

**Submission
No 6**

**INQUIRY INTO IMPACT OF PORT OF NEWCASTLE SALE
ARRANGEMENTS ON PUBLIC WORKS EXPENDITURE IN
NEW SOUTH WALES**

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Submission to the NSW Public Works Committee Inquiry into the impact of Port of Newcastle sale arrangements on public works expenditure in New South Wales

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Although this submission has drawn on research conducted at the University of Wollongong, it does not necessarily reflect the views of the University.

The main message is that the current arrangements for ports in New South Wales are sub-optimal, unduly restrict competition as well as adding to congestion of some Sydney road and rail networks. Arrangements for Newcastle with the closure of the railway line down town have been costly. NSW Port arrangements, as well as adversely affecting Newcastle have denied the Illawarra Region the opportunity to develop, with a private sector partner, Port Kembla as a stand - alone port.

More general comment (under any related matters) is offered regarding land side port impacts and rail privatisation with poor results in Australia and New Zealand. Attention is also drawn to the Port of Tauranga in New Zealand and Hastings in Victoria.

The inquiry is regarded as timely.

1. Costs to NSW of over-reliance on Port Botany

1.1 During 2013, Port Kembla was leased with Port Botany giving a windfall gain to the NSW Government. However, as per the article "*When the \$5.1 bn ship came in*" in the Australian Financial Review (AFR) for January 3-5, 2014, many Illawarra "locals" regarded the \$100 million of the proceeds of the lease being applied to regional infrastructure as inadequate.

This lease not only restricted competition between Port Botany and Port Kembla, but adversely affected the Port of Newcastle. Clearly, the lease to NSW Ports is at variance with the principle later stated by the 2015 Harper review on competition policy that (part of recommendation # 1)

The Australian Government, state and territory and local governments should commit to the following principles including *Competition policies, laws and institutions should promote the long - term interests of consumers.*

1.2 Consultants advising the NSW government on the long term lease of Port Botany and Port Kembla stated that a better price would be obtained if the planning cap on Port Botany on container movements was lifted from the then current 3.2 million TEUs (twenty foot equivalent units) per annum. In this case, a private sector owner of both ports could expand Port Botany rather than invest in new container facilities at Port Kembla.

During 2010-11, Port Botany moved a record 2.02 million TEUs of containers. Seven out of eight of these containers moved to and from Port Botany by trucks using congested roads, with adverse safety risks and environmental impacts.

To lift the Port Botany container throughput, as well as trying to get more containers on rail, the NSW Government is proceeding with an expensive duplication of the M5 East in the form of Westconnex Stage 2 and other major road works.

It then could well be more cost effective to have expanded other ports in NSW rather than Port Botany. This is still likely to be the case.

1.3 Some impacts of current arrangements are addressed in the March 2018 Deloitte Access Economic NSW Container and Port Policy - Port of Newcastle. The report notes in part that 2.4 million TEU moved through Port Botany in 2016-17, and moving this freight through Sydney faces congestion and high costs on both road and rail.

To quote in part from the Executive Summary for this report, NSW is currently facing increasingly intense challenges in managing port related freight. These challenges are fundamentally driven by growing population and economic activity but are made acute by the fact that the majority of NSW port freight currently moves through the congested population centre of Sydney, by the current limitations of freight network infrastructure and the difficulty in efficiently expanding the freight network.

This problem is present for both road and rail transport of port freight with each mode facing unique challenges (toll increases and a growing passenger rail task squeezing out freight rail, for example). As the freight task grows, this problem is only going to become more challenging.

Expanding the freight network in Sydney is necessary and Government is currently planning around \$3 billion to help decongest Sydney's freight network. Future expansion poses significant challenges and, over time, there will be a need to relocate some trade activity away from Port Botany. Currently, NSW Government plans and strategies focus on Port Kembla as the alternative container port for NSW

There is little regard to the significant role that the Port of Newcastle could play in helping to manage the current and growing freight task for NSW as well as in facilitating major economic, environmental and regional benefits to the State.

1.4 The NSW Government released, after consultation in 2017-18, a NSW Freight and Ports 2018-23 strategy. The Plan has five major objectives: Economic growth; Efficiency, connectivity and access; Capacity; Safety; and, Sustainability. This strategy appears to skirt around the substantive issue of whether further developing road and rail access to Port Botany at no mean expense would be better replaced by development of a container port at Newcastle.

The 2018-2023 Plan is considered to be capable of improvement.

