7

TRANSPORT

Introduction

7.1 Australia's geography, size, isolation and clustering of population on the coast make transport services and transport infrastructure vital to economic development. The efficient provision of freight and personal transport to urban and larger provincial centres, regional areas and the many small and scattered centres of population across the continent is an immediate challenge.

> Transport plays a vital role in every aspect of our daily lives. The provision of roads, airports, seaports and railways, and the services that use that infrastructure to move people and goods affect our quality of life and our economy. Through the various forms of transport, people are linked with goods and services for work, for everyday essentials, for education, for health and for social and recreational purposes.[1]

7.2 Transport systems support the establishment and growth of regional communities and the promotion of regional industries, many of which suffer from the affects of dislocation due to long distances between the locality of goods production and their markets. Globalisation and the spread of e-commerce have reduced the intrinsic competitive advantage that countries and regions may have enjoyed in the past. Removing transport as a barrier to trade therefore takes on greater significance for regional and rural areas.

7.3 High transport costs are a disincentive to investment in regional areas and the submission from the Canberra Business Council suggests that 'key

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1 Western Australian government, Submission no. 273, p. 9.

transport nodes' should be developed across regional Australia to overcome these financial impediments and avoid relocation of companies offshore.[2] The influence of excessive transport costs on the establishment of new industries; the capacity for industry diversification into transport intensive activities; and industry locational decisions was recognised by the Industry Commission in it's 1993 report, *Impediments to Regional Industry Adjustment*.[3]

7.4 The following sections consider each transport mode in turn. The final part of the chapter discusses cross-sectoral issues.

Roads

7.5 'Roads are the lifeline for rural and remote Australia'. This statement in Austroad's 1997 report encapsulates the importance of roads to regional Australia. In brief, roads play a very significant role in the social and economic life of the nation. They are a vital element in the transport chain on which Australia's international competitiveness depends. With the loss of many services from small towns and the need to travel to regional centres for shopping and services, there is also now a greater dependence on road infrastructure than before.

Responsibility for roads

7.6 All three levels of government share responsibility for Australia's roads. The Commonwealth government funds the National Highway and shares, with the states and territories, the cost of Roads of National Importance. The states and territories have responsibility for the rest of the arterial network. Local government constructs and maintains local roads, which represent more than 80 per cent by length of the nation's roads.[4]

7.7 Commonwealth funds also support the Road Safety Black Spot Programme, about half of which is directed to locations in rural areas with a history of casualties from crashes. Through untied grants, Commonwealth funds are provided to local government for roads.[5] The Department of Transport and Regional Services indicated that this arrangement would continue under the new income tax arrangements,

2 Canberra Business Council, Submission no. 219, p. 3.

3 Department of Industry, Science and Resources, Submission no. 168, p. 7.

4 Department of Transport and Regional Services, Submission no. 255, pp. 8, 12-13.

5 Department of Transport and Regional Services, Submission no. 255, p. 12.

although responsibility for funding other local government activities will be transferred to the states and territories.[6]

Previous road studies

7.8 Many of the submissions to the committee's inquiry referred to problems with roads. The problems they enumerated have a long history and are well known. They have been the subject of studies and inquiries in recent years by parliamentary committees, government agencies, and private bodies. Among those that have carried out or commissioned extensive investigations are:

- the Australian Automobile Association;[7]
- the National Transport Planning Taskforce (NTPT);[8]
- the Business Council of Australia;[9] and
- the House of Representatives Standing Committee on Communications, Transport and Microeconomic Reform.[10]

The committee recognises the contribution of such bodies as these in identifying and clarifying the issues that need attention and in suggesting possible solutions to problems. It will build on the work of these groups in the discussion that follows.

Benefits of road infrastructure

7.9 A number of studies carried out over recent years, both in Australia and overseas, have established a clear connection between judiciously targeted investment in roads and economic development. In its submission, the Australian Automobile Association (AAA) summarised some of the findings from these studies.

- There is a significant positive relationship between investment in road and other infrastructure and private sector output.
- For a one per cent increase in investment in road infrastructure, private sector output would increase by 0.27 per cent.

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6 Department of Transport and Regional Services, Transcript of Evidence, 23 August 1999, p. 94.

