

Chapter 5

Committee view and recommendations

5.1 The committee's inquiry has highlighted the contradiction that has emerged in relation to Australia's rail industry. Evidence to the committee has demonstrated the continuing rise in, and growing demand for, passenger, freight, tram and light rail in Australia. Yet despite this resurgence, including the development and expansion of Australia's rail networks, the inquiry has highlighted a number of challenges and threats to the Australian rail industry. These challenges have led to a decline in locally available work as well as a decline in local companies, local investment, local jobs and apprenticeships.

5.2 The committee is of the view that rail has a central role to play in meeting Australia's transport infrastructure challenge. Traditionally, state government involvement in the rail industry has centred primarily on metropolitan rail. The committee recognises that state governments, through their metropolitan plans, can ensure that investments in rail infrastructure keep pace with growing cities. State investment in transport, and all state transport plans should include rail. Plans should also be drafted to take advantage of the full range of benefits rail has to offer, including reduced congestion, social inclusion and a reduction in road accidents and pollution.

5.3 The committee acknowledges the views of stakeholders, and agrees that if Australia's rail network and its manufacturing sector are to modernise, innovate and take advantage of technological advances, a number of the challenges identified in this report will need to be met head-on. The committee is also of the view that the emergence of a modern, technologically advanced, and competitive rail manufacturing industry will depend to a significant degree on the Commonwealth, state and territory governments working together with industry to develop and implement a national strategy.

5.4 Achieving the necessary investment will require a combination of public, private and public/private partnership funding. More importantly, however, investment needs to be made in a coordinated and planned way. It should also take into consideration the full costs of various modes of transport, as well as longer term transportation goals.

5.5 As governments across the country plan to spend over \$46 billion on rail public transport projects within a decade, the Australian rail industry stands at a crossroad. For such investment to achieve maximum benefit for Australia and Australians, the committee cannot overemphasise the importance of embedding a local content component in government procurement contracts. As the committee has already noted, economies of scale and procurement strategies which set standards in relation to local content and build, have the potential to provide benefits to the industry and the Australian population over the long term.

A National Rail Manufacturing Industry Plan

5.6 The committee acknowledges the work the ARA has done in developing their proposal for a National Rail Industry Plan. The areas of priority identified by the plan cover a wide range of complex issues and include: a greater recognition of the importance of rail for Australia's infrastructure development; harmonization of standards and maximising economies of scale; growing the capabilities of individuals and companies; maximising opportunities for industry and fostering innovation, research and development.

5.7 The ARA proposal for a National Rail Industry Plan, provides a starting point to focus and coordinate the efforts of the rail industry to maximise the benefits of future Commonwealth and state government investment. These benefits include economic growth, increased efficiencies and increased productivity. The plan will also deliver a range of social benefits including: regional development, workforce participation, training and development, and transport infrastructure. The committee congratulates the ARA on its efforts – and notes the extensive consultation undertaken with a range of stakeholders, including Commonwealth and state governments and industry – to produce a truly national plan.

5.8 The committee therefore recommends that the Australian Government develop a National Rail Manufacturing Industry Plan through the Department of Industry.

5.9 The committee also recommends that Commonwealth, state and territory governments provide adequate funding and resourcing to allow a National Rail Manufacturing Industry Plan to be implemented efficiently and effectively for the benefit of Australia's rail industry and Australian manufacturing as a whole.

Recommendation 1

5.10 The committee recommends that the Australian Government establish a National Rail Manufacturing Industry Plan to maximise the benefits of the \$46 billion in investment expected over the next decade.

Recommendation 2

5.11 The committee recommends that a National Rail Manufacturing Industry Plan develop a mechanism for the Commonwealth to smooth out the peaks and troughs in market demand and create more certainty and predictability for manufacturers servicing the rail industry.

Recommendation 3

5.12 The committee recommends that, following the Australian Government's establishment of a National Rail Manufacturing Industry Plan, state and territory governments endorse the plan and agree on methods to adequately support, resource and progress the plan.

Towards a new procurement culture: National Rail Procurement Strategy

5.13 The committee recognises the need for a change in procurement culture. The industry needs to move away from a culture based on 'cheapest upfront price', to one

which takes into account the wider implications and benefits of such procurement decisions. These include workforce improvement, consistency of employment, benefits to regional communities, as well as state and national economies, while also recognising whole-of-life costs.

5.14 Noting that Australia's manufacturing standards are frequently higher than those of their competitors, the committee is confident that a shift in procurement culture would ultimately benefit the Australian economy and Australian consumers. Australian trains, made by Australians, to meet Australian conditions.

5.15 In addition to establishing a National Rail Manufacturing Industry Plan, the committee recommends the development of a National Rail Procurement Strategy. Noting the success of the Victorian model, the committee recommends that a national policy in relation to procurement draw on this initiative. Requirements such as: a 50 per cent local content requirement for building rolling stock and the use of local apprentices, trainees and engineering cadets for at least ten per cent of the total labour hours are central to this policy and should be replicated nation-wide. In addition to the inclusion of a minimum 50 per cent local manufacturing requirement, the Victorian Government's procurement contracts encourage the uptake of new technologies and the adoption of best practice environmental and safety standards.

5.16 The committee is of the view that the introduction of a National Rail Manufacturing Industry Plan, supported by a National Rail Procurement Strategy will result in increased productivity and innovation and greater uptake of technology, which will in turn provide greater opportunities for the export of Australian manufactured equipment, knowledge and expertise to the Asia-Pacific region.

