Australasian Railway Associations responses to Questions on Notice

Q. Can you explain the rationale behind why governments, including state governments, should avoid using state-based local content rules, and what benefits they might see as a result of using nationally focused local content rules instead?

A key area of concern for the Australian rail industry is the inconsistent application and highly fragmented nature of local content policies (LCP), which can disadvantage the parts of the local supply chain outside of the jurisdiction where the LCP is originated. This can be counterproductive when rail suppliers are nationally focused yet need to accommodate jurisdictional requirements that reduce efficiencies relating to capital investment and economies of scale. It can result in rail suppliers setting up multiple facilities across different jurisdictions in an effort to be awarded contracts based on their location, yet at the same time reducing their price competitiveness. This increases the risk of stranded assets and can be seen by international organisations as a disincentive for investment in the Australian market.

While local content is generally classified as Australian and New Zealand, some states and territories also have local jurisdiction specific content provisions. In some instances, its clearly stated in their local content policies; other times it's a requirement of a tender; and while for some tenders it's not clearly stated, its often factored into the tender assessment process.

LCP objectives are usually for jobs growth or regional investment, however feedback from rail suppliers indicates that these policies hinder the very local industry its seeking to support. What it can lead to is the duplication of facilities across Australian states. This reduces the opportunity for increased investment, and the benefits that come from consolidation, streamlined manufacturing and economies of scale, which could have in turn improved export competitiveness.

The Australian Rail Supply Chain report published by the ARA in March 2021 explains that State based procurement is often too small for suppliers to achieve economies of scale, and not all state governments are in a position to offer ongoing regular opportunities for manufacturing, given the length of life of rail assets. It is simply not cost effective for major suppliers to set up facilities in each state to achieve state based local content provisions. Collectively, state governments would benefit from a more 'national' LCP as they are highly unlikely to be achieving best value for money when specifying provisions of content from within their jurisdiction alone.

The ARA believes there are benefits to be achieved by both the Commonwealth and state and territory governments taking a more holistic and national approach to the application of LCP in procurement processes, however, detailed research with quantifiable justification is required to demonstrate this position. The ARA is shortly commencing research to quantify the delta between current state-based LCP compared to a national local content policy. This research will consider the various national, state, and territory-based LCP objectives and requirements currently in place and the impact on the supply chain. It is expected that the research would demonstrate the type of local content policy that could meet the jurisdiction's local content objectives that also provide better value for money outcomes, whilst not disadvantaging local suppliers in other Australian jurisdictions.

Q. Could you expand on this concept of procurement as a driver of innovation, and also, how you think government procurement can help tackle those currently cost prohibitive areas?

Tenders conducted by the public sector are often very prescriptive with technical specifications, local standards and specific requirements that do not include specific innovation KPIs. In some cases the procurement is for a like for like replacement. This leads to new technologies being excluded from the procurement process that do not meet the proscriptive specification.

Current rail procurement processes in Australia tend to favour risk averse solutions. This creates an incentive to focus on lowest risk solutions that utilise established technologies at the expense of cost or performance. This is turn drives a focus on lower risk solutions even if they are more expensive to deliver. This approach adversely effects the cost of local innovation and improvements to rail technologies, systems and processes – impacting long-term value for money and potentially limiting growth in advanced manufacturing and highly skilled jobs. Without support to undertake innovative (and naturally riskier) solutions, Australian firms are simply unable to dedicate optimal resources to innovation.

In addition, due to the risk averse nature of government clients, there is hesitation around the application of new technologies or products or innovations, so suppliers often avoid those inclusions where they think this may be a disadvantaged. The appetite for innovation can be hampered on large capital projects that have an upfront cost control imperative, where contracts manage for risk by requiring 'established' solutions that have been used elsewhere, or where network improvements are deprioritised against new capital projects in the electoral cycle. Government procurement policies should assess new products based on lowest total lifetime costs (capital and operational costs combined) rather than lowest up-front capital outlay.

In addition, increased transparency around the weighting of tendering criteria provides transparency to the bidders of how the tender will be assessed and the value placed on the various elements including innovation.

There is also an opportunity for procurement processes to support innovation that drives improved sustainability outcomes in the infrastructure sector. Infrastructure Australia's 2019 Australian Infrastructure Audit, and the later release of its sustainability principles, highlighted the importance of adopting sustainability-enhancing approaches to infrastructure assets. Australia has an opportunity to establish itself as a leader in this field. However, the focus on risk averse solutions in current procurement processes can limit innovation to support this goal. As jurisdictions increase their focus on emissions reduction and the long-term liveability of their cities and towns, consideration should be given to ensuring the procurement process supports the development of sustainable and resilient infrastructure that delivers long term value to the community.