7 The Allen Consulting Group, *Land Transport Infrastructure: Maximising the Contribution to Economic Growth*, Report to the Australian Automobile Association, 1993.

8 National Transport Planning Taskforce, *Building for the Job*, AGPS, Canberra, 1994.

9 J B Cox, *Refocussing Road Reform*, Business Council of Australia, Melbourne, 1994.

10 House of Representatives Standing Committee on Communications, Transport and Microeconomic Reform, *Planning not Patching: An Inquiry into Federal Road Funding*, AGPS, Canberra, 1997.

- An additional $1 billion invested in roads would yield a long run annual increase in GDP ranging from $810 million for urban arterials to $270 million for rural arterials and $110 million for local roads.
- The economic stimulation that this investment would produce would lead to a growth in employment of between 2,400 jobs for local roads and 19,000 jobs for urban arterials.

The AAA also pointed out that the returns from investing in roads are higher than those from most other types of economic and social infrastructure.[11]

7.10 The City of Port Adelaide Enfield noted that a greater economic stimulus is derived from multi lane than from two lane roads, and new construction and significant upgrading of roads are more effective economically than maintaining existing roads.[12] Better roads have also been shown to reduce accident and environmental costs; a Finnish study showed decreases of 59 and 44 per cent respectively.[13]

7.11 Several examples of the benefits of investing in roads in regional Australia were brought to the attention of the committee, two examples were:

- The projected upgrade of the Princes Highway from Melbourne to Geelong was estimated to have a benefit cost ratio of 4:1. Employment impacts associated with the project were estimated to peak at about 4,500 nationally and 2,240 in Victoria by the year 2025, mainly from the economic stimulus which flows from the reduction in business costs associated with transport cost savings.[14]
- At a private meeting, the Eastern Downs Organisation of Councils told the committee that the benefit cost ratio for the second range crossing between the coast and Toowoomba is greater than 2. That for the Bulahdelah bypass on the Central Coast of New South Wales is estimated at 3:1, according to the Roads and Traffic Authority.

7.12 Figures were also provided to the committee that illustrated the benefits that are being lost, or would be foregone, in the absence of spending on road infrastructure. For example, if road infrastructure in the south west of Western Australia is not improved, the development of the bluegum timber industry will be inhibited. As a result, projected government revenue will be $273 million rather than $430 million; and only 1,600 jobs will be created rather than the estimated 2,400 possible with investment in

11 Australian Automobile Association, Submission no. 239, pp. 1-2.

12 City of Port Adelaide Enfield, Submission no. 198, p. 6.

13 Great Southern Area Consultative Committee, Submission no. 165, p. 11.

14 Victorian government, Submission no. 247, p. 7.

roads. In addition, environmental benefits from carbon sequestration, native forest conservation, and reduced salinity and erosion will be less than would otherwise accrue.[15]

7.13 A similar situation exists where the timber industry is expanding in Victoria. Industry analysts estimate that, in the absence of adequate road maintenance in Delatite Shire, transport costs in the timber industry will rise by up to 20 per cent. As up to 50 per cent of the cost of timber is made up of transport costs,[16] a rise in costs of this magnitude will reduce the competitiveness of existing participants in the industry and reduce the incentive to make further investments in the industry. It is estimated that the loss in timber output as a result will amount to $50 million. The local horticulture, dairy, livestock and fleece, manufacturing, tourism and retail industries will also be affected.[17]

7.14 The Queensland government claimed that:

> Unless the decline in roads funding is reversed quickly, there will be irreparable damage to the competitive position of some of our major export industries, worsening rural-urban drift and consequential unemployment and underemployment and a downturn in national performance. … Over the next three to five years, roads have an essential role to play in supporting some of the most exciting industry development and employment creation initiatives in Australia, particularly in the North West of Queensland.[18]

The Queensland government also pointed out that road based travel for both passenger movements and freight was increasing in excess of 5 per cent per annum in some regions.[19]

7.15 Many other submissions to the inquiry made general observations about the impacts of poor roads, without quantifying the effects. The committee was told that poor roads increase the running costs of vehicles, lengthen travel time, influence the quality of goods carried over them, restrict access by tourists, reduce access for local communities to supplies and services, and are unsafe.

For all the above reasons, poor road infrastructure will deter the establishment of new businesses.

