



**AUSTRALIAN LOGISTICS COUNCIL**



## SUBMISSION

THE TIME FOR ACTION IS NOW –  
ALC RESPONSE TO THE NATIONAL LAND FREIGHT  
STRATEGY DISCUSSION PAPER

MAY 2011

# SUBMISSION

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FREIGHT STRATEGY DISCUSSION PAPER

THIS SUBMISSION HAS BEEN PREPARED WITH THE  
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STRATEGY DISCUSSION PAPER**

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## **BACKGROUND ON THE AUSTRALIAN LOGISTICS COUNCIL**

The Australian Logistics Council is the peak national body representing the major and national companies participating in the Australian freight transport and logistics supply chain.

### **Vision**

To be the lead advocacy organisation to all levels of Government and industry on freight transport and logistics supply chain regulation and infrastructure issues.

### **Mission**

To influence national transport and infrastructure regulation and policy to ensure Australia has safe, secure, reliable, sustainable and internationally competitive supply chains.

### **2011 – 2013 Strategic Intent**

To establish the Australian Logistics Council as the **'go to'** organisation representing the major and national companies participating in the Australian freight transport and logistics supply chain.

### **Objectives:**

1. Be the nationally recognised voice of Australia's freight transport and logistics supply chain.
2. Be the leading advocate of appropriate national regulation and infrastructure to ensure Australia enjoys the full benefits of freight transport and logistics policy development and reform.
3. Promote and encourage greater recognition by Government and the community of the importance of the freight transport and logistics industry's contribution to Australia's economy.

**ALC Members** are major and national companies participating in the Australian freight transport and logistics supply chain.

ALC also has a number of Associate Members which includes associations, unions, organisations, government agencies and companies participating in the Australian freight transport and logistics supply chain.

Australia's freight task is estimated to triple by 2050 – from 503 billion tonne kilometres to 1,540 billion tonne kilometres, with local demand for total freight movements increasing by as much as 60% by 2020.

The Transport and Logistics Industry is a critical part of the Australian economy, generating 14.5% of Australia's GDP and providing more than 1 million jobs across 165,000 companies. ALC estimates that every 1% increase in efficiency will save Australia around \$1.5 billion.

# THE TIME FOR ACTION IS NOW – ALC RESPONSE TO THE NATIONAL LAND FREIGHT STRATEGY DISCUSSION PAPER

## EXECUTIVE SUMMARY

The success of a National Land Freight Strategy depends on aligning all the policy tools available to government and focusing them on improving national freight performance in a sustainable way. These tools include planning, management, regulation, pricing and governance. If these can be harnessed and integrated then there is a real opportunity to deliver long-term on-the-ground improvements in freight performance.

Freight also often shares substantial sections of the National Network with a far larger passenger demand. Accordingly, freight performance cannot be separated from overall performance of the network and how effectively passenger demand is managed.

It is vital that a long-term and coordinated approach is taken to ensure freight and passenger demand and use of the network is effectively planned and managed to maximise performance and safety. This must include protection of key freight routes.

### **Planning matters**

ALC believes freight infrastructure cannot be efficiently developed if planning instruments are so focussed towards other planning interests the needs of the freight effort are 'crowded out'.

The discussion paper's preferred option as to how to deal with planning issues is to publish indicative strategy document/maps showing likely major freight routes in relevant jurisdictional planning documents.

### **Whilst this may be helpful it is not enough.**

A National Freight Network is only a useful planning tool if there is a planning mechanism that objectively identifies where/when it needs to be improved to address needs.

When dealing with the real issues relating to encroachment and the preservation of infrastructure corridors, the substantive 'last mile issues' and land use mix choices faced by governments and communities need consideration **now**.

A more formalised structure must be put in place to ensure the position of freight is recognised in the planning process. In some cases, it may be necessary for the Commonwealth to provide funding to protect community amenity when a land use decision is made, to ensure the Australian freight effort is advanced.

ALC remains of the view that that the national interest would be best served if Australian governments would agree to the creation of a national partnership that:

- establishes the concept of what constitutes nationally significant infrastructure;
- requires that land use decisions should prioritise the efficient operation of the nationally significant infrastructure; and

- creates a fund for state and local governments which incur expense as a result of making land-use decisions that favour the operation of nationally significant infrastructure over other land uses.

ALC hopes that the development of a suitable national partnership to ensure that the interests of the Australian freight effort operating to serve a 'seamless economy' will:

- be consistent with the National Ports Strategy;
- form part of the national port strategy implementation plan, and so therefore in turn the National Land Freight Strategy; and
- be reflected in the National Urban Policy.

### **Pricing and selection of infrastructure projects**

ALC believes all infrastructure projects must be assessed against a long term plan driven by volumes, to ensure an effective framework for decision making by financiers and private/public sector players.

In particular, ALC is of the view infrastructure decisions should:

- not distort the mode by which consumers dispatch freight - that is, there is competitive neutrality between road and rail transport; and
- be made only after the most rigorous cost benefit analysis.

This will necessarily mean that the full costs of externalities are factored into government road and rail investment decisions.

ALC agrees with a recommendation contained in the proposed National Ports Strategy for the Bureau of Infrastructure Transport and Regional Economics to investigate a proposal that dedicated freight infrastructure be developed to overcome the problem of freight being crowded out on some route segments.

This is important because freight performance is not its own master - it also depends on how well passenger performance is managed.

ALC also agrees with options contained in the discussion paper suggesting the creation of regulatory models supporting the identification of infrastructure needs using market based mechanisms.

However, this is a policy goal only achievable in the intermediate future. Action needs to be taken **now**.

Recommendation 68 of the Henry Review suggested COAG develop a National Road Transport Agreement to establish objectives, outcomes, outputs and incentives to guide governments in the use and supply of road infrastructure with a single institution nominated to lead road tax reform.

ALC believes that action should be taken to implement this recommendation immediately.

ALC finally notes that it is important that any land freight strategy ensures that pricing mechanisms for externalities that affect the movement of freight, be developed only once. At the same time, we suggest that pricing principles should be developed and applied consistently across modes and users (ie, passenger and freight) to ensure efficient use of infrastructure.

### **The regulating entity**

ALC notes that the Henry Review suggests that a single agency should develop transport reforms and monitor their implementation by the States.

