The Rail Freight Sector's response to the *2026-27 Review of the Safeguard Mechanism*

The Freight on Rail Group (FORG) and the Australasian Railway Association (ARA) collectively represent the interests of Australia's rail freight operators, infrastructure owners, and the broader rail supply chain.

We welcome the 2026 Safeguard Mechanism Review (SGM Review) as an important opportunity to address inequalities in the current scheme design and a chance to allow rail freight transport to more fully support Australia's transition to a low carbon economy.

The Freight on Rail Group (FORG) consists of the nine major rail freight businesses in Australia: Pacific National, Australian Rail Track Corporation (ARTC), One Rail Australia, Aurizon, Qube Holdings, SCT Logistics, Arc Infrastructure, WatCo Australia, and Southern Shorthaul Railroad (SSR).

These rail freight companies contribute more than $11 billion each year to the nation's economy, employ 20,000 people (many based in regional Australia), operate in every mainland Australian state and territory, utilise 1,600 locomotives and 34,000 wagons, and manage and operate 23,000 kilometres of rail track

The Australasian Railway Association (ARA) is the peak body for the rail sector in Australia and New Zealand, and advocates for more than 240 member organisations across the rail industry.

ARA members include 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
- The suppliers, manufacturers and consultants that drive innovation, productivity and efficiency in the rail industry.

1. Introduction

- **Transport was the only sector where emissions increased last year – so while the SGM might be working across the economy as a whole, it is not in relation to the Transport sector.**
    - The single, simplest and most impactful option for Government to decarbonise the transport sector is to shift more freight onto the existing rail network, which has significant excess capacity.
    - Current policy settings are adding up to 5 million tonne of CO2 to transport emissions annually[1].

[1] Rail Industry Safety and Standards Board (2022), National Rail Carbon Footprint Study

        - This incorporates both freight which could be attracted to rail and losses to road transport, based on additional costs in the rail system from SGM membership.
    - The SGM could contribute to a higher proportion of abatement (beyond the 30%) by removing coverage of the rail freight industry.
- **Rail freight is 16 times more carbon efficient** than road freight[2].
- The recent fuel crisis has highlighted the contribution that rail freight can make to **fuel security and economic sovereignty** – SGM-related policies need to be set accordingly.
    - The importance of supply chains is reflected in the Economic Resilience and Security Stream of the *Future Made in Australia Act*
- The presence of **70-80% of Australia's rail freight on the SGM list, and less than 1%** of road, creates a perverse outcome and increases emissions.
- This has led to **carbon levies** being charged to rail freight customers, while more carbon-intensive road freight does not carry this burden.
- The push to include **Scope 3 emissions within global Carbon Border Adjustment Mechanisms** (CBAM) means a viable Australian rail freight industry is needed to support a broad cross-section of trade-exposed industries that will become subject to a CBAM.
- The **ability of the rail freight industry to decarbonise through technology is severely limited and cost prohibitive**, particularly compared to road freight. This reduced access to 'on-site abatement' needs to be considered in the SGM policy response.
    - Prescribing or explicitly favouring onsite abatement in the early years of a multi-decade policy may increase transition costs and discourage long-term investment.
    - The Consultation Paper's reference to 'Flexible compliance' arrangements for industry needs to take this into account, and we note the Paper's intended focus on "the commercial readiness and viability of technology to reduce emissions"
    - Rail sector-specific barriers to 'on-site abatement' include:
        - Lack of viable technology options in the medium term for long haul rail freight (e.g. electric, hydrogen etc.)
        - The industry's sunk investment in long-life assets such as locomotives, which can be up to 40 years
        - The level of investment required to upgrade rolling stock when compared to road
    - This also impacts rail freight's ability to deliver the proposed 'carbon abatement plans'.
- If the operation of the **SGM continues as is, it will add a $200-$300M cost impost** to Australia's most carbon efficient form of freight over the next 10 years.

[2] Australasian Railway Association (2025), Value of Rail – prepared by Deloitte.

2. Corrections to the Discussion Paper's references to freight

- There are a number of errors in the reference to transport, including:
    - Freight contestability between road and rail is much more significant than referenced – and we dispute the context that "major parts" of the rail network are dedicated to bulk commodities (page 33).
    - By definition, this contestability is impacted by a range of government policies, including ARTC Access Charges, the on-going approval of High Performance Vehicles which severely diminishes the competitiveness of rail freight, and under-investment in the rail network against the road system. FORG estimates that there has been a structural cost shift of 40% in favour of road over rail in the last 10 years.
        - These factors make contestability an inappropriate measure, and the review should focus more on the overall inadequacy of the SGM initiative in reducing transport emissions.
        - The rail freight industry is seeking to work with Government on identifying particular freight corridors where there is (or could be) contestability.
- The suggestion that having only one road company on the SGM list "creates a competitive distortion" is accurate, but misses the key point that it is driving transport emissions up (page 33).

3. Key Recommendations

1. Rail freight should be removed from the SGM
    - Perversely, adding more rail operators to the SGM list will increase emissions by driving more freight to road.

2. If this is not agreed, the following mitigating factors need to be considered:
    - Exclude freight that is directly contestable with road from the SGM obligations of rail operators to help level the playing field with road
    - Include rail as a trade-exposed, baseline-adjusted sector, giving it access to a discounted decline rate
    - Align rail's more onerous production variable with that afforded to the road freight sector
    - Confirm rail freight's access to ACCUs under the *Industrial and Commercial Emissions Reduction Method* for mode shifted freight
    - Provide a dedicated grant fund of $500M for rail freight to support locomotive repowering, zero-emissions technologies and enabling infrastructure. Rail freight's current access to grant programs alongside broad sectors of the economy does not reflect the disadvantageous treatment through the SGM.

