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RAIL FREIGHT'S NEW FUTURE – WHAT IT MEANS FOR AUSTRALIAN BUSINESS

Australian Rail Track Corporation CEO, John Fullerton speech to the Victorian Transport Association, Melbourne, Friday 1 March 2013.

"... Rail will capture more of the long-distance logistics work in Australia. Rail will take a bigger slice of the pie, as will coastal shipping.

It's slow, but it's happening. Not necessarily in five years' time, but a lot of money has been spent by the Australian Rail Track Corporation in improving and enhancing rail networks, and port operators improving efficiency."

Welcome and thank you for the opportunity to talk to you all today. Many of you know the speaker of those words – Paul Little former CEO of Toll and industry stalwart¹.

Paul's right. Over the past two decades the rail freight industry has been transformed from a government-owned collective of state-based rail systems that were built to service another age to a modern, commercially-orientated industry far more determined to succeed.

Let me give you an example in 1992 (when I first got involved in the interstate rail business) the longest train you could arrive into Brisbane from Melbourne was 350 metres. The change of gauge between Melbourne and Adelaide meant you had to change the bogies in Adelaide, Melbourne and Wodonga to move cargo across the network. Locomotives and train crews were changed at most state borders. There were different maintenance and loading standards for rollingstock in each State that often meant that wagons were detached from trains at border entry points. And it was estimated that the interstate rail freight business collectively was losing \$300 million per annum.

That was rail in 1992. And this was a mode that was competing with the most efficient and productive road transport industry in the world. It was nearly enough to want to make you give up but fortunately wisdom prevailed and rail has gone through a much-needed renaissance.

¹ Quote: BRW magazine, 7 Feb 2013 "Mid-Market Road Kill" by Michael Bleby.



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With the advent of deregulation, competition policy, open access, the privatisation of rail freight operations, and the policy and reform agenda attached to the creation of ARTC to be that one-stop shop for rail access – to invest in upgrading the network and to operate on commercial principles we have seen enormous change in the rail landscape whereby our economy depends, to a much greater extent, upon an efficient and effective rail network.

Privatisation within rail commenced in 1997; not many of the original private owners are still the owners. There were some good and bad experiences but what we have today is a rail freight industry that has never been stronger. The industry participants are strong, they have commercial resilience and they have investment capacity.

Familiar names like:

- Asciano
- Aurizon
- SCT Logistics
- Genesee and Wyoming

New entrants such as:

- Qube Holdings
- FreightLiner
- Watco

And last but not least the key rail freight infrastructure owners on the interstate network:

- Brookfield Rail (WA)
- ARTC – the remainder of the interstate network from Kalgoorlie to Brisbane.

This is a pretty impressive stable. These companies are all successful, high performing enterprises with longevity and a depth of experience. The industry is now much more commercially and operationally mature

That doesn't mean that that life in rail is a breeze. It is capital intensive, it's highly competitive and like all industries it is exposed to changing economic conditions.

And in the general freight market, particularly for the medium to long distance haulage task, road has not stood still either. The Australian road industry remains the most efficient and cost-effective in the world and is forever innovative and striving to improve its productivity.

Which brings me to the question about what has rail done, what is rail doing and what do we offer in the current environment.



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Well today I am going to talk about what ARTC is doing to play its part.

However before doing so I want to spend a moment talking about what I see is ARTC's role in the freight transport business. That is because many people have asked me since I joined ARTC two years ago why is it that ARTC now wants to engage with the logistics industry more broadly. Why don't we just stay in our box and let the other players do the work on attracting more freight to rail.

My response is our business needs to grow. Our vision is to increase the modal share of rail and convert more freight from road to rail. Our vision is also to position rail to take on more of the burden as the freight task grows. The network is now ready for that growth. We have invested a lot of money. If we grow we can invest more money to make it even better.