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15 Transport WA, Transport Infrastructure Project, *Summary Bluegum Plantation Industry: A Business Case for Investment in Transport Infrastructure*, 23 August 1999.

16 Timber Towns Victoria, Submission no. 159, p. 2.

17 Delatite Shire Council, Submission no. 161, pp. 18-20.

18 Queensland government, Submission no. 257, attachment 1, p. 13.

19 Queensland government, *op cit*, p. 12.

The state of the roads

7.16 From all around Australia, the committee received reports of deficient roads. State and local government and industry groups drew the committee's attention to the problems encountered on roads that are carrying ever increasing volumes of heavier vehicles. The South Australian Regional Development Taskforce summarised the situation faced by most of regional Australia as follows:

> Roads in most regions were designed and built many years ago and were not expected to handle the current and ever-increasing volume of traffic. In addition to the volume, transport vehicles are now generally wider, have more trailers and are heavier, all of which impacts on the state of the roads.[20]

Moree Plains Shire Council made the same point: 'the rural road system of Australia is at a crisis point; 19th Century road infrastructure must now be upgraded to meet the demands of the new millenium'.[21] Roads built in the boom of the 1960s are nearing the end of their lives, and a disproportionate number of them are due for reinstatement.[22]

7.17 To accommodate larger vehicles and heavier traffic, roads may need to be widened, rebuilt and, in some cases realigned to reduce travel time. Bridges may also need attention. As the Hon John Anderson, Minister for Transport and Regional Services, acknowledged recently, one of the sticking points in introducing higher mass limits on certain roads is the need to upgrade bridges. In response to this situation, the Commonwealth government is funding a nation wide survey of bridges to assess their structural capabilities, and has provided $20 million for upgrades.[23] Tasmania alone has approximately 200 bridges that need strengthening at a cost of over $40 million.[24] During its visit to northern Queensland, the committee was advised that a structurally suitable bridge did not exist at Midway Creek near Ingham. As a consequence, sugar needed to be transported three times the distance than would be the case if a better bridge existed.

7.18 As nearly two thirds of fatal accidents happen outside the urban area, safety on regional roads is an important issue. Attention to such safety

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20 *South Australian Regional Development Taskforce Report*, State Government of South Australia, April 1999, p. 29.

21 Moree Plains Shire Council, Submission 186, attachment, *An Overview of Rural Roads Issues and Proposed Federal Initiatives*, September 1998, p. 1

22 Tasmanian government, Submission no. 284, p. 12.

23 Hon John Anderson, Minister for Transport and Regional Services, speech to the Road Transport Forum Annual Convention, Adelaide, 1 May 1999.

24 Tasmanian government, Submission no. 284, p. 12.

elements as signs, road marking, sealing and maintenance of shoulders, overtaking lanes, guideposts and reflectors, and the design of intersections is needed.[25]

7.19 Another point in the road network that requires attention is its articulation with other transport modes. Compared with other countries, planning for streamlined connections between highways that converge on larger cities has been neglected.[26] In addition, several examples of the need for better roads to ports were brought to the committee's attention, for example, in Bunbury and Townsville. The Gillman Highway and Third River Crossing project linking the Port of Adelaide with the National Highway and rail network is another project that would reduce travel time and distances to the port and accommodate the largest freight vehicles.[27]

7.20 Many of the submissions to the inquiry nominated particular roads that need attention. These roads ranged from small roads that local councils had identified for urgent work through to some of the larger state and national highways.[28] It is not the committee's intention to comment on any of the specific proposals put to it, but to use them as examples of what needs to be done and how these needs might be met.

Maintenance

7.21 Local government from every state brought to the committee's attention the incapacity of local government to adequately maintain the roads for which they were responsible. Most councils attributed this state of affairs to a lack of funds. The Australian Local Government Association (ALGA) reported that recent research showed that the majority of councils in Tasmania, Victoria and New South Wales were not adequately funding the requirements for renewing their road infrastructure. ALGA provided summaries of the current and projected deficits in expenditure for small and large rural councils that are shown in Figures 5.1 and 5.2.[29] It concluded that:

> Extrapolation of the future shortfall across the entire country is nothing short of alarming. ... what might appear to be a local problem on the surface is in fact a national problem if it is

25 D Kneebone & D Berry (eds), *Australia at the Crossroads: Roads in the Community - a Summary*, 1997, Austroads, p. 43.

