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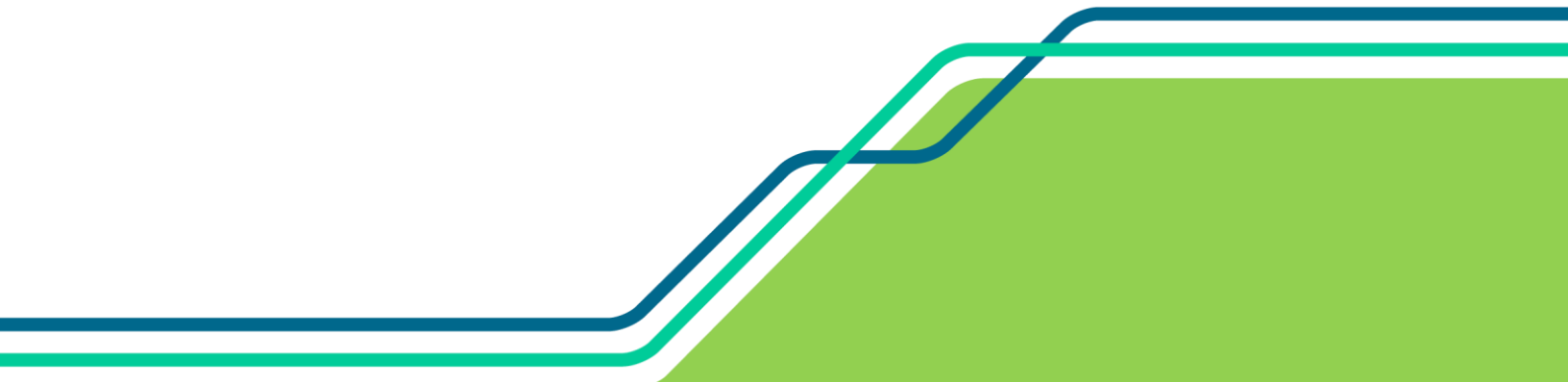
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# AUSTRALASIAN RAILWAY ASSOCIATION SUBMISSION

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To the

Select Committee into the Abbott  
Government's Budget Cuts



## THE ARA

The Australasian Railway Association (ARA) is a not-for-profit member-based association that represents rail throughout Australia, New Zealand and Indonesia. Our members include rail operators, track owners and managers, manufacturers, construction companies and other firms contributing to the rail sector. We contribute to the development of industry and government policies in an effort to ensure Australia's passenger and freight rail transport systems are well represented and will continue to provide improved services for Australia's growing population.

The ARA thanks the Select Committee into Abbott's Government Budget Cuts for the opportunity to provide this submission.

## EXECUTIVE SUMMARY

On 14 May 2014, Federal Treasurer Joe Hockey announced the first Abbott Government Budget. The Treasurer delivered a 'Budget Repair' speech that promoted significant infrastructure spending, delivered on some of the election promises and proposed significant funding cuts across all sectors.

The key issue for Australia's rail industry is the significant projected decrease in Federal rail funding, while road funding projections increase. Between the actual infrastructure spend of 2012-13 to the projected year of 2017-18, the Federal Budget has allocated \$43.549 billion to infrastructure spending. Of this, 80 per cent and \$34.7 billion will be invested in roads while just \$5.4 billion or 12 per cent will be invested in rail.

The Budget allocated no new money for rail. The two largest road projects funded in the budget; \$6.7 billion projected spend on the Bruce Highway and \$5.6 billion to upgrade the Pacific Highway are both single road projects set to receive more funding than the entire

Australian rail industry between 2012-13 and 2017-18. The three largest rail projects in the Budget are all re-announcements of commitments from the previous Government, specifically \$691.6 million to continue the North Sydney Freight Corridor, \$518.4 million to continue the Morton Bay Rail Link and \$300 million for the Inland Rail. The \$300 million funding allocated to the Inland Rail project is insufficient for the \$5 billion project.

