

11 June 2019



Mr. Charles Millstead  
Chief Executive Officer  
Queensland Competition Authority  
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*Submitted via QCA online portal*

Dear Mr Millstead,

### **Declarations review: Aurizon Network and Queensland Rail**

Linfox Australia Pty Ltd (**Linfox**) welcomes the opportunity to provide a submission on the Queensland Competition Authority's (**QCA**) Declarations Review draft decision.

#### **1. Background**

- 1.1. On 1 February 2019, Linfox acquired an existing Queensland Intermodal Business from Aurizon Operations Limited (**Aurizon**). This included (amongst other things) rail wagons and containers but excluded locomotive assets.
- 1.2. Linfox's intermodal operations in Queensland traverse the North Coast and Central West rail systems, across both Queensland Rail and Aurizon Network owned rail track. Linfox engages Aurizon to perform "hook and pull" services for the Linfox rail wagons and rail containers, using Aurizon owned locomotives.
- 1.3. Linfox conducts the following train services in Queensland:
  - 12 services per week between Acacia Ridge and Cairns / Innisfail
  - 12 services per week between Acacia Ridge and Townsville / Bowen
  - 10 services per week between Acacia Ridge and Mackay / Rockhampton
  - 10 services per week between Port of Brisbane and Mackay / Rockhampton
  - 14 services per week between Rockhampton and Gladstone
  - 4 services per week between Rockhampton and Longreach
- 1.4. These train services deliver essential items to communities across Central, Western and Northern Queensland and provide a critical link for regional Queensland agricultural, manufactured and bulk commodity products to reach southern and export markets.
- 1.5. Having only recently acquired these operations, Linfox was unaware of the QCA Declarations Review at the time of the draft recommendations being published. Linfox apologises for the lateness of this submission and requests that the QCA Board consider this submission in its deliberations.

## **2. North Coast Rail System**

- 2.1. Linfox believes that declaration of the rail networks owned by Queensland Rail and Aurizon Network has proven critical to ensuring efficient investment and appropriate pricing and terms of access. Linfox also believes that continued regulation will assist and provide greater certainty to users of the rail network, including Linfox and our customers, and will encourage future investment and growth.
- 2.2. Linfox agrees with the draft decision that all criteria are met and supports the declaration of all elements of the North Coast Rail System (Queensland Rail and Aurizon Network). Linfox also agrees with the proposed declaration period of 15 years.

## **3. Central West Rail System**

- 3.1. Linfox does not agree with the draft recommendation in relation to the Central West Rail System. Linfox believes that this system should be declared for a period of 15 years and that continued regulation will assist and provide greater certainty to users of this rail system, including Linfox and our customers.
- 3.2. With respect, to the access criteria, Linfox agrees that criterion B (meet total foreseeable demand at least cost) and criterion C (state significance) have been satisfied. However, Linfox disagrees with the QCA's interim view that criterion A (promote a material increase in competition) and criterion D (promote the public interest) are not satisfied.

### *Criterion A – Promote a material increase in competition*

- 3.3. Paragraph 3.10 of Part B of the QCA's draft recommendation suggests that because the Queensland State Government provides subsidies (Transport Services Contract or TSC) for Central West Rail System services, those services would continue to be provided regardless of whether the rail system was declared by the QCA or not. Therefore, a declaration would not promote a material increase in competition.
- 3.4. Linfox disagrees with this view. Linfox submits that conditions associated with the TSC subsidies do not provide an effective long-term constraint on Queensland Rail's ability to exercise monopoly market power and adversely affect competition in dependent markets. Government policies routinely change and the TSC funding and its conditionality, could be removed, reduced or adjusted at any time.
- 3.5. Linfox transports food & grocery, liquor, retail products, industrial products and agricultural inputs for its customers on its train services into this region to locations such as Longreach, Barcaldine, Emerald and Alpha. All of this freight could be transported by road and there is a body of evidence of switching between the transport modes in these regions.
- 3.6. The declaration of the Central West Rail System provides transparency and certainty for the terms of rail access. Access certainty has played a key role in seeing a doubling in the number of intermodal services being operated on the Central West Rail system between 2017 and 2018.