5.17 A National Rail Manufacturing Industry Plan and a National Rail Procurement Strategy will help overcome the existing lack of a strong pipeline of investment in rolling stock and a lack of continuity in rail manufacturing work. These absences have led to a disincentive for business to invest in research and development. Any National Rail Procurement Strategy must have a specific focus on maximising investment in local research and development as well as industry engagement with universities and research agencies.

Recommendation 4

5.18 The committee recommends the development of a National Rail Procurement Strategy by the Commonwealth in coordination with all states and territories. As signatories to the strategy, states and territories should include procurement contract measures – consistent with international trade obligations – which allow for the development of industrial capabilities for small and medium sized enterprises (SMEs). As part of these contract measures, consideration should also be given to:

- (a) maximising local content for the manufacture of passenger, freight and light rail rolling stock in procurement;**
- (b) the relevant financial and non-financial costs and benefits of each project including, but not limited to:**
 - (i) the quality of goods and services**

- (ii) **fitness for purpose of the proposal**
 - (iii) **the potential supplier's relevant experience and performance history**
 - (iv) **flexibility of the proposal (including innovation and adaptability over the lifecycle of the procurement)**
 - (v) **environmental sustainability of the proposed goods and services (such as energy efficiency and environmental impact)**
 - (vi) **whole of life costs**
- (c) **requirements for contractors to undertake training strategies to educate and engage local apprentices, trainees and engineering cadets;**
 - (d) **commitments to local industry development and supply chain engagement; and**
 - (e) **harmonisation of safety standards.**

Recommendation 5

5.19 The committee recommends that a National Rail Procurement Strategy be used to work with all states and territories to maximise investment in local research and development, as well as engagement with universities and research agencies.

A Rail Advocate

5.20 The committee notes that the meeting of the Transport and Infrastructure Council (TIC), held in Brisbane on Friday, 19 May 2017, included a "strategic discussion regarding rail infrastructure and operations, recent pressures and developments and the future of rail investment in Australia". The committee also notes that a number of rail industry representatives and stakeholders attended the meeting as observers.

5.21 The committee is of the view that this type of advocacy should continue on a more formal basis. The committee therefore recommends the establishment of a Commonwealth coordinating body to drive and coordinate a National Rail Manufacturing Industry Plan and a National Rail Procurement Strategy. The committee also recommends that a Rail Advocate be appointed to support the rail industry in dealings with Commonwealth, state and territory governments and industry bodies.

5.22 The committee is also of the view that there needs to be further engagement undertaken with the rail manufacturing supply chains as a more even demand curve is produced. The Commonwealth coordinating body should be given direct terms of reference to work with supply chains in expanding and developing industry capability networks.

Recommendation 6

5.23 The committee recommends the establishment of a Commonwealth coordinating body – to be headed by a tripartite council – to drive and coordinate a National Rail Manufacturing Industry Plan, a National Rail Procurement Strategy and industry consultation.

Recommendation 7

5.24 The committee recommends the re-establishment of a Rail Supplier Advocate to promote the rail industry in dealing with Commonwealth, state and territory governments and industry bodies.

Recommendation 8

5.25 The committee recommends that a Commonwealth coordinating body be given direct terms of reference to work directly with the rail manufacturing supply chain in developing and expanding industry capability networks.

Rail Industry Skills Centre

5.26 In addition to focused investment in local manufacturing, efforts should also be directed to skills development, training and innovation. To this end, the committee notes the inclusion of 'technology transfer' (including that of innovation) as part of the selection criteria under the revised Victorian VIPP Strategic Projects policy. This is an important initiative, and one which strongly encourages the inclusion of innovation as a criterion in the consideration of local content tenders.

5.27 The government plays an important role in facilitating investment through its procurement policy decisions. The local rolling stock and rail manufacturing industry makes a significant contribution to the Australian economy, and has the potential to contribute more if the right policies are in place. The committee strongly supports the development of a coherent skills and training plan, as a means of attracting the best talent, and increasing productivity while maximising high-quality, sustainable rail manufacturing jobs. By upskilling workers and providing an apprenticeship scheme, the training plan will complement a National Rail Manufacturing Industry Plan and a National Rail Procurement Strategy.

5.28 To accompany these training initiatives, the committee recommends that training and skills development be embedded in tender and procurement processes, to invigorate apprenticeship schemes, provide opportunities to people from disadvantaged backgrounds, and provide appropriate support to upskill the rail workforce.

5.29 The continuity of critical skills development and training in the rail sector are fundamental to Australia's transport future. Estimates suggest that Australia will need 11,000 railcars in the next 30 years, given projected patronage growth.¹ It is critical, therefore, that Australia maintain a local capacity to maintain rail infrastructure –

1 Australasian Railway Association, *Submission 7*, p. 7.

including rolling stock – while also investing in local manufacturing. This second aspect is critical, as recognised by Mr Crane, Managing Director of Lovells Springs:

Whilst maintenance of rolling stock over its life cycle is an important function that will always be needed, only the design and construction of complex systems like locomotive and passenger trains results in the accumulation of real Intellectual Property and expertise in this country.²

Recommendation 9

5.30 The committee recommends that the Australian Government work with state and territory governments, and the rail industry, to develop Rail Industry Skills Centres at local TAFEs and colleges.

Senator Glenn Sterle

Chair

2 Lovells Springs, *Submission 20*, p. 2.