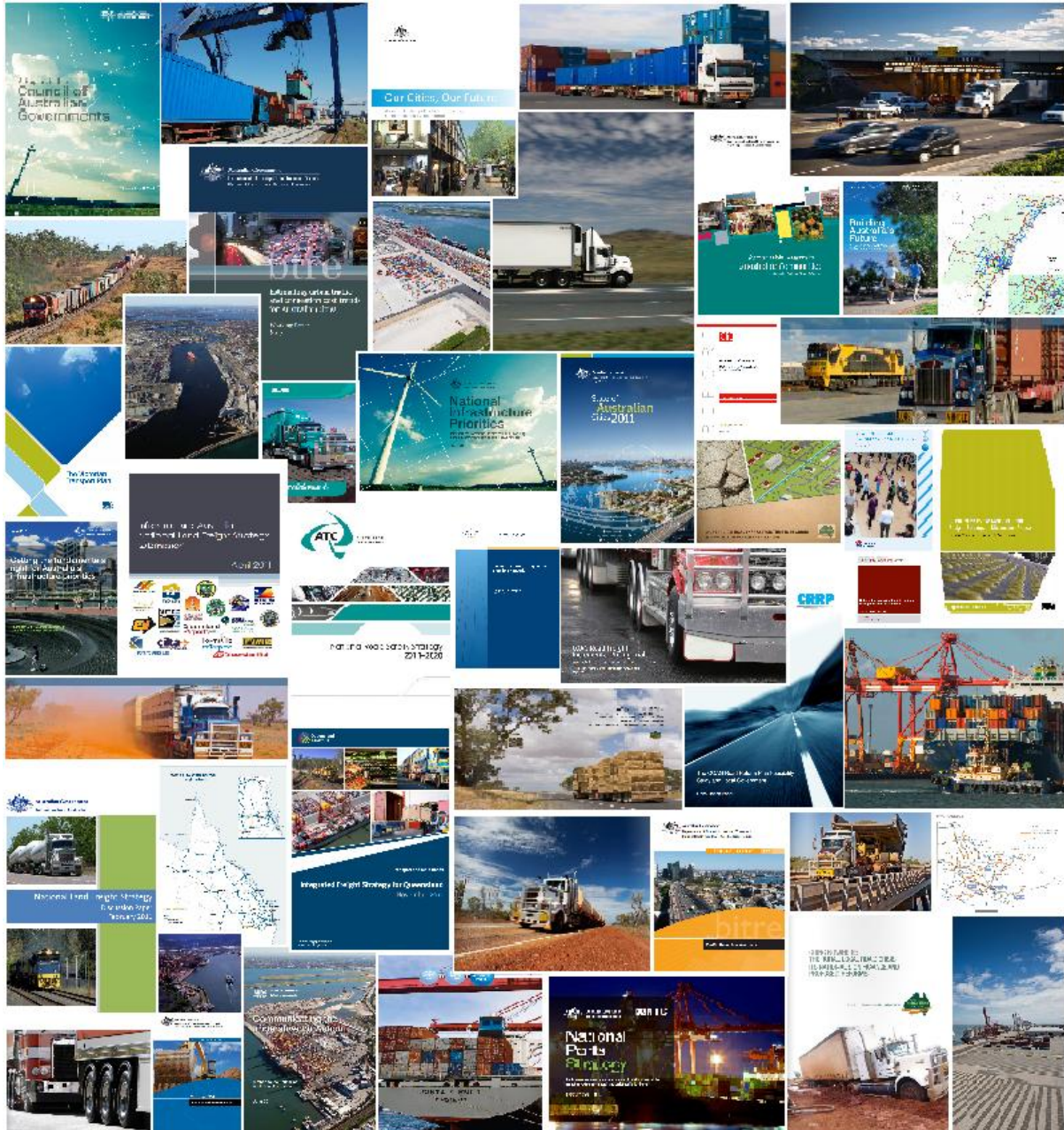




Australian Government Infrastructure Australia



National Land Freight Strategy Update

June 2012

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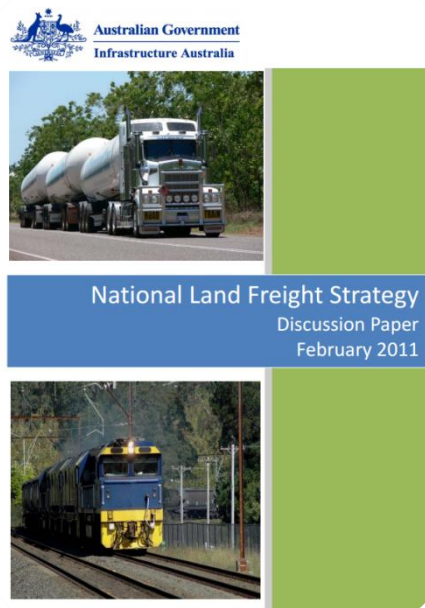
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Discussion paper update

In February 2011, Infrastructure Australia issued a National Land Freight Strategy discussion paper.¹ In response, Infrastructure Australia received more than 70 formal submissions from the freight industry, industry, business and infrastructure groups, local government and resident groups. Infrastructure Australia has consulted further with industry and government officials. This report updates the discussion paper and responds to key issues raised in submissions and other consultation.



Significant developments since the publication of the discussion paper include:

- Establishment of a Standing (Ministerial) Council on Transport and Infrastructure whose priorities include a national land transport strategy;
- The *National Ports Strategy* has been agreed in principle;
- As part of the *National Urban Policy*, the Australian Government announced it will require a 20-year freight strategy for each capital city by 2014 as a condition of funding under the Nation Building Program;
- Substantial advances in jurisdictional freight policies have been made including in New South Wales, Queensland and Western Australia;
- Infrastructure Australia raised issues about community views regarding infrastructure provision and financing;
- The road reform agenda conducted trials of incremental pricing for road access;
- Concerns about the condition of local roads were highlighted in several reports;
- The Australian and New South Wales Governments agreed that a particular government investment for freight on joint use rail infrastructure will be accompanied by freight user rights; and
- Actual growth in urban road traffic has been lower than was expected at the time of road congestion projections for the Council of Australian Governments (2008).

¹ Infrastructure Australia, *National Land Freight Strategy: Discussion Paper*, February 2011.

Results of public consultation

Responses to the discussion paper show a wide variety of views amongst the freight industry, industry, business and infrastructure groups, local government and resident groups. The key issues include:

- Almost all submissions welcomed the idea of a national land freight strategy, and some challenged governments to have a stronger commitment to reform;
- Some submissions argued that governance reform including some new organisations is necessary, while others considered calls for new organisations to be unwarranted;
- Most submissions argued for improved and long-term planning;
- Many considered consistency among the different levels of government to be important, with completion of the existing reform agenda a priority;
- Most submissions said a national freight network was valuable with some modifications to the network identified in the discussion paper, however some drew attention to the limitations of a network and the importance of other issues; and
- Almost all submissions sought further consultation and involvement.

The submissions emphasised the importance of road issues, implying an understanding of the potential critical role of road governance reform to the freight sector.

Submissions generally accepted the discussion paper's analysis of constraints to freight which include:

- Restricted use of infrastructure is a major issue and the needs of asset users and owners should be considered, with some submissions noting that full interoperability may not be justifiable in the short term;
- Encroachment of/on freight activities is considered to be an important long-term consideration with some submissions arguing for greater freight sensitivity towards community sentiments;
- Uncertainty about capacity for growth is an issue that should be addressed by improved national level forecasting and connectedness with other agendas; and
- Responsiveness of infrastructure to freight demand is seen by some as a major issue with the idea of a road improvement regime for a limited network worth investigating, however, some doubt the realism of such a concept.

Some stakeholders suggested that there would be merit in further statements about purposes of the strategy (document). In response, Infrastructure Australia sees main purposes of this strategy to include securing industry, community and governments agreement about:

- long term national aims for land freight; and
- broad directions on how to achieve these aims.

Such agreement would assist the evolution of policies affecting freight. Important contextual issues include higher level national aspirations for prosperity, quality of life and environment. Any national freight strategy should improve provision of freight to better serve communities, and support better safety and environmental performance. Broad directions on how to achieve national aims for freight could be included in statements of principles.

Infrastructure Australia proposes the following major principles to further underpin a national land freight strategy:

1. Recognition of logistics and context;
2. Efficiency;
3. Sustainability and growth;
4. Build on what is there (including existing policies and the good work of the states);
5. Coherence in government policies; and
6. Take practical steps.

However, Australia's productivity challenge will not be addressed by statements of principles. National action is necessary. Actions to ease freight constraints and lift productivity are an imperative.

Infrastructure Australia believes that the most practical approach for action at this time is to concentrate national policy efforts on 'places for freight' – that is, major freight generators and most intense freight flows. These are places where application of the proposed principles is most important and achievable. While recognising that the states have made considerable progress towards their own local freight networks, Infrastructure Australia confirms its support for a national land freight network.

Commentators and industry have criticised efforts in transport reform in Australia as being too slow and overly focused on processes rather than results. Implicit in this is a criticism about the lack of connection between infrastructure projects, particularly those wholly reliant on government for selection and funds, and national reform directions for freight.

To focus attention on the need to link projects to reform directions, Infrastructure Australia's discussion paper sets out goals for a national freight network and an indicative infrastructure project program to move towards these goals. It carefully noted: "Infrastructure Australia is not recommending that construction of all these matters needs to be one, least of all done now or with funds collected from general taxation".

Submissions to Infrastructure Australia have gone some way to develop such a program, in most cases focussing on projects that may merit early attention. It would be useful to consider some further programs that would build towards the reform directions outlined by Infrastructure Australia, especially those which could demonstrate the value of reform, including agreements with industry to immediately advance issues such as:

- Nationally: to include relevant roads and rail lines to ports on the Nation Building Network; for example extending the national road network from the Pacific Highway through the port of Newcastle;
- In New South Wales and Victoria: to progress a formal trial of high productivity vehicles on the Hume Highway and on key roads to ports and rail terminals, with incremental costs of infrastructure financed from industry beneficiaries;
- In Western Australia: to advance the Portlink proposal which involves new transport corridors linking the ports of Esperance, Port Hedland, Geraldton/Oakajee and Fremantle;

- In South Australia: to further develop the ports strategy at the state level and link proposed ports to the transport corridors needed to support mining exports;
- In Queensland: to consider dedicated interoperable rail freight access from new freight generating areas to the port of Brisbane; and
- In Tasmania: to more widely introduce the higher productivity vehicles necessary to reduce costs to the local businesses that trade with the mainland and internationally.

Combined, these initiatives would demonstrate practical integration of transport and land use planning, demonstrate the concept of national attention to principal places for freight, a commercial road improvement regime, integration of transport and land use planning, linking land and sea freight tasks and commitment to substantive regulatory reform.

The discussion paper identified some issues regarding governance and institutions, including the question of a new national transport authority. Consultations show a range of views on the matter of new institutions.

Infrastructure Australia recognises the strong arguments for changes in governance, particularly for roads, to advance any agenda for national infrastructure and productivity. Key issues include the extent to which roads which have a principal social purpose can be differentiated from roads with a primary economic function, and accelerated establishment of direct charging for those roads which compete with other transport modes.

The agenda of the competition policy reforms adopted in other infrastructure sectors, including rail, is worth considering for roads, or at least some roads in relation to freight. The precise scope of road governance changes and importantly, how such changes will empower the private sector, is a matter deserving urgent and close attention.

Next steps...

Implementation of the national land freight strategy as outlined in the February 2011 discussion paper is the key action. This needs to include a broad sweep across areas such as transport, land use planning, and the environment.

The creation of the Standing Council on Transport and Infrastructure provides an opportunity to formally bed down arrangements. Especially important will be participation of industry stakeholders in implementation, and Infrastructure Australia strongly endorses the Council's leadership of inviting senior private sector representatives to its inaugural meeting in November 2011.



Recommendations

Infrastructure Australia thanks contributors to the *National Land Freight Strategy*. After considering the submissions and other matters raised in consultations it recommends:

1. Formalisation of government and industry agreement to the *National Land Freight Strategy* in order to maximise Australia's international competitiveness.
2. That the Standing Council on Transport and Infrastructure adopt a high level implementation plan as part of this agreement, including the following tasks to be jointly delivered by government and industry:
 - a. Confirm strategy aims, objectives, principles;
 - b. Confirm that the proposed national land freight network comprises 'places for freight' and that it complements the national ports strategy;
 - c. Initiate long term planning, forecasting and scenarios needed for the network;
 - d. Establish mechanisms to develop a long term pipeline of infrastructure projects attractive to government and private investors and to ensure that the right investments occur at the right time; and
 - e. Address options for integrating the network, other aspects of the national land freight strategy and other policy initiatives including State freight plans, road governance and urban planning systems.
3. There be thorough consideration of road governance reform, including along national competition policy themes and with options to more clearly differentiate roads with a primary social purpose from roads with a primary economic purpose.
4. Infrastructure Australia's more detailed work on mechanisms for achieving privately initiated and financed investment in national freight network facilities including, as a priority, the Hume Highway and roads to the Chullora rail terminal in Sydney.
5. That governments:
 - a. Pay further attention to asset management in the implementation of infrastructure strategies;
 - b. Pay close attention to the desirability of taking an economic approach to investment;
 - c. Address two risks of Community Service Obligations for transport infrastructure: overestimating community requirements; and inappropriate or undisciplined wear;
 - d. Ask that further work of the Council of Australian Governments road reform plan include a proof of concept approach by a priority focus on charging and funding reform for a very limited number of roads.

