



**SUBMISSION BY THE
NEW SOUTH WALES GOVERNMENT**

**TO THE INQUIRY BY THE HOUSE OF
REPRESENTATIVES STANDING COMMITTEE ON
TRANSPORT AND REGIONAL SERVICES**

**INTO THE INTEGRATION OF REGIONAL
TRANSPORT LINKS AND THEIR INTERFACE WITH
PORTS**

JUNE 2005

EXECUTIVE SUMMARY

The NSW Government welcomes this opportunity to make a submission to the House of Representatives Standing Committee on Transport and Regional Services' *Inquiry into the Integration of Regional Transport Links and their Interface with Ports*.

In accordance with the focus of the Inquiry, this submission provides information on the transport and port networks supporting major export commodity flows in NSW – coal, bulk agricultural products and containerised trade.

There are no major bottlenecks in the infrastructure networks supporting current export trade in NSW. Last year, Newcastle, the world's largest coal export port, exported a record 78 million tonnes of coal (out of a total of 85 million tonnes exported from NSW). Coal is the single largest export from NSW by value, making up almost 20 per cent of total NSW merchandise exports in 2003-04.

The recent report of the Prime Minister's Taskforce on Exports and Infrastructure noted that an unexpected spike in world demand for coal led to some localised bottlenecks at coal ports in Australia. Among its recommendations was that the Commonwealth encourage participants in logistics chains to coordinate their operations more effectively, based on the proven success of the NSW Hunter Valley coal logistics chain in substantially expanding capacity through a more coordinated approach to supply chain management and better operational practices.

Combined with the Australian Rail Track Corporation's (ARTC) rail track investment program of \$270 million and further rolling stock investment by rail operators, rail capacity is expected to expand to about 102 million tonnes a year by July 2006. This is in line with Port Waratah Coal Services' expansion plans for its Kooragang terminal. The ARTC's investment is expected to increase the capacity of the Hunter Valley rail network to a total of 140 million tonnes by 2009.

The NSW Government is facilitating plans for substantial increases in coal chain capacity to meet projected longer-term demand for coal, including by bringing forward the development of a third coal loader at Newcastle Port – an investment worth up to \$500 million. It is anticipated that the Government will announce the winning proponent in August 2005.

The main bulk agricultural products exported from NSW are grain, wool, cotton and meat. Export volumes in recent years have been affected by the extended drought and are well below that reached in the last "bumper" year in 1997. The main transport and port links provide sufficient capacity to handle the largest expected harvests.

Similarly, there is presently significant export capacity at Port Botany, NSW's main port for containerised trade. Excess capacity at the Port is projected for at least another five years. NSW international container trade is dominated by the import of consumer goods, with fully loaded container exports comprising only around 32 per cent of "loaded" container trade at Port Botany in 2003-04.

The NSW Government is nevertheless well advanced in planning for future capacity expansion at Port Botany to accommodate forecast increases in container trade. Part of these plans includes developing the full potential of Port Botany's container stevedoring capacity, subject to a public process to examine the project's community and environmental impacts.

The Government is also undertaking detailed work on the rail, road and terminal networks that will be needed to support increased freight movements through Sydney. A key policy goal is to increase the proportion of containerised freight moving to and from Port Botany by rail from the current 21 per cent to 40 per cent by 2011.

NSW believes that the primary responsibility of governments is to provide the right policy settings to support infrastructure development - whether it be taxation, pricing, environmental protection or land-use planning.

As a general rule, private commercial operators (who make up the bulk of commodity supply chains) are the best placed to identify and manage investment and operational risks, and to efficiently allocate the use of infrastructure in accordance with demand for their export commodities. This view has underpinned a series of reforms introduced by the NSW Government over the past decade, for example, to devolve control of the coal supply chain in the Hunter Valley region to private industry parties.

Regulation must provide a clear and predictable environment to support investment in key infrastructure such as transport (airports, ports, road and rail), energy and water. For example, NSW has recently announced wide-reaching plans to streamline the State's planning regime for critical infrastructure (detailed in section 3.2.3).

Where appropriate, governments should also facilitate measures to ensure that the best use is made of existing infrastructure, rather than simply supporting new investments. NSW Government initiatives to support the efficient use of the existing coal logistics chain in the Hunter Valley is a leading example of the benefits of such an approach.

To a significant extent, the success of State government and industry efforts will critically depend on the policies and leadership of the Commonwealth Government. For example, in making determinations on pricing and access regimes for critical monopoly infrastructure, the Australian Consumer and Competition Commission (ACCC) must provide the capacity for future infrastructure expansion and be aware of any 'gaming' tactics by industry participants designed to prevent this.

The Commonwealth needs to provide a clearer planning and funding framework under *AusLink* to prevent ad-hoc decisions on land transport infrastructure. It also should fairly share the costs of both establishing and maintaining land transport assets.

A key issue in future freight transport reform that will need to be tackled at a national level is the lack of competitive neutrality across transport modes. The lack of neutrality has resulted in modal biases in the movement of freight toward road transport at the expense of rail. Specific policy requirements will need to address pricing for road freight, equivalence of regulatory standards for road and rail, and the legacy of past decisions that have resulted in disparities in the standard of infrastructure across transport modes.

The Commonwealth Government's policies on allocation of grants will also profoundly affect NSW's ability to provide necessary infrastructure. There are unsustainable inequities for the people of NSW (and Victoria) in the equalisation of Commonwealth grants through the Grants Commission. In 2004-05, the Commonwealth will transfer around \$3 billion of GST revenue raised in NSW to other States and Territories. This is equivalent to more than \$425 per person in NSW. The Commonwealth's imposition of matching funding conditions on grants results in a further reduction in the ability of States and Territories to meet local priorities and demands.

