Submission in response to:

The NSW Draft Freight and Ports Plan

25 March 2018

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Executive Summary

Aurizon appreciates the opportunity to provide a submission in response to the NSW Draft Freight and Ports Plan.

Aurizon supports the Priority Action Areas contained in the draft plan, and suggests that an additional Priority Action Area be included as follows:

- Improve the productivity of rail freight and increase the proportion of freight carried on rail so as to contribute to further improvements in the competitiveness of industries that use freight and logistics services.

Aurizon also suggests that the lessons from the increase in the modal share of rail on the Port Botany Line could be applied to other rail corridors and networks in NSW, particularly setting a clear target for the proportion of freight to be carried on rail.

There are opportunities to increase the proportion of freight carried by rail across a number of products, particularly in the area of agricultural, construction and manufactured products.

There are important benefits that can be realised from increasing the proportion of freight carried on rail including:

- Improved supply chain efficiency that is generated where there are large volumes of freight and/or where the freight is carried over longer distances;
- Improved safety with one freight train carrying freight volumes equivalent to 150 semi-trailers and due to rail being a far safer mode;
- Substantially better environmental outcomes as demonstrated by the finding of the EnergyEXchange that "rail freight emits 75 per cent less greenhouse gas emissions per tonne of freight moved compared to the road freight transport sector"[1]; and
- Reducing congestion for all vehicles on road corridors.

Investment in rail networks and related infrastructure should be linked, wherever feasible, to the delivery of productivity benefits for freight operators using infrastructure.

Aurizon supported the development and implementation of the 2012 NSW Long Term Transport Master Plan, which set priorities for transport and provided an infrastructure investment pipeline, and recognises the benefits of continuing to have an updated Master Plan.

A further contribution to freight transport efficiency would be made by the acceleration of the Federal and State Government led Heavy Vehicle Road Reform Project. Furthermore, this area of reform should be guided by the principle of establishing of a consistent pricing and investment framework for both road and rail freight.

Aurizon recognises there are challenges to rail freight efficiency from increased demand for passenger services and the interface arrangements between networks managed by different network providers, particularly in relation to the Sydney network.

[1] EnergyEXchange (EEX) website: https://www.eex.gov.au/sectors/transport/rail-freight-transport

We suggest that there is a need for improved responsiveness in making available rail freight capacity when required by operators. In a market where freight operators need to be agile to efficiently meet the requirements of customers and to compete, we often find ourselves waiting for prolonged periods of time for responses to access requests. Often this will mean that an opportunity is lost and freight has moved to road.

However, there are opportunities for industry, network providers and government agencies to work collaboratively to identify and implement solutions to issues, including improved arrangements and processes in relation to access requests.

Transport and other regulation that applies to rail freight should be consistent with policy objectives, including the objective of increasing the use of rail freight. Aurizon also suggests that where there are effective industry-led responses either in place or under development to address issues, such responses should be supported by Governments provided they represent a reasonable and proportionate response to either addressing a problem or responding to risks.

An important issue for the future is the introduction of new technology, including network control systems. These technologies needs to be utilised in ways that will contribute to improving the safety, productivity and competitiveness of freight operators taking into account the particular circumstances and requirements of different networks.

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1. Aurizon's operations in NSW

Aurizon is Australia's largest rail-based transport business, employing approximately 5,600 people in communities across Australia.

Aurizon operates rail and road freight transport, and logistics services across New South Wales, including coal and bulk haulage.

Commencing with a task of 180,000 tonnes per annum in 2005, twelve years on Aurizon hauled 48 million tonnes of coal in the Hunter Valley of New South Wales in 2016-17.

Founded on a strong history of reliable and safe customer service, the company's expanding coal haulage services are provided to some of Australia's largest mining companies and power generators, as well as emerging producers.

