AUSTRALASIAN RAILWAY ASSOCIATION

ARA Submission

Productivity Commission Inquiry into Australia's Maritime Logistics System

25 February 2022

ABN 64 217 302 489

Introduction

The Australasian Railway Association (ARA) is the peak body for the rail sector in Australia and New Zealand, and advocates for more than 170 member organisations across the industry.

Our membership covers every aspect of the rail industry, including:

- The passenger and freight operators that keep essential rail services moving;
- The track owners, managers and contractors that deliver a safe and efficient rail infrastructure network; and
- The suppliers, manufacturers and consultants that drive innovation, productivity and efficiency in the rail industry.

Our members are driven to support vibrant, sustainable and connected communities through greater use of rail across Australia and New Zealand. We bring together industry and government to help achieve this ambition.

Our advocacy is informed by an extensive research program to ensure we offer solutions that are grounded in evidence and focused on delivering tangible value in our daily lives.

This submission is underpinned by findings from the ARA's 2020 Value of Rail Report, policy development arising from the ARA's Rail Freight Action Plan and a suite of research and strategies on skills and workforce development, sustainability and the rail supply chain.

Our significant program of work is focused on supporting a strong advocacy agenda, and creating opportunities for the rail industry to network, collaborate and share information, and maximise the benefits we have to offer the wider community.

We welcome this opportunity to provide input on behalf of our members to the Productivity Commission's (the Commission) Inquiry into Australia's Maritime Logistics System.

Any questions regarding this submission should be directed to Georgia Nicholls, General Manager – Rail Freight and Heavy Haul.

Background

Value of rail freight

The business case for investment in the growth and development of rail freight is clear – with clear advantages over our competitors in relation to resource efficiency and environmental impact, safety, reduction of congestion and pressure on road networks and contribution to regional communities. However, there remain some persistent challenges constraining the efficiency and competitiveness of freight rail in Australia.

Australia's freight task has grown to 759.6 billion net tonne kilometres (ntk) in 2019, an increase of 4.1 per cent since the previous Value of Rail report in 2017. Rail freight is the main contributor to this new growth, accounting for 56 per cent of the change over the period.

Rail freight is forecast to grow by 41 per cent between 2016 and 2030 and is expected to account for 72 per cent of the growth in all freight over that period, with bulk rail being the major driver.

Benefits of rail freight include:

- Lower carbon emissions - Rail freight produces 16 times less carbon pollution than road freight per tonne kilometre travelled, valued at 1c per tonne kilometre.

- Safety benefits from reduced road accident costs - Road accident costs are 20 times higher than rail for every tonne kilometre of freight moved. A single container of freight switched from road to rail, between Sydney and Melbourne, would reduce accident costs by around $109.
- Health benefits from reduced air pollution – Rail freight generates 92 per cent less PM10 than road freight for each tonne kilometre of freight moved, valued at 1c per tonne kilometre.

Moving more freight on rail delivers substantial benefits to the community, with one freight train taking 110 trucks off the road. Importantly, in a metropolitan context, one short haul port train can carry the equivalent payload of 41 B-Double trucks, freeing up city road networks to support commuter traffic. Rail freight also generates 16 times less carbon pollution compared to road, offering long term sustainability benefits for the cities and communities that achieve greater use of rail.

The ARA's Value of Rail Report 2020[1] found that for every 1 per cent of the national freight task that moves to rail, there are benefits to society of around $72 million a year.

[1] Value of Rail 2020, Deloitte Access Economics for ARA, November 2020

Port/rail challenges

The significant benefits of rail freight are widely acknowledged by state and federal agencies through articulated rail freight mode share targets, with a particular focus on volumes destined for ports, as well as in the National Rail Action Plan. Despite these commitments from governments and major investments in the national network, rail freight mode share to major ports in Australia has reduced in both real and percentage terms across the past decade. For example, a recent container logistics supply chain study by the Port of Melbourne, in partnership with the Victorian Government, shows a steady backwards slide for rail freight mode share headed to our country's biggest international container port from 14 per cent in 2019 to 8.2 per cent in 2020.[2]

The ACCC's latest 2020-21 container stevedoring monitoring report identifies that port efficiency, as determined by both hard infrastructure and operations, is a key determinant of the rail freight mode share of goods bound for export and import via Australian ports.

