



Moving Ahead!

Suite 2, Level 2
132 Albert Street
Brisbane Qld 4000
Ph: +61 7 3003 0900
Fx: +61 7 3003 0313
E: office@ateclimited.com.au
W: www.aire.com.au

ABN: 92 078 963 925

4 May 2011

Mr Michael Deegan
Infrastructure Coordinator
Infrastructure Australia
GPO Box 594
Canberra ACT 2601

Attention: John Austen

Dear Michael

Re: Discussion Paper on the proposed National Land Freight Strategy

ATEC Rail Group Pty Ltd (ATEC) commends Infrastructure Australia (IA) in its endeavours to enhance the productivity and competitiveness of Australia's economy through the efficient delivery and utilisation of freight infrastructure. ATEC welcomes the opportunity to contribute to the development of a nationally-networked land freight strategy (the Strategy).

As a joint-venture proponent in the development of the Surat Basin Rail project (\$1bn freight rail asset to complete the supply chain from Queensland's Surat Basin coal fields to the Port of Gladstone) and sole proponent for the proposed Border Rail project (\$1bn missing link in the supply chain between Queensland's southern Surat Basin/Clarence-Moreton coal fields and Newcastle), ATEC has learnt some valuable lessons. It is through these experiences that we believe we have some unique insights into private sector investment in below-rail infrastructure and, more generally, the bulk minerals supply chain.

In responding to the Discussion Paper, recognising that the intent of the proposed Strategy encompasses a broader range of issues, our focus is to articulate these insights within the context of planning for future infrastructure capacity and the promotion of private investment in that infrastructure. ATEC's premise is that the nation's capacity to invest in the growth of land freight infrastructure is dependent on the Commonwealth (through vehicles such as IA) leveraging its influence over State and Territory Governments. The practicality of the Strategy's implementation is of prime consideration and specific initiatives, such as the integration of land use planning with nationally significant freight network planning, require the Commonwealth's ability to execute as well as clarity in governance and coordination across all levels of government.

By way of background, ATEC has established itself as a private sector below-rail infrastructure developer in Australia that is independent of above-rail operations. ATEC has three key business interests in:

-
- Rail Development – ATEC is a 33.3% equity participant in the privately developed Surat Basin Rail project in Queensland. ATEC was the proponent to secure the first ever unsolicited Exclusive Mandate in Queensland to develop this open access rail freight corridor, being an approx 210km mainly bulk mineral rail corridor. ATEC has other rail corridor projects in its development pipeline in NSW, QLD and WA.
 - Freight Terminals Ownership and management – ATEC also acquires and seeks to develop rail terminals. It has two such sites one in QLD and one In NSW. It is has successfully received material rezoning of its site in QLD, and is now planning its development to efficiently service intermodal and bulk volumes.
 - Specialist rail and terminal services – ATEC has incorporated in joint venture, Intermodal Terminal Services Pty Limited (ITS). ITS has three service sites being in Perth (WA), Moorebank (NSW) and Newcastle (NSW). It provides below rail maintenance services as well as open access above rail engineering and mobile service operations to above rail operators.

ATEC's core strategy is to provide open access services dedicated to the rail industry.

Given our recent and continuing experience in the development of below-rail freight infrastructure, our objective in responding to the Discussion Paper is to raise the particular issue of the role of government in facilitating private sector investment where there is no call on government to contribute either capital or ongoing operating subsidies.

ATEC recognises the core role of infrastructure assets is as platforms to support the movement of freight across supply chains. Within this frame, our submission is centred on three primary themes that ATEC consider as essential for enhancing the efficiency of a freight infrastructure network that enhances the nations productivity and competitiveness –

- certainty of process through integrating policy, planning and project development frameworks;
- timely and effective decision-making within government; and
- government expertise in interacting with the private sector to facilitate commercially bankable arrangements.

1. Policy and Planning Processes

- *Supply Chain Planning*

Fundamentally, it is our view that freight policy should be built on the basis of facilitating the efficient exporting (and hence importing) of freight. Australia is simply not big enough to be self-sustaining so has to trade to grow its GDP. However, traditionally, freight transport has been (in general terms) an 'after thought'. Transport planning has been driven primarily from a focus of people movements, as these significantly outweigh 'non people' transport movements. Hence freight co-exists within connective infrastructure, which has traditionally been built and maintained for passenger transport services.

This has led (in our view) to poor freight corridor investment decisions (both public and private investment) in nodal and connective infrastructure development, which in turn provides for inefficient outcomes in the transport/logistics industry (manifested in so-called 'bottlenecks'). In the development of transport policy, governments have a tendency to not appreciate supply chain systems (albeit it is improving particularly in

the resource driven States of QLD and WA) and the key relationships and inter-dependencies between the various components of these systems.

