



Monday 1 July 2013

Dr Malcolm Roberts  
Executive Chairman  
Queensland Competition Authority  
GPO Box 2257  
Brisbane QLD 4001

**By email:** [research@qca.org.au](mailto:research@qca.org.au)

Dear Dr Roberts,

## **Asciano Submission to the QCA Paper on Capacity Expansion and Access Pricing for Rail and Ports**

### **1. Introduction**

Asciano welcomes the opportunity to make a submission to the Queensland Competition Authority (QCA) Discussion Paper on Capacity Expansion and Access Pricing for Rail and Ports.

Asciano is a major stevedoring operator and above rail operator in Australia. In particular Asciano, through its subsidiary Pacific National, operates both coal trains and general freight trains in Queensland. Pacific National coal trains operating in Queensland largely operate on the Aurizon rail network.

Asciano's main concerns with the development of options for the pricing access to major port and rail capacity expansions are that:

- the regulatory processes and pricing principles used to develop both broad options and detailed access pricing are consistent and transparent;
- the access prices are economically efficient, and in particular prices reflect costs incurred;
- the access prices are borne by those users using the service provided by the expansion rather than the broader community of infrastructure users; and
- the access prices are non discriminatory (i.e. the identity of the user of an expansion is not a factor in determining the price).

Asciano has a concern that if an infrastructure expansion is being promoted by a vertically integrated access provider which has a monopoly infrastructure position then strong regulatory controls should exist to ensure that the promoter of the infrastructure expansion does not use their monopoly infrastructure position to bundle both their infrastructure and contestable services to users or otherwise use their position as an infrastructure provider to benefit their activities in contestable market sectors. (This would include using their position as an infrastructure provider to benefit their contracted contestable market customers). The use of a monopoly infrastructure position in this manner would be detrimental to competition in related contestable market sectors.

This submission is public.

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## 2. QCA Discussion Paper

The QCA Discussion Paper investigates options for pricing access to major expansions in rail and port capacity and notes that pricing of access to major capacity expansions will be on a case-by-case basis and that regulatory requirements relating to price discrimination may restrict pricing options. Key propositions put forward include:

- if average costs are decreasing with increased capacity, adding the expansion costs to the cost base of the established capacity will usually provide an efficient and fair outcome;
- if average costs are increasing with increased capacity, a separate access price should be charged; and
- if the capacity is functionally different, separate access prices may be required.

## 3. Issues

Asciano agrees with the QCA position that the pricing of access to major port and rail capacity expansions should be on a case-by-case basis.

Asciano's main concerns with the pricing access to major port and rail capacity expansions are that:

- the regulatory processes and pricing principles used to develop both broad options and detailed access pricing are consistent and transparent;
- the access prices are economically efficient, however in considering the efficiency of access prices the QCA should take into account price discrimination and fairness criteria. For example, in instances where an infrastructure expansion is being promoted by a vertically integrated access provider issues related to price discrimination and fairness may be central to ensuring competition and efficiency in upstream or downstream markets;
- if the increased capacity results in increased average costs or if the increased capacity provides access which is functionally different, then the access prices should be borne by those users using the service provided by the expansion rather than the broader community of infrastructure users. In these instances the access prices for increased capacity should reflect costs incurred; and
- the access prices must be non discriminatory (i.e. the identity of the user of an expansion must not be a factor in determining the price). This is most likely to be an issue where parties involved in the infrastructure expansion have a degree of vertical integration within the supply chain.

Asciano has a concern that the promotion of an infrastructure expansion by a vertically integrated access provider may allow the vertically integrated access provider to bundle both infrastructure and contestable services to users to the detriment of competitors in the contestable market.

In particular Asciano's concern relates to the current ownership and operating structure of Aurizon, which is the owner and operator of the monopoly Aurizon rail network assets and is also the major user of these assets. This vertical integration has the potential to result in port or rail expansions favouring Aurizon's above rail operations. This in turn will negatively

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impact on competition and efficiency in above rail services. This negative impact is minimised if strong ring fencing regime is established and enforced by the QCA.

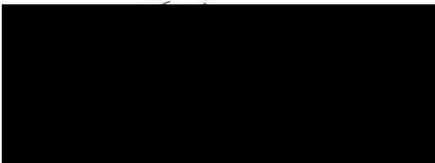
#### 4. Conclusion

Asciano's main concerns with the development of options for the pricing access to major port and rail capacity expansions are that the regulatory processes and pricing principles used are consistent and transparent, access prices are economically efficient and non discriminatory (recognising that these criteria may need to be balanced).

In addition Asciano has a concern that the promotion of an infrastructure expansion by a vertically integrated access provider may allow the vertically integrated access provider to bundle both infrastructure and contestable services to users to the detriment of competitors in the contestable market. The negative impacts of such a scenario are minimised if strong ring fencing regime is established and enforced by the QCA.

Feel free to contact Stuart Ronan on 02 8484 8056 to discuss this submission.

Yours faithfully



**Tim Kuypers**  
General Manager Regulatory

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