Australian stevedores have, and continue to, invest billions of dollars in infrastructure and more efficient equipment at Australian container terminals. For example, NSW Ports and Patrick have recently invested $190m in the SABRE project to automate rail sidings at Port Botany and increase Patrick's rail capacity to 1 million TEU per annum. However, despite these investments results show productivity has stagnated.

Beyond the industrial settings which drive stevedoring performance as highlighted in the ACCC's report, the ACCC findings highlight the urgent need to take a more strategic look at unclogging our ports.

More thoughtful and strategic management of containerised port rail freight can be part of the solution, which this submission seeks to illustrate.

Despite the clear benefits of rail freight, particularly in servicing Australian ports, the task of increasing the use of rail has been met with persistent challenges. For most capital cities, a failure to meet this challenge could have significant implications for the transport network as these cities grow and competing demands on the road network increase.

The ARA echoes the concerns expressed in the recent NSW Auditor-General's 'Rail Freight and Greater Sydney'[3] published in late 2021 that NSW will struggle to meet increasing demand for freight movements unless rail plays a larger role in the movement of freight and that despite numerous state strategies to achieve greater rail mode share, the implementation of these has been unsuccessful in achieving their strategic objectives. Specifically, Port Botany rail mode share has declined from 22 per cent in 2017 to 12 per cent in December 2021[4], despite two record harvests. This can be tied to TfNSW's decision to close the Cargo Movement Coordination Centre (CMCC).

[2] Container Logistics Chain Study (CLCS), Port of Melbourne, July 2021
[3] Rail freight and Greater Sydney: Performance Audit, Audit Office of NSW, October 2021
[4] Freight performance dashboard Port Botany, TfNSW

The CMCC was a commitment in the NSW Freight and Ports Strategy in 2013, with a vision to deliver productivity and efficiency increases through NSW ports and chairing a Ministerial initiative, the Port Botany Rail Optimisation Group (PBROG). Unfortunately, this scenario is not unique to NSW.

Perhaps most concerning, the Auditor-General concluded that transport agencies do not have clear strategies or targets in place to improve the freight efficiency or capacity of the metropolitan shared rail network and do not know how to make best use of the rail network to achieve the efficient use of its rail freight capacity.

The ARA believes that the Auditor-General's report, combined with similar experiences in other jurisdictions, provides a clear indication that policy settings need to change for rail freight to play a greater role in meeting the growing freight task at our ports.

Maritime Logistics and Rail

Port access

It is the ARA's position that the primary driver of performance of rail within Australian ports is access. Access is determined well outside the port gates and as such, whilst not within the control of maritime logistics systems, has the greatest potential to improve rail mode share to ports and lift the performance of the rail/port interface. We acknowledge that the Productivity Commission's review may not have the ability to directly influence the factors constraining access described below, but can hopefully make observations about the connectivity, interoperability and infrastructure sharing issues hindering better outcomes at ports given the relevance to the review's terms of reference.

Recent policy development and industry consultation by the ARA has focused on interoperability challenges, which are explored below. While in some cases these issues exist far from the port-rail interface, they have direct bearing on the efficiency of rail connectivity and operations at ports.

Rail freight in Australia is greatly constrained by the differences which exist between jurisdictions and intra-state networks. A lack of interoperability across the country is the single most significant drain on productivity for the rail freight sector. It directly contributes to the cost of operating rail freight services, reduces operational efficiency and flexibility, dampens the uptake of new technology and innovation, and ultimately hampers the ability to compete with other transport modes.

Defining interoperability

For the purposes of this submission, interoperability is defined using the terminology developed by the trans-European rail system: *"the capability to operate on any stretch of the rail network without any difference. In other words, the focus is on making the different technical systems on the EU's railways work together."*[5]

Primary responsibility for transport policy and large rail freight investments has historically rested with the states and territories of Australia, though sophistication of freight planning and policies vary greatly between jurisdictions. The role of the Australian Government in providing leadership in national rail freight policy has, until recently, been largely limited and inconsistent. These circumstances have been the primary driver of interoperability issues over the last two centuries, as jurisdictions make decisions largely independently of each other, with limited success in coordinating a truly national network perspective.