Governments need to be clear about their respective responsibilities for maintaining the capacity of Australia's major cities and regional centres to contribute to Australia's economic development and social wellbeing. Sydney is Australia's only global city, and continues to be the economic powerhouse of the Australian economy. The Commonwealth needs to make a greater financial contribution to help overcome the costs to the national economy of 'local' congestion in Sydney and other capital cities.

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INTRODUCTION

The House of Representatives Standing Committee on Transport and Regional Services has established an inquiry into the integration of regional rail and road freight transport and their interface with ports.

This submission focuses primarily on NSW's commodity exports and the effectiveness of supporting transport networks. It contains three main sections, structured broadly around the key areas in which the Committee has sought public input, as follows:

- NSW's regional freight transport and port network;
- The major commodity flows in NSW and the effectiveness of supporting transport and port networks in meeting current and prospective demand; and
- Policies and measures required to assist in achieving greater efficiency in the Australian transport network.

1. THE NSW TRANSPORT AND PORTS NETWORK

The NSW land transport network comprises around 200,000 kilometres of roads and 12,000 kilometres of rail track, and conveys approximately 220,000 tonnes of freight across the State daily. The attached Maps 1 and 2 show the NSW road, rail and intermodal networks supporting the movement of coal, grain and container freight to port. Map 5 provides more detail in the Sydney area.

1.1 THE NSW REGIONAL ROAD NETWORK

The NSW road network includes 17,655 kilometres of State roads, of which some 3,105 kilometres of road are designated as national highways. State roads, operated and managed by the NSW Roads and Traffic Authority (RTA) are the primary routes connecting various parts of regional NSW to ports in NSW and interstate. The RTA also assists local councils in managing 18,423 kilometres of regional roads across the State. Regional roads provide a link between the State road network and the large number of local roads managed by local councils.

1.2 THE NSW REGIONAL RAIL NETWORK

In general, the NSW regional rail network comprises those lines outside the boundary of the electrified rail system serving the Greater Metropolitan Region. The electrified network is broadly bounded by Kiama and Macarthur in the south, Lithgow in the west, and Newcastle in the north.

The regional rail network is comprised of two overlapping sub-networks - the Hunter Valley rail network (largely for bulk movement of coal) and the country network (mainline rural and branch lines used for grain movements and general freight).

In September 2004, the NSW Government leased the interstate and Hunter Valley rail network to the Commonwealth Government's ARTC for 60 years. The NSW Rail Infrastructure Corporation (RIC) owns the remainder of the country network. ARTC maintains these lines (and provides train control services) for RIC under a separate agreement. Map 3 shows the ARTC-leased and country networks.

1.3 THE NSW PORT NETWORK

There are three main ports in NSW:

- 1 Port Botany and Sydney Harbour. These sites are controlled by Sydney Ports Corporation, and handle container trade, bulk liquid, motor vehicles and general cargo.
- 2 The Port of Newcastle, which is controlled by the Newcastle Port Corporation. Newcastle is the largest coal export port in the world, and also handles bulk cargo including grain.
- 3 Port Kembla, which is controlled by Port Kembla Port Corporation. Port Kembla is Australia's leading port for steel exports and second largest for grain.

Additional regional ports, located at Eden and Yamba, are managed by the NSW Maritime Authority. Eden export trade is primarily woodchips and softwood logs, though it also has a multi-purpose facility to handle import general cargo and dry bulk. Yamba has a general cargo facility and handles export wood products, some manufactured items and general cargo.

1.4 INTERMODAL TERMINALS

Intermodal terminals are found in both the metropolitan area and at strategic rural locations. The majority of metropolitan terminals handle multiple cargo commodities, whilst there is a mixture of single commodity and mixed cargo terminals in the regions.

Within the Sydney region, the private sector operates intermodal terminals with rail access to Port Botany, at Minto, Yennora, Villawood (Leightonfield), Camellia and Cooks River. In addition to handling domestic cargoes, these terminals presently handle around 135,000 import and export Twenty Foot Equivalent Container Units (TEUs) per annum. Additional intermodal terminals in Sydney's west are being investigated to provide for forecast increases in container trade (detailed in section 2.3.1).

Regional multi-user facilities exist at Moree, Narrabri, Tamworth, Newcastle, Dubbo, Blayney, Parkes, Griffith, Wagga Wagga, Cootamundra and Hillston. Private or single commodity facilities are located in Wee Waa, Warren, Manildra and Narrandera.¹ In general, regional facilities are significantly smaller operations than the terminals in the metropolitan area.

2. COMMODITY FLOWS

Map 4 shows broadly where export commodities are produced in NSW and their principal means of transport to export facilities. Most commodities are produced on or west of the Great Dividing Range and transported to the east coast - primarily to NSW ports but also to ports in Queensland and Victoria.

The discussion below focuses on the transport and port networks supporting coal exports, bulk agricultural exports and containerised trade.

Broadly speaking, the majority of bulk freight movements are carried by rail to the port of export. In particular, the great majority of coal exports are transported by rail from mine to port. This is usually a condition of land use planning approval for new or expanded mines. Conversely, agricultural exports such as grain are initially handled by road before being transferred to rail at bulk storage and handling facilities for delivery to an export port. Containerised export freight is moved by a mix of road and rail, with road used more than rail overall.

¹ Sea Freight Council of NSW and Strategic Design and Development : *Regional Intermodal Terminals – Indicators for Sustainability* (March 2004)

2.1 COAL

NSW coal production and exports have grown steadily over the past twenty years. NSW saleable coal production has increased from 58.3 million tonnes in 1984-85 to 114.2 million tonnes in 2003-04, an increase of over 95 per cent (or more than 2.5 million tonnes a year on average).

