

**Submission to the
IPART Review of access pricing on the NSW grain
line network
Transport – Issues Paper**

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1. Introduction

NSW Farmers is Australia's largest state farming organisation representing the interests of the majority of commercial farm operations throughout the farming community in NSW. Through its commercial, policy and apolitical lobbying activities it provides a powerful and positive link between farmers, the Government and the general public.

NSW Farmers is the key state representative body for both intensive and extensive industries ranging from broad acre, meat, wool and grain producers, to more specialised producers in the horticulture, dairy, poultry meat, egg, pork, oyster and goat industries. NSW Farmers also represents the interests of rural and regional communities and the important issues associated with natural resource management.

Considering the significant contribution of agriculture to the NSW and Australian economy in general, it is imperative that adequate investment into transport infrastructure is made by Government in rural and regional Australia. Such infrastructure is imperative not only to continue the generation of strong economic activity in these areas but to also make the freight infrastructure more efficient and the transport pricing more affordable.

Organisations are reluctant to commit to new investments in the agricultural sector until such time as there is some certainty about freight infrastructure and transport pricing to enable them to efficiently and competitively undertake their businesses.

Adequate road and rail infrastructure is essential for rural and regional Australia's economic and social well being. The infrastructure must be efficient, reliable, safe and secure while working around the particular challenges Australia presents; namely its large distances, coastal population concentration and the changing end point orientation.

Recently a significant amount of attention has been placed on this important issue; however it is increasingly evident that major transport infrastructural funding is not well planned.

Rural and regional communities have gone through varying difficulties over recent years, with persistent drought, increased costs of production, changes to wheat export marketing arrangements and the privatisation of the state rail.

Within rail freight there currently exists vast inefficiencies, where the efficiency of sites on the main line has compensated for the inefficiencies of the more remote out loading facilities at the end of the grain rail branch lines.

NSW Farmers continues to support the use of rail as the most economically, socially and environmentally friendly means of transporting agricultural produce, such as grain, to export port or market. Rail freight produces less than a third of the emissions of road freight, reduces wear on underfunded rural roads and reduces risk to health and safety on these roads. For grain handlers and traders a functional branch aids with quality assurance (particularly insect control), easier accumulation and greater efficiency. As such NSW Farmers actively endorses investment in rail infrastructure. A single 2000 T train for example, will take 50 B-Double trucks off the road.

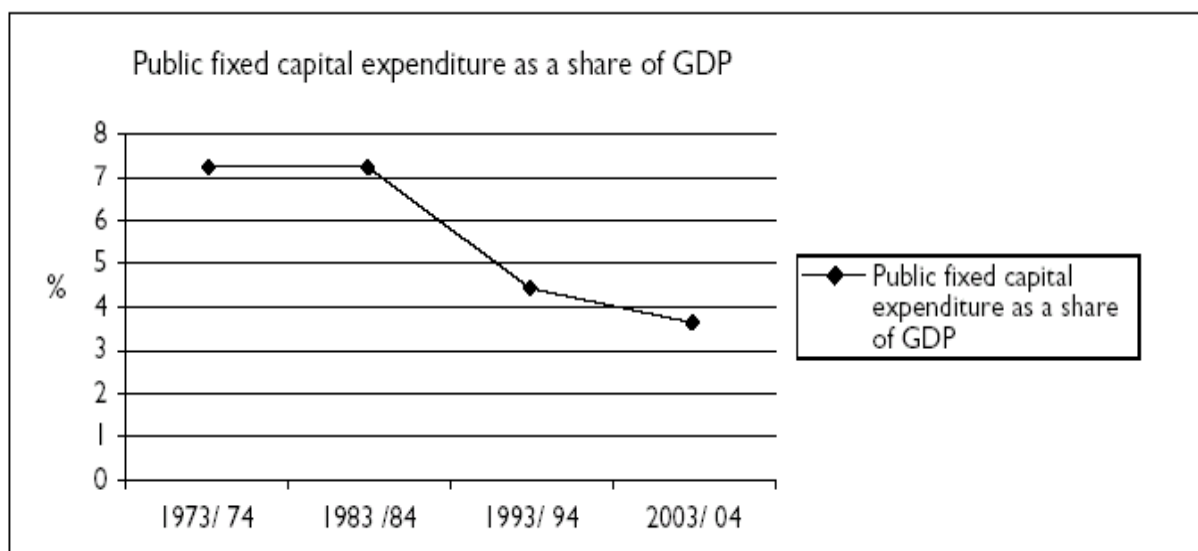
Underinvestment in transport infrastructure

Since the 1970s, investment in transport infrastructure has declined from about 7% to about 3.6% of GDP in 2003/4. Roads investment has fallen from 22% of GDP in the 1960s to 10% now.

In 2001, Engineers Australia provided national roads a grade of 'C' and railways a grade of 'D minus'. Also in 2001, the Australian Rail Track Corporation estimated that \$3 billion was required to bring the interstate rail network up to the Australian Transport Councils targets for speed, axle, load and train length. Overall it is estimated that Australia has underinvested in key areas of infrastructure by \$24.8 billion, with \$18 billion in road and rail.