6. That governments work towards proof of concept by progressing with industry the indicative program outlined in the discussion paper. High priorities ought to be:
- a. Inclusion of relevant freight infrastructure on the Nation Building Network; for example extending the national road network from the Pacific Highway through the port of Newcastle;
 - b. Progress a formal trial of high productivity vehicles on key roads to ports and rail terminals, such as the Hume Highway with incremental costs of infrastructure financed from industry beneficiaries;
 - c. Advance the Western Australia Portlink proposal;
 - d. Further develop the ports strategy and link proposed ports in South Australia to the transport corridors needed to support mining exports;
 - e. Consider dedicated interoperable rail freight access from new freight generating areas to the port of Brisbane; and
 - f. Wider use of higher productivity vehicles in Tasmania.

1. Introduction and outline of February 2011 discussion paper

The Minister for Infrastructure and Transport asked Infrastructure Australia to lead preparation of a *National Land Freight Strategy* for consideration by the Council of Australian Governments.

In February 2011, Infrastructure Australia released a *National Land Freight Strategy Discussion Paper* for public consultation.²

The discussion paper argued that productivity is a major issue for Australia, and that freight can make an important contribution. The paper strongly supported existing national transport reforms, including single national regulators and a national ports strategy.

However, productivity potential is not fully addressed by the current transport reform program. A key reason is an absence of a market framework for roads, particularly road freight.³ A market framework is necessary, but not sufficient, to achieve coordination within transport, among modes, and between transport and other activities including land use.

Four freight constraints on productivity were identified in the discussion paper. The paper outlined directions for dealing with these constraints at a national level recognising that full reliance on government funding would be an inadequate response.

The constraints and proposed directions were:

1. Restricted use of infrastructure – identify reasons for restrictions on use of high productivity vehicles and include initiatives to overcome these in an investment ‘pipeline’, with costs of addressing them to be borne by freight;
2. Encroachment of/on freight activities – establish long-term plans, including the preservation of routes, corridors and sites;
3. Uncertainty about capacity for growth – build on national level, agreed forecasts and scenarios of freight demand and freight/personal vehicle use; and
4. Responsiveness of infrastructure to economic demand – create an ability for the freight sector to initiate, finance and benefit from infrastructure, subject to not unduly affecting other parties or the community.

These directions are a hybrid of current policy settings and a market for transport and its infrastructure. The paper recognised that this is most achievable for a national network. It therefore proposed a national freight network, effectively ‘a place for freight’, which would reflect the following principles:

- Treat freight and its vehicles differently ‘on’ it than ‘off’ it;
- Evolve towards greater vehicle interoperability;
- Be underpinned by a long-term plan and streamlined approvals;

² Infrastructure Australia, *National Land Freight Strategy: Discussion Paper*, February 2011.

³ Typically a market framework includes customer rights to service, prices paid by customers, revenues received by service providers and investments by asset owners in expectation of increased revenues.

If agreed to, such a network would take time for it to develop, and appropriate policy settings would need to be put in place in the interim for transition.

The discussion paper also identified a debate about whether a new national authority such as a transport regulator and/or planning authority should be set up. This type of issue will need to be addressed in the context of road reform, especially if privately identified investment into roads is to be sought.

It is easier to conceive, develop and implement such policies for a limited network than for every piece of transport infrastructure in Australia. Moreover, a network of the most nationally significant places for freight would be a natural focus for cooperation among the three tiers of government, industry and the community. A network would be an important step towards nationally coherent policies to meet the growing freight challenge. As against this, lack of commitment or inability to address these issues on a network would augur poorly for freight policy in Australia.

2. Changes since the February 2011 discussion paper

The discussion paper provided some background to the freight industry in Australia, including size, scope and policy settings. It identified some matters under consideration by governments. Relevant developments include creation of the Standing Council on Transport and Infrastructure, a *National Urban Policy*, a Commonwealth Government statement on population, and progress with transport policy including the Council of Australian Governments' road reform plan.

2.1 Standing (Ministerial) Council on Transport and Infrastructure

In September 2011, the Council of Australian Governments created the Standing (Ministerial) Council on Transport and Infrastructure. The new Standing Council brings together strategic planning with infrastructure and transport policy. This is aimed at delivering integrated solutions to national infrastructure and transport planning and delivery challenges.

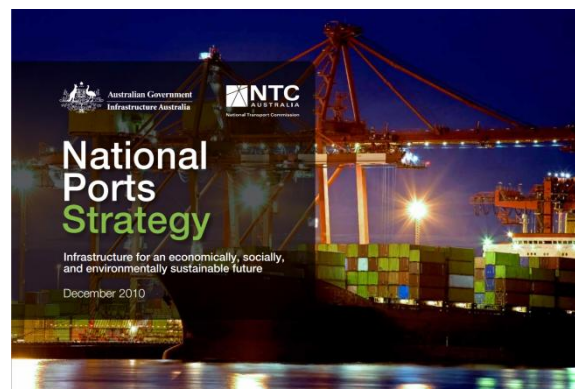
The Council's agenda includes the national ports strategy and a national land freight strategy. It expects Infrastructure Australia to formulate advice on the freight strategy following stakeholder consultations.

The first Council meeting was held on 4 November 2011 and senior representatives from the private sector transport industry attended as invited observers. The meeting Communique included that Ministers: "agreed to work with Infrastructure Australia to develop a timetable for completion of the land freight strategy. These major initiatives are important in supporting the transport industry and the national economy".

2.2 National Ports Strategy

The discussion paper argued that a national freight network should link nationally significant freight nodes (and areas) by interoperable land transport infrastructure. The nationally significant ports are key freight nodes.

In November 2011, Ministers of the Standing Council on Transport and Infrastructure agreed to provide a *National Ports Strategy* to the Council of Australian Governments. The centrepiece of this strategy is the development of long term plans for Australia's major ports and related supply chain infrastructure.



2.3 National access regime

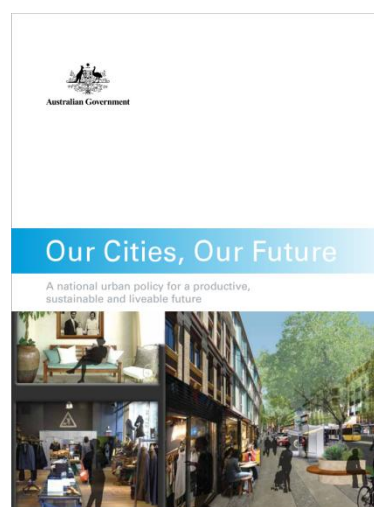
In June 2011 the Federal Court overruled a decision on application of the national access regime of the *Trade Practices Act 1974* to certain railways in the Pilbara, Western Australia. The effect is that third-party access seekers would be unable to have a right of access to certain rail lines in the Pilbara region.⁴

In August, the Council of Australian Governments agreed that the Productivity Commission would commence a review of the national access regime in December 2012.

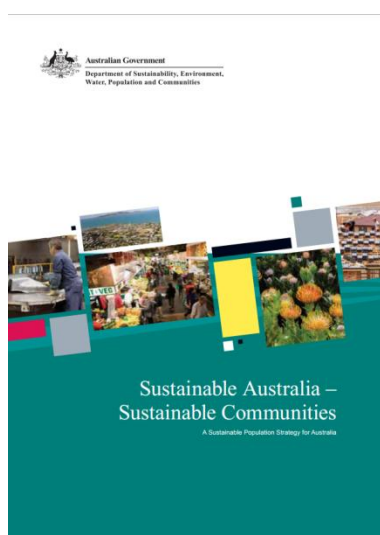
2.4 National Urban Policy

In May 2011, the Minister for Infrastructure and Transport released the Australian Government's *National Urban Policy*. The policy states that the Australian Government will require, as a condition of funding for the second Nation Building Program, that each capital city has in place, by 2014, a 20-year freight strategy consistent with the national land freight strategy.⁵

To this end the Federal Government indicated that it will work with State, Territory and Local Governments to finalise the national land freight strategy. In November 2011, this was confirmed by the relevant Ministerial Council, the Standing Council on Transport and Infrastructure.



2.5 Statement on Population



In May 2011, the Minister for Sustainability, Environment, Water, Population and Communities released *Sustainable Australia – Sustainable Communities*. This identified that the Australian Government has wider sustainability objectives than economic development.

The document outlines trends of population growth including ageing, urbanisation, and uneven growth rates. These trends have implications for services and amenity, as well as skill mobility. In particular, urbanisation presents both opportunities and challenges for the provision of social and economic infrastructure. Integration of urban environments, regional planning, and links to transport corridors are considered.⁶

⁴ See: http://www.ncc.gov.au/index.php/application/third_party_access_to_various_pilbara_railways

⁵ Department of Infrastructure and Transport, *Our Cities, Our Future - A National Urban Policy for a productive, sustainable and liveable future*, May 2011, p30.

⁶ Department of Sustainability, Environment, Water, Population and Communities, *Sustainable Australia – Sustainable Communities*, 2011.

2.6 Tax

Infrastructure Australia's national land freight strategy discussion paper raised further issues regarding direct charging of trucks, including some identified in Australia's future tax system report.

In the May 2011 Budget, the Government announced it would establish special tax provisions for infrastructure projects designated to be of national significance. Losses generated by designated infrastructure projects will be exempt from the Continuity of Ownership Test and the Same Business Test and will be uplifted at the government bond rate. There would be a global capital expenditure cap of \$25 billion over the period from Royal Assent of the enabling legislation to 30 June 2017.⁷



Subsequently, the Treasurer announced a tax forum to be held in October 2011 involving representatives of government and industry. A discussion paper for the forum commented that existing heavy vehicles charges provide inadequate incentives to operators to minimise road damage and externalities and results in cross-subsidies between heavy vehicles types. The paper asked whether Australia should consider ways to more closely link road charging to the impact users have on roads.⁸

Discussion at the tax forum considered variable congestion pricing. Issues raised included: the need for alternatives to roads; options for the use of revenue from congestion charging; the idea that freight causes congestion is a misunderstanding; the need to consider investment in analysis of pricing reform options.

In July 2011, the Government announced its intention to introduce a carbon price in conjunction with a number of other measures.⁹ The impact would be to charge for activities that involve production, or use, of carbon intensive activities. In the longer term this may result in some change of technology used for the freight task, as well as some change in the location or intensity of some freight generating activities.

⁷ See http://www.minister.infrastructure.gov.au/aa/releases/2011/May/budget-infra_02-2011.aspx

⁸ Treasury, *Tax reform, next steps for Australia*, July 2011.

⁹ Available at <http://www.cleanenergyfuture.gov.au/clean-energy-future/our-plan/>

Other elements of the carbon price package included compensation and mechanisms to assist transitions to lower carbon intensity, and a lagged introduction of a carbon price on fuels used for heavy road vehicles but not for rail. It is reported that the Productivity Commission is to inquire into fuel excise arrangements, and this review may be relevant to for direct road charging.¹⁰

2.7 Infrastructure Australia's reports

In June 2011, Infrastructure Australia provided a report to the Council of Australian Governments *Communicating the Imperative for Action*.¹¹ This report includes an update of the national infrastructure priority list, comments on a national freight network and more general comments on policies relevant to infrastructure.

The priority list comprises project proposals submitted to Infrastructure Australia. Submissions to Infrastructure Australia do not yet cover the range of potential project proposals identified in the *National Land Freight Strategy Discussion Paper*.

The report also gives context to the current work on a *National Land Freight Strategy*.



The strategy is intended to provide a platform for a more focused approach to updating the infrastructure priority list in the future. However, the strategy itself will not produce sufficiently developed project proposals, and there is a need for owner/sponsor support to develop project proposals to a degree of detail which could be fairly evaluated.

The *Communicating the Imperative for Action* report comments on the theme of a national freight network, and also draws attention to rural road asset management. The report recommends the creation of a national roads portfolio manager whose roles might include high level verification of asset management plans and providing advice to Infrastructure Australia and other bodies on policy matters and potential investment decisions.

The report flags funding challenges for the east coast highways. It argues that governments should move towards a corridor-wide tolling regime to fund timely completion of the Pacific and Hume Highway duplications, and to fund improvements on the Bruce Highway.

Infrastructure Australia's report points to disconnected views regarding infrastructure provision and financing in Australia. It is claimed that more infrastructure is needed in Australia, but as a community we are unwilling to pay for it. If this continues it will not be possible to finance worthwhile infrastructure on the existing national infrastructure priority list. Were further infrastructure to be added to this list – which is the expectation of a land freight strategy – the possibility of financing necessary infrastructure is even more remote.

¹⁰ See <http://greens.org.au/content/no-carbon-price-fuel-productivity-commission-inquiry-fuel-excise>

¹¹ Infrastructure Australia, *Communicating the Imperative for Action, Report to the Council of Australian Governments*, June 2011.

Infrastructure Australia's preferred options for financing revolve around appropriate user charging in commercial systems such as freight, while recognising that on occasion there may be a social, 'externality', or 'transitional' case for some contribution financed from general taxes. The linking of user benefits to infrastructure provision via charges creates an environment for investment in infrastructure, including private investment.