ALC also notes COAG has agreed to a national rail safety regulator and a national heavy vehicle regulator.

ALC believes that to maximise the capture of the benefits from the rationalisation of regulations, a single Land Transport Regulator with seamless regulatory arrangements across all modes administering a coherent set of regulations, should be created to oversee the national land freight strategy.

This would include the responsibility of ensuring the rigorous analysis of proposed infrastructure investments – broadly, the current role played by Infrastructure Australia.

ALC has a vision of what could be called **Freight Australia** - a body with responsibility for:

- ensuring that infrastructure of national significance is identified and properly developed within designated corridors and development sites identified in the planning process;
- objectively analysing total demands on the network and developing a long-term plan to improve performance of whole corridors and the network, taking into account freight and passenger volumes; and
- the subsequent regulation of the modes of land transport carrying freight to port.

### **Interoperability and maximising benefits from new technology**

Finally, ALC has argued that government planning documentation should encourage the development of mechanisms permitting the transfer of information across the transport and logistics chain, including (where necessary) legislation that will permit the development and use of impartial industry wide ICT solutions where that would enhance the efficiency of the transport and logistics chain.

ALC is also pleased with the recognition of the concept of an ‘inland port’ that connects intermodal facilities, freight corridors and destination points.

Any proposed facility would have to pass rigorous cost-benefit analyses and competition principles.

## THE TIME FOR ACTION IS NOW – ALC RESPONSE TO THE NATIONAL LAND FREIGHT STRATEGY DISCUSSION PAPER

### Introduction

*Productivity and competitiveness, which are vital to meet the challenges of the future, are inhibited by constraints to freight.*

*These constraints include a lack of planning for freight activities, a lack of clarity about the capacity for growth, and poor interoperability across infrastructure networks, all of which lead to congestion, low reliability and unexploited opportunities for investment.*

*The identification of a tightly defined national land freight network, including sea ports and airports, would start to address thematic issues such as best use of infrastructure; integration of freight and land use planning; capacity for growth, and responsiveness of infrastructure to demand. (Discussion paper - page 2)*

*Freight is a derived demand, therefore land planning decisions, such as permitted locations for industry and residences, have a critical impact on freight activities and the routes used by trucks and trains. Any inefficiencies are passed on through supply chain and result in lost national competitiveness. (Discussion Paper - page 8)*

ALC has always supported the development of a national policy on the movement of freight in Australia.

This can be illustrated by its previous submissions to government on the national freight network plan and the national port strategy.

ALC is pleased to continue this participation by responding to the *National Land Freight Strategy Discussion Paper (the discussion paper)*.

ALC agrees with the discussion paper's preferred option of the development of a strategy that 'broadly assesses ranges of capacity against demand determining scenarios.'<sup>1</sup>

ALC also agrees with the general proposition that:

At present, the characteristics of the market in which freight operates suggest productivity is constrained because:

- there is no market for the use of roads or for the provision of roads
- decisions taken outside a market framework, including about land use and access to transport networks, are impacting freight activities
- there are market failures related to information asymmetries, returns to scale, public goods, and externalities.<sup>2</sup>

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<sup>1</sup> Discussion paper (DP) p.48

<sup>2</sup> DP p.37

However, ALC has always maintained that in any policy, the 'devil will always be in the detail', and the detail as to what the Government hopes to do in a national freight strategy remains sketchy at best.

There is a risk that unless all the key factors underpinning better national freight performance are effectively integrated under a national strategy, a lot of work and goodwill may produce very little benefit.

A comprehensive response is required.

The remainder of this paper analyses the discussion paper and makes recommendations that will assist a quicker implementation of the strategy.

## Planning

ALC believes freight infrastructure cannot be efficiently developed if planning instruments are so focussed towards other planning interests, that the needs of the freight effort are 'crowded out'.

To that extent, ALC was heartened that the discussion paper noted:

Urban encroachment is one of the most substantial constraints to freight. It leads to community sentiment against freight activities. Encroachment relates to the interaction of freight and land uses. This issue was highlighted in the proposed national ports strategy and also occurs in relation to freight that is not port related.

Given growth in both population and freight, especially in cities, the importance of resolving issues concerning such interactions is likely to increase. Therefore, better integration of freight transport and land use planning is important for productivity, as well as for amenity. Better integration may also assist to address some 'last mile' issues.<sup>3</sup>

ALC was also pleased the paper noted that freight was 'perceived as a 'poor cousin' in terms of planning', saying :

Encroachment is a symptom of problems with the coordination of transport and land planning systems. It was noted as a key issue in the proposed national ports strategy. Stakeholders point to examples of urban encroachment and lost opportunities to efficiently use freight lands and corridors as a major concern.<sup>4</sup>

The discussion paper properly noted the 'first and last mile' issue, saying:

In some cases, the truck size permitted on a highway is not permitted to the freight precinct. Consequently either the freight needs to be double handled, or inefficient vehicle sizes are used on highways. The result is an increase in freight operating costs, excess energy consumption and emissions, and more freight traffic and a loss of potential productivity. This is referred to as the 'first and last mile' issue - the inability to drive a truck the full length of the freight journey. Last mile issues could be seen as a by-product of increases in vehicle sizes on major routes, or as a result of a mismatch between land uses and transport planning. It is an interoperability issue that can lead to supply chain disconnects.<sup>5</sup>

and sensitively noted the different community interests relating to land use decisions, saying:

Some local communities do not welcome freight vehicles, while some members of the freight industry argue that some existing route restrictions on vehicle sizes or operating hours are arbitrary. Accidents or delays involving freight vehicles can become high profile events attracting adverse commentary and calls for further regulation or restrictions.<sup>6</sup>

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<sup>3</sup> DP p.47

<sup>4</sup> DP p.20

<sup>5</sup> DP p.19

<sup>6</sup> DP p.20

The discussion paper's preferred option as to how to handle planning matters was to publish an indicative strategy document/map showing likely major freight routes in relevant jurisdictional planning documents.

**The publication of 'indicative maps' in planning instruments may be helpful to the planning task but they are not enough.**

A National Freight Network is only a useful planning tool if there is a planning mechanism that objectively identifies where/when it needs to be improved to address needs.