Q. As an alternative to your proposed National Rail Innovation and Research Body, would you support, for example, the expansion of Infrastructure Australia's remit to undertake some of those planning and coordinating tasks, and if not, is there a reason why you would want to have all of those functions in a single, independent body?

The expansion of Infrastructure Australia's remit to include responsibility around broader rail capability and projects, coordinating R&D and supporting commercialisation, could dilute its focus and overall effectiveness.

Recent research has shown that countries with the most technologically advanced railway systems have had a national agenda to deliver and strength innovation in railways which has been integrated into national planning and policy development. A longer term more holistic national strategy supported by coordinated investment from the railway industry and government(s) and involving the railway research community is needed to deliver and advance rail innovation in Australia.

ARA supports the establishment of a national body to:

- Coordinate a vision and technology roadmap for the Australian rail industry
- foster the development of national capability in high value add areas;
- provide a collaborative model to support short term commercialisation investment as well as long-term research and development in rail with supporting funding

For such a body's success a culture that supports rail innovation must be established, starting with rail network planners, transport executives and Ministers. It should flow through from the planning of investments and post-build improvements to agency-level procurement and contracting; providing the necessary clarity to the market of where to invest in rail R&D.

Q. Could you share your thoughts on which regulations you think are particularly in need of harmonisation and why?

Co-regulation

Australia's co-regulatory framework allows rail operators to adopt and administer their own standards, requirements, competencies, processes and procedures, according to their safety management system and associated risk assessments. The key requirement for operators under the co-regulatory model is to ensure their unique operating environment is taken into account. This framework, and the fact that operators are held accountable and must manage their own risk, results in a lack of harmonisation.

Standards

Australian Standards developed by the Rail Industry Safety and Standards Board (RISSB) are not mandate which allows operators to choose what they adopt and how they manage their network. This results in different standards being adopted and implemented across Australia's rail operators. In addition, national standards only cover a small proportion of state-based standards. Rail operators also often interpret RISSB's standards differently and are under no obligation to adopt them.

Type approvals

Significant improvement could be realised in standardising the Type Approval Process across rail networks for the benefit of both the network operators and the suppliers and manufacturers. Currently, new technology, products and construction/maintenance processes, must pass through each railway operator's specific approval process prior to being rolled out, regardless of whether the technology, product or process has been approved or applied elsewhere.

The lack of consistent and equivalent Type Approval processes between jurisdictions and customers lead to significant inefficiencies, costs and potential barriers for contractors and suppliers. There is opportunity to develop a more harmonised approach to Type Approval processes applied through cooperative agreement, on a set of standardised principles and approaches. Addressing the

weaknesses of the current Type Approval processes will ensure more resilient supply chains and support the growth of the domestic economy.

The Finding the fast track for Australasian railway innovation report published by the ARA in October 2020 recommended that Australia should set a priority of moving towards a single set of national standards where feasible, supported by common type approval processes that address unnecessary regulatory fragmentation and which streamline the path to market for new technology. The benefits will be both to procurers and providers of new technology. Greater consistency by buyers would achieve improved economies of scale, lower costs and lower barriers to adoption. A common approvals process could be supported by a new national testing facility or a national network of testing facilities to remove unnecessary duplication of approval requirements and work with RISSB on agreed standards.

Q. What is the tax depreciation on rollingstock?

Information relating to tax depreciation for rollingstock assets would be held by government transport agencies and operators. In some instances, this is published in the organisation's annual reports. On average depreciation rates for rollingstock are approximately 3%.

For example, VicTrack's 2019-20 Annual report outlines the estimation of useful lives of assets has been based on historical experience as well as manufacturers' warranties (for plant and equipment) and lease terms (for leased equipment). In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

Depreciation is generally calculated on a straight-line basis, at rates that allocate the asset's fair value, less any estimated residual value, over its estimated useful life.

The rate of depreciation for rollingstock is 2.5 to 3.3% over its useful life of 40 to 30 years. The range of depreciation rates used for each class of asset is outlined in the table below

Asset class	Depreciation rates	Useful life
Buildings & structures	1.0% to 2.0%	100 to 50 years
Track	3.0% to 3.3%	33 to 30 years
Signals & communications	2.0% to 14.3%	50 to 7 years
Plant & equipment & leased plant & equipment	1.25% to 2.0%	80 to 50 years
Software & licences	3.0% to 14%	33 to 7 years
Rolling stock	2.5% to 3.3%	40 to 30 years

Other agencies and operators however only publish the expected usefulness life, as opposed to the depreciation rate. For instance, as stated in their respective 2019-20 annual reports, Sydney Trains depreciation of rollingstock is 32-35 years, while TfNSW is 25-43 years.

Q. Proportion of local content for rollingstock procurements?

Attached is a spreadsheet of the estimated proportion of local content for rollingstock orders since 1994 to 2021.