In June 2011, the Minister for Infrastructure and Transport, the Hon. Anthony Albanese MP, announced the establishment of the Infrastructure Finance Working Group under the auspices of Infrastructure Australia. The purpose of the working group includes to advise Infrastructure Australia on opportunities for finance reform, the applicability of user charges, and to help identify projects that would benefit from private investment.¹²

2.8 Jurisdictional freight policies

In the national land freight strategy discussion paper Infrastructure Australia called for publication of State level 'freight strategy' documents. It noted that Victoria was seen as a leading jurisdiction, but policy statements were also available in other States.

A number of jurisdictions are updating or completing statements regarding policies affecting freight. The New South Wales Government has signalled an intention to more closely examine freight issues: it has created a new organisation, Infrastructure New South Wales, and a Freight and Regional Division within Transport for NSW. It also published a Sydney metropolitan road freight hierarchy document, which in outline is similar to the Victorian principal freight network. The aims of the hierarchy are:

- To support the pattern of industrial lands and activities that lead to varying freight flows on the road network by providing suitable road infrastructure;
- To provide for the specific needs of freight vehicles in operating the road network as a safe, sustainable and efficient road transport system for all road users; and
- To supplement the administrative classification of roads by recognising the varying intensity of freight generating activities and heavy freight vehicle demand on roads within the State Road classification.¹³

In December 2011, Queensland published its first freight strategy.¹⁴ The key objective of the Strategy is to: "move freight efficiently" by the most effective and sustainable means, thus encouraging a multi-modal approach to the movement of freight. The Strategy is intended to enhance Queensland's ability to respond to future freight growth and will guide the development of informed, responsive and coordinated solutions for freight by:

- Informing the development of broader State government plans and strategies;
- Informing national transport planning and reform agendas for transport and freight;
- Informing industry's business and freight investment decisions;

¹² See http://www.minister.infrastructure.gov.au/aa/releases/2011/June/aa112_2011.aspx

¹³ New South Wales Department of Transport, *Media Release: Transport Infrastructure on Track*, 30 May 2011.

¹⁴ Available at <http://www.tmr.qld.gov.au/Business-industry/Transport-sectors/Freight/Integrated-Freight-Strategy-for-Queensland.aspx>

- Fostering greater coordination and collaboration across government and industry; and
- Providing direction for enhancing the utilisation of the transport system for freight.

In Western Australia it is understood that detailed forecasting and scenario development work for significant regional freight tasks is well advanced. This is in the context of significant economic growth in that State, especially in mining industries and in response to international economic developments, and State planning policies.

The Minerals Council of Australia has argued for the need for regional plans, similar to those envisaged in the national ports strategy.¹⁵ These are being developed in several jurisdictions notably Western Australia and Queensland, for example, for the Mount Isa to Townsville Economic Zone (MITEZ).¹⁶

2.9 National transport regulation

The first meeting of the Standing Council on Transport and Infrastructure affirmed its intention to establish national regulators for road heavy vehicles, maritime and for rail safety. The intended scope of these regulators is essentially unchanged.

The national heavy vehicle regulator project office indicates that the regulator will commence in 2013, following consideration of draft laws, and progressive State and Territory introduction of the laws to their Parliaments.

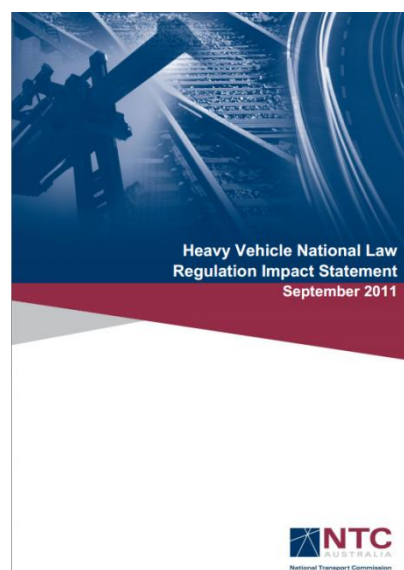
The regulator is to address three projects regarding approvals for truck access to roads:

1. A one-stop-shop in Australia for access applications and issuance;
2. A process for the consolidated national mapping of heavy vehicle route networks; and
3. Processes and tools to foster consistency in access decision-making by asset owners.

The aim of these projects is to improve administration and customer service processes. A direct result may be a better database of information regarding access constraints.¹⁷

The scope of the road national heavy vehicle regulator is a significant issue to national freight productivity and any national freight network.

The National Transport Commission published a regulatory impact statement of the national heavy vehicle law, which is an aspect of the establishment of the regulator.¹⁸



¹⁵ Minerals Council of Australia, *submission to the national land freight strategy discussion paper*, April 2011.

¹⁶ Juturna Consulting, *MITEZ 50-year Freight Infrastructure Plan – Interim Report*, February 2012.

¹⁷ National Heavy Vehicle Regulator Project Office, *Road to Regulator Edition 3*, December 2010; COAG Road Reform Plan, *Preliminary Findings Consultation Paper* at p35.

The statement suggests considerable economic gains to be available – up to the order of \$12 billion in present value terms over 20 years – and most of these relate to allowing larger heavy vehicles to use more roads – an ‘access’ issue.¹⁹ Some stakeholders doubt whether these gains are achievable, drawing attention to lower earlier estimates by the Productivity Commission or claims that benefits already have been achieved.²⁰

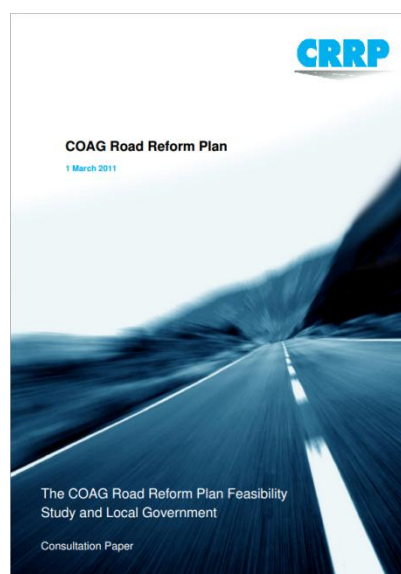
The regulatory impact statement suggests that the success of the regulator is largely dependent on changes to heavy vehicle ‘access’ decisions, at least some of which might be facilitated by infrastructure upgrades. However, the statement outlines the intention that the regulator would not determine road access matters.

A predecessor to the Standing Council, the Australian Transport Council endorsed a new *National Road Safety Strategy 2011-2020* in May 2011.²¹ The strategy recognises that reducing the number of heavy vehicle crashes is an important national matter. The strategy envisages actions involving ‘safe system’ principles addressing various elements of (heavy) vehicle and road interactions such as roads, speeds, vehicles and people.

2.10 Council of Australian Governments Road Reform Plan

The Council of Australian Governments *Road Reform Plan* published several consultation papers since the release of Infrastructure Australia’s discussion paper.²² These deal with aspects of feasibility of direct road use charges for heavy vehicles as well as some associated with funding and road agency reforms. The work is based on a number of principles including that direct charges should be developed with reference to marginal costs and other components.

In June 2011, the road reform plan issued its preliminary findings paper for discussion. Following consultation further findings are being provided to the Council of Australian Governments.



¹⁸ National Transport Commission, *Heavy Vehicle National Law: Regulatory Impact Statement*, February 2011.

¹⁹ The national heavy vehicle regulator / law benefit cost analysis is available at <http://www.ntc.gov.au/filemedia/Reports/HVNLBenefitCostAnalysisAppBFeb2011.pdf>. Estimates of net present value gains from future rail law changes are between \$29m and \$73m, all attributable to improved safety outcomes, while regulatory and industry costs may increase (although previous changes under a 2009 regulatory impact statement may have reduced such costs already: National Transport Commission: *Rail Safety National Law Draft Regulatory Impact Statement*, July 2011). The National Transport Commission also published a report on B-triples: National Transport Commission, *A national framework for modular B-triple operations*, August 2011.

²⁰ Department of Transport, *Draft National Heavy Vehicle National Law Heavy Vehicle National Law Regulatory Impact Statement NSW submission*, May 2011; Department of Transport, *Heavy Vehicle National Law WA State Government Agencies Response to the Draft Regulatory Impact Statement and Draft Legislation*, May 2011.

²¹ Available at http://www.infrastructure.gov.au/roads/safety/national_road_safety_strategy/index.aspx

²² COAG Road Reform Plan, *Feasibility Study and Local Government* (March 2011), *Implementation Issues Paper* (April 2011), *Preliminary Findings Consultation Paper* (June 2011).

High-level results suggested that, on the assumption that direct charging would improve the certainty of road funding, a basis of a static measure of mass, actual distance travelled, and location is both technically and economically feasible for some trucks.

While the term 'location' appears to refer to grouping roads into a few classes, it is understood that there can be a greater degree of disaggregation towards precise road routes or segments. However, on the basis of experience elsewhere, it was argued that charging a different amount for every road is not feasible at this stage. A decision on this issue is yet to be made.²³

The preliminary findings paper argued for a new framework for heavy vehicle charging and funding. It considered three 'governance' options for funding – an enhanced departmental model, a road fund and a public utility model – all of which deal exclusively with roads.

The paper suggested revenue could flow to road providers; the way roads are funded is expected to be a more significant driver of economic benefits than changes in vehicle use. Part of the reason is more predictability in funds, allowing road infrastructure costs to be managed on a life cycle basis.²⁴

The road reform plan also argued that were more direct charges introduced, it would still be necessary for governments to provide some funds to roads on the grounds of practicality and an underlying Community Service Obligation related to matters such as basic access. It stated that all historically allocated costs are currently recovered from heavy vehicle users.

The paper identified a number of assumptions that underpin these preliminary results and concluded that complementary reforms are needed to collect data and information on a consistent national basis.

A final Feasibility Study has been provided by the Standing Council on Transport and Infrastructure to the Council of Australian Governments.

2.11 Road reform and incremental pricing for road access

A key question in road reform concerns the ability of truck operators to gain access to a road in exchange for a direct payment to the road owner.

Infrastructure Australia's discussion paper indicated that trials of 'incremental pricing' for heavy vehicle access to roads were underway. The trials were to involve payment from a truck operator to a road owner in exchange for higher than currently approved truck weight on the road.

²³ COAG Road Reform Plan, *Preliminary Findings Consultation Paper*, June 2011, p11 and p21. A comparison can be made with the approach used by the NSW IPART for its analysis of grain railways. IPART, *Review of Access Pricing for the NSW Grain Line Network*, Issues Paper, May 2011.

²⁴ COAG Road Reform Plan Road Reform Plan, *Preliminary Findings Consultation Paper*, p22 and p27.

The road reform plan states that two trials were undertaken; one in New South Wales over 0.8km of roads, and one in Victoria over 80km of roads. The trials are said to have yielded net economic benefits – the truck operators making gains even after making payments to the road owner.²⁵ However, the report suggests road owners lacked enthusiasm for the trials.

One comment was that incremental pricing could result in a “messy and inconsistent” approach. A further was to the effect that incremental pricing might constrain innovation.²⁶

Incremental pricing has some similarities to the road improvement regime idea in Infrastructure Australia’s discussion paper. Infrastructure Australia has commissioned more detailed advice on the incremental pricing trials.

The resultant report points to deeper issues regarding the directions of road reform in Australia, including oversight of national trials, the contrast between the position of road agencies and other utility infrastructure owners, and the unreported success of commercial road negotiations in some States.²⁷ Among other things the advice recommended:



- a more thorough incremental trial process; and
- consideration of a structural reform path for road agencies to promote a more commercial focus in forward planning and investment and wider competition principles for third-party access.

The report argues that Australia’s major road agencies share characteristics of non-commercially oriented natural monopolies, which should be viewed as a microeconomic reform opportunity of national significance in the same vein as the structural reforms of (other) government sector monopolies in the 1990s following the Hilmer report.²⁸

Further work was undertaken on the latter issue.²⁹ The further report argues that large road based productivity gains are available and that these most likely relate to access issues. This is consistent with the views of the regulatory impact statement of the national heavy vehicle law (section 2.9 above). Some case studies are offered in support of this.

This report highlights that cross-modal issues for markets and national productivity are important in particular places – where there are railway lines – rather than for all parts of the much wider road network. Cross-modal issues can include the question of whether government ‘investment’ in both modes effectively duplicates necessary infrastructure.

²⁵ COAG Road Reform Plan, *Report for Review of Incremental Pricing Trials*, May 2011.

²⁶ ‘There are also concerns that there are conflicts with the introduction of quad axles; which is considered a better long term option than adding a few tonne to a tri-axle. If Incremental Pricing becomes common place, quad axle foundation work may be ignored to the detriment of long term productivity gains through more long term solutions’ report at p9.

²⁷ Juturna Consulting, *COAG Road Freight Incremental Pricing Trials, Prospects for a more commercial focus in road reform*, August 2011.

²⁸ Frederick G Hilmer, *National Competition Policy Review*, August 1993.

²⁹ Juturna Consulting, *Economic reform of Australia’s road sector Precedents, principles, case studies and structures*, February 2012.

The later report also notes some of the experience over the last few decades with rail reform. This includes the evolution of a clearer understanding that some aspects of rail networks have primary economic/ commercial functions while others mainly address social functions.

It recognises the context of wider transport and economic reforms underway in the 1990s including the national direction to seek stronger competitive forces in the economy. Certain road infrastructure exhibits many of the characteristics displayed by the sectors earmarked for reform under Hilmer – electricity, gas, water and rail – public sector monopolies responsible both for the provision of essential infrastructure services and for other functions.