3. From the position of competitive neutrality, moving to a national freight calculation would see greater representation of road freight on the SGM, but still only at 50% compared to 92% of rail – this remains a perverse outcome.
    - We note that to fully capture road, this proposed change needs to address the issue of sub-contractors being increasingly used by the road freight sector to avoid the SGM.
    - Any revised approach needs to avoid the outcome of making additional rail freight volumes subject to the SGM
    - Any change also needs to avoid creating more opportunity for foreign-flagged ships to sail domestic freight segments, and should be considered in light of existing proposals to strengthen the *Coastal Trading Act* to better protect on-land freight options from the dumping of maritime services.

4. In the context where the rail freight industry is seeking to access the ACCU Scheme to mitigate the issues outlined above, devaluing ACCUs via the 1.5 ratio concept is counterintuitive. Limiting ACCU use is likely to increase near-term compliance costs and reduce the cost-effectiveness of Australia's long-term transition.
    - We reject the notion that this discounting has a predictability advantage (page 15) – the whole discussion introduces uncertainty regarding this proposed (and potential future) change to operation of the ACCU Scheme.
    - We also note the complete disparity between market ACCU prices and the Cost Containment Measure price of $87 – the fixed price concept is useful but needs to be recalibrated.

5. Trade-Exposed Baseline-Adjusted (TEBA) access should be provided to rail freight – the fact that there are no TEBA accredited organisations beyond the manufacturing sector point to a potential policy failure. Many other Federal Government programs recognise the contribution that the supply chain plays to the competitiveness of export sectors (e.g. Export Finance Australia, the Future Made in Australia Act).
    - Providing rail freight access to TEBA discounts would also prevent carbon leakage across other designated sectors by improving the cost competitiveness of Australian suppliers.

6. The *Transport Resilience and Capacity Kickstart (TRACK)* initiative is the first mechanism the Federal Government has introduced to effect mode shift from road to rail. The pilot program provides a solid basis which can be expanded to leverage greater levels of decarbonisation in the transport sector:
    - A substantial increase in funding for rail operators to $500M annually through the TRACK initiative would significantly decarbonise the transport sector, and recognise rail freight's contribution both to fuel security and net zero targets.

4. Commentary on specific questions

- **Are there particular freight corridors where there is high freight contestability? Can stakeholders provide information about potential overlap and competitive distortions?**

  There are numerous examples of freight corridors that experience high freight contestability. These include Melbourne-Sydney, Melbourne-Brisbane, Sydney-Brisbane and Melbourne-Perth. FORG and ARA each have detailed information on these corridors that can be shared with the Department in future consultation processes.

  We also note that mode contestability changes significantly over time, and is influenced by a range of factors. We note the **40% structural cost shift** to the advantage of road over rail in recent years, which has allowed the road freight sector to claim certain routes and freight types are no longer contestable.

- **Are there other changes to Safeguard Mechanism design that could address potential distortions consistent with Safeguard Mechanism objectives?**

  Though the SGM is intended to create a technology agnostic framework to support the decarbonisation of Australia's economy, it imposes a more onerous target on rail transport than road transport through the available **production variables**.

  For background, using an industry specific freight density factor of 0.33 t/M3, rail transport production variables are ~35% lower than road transport production variables for non-bulk freight. This weakens the advantage the rail freight sector can obtain by transitioning to cleaner, lower carbon offerings for non-bulk freight, and draws an arbitrary distinction between the value of abatement in the rail freight sector when compared to equal offering road freight services.

  To resolve this distinction, FORG and ARA strongly support the Rail Freight sector having access to a production variable that aligns with road. This would incentivise the implementation of lowest cost abatement as a priority, providing an equitable baseline from which covered facilities can reduce their emissions intensity. The development of a single sectoral-based production variable for non-bulk freight would also allow consumers to make an informed decision around which freight option offers the lower carbon intensity by providing a streamlined industry-wide benchmark, as is available for all other production variables under the Safeguard Rule.

  Additionally, FORG and ARA believe that rail freight needs to be considered for TEBA accreditation. A number of Government programs recognise the role that supply chain costs play in the competitiveness of trade-exposed industries, and this should be extended to the application of SGM TEBA status.

5. Other issues

- TEBA accreditation should be based on on-going reviews of the international competitiveness arrangements for sectors/facilities, and not unilaterally removed or subject to a “catch up” mechanism
    - We agree that a border carbon adjustment mechanism in Australia, which includes supply chains, would be a timely basis for removal of TEBA coverage.
- Require the Climate Change Authority (and Australian governments more broadly) to assess and report transport-sector wide emissions outcomes, including road-rail modal leakage and mode share changes.
- Maintain practical compliance flexibility – banking, access to high integrity ACCUs and SGM Credits, multi-year monitoring and effective cost containment.
- The interaction of various policies and programs targeting transport sector decarbonisation requires careful consideration. This is important to minimise the risk of overlapping settings leading to a cumulative increase in compliance and decarbonisation costs for large fuel users, whilst delivering limited additional emission reduction outcomes. A key objective of the demand policy formulation should be framed around ensuring that the two mechanisms operate in a complementary manner.