Placing safety as the fourth of five main objectives, does not sit well with a marked increase in fatal road crashes involving heavy trucks on NSW roads 2017 over 2016 levels (from 22 to 40 as noted by BITRE, followed by no fewer than three fatal crashes on NSW roads apparently due to articulated trucks in January 2018. This is in contrast with a nation wide trend of fatalities in crashes involving articulated trucks (but not rigid trucks) trending down at approximately 5 per cent per year.

The NSW Freight and Ports Plan gives emphasis to increasing road freight productivity. This is despite NSW trucks being large and heavy by international standards, and some concern that there should be restrictions on the size of big trucks at certain times in Sydney was expressed in mid December 2018 by Mr Ron Hoenig, MLA for Heffron after an 'absolutely horrific' truck crash on, just south of Green Square railway station, that left a 44-year-old woman dead and five others injured.

Although the 2018-2023 Plan addresses rail freight productivity and emissions, this Plan ignores the important question of external costs. These were raised in submissions to the draft plan, and were addressed at some length by the NSW Independent Pricing and Regulatory Tribunal (IPART) in its 2012 Review of access pricing on the NSW grain line network. These costs, on top of demonstrable hidden subsidies to the operation of articulated trucks through under-recovery of road system costs of about one cent per net tonne kilometre are a further one cent per net tonne km in rural areas and more than two cents per net tonne km in urban areas. These road freight external costs appreciably exceed the respective external costs of rail freight.

1.5 Between the 2011 and the 2016 Census, Greater Sydney's population (including Gosford) grew from 4.39 to 4.82 million. This was a large 10 per cent growth. During these five years, rail patronage on the Sydney and intercity network increased from about 304 to 367 million with a stronger growth of some 15 per cent. Both have since grown. The 2016 Census had NSW at 7.48 m, an 8.1 per cent increase from 2011.

The increasing population, and demands on the road and rail system, suggests that a longer term approach to be taken to planning than has been apparent to date. Following an Inquiry, planning in NSW in the context of Westconnex was recently taken to task by the Public Accountability Committee of the Legislative Council.

2. Costs to Newcastle

2.1 Related to the privatisation of the Port of Newcastle, was the truncating of the Newcastle rail line at the end of 2014 (initially at Hamilton and then Wickham) and using proceeds of port privatisation for the construction of a replacement section of light rail.

On March 3, 2015, following receipt of more than 350 submissions and public hearing, a multi-party Legislative Council Select Committee handed down a final report

raising concerns about the planning process involved with truncating the Newcastle rail line. The report recommendations included:

That the NSW Government immediately reinstate rail services that have ceased and infrastructure that has been removed from the Newcastle heavy rail line.

In early 2015, it was reported that that Baird government's chosen light rail route into Newcastle would cost more, and was not the route recommended in a 2013 document. The government was also advised that closing the rail line at the end of 2014 would be more costly and complicated than waiting until the second half of 2015.

Train travellers from Maitland, a smaller city 35km north-west of Newcastle, strongly voiced their objections to losing their train into the Newcastle CBD and its nearby beaches. Local newspapers including the Maitland Mercury (<https://www.maitlandmercury.com.au/story/2504252/save-hunter-rail-get-on-board>) Singleton Argus, Scone Advocate, Cessnock Advertiser, Muswellbrook Chronicle and Dungog Chronicle ran a joint campaign to #SaveHunterRail.

2.2 A better way to revitalise Newcastle

Before the Newcastle station was shut down, it took no less than two hours and 37 minutes to get from there to Sydney's Central station. Yet back in the late 1940s, the Newcastle Flyer hauled by a steam locomotive could make that same trip 19 minutes faster.

In 2012, Infrastructure NSW set a goal of cutting the Sydney to Newcastle train travel time to two hours. This goal was reaffirmed in late 2018. During these six years, Victoria did much to improve its regional rail offerings on four lines in terms of frequency, transit times and reliability.

The Sydney Newcastle current track is too long and too many tight curves. Track straightening at a few locations has the potential to shave three kilometres off the current distance, but more importantly speed up the trains. Fassifern is one such location.

Investment in track upgrades to allow for faster trains from Newcastle to Sydney would do far more for revitalising Newcastle than cutting the track at Wickham and building new light rail. The faster trains would give Hunter Valley people better access to Sydney jobs, and attract more tourists from Sydney to Newcastle.

3. Costs to Wollongong

3.1 One option is to develop Port Kembla as a container port with completion of the 35 km Maldon Dombarton rail link with a 4 km tunnel to give a rail connection to the Moorebank intermodal terminal now nearing completion.