*ALC position*

When dealing with the real issues relating to encroachment and the preservation of infrastructure corridors, the real 'last mile issues' and land use mix choices faced by governments and communities need consideration **now**.

A more formalised structure must be put in place to:

- ensure the position of freight is recognised in the planning process; while
- recognising the need that in some cases, funding is available to protect community amenity when a land use decision is made to ensure the Australian freight effort is advanced.

There is a need to objectively identify the links of a National Land Freight Network and to articulate how this network relates to the existing National Network. A Freight Network should be based on existing demand and long-term projections of demand. It is acknowledged that this is a difficult task but it is vital that relevant data, performance indicators, modelling and surveys are in place to allow such projections.

There are numerous freight studies that could provide base information that should be updated and enhanced. These include state freight strategies and the cooperative Federal-State AusLink corridor studies, as well as the work of Infrastructure Australia.

Robust freight and passenger projections will help identify the links that should be included in a National Land Freight Network and also assist in identifying where and when improvements to this network are justified.

ALC's view is that the Freight Network should be forward looking. It needs to include links anticipated by forecasts to be critical in the medium and longer-terms, even if these links do not meet volume thresholds in the short-term. This will ensure that the long lead-times associated with transport infrastructure are taken into account in planning and prospective bottlenecks can be identified and solutions effectively planned to avoid constraints to freight performance.

As there is an existing National Land Transport Network, the ALC view is that the National Land Freight Network should form an identifiable part of this network. If new links are proposed to the Freight Network, they should also form part of the National Land Transport Network. This will help ensure that freight improvement is undertaken in the context of the total demands on a corridor and the network, and that the strategic coordination of

infrastructure improvements is not addressed by treating freight and passenger needs as 'silos'.

This also requires the clear identification of performance indicators to help guide investment and regulatory decision making. Further, the assessment of gains in performance to enhance freight efficiency will place increasing demands on data to support this approach. Research into these areas is considered to be an important element to the successful development and implementation of a National Freight Strategy.

ALC notes page 21 of the discussion paper published to assist the development of the National Urban Policy *Our Cities: Building a Productive, Sustainable and Liveable Future*, which says:

In managing growth effectively, a specific area of concern is the need to improve the planning, protection and acquisition of corridors, strategic sites and buffers for nationally significant economic infrastructure networks in, and between, the major cities of Australia. The capacity of jurisdictions to implement long-term plans without the encroachment of incompatible land uses into areas needed for infrastructure, or prohibitively expensive land purchases, depends on long term planning and timely statutory protection of critical lands.

The Australian Government is working with the other levels of government in analysing best practice approaches to facilitating the efficient planning and development of nationally significant economic infrastructure, particularly in relation to the long term planning and protection of critical infrastructure corridors, strategic sites and buffer zones.

ALC was also pleased the National Ports Strategy published in January 2011 recommended that:

- landside access routes of strategic importance to the efficient function of the system of the relevant port be identified and designate these as national port freight corridors; and
- policies and planning schemes (and controls) at all relevant levels of government should include 'buffer' strategies for the relevant ports and freight corridors and other related places to ensure the continued ability to conduct the freight and related activities identified in the plans and minimise impacts on communities of these activities.

These observations have been formed based against the considerations set out on page 20 of the *Our Cities* discussion paper:

The efficiency of Australian cities as economic systems is diminished by poor planning, coordination and/or implementation. The low density nature of our cities compared with many of our international competitors means that we travel further each day to complete our daily activities and to move freight around.

These challenges are compounded by the vast distances between our cities, and between Australian cities and the rest of the world, as well as the limited investment in economic infrastructure in our cities in the last decade compared with earlier decades, leading to congestion and delays on our roads and on public transport.

It is important to acknowledge that as most Australian ports for non-bulk commodities are in or near the centre of Australian cities, the interests of ensuring the efficient operation of Australian ports and the interests of residents may not always coincide.

That said, criterion 3 of the National Objectives and Criteria for Future Strategic Planning of Capital Cities requires planning document to provide for:

Nationally-significant economic infrastructure (both new and upgrade of existing) including:

- a. transport corridors,
- b. international gateways,
- c. intermodal connections,
- d. major communications and utilities infrastructure, and
- e. reservation of appropriate lands to support future expansion;

ALC also notes that according to 2010/2011 budget papers, dwelling investment is forecast to grow by 7.5% in 2010 – 11, with a significant pipeline of construction work to be completed. Strong population growth and low vacancy rates will support activity in the sector.

This means greater pressure on:

- transport infrastructure;
- greenfield sites that would permit the development of intermodal facilities located away from port facilities (a concept supported by ALC and by the National Ports Strategy) and
- increased risk of residential intrusion near, or too much congestion around, logistics infrastructure.

This is important as Australia's freight task is estimated to triple by 2050 – from 503 billion tonne kilometres to 1,540 billion tonne kilometres, with local demand for total freight movements increasing by as much as 60% by 2020.

To ensure criterion 3 of the COAG capital cities strategy is delivered, ALC believes state, territory and local governments must make land-use decisions prioritising the efficient use of the infrastructure over other possible land uses.

The issue is how this can be delivered.

Making land-use decisions that satisfy competing interests is difficult.

For example, as the Victorian *Freight Futures* document says:

### **Local last kilometre issues**

*Local government and communities are often exposed to the issues associated with the last segments of heavy freight journeys off the principal freight network. . . . A range of strategies will be assessed as part of developing the new 'last kilometre' manual suitable for Melbourne metropolitan and major provincial councils.<sup>7</sup>*

That said, the transport and logistics industry requires access to freight corridors. Moreover, too much residential intrusion near, or too much congestion around, logistics infrastructure cause inefficiency.

These are graphically illustrated in the document *Fremantle Ports Planning and Strategic Freight Routes* and the *Fremantle Inner Harbour Buffer Study*.

ALC remains of the view that that the national interest would be served if Australian governments would agree to the creation of a national partnership that:

- establishes the concept of what constitutes nationally significant infrastructure;
- requires that land use decisions should prioritise the efficient operation of the nationally significant infrastructure; and
- creates a fund for state and local governments which incur expense as a result of making land-use decisions that favour the operation of nationally significant infrastructure over other land uses.

