NSW FREIGHT POLICY REFORM PROGRAM

Response to Interim Directions Paper

25 October 2024

ABOUT QUBE

Qube is Australia's largest integrated provider of import and export logistics services, with a market capitalisation of $6.5 billion at June 30, 2024. We employ more than 10,000 people, predominantly in Australia, New Zealand and South East Asia and our purpose is to help our customers, communities, industries and people to Thrive through a relentless focus on our five priorities – Safety, Wellbeing, Planet, Opportunity and Performance.

Our business is comprised of two core divisions: the Operating Division, and Qube's 50 per cent interest in Patrick Terminals, Australia's leading container terminal operator.
The Operating Division comprises two business units: Qube Logistics and Infrastructure and Qube Ports and Bulk.

Qube Logistics and Infrastructure

Qube Logistics (QL) operates services covering road and rail transport, warehousing and distribution, container parks and related services, and international freight forwarding services. Qube Infrastructure includes ownership and operation of key terminals and infrastructure, including:

- Automotive and break-bulk terminals – through Australian Amalgamated Terminals (AAT), Qube provides automotive, general cargo and break-bulk facilities in Brisbane, Port Kembla and Melbourne.
- Grain terminals – through Quattro and Newcastle Agri Terminal, Qube operates multiuser grain storage and handling facilities in New South Wales.
- Rail terminals – the development and operation of import-export (IMEX) rail terminals and metro terminals.

Qube Ports and Bulk

Qube Ports provides port solutions and logistics services with bulk and general handling facilities in over 40 Australian, New Zealander and South East Asian ports. This allows Qube Ports to lead the market in providing purpose-designed solutions for customers handling containers, bulk, automotive and general cargo.

Qube Ports manages 25 sites for the forestry industry in Australia and New Zealand and is also the leading provider of supply chain logistics services to the energy sector, supporting thousands of onshore wells and rig supply vessels, barges and offshore construction vessels annually. Qube Ports also has operations in Singapore and Indonesia.

Qube Bulk provides customers with the full range of bulk material handling services, including road and rail transport, stockpile management and bulk ship loading. Qube Bulk specialises in large-scale bulk export facilities and bulk material supply chains.
Complementing the existing Qube Bulk mine-to-market portfolio is the well-established remote bulk haulage business, Kalari, which Qube acquired in May 2023.

Patrick Terminals

Qube owns a 50 per cent interest in Patrick Terminals with the other 50 per cent owned by Brookfield and its managed funds. Patrick is an established and leading terminal operator, providing container stevedoring services in the Australian market.

Patrick Terminals operates over four kilometres of quay line with 24 cranes and 130 straddles at four strategically located capital city ports around the Australian coastline. The network of terminals is located in the ports of Brisbane, Sydney, Melbourne, and Fremantle.

Qube Holdings (Qube) is pleased to respond to the Freight Policy Reform Program Interim Directions Paper (updated), released 19 September 2024.

Qube would like to formally make the following observations and recommendations in response, further to the information provided in our consultation session with the Independent Panel on 9 October 2024.

A further response with respect to rail access principles is attached in the Appendix.

Mandating of 600m Port shuttles

As stated in our original submission, Qube believes that substantial modal shift for metropolitan port freight to and from Port Botany will be essential to decarbonising the freight and logistics sector long term. To this end, Qube strongly applauds Direction (4) that a 600m metro port shuttle program be in operation within a reasonable period, with the potential for a mandated regime should a voluntary arrangement now be adopted within five years. As highlighted in our original submission, and as observed by others who have participated in this consultation process, multiple industry stakeholders including the stevedores and the Port Botany port operator support a move to 600m dedicated port rail shuttles.

However, we believe that a much faster timeline of adoption is required if rail is to meaningfully compete against road. Five years is too long to wait for positive action to help support port rail. Rather than wait years to potentially force an outcome, as is currently proposed, Qube believes that adopting this model now will deliver immediate benefits to port rail volumes while helping to support an earlier transition for regional shippers. We urge the Panel to substantially shorten the transition period to no more than 12 months to drive an immediate uptake in rail mode share.