Government should use policy levers, which can facilitate efficient delivery of transport/freight infrastructure (both nodal (inter-modal ports) and connective) from the "Port back". For example, in New South Wales, freight corridors could be identified from the three main ports of Sydney, Newcastle and Wollongong to help facilitate intrastate movements of freight. This allows government to better understand the systems and to also gain an understanding within the chain of where market has provided a solution (or not) and why this solution (or not) has been provided.

- *Corridor Planning*

Corridors also need to be identified from main international air and sea ports, e.g. Sydney, Melbourne, Brisbane, Perth, Darwin and Adelaide back to the supply/demand nodes within each state such that nodal infrastructure and connective infrastructure is developed within those corridors.

While this has been somewhat achieved with the creation of Australian Rail Track Corporation (ARTC), however their remit does not encompass either nodal or port infrastructure and hence is not facilitating changes fast enough (i.e. they are seeking to 'push' solutions to Ports, who are all under different ownership, etc).

Additionally, within each state, regional freight corridors should then be branched off the main connective intra and interstate corridors, which help facilitate regional development and regional trade and inter and intra State freight movements. This is where the respective State Governments should play a bigger role in understanding the system and the issue of market participation (e.g. why doesn't the private sector provide for say the 'regional' rail freight corridors).

In the end, the corridor selection process has to be driven by private sector demand, as it is the private sector movement of freight within these corridors that will make them successful. Government can then elect to be involved in those segments that may not work with private sector involvement alone, if there is other planning considerations or benefits to be obtained.

- *Government Coordination to achieve consistent Project Development Frameworks*

The above strategies require however several arms of government (and between the different jurisdictions of both Commonwealth and State) to be coordinated such that policy and planning decisions can be made efficiently.

Critical to the achievement of a national rail freight network is the development of consistent frameworks across jurisdictions.

In Queensland, coordination has been successfully driven through the powers of the Coordinator-General under the Queensland *State Development and Public Works Organisation Act 1971*. ATEC believes that this provides an ideal model for the Commonwealth to influence all states to implement as it provides legislative 'teeth' to ensure all jurisdictions (and agencies within all jurisdictions) act in the national interest rather than parochial local interests. Such coordination will significantly reduce impediments to investments across Australia. ATEC is also of the view that this could be extended to the Commonwealth level whereby for "projects of national significance" the Commonwealth in a form to be decided in effect is legislated with coordinator general type powers to facilitate cross State or large linear transport infrastructure projects. This is particularly important as land transport corridors that connect to

export/import orientated infrastructure is being encroached within the metropolitan areas by metropolitan and suburban living pressures.

2. Timely and Effective Government Decision-Making

ATEC considers that one of the most critical aspects of governments' role in facilitating private sector investment in freight infrastructure is certainty, being:

- certainty of policy
- certainty of process; and
- certainty of decisions being reached in a timely manner.

So as to elaborate, we provide below areas which could be addressed by IA:

- *Understanding of Commercial Drivers and Objectives of Private Investment*

In ATEC's experience, state governments (particularly Treasuries) have not been able to fully comprehend the risk that private capital is exposed to in undertaking these long linear infrastructure projects, where no direct government funding is being requested. While governments are generally understanding of the myriad of complexities involved in government and environmental approvals, there is a lack of appreciation of the hurdles required to focus the effort of private capital (domestically and internationally) in proving up the viability of these projects and then delivering them.

A significant factor in this is that there is a highly competitive market for the use of capital, and if government decision-making processes become too onerous or unpredictable (in respect to timing), there are strong possibilities that private capital will seek other projects in which to invest. In particular, given the size of linear projects (typically in excess of AUD\$1bn), the quantum of capital required to deliver these projects is in the main sought from international market places. Intermediaries who have access to such capital therefore by implication have global remits in which to invest capital, and hence Australian developers of privately financed infrastructure are not only competing for finance for different classes of projects (e.g. rail line, versus road, versus port, etc) but also in different jurisdictions (Australia, versus Canada, versus US, etc).

- *Intra- and Inter-Government Coordination/Integration*

In consideration of a potential national network of freight (integrated of course with a National Port Network), where, in particular, freight infrastructure assets are intended to cross State or Territory Borders, there needs to be strong interaction between relevant government agencies – both between States/Territories and the Commonwealth, as well as within their respective delivery agencies. In addition, the implementation of this interaction needs to be consistent across governments.

As indicated above, ATEC has found that one of the most effective mechanisms to ensure this consistency is Queensland's Coordinator-General – with the primary reason for being so effective being the legislative support to this role provided by Queensland's *State Development and Public Works Organisation Act 1971*.

- *Clarity in Articulation of Freight Industry Strategies*

ATEC recognises that freight infrastructure assets are merely the platform upon which the industry needs to move goods throughout the nation. In developing the National Land Freight Strategy, the Commonwealth needs to ensure that the focus is on the economic contribution that freight can provide to Australia's productive output to meet global demand/supply imbalances, rather than what appears to be the current thinking

of considering freight as an adjunct to passenger/metro transport plans or inwardly focussed regional infrastructure plans.