Estimates of Australian public infrastructure and under-investment

Road	\$10 billion
Rail	\$8.06 billion



The Grain Branch Line Network

The last decade has seen drought conditions cripple the State. Due to the drought there has been no work conducted on the branch lines and therefore it is easier to question the value of them.

Many of the Class 5 (19 tonne axle limit, 20 km/hr minimum, 30 km/hr maximum) lines are barely fit for purpose. Growers are being penalised up to \$8 per tonne due to lack of competition amongst buyers wary of the logistical burden of purchasing grain situated upon the dilapidated branch lines.

According to the NSW Grain Freight Review upgrading class 5 to class 3 would allow faster operating speeds, make it possible to operate to and from additional silos in a 36 or 48 hour cycle time and allow greater flexibility in the deployment of locomotives. Higher track service standards should increase above-rail productivity and thus reduce freight costs.

According to the Country Rail Infrastructure Authority the cost per kilometre of maintaining a branch line at a Class 5 level, based on historic annual maintenance costs to maintain Class 5 lines at current operating levels over the past 6 years, and looking also at future maintenance plans, is an average cost to maintain of \$31k/km/annum as an average. This cost includes routine maintenance (inspections and minor corrective work), some bridge and opening renewals and cyclic re-sleepering, ballasting and resurfacing. The big costs are in re-sleepering and bridge renewals which are “lumpy” over time and need to be averaged out to obtain a realistic annual life cycle cost.

The cost per kilometre of upgrading a branch line from Class 5 to Class 3. This cost varies greatly depending on a number of variables for each line being considered. Variables include track alignment, existing sleeper condition, existing bridge condition and load capacity, source and cost of 53kg/m rail, transport costs of rail to site and depth and condition of existing ballast. As a guide, costs per km to upgrade can vary from \$300k up to \$985k depending on variables. However if it meant that the lines could carry the newer, more efficient class 81 locomotives instead of the older class 48 locomotives, the long term cost benefit analysis may be compelling.

Of the 2,735 kilometres of operational rail owned by the Country Rail Infrastructure Authority, 2,431 km have grain trains operating upon them, of which 578 kms are class 1 (25 T axle load), 416 kms are class 3 (21 T axle load) and 1437 kms are class 5 (19 T axle load).

Grain data from GrainCorp shows that in the grain growing areas serviced by the 1217 km of branch line network in NSW, on average 74% of grain is transported by rail. This equates to an average of 1.72 million T per annum and an average of 1057 rail tonnes per kilometre in the branch line network grain growing region alone

NSW Farmers notes the NSW Government’s agreement to the recommendations from the NSW Grain Freight Review and now encourages the Government to make good that agreement.

How relevant or useful now are the inputs and conclusions of the 2004 GIAC review, and the 2009 NSW Grain Freight Review? For each these reviews, what assumptions, if any, should be modified in light of subsequent experience or new information?

Access charges paid by train operators for use of these restricted lines reported to GIAC in 2004 averaged approximately \$0.4 million p.a. over the previous 5 years, compared with a cost of \$14.7 million to maintain them. Cost recovery ranges from less than one percent of annualised costs to a maximum of only 6.3%. The ‘dollar’ level of losses from maintenance of these tracks averages \$10.80 per tonne carried and is more than \$20 per tonne on several lines. The rate of cost recovery would improve somewhat if the lines were upgraded (excluding recovery of any upgrading costs) but would still remain very low (around 9% on average).

The assumption that for the lines to be upgraded to Class 3 it would require investment from industry needs to be modified.

If upgraded to Class 3 lines funded by the Government result in

- actual freight savings

- infrastructure that more participants can access
- a new market dynamic being created
- less logistical risk in the transport of grain
- other social and environmental benefits

and if the industry can reach consensus for the Grain Trade Australia location differential (or other market based freight rate eg. GrainCorp released their own freight rates in June 2010) to be adjusted downwards to reflect the aforementioned efficiencies and market dynamics, the savings from the cheaper location differentials/freight rates should be returned to the Government (in the form of an increased access charge) and growers in a 50/50 split.

In establishing pricing principles for access prices, should the impact of improvements in below rail investments, and operation and maintenance decisions on above rail operators' costs be taken into account? If so, how?

Yes. According to information supplied to the Grains Industry Advisory Committee ('GIAC') in 2004, by RIC, the average cost of maintaining restricted lines in the five years prior was approximately \$13,600 per route-km p.a., and equivalent to \$1.10 per tonne carried. These costs reflect a routine 'fix-when-fail' maintenance policy rather than major periodic maintenance or renewals works. This continual 'patch-up' strategy is relatively costly in financial terms compared with the results achieved, because the assets are at or near life expiry.

Are GIAC's estimates a reasonable basis to assess the external costs of road and rail? Do these estimates or the way they were calculated require updating to reflect any changes? How much difference might that make to the overall conclusions of GIAC?

