

**Pacific National Submission to on the
Senate Standing Committee on Rural and
Regional Affairs and Transport Inquiry
into the State of Australia's Rail Industry**

February 2017

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1. Introduction and Background

Pacific National welcomes the opportunity to comment on the Senate Standing Committee on Rural and Regional Affairs and Transport Inquiry into the State of Australia's Rail Industry (the Inquiry). Pacific National is a major freight train operator throughout Australia's mainland states transporting intermodal freight, steel, agricultural products, building products, coal and other mineral products.

Pacific National seeks that all levels of Australian government develop and implement policies that enable the development and operation of an efficient and commercially sustainable rail freight transport industry. The efficiency of the rail freight transport industry is critical to the competitiveness of Australia's industries in both domestic and international markets.

This submission focuses on barriers to growth and improved productivity. Removing barriers to growth and increasing the amount of freight on rail will act to positively address each of the components in the Inquiry's terms of reference.

This submission is public.

2. Road Pricing for Heavy Vehicles

Pacific National believes that the reform of road pricing for heavy vehicles can potentially increase the amount of freight on rail. Pacific National believes that road and rail infrastructure pricing for freight and the regulatory processes which govern these forms of infrastructure pricing are currently skewed in favour of road freight over rail freight. Pacific National (and the rail freight industry more broadly¹) is seeking that road and rail freight be subject to infrastructure pricing which is determined on a consistent basis between the two types of infrastructure.

Pacific National welcomes the Commonwealth Government's recent announcement² that it will progress heavy vehicle road charging reform. However, Pacific National is concerned with elements of the Commonwealth Government's announcement including:

¹ See for example various submissions by the Freight on Rail Group (FORG) on issues relating to heavy vehicle road pricing. A sample of submissions can be found at these links:

- http://www.artc.com.au/uploads/Freight-on-Rail-Group-Submission-to-IA-Re-Australian-Infrastructure-Audit_SEP15.pdf
- http://www.pc.gov.au/_data/assets/pdf_file/0017/207431/subdr266-agriculture.pdf

² The announcement was made on 24 November 2016. Details of response particularly as it relates to heavy vehicle road usage pricing can be found at pages 35-36 of the document below

- http://transportinfrastructurecouncil.gov.au/publications/files/Australian_Government_Response_to_Australian_Infrastructure_Plan_November_2016.pdf

- the road pricing reform would be developed on a forward looking cost base. Rail infrastructure pricing is not set on such a cost base so the pricing inconsistency will be perpetuated;
- the form of road pricing is not yet decided. Rail infrastructure is priced on the basis of mass of the loaded vehicle, distance travelled and location. Road infrastructure should be priced using a similar pricing approach and structure;
- the identity of the road pricing regulator is not yet decided. Interstate rail infrastructure pricing is largely regulated by the ACCC, with the potential for this pricing to be moved to the new access pricing regulator recommended by the Commonwealth's 2015 Competition Policy Review³. Depending on the identity of the road pricing regulator there is the potential for differing approaches between road and rail infrastructure pricing to be perpetuated as different regulators are making decisions on infrastructure pricing; and
- the road pricing reforms may take up to five years to implement.

These issues need to be addressed if road infrastructure pricing and rail infrastructure pricing are to be determined on a consistent basis between the two types of transport infrastructure.

Pacific National seeks that the Inquiry support the current proposed reform of road pricing for heavy vehicles while seeking to ensure that such reforms result in infrastructure pricing which is determined on a consistent basis between road and rail infrastructure.

3. Transport Mode Shift Incentive Scheme

Pacific National believes that transport mode shift incentive schemes can increase the amount of freight on rail. For example Victoria has a Mode Shift Incentive Scheme⁴ which encourages containerised freight moving from road to rail via assistance to intermodal freight rail in regional corridors. Pacific National understands that this scheme, while small at \$20 million over the next four years, has produced results by taking freight off rural and regional roads and shifting the freight to rail. Thus this scheme contributes to the importance of rail as a regional employer and improves rail freight productivity via economies of scale.

These types of transport mode shift programs incentivise companies who would not ordinarily use freight rail to consider a transport mode shift when they would otherwise not make a considerable commercial gain by doing so. Despite this, there is no national strategy to co-ordinate and extend these schemes.

³ See the Competition Policy Review Final Report March 2015 in particular pages 80 -81

- http://competitionpolicyreview.gov.au/files/2015/03/Competition-policy-review-report_online.pdf

⁴ Details of the mode shift scheme can be found at this website

- <http://economicdevelopment.vic.gov.au/transport/freight/mode-shift-incentive-scheme>

Pacific National seeks that the Inquiry support existing modal shift incentive schemes, support the introduction of additional modal shift incentive schemes with a focus on regional markets and support policy frameworks which would co-ordinate these schemes. Additional mode shift incentive schemes could be facilitated via the Commonwealth's National Partnership Agreements with the States and Territories.

4. Transport Infrastructure Investment

Pacific National believes that the amount of freight on rail can be increased the increasing the level of investment in rail infrastructure, particularly freight rail infrastructure. Such an increase in rail infrastructure investment will act to positively address all of the components of the terms of reference.