The report suggests consideration of a similar competition policy reform theme approach for roads, while recognising that the nature and issues of roads can differ from those of other infrastructure. It argues for a greater role of the private sector in identifying and financing road improvements for freight, and proposes a number of principles for consideration:

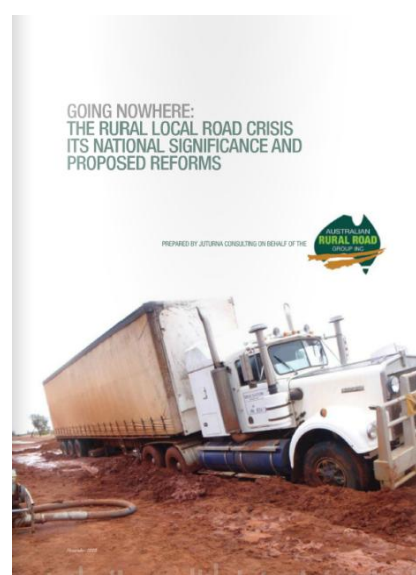
- Ensure transport reform is efficient;
- Encourage private sector investment in a core freight network but use public arrangements to maintain roads not considered investment grade – which would require roads to be classed on an economic basis;
- Transparent road asset cost and condition reporting;
- A national road access agency for the core network; and
- Reorient Australia's sundry road institutions to serve the demands of a structurally reformed road sector.

2.12 Local roads

Since the release of Infrastructure Australia's discussion paper, several organisations have drawn attention to local roads issues. As background, the majority of Australia's road network is owned by local governments.

It is claimed that a fundamental feature of the current system is that road grant funding bears no relationship to the relative productivity potential of particular local roads.³⁰

A 2006 report by the Department of Transport and Regional Development estimated a rural roads infrastructure backlog at \$404 million, however, the Australian Rural Local Roads Group points to estimates up to seven times higher. The group concluded there is insufficient national research, reporting and oversight of the local road infrastructure management and its funding pressures.³¹



³⁰ Juturna Consulting, *Going Nowhere: The Rural Local Road Crisis, Its National Significance and Proposed Reforms*, November 2010.

The Australian Institute of Engineers claims that the 'funding gap' is widening, while others point to uncertainties regarding this matter. In 2007, the Productivity Commission briefly touched on the possibility that road expenditures were less than maintenance repair and construction costs. While not drawing a conclusion on the matter it encouraged the National Transport Commission to explore the issue further.

It is possible that the differences in views partly reflect data and methodological factors.³²

Examples of the local roads issues arise in some significant export and agricultural supply chains, for example grain production and livestock. In the case of grain production, the New South Wales Independent Pricing and Regulatory Tribunal considered road and rail infrastructure issues in its review of rail access prices for grain traffic.³³

2.13 Sydney rail freight access

Significant progress has been made with works to enhance freight access and certainty to the metropolitan rail network in Sydney. This is important for two reasons:

- The Sydney metropolitan rail network, which extends to near Newcastle and Port Kembla, has long been a bottleneck inhibiting the potential of rail freight
- Overcoming this bottleneck requires consideration of complex planning matters and of freight rights.

Different approaches are being pursued to the south and north of Sydney.

The Southern Sydney Freight Line works are progressing and will result in 'dedicated' freight infrastructure under the control of the Australian Rail Track Corporation.

For the north, the New South Wales and Australian Governments have agreed to jointly fund works on the northern Sydney line for freight purposes. While the improvements will be under RailCorp control, the freight industry will have greater and more certain ability to use these lines, even though they are used for commuter services. This could prove an important step towards an ideal of freight investment on general use infrastructure, as distinct from generally funding infrastructure.

³¹ Juturna Consulting, *Going Nowhere: The Rural Local Road Crisis, Its National Significance and Proposed Reforms*, November 2010; *Worth Feeding, Case studies of rural local road efficiency and reform of Australia's road pricing and investment systems*, October 2011.

³² Allen Consulting Group, *Options to improve the integration of road governance in Australia, the role of local government*, August 2009.

³³ IPART, *Review of Access Pricing for the NSW Grain Line Network, draft report*, October 2011.

2.14 Australian Logistics Council

In March 2012, the Australian Logistics Council published a report assessing progress in improving supply chain efficiency over the past four years. The report suggests some progress has been made but not on all important issues. The report argues for: public reporting on progress with the national strategies and proposals Infrastructure Australia has already recommended; an implementation path for national infrastructure priorities; better recognition of the importance of coastal shipping.³⁴

2.15 Forecasts and results

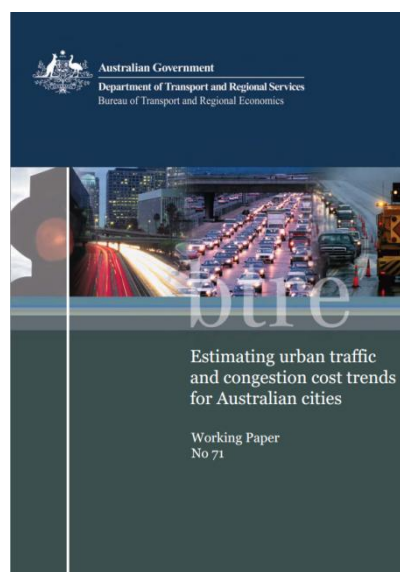
The discussion paper noted that projections for growth in urban road traffic show freight to be more likely affected by congestion than cause congestion. In the projections, most of the increase in road use was expected from cars and light commercial vehicles. Projections by the Bureau of Infrastructure, Transport and Regional Economics in 2008 suggested that road congestion could cost \$20 billion per annum in the future.

Data has been released for actual growth in road traffic for the early years of the Bureau's projections.³⁵ Growth for all classes of road traffic is below the projections, most notably for cars. A possibility of declining car use was identified in the discussion paper.³⁶

Freight vehicle kilometres also increased more slowly than projected. Higher average payload per vehicle suggests this may be partly due to industry exploiting productivity opportunities within the existing limits for truck sizes and weights.³⁷

The slower than forecast growth in traffic might be associated with higher fuel prices, increased savings and the global financial crisis. The Bureau indicates that car kilometres travelled plateaued per person in most Australian cities.

Implications of differences between the projections and outcomes have not been widely debated. The Bureau recently published a report arguing that traffic per person has reached 'saturation' level and that further long term growth is expected to be in line with population increases.³⁸



³⁴ Economic Connections Pty Ltd; *Towards and Efficient Freight Future A Review of Progress in Tackling Blockages in Freight Efficiency* report for the Australian Logistics Council, March 2012.

³⁵ BITRE, *Australian Infrastructure Statistics Yearbook 2011*.

³⁶ See: Todd Litman, *Victoria Transport Policy Institute Evaluating Public Transit Benefits and Costs* (2011); and Peter Newman and Jeff Kenworthy, *Peak Car use: urban planning needs to change*, May 2011.

³⁷ The ratio of tonne kilometers to vehicle kilometers for rigid and articulated trucks increased by 5% between 2004-05 and 2007-08. Department of Infrastructure and Transport, *Australian infrastructure statistics Yearbook 2011*.

³⁸ BITRE, 2012, *Traffic Growth in Australia*, Report 127, Canberra ACT.

The potential impact of such growth on congestion is unclear and involves complex questions including: whether traffic growth is concentrated on particular roads; pre-existing levels of congestion at particular locations; the possibility in some cases that relatively small increases in traffic leading to significant increases in congestion.³⁹

For freight, a key issue will be traffic growth on those roads most used by trucks. As is the case with much freight related information, while substantial data is collected, very little is publicly available at a national level.

Any national land freight strategy may need to be flexible enough to cover possibilities of either continued or slower growth, or actual reductions, in use of light vehicles.

Separately, Infrastructure Australia has been advised that circumstances in some major urban corridors may make rail public transport investments one of the preferred options to achieve enduring improvements in road freight reliability and transit times.⁴⁰

³⁹ Further research is needed to identify the potential impact of the traffic growth on freight. Such research might consider what causes saturation per person; allocation of growth to particular roads; dynamic traffic flow effects on freight vehicles.

⁴⁰ GHD, *Ability of public transport to improve freight flows on national corridors*, June 2011.

3. Results of public consultation

3.1 Overview

Infrastructure Australia received more than 70 submissions in response to the discussion paper, see: http://www.infrastructureaustralia.gov.au/public_submissions/nlfs/index.aspx. The main issues included:

- National land freight strategy broadly accepted;
- Long-term planning as well as action needed;
- National consistency required;
- Roads are a key issue;
- National freight network is a starting point;
- No agreement on new national organisations; and
- Continue the consultation.

3.2 Main issues

3.2.1 National land freight strategy broadly accepted

Almost all submissions welcomed the idea of a national freight strategy. Several submissions noted Australia's poor experiences with attempts to develop national transport policies and challenged governments to provide commitment to substantial reforms.

Proposals included the creation of new structures for progression of a national freight policy, and/or governments making a firm commitment for policy development and implementation.

The Urban Taskforce Australia commented:

"The publication of a national strategy showing likely major freight routes and precincts would focus the minds of politicians and public servants across the nation. This should promote better planning and more public investment."

The Australian Trucking Association stated:

"The simplistic desire for a national land freight strategy must be justified by clearly improved outcomes. A strategy must be cognisant of the limitations of a defined freight network, intrastate freight and local issues, and the need for meaningful industry consultation."



Rail industry participants argued that reforms need to proceed with urgency with or without a freight strategy. Reforms included:

“Accelerated reform in road freight charging on nationally important freight corridors with intermodal competition;

Development of national management structure for nationally significant road and rail infrastructure; and

Corridor related land use planning decisions.”

Regarding goals, the rail participants argued that:

“The core need for freight is committed capacity...even during periods of high use of personal transport.

Separation is one strategy to achieve this committed capacity, and in the absence of an effective governance structure for the rights of freight to receive network capacity, may be the only practical solution. However, it is usually a costly solution...”

3.2.2 Long-term planning as well as action needed

Most respondents indicated they would welcome improved long-term planning for freight.

The Business Community of North and North West Queensland stated:

“A key benefit of developing a 50 year plan encompassing the views of the organisations across North and North West Queensland is the heightened opportunity to rectify freight constraints allowing for safety, amenity and environmental considerations. It also allows the integration of freight transport and land use planning.”

Woolworths identified that long-term investment decisions about distribution centres and logistics facilities needed to be made with or without a freight strategy. A strategy can provide guidance to such investment, and therefore its horizon should match the operational lives of dependent investments:

“In terms of the scope and timeframe for the National Land Freight Strategy, Woolworths believes it should incorporate a 30 to 50 year planning horizon. This is to account for the long investment and long operational lives of the distribution centres and logistics facilities that are reliant on, and will be developed in conjunction with, major transport links.”

There is a difference in view about the term ‘planning’. Some submissions viewed it as setting out a statement of intentions. Others extended this to the (regulatory) approval system that permits certain uses of lands and other activities. The latter argued that action rather than planning was needed. The Australian Logistics Council said:

“Is not convinced that ‘better planning’ alone will bring about the reform that is necessary. For instance, planning documents such as the National Charter of Integrated Land Use and Transport Planning, describe “the desirability ... of good planning practices and committing to working together to achieve better outcomes”. Unfortunately, there is little immediate evidence of any close collaboration.”

The Freight and Logistics Council of Victoria commented:

“Having a plan will not in itself deliver outcomes for freight. However, if the plan is attached to a program, with planning controls, investment models and governance arrangements that facilitate freight regardless of location or mode, industry may be more inclined to commit resources and participate.”

3.2.3 National consistency required

National consistency among the different levels of government was considered important by many. Completion of the existing regulatory reform agenda was highlighted as a priority in submissions and it was argued that there was a strong case for aspects of regulatory reform to extend beyond any defined national network.



Woolworths commented:

“As a national retailer with freight that moves across State/Territory borders, a key issue that Woolworths faces is the fact that it has to operate within multiple regulatory frameworks and work with multiple regulators in relation to issues including safety, road-use requirements, vehicle specification and required paperwork etc. These inconsistencies and complexity create additional cost, confusion and increase the compliance burden for both Woolworths and its transport supply partners.”

The New South Wales Business Chamber pointed out that approval and environmental management processes are forms of regulation, and it:

“... supports efforts to develop nationally consistent regulation, such as environmental management and approvals processes.”

The Minerals Council of Australia stated:

“Duplication and inefficiencies between Federal and State project approvals processes impose major costs on industry. Variability in the content, administration and enforcement of project approvals and environmental protection processes carries large costs and is a major constraint on investment in the expansion and effective operation of the minerals sector.

The respective roles and responsibilities must be rationalised under the NLFS to reflect the shared stake of both States and the Commonwealth in governance, but restore the focus on outcomes rather than processes or bureaucratic patch”.

And further:

“The current economic regulatory framework is adversarial, cumbersome and complex, leading to inefficient and sub-optimal outcomes. Regulatory systems fail to adequately take into account the consequences of regulatory decisions on the market.”

Toll Holdings identified impacts of inconsistencies on investment:

“The private sector has to date been understandably reluctant to invest in major freight infrastructure projects because of the number of land transport regulators, volume of regulation and the lack of certainty that Governments pressured by external factors won’t change the rules.”