26 D Kneebone & D Berry (eds), *op cit*, p. 24.

27 City of Port Adelaide Enfield, Submission 198, p. 5.

28 For example, Australian Automobile Association, Submission no. 239, pp. 3-5; Leighton Contractors, Submission no. 125, p. 2; New South Wales government, Submission no. 260, pp. 13-14; Northern Regional Organisation of Councils, Submission no. 195, pp. 113-15; Department of Infrastructure, *Transporting Victoria*, 1998.

29 Australian Local Government Association, Submission no. 131, Attachment A, pp. 1-2.

> replicated across every local government area in the country. Further, if there is a problem with local roads there is also likely to be a problem with State funded roads and to some extent national roads.[30]

7.22 Several Victorian shire councils gave details of significant shortfalls in their funding of road maintenance. Delatite Shire Council was able to fund only 30 per cent of its requirements for roads and 20 per cent for bridges.[31] In its private meeting with the committee, Strathbogie Shire Council claimed that it could fund only 51 per cent of its requirements. Campaspe Economic Development Board, based in Echuca, referred to its need to spend $2.4 million on bridge maintenance and commented:

> With the Council expending $80,000 per year on bridge replacement, this would take 30 years to complete without doing any works, resulting from the deterioration of other bridges during that intervening period. ... Some of the bridges that need replacing have an estimated replacement cost of $500,000 plus, well beyond the Municipality's capacity to fund.[32]

7.23 An important point made to the committee was that, when maintenance is carried out in a timely fashion, it removes the need for more expensive work to repair more serious deterioration in condition.

7.24 While local councils attributed their problems to a lack of funds, others, such as the Australian Local Government Association and Senator Brownhill, suggested that additional factors were contributing to local council problems. These factors include a lack of appropriate management skills and systems, the need to adopt more efficient work practices and road building techniques, and lack of access to relevant information.[33] These issues are discussed further elsewhere in the report.

7.25 A similar picture of inadequate funding existed at state level. The Queensland government pointed out that, although state expenditure on roads had increased over the ten years since 1987-88, the demand for new investment in, and maintenance of, the state controlled road network far outstripped available funds to meet these needs.[34]

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30 Australian Local Government Association, Submission no. 131, p. 5.

31 Delatite Shire Council, Submission no. 161, p. 13.

32 Campaspe Economic Development Board, Submission no. 98, pp. 3-4.

33 Australian Local Government Association, Submission no. 131, p. 6; D Kneebone & D Berry (eds), *Australia at the Crossroads: Roads in the Community - a Summary,* 1997, Austroads, p. 45; Senator the Hon David Brownhill, *Rural Local Roads: A Looming Crisis Outside Our Front Gate,* A discussion paper, July 1999, p. 10.

34 Queensland government, Submission no. 257, attachment 1, p. 13.

Projected demand for roads

7.26 At the same time as they drew attention to the deficit in road maintenance, local councils reported that freight traffic was expected to increase very rapidly on some of these roads. For example, the safe carrying capacity of the Warrego Highway in south east Queensland will be exceeded by 2005, and a four fold increase in the freight carried will occur by 2020, according to the Eastern Downs Regional Organisation of Councils.

7.27 As a result of the proposed tax reforms, in particular reduced diesel fuel excise, Austroads expects business road travel to increase by about 1.7 per cent with truck vehicle travel expected to show the largest increase due to increases in the output of mining and manufacturing industries. Overall road demand is expected to increase by about one per cent. The increased demand for freight transport services will in part reflect some switching of freight from rail to road.[35]

7.28 Under the Commonwealth Plantations Australia - Vision 2020 program, large areas of land are being planted to trees. As a consequence, roads that were originally developed to service grazing industries now carry much heavier, larger timber trucks. Local councils across southern Australia are grappling with the resultant pressures on local roads that serve the newly timbered areas. In Western Australia, where the blue gum plantation industry is expanding rapidly, the state government will provide access for the industry through its secondary road network. However, it is estimated that $66 million are needed for shire roads that will be increasingly used.[36] The Great Southern ACC claimed that up to $40 million dollars are required beyond current budget allocations to build new roads and re-build existing local and major roads in order to cope with a fourfold increase in heavy haulage due to begin in the year 2000.[37]

7.29 Sugar is another industry that is expanding. Roads that previously serviced undeveloped or grazing country are now carrying the semi-trailers and B doubles that take cane to the mills. Further expansion is possible; in Cardwell Shire, for example, the area planted to sugar has been projected to increase by as much as 71 per cent between 1997 and 2006. In other areas, sugar rail and tramways have been closed and cane is now carried by road.[38]

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35 Austroads, *Implications for the Road Transport Sector of Potential Tax Reform*, Austroads Inc. 1999. Overview Summary, p. 1.