While the Australian Government has taken an increasing interest in transport and logistics infrastructure planning, most notably the significant investment in the Inland Rail project, there continues to be a lack of commitment by all governments to understand and resolve interoperability challenges.

[5] Interoperability of the trans-European rail system, 2007.

In recent years, governments have also demonstrated a preference for pursuing 'big ticket' rail projects over a focus on delivering a more integrated and efficient national network. Road infrastructure has seen a much more successful progression. In the absence of a national body with responsibility for harmonisation and coordination, with the ability to temper political drivers that favour new build projects, it is hard to see how this is likely to change. The Business Council of Australia has echoed concerns about the "*short-term political gains*" too often driving infrastructure investment decisions.[6]

This lack of a national rail systems perspective is compounded by the increasing sophistication of below and above rail technology, rolling stock, signalling, and communication systems, which promise to worsen interoperability issues over time.

There are many examples of the technological divergence by jurisdiction that add to the cost and administrative burden for above and below rail operators. For instance, all eastern states continue to use radio communications systems that are incompatible with each other, which result in multiple radio systems being fitted to all locomotives that do (or could) move goods across state and territory borders.

The Bureau of Transport and Regional Economics' (BITRE) report 'Optimising harmonisation in the Australian railway industry' identifies that in addition to different gauges, other technical, operational, regulatory and administrative inconsistencies have also impeded the flow of rail traffic. BITRE notes that harmonisation may deliver benefits such as lower input costs, improvements in operational efficiency, higher inherent safety and lower training costs. It can also widen rail's freight market. Conversely, it notes there are commercial pressures and historical legacies that mitigate against greater standardisation. The report also notes the potential folly of government setting standards for rail when rail transport operators have superior knowledge.[7]

Unfortunately for the sector, and despite many reports and analyses since, the situation has not markedly changed since this characterisation in 2006:

> *"Governments have long appreciated the adverse effects of inconsistencies between different State-based railways. Such inconsistencies are entrenched by devolved and jurisdictionally based decision-making, muted commercial pressures and historically small interstate traffic flows. However, strongly growing interstate and regional commerce increases the urgency for harmonisation due to the number of interfaces involved*". [8]

The 2006 BITRE report can still be considered an accurate and comprehensive overview of the numerous interoperability challenges continuing to confront rail freight in Australia. In fact, advancements of technology have only worsened these challenges and created new ways in which the operational environment has diverged between jurisdictions and networks.

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[6] *Business Council of Australia says infrastructure spending needs to be less of a popularity contest*, Canberra Times, 17 November 2021.
[7] National Rail Action Plan, op. cit., page 5.
[8] Optimising Harmonisation in the Australian Railway Industry, Sept 2006, BITRE, page v.

Why interoperability matters for port access

Since the introduction of National Competition Policy and the signing of intergovernmental agreements in 1995, including the Competition Principles Agreement, most significant infrastructure sectors have been subject to substantive, and in some circumstances numerous, reviews. These reviews have considered the objectives and performance of the respective operating and regulatory models applying to those sectors and, in many cases, have resulted in significant institutional and statutory changes to how both markets and infrastructure are regulated.

In contrast, the objectives and performance of the operational regulatory models applying to the rail sector have not been the subject of any substantive scrutiny by an independent body of any kind.

The rail industry regulatory and operational framework remains fragmented with:

- state based regimes and state-based regulators and voluntary arrangements within the national access regime;
- generic access regimes, undertakings and codified models; and
- inconsistent technical and operating requirements across network boundaries resulting in barriers to productivity and innovation to rail operators.

To date, there has not been a comprehensive, cross-jurisdictional review of rail network operation and access regulation in Australia. Where reviews have been undertaken, the issues with Australia's fragmented approach to transport and rail regulation has been a recurring theme.

The ongoing differences in operational, performance and technical standards between network managers results in highly unfavourable outcomes for freight operators that need to navigate across them to access ports. This is compounded by the restricted access to infrastructure, caused by the need to share with passenger services, with rigidly imposed priority on metropolitan networks that connect to major container ports across the east coast of Australia. For example, the Sydney metropolitan network provides no access for freight trains during morning and peak curfew periods, all regional trains destined for Port Botany are required to transit through the shared network and three of the six intermodal terminals are also required to use the shared network. These curfew restrictions significantly impact the access for rail to Port Botany.