Commitments from the previous Government for urban, or public transport rail projects were withdrawn from the Budget. This is a critical issue for the long term future of Australia's rail industry, as the Federal Government over the past decade has historically committed significant financial resources for passenger and freight rail projects. As well as putting increased pressure on State Government budgets, the Federal Government decision not to invest in urban transport goes against global trends and will be detrimental to Australian cities and ultimately, Australia's productivity. Many Federal governments in overseas countries commit substantial sums to capital expenditure for public transport projects as they recognise the broader benefits that public transport provides at a community and national level.

Moreover, some of the road projects to be funded by the current Federal Government in the forward estimates are in direct competition with rail. Some announced funding is for scoping and design works and thus it can be assumed that additional funding commitments may be required for the actual construction of the road infrastructure.

Another concern for rail is the decline in Federal funding for health and education. The rail industry believes the Commonwealth's decision to reduce funding in health and education may put increased pressure on State budgets and lessen the long-term ability of States to fund rail projects.

In addition to this, a number of industry assistance and support programs have been cut while some funding has been directed to new programmes including export programmes, the Entrepreneurs Infrastructure Programme and the Industry Skills Fund. The ARA is advised that further movements in the industry assistance and support programs are to come later this year through the National Industry Investment and Competitiveness Agenda.

With respect to regional development, a \$1 billion National Stronger Regions Fund was announced which may allow the funding of some rail projects in regional Australia.

Lastly, the Emissions Reduction Fund program is expected to commence in late 2014 which will provide a source of funding for emissions reduction initiatives from the industry. Funding for this program should be allocated to eligible projects based on direct reduction of carbon emissions but also other associated benefits such as reducing road congestion.

## DECLINE IN RAIL SPENDING

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Compared to the previous year, the current 2014-15 budget allocated a 41 per cent decrease in Federal funding for rail. This is set to remain relatively unchanged in 2015-16, but the Government has then forecast another two significant drops in rail funding; specifically a 41 per cent decrease between 2015-16 and 2016-17 and then another 44 percent drop to the year 2017-18. *As a result, compared to the previous Government's spend of \$1,602 million in 2013-14, the current Federal Government will deliver an 80 per cent decrease in rail funding, projecting by 2017-18 to invest just \$319 million in rail nationally while \$5.773 billion will be invested in roads during the same year.*

Table A1 below displays the relevant portion of the 2014-15 Budget Appendix A: Expense by function and sub-function<sup>1</sup> which reports the Federal Government's 2012-13 actual spend, estimates for 2013-14 to 2015-16 and projections for 2016-17 and 2017-18.

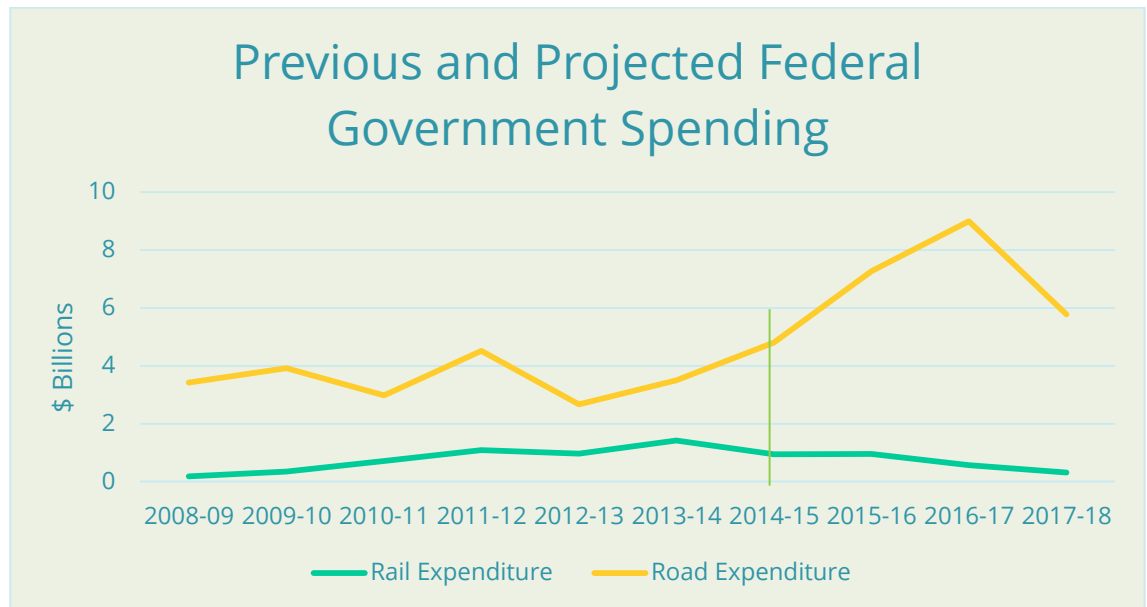
<b>Table A1: Estimates of expenses by function and sub-function</b>							
	Actuals	Estimates			Projections		TOTAL SPEND
	2012-13 \$m	2013-14 \$m	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m	2012-13 to 2017-18 \$m
<b>Rail transport</b>	1,025	1,602	946	961	566	319	5,419
<b>Air transport</b>	213	212	219	236	223	222	1,325
<b>Road transport</b>	2,521	5,360	4,805	7,270	8,998	5,773	34,727
<b>Sea transport</b>	310	351	340	349	359	369	2,078
<b>Sub totals</b>	<b>4,069</b>	<b>7,525</b>	<b>6,310</b>	<b>8,816</b>	<b>10,146</b>	<b>6,683</b>	<b>43,549</b>