36 Transport WA, Transport Infrastructure Project, *Summary Bluegum Plantation Industry: A Business Case for Investment in Transport Infrastructure*, 23 August 1999.

37 Great Southern Area Consultative Committee, Submission no. 165, p. 3.

38 Cardwell Shire Council and Tully Sugar, Submission no. 263, attachment, *Economic Assessment of the Benefits and Cost of Sugar Expansion in the Cardwell Shire Over the Years 1997-2006*, p. 11.

7.30 Sugar and timber are only two examples of expanding industries. Others brought to the committee's attention are mining, tourism and wine and dairy industries.[39] One of the fast growing wine and associated tourist areas lies south and east of Adelaide. According to the three local councils affected, expansion over the last three years has varied from the pronounced to the spectacular, and is projected to increase at an expanding rate over the next five years, for example, by 368 per cent in the Adelaide Hills. It is estimated that $50 million are needed to bring roads up to a standard suitable to current and projected use.[40]

Road funding

Funding by government

7.31 Figures compiled by the federal Bureau of Transport Economics show that Commonwealth, state, territory and local government together spent $7 billion on roads in 1997-98. Road expenditure by the three levels of government over the last 10 years is shown in Table 7.1, and the breakdown of this sum by state and territory is given in Table 7.2. Figure 7.1 graphs the information about expenditure by the three levels of government given in Table 7.1, adjusting for changes over time in the cost of construction and maintenance.

7.32 From 1993-94 to 1997-98, Commonwealth expenditure on roads has remained constant in real terms, after a period of higher expenditure associated with the One Nation program. Over that same period, local government expenditure has trended slightly upwards, and state expenditure has risen more sharply. The overall trend in spending is upwards. However, Commonwealth expenditure in 1999-2000 will be lower than in 1998-99 because $55 million was brought forward from the 1999-2000 budget for use in 1998-99.[41]

7.33 Although the data presented in the last paragraph show that the overall expenditure on roads has increased in recent years, these figures do not reflect the experience of regional Australia. Indeed, the committee learnt from several sources that funding had decreased in some areas, for example, with respect to state funding in Tasmania.[42] According to the

39 Adelaide Hills Regional Development Board, Submission no. 49, p. 1; Victorian government, Submission no. 247, p. 3.

40 The City of Onkaparinga, Alexandrina Council and Adelaide Hills Council, Submission no. 158, pp. 8, 16.

41 Bureau of Transport Economics, *Public Road-Related Expenditure and Revenue in Australia 1999*, July 1999, p. 2.

42 *Connecting Tasmania: Draft Tasmanian Road Hierarchy and Targets*, Department of Infrastructure, Energy and Resources, September 1999, p. 2.

New South Wales government, its Commonwealth capital grants had been declining for more than a decade, and road grants under the Australian Land Transport Development Program had fallen by 2.3 per cent from $330 million in 1997-98 to $323 million in 1998-99.[43] The Northern Territory's funding for road maintenance had not been adjusted for inflation in the last two years, and Commonwealth funding for roads in Queensland had deteriorated over the last five years.[44]

7.34 In addition, local councils drew the committee's attention to factors that have inhibited their capacity to raise additional funds for roads. In some states, rates have been capped, and a 20 per cent rate reduction was instituted in Victoria three years ago for a period. Such developments have made it hard for councils to raise additional funds, particularly as demands for a greater variety of other services have also grown in recent years.

7.35 **What is clear from the information presented earlier in this chapter is that there are insufficient funds for the work needed on local roads.** Other evidence for this and for deficiencies in the funding of larger roads was also presented to the committee. It appeared to the committee that these deficiencies had probably existed for some time. The committee is concerned about the decline in funding evident in some of Australia's regional areas.