This mechanism best recognises the competing public interests of efficient movement of goods and other issues relating to urban amenity.

This is not an entirely novel idea.

As page 10 of the *Our Cities* discussion paper says:

Where regulatory responsibility has clearly resided with other levels of government, the Australian Government has used incentive payments to encourage regulatory reform. Competition payments to States and Territories were a prominent example of this.

A recent report in *The Australian* appears to suggest that the possibility of funding along these lines is being considered, but that according to some in government 'better planning rather than funding'.

*The Australian* report from 15 February 2011 forms **Attachment 1** to this paper.

However, ALC is not convinced that 'better planning' alone will bring about the reform that is necessary.

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<sup>7</sup> Victorian Government *Freight Futures Victorian Freight Network Strategy* page 43

For instance, planning documents such as the *National Charter of Integrated Land Use and Transport Planning*, describe the desirability for:

*a high level agreement between transport and planning ministers committing to an agreed set of good planning practices and committing to working together to achieve better outcomes.*<sup>8</sup>

Unfortunately, there is little immediate evidence of any close collaboration.

ALC also notes the communiqué of the Joint meeting of the Local Government and Planning Ministers' Council and Housing Ministers' Conference held on 12 February 2010 in Canberra<sup>9</sup> is replete of references to:

- 'identify infill and redevelopment opportunities'; and
- ensure that 'outcomes for cities must improve sustainability and livability as well as productivity'.

As page 9 of the *Better Cities* discussion paper indicates, COAG has been progressing reforms in a number of areas, including:

steps towards a truly national freight transport system with an agreed national regulatory framework that will reduce transport costs and help lift productivity and safety

and contains a commitment on page 53 of the *Better Cities* paper that:

The Australian Government will continue to work with COAG to foster and assist with creating more integrated planning systems for our cities.

This includes a commitment to work closely with States, Territories and Local Government to facilitate a more integrated approach to planning on and around Commonwealth land and areas of Australian Government responsibility.

ALC was encouraged by developments described in the COAG communiqué of 13 February 2011, which:

- creates a Transport and Infrastructure Standing Council of COAG, thereby bringing together under one entity policy management for this area of public policy; and
- recommits to the need for a national port strategy, with the relevant Ministerial Council to complete an implementation plan for a final national ports strategy by August 2011 for out-of-session endorsement by COAG.

Improved integration of transport and land use planning, especially in our major urban areas, is vital to improving freight performance in the future. Notwithstanding in-principle decisions to improve such integration, on-the-ground delivery of effective integration is often lacking. This can be the result of competing interests between governments, agencies

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<sup>8</sup> *National Charter of Integrated Land Use and Transport Planning* (2003) page 1 (from Statement of Purpose)

<sup>9</sup> <http://www.lgpmcouncil.gov.au/communique/20100212.aspx>

and public and private sectors, as well as lack of appropriate information on which to base sound decisions. ALC looks to the COAG work on integrated planning systems for our cities to help remedy this situation.

**ALC hopes that the development of a suitable national partnership to ensure that the interests of the Australian freight effort operating to serve a 'seamless economy' will:**

- **be consistent with the National Ports Strategy;**
- **form part of the national port strategy implementation plan, and so therefore in turn the National Land Freight Strategy; and**
- **be reflected in the National Urban Policy.**

## Pricing and selection of infrastructure projects

As the discussion paper said:

Road and rail infrastructure have different arrangements for pricing, charges, financing and investments. Different arrangements make it difficult to assess whether there are distortions in planning, investment and decision making.

This is compounded by the joint use of infrastructure by personal and freight vehicles. The charges levied on freight vehicles are influenced by use/charges for personal transport vehicles, which also vary by mode. Distortions across modes can be caused by distortions within modes. These distortions can echo along supply chains; for example, congestion near ports can impact on distant regional areas.

These difficulties are magnified by the long standing planning approach to transport infrastructure of 'predict and provide', largely from taxation revenue, including transport taxes. In many cases transport infrastructure is supply driven.

If there are distortions, freight efficiency may be most affected where there is the potential for competition between trucks and trains, or between freight and passenger vehicles. At present, the potential for these is strongest in general freight markets with relatively long distance line hauls or high traffic densities. These are on highways and main roads which run parallel to rail lines, including to urban ports.<sup>10</sup>

Rather than a system reliant on infrastructure decisions (particularly with respect to roads) being made through political process and funded (almost exclusively) through the Budget, decisions could be made on a more market based basis.

As the discussion paper noted:

There appears to be acceptance of the principle that freight should 'pay its way', at least on major routes. A key consideration is tying payments directly to infrastructure costs. As this already occurs in rail, sea, air and terminal infrastructure, the focus is on roads. The Council of Australia Governments Road Reform Program is examining some issues in relation to this.<sup>11</sup>

It also said:

'A key issue is that Australia's roads belong to many different jurisdictional owners.

There is little or no link between road revenues and the road owners. The road owners do not receive the economic rewards from road investment.

As a result, road investment is largely determined by the competition for the use of tax revenues rather than efficiency criteria.<sup>12</sup>

The discussion paper noted the different approaches adopted by the road and rail modes to fund infrastructure:

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<sup>10</sup> DP p.17

<sup>11</sup> DP p.48

<sup>12</sup> DP p.35-6

Economic regulation applies to some railways but at present not to roads. Rail lines may fall within the class of essential facilities of national significance under the national access regime. There is also jurisdiction-specific economic regulation for access to most rail main lines, except those of minerals rail lines in north Western Australia. Access to Australian Rail Track Corporation lines is regulated via undertakings to the Australian Competition and Consumer Commission. Most of this regulation is 'light handed' where access is determined in a 'negotiate or arbitrate' framework and charges are between 'floor and ceiling' levels. For the Australian Rail Track Corporation, and under the national access regime, the Australian Competition and Consumer Commission is the potential arbiter of access issues.<sup>13</sup>

and said:

Much of the discussion to date seems to assume that road charges would be set. Reasons include elements of public goods in road provision, atomistic users and economic efficiency occurring with charges set at marginal cost. It is assumed that such charges, levied by or for the road owner, would be subject to economic regulation. A further implicit assumption may be that the asset owner identifies and undertakes investments, and these investments are assessed for 'validation' as part of the cost base for pricing under economic regulation. The process for identification of investments, and improvements to roads, is a key issue for any national land freight network.