The percentage change in the Federal Budget allocation has been determined by the ARA in the second table below, Table A2.

<b>Table A2: Percentage change of infrastructure budget allocation</b>					
% change	2012/13 to 2013/14	2013/14 to 2014/15	2014/15 to 2015/16	2015/16 to 2016/17	2016/17 to 2017/18
<b>Rail transport</b>	56.29	-40.95	1.59	-41.10	-43.64
<b>Air transport</b>	-0.47	3.302	7.76	-5.51	-0.45
<b>Road transport</b>	112.61	-10.35	51.30	23.77	-35.84
<b>Sea transport</b>	13.22	-3.134	2.65		2.87

The rail industry has received substantial federal investment over the last decade. As a result, the industry has flourished with a wave of new infrastructure that has improved service provision across Australia. Under the 'Nation Building' infrastructure program, spending was allocated to key rail infrastructure projects such as the Regional Rail Link in Victoria and the Gold Coast Rapid Transit in Queensland<sup>2</sup>. The results of this wave of spending have been extremely positive with Victoria boasting a far more efficient regional passenger rail network, and Queensland introducing a light rail network on the Gold Coast.

However, as mentioned above, Federal spending on rail is set to decline significantly over the next four years with the Government placing far greater emphasis on road infrastructure. A trend analysis of Federal spending from 2008 to 2018 is displayed in Figure 1 below.



**Figure 1: Federal Road and Rail spending since 2008-09.**

Figure 1 shows the Commonwealth Government's planned growing disparity in funding between road and rail. It also displays the historical spikes in Federal Government funding.

The Federal Government has outlined repeatedly that it has strong intentions to provide the framework for future economic growth and development in Australia. However, the Federal Government's intention to invest heavily in roads to achieve this, moves against global trends where governments globally are investing heavily in rail.

There are a number of reasons for the global shift towards transit and passenger rail networks, two of which are highlighted in an article titled 'All Aboard: the Growth of Global Rail and our Future Cities' (2012)<sup>3</sup>. One reason is that many cities have reached their structural capacity, and are not able to support increased road use. Additional roads are a short-term fix that simply leads to more cars creating greater congestion and greenhouse gas emissions. Another reason is that the growth in rail infrastructure investment was the result in a shift of western economies towards technology and knowledge based service

economies. This has changed the role of inner-city CBDs. With rapid growth in technology, CBDs attract knowledge-based service occupations which thrive upon the synergies between people. This is transforming cities back towards walking cities.

*Significant rail investment opportunities have been forgone in this budget. Whilst the Federal Government has allocated funding to many freight projects, the Budget does not include direct funding for any urban rail projects. An opportunity to drive Australia's future by incentivising State Governments and the Private Sector to invest in high speed rail has not been considered either.*

## PREVIOUSLY FUNDED PROJECTS REMOVED FROM THE BUDGET

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In its 2014 Budget, the Abbott Government removed funds that had been previously allocated for passenger rail transport projects on the argument that State rail projects are the responsibility of State Governments.

