Submission 14

AUSTRALASIAN RAILWAY ASSOCIATION

Association Number A03958 | ABN 64 217 302 489

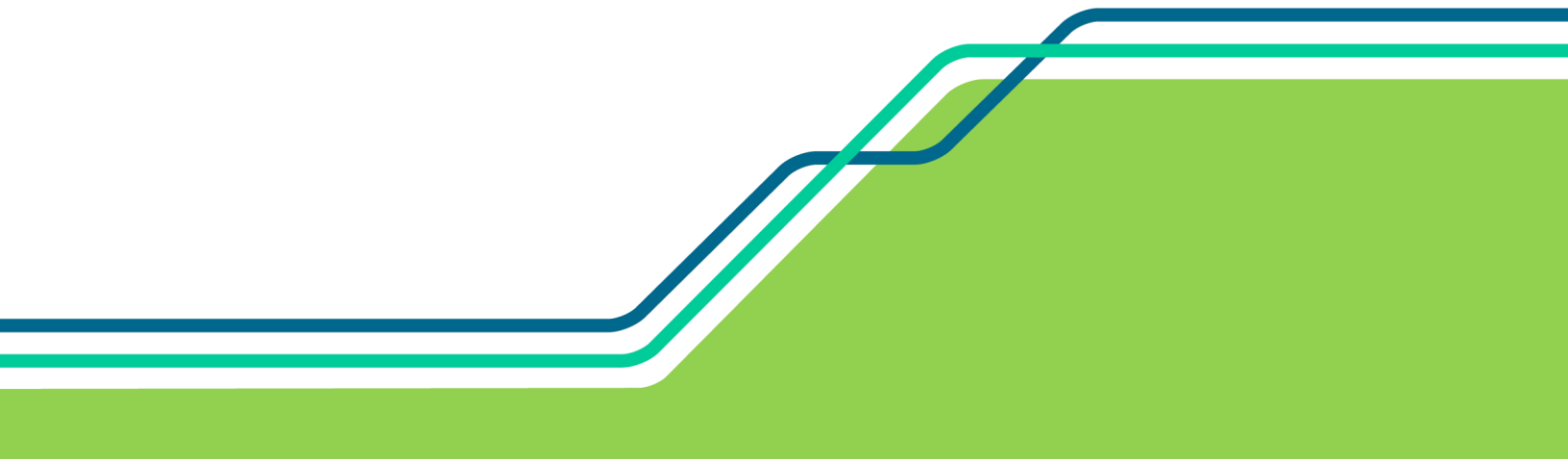
AUSTRALASIAN RAILWAY ASSOCIATION SUBMISSION

To

The Transport, Housing and Local Government Committee

On

Inquiry into rail freight use by the agriculture and livestock industries



THE ARA

The Australasian Railway Association (ARA) is a not-for-profit member-based association that represents rail throughout Australia, New Zealand and Indonesia. Our members include rail operators, track owners and managers, manufacturers, construction companies and other firms contributing to the rail sector. We contribute to the development of industry and government policies in an effort to ensure Australia's passenger and freight transport systems are well represented and will continue to provide improved services for Australia's growing population.

The ARA thanks the Transport, Housing and Local Government Committee for the opportunity to provide a submission to their inquiry. For further information regarding this submission, please contact Bart Mellish, Manager of Freight Policy for the ARA via [redacted] or [redacted]

SUMMARY

With rail being the most cost effective, safest and least emissions intensive way of moving agricultural freight over long distances, it has a big role to play in the future development of Queensland.

Is it noted that on 30 October 2013 the Legislative Assembly agreed to a motion that the Transport, Housing and Local Government Committee inquire and report on options to incentivise the agricultural and livestock industry to utilise rail.

That, in undertaking this inquiry, the committee should:

- Identify opportunities to enhance coordination and collaboration across government, transport industry and primary producers about rail freight;
- Provide future direction for enhancing the utilisation of the rail system for primary producers and their freight needs including the demand for freight, including future volume, nature, timing and frequency;
- Identify the characteristics of the future transport system for primary producer freight needs;
- Identify a broad range of options, including appropriate risk sharing amongst supply chain participants, for delivering freight solutions for primary producers;
- Optimise the capacity and performance of the rail system for freight;

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- Plan a rail system that is positioned to exploit future freight, particularly export, opportunities; and
- Develop sustainable long-term solutions for freight movement by rail for the agriculture and livestock industry.