Some timely examples of how passenger priority on metropolitan networks impacts rail freight efficiency can be found detailed in Pacific National's submission to the current ACCC review of the ARTC Interstate Network Access Undertaking, as do several of the other operator submissions to this review and the concurrent equivalent review being conducted by IPART. It is important to note these are issues that extend well beyond the access regulation remit of both the ACCC and IPART and reflect fundamental operational issues arising from dealing with separate rail operators.

It should be noted that the interface of rail services with bulk-focused regional ports is markedly more successful than with major capital-city container ports. This is primarily due to the absence of a metropolitan passenger rail network constraining access and limiting port rail utilisation and integration.

Rather than supporting rail freight in providing an economically viable and environmentally sustainable alternative to road freight, the multiple government agencies and complex operational and regulatory arrangements add cost, discourage investment, blur accountabilities and hide inefficiencies.

These inconsistencies in approach are more evidently problematic where an access seeker is negotiating access across multiple regimes/jurisdictions, which could see quite different outcomes (in the form of terms and conditions of access) for comparable services. This reduces efficiencies and increases costs. It also discourages investment in initiatives that could improve rail productivity for the benefit of customers. For example, current operating standards across NSW result in an average 48-hour cycle time for a train travelling from western NSW to Port Botany return, a total distance of approximately 450km. In comparison, trucks can make the equivalent journey in approximately 10 hours.

These disparate approaches are also challenging for investors in rail infrastructure, not only in terms of the uncertainty of outcomes but also the assessment of regulatory risk.

Meaningful harmonisation of network access standards requires leadership. Recent consultation with above rail operators shows support for meaningful progress towards harmonisation through a genuine one-stop-shop approach enshrined in the ARTC's charter. Such a model, appropriately supported by mutual recognition policies and necessary authorities would vastly improve efficiency and consistency of access.

Despite a marked concentration in the rail freight market since privatisation, industry players themselves are highly constrained in their ability to effect technical standardisation, which BITRE predicted would occur in their 2006 report, due to the persistence of divergent operating conditions and requirements across networks.[9]

Consistent with the National Freight and Supply Chain Strategy, the National Transport Commission's National Rail Action Plan and the ARA's Rail Freight Action Plan, reform of the rail freight sector must take a cross-jurisdictional view of the national rail network. Any review which focuses on one network or one jurisdiction will be unable to meet the urgent need for reform.

A national rail governance framework should be developed in close consultation with industry to support delivery of a truly national rail freight network. This framework must also recognise current efforts to address this issue, such as the work currently being undertaken by Australasian Centre for Rail Innovation (ACRI) analysing rail freight productivity on behalf of the ARA, the Freight on Rail Group (FORG) and the Department of Infrastructure, Transport, Regional Development and Communications (DITRDC).

[9] BITRE 2006, Ibid., page 83.

National container port overview

Fremantle Port enjoys strong rail mode share and continues to focus on building capacity to manage WA's growing freight demands for the next 50 years and beyond through the Westport Taskforce.

Westport is the WA Government's long-term program to investigate, plan and build a future port in Kwinana with integrated road and rail transport networks. Existing rail connectivity is supported by a dedicated scheme to incentivise export volumes to be transported to port via rail. The WA scheme has demonstrated that such schemes can achieve their objectives when well designed.

The Western Australian Government's Port of Fremantle container incentive scheme has delivered the highest rail mode share in the country at above 20 per cent. Prior to introduction of the incentive scheme at the Port of Fremantle in 2006-07, rail mode share was a meagre two per cent. The scheme allows a $50 per TEU incentive to flow directly to the importer and exporter, with the WA Department of Transport conducting audits to ensure savings are passed on to customers (rail freight clients).

The Port of Melbourne's 2050 Port Development Strategy identifies rail infrastructure projects that will improve rail access at the Port through a series of key investments and include an option for the development of a port rail terminal. In parallel, the Victorian and Commonwealth Governments are progressing with the allocation of funding to metropolitan Melbourne intermodal terminals in order to progress the development of a Port Rail Shuttle Network (PRSN).