43 New South Wales government, Submission no. 260, p. 8.

44 Northern Territory government, Submission no. 232, p. 55; Queensland government, Submission no. 257, attachment 1, pp. 12-13.

Table 7.1 Government funding of road-related expenditure, 1988-89 to 1998-99

Government	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99[a]
					($ million)						
Commonwealth[b]	1232.3	1358.0	1595.9	1720.4	2177.0	1552.2	1535.5	1601.7	1622.8	1635.8	1711.7
State[c]	1602.7	1907.8	2223.8	2046.5	1877.8	2207.1	2264.3	2616.5	2904.9	3378.5	na
Local[c]	1431.4	1635.1	1556.2	1570.4	1705.6	1636.5	1503.1	1654.3	1845.0	1999.7	na
Total	4266.5	4900.9	5375.9	5337.3	5760.4	5395.8	5302.9	5872.5	6372.7	7014.0	na

Source *Bureau of Transport Economics, 'Public Road-Related Expenditure and Revenue in Australia', Information sheet 13, 1999, p. 1.*

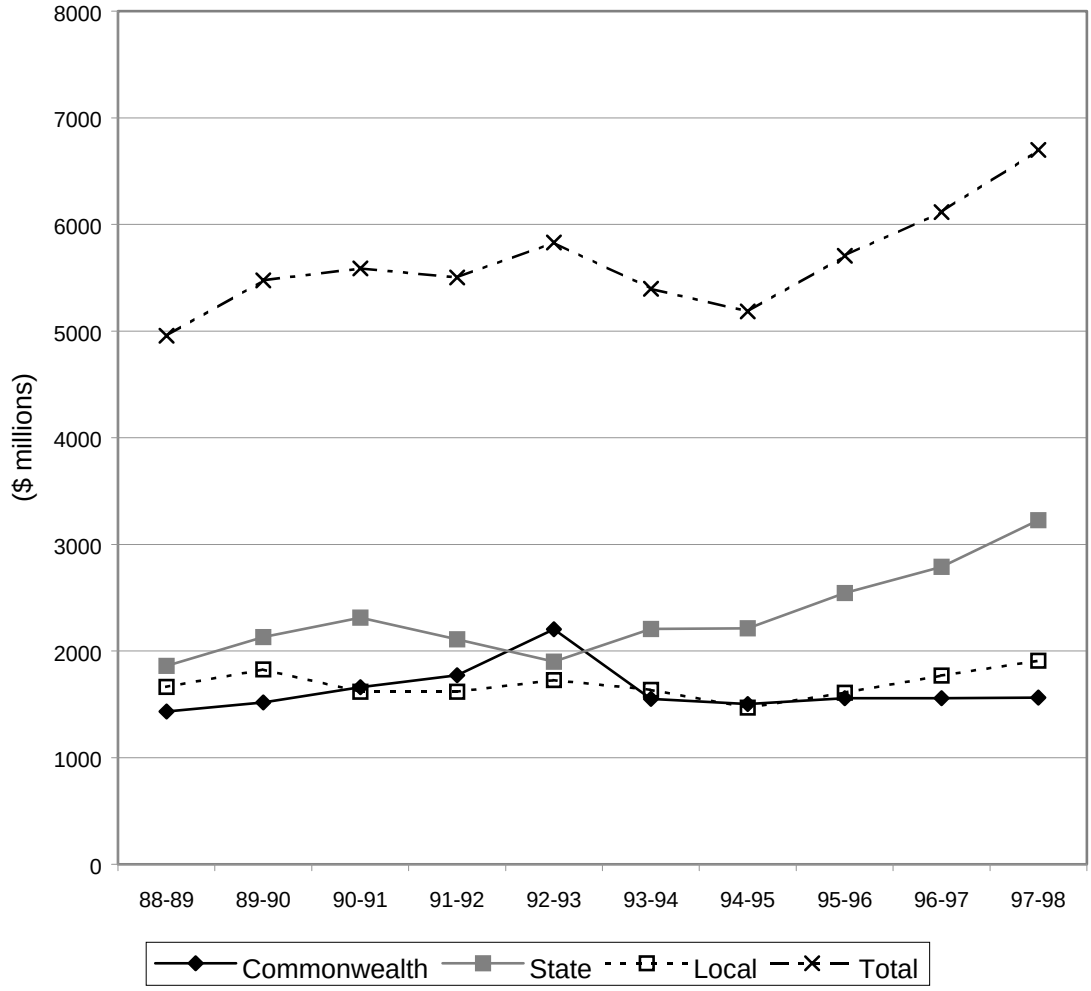
Key *a Commonwealth Budget estimates b Figures provided by the Department of Transport and Regional Services c Figures provided by the Australian Bureau of Statistics*

