AUSTRALASIAN RAILWAY ASSOCIATION

Association Number A03958 | ABN 64 217 302 489

AUSTRALASIAN RAILWAY ASSOCIATION SUBMISSION

To

Freight Victoria

on its Port Pricing and Access Review

THE ARA

The Australasian Railway Association (ARA) is a not-for-profit member-based association that represents rail throughout Australia and New Zealand. Our members include rail operators, track owners and managers, manufacturers, construction companies and other firms contributing to the rail sector. For further information on this submission, please contact Duncan Sheppard, General Manager, Freight and Contractors, dsheppard@ara.net.au or 02 6270 4531.

REVIEW PROCESS

The ARA thanks Freight Victoria for the opportunity to provide this submission. This review, which was committed to as part of Victoria's Freight Plan, *Delivering the Goods* in July 2018, marks an important step to analyse a significant freight issue at the state level, but which also has national ramifications. ARA therefore acknowledges Victoria as the first state to instigate a review into this matter.

ARA acknowledges the Terms of Reference for this review were approved by the relevant Minister on 5 May 2019, and subsequently released to industry on 9 August 2019. Given the importance of this matter, ARA queries why an Issues Paper was not prepared to accompany this review process. Furthermore, ARA also requests an opportunity to review the draft report before a final report is produced.

SUBMISSION - KEY POINTS

- Infrastructure charges imposed by stevedores is applied as a landside cost on full units arriving or leaving ports and have increased considerably since their initial introduction and now apply to all east coast ports.
- The rationale for the imposition of infrastructure charges on landside access (including rail operators) is understood, however, charges need to be accompanied by mechanisms that promote greater transparency so there is visibility in terms of the efficiencies these charges are delivering.
- The imposition of landside infrastructure charges must demonstrate that charges are directly driving infrastructure improvements with the primary aim of increasing throughput and productivity.

- The establishment of an independent performance measurement and benchmarking framework linked to the infrastructure charge would help to drive improved transparency and accountability.
- Charges to rail freight need to be appropriate and commensurate given the additional handling charges rail freight is subject to, compared to road freight
- It is not appropriate or reasonable for industry to bear the costs of historic capital expenditure by stevedores.
- Proposed enhancements to on-dock rail at the Port of Melbourne are intended to reduce the charges that rail operators will be asked to bear.
- Appropriate and measured charging regimes are needed to complement modal shift objectives.
- Consideration should be given to the establishment of incentivisation schemes which reward supply chain partners whose actions support improved landside productivity outcomes.

THE CONTEXT - ACCC STEVEDORING MONITORING REPORT

ARA's submission on the Port Pricing and Access Review is provided against the backdrop of the Australian Competition and Consumer Commission's (ACCC) recent monitoring report of the stevedoring industry. The ACCC's *Container Stevedoring Monitoring Report 2017-2018* provides an important foundation upon which policy makers can consider relevant issues relating to port access and pricing in Victoria. In particular, the ARA notes the ACCC's following observations regarding infrastructure charges imposed by stevedores at our major ports.

- Infrastructure charges have been most notable in Melbourne and have added to costs to the supply chain. By way of example, DP World's charges have increased from $3.45 per container in April 2017 to $83.50 per container from 1 January 2019.
- Land transport operators must go to the stevedore to which they are directed and have no ability to choose a stevedore that has lower infrastructure charges.
- In 2017-2018, infrastructure charges generated approximately $100 million, or approximately 7.6% of industry revenue. This compares to the $25 million raised from the charge in 2016-2017, or approximately 2% of industry revenue.

- If stevedores do not announce any further increases to the charges, it is estimated that the industry may collect around $180 million in revenue from the infrastructure charges in 2018–19 [1].
- Without constraint, stevedores may be able to set charges at levels greater than required to recover costs and earn an adequate rate of return.
- There is an incentive for stevedores to increase infrastructure charges given they can earn a growing proportion of their revenues in a market in which their market power is stronger relative to the more competitive market in which they provide services to shipping lines.

In its report, the ACCC rightly concludes policy makers should consider the impact of these charges on supply chain costs (including on both transporters and cargo owners). ARA therefore welcomes Freight Victoria's further consideration of these matters and acknowledges that whilst this review is state focussed, it potentially has national ramifications.

PORT FREIGHT MODAL SHARE

The ACCC report also highlights the relatively low levels of freight being moved by rail to and from Australia's major container ports, which in 2017-2018 was approximately 11.4%. Rail modal share at Port of Melbourne sits below 10%, which is in contrast to relatively higher levels at Port Botany, Adelaide and Fremantle, all of which enjoy modal share above 15%.