3.2.4 Roads are a key issue

Many submissions raised issues regarding roads, including:

- Investment and maintenance;
- Funding;
- Truck access;
- Charging; and
- Data.



Some of these issues are outlined in more depth in Section 3.3. Together these issues point to challenges for road governance in relation to freight.

Rail industry participants argued that consideration of road governance issues is urgently needed:

“In addition to supporting development of the National Land Freight Strategy (NLFS), the companies also believe it is critical that to complement and support an NLFS, other reforms should proceed with urgency. These need to include:

- *accelerated reform in road freight charging on nationally important freight corridors with intermodal competition,*
- *development of national management structures for nationally significant road and rail....*

These reforms are required independently of proceeding with the NLFS, and are essential components of creating a market capable of attracting and supporting private sector investment in the national freight network.

In many cases reform has commenced in these areas as identified in the discussion paper, however, the companies remain concerned with the pace of reform”.

The Australian Logistics Council also argued for urgent consideration of governance issues:

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

The Council also noted that:

“Recommendation 68 of the Henry Review suggested the Council of Australian Governments (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...action should be taken to implement this recommendation...immediately.”

3.2.5 National freight network can be a starting point

Most submissions considered that seeking deep reform for a defined national network was sound, although several cautioned that there remained substantial issues away from the main freight routes.

The Local Government Association of New South Wales and Shires Association of New South Wales said:

“The identification of a defined and integrated national land freight network will assist all levels of government in their ongoing strategic planning, investment and infrastructure programs. Councils in particular are looking for guidance from other levels of government to better inform their own asset management and infrastructure investment priorities.”

However, the Australian Trucking Association noted a drawback:

“By creating a single network that focuses on major routes, there is a risk of isolating essential areas that are outside of the designated 'network'. If excluded it may be difficult to facilitate freight traffic or appropriate route upgrades. Freight happens everywhere, marginal routes cannot be ignored. Focusing on a select network will not be enough especially for infrastructure, planning and access issues.”



Toll Holdings considered a network to be a necessary first step, but not a final position, for a national approach to freight:

“Without the identification and publication of a national network we believe attempts to achieve policy consensus between Governments and successfully make the case for public and private sector investment will fail. The identification of a national land freight network however is likely to be only the first step to achieving a resolution to freight transport issues that have slowed the industry’s efforts to achieve greater efficiency and productivity to date.”

The major rail participants agreed with the concept of a network, and argued that it was critical that freight was treated differently on this network. Among relevant issues were explicit rights of freight parties to use infrastructure:

“Inclusion of a corridor in the national freight network should result in increased focus and planning activity around the future freight capability of the corridor, and as required, investment.

However it also creates obligations on all stakeholders, and particularly jurisdictions, to place a much greater priority on the needs of freight in both that work, and subsequent implementation of any corridor improvements.”

The network identified in the discussion paper was broadly accepted as a starting point for discussion and refinement. A number of submissions indicated that some changes were warranted, for example to cover transport in South East Australia, more accurate definitions of some minerals provinces in Queensland, routes in Western Australia, and greater specificity of routes in metropolitan areas.

3.2.6 No agreement on new national organisations

The discussion paper outlined the long-standing debate about proposals for new national institutions, such as a land transport economic regulator and a land transport planner. A number of submissions agreed that some supra-government institutions were necessary while others considered calls for such institutions to be unwarranted.

The Australian Logistics Council stated:

“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.”

Transurban agreed, at least as a long-term direction:

“We believe the long-term policy goal to create a transport infrastructure/road economic regulator to ‘assess and approve investments ... for inclusion in a charging cost base’ is a positive step for the industry since it would facilitate appropriate investment... The need for this regulator is based in part on the challenges in ensuring that investments in mixed-use road infrastructure would benefit the freight sector.”

The South East Australia Transport Strategy Inc. argued for an organisation that also controlled funding:

“We would agree that transport infrastructure and future funding and access charging across Australia should be controlled by a single entity. This single entity should be ‘non political’ and should prioritise major infrastructure requirements and investments.”

The Minerals Council of Australia disagreed:

“A national regulator or expansion of the role of the Australian Competition and Consumer Commission is not required, rather Federal and State roles, responsibilities and practices should be clarified and reformed.”

The South Australian Farmers Federation pointed to the possibility of some existing reform processes to deal with relevant issues:

“There is already the proposal to establish an independent National Heavy Vehicle Regulator...If the regulator can reduce the compliance burden, improve productivity and make it easier for business to operate across borders, this will go a long way towards allowing any National Land Freight Strategy that is developed to actually work.”

3.2.7 Continue the consultation

Rail industry participants argued that the next step towards a strategy was to secure agreement to principles and establish processes for development. According to the joint submission from Asciano, the Australian Rail Track Corporation (ARTC) and QR National:

“...if there is consensus support for an NLFS then the first priority for Infrastructure Australia should be to work with jurisdictions and other stakeholders to establish these robust and sustainable development, implementation, and governance processes and structures.”

In their view, part of this included identification of a body with responsibility and resources to develop, oversee and implement an agreed plan.

The Freight and Logistics Council of Western Australia argued that collaboration between jurisdictions was needed, but implied that willingness to collaborate could be an issue:

“The weakness in the paper inevitably relates to implementation. The multi-layered processes and institutional arrangements through which Australians must work for innovation have limited capacity. States and local jurisdictions should be encouraged to take initiative in strategic planning and regulatory reform, coming together when there are signs of willingness to collaborate...”

Our strong view is that collaboration between jurisdictions is absolutely critical... A useful mechanism for extending collaboration at the state level of jurisdiction is through each state’s freight council...”

However, several submissions considered the proposed approach to be misconceived. Reasons included that the discussion paper was too centred on roads, ignored maritime and aviation, should have more detail around freight tasks including urban distribution and did not pay sufficient attention to Federal Government funding of infrastructure.

A number of submissions strongly argued for closer integration of issues such as land use, environmental impacts, safety and more advanced technologies with the productivity imperative identified in the discussion paper.

Virtually all submissions sought further consultation and involvement in most of the concepts outlined – from identification of a network, to ascertaining the practicalities of extending existing national access regime concepts to the few key road freight routes in Australia. Some submissions also suggested further research and analysis to assist the processes and to more firmly underpin strategy principles.

3.3 Other issues

A number of submissions focused on collections of issues. Chief among those were interfaces/interoperability, truck access, funding and asset condition.

Many submissions pointed to local issues such as the ability of infrastructure to service current demand and growth and community concerns about freight activities.

Other issues raised include the importance of intermodal terminals outside the metropolitan area, the need for regional transport strategies, skills formation and the current national access regime.

3.3.1 Changes to interfaces must be economically viable

Interoperability aims to minimise the problems caused to freight from changing interfaces. The discussion paper suggested improvements in interoperability that could increase competitive forces in markets, and is an aim of any transport network.

Some industry representatives emphasise the importance of 'soft' technology as enabling the best use of physical transport infrastructure. Applications of soft technology extend beyond infrastructure control systems such as managed motorways or automatic train protection, into the exchange of data regarding the availability and positioning of freight.

The Freight and Logistics Council of Victoria identified the potential for process interfaces, including those affecting information, to increase costs beyond the transport system:

"Interface geography, processes and governance tend to not only generate a 'cost plus' situation for management of interactions. They also create potential for 'gatekeepers' to establish proprietary processes and systems that effectively control a node. This has resulted in sub-optimal investment as alternative pathways and suppliers are developed or users are restricted in a competitive sense."

Major rail industry participants caution about resolving every interoperability issue:

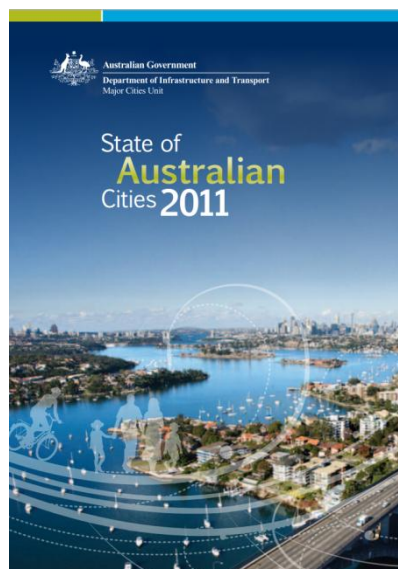
"Functional interoperability is important where it contributes significantly to network and task efficiency. However it appears important that delivering interoperability remains securely based in it providing an economic return, rather than as an end in itself. The companies would be concerned if a philosophy of achieving functional interoperability is incorrectly applied and leads to the setting of unreasonable objectives which cannot economically be achieved. To do so risks damaging the credibility of the planning process and weakening the authority of the NLFS."

The discussion paper suggested a two-step process to address the concern of uneconomic investment. The first step is to identify locations where interoperability might be economically desirable at a scale of freight activity that was likely to occur in the future. The second is to invest at a time consistent with this scale of activity being reached.

3.3.2 Integration with planning and approvals systems

Most submissions that comment on land use planning argued strongly for substantive change. The Australian Logistics Council (ALC) said:

“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 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.”



The Maribynong Truck Action Group highlights some practical concerns with current land use planning:

“...a recent planning decision will result in a new community of up to 1,000 houses being built on Francis Street, which carries thousands of trucks every day...We believe that houses and trucks do not mix, and this type of urban encroachment can become a substantial constraint to freight.”

The discussion paper raised the issue of urban encroachment. A number of respondents highlight the contra case - that there also has been freight encroachment on urban areas. Matraville Precinct's submission stated:

“...urban encroachment which implies communities are advancing, with stealth, beyond our allowed limits, swallowing up land that is not 'ours' to have. Many of Matraville's homes were built in the early 1900's, well before Port Botany began operation in 1979.”

Improved practical integration of land use planning and freight/transport planning is generally seen as the most realistic solution to these types of issues. Such integration would include extensive community consultation.

3.3.3 Access to local roads

There are strongly held but differing views on access to local roads. Trucking industry interests claim that access restrictions were a fundamental impediment to vehicle productivity. The Australian Trucking Association said:

“Local government access arrangements are the most significant issue to be addressed in a NLFS, it is a restrictive problem today that must be addressed before moving forward. As suggested above, transparent decision-making arrangements and reformed infrastructure funding could be an initial first step. A NLFS should investigate and remedy the disconnection between local governments land planning powers and road management responsibilities.”

However, some local authorities argued that there may be good community reasons for such restrictions and that decision-making on vehicle access should remain where it currently is. The Australian Local Government Association (ALGA) highlighted its awareness about the concerns:

“Despite the claims of the trucking industry that local government is unresponsive to the needs of the freight industry, in practice local government has a long history of providing access to local roads.

...ALGA has developed, through Austroads, Guidelines for Assessing Heavy Vehicle Access to Local Roads to assist individual councils to make access decisions. The guidelines emphasise recognition by local government that the last/first mile is part of an overall logistics chain and should be considered within this overall transport perspective. Jurisdictions have also developed guidelines...”

It noted that local governments and the freight industry negotiate access to some roads:

“Despite the understandable claim of freight operators to have already paid for the use of the road system through registration and fuel excise, there are numerous examples of ad hoc arrangements developed between councils and industry to pay for any road upgrading.”



Access restrictions to main roads do not elicit as much attention in submissions, however the media reported some concerns with any proposal to extend the use of high productivity vehicles. As against this, some support for high productivity vehicles in appropriate routes also was reported, including from the police.⁴¹

⁴¹ See: <http://www.dailytelegraph.com.au/news/the-long-way-to-safe-roads/story-e6freuy9-1226196130259>

Leadwest, a collection of local governments in Melbourne, asserted a continuing role for local government in decision-making on freight issues:

“Whatever the final outcome, whether there is creation of a national planner or a national regulator, integrated or separated, there must be avenues for participation by local governments in decisions about freight affecting the liveability of the communities they serve.”

This is echoed by the Western Australia Local Government Association:

“The current context leading to the restricted use of infrastructure, encroachment of freight activities, uncertainty about the capacity for growth, including the lack of funding for infrastructure maintenance and development, and infrastructure responsiveness industry demands need to be understood from a whole of community perspective if appropriate solutions are to be developed.”

3.3.4 Truck charges for road funding

A substantial number of submissions referred to charging of trucks and funding of roads.

Submissions raised varying views about charging including whether aggregate or specific charges were currently correctly set, the idea of fair and competitively neutral pricing, examining charges in each infrastructure mode, the Council of Australian Governments’ road reform plan proposals, and inclusion/exclusion of ‘externalities’ in charges.



Few submissions took direct issue with the proposition that freight should pay its way on an intensely used national freight network. Some cautioned about applying such a principle to lightly used routes and areas. The submission from South East Australian Transport Strategy Inc said:

“In many regional areas, freight, and in particular rail freight, does not and cannot always pay its way. To suggest that this is an underlying principle as to whether a particular region should have or should not have a service, (and in particular a rail service) is the very reason that networks have been closed or allowed to deteriorate over past decades.”

There is debate about whether freight already does pay its way, implying some uncertainty about the outcomes of existing processes. A number of submissions expressed strong feelings that a land freight strategy should not be seen as an attempt to increase government revenues, especially from road transport.

Funding of infrastructure used by freight also is raised. Bankstown Council argued:

“Any number of studies and investigations over recent years has clearly indicated that insufficient funds have been allocated at, and by, all levels of government to properly maintain basic infrastructure such as roads.”

Funding issues were also raised in relation to rail freight and intermodal terminals. A number of submissions claimed a long-term historical imbalance between government expenditures on roads and on railways lines.