NSW coal exports have increased from 38.3 million tonnes in 1984-85 to 85.0 million tonnes in 2003-04, an increase of over 120 per cent (or 2.3 million tonnes per annum on average). The value of NSW coal exports was around \$3.7 billion in 2003-04. In value terms, coal is the single biggest export from NSW, making up almost 20 per cent of total NSW merchandise exports in 2003-04. NSW is now the third largest coal exporter in the world behind Queensland and China.

Coal exports are expected to increase by a further 2.5 per cent to around 87 million tonnes in 2004-05. The value of coal exports in 2004-05 is forecast to be around \$5.3 billion, an increase of 43 per cent over the previous year due to significantly higher prices for coal.

Coal from NSW is exported to international markets through two terminals, the Port Waratah Coal Terminal (PWCT) in Newcastle and the Port Kembla Coal Terminal (PKCT) in Wollongong. The PWCT has a stated capacity of 89 million tonnes per annum. In 2003-04, 77.8 million tonnes of coal was exported through this Port. The PKCT has a stated capacity of 16 million tonnes per annum. In 2003-04, 7.2 million tonnes of coal were exported through this Port.

The NSW coal industry is presently in healthy shape. Strong global coal demand, especially from Asia, and supply shortages from key producing nations are driving significant increases in prices for both thermal and metallurgical coal. The rise in coal prices has stimulated investment in the NSW coal industry. A number of new coal projects and extensions to existing mines are currently proceeding through the approvals process.

The development of new coal mines and extensions to existing coal mines is forecast to lead to increased coal production and exports from NSW over the next decade. Total coal exports from NSW are forecast to exceed 120 million tonnes by 2012-13. The majority of this growth will come from coal produced in the Northern coalfields of NSW and exported through Newcastle.

2.1.1 Newcastle

Newcastle is the world's largest coal export port. Last year it exported a record of nearly 78 million tonnes of coal. This growth in demand has placed some pressure on the coal supply chain, particularly on the Port Waratah Coal Services (PWCS) coal loader. However, participants in the coal supply chain have adapted to meet this challenge. PWCS is owned by a number of industry participants, primarily shippers and Japanese buyers of coal.

The Port of Newcastle itself has capacity to handle well in excess of 100 million tonnes of coal. The vast majority of export coal shipped through Newcastle is transported to port by rail, for shipping from either the Carrington terminal (Port Waratah) or Kooragang Island terminal, both operated by PWCS.

Rail Infrastructure Investment by the NSW Government and ARTC

The NSW Government has invested more than \$300 million in Hunter Valley rail works and upgrades over the past five years.

Under the terms of its lease agreement with NSW, the ARTC (a Commonwealth business) has full responsibility for the Hunter Valley coal lines, including investment decisions and train control. Following the NSW Government's lease of the Hunter Valley rail network to the ARTC, the ARTC is continuing the NSW Government's plans for extensive rail upgrades. It announced on 3

May 2005 that it will increase its investment in the Hunter Valley rail network to \$270 million. The ARTC has estimated that the investment will increase the capacity of the network from 85 million tonnes of coal per year to 140 million tonnes by 2009.

Providing for future growth

A group formed by participants on the coal chain (the Hunter Valley Coal Chain Logistics Team) has developed strategies to significantly increase throughput by making operational improvements throughout the coal chain.

Efforts are also underway to ensure that there is adequate infrastructure capacity to meet expected growth in the market. A priority is upgrade of the rail line, which is discussed above.

In addition, PWCS announced on 12 April 2005 that it will spend \$170 million to lift throughput capacity at its Kooragang Terminal from 89 to 102 million tonnes, for which it already has development approval. It has also announced its intention to explore further a potential increase in capacity to 120 million tonnes.

The NSW Government is also facilitating plans for substantial capacity growth in the supply chain. For example, the Government has bought forward plans for an additional coal loader in Newcastle. In March 2005, the NSW Premier announced the short-listing of two groups to develop an additional coal loader on 140 hectares on Kooragang Island, adjacent to the existing coal terminal at Newcastle. This is an investment worth up to \$500 million.

The short-listed proponents are Newcastle Coal Infrastructure Group (a consortium which includes Excel Coal, Centennial Coal, BHP Billiton, White Mining, Donaldson Coal and AMCI Mining) and the operator of the existing coal loader, PWCS. It is anticipated that the NSW Government will announce the winning proponent in August 2005. Whether the development proceeds is a matter to be decided by the proponents (the investment risk will remain with industry). This initiative will also potentially introduce competition for coal loading/handling services in the Newcastle area.

Newcastle Port Corporation also has proposals to dredge and widen the port channels to build further long term capacity at the Port. The issue of channel depth and width at Newcastle Harbour is not critical at this time for current exporters or those who may be expected to use the Port in the next several years.

One area where regulation could potentially impede infrastructure capacity expansion is rail pricing and access determinations by the ACCC. The current regime in NSW is transitional in its application to the ARTC-leased parts of the network. These parts of the network will eventually be governed by an access undertaking being prepared by the ARTC (see details below). It is critical for any future determinations by the ACCC to be sufficiently flexible to give the ARTC the capacity to enable it to provide for new investment and future network expansion.

The mechanism for achieving this can take various forms (e.g. side agreements between ARTC and local mines, ensuring appropriate rates of return are allowed for new and/or risky investment), and can be dealt with in more detail in submissions to the ACCC at the time.