In comparison, rail line charge negotiations may, but are not mandated to, result in charges above marginal cost. It is not only train operators who may negotiate access to rail lines. For example, in some railways, customers such as coal mines can hold access rights, negotiate charges and seek improvements to infrastructure. Where trains compete with heavy vehicles, the ability of infrastructure owners to negotiate charges in excess of marginal cost is limited. Parties other than the rail line owner are able to seek investments in the rail network, although such parties would be expected to pay for such investments. This means that freight operators and their customers are able to directly influence the rail network.

There have been proposals for negotiations on road freight charges, similar to what occurs in rail, and possibly under an access undertaking offered by the road owner. It has also been proposed that the Australian Competition and Consumer Commission could oversee such undertakings. As this is a role it already has in relation to the Australian Rail Track Corporation's network, the result would be the same entity regulating most mainline rail access pricing and road infrastructure pricing, however, the structure of prices might differ.<sup>65</sup>

Part of the interest in direct road charging relates to how revenue is linked to spending (or investment).<sup>14</sup>

The discussion paper noted the Henry Review examined the issue, saying:

The Australia's Future Tax System report supported acceleration of the road charges feasibility study. In the context of a detailed examination of road transport taxes it made a number of findings and recommendations relevant to direct charging of heavy vehicles and investment in roads including:

- there is a need for asset management plans to assist in setting a cost base on which charges can be assessed

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<sup>13</sup> DP p.29

<sup>14</sup> DPP.35

- on routes where road freight is in direct competition with rail that is required to recover its capital costs, heavy vehicles should face an additional charge on a comparable basis, where this improves the efficient allocation of freight
- there are arguments for and against recovering the total costs of the road system from road users. Marginal cost pricing is considered most economically efficient; however, such prices are unable to cover the cost of road provision.

The Future Tax System report further recommended economic assessments of road investments, and a National Road Transport Agreement to guide the use and supply of road infrastructure. A single institution would develop and monitor implementation of reforms, including matters such as a model for financing the road network; a regulatory framework to, for example, prevent overcharging or supply restrictions; consistent arrangements for asset management, and a framework to support commercial agreements between road users and road infrastructure providers.<sup>15</sup>

and noted the work being done under the COAG Road Reform Plan (**CRRP**), saying:

More recently, the Council of Australian Governments Road Reform Program has issued a number of reports and updates of its progress. These include a policy framework reference guide and a pricing options discussion paper which consider an approach of charging heavy vehicles directly for marginal and/or allocated costs. The options paper sets out a proposed approach to modelling the feasibility and benefits of various direct charging systems. The Road Reform Program is targeting the issue of: a lack of direct charging potentially resulting in road owners seeking to protect their existing assets through prescriptive regulations or access restrictions. This problem may extend to maintenance and renewals. It might be considered a road 'use' issue. The Road Reform Program process may also lead to greater long term certainty for asset owners about funding sources.

The discussion paper thought that after considering a number of options, these options warranted further consideration:

3. creation of a transport infrastructure (or road) economic regulator to assess and approve investments made by road authorities for inclusion in a charging cost base. Such a regulator would need to take a position on investment costs to be attributed to cars. For investment on mixed use roads to proceed, this position would need to be validated by either direct charges for cars including congestion charges, and/or government funding. Changes in law and substantial issues and negotiations would be needed. If congestion charges or government funds were inadequate, worthwhile freight related investments may not occur.
4. creation of a road improvement regime which allows initiation of investments by the freight industry (or customers). These rights would need to be appropriately constrained, for example like similar rights under the Trade Practices Act.

with:

Option 3 (having) merit and may be a suitable long term policy goal. Infrastructure Australia prefers option 4 at this time since it holds most prospect of early to medium term results. It could be extended to linkages of routes and precincts that were not on a designated national network. Options 3 and 4 are worthy of further consideration to bring forward appropriate short term action.<sup>16</sup>

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<sup>15</sup> DP p.34

<sup>16</sup> DP pp.48-9

## ***ALC position***

ALC particularly agrees with this observation from the discussion paper:

Few if any mechanisms were proposed to lock-in benefits for freight. More recently, there has been consideration of freight related measures for some projects, including on entry ramps to proposed managed motorways. As against this, it appears that there were some unrealistic expectations of how freight vehicles might be accommodated on already congested multi-use infrastructure.

The proposed national ports strategy suggested dedicated freight infrastructure to overcome the problem of freight being crowded out on some route segments. It recommended that this be investigated by the Bureau of Infrastructure Transport and Regional Economics. This issue is being explored in the United States as part of its freight research program and there are examples of dedicated freight infrastructure in Australia and other countries....<sup>17</sup>

ALC again encourages this proposed investigation.

A decision making mechanism encouraging the development of innovative infrastructure provisions rather budget funded dual public/private road facilities, and the inefficiencies that flow from externalities such as congestion should be developed.

This is because, as the discussion paper said:

In most cases, transport infrastructure capacity is not effectively priced and traffic is mixed, for example cars and trucks share the same road lanes at the same times, and rail 'passenger priority' principles are not backed by explicit access charges. Hence freight can be affected by congestion caused by personal transport on both road and rail networks. Freight can also contribute to congestion.<sup>18</sup>

and

..... trucks will make only a small contribution to any increase in city wide congestion in the medium term, even at 'twice the task' growth rates. At an aggregate level, urban road congestion may be more of an issue for freight than freight is for congestion. Wherever infrastructure is jointly used, any policy for freight needs to focus on the rates of growth of other traffic, not merely freight.<sup>19</sup>

That said, ALC believes all infrastructure projects must be assessed against a long term plan driven by volumes, to ensure an effective framework for decision making by financiers and private/public sector players.

In particular, ALC is of the view infrastructure decisions should be made in a way that:

- does not distort the mode by which consumers dispatch freight - that is, there is competitive neutrality between road and rail transport; and
- are made only after the most rigorous cost benefit analysis.

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<sup>17</sup> DP p.22

<sup>18</sup> DP p.15

<sup>19</sup> DP p.16

This will necessarily mean that the full costs of externalities are factored into government road and rail investment decisions.