In support of the expanding haulage task in the Hunter Valley, Aurizon has invested more than half a billion dollars since 2005 in rail facilities and rolling stock in the region. In addition to the Hexham Train Support Facility near the Port of Newcastle, Aurizon has train crew depots at Mayfield, Quirindi and Antiene. In 2018, Aurizon will be adding more than 120 wagons to the company's rolling stock fleet in the Hunter Valley.

Aurizon also currently hauls bulk grain in regional NSW. We are pursuing a range of rail haulage and terminal investment opportunities in mining, construction materials and bulk agricultural exports.

The company has previously coal haulage services in the Wollongong region, and until December 2017 operated interstate and port-shuttle intermodal services in NSW, which has informed our understanding of the freight transport industry across the state.

At the heart of Aurizon's NSW operations are 400 employees who live and work in regional communities, with most living in the Hunter Valley.

Aurizon seeks to work with Governments, relevant agencies and within the industries in which we operate to provide competitive freight supply chains and to contribute to the regions in which our employees and operations are located.

2. The outlook for freight supply chains and key trends

Freight and logistics services enable industries to receive and deliver inputs and final products. These services underpin economic activity and, as the draft plan outlines, represent a major industry with the freight and logistics worth $66 billion a year to the NSW economy[2].

Aurizon agrees with the projected volume growth for freight commodities for the period 2016 to 2056, noting in particular the following implications of those projections:

- A significant increase in volume growth for manufactured goods transported in Greater Sydney, with total freight volume to increase to 230 million tonnes per year by 2056, representing growth of 73 per cent.

[2] *NSW Draft Freight and Ports Plan*, December 2017, page 26.

- The volume of coal carried in NSW will grow by 0.5 per cent per year to 230 million tonnes per year, and because of the large volumes involved coal will represent approximately 79 per cent of the total growth in freight volumes for regional NSW.

- The freight task for grains is projected to grow at a long term average of 1.1 per cent per year, with grains accounting for 10 per cent of total regional growth over the next 40 years.

    - We note that grains continue to be the second largest regional freight task by volume after coal, with the draft plan noting the freight task is expected to grow from about 10 million tonnes per year to approximately 15 million tonnes per year by 2056, but subject to seasonal variations.

In relation to the implications for the volume growth projections on freight infrastructure and operations, our assessment is that the growth rates should be manageable provided there is continuing improvement in the existing freight network and challenges, such as congestion on key freight networks, are effectively addressed.

Aurizon's assessment of key trends impacting on freight demand is similar to the trends contained in the draft plan. In particular, we support the observations regarding urban encroachment and last mile challenges. We note that population growth is leading to increased demand for passenger train services and this trend reduces the capacity and efficiency of freight train services on the Greater Sydney area, an issue that is recognised in the draft plan.

Given that a very large proportion of products from regional NSW are exported, a further key trend that should inform the freight and ports planning is the continuing increase in the intensity of competition in the global markets in which NSW exporters are competing. This intensity of competition is evident from recent developments in the export markets for both seaborne coal and agricultural exports, notably grain exports.

There has been a sustained improvement in the international price for thermal and metallurgical coal over the last 18 months. This has been driven by strengthening demand for thermal coal, particularly high quality thermal coal in Asia, with Association of South East Asia (ASEAN) nations in the process of introducing an additional 80 gigawatts of energy capacity through power plants that are either under construction or planned. In relation to metallurgical coal, the lift in prices has been due to growth in demand for steel production.

Strengthening demand in Asia and India has resulted in coal producers in a number of other countries either seeking to increase supply from existing mines or to bring new production on line. While Australian coal producers are globally competitive and supply chain costs generally compare well with other export nations, producers in other countries are seeking to further improve their efficiency and to take market share from Australia.

In relation to agricultural products, particularly grains, as the draft plan states most grains grown in NSW are produced for the domestic market, approximately one quarter are exported[3]. We suggest that given the competitiveness of the markets in which exporters are competing, there should be a focus on what is required for exporters. This would help exporters to take up any future opportunities for growth beyond

[3] NSW Draft Freight and Ports Plan, December 2017, page 28.

the volumes that are projected, recognising that there are likely to be new opportunities for growing agricultural exports to Asia.