The NSW Government's role

The Hunter Valley coal logistics chain is, for the most part, owned and operated by the private industry participants. The NSW Government's direct involvement in the Hunter Valley coal chain centres on:

1. Ownership of the Hunter Valley rail track (though, as noted above, it is leased to the ARTC);
2. Ownership of the land upon which Port Waratah Coal Services operates; and
3. Ownership of Newcastle Port Corporation.

Over the past decade, the NSW Government has pursued an approach whereby the control of the coal chain has been devolved to the parties in the best position to efficiently manage the chain - the commercial companies that are its users and beneficiaries. The Government has instituted or facilitated major reforms in this regard. These reforms include:

- The “separation” of track ownership and provision of freight and rail services within the NSW rail industry;
- The establishment of Newcastle Port Corporation as a stand alone regional business, separate from the former Maritime Services Board;
- The implementation of a State access regime for the NSW rail network, which facilitated multiple, competing, above rail operators and which has, over a period, led to significant reductions in access charges. However, the State access regime is transitional and is anticipated to be superseded by an access undertaking currently being prepared by the ARTC under Part IIIA of the Trade Practices Act 1974. The ARTC is currently undertaking a capacity enhancement program that is largely based on projects jointly identified by the Rail Infrastructure Corporation, the rail operator Pacific National and PWCS under the consultative provisions of the NSW Rail Access Undertaking;
- The privatisation of Freight Rail Corporation, together with National Rail Corporation which was jointly owned by NSW, the Commonwealth and Victoria in 2002. NSW no longer operates “above rail” freight services;
- The lease of the NSW interstate and Hunter Valley rail networks to the ARTC for 60 years.

Other initiatives include:

- The Government’s exit from the coal export business through the privatization of PowerCoal. Mining operations in the Hunter are now fully privately owned;
- The lease of the NSW Government major export resource, Mt Arthur North, to the private sector; and
- As noted above, the NSW Government is where appropriate, assisting the industry to plan for growth.

2.1.2 Port Kembla

Port Kembla has been handling coal exports of around 8-9 million tonnes per annum over the last few years. This is through a coal terminal operated by the industry as part of a long-term lease from the Port Kembla Port Corporation. Improvements to the coal loading facilities at Port Kembla were completed in the late 1980s, providing a capacity to load up to 16 million tonnes per annum of export coal. The Port itself has therefore been operating well within its capacity.

Land transport is not seen as a significant constraint on the coal chain through Port Kembla. In the late 1990s, between 10 and 12 million tonnes of coal per annum were transported by rail to Port Kembla without major difficulties. The transport network is anticipated to be sufficient to meet both current and projected coal volumes. In fact, there would appear to be latent capacity in the coal chain that could be utilised by moving additional export coal to Port Kembla.

2.2 BULK AGRICULTURAL PRODUCTS

The main agricultural products by volume exported from NSW ports are grain, wool, cotton and meat. Grain is dominated by wheat, which is mainly exported through Newcastle and Port Kembla, but also includes barley, canola and some rice. However, most NSW rice is exported through Geelong and NSW sorghum is exported through Brisbane.

Whilst demand (as affected by world prices and the exchange rate) has some influence over the volume of exports, the major influence is supply, which is related largely to seasonal conditions. The drought, which has now been in place since 2002 (currently affecting 90 per cent of the State), has seriously reduced volumes exported through NSW ports. In the last “bumper” year of 1997, over 7 million tonnes were exported from all ports. The breakdown of the 7 million tonnes by port and product is shown in the table below.

1997, tonnes exported	Port of Newcastle	Port Botany	Port Kembla	Sydney	Total
Wheat	2,647,789	565	3,321,151	4,070	5,973,575
Other grain	41,200	48,084	20,600	101,441	211,325
Canola		15	88,146	150	88,311
Other oilseeds and pulses	88	81,523		64,781	146,391
Cotton		135,734		149,944	285,678
Wool				126,849	126,849
Meat				236,448	236,448
Total for ports	2,689,077	265,921	3,429,897	683,683	7,068,577

The table shows the importance of Newcastle and Port Kembla in moving bulk agricultural commodities, particularly wheat.

Since 1997, the drought has impacted on the quantities delivered to NSW ports, with volumes in some subsequent years only half the level of that year.

Year	1997	1998	1999	2000	2001	2002	2003	2004
All bulk agric. products	7,068,806	4,310,404	4,480,461	5,631,373	3,974,848	4,728,552	1,027,661	3,283,333

The capacity of transport links between the main inland receiving centres (such as Junee and Werris Creek) and port, and the capacity of Newcastle and Port Kembla, are sufficient to handle the largest expected harvests. There is also no evidence of a mismatch between NSW’s grain growing capacity and its ability to manage exports. The grain industry, given its seasonal harvests, has long been structured around ensuring a much smoother year-round transport of grain through the use of major silos for transitional storage, rather than having to match production peak periods with peak export periods.

The processes of deregulation and increased competition in the grain sector are contributing to major changes in historical patterns of grain transport and the structure of the grain supply chain. This is, in part, a result of rail reforms and the privatisation of GrainCorp, the State’s main provider of grain storage and handling facilities.

The NSW Government has announced that it will work towards a long-term industry lease arrangement for the “restricted” rail lines in western NSW. As with the Hunter Valley railway, the NSW Government’s position is that it should not be involved in “second guessing” the commercial demands of private businesses, as these businesses are in the best position to identify and manage risks in relation to the future demand for their commodities. The negotiation of a lease for the restricted lines will facilitate commercial participants in the supply chain coordinating their activities to the extent required to extract greatest efficiencies from existing infrastructure.