Pacific National supports the development of an integrated and efficient national freight transport network. While road and rail are and should continue to be complementary freight transport modes, Pacific National is concerned at the disproportionate investment in road infrastructure when compared to rail infrastructure. For example Commonwealth Government contributions to state government rail projects made up less than 5 per cent of the Commonwealth's budgeted \$8.6 billion transport infrastructure expenditure for 2015-16. Pacific National believes that an efficient and integrated national freight network requires substantial increases in freight rail infrastructure investment.

There are a number of rail corridors where maintaining and improving the standard of the rail infrastructure is important to ensuring an efficient rail freight network. Any decline in rail infrastructure standards compared to road will result in a shift from rail to road on important freight corridors and a reduction in the options for freight customers who have previously used a combination of rail and road services, with a negative impact on freight operations and innovation.

This lack of investment in rail infrastructure when compared to roads is:

- reducing the competitiveness and capability of the rail industry;
- reducing the importance of the national rail industry as a regional employer; and
- raising barriers to rail industry growth and productivity.

A major increase in rail infrastructure investment, particularly in freight lines in regional and rural Australia, is needed to address these issues. Such investment should be focussed on infrastructure where rail has a particular strength as a key component of a national freight transport

network, such as long-haul rail corridors, high volume shorter haul rail corridors (which often serve bulk product markets) and port shuttle rail corridors.

Pacific National believes the Commonwealth Government can play a greater role in building a productive freight rail network by increasing investment in freight rail infrastructure.

Pacific National seeks that the Inquiry support funding mechanisms which are dedicated to freight rail infrastructure. Such mechanisms could include the Commonwealth offering to meet 80 per cent of the costs of approved rail infrastructure proposals prepared by State and Territory Governments, consistent with the funding model used for major road projects. Pacific National also seeks that that the Inquiry considers supporting public private partnerships in relation to freight rail infrastructure.

5. Inland Rail

The Melbourne to Brisbane Inland Rail project is a nationally significant infrastructure project which seeks to connect Melbourne and Brisbane via a standard gauge rail line following a route through inland Victoria, New South Wales and Queensland. This project is an important strategic investment in Australia's infrastructure capability, providing capacity to serve the east coast freight market for the next half century. This rail line will enhance rail freight productivity and open up new export markets and employment opportunities for areas of regional and rural Australia.

The realisation of the Inland Rail project will make a major positive contribution to:

- the competitiveness and capability of the rail manufacturing industry. In particular the rail manufacturing industry should benefit from this project during the construction phase but the industry will also benefit from the ongoing increase in rail operations requiring additional infrastructure and rolling stock;
- the importance of the national rail industry as a regional employer;
- promote growth (via access to new markets and improved access to existing markets);
- promote productivity (via a reduction in train operating costs and reductions in train transit times);
- the development of skills and technology, particularly in regional Australia; and
- increased national co-ordination of rail industry standards.

As such the Inland Rail project is perhaps the most important single step that can be taken to positively address the terms of reference of the Inquiry.

To date the Australian Government has provided for planning and pre-construction funding for the project. Pacific National is seeking that this Inquiry strongly recommends that the Australian Government commit to funding the delivery phase of the project. Such a recommendation will provide both the community and industry with additional assurance that the project will be delivered as will allow industry to prepare for the commencement of operations.

6. Innovation

The freight rail industry has potential to be an effective incubator of innovation, particularly in areas such as alternate power supplies (for example recovery of power from regenerative braking), improved and automated signalling and improved and automated train control.

The innovation record of the Australian freight rail industry is uneven and is impacted by the high-cost of adopting new technologies, the need for some new technologies to be adopted by all parties and different operational and regulatory approaches across different states.

Pacific National believes that government co-ordination of some innovation initiatives is needed. To this end Pacific National is seeking that the Inquiry recommends:

- moving quickly towards a consistent national approach for rail industry standards and national regulation so that any innovation can be applied across the nation rather than just in one state; and
- supporting a single national approach to areas of innovation which require extensive co-ordination such as automated signalling and automated train control.

Pacific National believes that the rail industry could adopt advanced technology more quickly if consistent national standards and approaches are established, and potentially some targeted investment in innovation is undertaken (perhaps via pilot programs).

7. Moving Towards National Standards

Freight rail in Australia includes a substantial component of interstate freight movement, but the ease of these freight movements is often complicated by different state approaches to access, environment and operations. Pacific National strongly supports an acceleration of efforts to streamline and standardise the rules, regulations and legislation applying on a given rail corridor. In particular, Pacific National supports a review to develop a scope of work to streamline and standardise Australian freight rail legislation and regulation.

Pacific National are also supportive of investments to improve rail productivity by increasing average train speeds, double stacking, increasing and standardising axle loads and train lengths, and ongoing alignment of rail gauges (such as the Murray Basin rail gauge standardisation project).

Pacific National seeks that the Inquiry should support the further development of a nationally-coordinated approach to rail standards (including rail manufacturing standards). This will in turn contribute to the improved competitiveness of the industry and reduce barriers to growth and productivity.

8. Conclusion

Overall Pacific National seeks that the Inquiry supports:

- the proposed reform of road pricing for heavy vehicles (while seeking to ensure the reforms result in road and rail infrastructure pricing being determined on a consistent basis);
- the introduction of additional modal shift incentive schemes;
- increased investment in freight rail infrastructure and support funding mechanisms which are dedicated to freight rail infrastructure;
- a Commonwealth Government commitment to the Inland Rail project;
- targeted investment in rail industry innovation; and
- a nationally co-ordinated approach to streamline and standardise the rules, regulations and legislation applying to rail freight.