Table 7.2 Total road-related expenditure by state/territory, 1988-89 to 1997-98

Government	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
					($ million)					
NSW	1475.5	1768.8	2238.4	2219.8	2089.3	2030.6	1858.2	2019.1	2314.7	2428.5
VIC	960.2	995.0	944.8	945.7	1130.9	1005.6	1119.0	1059.1	1112.9	1179.6
QLD	851.4	995.3	1054.3	1041.6	1209.3	1147.9	1189.3	1394.8	1632.6	1824.8
SA	294.2	326.5	340.7	322.9	374.8	359.9	346.9	395.4	391.1	506.1
WA	400.7	438.4	445.0	480.6	580.6	498.5	504.3	688.9	597.5	741.8
TAS	154.4	164.4	147.6	142.3	170.2	156.7	157.2	173.3	181.2	178.7
NT	130.1	103.4	107.2	84.8	119.6	129.5	92.8	107.7	111.5	119.6
ACT	..	109.2	97.9	99.6	85.8	67.1	35.2	34.2	31.2	34.9
TOTAL	4266.5	4900.9	5375.9	5337.3	5760.4	5395.8	5302.9	5872.5	6372.7	7014.0

Source *Bureau of Transport Economics, 'Public Road-Related Expenditure and Revenue in Australia', Information sheet 13, 1999, p. 1. Figures may not add to totals due to rounding*

Figure 7.1 Real road-related expenditure by level of government



Figures provided by the Bureau of Transport Economics

Key: a New BTCE road cost index published. These figures for 1994-95 published in Transport and communication Indicators, March quarter 1996.

7.36 Data assembled by the Australian Bureau of Statistics show that the average age of Australian roads had increased from 16.3 years in 1983-84 to 18.6 years in 1995-96.[45] Furthermore, the AAA suggested that:

> There is ample evidence that the level and direction of investment in Australia's road and transport infrastructure in recent years has been inadequate, whether indicated by inadequacies in service levels, the low rate of creation and replacement of road capital, the

45 Quoted by Craig Parsonage, Submission no. 276, p. 11.

> costs of urban congestion, the high rate of return from investment in road projects, or the willingness of the private sector to invest.[46]

7.37 In a speech to AusCID, the Minister for Transport and Regional Development listed a number of key projects which are needed in the near future, but difficult to contemplate being delivered soon.[47] Faced with a large and continuing deficit in road funds, governments have sought investment and involvement from the private sector, as discussed in a later section of this chapter. However, as the Minister pointed out to the same audience:

> … as most of our road network has very low traffic volumes, a large proportion of the network will never be able to operate commercially. These roads are critical to our national and regional development and highlight the need for ongoing government funding.

Potential sources of government funding for roads

7.38 Several suggestions about increasing the funding for roads were made to the committee. Levies, for example, were seen as a means of raising funds. The Northern Rivers Regional Organisation of Councils in New South Wales proposed an additional amount be added to the tolls on the proposed Sydney east-west tunnel, and used for regional road funding.[48]

User charges

7.39 User charges are another possible source of road funding. The NRMA proposed road user charges be applied at federal and state levels. The charges should be transparent and reflect the funding requirements of each government's part of the road system, as well as other costs associated with road transport.[49] The AAA called for a petroleum based road user charge to fund a federal roads corporation. This corporation would be responsible for nationally important roads that met explicit economic and other criteria, including the National Highway, Roads of National Importance, and selected strategic routes within states and capital cities.[50]

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46 Australian Automobile Association, Submission no. 239, p. 1.

47 The Hon John Anderson, Minister for Transport and Regional Services, speech to the Australian Council for Infrastructure Development Annual Conference, 14 October 1999, Canberra.