While this process is underway, the NSW Government will allocate \$21 million in 2004-05 to maintain 11 of the 15 restricted rail lines, which will secure the grain currently stored along those lines and ensure the lines are able to carry next year’s harvest. Services on four of the lines (Rankin Springs-Barmedman, Burcher-West Wyalong, Willbriggie-Yanco, and Gwabegar-Binnaway) have been suspended due to safety reasons, and following consideration of the cost of maintaining those lines, the availability of alternative transport and peak tonnages.

Links to the Central West Region

The NSW Government has also made substantial investments in regional and rural roads relevant to grain freight transport. The Government invested \$379 million in transport infrastructure in western NSW between 1999-2000 and 2004-05. The Commonwealth has also contributed about \$100 million for transport upgrades in the past.

The NSW Government is committed to completing the upgrade of the Great Western Highway to four lanes between Penrith and Katoomba and three lanes between Katoomba and Mt Victoria. Additional funding from the Commonwealth will assist to accelerate these works and improve access to the central western region of NSW.

2.3 CONTAINERISED TRADE

NSW containerised trade is dominated by the import of consumer goods. Fully loaded container exports comprised 32 per cent of all “loaded” international container trade at Port Botany in 2003-04. The major export commodities are non-ferrous metals, chemicals, iron and steel, cereals and paper products.

Over 95 per cent of NSW’s import and export container trade passes through Port Botany. Of this, nearly 90 per cent of containerised imports moving through Port Botany are destined for locations within 40 kms of the Port, and around 50 per cent of containerised exports are packed within 40 kms of the Port. At present, 79 per cent of containers moved to and from Port Botany are carried by road, with the remainder conveyed by rail.

Sydney has highly efficient ports, with an average of around 27 containers handled per hour, above the Commonwealth’s target of 25 containers per hour. Sydney Ports Corporation charges less for handling export containers that it does import containers. There is presently significant export capacity, with excess capacity at Port Botany projected for at least another five years.

NSW international container trade has been growing at around 7 per cent per annum since the early 1970s. Sydney Ports Corporation estimates that total container throughput will grow at an average 5.3 per cent per annum to nearly three times the current volumes by mid 2021 – from 1.27 million TEUs in 2003-04 to 3.2 million TEU. It anticipates that current capacity at Port Botany will be reached by 2012-2015. NSW is well advanced in planning for the Port’s expansion beyond 2010.

2.3.1 Ports Growth Plan

The NSW Government's *Ports Growth Plan*, announced in October 2003, provides overarching direction for accommodating growth in containerised trade through NSW ports and guidance for long-term infrastructure and urban planning.

In the first instance, the Government is looking to develop the full potential of Port Botany's container stevedoring capability, subject to a public process to examine the project's community and environmental impacts. Sydney Ports Corporation has proposed an investment of \$576 million to develop a third container terminal and associated infrastructure at Port Botany. Expanding the existing facility at Port Botany is the most efficient step towards the goal of maximising productivity along the State's containerised transport logistics chain. It may also facilitate the introduction of additional competition in stevedoring and therefore drive better outcomes for users.

An Environmental Impact Statement on the project was exhibited in 2004, and has been considered by an independent Commission of Inquiry. A decision on the proposed development is expected to be released by the NSW Minister for Infrastructure and Planning shortly.

The Government's *Port Growth Plan* does not contemplate the expansion of Port Botany beyond the development currently proposed by the Sydney Ports Corporation. When Port Botany reaches capacity, Newcastle will become the State's next major container facility. The Government has reserved land at the former BHP steelworks site at Newcastle for the development of future container capacity growth. A portion of this land may be developed in the short term for a smaller container terminal, primarily servicing regional or niche trades. The Government has already identified two potential proponents.

Planning for land transport to support growth in container trade

Port Botany is Australia's second largest port for containerised trade. The projected growth in NSW international trade, in particular container freight movements in Sydney through Port Botany, will have a major impact on rail and road transport networks. Substantial investment will be required to enhance the transport and intermodal links to the Port.

Consistent with the directions in the Government's *Ports Growth Plan*, the NSW Government has announced that it will work toward increasing the proportion of containerised freight moving to and from Port Botany by rail from around 21 per cent to 40 per cent by 2011 (*Ports Freight Plan*, December 2004).

The *Ports Freight Plan* includes the following key elements to as part of the Government's plans to provide for and efficiently manage forecast increases in container trade:

- A network of additional intermodal terminals in Sydney's west. In this regard, Sydney Ports Corporation has already commenced work on an Environmental Impact Statement for an intermodal terminal at Enfield, in Sydney's inner west. The terminal is proposed to have an operating capacity of 300,000 TEU per annum. However, this can only be one part of a future intermodal terminal network. The Government is assessing options for other intermodal terminals in the metropolitan area;
- Enhanced rail links between Port Botany and major terminals. Freight trains currently share the existing track with passenger traffic, which has priority in peak commuter periods. As part of its lease agreement with NSW, the ARTC will build a rail freight line from Macarthur to Chullora (the main intermodal freight terminal in Sydney). The line will remove delays

and operating restrictions for freight trains associated with that section of the rail network. An Environmental Impact Statement for the line is presently being prepared by the ARTC;

- Better road connections between Port Botany and the key arterial routes to the terminals;
- Substantial improvements in the efficiency/organisation of freight services, in particular the coordination of activities by participants in the freight chain. For example, there is a need for more efficient operating protocols and configuration for intermodal terminals that will allow loading/unloading and receipt of up to 600m container trains clear of running lines; and
- Associated policy changes necessary to enable the mode share target to be met.