Further, it was agreed that the committee consult with key industry groups including AgForce; Queensland Farmers Federation; Cane Growers Australia; Meat and Livestock Australia; GrainCorp; Cotton Australia; and rail managers and operators including Queensland Rail; Aurizon and Pacific National. The Committee is to report back to the House by Tuesday, 10 June 2014.

The ARA commends the committee for examining these issues and certainly welcomes the opportunity to examine ways of increasing the use of rail by the agriculture and livestock industries. With Agriculture making up 17 percent of all state export value and 3 percent of state export volumes, it is clearly an important sector of the Queensland economy.

With rail being the most efficient, safest and least emissions intensive way of getting product to port, maximising its use has obvious economic and social benefits. However, with rail currently only moving 50 percent of sugar, 40 percent of grain, 10 percent of cotton and next no livestock to port for export, it is certainly worth examining whether rail can play a greater role in the movement of freight in Queensland[1]

Whilst the demand for new rail infrastructure from the resources sector will depend on global developments, current planned expansion of new rail track in particular will have many lasting benefits for the productivity of the entire economy. New rail corridors with direct access to ports can often dramatically increase the viability of additional resource and agriculture areas, in areas that were previously not feasible as standalone projects.

[1] Moving Freight Strategy- Queensland Department of Transport and Main Roads, 2013 and QLD Port Trade Stastics 2012/13

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SUBMISSION

Seasonality

The structure of agricultural industries, with farming enterprises located across large regions makes it difficult to develop and maintain 'economies of scale' supply chains similar to those achieved in the transportation of mineral resource such as iron-ore and 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. One of 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.

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 key question for government, the agricultural sector and the freight transport sector - which requires 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. This would necessarily involve an approach to freight infrastructure planning that requires greater coordination of freight network developments.

Planning

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 large volumes of freight over longer distances. It is less suited to providing freight services over shorter distances and for transporting smaller quantities.

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

We support planning being undertaken by the Queensland Government, evidenced for example in the *Moving Freight* strategy released in 2013, to expand the use of rail so that it provides an increased proportion of the overall freight task. Effectively utilising the respective strengths of rail and road transport is vital for the Queensland Economy going forward.

Making Rail Competitive

With regards to establishing a conducive regulatory, taxation and other economic environment, addressing impediments to growth and setting conditions for private investment and innovation, there is a key transport industry reform being currently examined which has the potential to achieve much in these areas for Northern Australia.

In December 2013, the Council of Australian Governments (COAG) commissioned urgent work on infrastructure reform including bringing forward the examination of proposals for HVCI reform. The ARA welcomes this assessment and has the view that the current heavy vehicle charging system has numerous deficiencies which are impeding productivity within the freight and logistics sector.

Recommendations to reform heavy vehicle pricing and road infrastructure investment, consistent with the conclusions of the Productivity Commission, are currently being developed by the Heavy Vehicle Charging and Investment Reform Project Directorate. These recommendations are expected to be considered by Governments in the coming months.

The successful implementation of these reforms to national highways and state managed arterial roads only would allow for increased investment in both new road and rail infrastructure for Northern Australia, thereby strengthening supply chains and providing a strong foundation on which further economic development can be built.

Addressing the opportunities and challenges for northern Australia'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.

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Identifying infrastructure needed

Queensland has historically been a rich source of agricultural products and minerals for export, many of which are well suited to the natural strengths of rail- being the haulage of large volumes over long distances.

Enhancements of existing rail networks may take a number of forms including:

- Capacity upgrades eg additional crossing loops and/or crossing loop extensions and/or track upgrades for allowable axle load increases to allow the operation of additional and/or longer train services; and
- Track structure upgrades (rail, sleepers, ballast and formation) to allow the reliable operation of additional and/or longer train services with additional tonnes operating over the network.

As the development of Queensland freight infrastructure continues, there may be opportunity for Government to play a stronger role in facilitating economic development through strategic investments in enabling infrastructure, in total or in partnership with the private sector. This is due to the longer term perspective that can be taken by Government and the ability of Government to make investments for other than purely commercial reasons eg for regional economic development or nation building.