In this same period, intermodal rail volumes also increased by 40%, with this increase being driven by a modal shift from road to rail. Linfox's customers in these regions have benefited from this switch from road to rail in the form of lower transport costs and improved service outcomes.

- 3.7. In Linfox's view, removal of the declaration for the Central West Rail System creates significant potential for an increase in rail access pricing and a deterioration of rail access terms. This would have the effect of reducing the competitiveness of rail, and as result, would reduce competition in dependent markets for the transportation of non-bulk products. In that scenario, there is a strong likelihood that the above-rail services performed by Linfox would cease to be provided. Ongoing or increased government subsidies for these services are not a reliable substitute for continued declaration.

Criterion D – Promote the public interest

- 3.8. Paragraph 5.8 of Part B of the QCA's draft recommendation suggests that the subsidised nature of the Central West Rail System, together with the absence of stakeholder submissions, means that a declaration of the below-rail service would not promote the public interest.
- 3.9. Linfox disagrees with that position. Linfox believes a reliable and cost competitive rail service into Central West Queensland is critical to the economic development of this region. Essential items such as food & grocery, liquor, retail products, industrial products and agricultural inputs are transported into this region by rail, and many of these in-bound products are in-turn used to produce agricultural exports from the region to domestic and international markets. Any cost increases to the transportation of these critical items, which we believe is the likely outcome if declaration is removed (see paragraphs 3.4 and 3.5 above), will translate into negative economic impacts on these dependent regional markets in the form of higher cost inputs, lower productivity, and reduced competitiveness, which consequentially leads to reduced investment and reduced employment opportunities.
- 3.10. In 2018, when there was a risk of Aurizon ceasing Central West intermodal operations (prior to Linfox's acquisition of the business), Mr Lachlan Millar, Member of Gregory and Shadow Minister for Fire, Emergency Services and Volunteers succinctly summarised the public interest position for western Queensland:

*"Closing this rail freight service will cripple western Queensland. This service is not just about livestock transport, it is also about the supply of essential goods-inwards to stock local businesses from food stores to hardware and more. It allows the safe and efficient transport of goods-inwards classified as hazardous and dangerous which are essential to daily life" – 11<sup>th</sup> September 2018*

- 3.11. In Linfox's view, Queensland state government TSC subsidies alone are not a reliable method to ensure that the negative public outcomes described above will be avoided. Continued declaration of the Central West Rail System is a critical part of the solution.
- 3.12. The following points further support the position that the public interest is and will continue to be supported if the Central West Rail System remains declared:

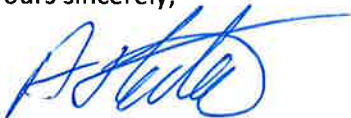
- **Safety:** Rail transport is safer than road transport (the closest rail substitute that dependent markets will be forced to revert to if rail prices increase following removal of declaration). Furthermore, dangerous goods are transported into central western Queensland on Linfox's intermodal train services;
- **Environment:** Rail transport produces lower emissions than road transport;
- **Investment:** Despite having only recently acquired its Queensland operations, Linfox is evaluating options for further investment in assets and facilities to support future growth in this region. A change in the terms of rail access may put future investment at risk; and
- **Cost of Regulation:** Linfox considers that the incremental cost of maintaining the declared regulatory regime in relation to the Central West Rail System are small when compared to the benefits of declaration.

#### 4. Conclusion

- 4.1. Linfox is highly supportive of the draft decision that will see the continued declaration of the North Coast Rail System. However, Linfox believes that the Central West Rail System should also be declared for a period of 15 years.
- 4.2. There a range of negative ramifications that may result from non-declaration, including reduced competitiveness of rail transport, reduced competition in dependent markets (such as the transportation of essential items) and increased road safety, economic, community and environmental impacts. The western Queensland community is highly dependent on this 'critical link' infrastructure and a strong and stable regulatory structure is important to maintaining its benefits.

Please do not hesitate to contact us if you have any queries or would like further background information about Linfox's use of below-rail services in Queensland.

Yours sincerely,



Aaron Carter  
General Manager – Train Services  
Linfox Australia Pty Ltd