The Commonwealth Government has made a commitment to consider the development of an intermodal freight terminal on defence lands at Moorebank, as a critical part of the *AusLink* national land transport plan. The site is very close to the existing M5 motorway (which connects to the Port), the M7 motorway (which is scheduled to open in early 2006), and the Southern Sydney Freight Line to be developed by the ARTC.

The NSW Government has further established a Freight Infrastructure Advisory Board (FIAB) to provide advice on implementation of the Ports Freight Plan. The Board is chaired by the Hon. Laurie Brereton, and anticipates reporting to the Minister for Infrastructure and Planning by August 2005.

The *Ports Freight Plan* will be incorporated into the development of a broader plan for freight management in Sydney. The integration of the freight transport network within Sydney's broader transport system will also be set out as one of a number of strategies under the Government's Metropolitan Strategy for Sydney, to be released later this year.

The NSW Government has also committed over \$1 billion to a *Rail Clearways Program* designed to 'untangle' and remove complex interconnections from the Sydney Metropolitan rail network. This is expected to deliver more efficient and reliable passenger services, as well as improve the operating environment for freight trains utilising the metropolitan network.

3 OTHER MEASURES NECESSARY TO ASSIST IN ACHIEVING GREATER EFFICIENCY IN THE TRANSPORT NETWORK

3.1 IMPROVED PLANNING FOR STRATEGIC INFRASTRUCTURE

3.1.1 *AusLink*

NSW is currently negotiating a bilateral *AusLink* agreement with the Commonwealth. NSW supports *AusLink's* aims of improving long-term planning on land transport links of strategic importance to ensure that funding is directed to the best uses, and the achievement of an integrated transport network that is managed efficiently within a framework of cooperation by all levels of government. However, NSW has expressed its concerns to the Commonwealth that the *AusLink* White Paper does not provide a coherent national planning and funding framework that will achieve these aims.

For example, *AusLink* is predicated on the notion of "shared responsibility" for planning and funding of future transport infrastructure. This is a substantial change from the current system (where there is a clear division of roles and responsibilities between the States and the Commonwealth). However, the ongoing basis on which responsibilities are to be "shared" in the creation of a national land transport network has not been defined. It is also important that the achievement of an integrated national transport network is based on national objectives and

priorities. Without this, there is a risk of cost shifting between tiers of government, conflicting priorities and resulting inefficiencies. NSW will continue to pursue these issues with the Commonwealth.

The Commonwealth Government also needs to address key transport constraints as a matter of priority. This includes maintenance of road and rail infrastructure, which is discussed below.

Maintenance of road and rail infrastructure

The Commonwealth has indicated that it will no longer accept responsibility for maintenance and renewal of the National Highway network under its new *AusLink* policy. Instead, it will transfer responsibility for the network and other assets that form part of the new *AusLink National Land Transport Network* to the States and Territories.

National Highways generally carry the heaviest inter-regional freight routes. The National Highway network in NSW is an asset with a replacement cost of approximately \$8.1 billion. The current rate of asset renewal for National Highways is less than 1 per cent per annum. This implies a pavement life in excess of 100 years rather than the 30-40 years life for which the pavements have been designed and constructed under current funding arrangements. In NSW, under-funding of maintenance and capital renewal on National Highways, particularly over the last eight years, has resulted in an accumulated maintenance liability estimated at \$250 million.³

This under-investment has created a significant liability for future generations. The maintenance liability for the former National Highway network will grow with increasing usage over time. Unless historic under-investment on the National Highway Network is corrected, increased pavement roughness and pavement failure will increase costs for vehicle operators and the likelihood of road crashes, with flow-on cost increases to the wider national economy.

Extensions to the network in the form of new infrastructure will further increase the scope and value of the asset, and the need for additional investments in long-term maintenance. The issue of maintenance will be critical in developing strategies to optimise transport network performance and economic efficiency under *AusLink*.

The Commonwealth should allocate maintenance funds for the proposed National Land Transport Network at sufficient levels to correct historic under-investment in the National Highway network and equitably share “whole of life” costs of transport infrastructure in the future.

Specifically, the Commonwealth should accept responsibility for maintaining all road links on the agreed National Land Transport Network, and for essential upgrading of non-commercial sections of the Defined Interstate Rail Network.

3.1.2 Regulation of export-related infrastructure

The report of the Prime Minister’s Exports and Infrastructure Taskforce (released 1 June 2005) concluded that there is no infrastructure crisis, but localised bottlenecks have emerged as strong demand has run into tight and inflexible supply. It considered the greatest impediment to infrastructure development to be the structure and administration of the current economic regulatory framework and recommended, amongst other things, that the Council of Australian Governments (COAG) examine ways of reducing the number of regulators affecting Australia’s export oriented infrastructure and simplifying the regulatory process.

³ Accumulated gap in funding vs National Highway Forward Strategy report recommendations.

On 3 June 2005, COAG agreed in principle to a simpler and consistent national system of regulation for ports and export-related infrastructure. This issue will be considered in the COAG review of National Competition policy, which will report in December 2005. COAG has also agreed in principle to extend *AusLink* planning and coordination to ports and associated shipping channels.

NSW considers that the primary responsibility of governments is to provide the right policy settings to support infrastructure development, whether it be taxation, pricing, environmental protection or land-use planning.

Regulation must provide a clear and predictable environment to support investment in key infrastructure such as transport (airports, ports, road and rail), energy and water. For example, NSW has recently announced plans to streamline the State's planning regime for critical infrastructure (detailed in section 3.2.3).

Governments should also seek that the best use is made of existing infrastructure, rather than simply supporting new investments. NSW Government initiatives to support the efficient use of the existing coal logistics chain in the Hunter Valley is a leading example of the benefits of such an approach.