ATEC holds this view as, in our experience, government decision-making needs to match projects that have such long lead times to develop with the industry/ies they seek to serve. For example Open Access principles of access seek to match the infrastructure with the demand for freight (bulk and general), as Australia is a taker of demand not a maker (given the small domestic market) so Government decision making on these projects needs to be aligned not to simply the inputs, but the very markets (and drivers of those markets) rail infrastructure projects are seeking to exploit commercially (i.e where is the real competition occurring). In this respect we consider that the current regulatory frameworks in place (and the number of frameworks in place, IPART, ACCC, QCA, etc) needs streamlining.

In addition the very notion that rail infrastructure for example is 'monopolistic' in nature in our view diminishes from the fact that competition for the goods transported on this infrastructure is not about access to the infrastructure itself, but more 'up the chain' to the very consumer markets the goods are destined to go. We consider the current different regulatory platforms that exist do not accurately allow for this to be priced into capital investment decisions. This, in our view, does not therefore allow the promotion of 'real' open access independently owned and developed rail infrastructure. As such one is seeing the outputs of this through the vertical ownership of rail infrastructure with another associated asset class, be it above rail operations, mines, etc.

- *Engagement with Private Investors*

ATEC understands the need for government to ensure both consistency and transparency in their processes of engaging with a private rail developer. Up to more recent times, the majority of engagements with governments have been through Government Owned Entities which, although operated on a 'commercial' basis, still have government mindsets with regard to decision-making.

For future freight infrastructure networks to develop, the traditional ways of how decisions are made and the effectiveness of those processes will require a re-think to better match drivers and objectives of private investment. In addition, it will require a matching of the demand such that privately financed infrastructure can be delivered within the time frame required by international markets, so that Australia can benefit from exploiting a demand/supply imbalance.

3. Government Expertise

Such a re-think to achieve certainty through more timely and effective decision-making requires somewhat different skills sets in negotiating with private investors rather than negotiating with the more traditional Government Owned entities. Open-access rail developments require government officers to have a better understanding of those markets and the supply/demand imbalances (and associated time frames in closing them) that exist within those markets.

- *Policy Signals*

As the private infrastructure market continues to mature, there needs to be a greater policy emphasis by Government to provide clear signals to the private sector of where government would like to see private investment to meet emerging markets. In particular, there needs to be a strong interface between Regulatory Bodies and Government policy directive.

Whilst this may be a challenge in achieving a cultural shift, if the intent of government is to access more private investment in freight then the way in which regulators seek to indirectly develop policy imperatives for government through the 'access' principles, particularly in relation to greenfield and brownfield expansion, is something that needs greater skills transfer and coordination.

An example of the challenges in achieving this is the issue that government, in seeking a policy outcome, wants a more efficient and integrated approach between rail freight and the major export Ports requiring significant private capital investment. Yet the regulatory-driven pricing results in insufficient incentives to allow for such investment to occur in a coordinated way.

- *The Art of Commercial Negotiation*

In ATEC's experience, we have found that a critical skills that is currently lacking in most government agencies is the ability to interact with private developers, with an understanding of the commercial drivers, objectives, constraints and obligations of that infrastructure developer. That is not to say the current bureaucracy have not got the skills, it is more an issue that historically they may have not needed to use these skills as frequently as is likely to be the case in this shift if greater commercial capital is to be harnessed for the delivery of freight infrastructure.

- *Coordination and Consistency of Expertise*

Generally, we have found that strong skills sets and capabilities can be found embedded in the different agencies – however it appears that there is no coordination or cross-fertilisation of experiences to enhance corporate knowledge rather than individual experiences. The benefit of deploying resources in a more coordinated manner is that expertise can be more readily retained within and accessible to government.

Conclusion

Maximising the efficiency of Australia's land freight across the country requires all governments (particularly state and territory governments) to shift their thinking from one of state and local parochialism and to create a paradigm where increased national productivity is paramount. Critical to achieving this is ensuring there is clarity in the governance arrangements to integrate freight corridors with key export/import nodes of the major seaports and airports.

To facilitate this paradigm shift, ATEC believes that the primary role of government in facilitating investment in a national land freight network is to provide the enabling framework to stimulate private sector involvement. In taking a leadership role, the Commonwealth would be successful in driving the development of such an enabling framework to ensure consistency in policy, planning and approval processes.

Upon finalisation of the Strategy, the Commonwealth also requires the ability to execute its implementation, with an appropriate legislative mechanism that transcends the individual perspectives of line agencies and State/Territory Governments.

ATEC appreciates the opportunity to contribute to this valuable policy development process. We would appreciate the opportunity to meet with you and your colleagues to discuss the contents of this submission further.

Should you require any further information, or wish to discuss the matter further, please do not hesitate to contact me on 07 3031 1700 or mobile – 0409 150 899.

Yours sincerely



Bob Bidwell
ATEC Rail Group