To that extent it is noted that the recent CRRP *Funding and Implementation Issues Paper* (April 2011) said:

The current work program of the CRRP is focussed on developing and assessing options for: pricing reform – providing stronger signals to heavy vehicle road users about the costs involved in road provision and investment by reforming pricing

- funding reform - providing incentives and accountabilities to facilitate more efficient road provision,
- maintenance and investment through reforms to road funding and expenditure arrangements.
- Creating more direct linkages between the collection of revenue from heavy vehicles and the allocation of funds to the provision and maintenance of roads, together with better incentives and oversight, is expected to create the conditions for greater efficiency in the provision and use of roads.<sup>20</sup>

However:

COAG has confirmed the CRRP Phase 1 Report recommendation that national direct pricing of externalities for all heavy vehicles as part of a heavy vehicle charging arrangement is not considered optimal at this time.

The analysis suggested the best approach would be local level assessments of the cost-effectiveness of additional externality treatments in locations where the impacts of externalities are concentrated and are of a level that suggest abatement measures might be worthwhile. Pricing may be one tool in these circumstances, particularly should a MDL based road user charge be introduced for cost recovery of road costs. Further,

- heavy vehicle users represent a small subset of all road users (rigid and articulated trucks comprise only seven per cent of total vehicle kilometres travelled compared to 74 per cent by passenger vehicles) and often constitute only a small proportion of overall traffic.
- the freight market could be distorted if externalities are not priced similarly for all other modes.
- as pointed out in the Productivity Commission report, there is already “significant internalisation of externalities (except for greenhouse emissions)” through various other means.

As such, development of a new national charging regime for externality valuation and pricing need not be considered at this stage. If a direct charging system is established in the future, COAG agreed that this issue should be reassessed.<sup>21</sup>

As much as ALC believes that a decision to create decision making institutions inclined to support the identification of infrastructure needs using market based mechanisms, this is a policy goal only achievable in the intermediate future.

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<sup>20</sup> Page 6

<sup>21</sup> Pages 17 and 18

Action needs to be taken **now**.

Recommendation 68 of the Henry Review suggested COAG develop a National Road Transport Agreement to establish objectives, outcomes, outputs and incentives to guide governments in the use and supply of road infrastructure with a single institution nominated to lead road tax reform.<sup>22</sup>

ALC suggests that development of pricing principles take full account of current taxes and charges paid by road users. These principles need to be applied consistently across modes and users (ie, passenger and freight). Further, the implementation of pricing to reflect demand for and supply of infrastructure should be based on moving the current focus on relatively high fixed charges to pricing based on variable charges reflecting mass, distance, location, time of day and externalities (ie, engine efficiency in terms of emissions).

It proposed a National Road Transport Agreement that should include:

- (i) an agreed model for financing the road network, including the appropriate assignment of revenue from taxes and charges, a reduction of Australian government fuel tax as efficient road pricing is introduced, and adjustments to other taxes and transfers necessary to maintain equity in the overall tax system;
- (ii) a regulatory framework to ensure that road infrastructure providers' incentives are aligned with those of road users, particularly to prevent over-charging or supply restrictions;
- (iii) a methodology for identifying and valuing the social purpose components of road funding, to form the basis of an explicit treatment of community service obligations, as well as a consistent methodology for assessing environmental impacts;
- (iv) nationally consistent arrangements for asset management, including formal asset management plans, down to the local government level, as a condition for receiving revenue from road-specific taxes or charges;
- (v) a framework to support commercial agreements between road users and road infrastructure providers, including agreements for the provision and finance of infrastructure to meet specific needs, and for the delivery of guaranteed service standards;
- (vi) a protocol for the collection, handling and exchange of information from road pricing, as well ensuring personal privacy and interoperability of technical standards;
- (vii) arrangements to evaluate the efficiency of infrastructure spending by ensuring that major infrastructure projects are subject to post-build evaluations; and
- (viii) consideration of the broader impacts of road pricing reforms on other transport modes, particularly on public transport (in relation to congestion pricing) and freight rail (in relation to heavy vehicles charges).<sup>23</sup>

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<sup>22</sup> Recommendation 68 and pages 407 and 408 of Volume 2 of the Henry Review

<sup>23</sup> Volume 2 page 407 of the Review

**ALC believes that action should be taken to implement this recommendation of the Henry Review immediately.**

*Caution on double counting of externalities*

It is finally noted:

- the CRRP secretariat is moving towards developing a model to replace the PAYGO model of funding Australian roads;
- part E3 of the *Final Report* of the Future Tax Review (the Henry Review) makes recommendations about road transport taxation including, for example, the implementation of congestion charging; and
- there are proposals to implement congestion charging at different ports.

ALC has some concerns that there could be some 'silo thinking' within Government, with those involved with the Henry Review in the Treasury developing one set of policy proposals the CRRP a different set and those devising a possible carbon price a third.

The worst case scenario is that the same externalities (such as, for instance, carbon dioxide) could be priced into a number of different taxation mechanisms, giving rise to double taxation.

**ALC finally notes that it is important that any land freight strategy ensures that pricing mechanisms for externalities that affect the movement of freight, be developed only once.**

## **Regulating entity**

The paper speculates whether a national transport plan should be administered by a body similar in nature to the ACCC:

Some argue that there should be a body independent of any jurisdiction to develop and oversee a national transport plan, and possibly to undertake economic regulatory functions. The significance of this argument is that such functions are seen to directly influence access to networks, pricing of this access, and investment in the configuration, quality and performance of networks. The outcomes sought relate to network use and provision, not merely regulatory or funding reform.

Analogies have been drawn with the electricity and gas industries which, following Council of Australian Governments agreement, now have planning and (price) regulatory agencies. Infrastructure Australia has sought advice on the structure of the planning and regulation of these industries. The planning and regulatory functions in question may be similar to those identified in the Ministerial Taskforce Issues Paper.