Analysis by the Australian Export Grains Innovation Centre has found the following about the competitiveness of Australia's grain supply chains[4]:

- "On average, costs have reduced slightly in recent years, however costs vary depending on the magnitude of the grain harvest";
- "After accounting for variations in supply chains, supply chain costs are consistently about 30 per cent to 35 per cent of the total cost of grain production"; and
- "The supply chain costs of Russia, Ukraine and Argentina are likely to decrease further, placing more pressure on Australia".

In terms of opportunities for freight supply chains, as is demonstrated by the 30 year growth projections in the draft plan, there is an opportunity for efficient and reliable freight services to continue to make a contribution to the competitiveness of exports in end markets as well as industries reliant on freight services within NSW or Australia.

Ensuring this opportunity is realised will require a major focus by the freight and logistics industry, governments and regulators on improving the productivity of freight supply chains and further increasing the competitiveness of industries in NSW that are customers of freight.

Aurizon suggests that incremental contributions to improving freight supply chain productivity should be pursued. These contributions can be realised through a focus on the most important impediments to increasing productivity, such as bottlenecks that reduce the efficiency of existing infrastructure and congestion on the land transport network, especially in greater Sydney. These and other impediments together with suggestions for policy and industry actions are outlined in the following sections.

3. Improving the productivity and utilisation of rail freight

Aurizon supports the six Priority Action Areas in the draft plan and summarised on page 64. Consistent with the issues raised in section 2 of this submission including the importance of improving the productivity of freight supply chains and contributing to the competitiveness of industries operating in both export and domestic markets, we suggest the plan would be strengthened by an additional priority action area, as follows:

- Improve the productivity of rail freight and increase the proportion of freight carried on rail so as to contribute to further improvements in the competitiveness of industries that are customers of freight and logistics services.

There are substantial benefits that can be realised from increasing the proportion of freight carried on rail including:

- Improved supply chain efficiency that is generated where there are large volumes of freight and/or where the freight is carried over longer distances;

[4] Australian Export Grain Innovation Centre Media Statement, *Are Australian Supply Chains Getting Cheaper?*, 26 February 2018

- Improved safety with one freight train carrying freight volumes equivalent to 150 semi-trailers, and due to rail being a far safer mode;

- Substantially better environmental outcomes as demonstrated by the finding of the EnergyEXchange that "rail freight emits 75 per cent less greenhouse gas emissions per tonne of freight moved compared to the road freight transport sector"[5]; and

- Reduced congestion for all vehicles on busy road corridors.

Aurizon supported the priority that has been given to increasing the proportion of freight carried by rail on the Port Botany Line, where rail's mode share has increased from 13 per cent in 2013 to its current level of about 20 per cent. We suggest that the lessons learned from this improvement in modal share could be applied to the rail network throughout NSW. In fact, the improvement in modal share should be used as a wider case study for the nation. The factors that contributed to the increase in rail's modal share included, but were not limited to:

- A clear target being set by the NSW Government in its 2013 Freight and Ports Strategy, which was to double the proportion of freight carried on rail on the Port Botany Line by 2020;
- A shared commitment from industry and government to work to achieve the target by identifying and fixing impediments to rail freight efficiency; and