Reference was made to the idea of 'value capture' mechanisms in which land holding beneficiaries, as well as freight vehicles, contribute to the financing of freight related infrastructure. Details of how such approaches could apply on a nationally consistent basis are yet to be outlined.

Most submissions on funding issues implied that greater asset manager control over finances would be an important step forward. Most of these appeared to assume that this should be achieved by transferring more funding, or funding powers, to existing asset owners. Alternatives such as divestiture of assets to funding providers, were not considered.

Other submissions suggested opportunity for increased direct private investment into infrastructure for freight purposes, even prior to resolution of the debate on direct charging for trucks. Transurban stated:

"While we appreciate there are market imperfections in the supply of road infrastructure, we suggest they are less severe in the case of privately managed toll roads... Transurban supports efforts to better enable the 'freight sector to finance and gain benefits from infrastructure while the debate on pricing continues."

A number of submissions commented on the road reform plan and the relationship between the agenda of direct charging for trucks and road funding. The Minerals Council of Australia highlights two concerns:

"First, while the approach commissioned by the Council of Australian Governments has sought a wide range of views on the charging mechanisms it has restricted debate about funding models. For the minerals sectors, local government is a key player in the provision of infrastructure. A market model that denies the providers of infrastructure direct access to revenue may be flawed; and second, market models should avoid manipulation that seeks to have large users pay a disproportional cost for infrastructure, such as heavier load roads and bridges."

Notwithstanding the variety of views, few submissions argued that spending on freight infrastructure was too high – several argued that government expenditures should increase and that such expenditure should be a focus of any strategy. The Australian Transport Unions Federation (ATUF), however, stated:

"The paper does not effectively address the issue of potential investment duplication in freight corridors where there is genuine opportunity for contestability between modes.... It is not clear to ATUF if Infrastructure Australia is saying...it is then a market decision as to whether (i) there should be duplication of mode availability...or (iii) whether Government will only invest in a preferred mode..."

3.3.5 Condition of assets and roads

A number of submissions identified asset condition or asset standards as an issue. Reference was made to railways, however most attention was paid to roads. Some submissions claimed that recent flooding events demonstrated inadequacies in the condition and design standards of assets. Several respondents argued that more 'all weather' access was necessary. Growcom, a Queensland horticultural representative organisation, submitted:



“The lack of an all-weather highway system is the greatest concern for the industry. Infrastructure investment needs to focus on how to protect the highway system from floods, landslides and the impacts of extreme weather events.”

The Royal Auto Club of Queensland agreed:

“Key freight roads should be built and maintained to a standard that will ensure they are not regularly disrupted and damaged by flooding. The provision of adequate roads can also be viewed as an antecedent to any direct pricing for heavy vehicles. It is difficult to commence market-based pricing regimes when the roads are not ‘fit for purpose’.”

The Department of Climate Change and Energy Efficiency suggested that the incidence of infrastructure issues could increase as a result of climate change in the future and that long-term planning needs to factor in potential impacts.

3.3.6 Better data is required

A lack of data was raised in a number of submissions. Attention was drawn to origins and destinations of particular types of goods in supply chains. The Australian Transport Unions Federation argued that it was not possible to develop an effective national land freight strategy without this data. The Rail Bus and Tram Union also noted there are:

“...important issues about community service obligations, maintenance of assets and planning by private sector owners or lessees of railways assets. Very little data is publicly available. Data constraints have featured in many transport investigations and inquiries in recent years, reflecting poor coordination between governments, lack of a centralised agency and the private sector arguing information is commercial in confidence.”

The Freight and Logistics Council of Victoria argued that current freight data and metrics were not useful to private investors:

“It is evident that benchmarks and indicators of freight efficiency are not meaningful to industry...What is needed...is an investment appraisal methodology which links tangible productivity gains with network capacity investment. This would both provide justification for levies and taxes associated with financing this investment and/or attract private sector interest. Where benefit streams in appraisals are meaningful for freight customers, we can envisage the potential for “pick and pay” in the form of BOOT schemes for strategic infrastructure that yields a productivity “profit” for private sector investors.”

While not providing a submission, the Council of Australian Governments road reform plan highlighted the importance of consistent national data to better road outcomes:⁴²

“The lack of nationally consistent data and information on the cost of providing and maintaining roads means that it is currently very difficult to determine where there might be opportunities for cost efficiencies...This highlights the potential importance that road charging reforms, and the associated collection of information on heavy vehicle road use, are likely to improve network planning, management and enforcement outcomes.”

Infrastructure Australia’s discussion paper identified the importance of data that relates to expectations of the future, for example future passenger vehicle use of networks and future freight tasks. Implicit in this was that the freight task would continue to grow in cities, fuelled by Australian demographic trends.

Some submissions argue that more attention should be paid to primary industries which are influenced by international conditions. For example, the Minerals Council of Australia highlighted areas of Australia where substantial minerals production is expected to occur. This would give rise not only to ‘output’ flows to export ports, but ‘input’ flows of machinery, equipment, mining industry consumables and the general freight needed to support mining provinces. The National Farmers Federation noted Australia could be a much more significant supplier to world markets:

“The challenge of moving the increasing volumes of food and fibre required by domestic and international markets will only continue to grow. Globally, over the next 50 years, nations will need to produce as much food as has been consumed over our entire human history.”

In this respect, there is prospect for substantial and sustained increases in densities of freight movement in rural areas. As noted in the ports strategy, pathways for this product to export markets include supply chains to city ports, and this creates further pressures on routes within urban areas.

⁴² COAG Road Reform Plan, *Preliminary Findings Consultation Paper*, June 2011.

3.3.7 National access regime

The Minerals Council of Australia (MCA) raised questions about the current national access regime and its implications for private investment in infrastructure used by bulk supply chains.

“Australia’s multi-user, multi-owner export infrastructure chains – track, trains and ports – have been, historically, and potentially will be in the years ahead, a supply capacity constraint... The primary and immediate reform imperative is to address the systemic failures in the current regulatory system which is inhibiting investment. Private capital is not, nor potentially, the limiting factor in building capacity and operating it efficiently and effectively.

“The MCA contends there is a strong case that the access regimes, which were created essentially to deal with the market power of privatised government monopolies, have run its course.”

3.3.8 Bulk minerals

Several submissions raised issues relating to bulk minerals export chains. Matters included the different industry structures such as the vertical integration of existing iron ore chains, and the organisational separation within the coal chains. It was noted that there might be some policy preference towards vertical separation, common user infrastructure or predetermined third-party access rights for some green fields developments with examples including mid west iron ore.

Submissions pointed to different considerations for some minerals chains to those for nationally networked infrastructure. The argument was that while the minerals export chains were of undoubted national significance, the need for them to be treated in a national landside network context was open to question.

A further point raised was the need to bring supplies and general freight to the mining provinces and towns which could be in remote places. In some cases, there are only tenuous connections of these areas with the rest of Australia. Also, commercial proposals for landside infrastructure in these localities can entail interoperability with the existing national network, for example the standard gauge track. In a long-term planning sense, there remains a case for allowing opportunity to create links to any national network joining other major locations in Australia.



3.4 Easing freight constraints

Submissions took the following views on the constraints to freight:

Constraint 1: Restricted use of infrastructure is a significant issue. Submissions suggested that needs of asset users and of asset owners should be taken into account. Some submissions noted that full interoperability might not be economically justifiable in the short term. The discussion paper's proposal for understanding the reasons for restrictions to the proposed identified network was generally accepted.

Constraint 2: Encroachment of freight activities is an important long-term consideration, and not merely in the large cities. Some submissions argued for greater sensitivity in freight advocacy towards community sentiments, amenity and safety. Planning and, to some extent, freight activity consolidation was seen as the main way of improving longer term performance.

Constraint 3: Uncertainty about capacity for growth could be addressed by improved modelling, forecasting and connectedness with other policies and agendas such as those in the scientific community. Building on national, agreed forecasts and scenarios of freight demand and freight/personal vehicle use of the network and its segments was accepted.

Constraint 4: Responsiveness of infrastructure to freight economic demand was seen by some as a major issue. The proposal to create an ability for the freight sector to identify, finance and benefit from road infrastructure, subject to not unduly affecting other parties or the community, was considered worthy of investigation. However, several submissions challenged the feasibility of implementing such an idea.

Most submissions agreed that the prospects for reform are best initiated on a limited network, at least in the short term.

3.5 Commonwealth funding programs

A number of submissions raised issues regarding the relationship between such a national freight strategy, a national freight network and existing Commonwealth Government grant funding programs such as the Nation Building program. Some suggested that there be clearer articulation of the proposed purpose of the strategy, and some outline of principles that underpin the proposals for a national network.

It is understood that the Australian Government will soon commence negotiations with other governments regarding a future Nation Building program.



4. Infrastructure Australia's views on the issues raised in consultation

4.1 Main issues

Consultations indicate general support for:

- A national land freight strategy;
- A national freight network: and
- Continuing consultation.

Beyond these matters, roads and roads governance are recognised as key issues for freight. Also important is demonstration of progress with reform directions through initiatives such as outlined on the indicative program list, and 'proof of concept' initiatives.

Infrastructure Australia provides the following commentary on these issues.

4.2 A national land freight strategy

There is support for a national land freight strategy along the lines proposed in the February 2011 discussion paper. Some stakeholders suggested that there would be merit in further statements about its purposes and about proposed objectives, aims, principles etc.

Stakeholders also recognised a range of current national level initiatives which would ideally contribute to a national freight strategy (and vice versa). It was suggested that greater coordination among government policy development activities is desirable and a good start would be publication and regular update of a freight policy development status table.

4.2.1 Purpose

Any effective national land freight strategy must be agreed among governments and industry. It needs to outline long term national aims for land freight and provide high level guidance as to how these might be achieved. This will assist governments, industry and the community to develop appropriate detailed responses to evolving freight issues.

These aims should take in the context of higher level national goals relating to prosperity, quality of life and environment. The aims should be entailed in a statement of vision and objectives.

Any principles should help to achieve the aims. Principles should particularly aim at improving productivity which was the key focus of the discussion paper. They should aim to enhance the ability of Australian business to compete in world markets and at home.

Infrastructure Australia's specific interest is that the strategy results in a coherent approach to infrastructure projects which influence freight. A coherent approach enables Australia to better understand national infrastructure requirements. Freight should figure prominently in any national infrastructure policy.

Freight outcomes are influenced by the effectiveness and integration of actions by the three tiers of government.

A strategy should aim at guidance as to how all three tiers can effectively integrate their approaches but without detailed instruction to industry, the community or any tier of government. Rather than closely defining roles for each tier of government, it should point to where efforts can be cooperative and reinforcing.

The following sections provide more detail on the strategy proposed by Infrastructure Australia in the February 2011 discussion paper.

4.2.2 Vision and objectives

The vision and objectives extend to a land freight strategy are not limited to a national network.

4.2.3 Principles

Principles should be limited to being broad and high level. Principles should support the good work of the States, and advance productivity, safety, amenity and environmental outcomes.

Infrastructure Australia proposes the following as major principles to assist in implementing the strategy:

1. Recognition of logistics and context;
2. Efficiency;
3. Sustainability and growth;
4. Build on what is there;
5. Coherence in government policies; and
6. Take practical steps.

The following comments provide more detail on these principles.

1. Recognition of logistics and context

Freight occurs when goods need to be somewhere else. There are different types of goods and needs; hence there are various logistics and freight flows. Logistics is almost entirely a private sector activity, and these businesses and their customers need to compete in changing markets in Australia and overseas.

In Australia, freight locations and routing are affected by government decisions. Freight involves a partnership between the private and public sector. Implications include that:

- The private sector should have an appropriate influence on decisions affecting freight;
- Decisions that affect freight, including land use decisions, should consider logistics issues; and

- Freight and logistics policy should consider land uses and corridors, and vice versa.

2. Efficiency

Efficiency involves minimum total economic cost for any necessary movement of freight. Activities relevant to freight include: location, production, consumption and transport of goods; and the use of infrastructure by other activities such as personal transport.

Economic efficiency in this context is an ideal which can be difficult to achieve due to imperfect and incomplete markets. Nonetheless, movements in the direction of this ideal, via addressing market imperfections, could increase efficiency. Such moves include: 'mode neutrality'; investment decisions that reflect economic merit; best use of existing resources including infrastructure; social and environmental sustainability.



Supporting a move towards the efficiency ideal includes elements such as:

- Freight movements should face full costs, including infrastructure and external costs, and costs of (efficient) operation, maintenance, investment and capital (but all external costs need not be included in charges);
- Freight vehicle 'priority' on infrastructure should be influenced by freight contributions to financing that infrastructure; and
- Transparent, confident and consistent application of efficiency principles across activities.

There may be some cases where freight activities might be allowed to face less than full economic costs, for example to support or facilitate structural adjustment or freight to remote communities. However, it is important to recognise that structural adjustment, remote community support, etc. are the aims, and a subsidy to freight could be one of several options available to pursue these aims.

3. Sustainability and growth

Growth, resilience and sustainability require capacity to be ready to meet needs.

Freight assets and logistics location investments can have long lives and be reliant on capacity of other facilities, particularly monopoly facilities. For example, the efficient operation of a warehouse can depend on the condition and congestion of roads leading to it.