In contrast to the scheme operating in WA, the Victorian Mode Shift Incentive Scheme (MSIS) is less well targeted and thus while providing critical support to a small number of industry participants, operates in an environment where rail mode share to the Port of Melbourne has consistently declined over the past decade (as referenced above).

Port Adelaide also boasts strong rail connectivity, handling both containerised and bulk goods but mode share could be considerably enhanced by consideration of a scheme to incentivise export goods to arrive at port via rail.

NSW Ports' 30 Year Master Plan highlights the importance of increasing the movement of containers by rail to and from Port Botany to maximise throughput capacity and deal with forecast container growth in a cost-effective, efficient and sustainable manner. The Plan includes a target to move three million TEU per year by rail by 2045, which is mirrored in the NSW Rail Freight and Ports Plan 2018-23, which aims to achieve 28 per cent rail mode share to Port Botany. These targets have been supported by extensive investment in rail and stevedoring infrastructure, as previously mentioned.

Given these targets, and with the success of the WA scheme in mind, the rail freight supply chain has developed a Regional Rail Incentive Program proposal for consideration in NSW. The program is designed to address many of the findings from the ACCC stevedoring monitoring report and the recent Auditor-General's report on greater Sydney rail freight.

The proposed program is intended to deliver a sustainable customer incentive program to break regional containerised port freight trains at metropolitan intermodal terminals for onward distribution by dedicated terminal shuttle to Port Botany.

This proposal is designed to deliver increased regional supply chain efficiency, maximise two-way loading and most importantly create greater port window capacity for the benefit of the whole port logistics supply chain. Unless the latter increased window capacity can be addressed successfully, then rail's opportunities for growth will continue to be limited and the NSW Government's rail mode share target will not be achievable.

The Regional Rail Incentive Program pilot would test the commercial viability of greater coordination between supply chain participants for the overall gain of reliability for importers and exporters and operational efficiency and productivity within the port rail terminals.

Such a program also has the ability to help mitigate the ongoing Empty Container Park capacity issues in Sydney by creating additional capacity at metropolitan IMT's to service regional trains. This would address one of the key issues identified by the ACCC as a major part of the overall congestion slowing down our container ports.

Finally, the Port of Brisbane has limited rail connectivity but is part of detailed and ongoing analyses about the end of the Inland Rail route in Brisbane, metro and port connectivity, and potential line extension to the north. Enhancement of terminal infrastructure in the Brisbane metro area should support more efficient interstate and regional rail supply chains, with either direct rail connectivity to the port or facilitation of multi-modal supply chains servicing the port through metro terminals.

Port rail infrastructure

There have been many significant investments in port rail infrastructure and technology across Australian ports in recent years, with most of these investments being specifically designed to enhance efficiency of the port/rail interface and encourage greater rail mode share to ports. Such investments include but are not limited to; the Port of Melbourne's Port Rail Transformation Project, Port Botany rail duplication, and automation of the Patrick terminal rail operations at Port Botany.

Further investment in automation is likely to be required to manage the rapidly increasing total freight task. It is also critical that industrial land and freight corridors are planned and protected to enable growth in the volume and complexity of multi-modal supply chains, including development of appropriately located, well-resourced, open-access terminals to underpin scale and efficiency.

Role of connecting network capacity

The ARA proactively supports ongoing investment in port rail infrastructure and operations, including technologies that can support efficiency and productivity and sees these as critical to managing the rapidly growing national freight task. However, we assert the productivity of port rail connectivity is most significantly determined by infrastructure and operating conditions outside the port gate, and in many cases considerable distances away.

For example, the Victorian Murray Basin Rail Project was initially conceived to standardise rail gauge across western Victoria. The project was designed to improve overall connectivity and upgrade rail infrastructure across the region, primarily to support the movement of greater volumes of exports from the regions to the Port of Melbourne via rail (among other operational objectives). However, the Victorian Government's revised scope for this project will not achieve the original vision for gauge standardisation and will not meet the stated performance standards originally projected for upgraded sections of the network. These limitations continue to contribute to the declining rail mode share to Port of Melbourne.