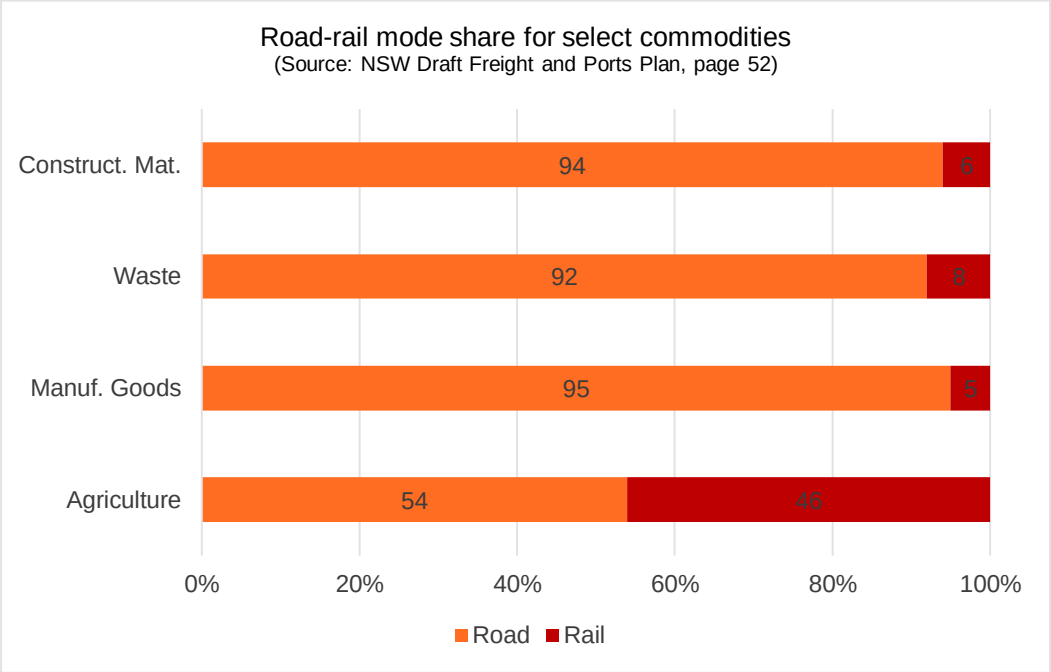
- Government departments and agencies were aligned and gave a high priority to measuring progress and to achieving the target.

There are significant opportunities to increase the utilisation of rail freight on other parts of the NSW rail network. As shown in the draft plan, the vast majority of the freight task for most products that rely on freight transport are carried by road[6]. The one exception is coal where almost all coal is hauled by rail.

The potential opportunities to increase the utilisation of rail should involve consideration of increasing rail's mode share for the following commodities: construction materials, waste, manufacturing and agricultural products. The current percentage of the road-rail mode shares for each of these commodities are shown in the following chart, using the mode share data provided in the NSW Draft Freight and Ports Plan.

[5] EnergyEXchange (EEX) website: https://www.eex.gov.au/sectors/transport/rail-freight-transport

[6] NSW Draft Freight and Ports Plan, December 2017, page 52.



There is also likely to be the potential to increase rail's mode share for carrying fuel (73 per cent road and 27 per cent rail).

Aurizon supports consideration being given to increasing the use of rail for these products because of the potential productivity and economic benefits that could be obtained. Importantly, as has already been mentioned, there would be significant environmental and community benefits from increasing the proportion of these particular products carried on rail.

An illustration of the community and environmental benefits of rail is demonstrated by the work that has been done, and the further improvements planned, to improve the capacity of the Northern Sydney Freight Corridor for rail, which will allow rail to be more competitive with road transport for certain types of freight. Program details provided by Transport for NSW show that once completed, the program has the potential to, within 15 years, to reduce by more than 200,000, the number of heavy vehicle road trips per year using this key freight corridor in Sydney[7]. This level of reduction in heavy vehicle trips would reduce diesel use by "almost 40 million litres and reduce greenhouse gas emissions by more than 100,000 tonnes each year[8]".

Increasing the overall proportion of freight carried by rail compared to road would be consistent with the 2013 *NSW Freight and Ports Strategy*:

> "Opportunities exist to shift more freight onto rail and this remains an important priority for the NSW Government[9]."

Aurizon is therefore suggesting that this priority should be retained in the new freight and ports plan, and combined with a focus by the Government and industry on improving the productivity of rail freight. Freight transport underpins economic activity across a large number of industries, and efficient operations

[7] Transport for NSW website, www.transport.nsw.gov.au/projects/programs/northern-sydney-freight-corridor-program

[8] Ibid.