The previous Federal Government had allocated \$52 million in the budget to establish a High Speed Rail Authority. The Authority was to finalise the high speed route between Brisbane and Melbourne, confirm the location of stations through State and Territory negotiations, develop a business case and market test the project costs and construction timetable. This project is much bigger than a mode of transport. It is about the future of Australia. There is significant global interest but by removing the commitment to an Authority, no progress has been made to preserve the corridor for a future high speed rail line along Australia's East Coast.

\$500 million had been allocated by the previous Federal Government to assist the Western Australian Government in funding a Perth Light Rail, known as Light Max and a rail connection to the Perth Airport. This was removed from the 2014 Budget and resulted in the Light Rail projected being deferred for three years.

## KEY BUDGET ANNOUNCEMENTS

The Budget released on 14 May 2014 included the following announcements that affect Australia's rail industry:

- Infrastructure Projects, including the Inland Rail project
- Asset Recycling Initiative
- Privatisation
- Emissions Reduction Fund
- Industry Assistance Programs
- Export
- Taxes, specifically fuel excise and the removal of the shipping levy.
- Research

These are each addressed in the following pages.

### Infrastructure Projects

The Budget shows that the Government will allocate \$11.6 billion towards an Infrastructure Growth Package and that Commonwealth investment in infrastructure will reach \$50 billion by 2019-20, taking total infrastructure expenditure by all tiers of Australian governments to \$125 billion within that period. Within this spending envelope, the Government will contribute \$40 billion towards an \$82 billion investment plan for Australia's road infrastructure. The remaining \$42 billion will be funded by the states and private sector.

The Commonwealth will make funding contributions to a number of rail projects across Australia between 2014-15 and 2018-19. In total this will equal almost \$2.8 billion. During the same period, \$26.8 billion, more than nine times the amount invested in rail, will be invested in road projects.

Key rail projects committed to in the budget are listed below. Interestingly the majority of these are either projects that were already underway or, directly benefit the road network.

#### New South Wales

Northern Sydney Freight Corridor	\$691.6m
Road underpass at General Holmes Drive	\$40m



Maldon – Dumbarton Rail Link	\$10.8m (for detailed design)
Port Botany Rail Access	\$67m (for ARTC)
Port Botany Rail Line Upgrade	\$75m (also includes investigating capacity enhancements of SSFL)
Scone Level Crossing	\$45m

### **Tasmania**

Freight Rail revitalisation	\$119.6m
Bell Bay Intermodal Terminal	\$4.9m
Rail Capacity improvements at Rhyndaston	\$13.3m

### **Queensland**

Moreton Bay Rail Link	\$518.4m
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### **Northern Territory**

Rail overpass south of Alice Springs	\$13m
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### **Western Australia**

Kewdale Intermodal Rail Supply Chain	\$17.2m
Portlink Inland Freight Corridor Concept Plan	\$0.9m
Nicholson Road Grade Separation	\$18m
Trial of low profile concrete sleepers on WA Grain lines	\$2.9m

### **Victoria**

St Albans Road Rail Level Crossing	\$151m
Ballarat Avenue of Honour Rail Crossing opening	\$1.0m
Melbourne Metropolitan Intermodal System (port shuttle services)	\$38m

### **South Australia**

Goodwood and Torrens Junctions	\$232m
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### **National**

Inland Rail	\$300m
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## Inland Rail

The Federal Government has re-announced the previous Government's 2011 funding package of \$300 million for the Inland Rail project, which has an estimated cost of \$4.7 billion. Pre-construction works for detailed corridor planning, environmental assessments, community consultation and the commencement of land acquisition are set to commence in 2014.

The establishment of the 1,731 km Inland Rail line will provide major benefits for those transporting goods between Australia's three largest cities, reducing travel times between Brisbane and Melbourne by 7 hours<sup>4</sup> and making rail more competitive with road freight. The project will improve capacity, reliability and productivity of one of the highest growth corridors in the country. The project also alleviates the rail network bottleneck at Sydney, freeing up capacity for passenger services. Furthermore, and just as importantly, regional Australia stands to receive major benefits. The project will transform the movement of freight through our eastern states to provide regional communities with cost-effective access to metropolitan markets and enable regional communities to gain better access to new and emerging national and international markets, particularly in Asia, via our east coast ports. It will also offer inland Australia, especially New South Wales, greater choice in the ports they use and will heighten competition. As well as supporting the forecast freight growth, it will provide capacity for new regional freight storage and handling hubs to open up in regional centres, supporting regional employment.