Confidence about sustainability and growth is improved by the results of forecasting and scenario testing being available to interested parties. Scenario testing might also indicate the resilience of infrastructure and freight services to infrequent events such as flooding.

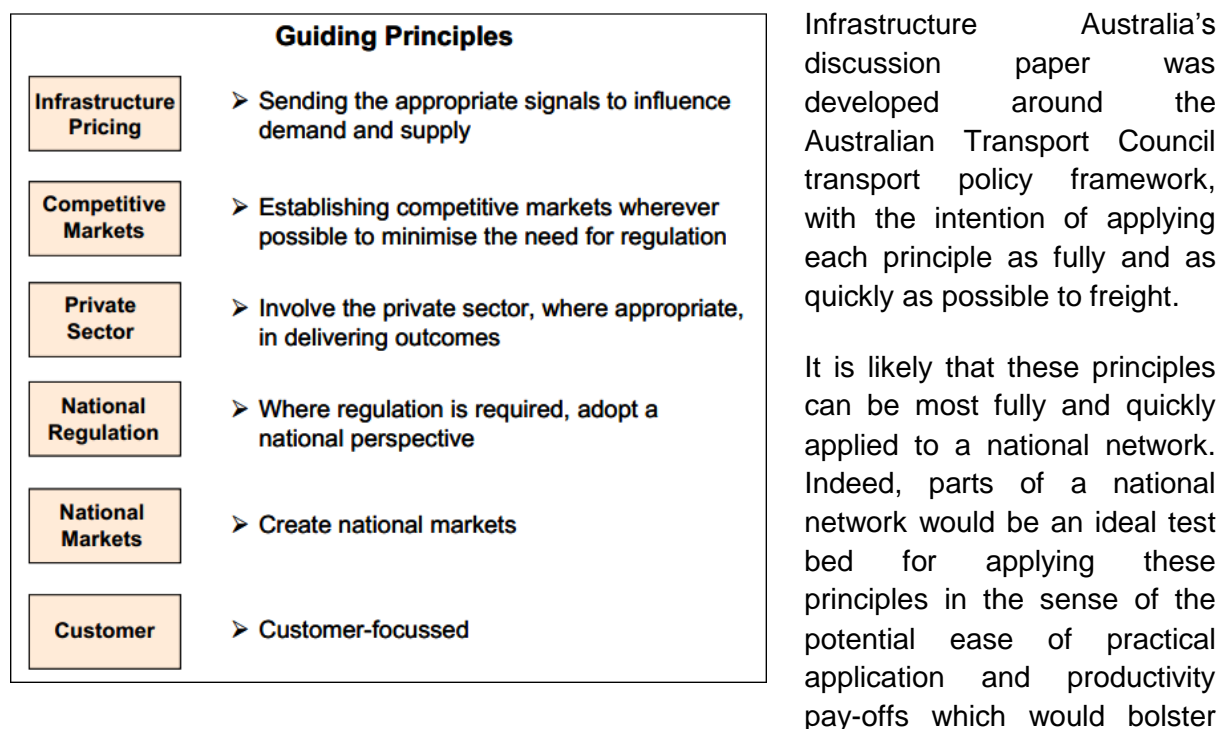
In some cases, sustainability of freight activities requires agreement by the community.

4. Build on what is there

Policy agendas are most effective if they build on the infrastructure, operations, policies and practices already in place.

Regarding policy, the (former) Australian Transport Council has already endorsed guiding principles for a national transport policy framework (Figure 2).

Figure 2: Australian Transport Council transport policy framework



community support for necessary reforms. This is important context for Infrastructure Australia's proposals for exploring the potential for private investment into the Hume Highway and roads to the Chullora rail terminal (discussed below).

5. Coherence in government policies

Basic tenets of government interactions with the private sector include stability, consistency and transparency in policy. Balanced responses to the legitimate interests of private businesses and the community are important.

Relevant issues include coherence of policies:

- Within each tier of government, for example land use and transport planning; and
- Across tiers of government.

This is most relevant where the critical interests of governments overlap. For freight, the overlaps are most evident where there are substantial and concentrated impacts on national economic performance, productivity, society and the environment. These include the locations of major freight generators such as ports, airports and intermodal terminals and major freight flows, that is a national network.

6. Take practical steps

Australia's productivity challenge will not be addressed by statements of principles. Action is necessary.

For freight, actions that would lift productivity are those that would ease the constraints to freight such as outlined in the land freight strategy discussion paper. These could be categorised into short, medium and long term actions.

The most practical approach for a national land freight strategy at this time is to concentrate national policy efforts on the major freight generators and most intense freight flows because these are the locations where:

- The partnership between private and public sectors for freight can be most balanced;
- There are the largest effects on national economic efficiency and the greatest opportunity to contribute to further efficiency gains;
- The need to assure national sustainability and growth is greatest;
- It is easiest to build on what is there, for example it is where the Australian Transport Council's principles can be most rigorously applied; and
- It is most important and most logical to seek coherence within and across tiers of government.

4.3 A national freight network

Infrastructure Australia's *National Land Freight Strategy Discussion Paper* proposed a network as a central part of the national land freight strategy. The network would comprise 'places for freight' linking the ports and other major freight nodes. An indicative map was offered to start the discussion (see Section 1).

After taking into account some comments made in consultations, a modified indicative map is shown in Figure 3, again as a basis for further discussion.

Figure 3 National land freight strategy: updated indicative map of a national land freight network



As outlined in the February 2011 discussion paper, a national land freight network should reflect an emphasis on potential future freight flows. There are synergies between such a network and Australia's international gateways and between a land freight strategy and the national ports strategy. This is shown in Figure 3 via road and / or rail links connecting most of Australia's major ports. Such links would need further definition in metropolitan areas.

Also as outlined in the discussion paper, the map proposed is not a funding map.

Achieving such a network would require agreement as to:

- What should happen in 'places for freight'; and
- Where those places for freight should be.

While there is general agreement to a national freight network, some stakeholders raised issues about its location and implications. This included questions about inclusions and exclusions of segments, routings and nodes in a number of States, new projects and programs proposed by the States such as Portlink in Western Australia, and the need for forward looking freight tasks to consider the impact of changes in international logistics chains on Australia's freight nodes and routes.

The discussion paper's suggestion that there should be places for freight differs markedly from previous perceptions and views about 'national networks'.

In particular, Infrastructure Australia's proposal focused on characteristics of national places for freight: planning; market style mechanisms; cooperation among the tiers of government and industry, as distinct from a focus for government funding of infrastructure.

A consequence is that the network proposed by Infrastructure Australia differs from that which might be considered today as the 'national network'. Some stakeholders drew attention to this, and others drew attention to details such as alignments.

Clearly, there is a strong need for better definition of any such network in urban areas, for example to identify relatively short road links from existing main highways to ports such as Newcastle and Port Kembla, and also to consider better trunk road and rail connections between potential hubs and to other ports such as between Kalgoorlie and ports in southern and mid west of Western Australia.

The map is yet to be fully agreed, but it is recognised that any such map should include some routes in the major urban areas. Decisions by governments would be required on these matters.

However, given general agreement as to the idea of a national network of places for freight, the precise details of inclusions exclusions etc can be settled in implementation of the strategy. Government decisions on these matters need to consider the views of the private sector. Finalisation of this issue would see a matrix of places for which the proposed aspects of a national freight network would apply either now or some time in future; outlined in Table 1.

Table 1 National freight network: characteristics of national places for freight

	Agreed national level planning	Streamlined approvals	Ability to use most efficient vehicles on infrastructure	Market principles to apply	Private freight investment permitted	Inter-operability and connectivity	Governance to support other aspects
Road name							
Rail name							
Intermodal terminal name							
Other freight facility name							

4.4 Roads

Infrastructure Australia's discussion paper argued for the reform of the road infrastructure sector towards market style principles, an aspect of which is 'pricing reform' based on the cost reflective charging which underpins the existing work of the road reform plan.

However, some stakeholders query whether pricing reform alone will improve freight productivity, and there seems some suspicion that this may be an indirect way of boosting government revenues to the detriment of road freight businesses and their customers. Hence the issue of 'funding reform' – of the use of revenues generated by 'pricing' – was raised in industry responses to the road reform plan's discussion papers.

Infrastructure Australia's *National Land Freight Strategy Discussion Paper* proposed consideration of matters beyond pricing reform and identified some possible mechanisms of increasing the responsiveness of infrastructure to user demand – of greater influence of the freight industry and its customers over the infrastructure they use. Such responsiveness, which would include investment in fit for purpose assets, would ensure that the freight industry enjoys financial benefits over and above the costs of investments made in its name but without relying on subsidies for freight. Under these arrangements, investment would lower freight costs and improve national competitiveness.

This raises governance issues, which some stakeholders see as the key to achieving national transport reforms.

4.4.1 Road reform and governance

Consideration of road infrastructure reform is important for freight as:

- Many freight tasks rely on road transport;
- Road infrastructure is also used by cars and, in the absence of capacity charging, there are risks that road freight may be uneconomically constrained;
- In various locations/routes, roads complement other transport modes, and in other locations/routes roads compete with other modes notably railways;
- There are claims of substantial potential productivity gains available for greater truck access to roads; and
- Road infrastructure (generally) has not been reformed along the lines adopted in other sectors including utilities and other transport modes.

Road infrastructure reform towards market principles goes beyond questions regarding truck types and routings and the internal efficiency of road organisations, and 'pricing'.

Cost reflective pricing accompanied by infrastructure responsiveness to commercial customer demand would move arrangements for key roads towards those in other infrastructure sectors.



A high priority is to achieve the right framework for the relatively few road segments which are used by trucks to compete with trains.

Also, a shift creating opportunities for freight customers to directly influence road investment would assist to unlock private finance.

Infrastructure Australia understands that consideration of some institutional and governance matters to support direct charging of heavy vehicles will be advanced if the Council of Australian Governments agrees to progress to the next phase of the road reform plan.

However, fundamental issues may need to be examined. Work undertaken for Infrastructure Australia proposes themes and principles that may be necessary to reform road governance in a way that not only yields better roads but improves economy wide outcomes. Key themes include the:

- Potential application of competition policy precepts to the road infrastructure sector at least in relation to freight;
- Importance of rail in terms of both reform experience and transport outcomes;
- Need to prove the deliverability to the freight industry of benefits estimated in studies; and
- Need to consider (the potential for) treating some roads differently from others and as matters of national economic priority.

A central question is whether every road should be considered as a piece of infrastructure with dominant social objectives, or whether some roads can be considered as economic infrastructure mainly serving economic purposes.

Infrastructure Australia itself intends to explore these issues in relation to potential private investment onto roads of a national freight network. Work conducted for Infrastructure Australia suggests two case studies are worthy of urgent exploration: Hume Highway, and roads to the Chullora rail terminal in Sydney.⁴³ Progressing freight productivity issues relating to these roads would provide lessons for implementation of reform elsewhere.

However, beyond any such network there remain other major issues relating to roads and road governance. These include issues regarding local roads (Section 4.4.2) and road portfolio management (Section 4.4.3).

4.4.2 Local roads

There are widespread concerns about the condition of local roads used by freight and about the ability of local road owners to provide suitable assets and access for the future freight task.

⁴³ Juturna Consulting, *Economic reform of Australia's road sector, Precedents, principles, case studies and structures*, February 2012.

The concerns arise despite existing financial resources for roads, transfers between governments, and oversight of roads.⁴⁴ There are suggestions that the current system of ownership and internal and grant-sourced funding is untenable, at least for some local roads.

Some communities and freight interests claim their roads generate more government revenue in registration fees and excise than what is returned to them for road maintenance, yet the roads deteriorate due to truck use. There are examples in rural localities with substantial agricultural production.

They argue that some locations 'miss out on the funds they generate' and that there is a 'cross-subsidy' from these local roads to other roads. This claim might be contrasted with a view that local roads are cross-subsidised by main roads, and that location based road charges may increase truck operating costs on local roads but reduce costs on highways.

There also is a difference between views that current road funding arrangements act as a disincentive for asset managers to permit access to trucks, and observations that some local road asset degradation has been caused by trucks.

Claims of ongoing road maintenance deficits (if related to damage caused by trucks) do not sit well with cost recovery.⁴⁵ In theory, road maintenance deficits are not due to governments withholding money raised from heavy vehicle charges.⁴⁶

In summary, there are conflicting views about local road issues and about the part freight plays in them. Part of the reconciliation of these might be that the current road charging arrangements relate to expenditure recovery rather than strict immediate recovery of 'wear and tear' costs.⁴⁷

Other possible explanations may be: averaging – costs may be recovered for some local roads but not others; the definition of 'maintenance deficit'; 'stocks and flow' effects; timing effects; infrequent natural events such as floods. The lack of public data regarding asset management, road use and current charge revenue for particular roads clouds assessments.



It is recognised that matters other than intergovernmental transfers and funding need to be addressed to resolve these types of road issues.

⁴⁴ Council of Australian Governments Road Reform Plan, *Preliminary Findings Consultation Paper*, June 2011, p22.

⁴⁵ Possibilities that resolve adequate charges but a 'maintenance deficit' include: Charges based on expenditures that inaccurately reflect costs or do not fully account immediately for asset degradation, timing effects (although these may not explain enduring maintenance deficits) and expansion, improvements or urgent restoration of one part of a system being part financed by degradation of other parts of the system.

⁴⁶ With the possible exception of revenue generated from fuel etc. charges in relation to use of toll roads.