[9] New South Wales Freight and Ports Strategy, November 2013, page 19.

contribute to the competitiveness of customers, including export industries facing increased competition in global markets.

Potential policies and industry actions that could contribute to improving the productivity of rail freight are outlined in the following sections.

4. Infrastructure investment linked to Master Plan and productivity

Investment in rail networks and related infrastructure should be linked, wherever feasible, to the delivery of productivity benefits for freight operators using infrastructure.

Aurizon supported the development and implementation of the 2012 *NSW Long Term Transport Master Plan*, which set priorities for transport and provided an infrastructure investment pipeline, and recognises the benefits of continuing to have an updated Master Plan.

In the context of freight, the 2012 Master Plan contained the following objectives:

> "The freight task in NSW will also increase. To make sure our industry stays competitive and communities receive the goods they need, we need to increase the amount of goods carried by rail and improve freight efficiency on vital road connections[10]."

Aurizon suggests that these objectives continue to be appropriate for the requirements of the NSW economy and delivering improved outcomes for the community and therefore they should be retained in the new freight and ports plan and the other supporting plans that are part of the development of the *NSW Future Transport Strategy 2056*.

Ensuring that there continues to be a Master Plan for infrastructure that is a reference point for industry will be important to freight operators for the following reasons:

- The Master Plan enables industry to have input into the development of long term planning through the consultation process involved in developing the Master Plan;
- It provides important guidance about priorities for transport planning and development, which assists industry, including freight operators, with their planning and investments; and
- It provides critical guidance for the priorities, decisions and actions of government departments and agencies as well as local councils, including decisions about corridor preservation and the zoning of land.

Aurizon endorses the approach of having a comprehensive and integrated Master Plan for the state, based on the substantial efficiency, environmental and community benefits that an effective planning process delivers over the medium to long term. These benefits are generated because transport and other industries that rely on the use of infrastructure, are better able to develop their own investment and business plans and to drive efficiencies through increased scale and from synergies that can be identified and developed. Therefore, effective master planning enables increased private sector investment from the increased certainty provided to industry.

[10] New South Wales Long Term Transport Master Plan Summary, page 4.

In addition to planning, another aspect of infrastructure investment is the need to improve existing infrastructure. The NSW Government's decision to provide $400 million under the Fixing Country Rail Fund to improve existing infrastructure represents a major commitment to addressing this issue.

There is an opportunity to derive significant productivity benefits from the Fixing Country Rail Fund for the customers of freight and for the wider community. Aurizon agrees with the assessment of Infrastructure Australia that smaller investments targeted at addressing bottlenecks and other impediments to freight efficiency offer significant and lasting economic and community benefits.

We suggest that the Government continue to ensure the Fixing Country Rail Fund gives a high priority to infrastructure projects that would enable productivity improvements for freight operations. Examples of how improvements can provide improved productivity include:

- Realignment or improvement of road/rail interfaces to facilitate intermodal transfers in regional hubs;
- Enabling rail operators to run longer trains; and
- Increasing the maximum axle load of the rail infrastructure to enable it to carry trains with increased loads.

We further suggest that funding from the Fixing Country Rail Fund could be linked to Federal Government infrastructure investment programs to align priorities between the two levels of government, particularly investments in rail infrastructure aimed at delivering productivity improvements. There are opportunities through infrastructure investment linked to long term planning to better utilise the respective strengths and advantages of combinations of rail and road haulage through freight hubs and the efficient transfer of freight between the two modes.

The recognition given in the draft plan to the development of efficient intermodal terminals is an important aspect of investment policy, recognising that effective policy responses include planning and enabling private sector investment in the development of terminals.

We note that consideration is being given to investigations into the potential for co-location of waste transfer and processing facilities with rail[11]. Aurizon supports these investigations and ensuring that infrastructure planning is informed by the results of the investigations.

Aurizon also notes that the draft plan identifies further investments in the separation of passenger and freight lines on the Sydney rail network over the medium and long term. This approach is supported and we suggest that it should also be one of the priorities for rail in the Long Term Transport Master Plan and/or NSW Future Transport 2056 Strategy.