*In order for the Inland Rail project to realise these benefits for Australia, the Federal Government must allocate additional funds for this project. \$300 million is insufficient to deliver this transformational project within the Federal Government's promoted timeframe.*

## Asset Recycling Initiative

The Budget includes \$5 billion to establish the Asset Recycling Initiative to provide incentive payments to States and Territories that sell assets and reinvest the sale proceeds in infrastructure. All governments signed the National Partnership Agreement on Asset Recycling at the Council of Australian Governments meeting on 2 May 2014.

This Initiative is a five-year program with funding allocated to specific proposals on a first-come, first-served basis. States and Territories will have up to two years from the commencement of the Agreement to agree with the Commonwealth on the specific assets to be sold and the additional infrastructure investment to be supported by the Initiative.

States and Territories will receive 15 per cent of the price of the asset sold if all sale proceeds are allocated to new infrastructure. Payments will be made over two instalments on the achievement of key milestones. The sale of the asset must be completed and the construction of the additional infrastructure must commence on or before 30 June 2019.

*The rail industry is supportive of this initiative and strongly recommends that new investment be made in a range of rail infrastructure projects, including urban and freight rail projects across the country as this will provide economic, social and environmental benefits to the Australian community.* The ARA will also pursue this recommendation with state governments. Furthermore, the ARA is supportive of the establishment of the National Infrastructure Construction Schedule (NICS), the Government's national online infrastructure investment pipeline, to publish details of the proposed asset sales.

## Privatisation

One of the major items in the Budget is privatisation. According to the Budget papers, the Government will scrap or merge 70 Commonwealth bodies and cut around 16,500 public servant jobs. In future, the Australian Rail Track Corporation (ARTC) is likely to be subject to a privatisation scoping study. Issues of vertical integration, competition and potential monopoly creation and the need to ensure that privatising the entity would actually be beneficial to the rail and logistics industry must all be properly examined. There is no benefit in selling the entity for a short term cash benefit if it would result in a worse outcome for the logistics industry in the long term. The structural outcomes of the sale must be fully examined.

*The ARA believes that if the privatisation of ARTC is to occur, the industry must be fully engaged and consulted on what the outcomes will be for the freight industry. A long-term view and all the implications of selling ARTC must be considered, rather than a quick cash-grab.*

## Emissions Reduction Fund

The Treasurer, as part of his Budget Speech, confirmed \$2.55 billion of funding for the Emissions Reduction Fund (ERF). However, the Treasurer projected that spending will be slower than anticipated due to a lag in entering into contracts, delivery of abatement and subsequent payments. According to the Budget, the forecast is for \$1.1 billion to be paid out in the first four years of the ERF, commencing with \$75.5m in 2014-15, rising to \$299.8m in 2015-16, \$354.5m in 2016-17 and \$416.9m in 2017-18. The Government envisaged that the potential \$2.55 billion would be paid out over ten years to 2023-24, reflecting a five year contracting period for abatement and the timing limitations of supplying a large amount of abatement credits to the government.

*Funding from this program should be allocated to eligible projects based on their direct reduction of carbon emissions but also other associated benefits such as reducing road congestion.*

## Industry Assistance Programs

In light of the recent 2014/15 Budget Announcement, it is disappointing to see reductions in access and provision of services provided by the Commonwealth, particularly for the Manufacturers and Suppliers sector of the rail industry. Existing industry assistance programmes will be significantly reduced and reshaped. Some initiatives that have been cut include the Industry Innovation Precincts Program, the Industry Collaboration Fund, Commercialisation Australia, the Enterprise Solutions program, Innovation Investment Fund and Enterprise Connect program.

With the abolishment of the Rail Supplier Advocate on 30 June 2014, the industry lost an invaluable resource that assisted with the improvement of market competitiveness and globalisation. The decimation of this important service has created a void in building a sustainable future for Australia's rail manufacturing and supply sector. As well as this, significant insight and knowledge has been lost.