⁴⁷ This discussion concerns only 'internal' to road costs such as maintaining or improving road surfaces. There are other 'external' costs of road use including congestion, emissions, and health and safety costs which can vary from road to road.

Work undertaken for Infrastructure Australia in 2009 argued for greater industry involvement, transparent decision-making, creation of a national network, and a relationship of strategic sub-national roads to the national network. An intergovernmental agreement on roads was proposed to support this.⁴⁸

The *National Land Freight Strategy Discussion Paper* highlighted restricted use of infrastructure as a key constraint to freight, and presented options to address this on a national network, as opposed to local roads.

From a productivity perspective Infrastructure Australia has a strong interest in:

- Changes in access arising from the national heavy vehicle law;
- Identification of opportunities to overcome access impediments; and
- Processes to maximise customer input into overcoming unnecessary impediments, including a road improvement regime allowing for direct private identification and financing freight related improvements on road segments of a national freight network.

Infrastructure Australia recommends exploration of these matters be included in the implementation plan for a national land freight strategy.

4.4.3 Road portfolio management

The deteriorating condition of some local roads in rural Australia may be due to a number of factors including heavy vehicle use and natural events such as weathering and flooding.

Whatever the reason, at present there is no national level overview of freight significant road assets, and therefore it is not possible to assess national priorities for restoration or improvement. The Australian Rural Roads Group, comprising 114 Councils argues: “The answer is not about more money. It is about structural reform of Australia’s roads system”.

It may be possible to explore the potential for nationally consistent reform of some arrangements for funding or private sector investment into roads, however any reform will require a greatly improved and nationally consistent asset management system to provide the information base for decision making processes. This raises the issue of a national roads portfolio manager as proposed by Infrastructure Australia in its 2011 report to the Council of Australian Governments: *Communicating the Imperative for Action*. The roles of a road portfolio manager could include:

- Verifying asset management plans prepared by local government and road agencies;
- Working with Councils to ensure they receive suitable support for developing and implementing their asset management plans;
- Identifying emerging national trends in road condition; and
- Providing advice on policy matters and on potential investment decisions.

⁴⁸ Allen Consulting Group, *Options to Improve the Integration of Road Governance in Australia, the Role of Local Government*, August 2009.

4.4.4 Coordination with other agendas

Many policy agendas have implications for a national freight strategy. Integration of freight and other policies is important to optimise national productivity.

Beyond land use planning and the national urban policy, specific interests for freight include the national heavy vehicle regulator.

The timing for decisions on these agendas extends beyond the timing requested for consideration of a national land freight strategy. However, these agendas can be informed by discussion of freight issues.

Infrastructure Australia recognises the centrality of the road reform plan, and of the national access regime, to a national freight strategy. Infrastructure Australia recommends that the further work of the road reform plan include a proof of concept approach by a priority focus on charging and funding reform for a very limited number of roads.

Infrastructure Australia in the interim is proceeding with exploring options for reform of road governance for freight including options along the lines of other infrastructure industries that provide essential services to the Australian economy.

The Productivity Commission's consideration of the national access regime in 2013 could usefully consider the progress made in these areas.

4.5 Other issues

Some issues raised by stakeholders merit further discussion:

- Asset management;
- Investment;
- Government grant funding;
- Other governance issues and a new national organisation; and
- Indicative program directions identified in the discussion paper.

4.5.1 Asset management

All approaches to the efficient provision and use of transport infrastructure involve the development of an asset management plan.

Asset management plans are necessary to set a cost base against which direct usage charges might be agreed. Such plans are needed to ensure the viability of any system of charging and funding. Moreover, availability of the asset management data - such as infrastructure use – is essential for seeking private finance.

Public availability of plans and data would improve the investment climate for businesses that depend on infrastructure and allow governments to better understand options for the use of limited funds.

Asset management plans are used in most non-transport infrastructure, utility and industrial/ property sectors.

However, visibility of asset management plans in land transport infrastructure is limited, particularly in roads.



Work commissioned by Infrastructure Australia identified opportunities to develop nationally consistent practices for asset management across roads, including local roads. While there has been little public reporting on progress to date, there have been various initiatives by the Australian Local Government Association and members of the Australian Rural Roads Group. Infrastructure Australia's proposal for a national roads portfolio manager would support these initiatives.

Infrastructure Australia recommends that governments pay further attention to asset management in the implementation of infrastructure strategies.

4.5.2 Investment

Many submissions to the national land freight strategy discussion paper referred to 'investment'. The economic proposition for investment in infrastructure is that the future economic benefits outweigh the cost of providing infrastructure. Infrastructure Australia has defined this proposition as:

*"Investment...means that projects started now will yield productivity benefits in the future that substantially outweigh costs. The focus needs to shift to projects that deliver these productivity benefits, not just projects that 'need funding'. Such a focus implies greater participation of customers and the community in directly sharing the costs and benefits of infrastructure projects."*⁴⁹

For freight, this means that financial gains (to all parties, in present value terms) should exceed infrastructure expenditures. Durable resolution of investment issues, including the issue of rectifying the state of some rural roads and railway lines, needs to include rigorous financial and economic cost benefit analyses including network effects and externalities. A national approach to improve productivity would focus strongly on these factors and not be constrained by views on intergovernmental transfers.

Infrastructure Australia recommends that governments pay close attention to the desirability of taking an economic approach to investment.

⁴⁹ Infrastructure Australia, *Communicating the imperative for action*, June 2011, p14.

4.5.3 Government grant funding

Some submissions raised matters about government grant funding, including comments that funding appeared to be downplayed in the discussion paper. Funding from the Australian Government's Nation Building Program was specifically mentioned.

Consistent with its approach to other issues, including in the reform and investment framework, Infrastructure Australia's approach is to first identify what needs to be done to address an underlying problem, and then consider who may be in the best position to deal with the relevant issues. From this perspective, the central issue regarding freight is: how might Australia achieve its longer term productivity potential? The question of how governments should allocate the short-term funds available to them is subsidiary to this.

Infrastructure Australia considers agreement by relevant governments to national ports and land freight strategies to be important to achieving national productivity aims. The Minister for Infrastructure and Transport has advised Infrastructure Australia that he sees advantage in leveraging the Nation Building Program to deliver a national land freight strategy.

A key principle proposed in the national land freight strategy discussion paper is that freight should pay its way on a national freight network. If accepted, in the longer term government decisions on funding would play a smaller role in freight productivity.

The logic of concentrated freight vehicle flows implies that contributions from general taxation revenue are likely to be less needed on a national network than elsewhere once market type principles are established. However, the reality today is that governments do make grant funding decisions, and hence consideration needs to be given to transitional arrangements. The road reform plan would need to consider these issues were it to result in direct charging for trucks.

Infrastructure Australia remains ready to advise governments about which projects are 'ready to proceed' on the national infrastructure priority list. The discussion earlier in this report, in particular on investment, suggests there is considerable scope to progress the national freight strategy even without government funding of new projects.

Governments also provide other types of funding for transport; for example to finance urban mass transit or road maintenance. Advice to Infrastructure Australia on roads issues indicated a potential need for Community Service Obligations for some roads that may need to be underpinned by government funding.

The style of arrangement under which funding is provided can have a significant impact on outcomes.



There are a variety of approaches to Community Service Obligations but Infrastructure Australia recommends that any adopted approach address two risks:

- Overestimating community requirements, such as by ‘gold plating’; and
- Inappropriate or undisciplined wear, such as damage to roads and rail lines by heavier than expected vehicles.

4.5.4 Other governance issues

Infrastructure Australia’s discussion paper recognised that governance issues could extend beyond roads. It outlined some issues for rail and the debate about a new national organisation(s).

Stakeholders put forward a variety of views in response.

Some stakeholders consider changes in governance to be essential to any reform that assists to meet the freight challenge. Indeed some see major governance changes as a necessary first step.

However, there is not universal agreement to particular propositions for changes in governance. For example, consultations indicate strongly held but differing views for establishing a new national organisation. The purposes of stakeholders in (not) supporting this are unclear.

As a further example, questions were raised about the current national access regime and its implications for private investment in bulk export infrastructure.

Infrastructure Australia considers that identification and examination of governance issues needs to be considered in implementation of the national freight strategy. However, commencement of the national freight strategy, and reform of road governance, should not be delayed by the need to gain agreement on all details of a definitive blueprint for the governance of every transport organisation or mode.

4.5.5 Indicative program outlined in the discussion paper

Commentators and industry have criticized efforts in transport reform in Australia as being too slow, abstract, theoretical and in some cases overly focused on processes rather than results. Implicit in this is a criticism about the lack of connection between infrastructure projects, particularly those wholly reliant on government for selection and funds, and national reform directions for freight.

To focus attention on the need to link projects to reform directions Infrastructure Australia’s discussion paper set out an indicative program list and goals for a national freight network; the network should include the principal freight nodes, there should be interoperable rail track, town by-passes and grade easing on highways etc. The discussion paper carefully noted: “Infrastructure Australia is not recommending that construction of all these matters needs to be one, least of all done now or with funds collected from general taxation”.

Submissions to Infrastructure Australia have gone some way to develop such a program, in most cases focussing on projects that may merit early attention. However, it would be useful to consider some further programs or projects that would build towards the reform directions outlined by Infrastructure Australia, especially those which could demonstrate the value of reform – a ‘proof of concept’.

Examples of this could include agreements with industry to immediately advance substantial issues in a number of jurisdictions such as:

1. Nationally: to include relevant roads and rail lines to ports on the Nation Building Network; for example extending the national road network from the Pacific Highway through the port of Newcastle;
2. In New South Wales and Victoria: to progress a formal trial of high productivity vehicles on the Hume Highway and on key roads to ports and rail terminals, with incremental costs of infrastructure financed from industry beneficiaries.

This would demonstrate the concept of a roads improvement regime, and support intermodal terminal strategies which are critical in both States;

3. In Western Australia: to advance the Portlink proposal which involves new transport corridors linking the ports of Esperance, Port Hedland, Geraldton/Oakajee and Fremantle. This would demonstrate the integration of land and sea tasks in a rapidly growing economy;
4. In South Australia: to further develop the ports strategy at the State level and link proposed ports to the transport corridors needed to support mining exports;
5. In Queensland: to consider dedicated interoperable rail freight access from new freight generating areas to the port of Brisbane. This would demonstrate practical integration of urban planning and freight; and
6. In Tasmania: to more widely introduce the higher productivity vehicles necessary to reduce costs to the local businesses that trade with the mainland and internationally. This would demonstrate commitment to substantive regulatory reform.

4.6 Continuing consultation

Infrastructure Australia recognises the important issues stakeholders highlighted in the consultation process. It is clear that stakeholders, particularly from the private sector, have much to offer policy development in Australia.

Implementation of a national land freight strategy should include direct participation of key private stakeholders.



Infrastructure Australia endorses the decision by Ministers to invite senior private sector representatives to observe the Standing Council on Transport and Infrastructure. It recommends that this approach be built on by inviting representatives to participate in relevant policy development and implementation tasks.

Recommendations

Infrastructure Australia thanks contributors to the national land freight strategy. After considering the submissions and other matters raised in consultations it recommends:

1. Formalisation of government and industry agreement to the national land freight strategy in order to maximise Australia's international competitiveness.
2. The Standing Council on Transport and Infrastructure adopt a high level implementation plan as part of this agreement, including the following tasks to be jointly delivered by government and industry:
 - a. Confirm strategy aims, objectives, principles;
 - b. Confirm that the proposed national land freight network comprises 'places for freight' and that it complements the national ports strategy;
 - c. Initiate long term planning, forecasting and scenarios needed for the network;
 - d. Establish mechanisms to develop a long term pipeline of infrastructure projects attractive to government and private investors and to ensure that the right investments occur at the right time; and
 - e. Address options for integrating the network, other aspects of the national land freight strategy and other policy initiatives including State freight plans, road governance and urban planning systems.
3. There be thorough consideration of road governance reform, including along national competition policy themes and with options to more clearly differentiate roads with a primary social purpose from roads with a primary economic purpose.
4. Infrastructure Australia's further more detailed work on mechanisms for achieving privately initiated and financed investment in national freight network facilities including, as a priority, the Hume Highway and roads to the Chullora rail terminal in Sydney.
5. That governments:
 - a. Pay further attention to asset management in the implementation of infrastructure strategies;
 - b. Pay close attention to the desirability of taking an economic approach to investment;
 - c. Address two risks of Community Service Obligations for transport infrastructure: overestimating community requirements; and inappropriate or undisciplined wear; and
 - d. Ask that further work of the Council of Australian Governments road reform plan include a proof of concept approach by a priority focus on charging and funding reform for a very limited number of roads
6. That governments work towards proof of concept by progressing with industry the indicative program outlined in the discussion paper with high priorities being:

- a. Inclusion of relevant freight infrastructure on the Nation Building Network; for example extending the national road network from the Pacific Highway through the port of Newcastle;
- b. Progress a formal trial of high productivity vehicles on key roads to ports and rail terminals, such as the Hume Highway with incremental costs of infrastructure financed from industry beneficiaries;
- c. Advance the Western Australia Portlink proposal;
- d. Further develop the ports strategy and link proposed ports in South Australia to the transport corridors needed to support mining exports;
- e. Consider dedicated interoperable rail freight access from new freight generating areas to the port of Brisbane; and
- f. Wider use of higher productivity vehicles in Tasmania.

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