Governments must take a rational approach to investment in infrastructure by: promoting industry-driven solutions; undertaking or supporting investments as part of broader strategic plans to prevent ad hoc decisions and investment in 'white elephants'; and allocating responsibilities appropriately between the three tiers of government.

As regards the proposed extension of *AusLink* to ports and shipping channels, NSW notes that ports are only one element in an overall transport system that facilitates the movement of freight. States and Territories have the essential function of planning not only over the ports, but also over the transport and terminal infrastructure which lead to, and support, the ports. Any extension of *AusLink* planning to ports will therefore need to consider broader planning and investment in the transport and intermodal infrastructure links to port.

3.1.3 Commonwealth proposal for a Melbourne to Brisbane rail link

The Commonwealth Government recently re-announced that it would undertake a feasibility study into a rail link between Melbourne and Brisbane. Questions have been raised about the economic and financial viability of the project. If the project proves viable, NSW will facilitate planning approvals for the project. As an interstate rail project, the Commonwealth would be responsible for implementation. The NSW Government, however, is not in a position to contribute funding to the project and will not consider any requests for funding either from the proponent or the Commonwealth.

3.2 REGULATORY ISSUES

3.2.1 Rail Access Regimes

The NSW Government presently has an economic regulatory role through the NSW Rail Access Undertaking. This is a state-based regulatory framework, whereby any access dispute between rail infrastructure owners and operators is arbitrated by the NSW Independent Pricing and Regulatory Tribunal. It is anticipated that the regime will be superseded in its application to the ARTC-leased parts of the network upon acceptance by the Australian Consumer and Competition Commission (ACCC) of an access undertaking currently being prepared by the ARTC under Part IIIA of the *Trade Practices Act 1974*.

Looking forward, in making determinations on pricing and access regimes for critical monopoly infrastructure, the ACCC must, amongst other things, provide the capacity for future infrastructure expansion and be aware of any 'gaming' tactics by industry participants, which can influence the information provided to the ACCC and ultimately affect the capacity of industry to invest in future capacity expansion.

3.2.2 Road/Rail Neutrality

A key issue in future freight transport reform that will need to be tackled at a national level is the lack of competitive neutrality across transport modes. The recent Productivity Commission Review of National Competition Policy Reforms (February 2005) noted that the lack of neutrality has resulted in modal biases in the movement of freight toward road transport at the expense of rail.

Specific policy requirements will need to address pricing for road freight, equivalence of regulatory standards for road and rail as well as the legacy of past decisions that have resulted in disparities in the standard of infrastructure across transport modes.

A major barrier to the reform of road pricing at present is the Commonwealth's regime of fuel taxes applying to motor vehicles. A more rational access charging regime would enable more efficient allocation of scarce infrastructure and generate price signals to better inform future investment decisions.

There is also an urgent need for common medical standards and fatigue management regimes between road and rail. Common medical standards should include general health, drug and alcohol testing regimes whilst fatigue management will need to address shift lengths and distribution as well as verification regimes.

As noted above, NSW has announced its intention to increase the proportion of containerised freight moved to and from Port Botany by rail from 21 per cent to 40 per cent. However, national coordination will be critical to the development of an efficient and nationally integrated freight transport system in the long term.

Regulatory consistency

The Australian Transport Council (ATC) endorsed the National Rail Safety Accreditation Package (NAP) on 19 November 2004 and has directed that it be implemented in all jurisdictions by 30 June 2006. All Australian Rail Safety Regulators have developed a nationally consistent approach to the implementation of NAP, in consultation with the Australian Railway Association.

NSW is presently also participating in a national process to develop model rail safety legislation. The reforms aim to improve the safety performance of rail transport and ensure a level of national consistency in rail safety regulatory frameworks, thereby reducing costs to industry.

3.2.3 Planning Approvals

The NSW Government has embarked on a comprehensive reform of the state's planning system to remove unnecessary red tape and administrative delays.

In September 2004, the NSW Government announced a major overhaul of the NSW planning system to make it simpler, more efficient and more effective. The first stage of reforms includes a reduction in the number of council land use planning instruments (Local Environment Plans) from 5,500 to 152 – one for each Local Government Area.

The Government announced on 12 May 2005 that the second stage of reforms will include returning to local Councils some 60 per cent of developments that would previously have required Ministerial approval. The State Government will now focus more on those major projects and programs that are significant to the State on social, environmental or economic grounds.

Under the proposed reforms, the Government will take responsibility for approving 'critical infrastructure' for NSW. The NSW Minister for Infrastructure and Planning can deem as 'critical infrastructure' those major projects which he considers to be essential to the state's economic or environmental wellbeing.

Critical infrastructure will undergo a high level strategic assessment at the concept level, and will be exempted from numerous regulatory approvals that may cause undue delays in critical situations.

State-significant projects will be clearly defined in one document - a new State Environmental Planning Policy - State Significant Developments. Those matters that do come before the Minister will benefit from extensive reforms to the assessment and approval processes.

This latest stage of planning reforms includes:

- The introduction of a 'one assessment - one approval' approach, removing up to 31 potential approval requirements;
- The introduction of "concept approvals" for major projects, providing up-front approval of the broad parameters of a project. Greater certainty for proponents and investors will mean that they will no longer risk spending significant amounts on detailed assessments for a proposal that may ultimately be refused.
- The removal of legislative provisions enabling different regulators to 'stop the clock' to get more information, which have caused significant and costly delays. Instead, the Government will provide for one approval process and a more cooperative approach to assessments across Government;
- Environmental and other assessments will be based on risks and likely impacts, to speed up assessments and reduce the cost of major projects; and
- The introduction of panels of technical experts to advise on the potential impacts of any project deemed a state-significant development.