The uncertainty surrounding the continuation of the Industry Capability Network, and the finalisation of initiatives such as Enterprise Connect, are further industry impacts that the Government may not have considered.

Though the cease of future funding towards InnoTrans— the largest rail industry event in the world, held every two years at the Messe Berlin exhibition centre has prompted the ARA to take the lead on the 2014 trade mission, which has given the industry a strong level of input, the need to allocate additional resources toward this project in future years is imperative. InnoTrans provides a platform for Australian rail SMEs to connect with international customers of passenger and freight transport technology and is a significant event for rail suppliers.

Furthermore, the newly established Entrepreneurs' Infrastructure Programme (EIP) has seen only half of the previously allocated budget committed. Industry is awaiting further advice from the Department of Industry on what the EIP will exactly entail.

The ARA strongly believes that it is fundamental that the Government commits greater funding towards the EIP, and other services housed under the Single Business Services umbrella.

The ARA understands that previously offered growth programs have been combined to produce this program, and the industry holds grave concerns that the current structure makes it extremely difficult for small businesses within the industry to expand due to the need to spend large portions of their budgets externally with no guarantee of change. The Government needs to embrace Australia's capability in becoming a strong competitor in global rail markets.

It is important that the Government realises the need to future-proof our industry, and contribute more funding to areas such as research and harmonisation. It is particularly important that the industry can explore technologies for the future.

In order to ensure a sustainable future for the industry, the Government needs to support industry growth, explore new technology opportunities, and examine state-by-state

specification variations that are imposing resource and cost burdens upon the industry to establish harmonisation nationwide.

The ARA was discouraged by the Federal Government's decision not to implement the Innovation Precinct program. Such a project is pivotal for future rail innovation, with beneficial results not just for the rail industry, but also the manufacturing, freight, resources and agricultural sectors, all of which stand to benefit greatly from the innovation of rail in Australia.

If established, the Rail Precinct's goal was to bring together a collaborative network across the rail and transport industry and its sub-sectors and create critical mass in areas of competitive advantage for Australia. The Rail Precinct, through its targeted activities, will create more jobs for Australians, upgrade skills of the existing workforce and help grow their businesses domestically and internationally. The Rail Precinct will aim to identify market opportunities, enhance business competitiveness and provide Australian firms with access to innovation and new tools and services. Furthermore, the Rail Precinct will ensure better coordination of services and leverage Australian research capacity by linking it to match industry needs.

*The ARA urges the Government to increase its commitment to rail manufacturers and suppliers by contributing greater resources, programs and support for rail SMEs to allow this industry to prosper.*

*The ARA strongly recommends that the Innovation Precinct/ Collaborative Centres of Excellence program be reinstated and that a holistic transport precinct be set up in the near future to continue the collaboration and momentum built and fostered by the previous CRCs and industry groups.*

## Export

The Government has committed an extra \$200 million to the Export Finance and Insurance Corporation and \$50 million to the Export Market Development Grants programme, to assist more small and medium-sized businesses to access export markets. Another \$50 million was committed to the Manufacturing Transition Grants Programme and \$155

million growth fund to support regions affected by the announced closures of motor vehicle manufacturers.

In addition to this, the government has announced the development of a National Industry Investment and Competitiveness Agenda which is to be released later in 2014. The Agenda is to facilitate improvements in business competitiveness.

## Taxes

### Fuel Excise

In the Budget, the Treasurer confirmed that the Government will re-introduce biannual indexation by CPI of excise and excise-equivalent customs duty for all fuels except aviation fuels. This process is expected to generate \$2.2bn over the forward estimates. The Government stated that the revenue from this activity will be used to build new and upgrade existing road infrastructure.

*The rail industry is concerned with the Federal Government's sole focus to invest in road infrastructure. The industry believes that good road infrastructure is important for Australia's productivity and economy but so too is rail infrastructure. Rail projects are large and in many occasions are unable to be funded solely by one government. Assistance from the Federal Government is essential.*

### Coastal Shipping

The Treasurer announced that the rate of the Protection of the Sea Levy will be reduced by 3 cents, effective from 1 July 2014. The levy for shipping companies was increased by the former Government from 11.2 cents per net registered tonne to 14.25 cents per net registered tonne to meet the cost of cleaning up an oil spill. Since those costs had been met, the Abbott's Government will reverse the increase. This levy applies to ships of more than 24 metres in length entering an Australian port carrying more than 10 tonnes of oil in bulk as fuel or cargo. The cut in the shipping levy is expected to save ships visiting Australian Ports \$9m per year. This cut will allow better access for ships carry freight cargos to Australian ports and may present some competition to rail freight services.