It is important however for me to emphasise that ARTC does recognise that its primary role in the general freight market is to deliver services to our direct customers –in this case the rail operators who use our interstate network. And that is very important in relation to network service quality, capacity, long-term planning, disruption management etc.

However I also know that ARTC is a rail monopoly, we amount to around 25% of the rail linehaul cost, that the road network on long distance corridors is an infrastructure competitor and therefore we believe we have an important role to play in engaging across industry to help build a more compelling case for rail, to drive more investment on rail and for us to do our bit to get more freight on to the rail network. And to highlight a point made to me by a major retailer who is a rail user – for rail to work better there needs to be a coordinated effort by the industry, rail needs to better understand its end customer needs and it needs to understand its impact on supply chains. ARTC does need to get more engaged so that we can deliver our bit of the puzzle and put the right plans in place that drives a modal shift to rail and allow us to meet the challenges of a growing freight transport task.

And we should all remember that moving more freight from road to rail is a sensible outcome. Rail is safer, it is greener, it is more fuel efficient and it can help eliminate road congestion and hopefully lead to a reduction in road accidents and their ongoing impacts on Australian families. We are inevitably moving toward a low carbon economy and rail is a very important contributor in be able to arrive at this destination.

So how can this be achieved and how can we convince customers to use rail more. ARTC's interstate network comprises two distinct corridors North South (Melbourne to Brisbane) and East West (East Coast to Perth)

The East West corridor paints a far prettier picture for rail. Rail enjoys around 82% market share of the land transport task. The corridor is road competitive on transit time and reliability, it is competitive on price with road and it supports the most efficient train configuration in the country namely 1800 metre long double-stacked trains. And it is over 3000 kilometres long. An express service train can travel from Melbourne to Perth in 45 hours.



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It is a mature rail market that has been rail dominant for quite some time. It is a corridor where rail is readily accepted, the supply chain is well tuned into the rail network and the rail schedules that are offered. For rail it is the classic case study. Rail's strategy here is to remain vigilant and competitive to maintain its dominant position. Rail should not take its competitive advantage for granted and it needs to continue to improve productivity and its service reliability to keep ahead of its competitors. ARTC is working with our rail operator customers on this corridor to do just that.

Let's now look at North South. Not as pretty but the picture is getting brighter.

The corridor is dominated by road – It is estimated that 80% of the task between Melbourne and Brisbane is on road. This corridor should be more rail orientated – it is suited to rail – it is nearly 2000 kilometres long – it has the ability to run long 1500 metre trains to Brisbane and 1800 metres trains to Sydney – but its market share is well below what it should be.

It is clear that rail on this corridor is highly exposed to intense competitive pressure from road. Road has dominated for a long time and this reflects the improvement in the national highways. Freight customers are accustomed to using road. There is significant investment in road vehicles. And we know that our customers sometimes have experienced frustration due to rail disruptions and delay – and the perception is that rail just cannot deliver reliability at a level to be able to attract increased volumes.

ARTC thinks this can change and it can happen now because the infrastructure is better, service has improved and companies that make the move to increase their use of rail now and build their supply chains more around rail will create competitive advantages for themselves.

I have no doubt that rail will be the dominant mode in the 21st century. There are too many things in its favour. In particular the North South corridor will see a significant shift to rail and it is those that move first to take advantage of this will benefit the most.

To illustrate the outlook and opportunity for rail ARTC has invested over \$3 billion to upgrade the North South track over the last five years:-

- Southern Sydney Freight Line (SSFL)
- Metropolitan Freight Network to connect Port Botany
- Passing Lanes
- New rail
- Concrete sleepers
- Curve easing
- New safeworking systems
- Wodonga Bypass
- Bridge upgrades
- New train schedules to start in November 2013



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These infrastructure developments have targeted reliability, capacity improvements and removing bottlenecks.

But we know it is not solely a matter of ‘build the infrastructure and they will come’. We know that rail must work hard at selling the benefits, providing the incentive and delivering a service that works for a greater range and volume of products.