In June 2018, the Legislative Council Standing Committee on State Development issued a report *Regional development and a global Sydney* with recommendations

including that the NSW Government explore options to bring forward construction of the Maldon to Dombarton railway line. This line was started in 1983 and stopped in 1988.

3.2 Port leases appear to have been better handled by Government in New Zealand rather than NSW. One example is the Port of Tauranga. This port is separately owned from the Port of Auckland and both ports compete with each other to provide better pricing and level of service to shipping lines along with importers and exporters.

The Port of Tauranga owns a container pick up and delivery facility called Metroport located in an industrial area to the south of Auckland. Metroport is a fully bonded intermodal terminal linked to Tauranga by container trains operated by KiwiRail.

To quote from a 2014 website Metroport is a " ... strategic initiative on the part of the Port to offer a competitive door-to-door import service and to provide importers and exporters with a choice of ports in the Auckland region."

The trains (some five or six return ones each day) linking the Port of Tauranga to Metroport in Auckland move along an upgraded railway of some 220 km in length, which includes an 8.9 km tunnel under the Kaimai Range completed in 1978.

The Port of Tauranga has won several awards and in 2014 was shortlisted for the international Lloyd's List Port Operator award.

The Port of Tauranga is a listed company with over 40 % of the shares owned by local government. It is vibrant port that not only supports the regional economy, but also assists New Zealand's largest city of Auckland as a nearby second container port.

Clearly, this would not have happened if the Port of Tauranga had been operated by the Port of Auckland.

3.4 Port Kembla operations for some years have included undue reliance on road haulage of export coal, at levels of about 5 million tonnes per annum. The large numbers of coal trucks are one reason why the Mt Ousley Road (the main road access to Wollongong) with an Annual Average Daily Traffic in 2018 of 53,089 of which 15 % (7963) are trucks <http://www.rms.nsw.gov.au/about/corporate-publications/statistics/traffic-volumes/aadt-map/index.html>

4. General comment

4.1 If privatization is embarked on by government, for either railways or ports, it is necessary to give very careful attention to the conditions of sale or lease.

Rail privatisation in Australia and New Zealand has been a very costly experiment. It could have been done better, if at all. One account is given in <http://www.kiwirail.co.nz/about-us/history-of-kiwirail/150yearsofrail/stories/rail-privatisation.html> which cites, inter alia, *A Short History of Privatisation in New Zealand*.

Another account is by this writer, P Laird, 2013, *Government rail asset sales, and return to the public sector, in New Zealand and Tasmania* in the international journal

Research in Transportation Business and Management Vol 6 p116–122. In summary:

The paper outlines the sale, with a track lease, in 1993 of the state owned New Zealand Railways Corporation to a consortium, TranzRail Holdings formed by United States and New Zealand interests. It also notes increases in productivity and traffic levels to 1999 with subsequent problems leading to the New Zealand Government agreeing in 2003 to repurchase and maintain the track. The paper also outlines transfer of effective ownership of the trains and related services in 2003 to an Australian company, and in 2008 back to New Zealand Government at appreciable net cost.

After a brief outline of railways in Australia, the paper notes how government rail in Tasmania, then owned and operated by the federal Australian National Railways Commission, was sold in 1997 with a track lease to a company related to TranzRail Holdings. The paper then notes emerging problems after initial success, and how after a change in ownership in 2004, the Tasmanian track lease was taken back by the public sector in 2007, followed by the trains in 2009.

Other rail asset sales in Australia [with some poor results] are also noted along with the high total costs of road vehicle operation in Australia.

4.2 The treatment by the NSW Government of Newcastle stands in stark contrast to that of the treatment by the Victorian Government of Hastings. In 2012, a Port of Hastings Development Authority was formed to develop and manage the port of Hastings. This port is some 72 kilometres to the south east of Melbourne and is expected to be developed by the authority as a major new container port in competition with the Port of Melbourne, Australia's busiest container port. The enabling legislation provides that the objects of the agency is to— manage and operate the port of Hastings, and facilitate the development of the port of Hastings as a viable alternative to the port of Melbourne as a container port in order to increase capacity and competition in the container ports sector to accommodate future growth in trade.

5. Conclusions

The current arrangements for the ports of Newcastle, Port Botany and Port Kembla in New South Wales are sub-optimal and in need of review. They unduly restrict competition as well as adding to both direct transport costs and external costs including congestion of some Sydney road and rail networks. These arrangements also disadvantage both Newcastle and Wollongong.

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