A community led proposal for a Sunraysia Mallee Port Link (SMPL), developed by Ouyen Inc. and supported by an influential list of exporters and supply chain participants, including road operators in the region, is attempting to draw the focus of the Victorian and Commonwealth governments. It is focussed on highlighting the importance of improved rail infrastructure across western Victoria, including development of a modern intermodal terminal at Ouyen to improve the competitiveness of rail for agricultural exporters needing to move goods to port.

By 2023, the volume of intermodal freight from far north-west Victoria is expected to be greater than 1 million tonnes or 65 -75,000 shipping containers (TEU). Currently, 80 per cent of this freight is being transported over 400 km via the road network. The SMPL can support a large proportion of this freight through shifting it to rail.

Successful completion of the original Murray Basin Rail Project and construction of a terminal at Ouyen would allow for cycle times to the Port of Melbourne that would position rail to achieve considerable modal shift. Without it, the poor quality, poor performance and ineffective sharing of infrastructure across western and northern Victoria will act as a major brake on utilisation and efficiency of the port rail interface at the Port of Melbourne.

Similarly in Sydney, port rail utilisation could be enhanced most readily by investment in dedicated rail freight connectively (avoid the sharing issues already outlined) and resulting in shorter cycle times, and more effective use of above rail assets, including the ability to achieve much greater volumes through the utilisation of double-stacking.

Infrastructure gaps

There are significant infrastructure needs being driven by construction of the Inland Rail project, these include:

- selection of a site and construction of a Melbourne Intermodal Terminal as the point of origin for the Inland Rail route and achieving road/rail/port connectivity for Melbourne;
- confirmation of the Brisbane route alignment for connectivity to the Port of Brisbane from the Inland Rail route;
- determination of potential line extension to Gladstone; and
- connectivity to existing rail infrastructure in NSW servicing all state ports.

These major infrastructure requirements will play a significant role in realising the potential economic, social, environmental and operational benefits of the Inland Rail project as a whole.

The delay in making these critical decisions also highlights the importance of effective integration of rail freight planning with broader state and national supply chain planning. This would help to inform proactive and future-focused protection of industrial land and freight corridors, including land to develop future intermodal terminals.

Skills

Rail is currently experiencing a very significant skills shortage in a number of key areas, some of which impact on the efficiency and productivity of port operations. Port operations from both a logistics and freight handling perspective have been undergoing significant digital transformation over recent years. This has led to a reliance on vendors to assist companies train and transition existing staff into new ways of working. New entrants to the industry have to rely on existing staff to acquire competence.

Similarly in the case of freight handling in ports, automation and robotics are increasingly part of the improvements in productivity and safety. Rail and shipping are both industries that are expanding the skills needed to effectively integrate new technologies and new ways of working. Given the integrated relationship of service delivery, opportunities for increased mobility of new entrants to the industry needs to be supported with learning solutions/training that is well targeted, and efficient.

Government investment into new ways of incentivising both the vocational and higher education sectors to work with industry are urgently needed. Traditional commercial models of training development and delivery, requiring the education provider to employ the subject matter expert and industry to provide a minimum class size is not delivering the learning solutions ports require in a number of critical skill areas.

Port operations are becoming ever more knowledge intensive and increasingly dependent on technology transfer. Demographic workforce profiles create challenges for the industry, and point to the need to attract young entrants who are digitally literate and confident across the asset lifecycle of software programs that both underpin logistics management and automation of freight handling.

Pricing considerations

Port access /landside charges

Landside access charges play an important role in ensuring the competitiveness of Australian export supply chains. It is therefore appropriate for policies to focus on ensuring they are transparently managed and accurately reflect the underpinning costs of service.

However, in considering the most significant impediments to a more efficient and effective maritime logistics landscape for rail freight, landside access charges were not identified as a key priority issue by members.

Pricing and mode competitiveness

Market share data shows that road has a significantly greater share of the movement of containerised freight across the east coast corridors compared to rail. This reflects differences between how road and rail costs are recovered from transport operators, with road freight operators at a distinct cost advantage.

There are substantial discrepancies between the pricing approaches applied in road and rail freight industries. The current imbalance effectively treats road access as a public good, resulting in excessive consumption of road capacity. This, in turn, has created significant economic, productivity and competitive imbalances in the freight markets that are reliant on access to both road and rail infrastructure to compete for market share.