There have been suggestions that the Australian Competition and Consumer Commission could play the role of a transport economic regulator similar to its role as the Australian Energy Regulator. The Commission already plays an economic regulatory role for certain rail infrastructure.<sup>24</sup>

An alternative view was:

Some stakeholders have raised questions about the possibility of a single national regulator for all land transport, including road, rail and intermodal, with responsibilities including access, safety and economic matters. There may be concerns about the co-location of safety and economic regulatory functions if the level of subsidy were affected by decision making. Also consideration may need to be given to differences between the current negotiate and arbitrate approach for rail access charges, and whatever system might be applied for new forms of road charges. The coverage of such regulation, for example, for all rail and/or all roads, would also need to be addressed.<sup>25</sup>

## ***ALC position***

ALC notes the Henry Review suggests that a single agency should develop transport reforms and monitor their implementation by the States.

ALC also notes COAG has agreed to a national a national rail safety regulator and a national heavy vehicle regulator.

ALC believes that to maximise the capture of the benefits from the rationalisation of regulations, a single Land Transport Regulator with seamless regulatory arrangements across all modes administering a coherent set of regulations should be created.

This would include the responsibility of ensuring the rigorous analysis of proposed infrastructure investments – broadly, the current role played by Infrastructure Australia.

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<sup>24</sup> DP p.32

<sup>25</sup> DP p.33

ALC has recently said in a media statement:

In a March 2010 submission to government on the National Freight Network Plan, ALC argued infrastructure funding should not be a process of 'picking winners' from a list of projects, chosen without the advantage of rigorous, cost benefit analysis, nor should freight volumes be directed towards specific transport modes.

"If productivity is the goal then rigorous assessments should be made on a whole of supply chain basis and not piecemeal", said ALC Chief Executive Michael Kilgariff.

"The submission also recommended plans be drawn up so the freight task anticipated at a given time in the future can be met by the freight network.

"The 2011 National Freight Strategy Discussion Paper published in February this year notes that some projections suggest a trebling of freight by 2050.

.....

However, Mr Kilgariff warned Infrastructure Australia must be given appropriate resources to discharge any enhanced role in infrastructure assessment.

"Properly funded, Infrastructure Australia could play the same role in infrastructure development as the Productivity Commission in relation to advice on economic policy.

"Poorly funded, it will only act as a roadblock to efficient decision making.

"States will put off their own expenditure in the hope of getting federal funds.

"If that occurs, while Infrastructure Australia will add value to the process of assessing what infrastructure is necessary to support the Australian freight effort, it would actually be a hand-brake on getting it built and operating.

"All infrastructure projects must be assessed against a long term plan driven by volumes, to ensure an effective framework for decision making by financiers and private/public sector players", said Mr Kilgariff.<sup>26</sup>

ALC has a vision of a body that could be called **Freight Australia** - a body with responsibility for:

- ensuring infrastructure of national significance is identified and properly developed within designated corridors and development sites identified in the planning process;
- objectively analysing total demands on the network and developing a long-term plan to improve performance of whole corridors and the network, taking into account freight and passenger volumes; and
- the subsequent regulation of the modes of land transport carrying freight to port.

The possible functions of Freight Australia are contained in **attachment 2**.

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<sup>26</sup> ALC media statement 14 April 2011

The concerns about having economic and safety regulators housed in the same agency are noted.

However ALC is aware that, for example, in the electricity industry some practitioners have indicated a concern between a possible 'direct collision' between having to honour any requirements made by an economic regulator for competition purposes and a performance standard made for technical operational or safety purposes.<sup>27</sup>

In a similar vein, ALC believes that an agency with a holistic responsibility for the Australian freight effort will lead to more informed decision making leading to better outcomes as different elements of the agency exercising different responsibilities within the freight management area of public administration feed information into the decision making process.

For example, at a seminar held by the National Heavy Vehicle Project Office held in Canberra on 1 April 2011, it was suggested that information gained from those operating class 1 and 3 heavy vehicles seeking access to particular road networks may be used to identify particular road networks that are important to the Australian road network but restrict access because of the nature of the existing infrastructure.

That information could be used as the basis for developing an innovative funding solution leading to the development of infrastructure that will support the efficient operation of the Australian freight effort.

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<sup>27</sup> A circumstance in which obedience to one legal instrument means that someone disobeys another legal instrument – see *Blackley v. Devondale Cream (Vic) Pty.Ltd* (1968) 117 CLR 253 at 259

## **Interoperability and maximising benefits from new technology**

Finally, ALC notes that with respect to interoperability, the discussion paper says:

The network would aim at interoperability by including specifications for rail, roads, communications, corridors and shipping. These factors imply a long term direction towards:

- availability of a standard gauge freight priority rail line from principal freight nodes to the designated interstate network
- standard gauge rail tracks/freight priority routings in capital cities, Inland Rail Route, further rail standardisation in Queensland, Victoria and Western Australia
- single rail control system or seamless interface with city train control systems
- identification of opportunities to use smart technology in infrastructure and operations
- greater intermodal terminal capacity in the capital cities, in major cities and strategic interchange points.<sup>28</sup>

ALC particularly agrees with these objectives, and makes the following observations with respect to the use of technology and intermodal terminal capacities.

### *Use of technology to facilitate the freight effort*

ALC has argued that government planning documentation should encourage the development of mechanisms permitting the transfer of non-proprietary information across the transport and logistics chain, including (where necessary) legislation that will permit the development and use of impartial industry wide ICT solutions that would enhance the efficiency of the transport and logistics chain.

This is because there is a clear national interest in the T&L industry having passive access to this type of information to improve the flow of freight from one end of the chain to another.

In its 2010 publication *Using Information and Communications Technology to Increase Productivity in the Australian Transport and Logistics Industry*, ALC indicated impartial industry wide ICT solutions for collaborative information sharing enhances the transport and logistics industry's ability to deliver predictable and reliable transactions.

As the *Using Information* paper said:

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<sup>28</sup> DP page 4

In order to deliver excellent service T&L businesses need to build excellent relationships with their clients, manage complex execution processes, and manage their own assets and people effectively. Despite being world-leaders in the 1980s and 1990s Australian T&L companies have failed to secure the productivity improvements that can now be gained using existing technologies — information that exists today is not being leveraged as it might to increase the productivity of T&L companies, their customers and the economy in general.

This failure to adapt ignores innovation and new technologies that can deliver significant benefits and customer service improvements, including the latest generation of Logistics Management Systems, Vehicle Tracking and Monitoring, Real-Time Traffic Information, Routing, Freight Matching, and Wireless Communications that can ensure the effective integration of all parts of the supply chain.