5. Road and rail pricing reform

The functioning and efficiency of freight transport supply chains would benefit from a competitively neutral framework for infrastructure access and usage pricing.

[11] NSW Draft Freight and Ports Plan, December 2017, page 53.

The current Heavy Vehicle Road Reform Project being undertaken by the Federal and State Governments has the potential to rectify differences in road and rail access pricing frameworks. The Transport and Infrastructure Council has previously stated that under the current PAYGO arrangements:

"Road network and heavy vehicle industry productivity has plateaued or in some cases already fallen due to a disconnection between road funding and charging"[12].

Importantly, the different pricing frameworks that apply to heavy vehicles compared to rail freight operators carrying intermodal and general freight impedes the efficiency of the land freight transport network.

Aurizon supports the joint work being undertaken by the Federal and State Governments, through the Transport and Infrastructure Council (TIC), to implement the Heavy Vehicle Road Reform Project. We suggest that the following key principles should guide the implementation of this reform:

- The promotion of improved productivity and enabling greater efficiency in the provision and use of freight transport infrastructure;
- The establishment of a consistent pricing and investment framework for both road and rail freight where both modes are carrying the same freight; and
- Providing for revenue to go to infrastructure owners or to infrastructure funds and linked to investment in accordance with investment plans.

Aurizon also supports the decision by the Federal and State Governments to conduct trials of direct user charging of heavy vehicles as an important way to demonstrate how the new pricing framework would work in practice. A high priority should be given to conducting one or more location-based trials on long-haul corridors where road and rail compete to carry the same freight and to consider setting as an objective for these trials improved consistency for access pricing between road and rail.

6. Freight access

Aurizon supports the priority in the Draft Plan to increase to access for freight across the road and rail networks.

There are significant policy and practical challenges to meeting this priority in relation to rail freight. These challenges include growth in demand for passenger services resulting in the need for increased passenger train access, and ensuing there are effective interface arrangements between the Sydney network and the Country Rail and ARTC networks.

Recently, these challenges have been highlighted by:

- The new Sydney network timetable introduced in late 2017 increased the number of passenger services, particularly into and out of the metro network with no corresponding pathway for increased freight access.
- Also in 2017, a new Operations Protocol, guiding the prioritisation of trains in the planning environment, right up to the day of operations was introduced.

[12] Transport and Infrastructure Council, 'Heavy Vehicle Road Reform – What We Are Doing and Why We are Doing It', May 2015

The revised Operations Protocol requires significant operational discipline to ensure compliance with schedules. The changes have been particularly onerous for operators entering the Sydney network from adjoining networks which generally originate in Melbourne or Brisbane. When trains do not comply with the protocol's principles, this has contributed to significant delays as trains await alternative pathing that is often very difficult to schedule around passenger and other freight services.

Across the wider NSW rail network there is an important issue for rail freight operators when they seek additional or new capacity for operating rail services that Aurizon would like to raise for consideration as part of the development of an updated freight and ports plan. This issue is as follows:

- There is a need for improved responsiveness in making available rail freight capacity when required by operators. In a very competitive market where freight operators need to be agile to efficiently meet the requirements of customers, we often find ourselves waiting for prolonged periods of time for responses to access capacity requests. Often this will mean that an opportunity is lost and freight has moved to road.

Aurizon also suggests there is an opportunity for the rail freight industry to work with network managers and Transport for NSW to identify and implement effective solutions to impediments to the efficiency of freight operations, focusing on the Sydney network.

As a result of the uncertainty of future increases to passenger traffic, and in the absence of clear strategy or commitment to initiatives about increasing modal shift across the metropolitan network, there is uncertainty about the potential for putting new freight services on to rail and to transition the freight from road. This uncertainty influences the decisions of freight operators and customers in making choices between the use of rail and road.

