation and competitive initiatives on the part of freight and logistics businesses.

Market-based solutions developed by freight businesses will generate benefits for freight customers, as well as the state and national economies.

The ability to earn commercial returns will be critical to further investment in freight infrastructure and operations, and in order to initiate the next generation of efficiencies.

The key to realising these outcomes will be providing the best environment for improving the competitiveness of Queensland's freight and logistics industry, as well as promoting investment. This will require clear policy settings that involve effective coordination between the freight industry, freight industry customers and the Government, as well as recognition of the need for investors (current and future) to earn an appropriate commercial rate of return.

Effective implementation of policy priorities and actions will be equally important.

In recognition of the critical need for effective implementation, Aurizon recommends that an Industry Advisory Body, reporting to the Minister for Transport, should be formed. This body would provide advice on current and future market opportunities for Queensland's industries, and on the freight transport policy settings required to turn the opportunities into additional exports and new domestic markets.

Specifically, policy settings should be based on the development of an over-arching freight transport infrastructure plan that comprises:

- Infrastructure requirements over the short term (up to 5 years)
- Infrastructure development requirements over the medium term (5 to 15 years)
- Infrastructure planning and requirements over the long term (15 to 30 years and beyond).

The advisory body should also provide advice on the implementation of the freight strategy and infrastructure development plan and on potential areas where the strategy and plan might need to be updated.

It will also be important that policy settings for freight are consistent with continuing improvements in the safety performance of the freight industry.

Aurizon believes this strategy and appropriate implementation arrangements would contribute to the growth of the Queensland and national economies, with consequential increases in overall community welfare.

Aurizon would be pleased to significantly contribute, together with other industry and customer representatives, to the important, ongoing work of putting in place a commercially sustainable long term freight strategy for Queensland and participating in the proposed industry advisory body.

