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# AUSTRALASIAN RAILWAY ASSOCIATION SUBMISSION

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To

The National Transport Commission

On the

Discussion Paper *Assessing the Effectiveness of the  
PBS Scheme*

# ABOUT THE ARA

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The ARA is a not-for-profit member-based association that represents rail throughout Australia. 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 to ensure Australia's passenger and freight transport systems are well represented and will continue to provide improved services for Australia's growing population.

## SUMMARY

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The ARA thanks the National Transport Commission (NTC) for the opportunity to provide this submission. The comments are provided against the backdrop of rail's significant economic and social contribution to Australia.

Research<sup>1</sup> undertaken for the ARA by Deloitte Economics shows the rail industry had a direct economic contribution of \$13.3 billion in 2016 and directly employed around 54,000 Full Time Equivalent (FTE) workers.

The total contribution of the rail industry to the economy was \$26 billion, supporting 142,000 employees, representing around 1.6% of the Australian economy and 1.4% of FTE employment.

The ARA's comments on this discussion paper focus on three key aspects:

- Delivering an integrated approach to transport policy which recognises the social and economic benefits associated with the movement of freight
- Addressing some of the long term-structural issues that cause competitive bias between modes for the contestable freight market
- Providing suggestions to improve competition between modes to provide better services to users and help position the transport industry for the future

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<sup>1</sup> The True Value of Rail – Deloitte Access Economics, 2017

# INTRODUCTION

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The ARA notes the intent of this project is to examine the effectiveness of the Performance Based Standards (PBS) scheme in meeting the original policy intent.

As a policy principle, the ARA supports a multi-modal approach and for government actions to utilise all modes of transport in the most efficient way possible, from both a regulatory and investment perspective.

The efficient and effective movement of Australia's freight task must involve a mix of road, rail, sea and air transport services that uses the right mode of transport for the job. A productive and efficient freight and logistics sector needs all elements of the supply chain operating at peak efficiency in order to adequately support the Australian economy.

Road and rail compete to carry domestic freight on a number of long-haul corridors including the east-west corridor, i.e. freight services between the capital cities of the eastern states, Adelaide and Perth, and the north-south corridor connecting Victoria, New South Wales and Queensland as well as on regional freight corridors.

The ARA recognises the need to identify any administrative or regulatory hurdles to improve the effectiveness of the PBS scheme by increasing innovation that leads to improved productivity and safety.

It is this same principle – overcoming administrative and regulatory hurdles to improve productivity and safety – which underpin the ARA's comments on this discussion paper.

Within the context of a rising freight task, there is a growing need to deliver an integrated approach to transport policy which adequately recognises the social (including safety and environmental) and economic benefits associated with the movement of freight.

To support the selection of the right mode, the Federal Government must ensure that the freight market is established and regulated in such a way that supports the principle of competitive neutrality.



Transport policies that do not aim to achieve competitive neutrality can result in distortions in the markets. Any reforms should aim to achieve a more integrated and competitively neutral transport network – promoting efficient and sustainable economic outcomes for the benefit of all freight customers and the Australian economy.

ARA is of the view that transport policy has, and continues to consider modes in isolation resulting in different policy levers being used by governments differently across modes. This has the potential to distort efforts to generate viable competition within the transport industry.

The ARA would welcome, therefore, greater government focus and attention to address some key inequities between the two modes that exist within a framework of relatively high regulatory requirements imposed on the rail freight industry.

## DISCUSSION

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Whilst acknowledging the intrinsic differences between modal choices in the movement of goods, domestic freight markets should operate as far as possible on a level footing by having either:

- An equitable and comparable regulatory environment; or
- Competitive neutrality between competing modes of transport.

It follows, therefore, that the ARA believes that the transport market must function in a way that does not favour one mode over another. Pricing, safety requirements and Occupational Health and Safety obligations must be the same across all modes. Costs related to the environment, safety and congestion must also be considered.

Deloitte Access Economics has undertaken research on behalf of the ARA to quantify the current value of rail to the Australian economy in terms of its contribution to GDP and employment, as well as its broader contribution to society through benefits such as reduced emissions, greater safety and reduced emissions. It found:



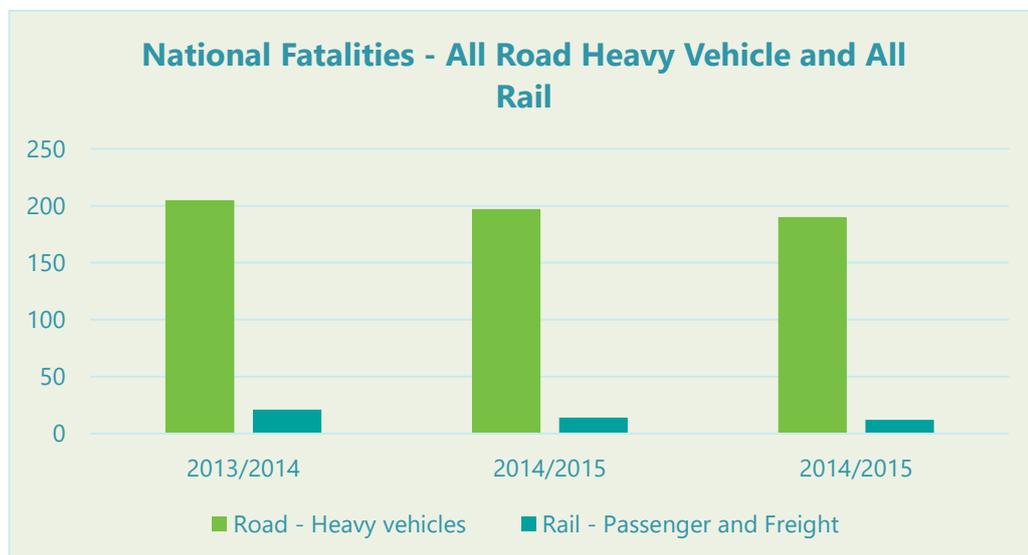


- Road freight produces **16 times more carbon pollution** than rail freight per tonne kilometre
- Moving a single container by rail instead of road can **save up to \$344.79** in carbon costs for movements between Australian major cities.



- Road freight produces **14 times more accident costs** than rail freight per tonne kilometre
- Moving nine tonnes of freight by rail instead of road between Melbourne and Brisbane **saves around \$250** in accident and emission costs

More specifically, rail's relatively strong safety performance can also be demonstrated when the fatality rates of the two modes are compared.



*(Source: Department of Infrastructure and Regional Development Fatal Heavy Vehicle crashes quarterly bulletins Jan-Mar 2017, Rail Regulators Report (QLD) 2015/16, Office of National Rail Safety Regulator Rail Safety Reports 2013/14, 2014/15, 2015/16)*



The NTC's proposed improvements to the PBS scheme draw into sharper focus the need for government focus on addressing externalities.

Externalities should be identified and internalised where possible. If the transport decision making process cannot internalise these costs, governments should ensure that the mode that exhibits the best safety and environmental performance receives incentives or subsidies to ensure the community enjoys the benefits of this superior performance, instead of unknowingly absorbing such costs as is currently the case.

In its discussion paper, the NTC outlines a range of actions and suggestions to improve the effectiveness and efficiency of the PBS scheme and to help ensure its sustained success. These include:

- Reviewing the PBS framework and the standards
- Simplifying the PBS scheme
- Publishing national notices for all four levels of PBS network
- Developing an infrastructure capability assessment framework for use in decision making
- Developing a Regulatory Impact Statement to assess whether a performance based approach should be the standard to assess and register a vehicle's suitability on the road
- Identifying the costs and benefits of upgrading infrastructure to accommodate PBS vehicles
- Identifying the need to develop a performance based approach for medium-to-heavy duty commercial vehicles in urban areas

In the absence of clearly considering the significant externality benefits of rail, these initiatives would appear to make moving freight by road more competitive. If only some of these proposals were taken forward, the reach of the PBS scheme would be expected to expand both in terms of the number of vehicles using PBS, and those parts of the road network that are available to approved PBS vehicles. It is fair to assume, therefore, that more volume would potentially be switched from rail to road.

In light of these expected outcomes, there is a growing need for action by governments (many of which publicly support more freight being moved by rail in their respective jurisdictions) to address policy imbalances inherent in the Australian transport industry.



These policy imbalances (which include an inequitable pricing regime; disproportionate accreditation frameworks and variable safety requirements) exist within an environment where there are significantly different requirements to entry and operation. These include:

Issue	Road Freight Transport Services	Rail Freight Transport Services
<b>Accreditation</b>	No minimum accreditation regime other than drivers needing to obtain a licence for the vehicle combination to be operated. Access to use the road network is available to any operator with a truck and a driver	A multi-faceted accreditation process (including ongoing re-certification) applies to use of the rail networks covering company accreditation as a rail operator, the rolling stock to be used for services and capability/knowledge of staff that are proposed to operate the equipment
<b>Training</b>	Basic licence and medical requirements	Significant training requirements, including ongoing assessments and observations, accreditation and ongoing medical and safety checks
<b>Capital Costs</b>	Relatively low capital costs	Equipment has a high capital cost and long life
<b>Market Size</b>	There are extensive road transport equipment fleet providers and robust used equipment markets	Freight rollingstock suppliers are limited with the markets dominated by a few major suppliers
<b>Operations</b>	No requirements for two-driver operations	Varying requirements for two driver operations. Widespread use of rail vigilance systems.
<b>Network</b>	Other than toll roads, road networks are a public good and predominantly public owned by state and local governments with no legal access constraints or expectation of a commercial return	Rail networks are owned by commercial or semi-commercial entities seeking a return. There is a commercial/legal framework that is applied to users seeking access
<b>Fatigue</b>	Truck drivers can drive 14 hours per 24-hour period. As well, truck drivers can utilise Advanced Fatigue Management that enables a solo truck driver to increase their hours to 15.5 hours per 24-hour period (including 1.5-hour regulatory breaks).	A review of the of fatigue risk management arrangements (including driver hours) under the Rail Safety National Law is currently being undertaken. But driving hours for train drivers is less despite rail largely operating in a controlled / isolated system.