We also suggest that rail freight operations would benefit from network providers working to ensure consistent arrangements for freight services seeking to operate across more than one network. More specifically, collaboration could be improved for any changes that are made to the rules that govern network operations.

7. Regulation

The application of regulation can have a significant influence on the efficiency of the freight supply chain. Aurizon endorses the Priority Action Area in the draft plan to "reduce the regulatory burden on industry"[13].

Aurizon suggests that in light of the substantial efficiency, environmental and community benefits available, there should be a focus on ensuring regulation is consistent with an objective of increasing the proportion of freight carried on rail.

While there are areas where regulation should be more consistent, there should not be a one size fits all approach to regulation. In other words, regulation should be fit for purpose and should be guided by clear objectives.

New regulatory proposals should be subject to an assessment of the benefits and costs and other relevant evidence relating to impacts. New or additional regulation should only be introduced where it is demonstrably required following an assessment of the costs and benefits that would result from the impacts of the regulation.

[13] NSW Draft Freight and Ports Plan, December 2016, page 64.

Aurizon suggests that where there are effective industry-led responses either in place, or under development, to address issues, such responses should be supported by Governments provided they represent a reasonable and proportionate response to either addressing a problem or responding to risks.

An example of an industry-led response in relation to an environmental issue is the development of a national Code of Practice for the Management of Locomotive Exhaust Emissions. Although emissions from diesel locomotives represent only a very small proportion of emissions from all industries, rail freight operators worked collaboratively for two years to develop a code of practice in response to community concerns about locomotive emissions.

Once it is fully implemented the Code of Practice will apply to diesel emissions from both existing and new locomotives. The Code of Practice was approved and published by the Rail Industry Safety and Standards Board (RISSB) in November 2017 and is due to be implemented by the rail freight industry before the end of 2018.

The Code of Practice represents an effective industry-led approach to managing emissions from diesel locomotives which will involve significant investments by industry and adherence to practices specified in the Code for a period of ten years.

8. Technology: the introduction of network control systems

Recognising the key role that technology systems are expected to play in the future of freight and supply chain infrastructure and operations, it will be important that the development and introduction of different systems contributes to, and does not impede, the efficiency and the integration of freight and logistics supply chains in NSW.

A major area of technological change for the rail freight industry is the introduction of network control systems on rail networks. New network control technology offers the potential for improved train management, safety and productivity outcomes. However, the introduction of new systems will be challenging for the industry, particularly as there are at least two different technology systems under development on networks in NSW. There is the European Train Control System (ETCS) technology system as well as the Advanced Train Management System (ATMS).

These technologies need to be utilised in ways that will contribute to improving the productivity and competitiveness of freight operators taking into account the particular circumstances and requirements of different networks. Adopting different technologies in adjoining networks, where the same rolling stock can be utilised, will potentially limit operational flexibility and increase costs on operators and the freight industry.

Aurizon suggests that there should be a standards-based approach utilised to guide the development and implementation of technology systems. A standards-based approach should be consistent with the following principles:

- The enabling of reliable and effective interoperability between networks and systems and providing for interoperability to be achieved without the duplication of equipment and supporting technology systems for train operators;
- That the introduction of new technology provides net economic benefits for train operators, with the net benefits to take account of network interface costs; and
- That new technology systems prioritise safety and contribute to improving the safe operation of freight trains and related services.

We note that the Advanced Train Management System (ATMS) is in the process of being developed for, and is being tested on, the ARTC interstate network.

Aurizon suggests that with regard to the potential introduction of network control technology for the Hunter Valley Coal Network (HVCN), ATMS should not become the default technology without first being subject to a process to compare and test its suitability for the HVCN.

In view of the major differences between the HVCN and the interstate network, which include the much greater density of train services and the shorter distances and faster cycle times on the HVCN compared to the interstate network, there should be an open and competitive process before any binding decision is made on the most appropriate technology for the HVCN. This would allow the major options for network control technology to be subject to a rigorous process that tests both their suitability for the specific requirements of the HVCN and the value for money that each option would offer.