The proposed Port Rail Solution to integrate rail and stevedoring terminals at the Port of Melbourne would help to address these relatively low levels of rail modal share. Proposed infrastructure investments as part of the Port Rail Solution, coupled with commitments by the federal and state governments to invest in a port rail shuttle network, are important measures to help to deliver cost savings, improve supply chain efficiency and reduce truck numbers in Melbourne. In the context of this review, the uncontrolled imposition of infrastructure charges for landside access at stevedoring terminals has the potential to undermine supply chain cost savings and efficiency gains achieved through supply chain investments outside the stevedoring terminals. This has the potential to inhibit the shared objectives of increasing rail modal share to ports.

[1] In February 2019, Patrick advised its customers that infrastructure fees at Melbourne would increase by 73 per cent.

ARA COMMENTS

Rail operators benefit from investment and improvements in landside transport infrastructure and the industry is therefore not opposed to making reasonable contributions to ensure infrastructure supports improved supply chain efficiency. It is fundamental, however, that infrastructure charging regimes imposed by stevedores are transparent and structured in such a way that engenders industry confidence and drives real efficiency improvements. Consistent with the principle that risk must be addressed through the most appropriate body able to mitigate against it, the imposition of infrastructure charges must demonstrate that charges are directly driving infrastructure improvements with the primary aim of increasing throughput and productivity. It is also important that the supply chain is considered end-to-end and that cost savings in one part of the supply chain are not undermined by cost increases in other parts of the chain. At the end of the day, the competitiveness of our supply chains depends on the total cost impact to end users – the cargo owners. It follows therefore that supply chain efficiencies achieved through off-dock rail freight movements (such as intermodal freight movements at Victoria Dock and Appleton) should not be undermined by infrastructure charges that do not support supply chain efficiencies.

To help drive greater transparency and accountability, rail industry members would welcome the establishment of an independent performance measurement and benchmarking framework linked to the infrastructure charge. The framework should be structured in such a way that enables industry and policy makers to clearly identify how infrastructure charges are leading to increases in efficiency. Such a mechanism could also provide the transport industry with an avenue to provide direct input to stevedores on where investments should be made to maximise landside efficiency improvements.

Such an approach would not be inconsistent with the short-term goal of Government, as outlined in the Victorian Freight Plan, to monitor (along with ACCC) competition, pricing and the performance of import and export container movements and identify and implement improvements in the container supply chain. In this sense, it is worth noting that the ACCC report highlights that national truck turnaround times have improved from 33.9 minutes in 2011–12 to 29.6 minutes in 2017–18. A performance measurement and benchmarking approach would provide greater clarity on the extent to which infrastructure charges have had a similar impact in terms of supporting improved rail efficiency outcomes.

Such a mechanism would also provide greater clarity as to the 'true cost' that freight operators should be expected to bear, particularly as road and rail are charged the same amount but have different infrastructure requirements and receive different infrastructure outcomes. Compounding this is the fact that rail has additional handling charges compared to roads, which reinforces the need to ensure that infrastructure charges are appropriate and commensurate.

To maximise the effectiveness of such an approach, it would, in the longer term, require a national approach so there is improved cross-border transparency regarding the improved efficiencies infrastructure charges are helping to deliver. The recently released National Freight and Supply Chain Strategy highlighted the importance of adopting a coordinated and national approach to freight, and in light of this, industry would be supportive of a process to compare and contrast how different container ports are investing to improve landside efficiency.

Whilst as a principle industry accepts an appropriate charging regime to recover proportionate costs incurred from improving landside infrastructure, ARA does not believe it is appropriate or reasonable for industry to bear the costs of historic capital expenditure. ARA disagrees with the notion that charges should "seek to rebalance the recovery costs of significant past investment in landside services such as truck facilities, yard equipment and rail infrastructure[2]". Industry is of the view that historic capital expenditure should be excluded from charges and that future infrastructure charges should not apply to sunk investments.

Ensuring there is an equitable and justifiable charging regime at ports is necessary to complement and not undermine associated modal shift initiatives which have been established to support governments' policy objective to move more freight to rail. These schemes, such as the Western Australian Government's container rail subsidy of $50 per TEU, have been introduced to encourage the required mode shift and establish critical mass to sustain an efficient rail supply chain which promotes many public benefits well beyond the supply chain that is bearing the costs, such as improving community amenity and environmental benefits along metropolitan roads that link to ports.

ARA acknowledges the commitment by both the Victorian Government and the Port of Melbourne to increase the volume of freight carried by rail in Victoria to help manage the state's rising freight task and growing urban congestion. To assist this policy objective, and to help ensure that infrastructure charges deliver tangible outcomes, ARA also encourages consideration of incentivisation schemes which reward supply chain partners whose actions support improved landside productivity outcomes.

[2] ACCC Container Stevedoring Monitoring Report 2017-2018, Page 20