The impact of the costs arising from these policy imbalances is compounded by the cost of meeting different regulatory requirements across jurisdictions and different third-party track access conditions, including route accreditation and audits.

In light of these (and other) requirements for entry and operation, and the proposed changes to the PBS scheme, the ARA encourages governments to embrace a number of measures to increase the competitiveness, efficiency and safety of freight operations.

### *Addressing the inequitable road / rail pricing regime*

The fundamental differences between road and rail pricing put rail at a significant disadvantage. The current road pricing and investment model does not lend to competitive neutrality between land transport modes. Rail access charges generally work on the principle of cost recovery while road pricing, via the PAYGO formula, does not recover full direct costs from heavy vehicles, let alone externalities. Rail freight is charged for freight rail infrastructure via rail freight access charges (either regulated or commercially negotiated) based on the cost of funding, maintaining and operating the rail freight infrastructure. This leads to a disparity in costs where rail service providers must spend a greater proportion of their operating costs on rail access charges than heavy vehicle operators. As it currently stands, there is no direct link between the road user funds received by governments and the investments that are made by State and Federal Governments in road infrastructure and related services. In particular, there is not a direct relationship between heavy vehicles users and road providers.

Pricing frameworks that apply to the two modes should be consistent to minimise the potential for inefficiencies arising from misaligned regulation providing perverse incentives for transport users to use the less efficient mode. Fundamental to this reform is establishing price signals that reflect the actual costs of road provision for heavy vehicles, including the costs of road damage.

*Road pricing reforms need to be progressed as a matter of urgency to address this inefficiency in the current system.*

### *Road Governance Framework*

Operators of rail services must be accredited by the national regulator before they are able to operate train services on the rail network, and bear the cost of such accreditation. This accreditation covers the capability, condition and knowledge of both the equipment to be deployed



and the staff who will operate this equipment. Each operator must have a Rail Safety Management System that demonstrates the ability to understand interfaces, risk factors and operate safely including reducing risks as far as reasonably practical.

Road operators are currently not required to be accredited to operate on the road networks which are open access, multi-user networks with major risks including the co-mingling of heavy vehicles and light passenger vehicle traffic. ARA understands accreditation under the National Heavy Vehicle Accreditation Scheme is voluntary.

*There should be further consideration of the benefits of a robust road governance framework to deliver greater assurance that road equipment is accredited.*

### *Technology*

PBS vehicles are required to incorporate safety and tracking technology which is a proven way to improve the safety record of road freight heavy vehicle operations. Modern technologies such as these are critical to minimising road fatalities and the associated trauma costs that result from heavy vehicle accidents. The fact that PBS vehicles are involved in 46 per cent fewer major crashes than the existing non-PBS vehicles for the same distance travelled underscores the effectiveness of this technology. ARA understands however that this safety and tracking technology (such as IAP) is not mandatory on non-PBS heavy vehicles.

*ARA supports further investigation of the case for making a PBS-equivalent level of monitoring and reporting mandatory for all heavy vehicles (e.g. GML) as a way of improving safety and managing risk on major road networks.*

### *Externalities*

As outlined earlier, ARA believes costs related to the environment, safety and congestion should be considered in governments' decision-making processes. As previously mentioned, it is estimated that road freight produces 16 times more carbon pollution than rail freight per tonne kilometre. This negative externality, not to mention noise pollution from trucks which impose unquantified costs on residents near highways, exist within an environment where there is no market transaction between residents and the users of the truck services.



*Externalities, such as...*

- *environmental costs, such as emissions, noise and land use*
- *safety costs, such as fatalities, injuries and property damage*
- *congestion and its associated costs + avoided road maintenance costs*

*...should be identified and internalised where possible.*

## CONCLUSION

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The NTC's evaluation of the barriers limiting the PBS scheme's effectiveness, and its recommendations to improve the scheme's operation, have also provided an opportunity to identify potential measures to deliver a more efficient and productive freight supply chain system.

Overcoming a range of administrative and regulatory hurdles, some of which are outlined in this submission, is critical to fostering competition between the two modes and to supporting the rail industry's efforts to increase modal share.

This submission's recommendations aim to address some of these issues, and are provided in the context of the discussion paper proposals that have the potential to significantly enhance the scope and reach of PBS vehicles.