In fact, the most efficient supply chains worldwide leverage real-time information and ensure real collaboration between partners, whether this is within a closed-loop, across the industry, or indeed across the entire economy. Impartial industry wide Information and Communications Technology (ICT) solutions will enhance the industry's ability to deliver predictable and reliable flows of goods and people.<sup>29</sup>

**ALC suggests the development of this capacity form part of the National Land Freight Strategy. To support this development, ALC suggests that collaborative trials be conducted to explore avenues to enhance freight productivity and network efficiency through the deployment of cooperative ITS technologies. These should be part of the assessment of infrastructure investment proposals. Interoperability in the use of ITS technologies is just as important as seamlessness in the use of hard infrastructure.**

#### *Intermodal terminal capacity (inland ports)*

Most major ports are generally located within densely populated urban areas.

The ports of Melbourne and Sydney move 36% and 28% of container volume respectively.<sup>10</sup>

Rapid expansion of commercial, residential and retail development near major destination points can constrain further port development.

Noise from engine and brakes, air pollution and the visual desolation of empty containers stacked close to residential areas add to the community discontent.

Greenhouse gases from vehicles, particularly trucks, concern the community.

Business is also concerned about losses caused by congestion and storage of containers held as a result of truck queues and missed time slots.

Finally, the predicted increase in the freight task means the system of heavy vehicles coming from the suburbs to a central port pick up point will not be sustainable.

One solution is the development of intermodal freight terminals such as that mooted for Moorebank in NSW.

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<sup>29</sup> ALC *Using Information and Communications Technology to Increase Productivity in the Australian Transport and Logistics Industry* (2010) p.4

As the Victorian Government said in its publication *Freight Futures*:

**Increased use of intermodal solutions**

In response to the need to contain increasing costs, the freight industry is continually searching for more efficient ways of moving freight from origin to destination. One response, especially internationally, has been the trend towards intermodal solutions to cut dwell times and avoid road congestion. Intermodal solutions, especially road/rail can deliver customer benefits and also reduce the growth in road freight movements. Connectivity to intermodal operations can occur at hubs that may be at local regional or interstate level. If the combination of modes can meet customer service requirements, then intermodal services can be an effective alternative to single mode only operations.<sup>30</sup>

ALC is also pleased with the continued acceptance of the concept which recognises the concept of an 'inland port' that connects intermodal facilities, freight corridors and destination points.

Any proposed intermodal facility would of course have to pass rigorous cost-benefit analyses and competition principles.

**Australian Logistics Council**

**May 2011**

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<sup>30</sup> *Freight Futures – Victorian Freight Strategy* page 12

## **ATTACHMENT 1: Demands for fund to back COAG port plan – The Australian 15 February 2011**

The federal government faces demands to create a fund to compensate states and local councils for restricting lucrative new residential and retail waterfront projects to reserve land for economically important port operations.

The push comes after the states stopped short of throwing their full support behind the entire national ports strategy document that was recently released by Julia Gillard and Infrastructure Minister Anthony Albanese.

Instead, the states endorsed the need for a national approach to better long-term planning around ports and accountability for the waterfront -- which were the key principles of the strategy.

The communiqué released after Sunday's Council of Australian Governments meeting stated that governments had "endorsed the need for a national ports strategy". COAG also agreed that the Australian Transport Council would finalise arrangements for a national maritime safety regulator, and that the national agreements on transport regulators be completed by July.

The Business Council of Australia welcomed this, declaring that progress on delayed reforms such as national transport regulation would lift productivity.

The ports strategy will be included in a national freight strategy that is being developed.

COAG has agreed that a ministerial council will complete an implementation plan for a "final" national ports strategy by August.

Infrastructure Australia and the National Transport Commission had developed a national ports strategy after two years of consultations.

But it is understood that officials from some of the states had been pushing for further consultation and had raised concerns about intervention from Canberra.

Federal sources said the states have "all been assured it's not a commonwealth takeover".

Yesterday, Australian Logistics Council chief executive Michael Kilgariff said that a pool of funds "always tends to get the states moving".

Mr Kilgariff said he wanted to see an intergovernmental agreement or national partnership developed to give effect to the plan. National partnerships usually include funds for specific projects or to reward the states.

"It's all very well to come up with broad-stroke agreement on principles but where things start to bog down is when you start to iron out the implementation details," he said.

Government sources said the issue was better planning, rather than funding.

BCA acting chief executive Maria Tarrant said the agreement on the ports strategy was a positive first step.

She urged governments to complete the implementation plan so there was regular and transparent reporting on the performance of the ports.

## ATTACHMENT 2 : Possible functions and responsibilities of Freight Australia:

- (a) commissioning and analysing data to determine the type of regulatory environment and infrastructure needed to meet the freight task in, say, 20 years.
- (b) objectively analysing total demands on the network and developing a long-term plan to improve performance of whole corridors and the network, taking into account freight and passenger volumes; and
- (c) identifying infrastructure of national significance for the purposes of the NFP;
- (d) determining the way in which intermodal facilities away from destination points can be developed;
- (e) developing the inland ports concept;
- (f) identifying blockages affecting the transport and logistics chain and report progress in removing them, in much the same way as the COAG Reform Council reports progress on the seamless economy agenda. The identification of blockages can 'shame' relevant entities into action. The ALC document *Infrastructure Programs for Addressing Supply Chain Blockages* identified 23 supply chain blockages affecting supply chain efficiency. This could be used as a template.
- (g) advising Infrastructure Australia as to whether a particular piece of infrastructure should receive funding;
- (h) perform the functions of the agency anticipated by Recommendation 68 of the Henry Review;
- (i) acting as the government entity responsible for encouraging the transfer of non proprietary information across the transport and logistics chain; and
- (j) acting as a 'champion' for the logistics industry within Government. This would include:
  - (i) ensuring information requirements of agencies such as Customs, AQIS and security agencies are practical and not too burdensome;
  - (ii) ensuring that the interests of the transport and logistics industry are recognised as government policy is developed. For example, government should ensure that road pricing mechanisms flowing from the Henry Review or the COAG Road Reform Plan do not lead to inefficiencies.



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