## Research

In addition to establishing the largest medical research fund of its kind in the world, the Government is also committed to providing funding for a range of strategic initiatives that will encourage and support leading innovation and research such as:

- The National Collaborative Research Infrastructure Strategy will receive \$150 million in 2015-16; and
- \$139.5 million will be provided to continue the Australian Research Council (ARC) Future Fellowships Scheme, with a renewed focus on Australian researchers.

The Commonwealth Budget has included a cut to the Cooperative Research Centre Program of \$80 million over the forward estimates. The current funding round will not proceed as planned with only continuing CRCs able to apply for funding. Funding for the following two years of new CRCs will be affected, but the extent is not yet clear.

## CONCLUSION

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The Federal Government's preference for road funding is essentially creating a biased investment program which is not sustainable long-term. Between 2013-14 and 2017-18, Federal Government funding for rail will drop 80 per cent, from \$1,602 million in 2013-14, to just \$319 million by 2017-18. State Governments cannot afford to solely fund the gap when they also need to fund the gap created by decreased Health and Education funding.

Australia has the sixth largest rail network in the world. Its heavy haul operations in the Pilbara are world leaders as is Australian rail's componentry and systems integration. To ensure to long-term viability of the industry, Government support at all levels is vital.

The Government has stated that it is "investing \$50 billion across Australia over seven years to deliver vital transport infrastructure for the 21st Century"<sup>5</sup>. Vital transport infrastructure must encompass all modes of transport. The Federal Government's view that urban transport is the responsibility of the States goes against that taken by other national Governments world-wide who are increasingly investing in their urban transport systems.



The Federal Government's penchant for roads investment will not see Australia blessed with integrated multi-modal transport systems. Instead, the projected decrease in rail funding will have wide-reaching effects, including reducing Australia's productivity. Australia's road congestion is projected to cost \$20.4 billion by 2020 through time wasted in traffic<sup>6</sup>. 17.2 million motor vehicles were registered in 2013, a 12.3% increase since 2008<sup>7</sup>. Further investment in roads will see more vehicles on our roads creating more congestion, additional accident costs, more greenhouse gas emissions and less active lifestyles.

Governments around the world are investing in their rail systems to solve the challenges they face in cities and regional centres to move people and freight. The Federal Government has a key role to play in both setting policies and providing funding for public transport and freight and passenger rail infrastructure. Relying on State Governments to pick up the pieces will not stand the test of time.

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<sup>1</sup> 2014-15 Budget Paper 1: Strategy and Outlook, Statement 6 (continued), Appendix A: Expense by function and sub-function; [www.budget.gov.au/2014-15/content/bp1/html/bp1\\_bst6-02.htm](http://www.budget.gov.au/2014-15/content/bp1/html/bp1_bst6-02.htm), sourced 04.07.14

<sup>2</sup> Budget Strategy and Outlook 2009-10

<sup>3</sup> Newman P., Glazebrook G., and Kenworthy, J. (2012). *All aboard the growth of global rail and our future cities*.

<sup>4</sup> [www.infrastructure.gov.au/rail/inland/](http://www.infrastructure.gov.au/rail/inland/)

<sup>5</sup> [www.budget.gov.au/2014-15/content/glossy/infrastructure/download/Infrastructure.pdf](http://www.budget.gov.au/2014-15/content/glossy/infrastructure/download/Infrastructure.pdf)

<sup>6</sup> [www.bitre.gov.au/publications/2007/wp\\_071.aspx](http://www.bitre.gov.au/publications/2007/wp_071.aspx)

<sup>7</sup> [www.abs.gov.au/ausstats/abs@.nsf/mf/9309.0](http://www.abs.gov.au/ausstats/abs@.nsf/mf/9309.0)