There are substantial discrepancies between the pricing approaches applied in road and rail freight industries. Road freight operators are at a distinct advantage compared to above rail operators. Road freight operators are not required to pay an equivalent proportion of the costs of constructing and maintaining the road network, as compared to the contribution to network manager's below rail costs that above rail operators are required to make.

For example, NSW Ports estimates that rail network access charges make up 15-35 per cent of operating costs for trains transporting containers to and from Port Botany. Further to earlier commentary about interoperability frustrations, rail access charges are structured differently across all network managers as are cancellation rules. Current structures in NSW are not geared for rail operators to make early decisions around running/cancelling services, resulting in wasted capacity.

Both above rail and below rail infrastructure assets are characterised by large capital sunk costs, thus any volume increase which does not require capital investment substantially benefits both rail operators and rail infrastructure owners/managers. This means increasing the rail freight volumes on key rail freight infrastructure corridors will improve network utilisation and reduce the per-unit cost of rail freight haulage services.

An opportunity for modal shift is particularly relevant for metropolitan import freight and transport of empty containers to ports for export. Considerable economic benefits could be derived from an increased utilisation of the rail network, and thus meaningful policy changes should be applied to that goal.

The net effect of the existing rail infrastructure charging imbalance has been the long-term erosion in the ability of rail to compete for improved modal share of the growing national freight task. This undermines the business case for above rail operators to make investments in major freight terminals, rolling stock and related assets to compete for new business further compounding modal competitive disadvantage.

The ARA commissioned GHD to complete a tailored study analysing the impediments to rail mode shift and opportunities for improvement[10], which considers the structural and operational barriers to achieving greater freight volume travelling by rail. The Commission may find the study illustrative of some of the impediments described here with relevant case studies.

In addition to price, other factors impacting on this erosion of rail share along the north-south corridor is cycle time, both a slowing down of cycle time of rail on that corridor due to lack of investment plus a speeding up of cycle time for road on that corridor due to increased investment. The increased investment in road has also led to allowing bigger trucks on the road, increasing road efficiency at the same time that trains have been required to slow down because of poor rail infrastructure.

Domestic coastal shipping

In recent years, there have been investigations and legislation drafted on Australia's current coastal trading regime. Coastal trading or coastal shipping refers to the movement of passengers or cargo between ports in Australia and is regulated by the granting of licences to authorise vessels to engage in this activity.

Whilst direct competition between rail freight and coastal shipping only realistically occurs on a limited number of commodities and routes, allowing cabotage to occur without appropriate checks and balances in place introduces an unfair competitive advantage to foreign ships who can opportunistically use spare capacity on coastal legs where they are repositioning in preparation for the next major leg of their international journey.

Under this scenario any additional revenue they can achieve contributes to offset operating costs on that leg. The rates that are offered can be vastly lower than road and rail (and domestic shipping carriers) because it is largely a cost recovery exercise. The benefits of this therefore flow offshore at the expense of local carriers who are subject to an unfair disadvantage.

Such disadvantage has the potential to undermine the national security needs of Australia by facilitating a reliance on foreign flagged ships ahead of building scale and resilience for our national supply chain.

Any proposed changes to Australia's coastal trading regime should be underpinned by:

- consideration of the entire supply chain; and
- a strong commitment to ensuring competitive neutrality for all forms of interstate and intrastate freight transport, including road and rail freight.

[10] See GHD report provided as an attachment to this submission.

Foreign flagged ships should remain regulated under a licensing arrangement if they are participating in the domestic freight market. Ideally, any changes must ensure that foreign flagged ships are subject to the same taxation, workplace relations, safety, environmental and other domestic regulation as rail and road freight operators.

Whilst this issue is likely beyond the scope of the Commission's review, this policy under ongoing scrutiny by the Commonwealth Government has the potential to significantly impact the competitiveness of rail freight operations in Australia, particularly where interfacing with international container ports.

Further consultation

While this submission sought to outline some of the most current issues for rail freight as they relate to the Commission's Terms of Reference, the industry can share further information on any of the matters raised if required.

If it would be of value to the Commission, the ARA would be available to host a more targeted consultation with freight rail industry participants, including above and below rail and intermodal terminal operators at your request.