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Attn: 2020 SA Rail Access Regime Review
ESCOSA
GPO Box 2605
Adelaide SA 5001

Dear Sir / Madam

RE: 2020 SA Rail Access Regime Review

On behalf of the South Australian Freight Council's (SAFC) Executive Committee and Membership I thank you for the opportunity to make a submission on the 2020 SA Rail Access Regime Review Issues Paper.

As you may be aware, SAFC is the State's peak, multi-modal freight and logistics industry group that advises all levels of government on industry related issues. SAFC represents road, rail, sea and air freight modes and operations, freight services users and assists the industry on issues relating to freight logistics across all modes.

In every previous submission SAFC has made to 5 yearly rail access reviews, we have argued that while the potential for misuse of market power exists, there has never been any evidence of this occurring. As such we have backed the retention of the current regime on the basis that it is low cost and light handed, and may have been a factor in maintaining the positive status quo.

SAFC is no longer completely convinced that this is the case. The continued decline of regional freight rail in South Australia, including the cessation of operations on several of the regulated lines, suggests that there is little to no market power to be exercised. In particular the expansion of restricted access vehicle networks in SA has increased the competitive advantages of heavy road transportation versus rail in many markets. New bulk ports that are not rail connected may also have reduced the maximum catchment area for grain that would have previously used rail.

While regional rail is expanding in some states (such as Victoria) with extensive government investment in the area, this is not the case in SA.

With regards to the Commission's request for information on market and regulatory factors that could lead to an increase in the demand for rail, there are a number of possibilities, but none with a particularly large chance of occurring in the near term.

- Currently mooted changes to methods of charging for heavy road vehicles could substantially increase costs for the road freight industry, changing the competitive equation between the two modes. Given the negative effects this would have on the national economy, SAFC views this as unlikely.

- A carbon price (or similar climate change reduction measure) could be introduced at a level that promotes modal change. Rail significantly outperforms road transport in terms of C02e emissions per tonne kilometre over long distances. The current political climate suggests this is unlikely.
- Government(s) could introduce subsidies for rail. Some other states do have rail subsidies, but usually for the transport of containers to port as an anti-congestion measure. Deemed unlikely in SA, and even more unlikely on the assets regulated by the current regime.

There is only one major potential customer (demand) group that would change the dynamics of regional rail in SA – the mining industry (in particular iron ore). Were a major new mine (or group of mines in a prospective area like the Braemar Province) to open, the volumes could make a new rail line viable. We note however that this would be a new line, not utilising the currently regulated infrastructure, and as such the regime would not apply without regulatory change.

Table 1 in the issues paper (p3) makes it clear that in most instances, the regime is regulating assets that are currently not in use. With one exception, the remaining assets are single user with no real prospect of a second user seeking access. The final exception – yards and sidings on the interstate mainline track – is the most likely to be picked up by the Commonwealth regime if the SA regime was to close.

Costs & Benefits

As previously noted, SAFC has previously backed retention of the scheme based on the (relatively) low costs of the scheme; and the benefits that may have been being provided. While the costs are unchanged, we are no longer completely convinced the regime is providing benefits given the overall reduction in market power in the regional rail sector in SA. We note there will be additional recertification costs should the current regime continue.

We do not believe there is value in maintaining the access regime as 'insurance' against an event that would significantly increase the demand for rail transport services.

Discussion & Conclusion

In the absence of risk that the national regime would apply if the SA regime was removed SAFC would prefer Counterfactual 2: no access regime going forward (from the options presented in Table 2 (p5)).

However, critically, without a complete guarantee that the national regime would not be imposed in its place (Counterfactual 1), we would prefer the current regime continue to apply. The risk of high uncertainty and transition costs in a segment that is already under severe competitive cost pressures from the road freight industry makes transitioning to the national regime unpalatable.

Potential change to the scheme.

Under the scenario where the regime is kept to prevent transition to the national scheme there may be benefit in introducing a mechanism to have new infrastructure declared under the scheme (in case of a mining industry led expansion as mentioned above); and removed

from the scheme (in the case of infrastructure that is non-operational, or where the likelihood of a misuse of market power no longer applies).

Should you wish to discuss any element of this submission further, please feel free to contact me on (08) 8447 0664 or via email knapp.evan@safreightcouncil.com.au.

Yours Sincerely,

Evan Knapp
Executive Officer, SA Freight Council.