In our consultation session, the Panel raised the issue of long regional trains 'breaking' at certain locations outside of the port stevedore terminals, including intermodal terminals (IMT's), so as to split and run into the Port in dedicated 600m sections as an alternative. While regional rail operators could theoretically do this at such locations as Enfield Marshalling Yard, it is highly inefficient and costly as not only would two separate trips to port need to be made, but the train also still needs to call back at a (rail connected) empty container park to reload empties. Under the alternative model proposed by Qube and modelled by Deloitte, regional trains would have their exports stripped and empties reloaded in one at an IMT. This would allow the regional train to return up country much faster, increasing overall cycle productivity time for regional shippers from three up to potentially five times per week.

The Panel also proposed that perhaps long regional trains could use IMT's to split and shunt into multiple sections to then run into port. Qube notes that IMT's are not designed for this purpose nor to be marshalling yards. Rather, IMT's are planned for high productivity unloading and loading with fast train turnarounds. Parking of trains with long dwell times would impact terminal productivity significantly.

Decrease in rail mode share as a result of removing the cap on rail window servicing pricing

Qube notes the Panel's recommendations that NSW move to a performance-based scheme for PBLIS, rather than the existing penalty-based scheme. Qube believes this would be detrimental without some critical guardrails, including the retention of the current regulatory cap on rail window servicing and pricing.

Qube strongly opposes the removal of the (PBLIS) regulation of stevedore rail servicing arrangements at Port Botany to allow stevedores to set rail lift charges and service terms as they see fit. Qube contends that any increase in rail window servicing fees will result in a significant decline in overall rail mode share potentially to as low as **4-5%** of total throughput, thereby directly undermining the Panel and the Government's objective to promote modal shift. This includes simultaneously undoing any positive momentum obtained by moving to a model of dedicated 600m metropolitan port shuttles – the most sensitive rail market to pricing increases versus road.

Qube believes it is contradictory for the Panel to advocate for mode shift initiatives such as 600m port shuttles, while financially penalising their operation and competitive success on the other at the same time as Higher Productivity Vehicle (HPV) permits become more and more frequent into rail contestable areas.

Port Botany handled some 390,000 teu by rail in FY24 representing 15.7% of Port Botany throughput and well below the rail mode share target of 28%. Of the total rail volumes approximately 75-80% are overwhelmingly metropolitan movements, however, metro volumes are the most cost sensitive. In the absence of price regulation at the port for rail window servicing this volume is significantly at risk despite private operators - ARTC, NSW Ports and the stevedores – investing more than a billion dollars in the past five years. Moreover, without any service level performance obligations on rail with the proposed removal of the regulation, stevedore servicing will undoubtedly become skewed towards road and its greater volumes.

Equally, suggestions that stevedores are not getting a return on investment for rail is not robust. We acknowledge that the rail access fee doesn't entirely cover the cost of servicing rail, however where there is a shortfall, stevedores have the capacity to recover through the landside infrastructure fees.

Removal of PBLIS power to regulate stevedore charges

With respect to the Panel's recommendation to remove the power to regulate stevedore charges, Qube notes that NSW is already a signatory to the National Transport Commission's National Voluntary Guidelines (**NTC Guidelines**) for landside stevedore charges. These were endorsed by NSW through the Infrastructure and Transport Ministers Meeting and published in April 2022.

Qube considers that these voluntary guidelines should provide the basis for application of all other stevedoring landside charges going forward. Sufficient time ought to be allowed for all industry stakeholders to ensure their successful adoption, however failing this, appropriate enforcement by Transport for NSW may be required.

However, even if the voluntary code provides the basis for landslide charges going forward, Qube again makes the point that the current regulatory cap on rail servicing pricing must be retained to ensure NSW achieves its mode shift targets and supports decarbonisation efforts.

Toll Road pricing for heavy vehicles

Qube notes commentary in the Interim Directions Paper that heavy vehicle tolls should be reduced to encourage more trucks to use toll roads and stay off local roads.