The impact of the Carbon Tax, COAG Road Reform Plan and the National Heavy Vehicle Regulator will all have a significant impact on the pricing interface and elasticity between road and rail and more modelling is required post GIAC and NSW GFR. Accident costs need to be considered as direct costs as they were for the NSW GFR.

Farmers are economically rational and will always take the spot freight price that gives best benefit.

Growers are free to direct the delivery of their grain to any receival facility, so receival facilities compete with each other to attract deliveries.

Competition occurs by way of price, freight rates offered from the facility, and non-price factors such as opening hours and truck turn-around times. Faster outloading rates and lower freight rates for mainline rail operations result in lower total costs for users of newer large receival sites. This also depends on factors that affect the speed of delivery faced by the grower, including:

- Harvest times and header speeds
- Segregations available at receival sites
- Information about queues at receival sites
- Daily capacity of sites.

NSW Farmers believes there is a requirement for more research to be conducted to figure out what level of investment is needed that will ensure that the rail freight costs are more economically efficient than road, and what is the price elasticity of the two different services, and what is the substitutability of the two modes.

What assumptions, methodology and data should IPART use to estimate the maintenance and capital costs associated with increased heavy vehicle traffic on the road network if the grain lines were closed? Are the methodology and assumptions used in the GIAC report reasonable? Have there been any changes since the GIAC report that would affect the analysis significantly?

More accidents, more road wear, more carbon emissions.

What assumptions in relation to vehicle type(s) should we base our analysis of the costs associated with additional heavy vehicle use and above road operating costs?

Road transport is becoming more efficient however it uses approximately 2.5 times the amount of fuel as rail.

What are the main components that contribute to the above road costs for heavy vehicle operators carrying grain, and are the above road costs of \$0.08 and \$0.10 per net tonne kilometre, estimated by the NSW Grain Freight Review, a reasonable estimate?

Fuel, registration, carbon tax. The above road costs are not a reasonable estimate as all of these costs have increased.

What other considerations are relevant to the decision to transport grain by road or rail? How important are access prices in this decision?

Quality of grain, export or domestic market.

What impacts will reforms to heavy vehicle network infrastructure planning and charging frameworks have on grain transportation on the NSW grain line network?

Under the COAG Road Reform Plan, if Mass Distance Location is chosen as the preferred option for linehaul freight routes, there needs to be a 2 tiered approach that incorporates a Community Service Obligation into rural road pricing. Unless this occurs this will make grain freight by rail even more economically feasible compared to road.

Is there benefit in establishing a grain industry planning and co-ordination group that has representatives from all parts of the grain industry including grain growers, grain handlers rail operators and network owners to assist in decision making about infrastructure planning, pricing arrangements and willingness to pay?

The creation of the Grain Industry Coordination Forum will be essential to assess the suitability of selected grain lines to be upgraded to Class 3 standards. The faster speeds

allowable under class 3 track conditions would in turn attract greater above rail competition, encourage greater outloading efficiencies at up-country receival sites, cheaper freight rates, more competition amongst grain-buyers at more silos, and less wear and tear on already dilapidated rural and regional road networks.

Could the grain industry benefit from greater interstate coordination and planning of the eastern states grain supply chain?

Yes, definitely. Better utilisation of above rail rolling stock would arise.

NSW grain growers must have a robust, viable, sustainable and integrated transport, storage and shipping infrastructure to ensure the supply chain becomes more efficient and delivers lower costs to growers (and all participants).

Clearly this requires:

- Adequate strategic infrastructure in all parts of the supply chain;
- Operational management directed at fully utilising new and existing assets;
- Close cooperation between all operators to realise synergies along the supply chain from the farm gate to port; and
- Integrated transport infrastructure planning and underpinning investment budgets.

Conclusion

NSW Farmers has been calling for the upgrade of regional grain freight network for over nine years and NSW Farmers urges the State and Commonwealth Government to take a long term view of the rail road network in undertaking this review.

NSW Farmers believes there should be no other option other than to focus investment on line improvement. NSW Farmers understands that at least for some of the lines, the cost differential between restoring and maintaining the line at Category 5 and improving the lines to standards approaching those of the mainline may not be great. The State has already seen a large reduction in the number of remaining operational branch lines to below that recommended in the GIAC.

None of the existing inland rail network will realize its full potential or efficiency until the port zones are linked with an inland rail link along the western freight corridor.

NSW Farmers strongly supports the development of the inland rail link from Toowoomba in Southern Queensland and Geelong in Victoria as it would improve the freight efficiencies throughout the east coast of Australia and help develop and establish a much needed network of inland intermodal transport hubs. Such a rail link would allow for the cost effective movement of grain and other freight to major facilities throughout the east coast of Australia, to be further shuttled by both road and rail. NSW Farmers believes the added efficiencies to freight logistics created by the development of the North South inland rail link would stimulate development of industry closer to the source of available raw materials and further stimulate the need for improving the standard of the restricted branch lines to feed both in and out of the North South inland rail hubs.