The NSW and Commonwealth Governments have arrangements in place to reduce duplication in the NSW and Commonwealth environmental assessment processes. The Commonwealth accredits the NSW assessment process case-by-case for individual developments under the *Environment Protection and Biodiversity Conservation Act 1999* (Cth).

NSW is also developing an environmental planning instrument to require local council consultation with the State's rail agency, RailCorp, prior to new developments in the vicinity of strategic rail corridors. This instrument will be important in managing risks to freight movement from increasing higher density urban development around rail corridors.

3.2.4 Competition at Port Botany

A major consideration for Government in setting the *NSW Ports Growth Plan* was the promotion of a competitive shipping and logistics industry in NSW, which assists a strong and growing state economy and job creation.

The Government believes the growth in container capacity should be delivered in a way that advances this objective. In particular, the Government is keen to provide opportunities for additional competition in stevedoring and the logistics chain generally. This interest does not necessarily align with the desires of existing industry incumbents.

The Government has supported a terminal design at Port Botany that facilitates new market entrants and/or an increase in the level of competition between existing market participants. In this regard, the Government is mindful that stevedoring lease arrangements may vary considerably over the next decades. Indeed, the level of growth forecast will provide significant opportunities, and incentives, for new entrants.

The expansion of existing facilities at Port Botany is critical to creating the opportunity for competition in stevedoring in Australia. It has been strongly argued that competition in stevedoring requires new container infrastructure to be made available simultaneously at Australia's major container ports.

Failure to provide the opportunity for competition will leave the cost structure of the logistics chain in the hands of the stevedoring duopoly. Without adequate infrastructure nationally, competition will be precluded and the cost structure of imports could be adversely affected.

3.2.5 The Use of Intelligent Tracking Technology

NSW is leading Australia in the research and development of an Intelligent Access Program (IAP), a regulatory and technical framework which uses satellite-based telematics (commonly known as Global Positioning Systems) to monitor and enforce the route compliance of heavy vehicles operating under specific permit conditions.

There is potential for road authorities to use this technology to monitor the use of the road network in real time to ensure compliance with route conditions, and potentially speed and mass limits. Other potential advantages are:

- Reduced road safety risks related to fatigue management and driver hours;
- Allowing higher-productivity vehicles access to specific routes where there are no infrastructure constraints eg. bridge capacity limits;
- Effective monitoring of higher mass limits on national highways and regional roads.
- Effective monitoring of grain vehicle loading to receival points during the harvest period;
- It may enable higher axle loads on specifically nominated routes for containerised freight to railheads and ports for export commodities such as wine, cotton, wool and processed meat; and
- Potential for an innovative approach to heavy vehicle road use pricing.

NSW is participating in the development of a national model for an IAP through *Austrroads*, the association of Australian and New Zealand road transport and traffic agencies. The Australian Transport Council (ATC) is expected to endorse the IAP model developed by *Austrroads* in mid-2005.

4. COMMONWEALTH-STATE FINANCIAL ISSUES

The Commonwealth retains control over the major direct taxes (personal and corporate income) and the major indirect taxes (GST, customs and excise). The transfer of GST to the States has become a crucial source of revenue which will grow with the economy.

However, there is a real risk that the financial sustainability of the States and Territories and the federal system will be compromised due to:

1. The requirements that the Commonwealth places on tied grants in a range of areas - particularly their unilateral imposition of matching funding requirements; and
2. The impact of equalisation being applied to the whole of the proceeds of the GST, thus increasing the gap between what State taxpayers contribute and what they receive.

Over 40 per cent of State revenue comes from Commonwealth grants. The Commonwealth's policies on how it allocates grants and matching funding requirements will fundamentally affect NSW's ability to plan for, and invest in, necessary infrastructure.

The Commonwealth's imposition of conditions on tied grants (e.g. as proposed under *AusLink*) results in a reduction in the autonomy of the States and Territories. The States and Territories need to retain the freedom to spend their 'untied' revenue according to local needs and priorities.

There are also unsustainable inequities for the people of NSW (and Victoria) in the equalisation of Commonwealth grants through the Grants Commission. In 2004-05, the Commonwealth will transfer around \$3 billion of GST revenue raised in NSW to other States and Territories. This is equivalent to more than \$425 per person in NSW.

Neither *AusLink* funding or the Commonwealth's method for distributing grants appropriately reflect the substantial flow-on costs of increased freight movement in urban centres, such as the impact on the interconnecting State/local roads and traffic management or passenger transport operations. These costs are proportionately higher in more densely populated areas such as Sydney, due to the increasing marginal cost of providing services.

If current transport usage patterns and trends in international trade in NSW continue in future, such methods of funding allocation would not provide for either adequate maintenance of the existing network or the provision of new capacity.

Governments need to be clear about their respective responsibilities for maintaining the capacity of Australia's major cities and regional centres to contribute to Australia's economic development and social wellbeing. Sydney is Australia's only global city, and continues to be the economic powerhouse of the Australian economy. The Commonwealth needs to make a greater financial contribution to help overcome the costs to the national economy of 'local' congestion in Sydney and other capital cities.

The Commonwealth Government must commit to:

- Negotiating a reduction in the conditions attached to future tied grants;
- A review of the equalisation system to make it simpler to understand and administer and the rationale for transfers to States and Territories plainer and more open to scrutiny, resulting in a more equitable distribution of funds per capita; and
- Contributing to the costs of sustaining the nation's economic hubs.

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