Qube believes this also will also have a negative effect on growing rail mode share by reducing charges to trucking companies already receiving widespread productivity benefits from HPV permits across greater western Sydney. If the desired impact is to remove trucks from local roads, then trucks should simply be compelled to use toll roads, as is the case with North Connex. It should also be noted that the passing on of toll charges to customers is standard industry accepted practice, so operators are not disadvantaged were this to be mandated.

Conclusion

To conclude, as outlined above, Qube believes it is paramount that the rail access regulation cap remains.

Should the NSW Government take on the Panel's recommendations and move to a performance-based scheme for PBLIS, rather than the existing penalty-based scheme, Qube believes that the devil will be in the detail but that rail window servicing and pricing regulation must remain at the centre of any revised regime.

Qube fully supports the NTC voluntary code and efforts through the NTC Guidelines to align approaches between states regarding stevedore landside charges. A significant amount of work has already been done in this regard and it is essential that states continue to support this work, as Victoria has recently done. The voluntary model allows for stevedores to fully recover shortfalls and invest in rail handling capacity and efficiency. However, with respect to Port Botany, the current regulation cap on rail servicing pricing must be maintained to redress the already lagging modal shift and to achieve the NSW Government's stated policy objectives. The consequences of not doing so will unquestionably have significant negative impacts on overall rail mode share growth, and specifically current metropolitan rail freight volumes, which will convert straightaway over to road.

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APPENDIX - Rail Access Principles

In our recent interview with the panel, we were asked for additional information regarding any concerns Qube might have with current NSW rail access principles.

Qube would like to make the following observations in response.

Reform of how the NSW rail network is managed for rail freight is long overdue. The current NSW and ARTC rail access undertakings have been in place for over 15 years and the access charging model on the Sydney Trains network has been in place for close to 20 years. Across the various Rail Infrastructure Managers (RIMs), the NSW rail network currently offers inconsistent network management principles, approaches to safety, rolling stock registration and approvals, network rules and train operating conditions, with no incentive for any of the networks to change or align with other networks. Each network has also established different pricing models (with different pricing signals) and incentivising different, non-aligned, operating regimes. Without some explicit coordinating function, the different RIMs have demonstrated that they are unable to align to create one NSW rail network through goodwill. Ownership and coordination of rail freight issues in NSW must be the responsibility one of organisation, and accountability clearly defined.

With this in mind, Qube supports the majority of the Panel's findings (section 9.5.1), notably:

- Increase the level of service for the Sydney Trains network, including the development and refinement of the performance measures and targets;
- Improve coordination between networks, including identification of opportunities to align service levels and performance measures; and
- Review the current operating and contracting arrangements for the Country Regional Network.

Qube also supports the proposal to:

- Reduce the complexity of the NSW rail network, through increased harmonisation between networks and access arrangements and more strategic planning (section 9.5.2).
- Improve management of network infrastructure to deliver more resilient assets, plan for more efficient degraded operations and improve recovery plans.

While Sydney Trains' approach to the management of freight in recent years appears to have improved in some areas, it clearly takes a risk adverse approach to the management of freight on the network which lacks the flexibility needed for freight operators and customers. The financial and reputational cost of this risk adverse mindset is passed on in full to the freight industry and directly affects the international competitiveness of local export commodities. Given the strong focus on passenger service reliability and the measure of on-time reliability, there appears little to incentivise the efficient movement of freight or the grow mode share. For example, neither the timetable systems nor pricing model can cater for a freight train operating on a regular 48 hour cycle. This needs to be addressed with Sydney Trains incentivised and rewarded if mode share and supply chain efficiency is to improve.

NSW should also adopt a policy requiring all rail passenger network investment initiatives to include a freight impact statement. This needs to set out how freight will be managed during project delivery and upon commissioning. At the moment TfNSW develops a passenger initiative without consideration of freight impacts, resulting in (potentially significant) impact during construction and then (potentially) reduced access as the project results in increased passenger frequencies.