The ARA supports the Government's view expressed in the *Moving Freight* strategy that a single rail line crossing of the Great Dividing Range at Toowoomba is the biggest constraint to growth in freight flows to the Port of Brisbane. It is for this reason that the ARA is a strong supporter of the Inland Rail project which includes a tunnel through the Toowoomba range.

In addition to an expected reduction in Melbourne to Brisbane end-to-end travel time from over 27 hours down to around 20 hours, a completed Inland Rail would result in more efficient resources and agriculture supply chains through Southern and Western Queensland, creating economic opportunities over large areas of the state. Inland Rail is a capacity building project which is uniquely supported by all movers of freight- both road and rail- as a crucial economy boosting infrastructure investment.

There are numerous benefits that a completed Inland Rail would bring to Queensland, both directly and indirectly. Upgrading the track from Melbourne to Parkes has largely been completed and to finish the project an estimated $4.5 billion is required, with some $2.5b of those funds required for the tunnel section through the Toowoomba Range.

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Significant investment is required in the short to medium term if the project is to be completed within a reasonable time frame.

Whilst around 60 per cent of the potential 1,700 kilometre alignment already exists today, it is vital that all governments act now to protect the remaining sections of the preferred corridor and fast track construction of the project to ensure our nation's future economic growth. Inland Rail is too important to be delayed any further.

For Inland and other rail projects, corridor preservation and planning for future rail growth are crucially important if the private sector is to have the confidence to invest in projects that require the movement of freight.

A comparable project in Australia's recent history is the Adelaide to Darwin line, which commenced operations in early 2004. After ten years of operations, freight tonnages have exceeded conservative projections, generating significant new export opportunities along the route that were not envisaged before the project commenced, contributing additional economic benefits to the South Australian government in particular.

The project was delivered under a PPP model, where the Federal, South Australian and Northern Territory Governments contributed to the construction cost of the railway, to reflect the broader social and economic benefits delivered this type of infrastructure[2]

The success of the Adelaide to Darwin railway in inducing demand must be noted as bulk traffic has grown from 45,000 tonnes in 2006 to 3.3 million tonnes a year in 2011[3].

If a fully commercial focus was applied at the time that current rail systems were proposed, then at least parts of those lines may never have been built.

In terms of other key rail infrastructure projects in the pipeline for Queensland, the ARA also supports infrastructure upgrades to the North Coast Line, the Mount Isa Rail Corridor, and the progression of an additional Brisbane City rail crossing project in particular.

The well-developed forward capacity plans of both railway track owners and operators minimises the upfront cost of establishing new infrastructure. The inherent characteristics of rail allow it to quickly and efficiently add capacity to take into account emerging new demands. The

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[2] Australasian Railway Corporation- http://www.aarail.com.au/railway/the-project/australasia-railway-corporation/ & http://www.aarail.com.au/railway/the-project/

[3] http://www.aarail.com.au/railway/

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well-established process of recovering the cost of rail infrastructure through access charging allows for the reduction in upfront capital costs required.

Whilst High Productivity Vehicles will undoubtedly play a role in future freight growth, the ability of infrastructure upgrades to boost the productivity of rail cannot be overlooked. Through track load and rolling-stock upgrades for example, more freight can be moved on existing rail than would otherwise be the case. Similarly, intermodal terminals are being increasingly recognised as important investments to boost freight productivity and reduce costs.

Funding Infrastructure

PPPs have, over recent decades, played a substantial role in infrastructure development. However, there have been circumstances 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 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.

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.

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.

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Given that Australia 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.

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 agricultural freight 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, which is consistent with national long term freight infrastructure planning, is important because it provides guidance and confidence to industry in relation to current and potential future private sector investment.

A long term plan also ensures that immediate and short term infrastructure activities are consistent with medium and longer term requirements and can also reduce 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.

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CONCLUSION

Rail is a proven mode and has a track record in enabling the development of new minerals and agricultural opportunities in Australia with no or minimal Government funding support. Rail has been a proven freight solution in Queensland coal and mineral basins, the Hunter Valley, Pilbara and in the mid-west region of Western Australia, as well as for a range of agricultural products around Australia.

The development of efficient freight transport infrastructure 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 agriculture, both in domestic markets 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.

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 underpin the development of key 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.

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.

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