When you look at the success of the east-west market, it is a combination of factors – price competitiveness, reliability, distance of the journey, double stacking of containers and the use of high cube wagons, the fuel efficiency of a 4,000 tonne train over a B Double or B Triple and other efficiencies – that provide a compelling product.

For the North-South, to take the greatest advantage of these infrastructure improvements coming online, we must look to bringing all parts of the supply chain together including the interface between road and rail.

We are not discrete ends in ourselves; we are part of a co-ordinated supply chain, including the rail terminal which is a critical interface between road and rail. The future location and design of intermodal terminals is vitally important to make rail work more efficiently and effectively.

To this end, the discussion and work underway currently around future intermodal terminal developments are big parts in getting this part of the country moving more effectively by rail.

So what are the hard facts and how are we doing this?

When you reflect on the 1992 example I shared at the beginning of this speech, train services took longer, were shorter and less reliable and were not considered as a vital part of the supply chain. Access was fragmented and rail infrastructure was neglected by decades of under investment.

That’s changed.

ARTC offers a one-stop-shop for rail access from East Coast to the West and vice versa. Operators no longer contend with a multitude of access agreements. With the opening of the Southern Sydney Freight Line two months ago, and integration of the Sydney Metropolitan Freight Network, you have a dedicated, freight-only line that runs directly from Port Botany to the Port of Melbourne under one operator.

When you add the introduction of the National Rail Safety Regulator, which came into effect at the start of this year, a range of coherent Federal and State plans being announced around transport and freight strategy in the past few years – it becomes evident that rail is getting more attention, efficiency is improving and it’s becoming easier to do business.



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Transit times have decreased, and are set to lower further. We expect to be offering optimum superfreighter paths of less than 30 hours between Melbourne and Brisbane soon, but more importantly, we'll be offering a service that is more reliable – that means your freight is there when you want it.

Longer, heavier, more modern trains can run on an ARTC network which is now in good shape. It is concrete sleepers, a lot of new 60kg rail has been installed, and there are additional crossing loops and more modern safeworking systems. These investments will deliver greater reliability, more capacity and better efficiencies for users.

Our focus has not just been on the ARTC network itself, as there is a critical 150km stretch of the North South corridor between Sydney and Newcastle where freight needs to traverse the congested RailCorp network, with restricted availability of freight train paths and curfews on freight operations of eight hours per day.

The recently completed Southern Sydney Freight Line has eliminated these restrictions entering Sydney from the south, and we have been working closely with the NSW and Commonwealth Governments over several years to scope up the \$1.1 billion Northern Sydney Freight Corridor Program. When completed in 2016, the NSFC Program will provide a 50% increase in freight track capacity – sufficient to support growth on rail for many years to come.

And, while we have not been able to eliminate the curfew restrictions entirely, the overall impact will be to reduce the curfew by 50% to 4 hours per day.

We are also being more innovative with technology. The National Train Communications System lays a digital system across our network which we will be able to leverage well into the future. Advanced Train Management System is ground-breaking research and conceptual thinking with the potential to change the face of rail in this country technologically.

But what does this all mean for Australian business and customers of rail – many of you are here today?

We know customers want confidence that their freight will arrive at the terminal when it's meant to – we recognise that we are part of a complex chain and we're absolutely committed to working with the industry to make it more competitive.

I realise that I'm speaking to an audience that is already acutely aware of the growing national freight task and the accompanying industry-wide need to continue improving the supply chain to reduce costs yet improve service.

Rail is perhaps the best placed of all the transport modes to take advantage of these pressures and deliver a product that not only supports Australia's economic interests but will deliver real benefits to customers.



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We believe with the investment we've made, that rail can now deliver - and by working closely with industry toward meeting customer needs rail will play a much bigger role.

Paul Little is right – it might be slow but it is happening – we are not quite cooking with gas yet, but the match has certainly been lit – and I would get on board so that you can get ahead.

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