Leading the way in leasing and domestic manufacturing

Global change is coming to the Australian intermodal market, providing opportunities for local suppliers.


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Two global macro trends are set to drastically change the local rail freight sector that supports intermodal transport. If Australian suppliers are to live up to their potential as a key player in Australian freight, they will need to evolve on several fronts.

First, there is a trend towards deglobalisation with companies who previously employed "just in time manufacturing" through international partners now looking to reduce risk by simplifying their supply chains.

The COVID pandemic, which brought international trade to a virtual standstill in the first half of 2020, was the wake-up call. However, the ongoing war in Ukraine and tensions with China show how even regional concerns have widespread, often global consequences. Companies have had to reconsider the location of their manufacturing facilities, the country of origin of input goods, and carry more inventory.

Undoubtedly, the even bigger trend is the march towards decarbonisation, which is set to be the catalyst for the largest change the rail industry has seen since the 1940s, as the sector transitions from diesel engines to a combination of hydrogen, battery, biofuels and electric.

The push for improved environment, social, and governance (ESG) principles is currently being led by the industry's lenders as well as its mining and retail customer base, calling for more sustainable rail operations throughout their supply chains.

Decarbonisation is a key element of ESG in the transport and freight sectors, and concerns for emission reductions are driving volumes towards intermodal transport. Being 16 times more fuel efficient than road freight, intermodal already offers inherent environmental and cost advantages and should be well positioned to support growth.

As new technologies are trialled and implemented ahead of government decarbonisation mandates, the shift to lower carbon alternatives provides tremendous opportunities, and risks, for operators.

Initially, the opportunity for the Australian rail sector to harness these global trends might seem easy. Over the next five to 10 years, deglobalisation, the simplification and de-risking of supply chains, a push towards lower carbon transport, and government investment in Inland Rail, are expected to deliver intermodal growth significantly higher than the sector's traditional GDP increases. Most forecasts estimate the intermodal market will increase more than 60 per cent by 2040, resulting in an additional 26,000 wagons being added to the national fleet.

However, this growth is intertwined with the need for greater flexibility, and unprecedented social accountability. New markets, new lanes, new technologies, new public ESG expectations, combined with the challenges of below rail infrastructure durability in the face of global warming, make it harder than ever to place a 40 -50-year bet on new equipment.

Operators are challenged to have the right equipment fully utilised across its entire life, or be certain that the type of equipment they buy now will continue to meet environmental and social requirements as decarbonisation mandates start to take effect.

These challenges are exacerbated by the fact that Australia's rail infrastructure and access regime is uniquely complex. By global standards, it remains very small with roughly only 16,000 flats, and it is highly fragmented and expensive with a range of below rail operators using different standards, registration processes, and gauge outlines – all of which makes it difficult for operators to relocate, repurpose and quickly shift equipment from one task to another due to network disruptions, changes in business, or shift in train designs.

DOMESTIC MANUFACTURING AND NEW OWNERSHIP MODELS

Internationally, more mature rail markets have adopted new business models to increase flexibility with the majority of equipment in the US and Europe now owned by customers or leased, at 66 per cent and 41 per cent respectively. The Australian rail industry can follow in their footsteps with increased domestic manufacturing and leasing of rail equipment providing flexibility to meet evolving market needs.


Rail First offers wagons on a "Build to Lease" model, enabling operators to pick the exact type of wagon they want.

Manufactured in Islington, South Australia, more than 60 per cent of Rail First's wagon components are sourced from Australia.

Local wagon manufacturing capability removes supply chain complexity, significantly decreases delivery lead times, and reduces the environmental impact of customer operations. Lead times for international rolling stock sourced from China or the US typically range from 12-18 months, whereas Rail First's domestically manufactured wagons can be delivered in four to six months from order, with the company handling all the complexity of Australian registration.

Local manufacturing removes modern slavery concerns with engineering departments easily able inspect the construction process at any time, making it simpler to project manage. It also caters to the many companies who are increasingly looking to avoid sovereign risk exposure to Russian or Chinese manufactured products on a cost-equal basis.

As the nation's only domestic manufacturer of intermodal wagons, Rail First has the unique ability to embed ourselves in the supply chain of Australia's rail freight operators, supplying high quality, low emissions locomotives, as well as custom-built wagons to suit specific industry needs.

Building wagons at Islington, South Australia, Rail First's proven designs and well builds are certified Australian made and have already navigated the various below standards and registration processes.

More than 60 per cent of our wagon components are sourced directly from Australia, and all labour is carried out locally in SA. By leveraging Australian steel and local manufacturing, operators can avoid transpacific shipping, port fees, demurrage, and local reassembly costs – all of which can add a 10-15 per cent premium to the purchase price of internationally-made wagons. While labour is generally more expensive in Australia, the shipping costs are significantly less and the two tend to offset each other.

Also key to addressing changing market demand and requirements over the coming decades will be cost-effective flexibility. Leasing of railway equipment is expected to become more attractive, offering operators the ability to quickly upgrade or adjust fleets without being tied into a long-term investment of outdated equipment.

It provides cost-effective access to the most advanced technology, which will be increasingly important as the industry transitions to lower carbon alternatives, enabling companies to keep up with changing market conditions.

Cutting-edge technologies bring operational efficiencies and well-maintained leased equipment can help to reduce maintenance costs and improve overall reliability. The ability to include maintenance and support as part of a leasing solution further assists in managing costs and minimising downtime.

Rail First offers wagons on a "Build to Lease" model, enabling operators to pick the exact type of wagon they want, using either their own IP or ours. Under a lease, operators have the flexibility to change one class of wagon for another with the option to either renew the lease, return the wagon, or purchase the wagon at the conclusion of the lease. A wet lease provides a full warrantee for the life of the asset with no hidden maintenance, overhaul, or modification costs.

Our leasing solutions eliminate the need for large upfront capital expenditures, allowing companies to allocate resources to other areas of their businesses. Operators can leverage our lower cost of capital to support their business expansion via our green loans and support of new owners, major infrastructure funds Amber Infrastructure and DIF. It also avoids interest rate and inflation risks with one steady price.

Rail First's domestic manufacturing capability will be able to support the industry as it moves away from diesel engines, and we already have a modern Tier 2 fleet. In the second half of the decade, we will commence our own purchase of battery locomotives to assist customers in their transitions and are looking to make our wagons dual mode compatible – ECP and traditional air systems - as both are likely to exist for a while.

We have also commenced construction of wagons for Inland Rail, starting with a new prototype. In addition to assisting our customers in reducing their environmental impact, starting this year, more than half of Rail First's manufacturing energy will be derived from solar.

If the Australia intermodal supply sector harnesses its strengths it can increase its share of the local freight market and see more wagon rollingstock manufacturing return to our shores. Compared to international providers, domestic manufacturing has no sovereign or supply chain risks with locally sourced materials and high-quality builds allowing Australian operators and customers to meet stricter governance standards while accessing flexible leasing capability.

That's good news for everyone.