48 The Northern Rivers Regional Organisation of Councils, Submission no. 195, p. 6.

49 *Cars and our Community: What We Say Should be Done,* NRMA Public Policy, October 1998, NRMA, p. 14.

50 Australian Automobile Association, Submission no. 239, p. 3.

7.40 The House of Representatives Standing Committee on Communications, Transport and Microeconomic Reform also considered user charges, which it found to be generally accepted by those organisations making submissions to that inquiry. That committee examined the use of fuel excise as a user charge and concluded that, 'in the absence of other mechanisms, fuel excise represents a reasonable road user charge that effectively relates road use and the cost of that use to the individual'.

7.41 That committee observed, however, that fuel excise does not adequately address the social costs of road use. It recommended a search for alternative road user charges that would take account of social as well as other costs and possibly make use of intelligent transport systems.[51] In doing so, it picked up concerns that had been brought up in earlier years. For example, the National Transport Infrastructure Taskforce stated:

> A pricing system for land transport infrastructure needs much more than a direct allocation of taxes paid by road and rail users to road and rail infrastructure funding. It also requires more than imposing tolls on new roads to recover the costs of their construction, either fully or in part. What is required is a pricing system that ensures the correct price signals flow to both users and providers of infrastructure.[52]

7.42 The introduction of national heavy vehicle registration charges was one of the priorities for road transport reform over recent years. These charges, which were instituted in 1995-96, represent a step towards more rational pricing of road use in that they attribute a portion of road expenditure to heavy vehicles in such a way that differentiates between vehicle types, and thus broadly estimates the wear and tear caused by each type. In light of changes in road use and road expenditure since the charges were introduced, and better information on the road cost responsibilities of different vehicles, the National Road Transport Commission recently recommended an increase in the fuel charge for heavy vehicles of 2 cents per litre, to take the charge to 20 cents per litre.

7.43 Austroads considers that the reduction in diesel fuel charges for heavy vehicles will provide a closer match to the proposed NRTC charges regime and to a marginal cost based charging methodology for rural traffic than that given by the present taxing and charging systems.[53]

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51 The House of Representatives Standing Committee on Communications, Transport and Microeconomic Reform, *Planning not Patching: An Inquiry into Federal Road Funding*, AGPS, Canberra, 1997, pp. 68-9. The government has not yet responded to this committee's report and recommendations, despite the passage of over two years since it was tabled.

52 National Transport Planning Taskforce, *Building for the Job*, AGPS, Canberra, 1994, p. 51.

53 Austroads, 'Implications for the Road Transport Sector of Potential Tax Reform', Austroads Inc. 1999, p. 61.

7.44 The committee is aware of further work that is being carried out on a road pricing model in an intelligent vehicle trial in Tasmania. This model includes a variable component for use related costs and a fixed component for costs that cannot be related to use. The latter would cover enhancements to the road network and costs associated with maintaining the road corridor.[54] In addition, while a start has been made on pricing for urban roads, more needs to be done for networks.[55]

7.45 The committee considers that work on user charging systems for heavy transport should be given greater priority. It believes that it is important that charges reflect better the environmental and other social costs of road use. Work on pricing and charging provides the basis for decisions about how to improve road user charges and whether to extend them. The committee is aware of concerns that the introduction of user charging adds to the existing tax burden associated with road transport, and proposes that any moves to extend user charging must be accompanied by consideration of its impact when added to that of other elements of road related taxation. The committee also acknowledges that, as the National Road Transport Commission pointed out:

> Arguments about the 'fairness' of charges are often used to modify the way prices are applied, while practical problems of implementation constrain how far pricing systems can be used to influence transport choices, particularly in the roads area.[56]

Recommendation 52

7.46 **The committee recommends that the Commonwealth government, in conjunction with state and territory governments, continue to:**

- **adjust road user charges as judiciously as possible to reflect the cost of providing roads to users; and**
- **explain to road users the changes that are occurring.**

54 *Pricing roads*, IVT Project Update, issue 7, June 1999. http://www.transport.tas.gov.au/ivt/issue_7.html, accessed 24 November 1999.

55 Department of Transport and Regional Services, Submission no. 255, p. 23.

56 National Road Transport Commission, *Updating heavy vehicle charges*, draft policy paper, http://www.nrtc.gov.au/publications/report-21_4.htm, accessed on 8 December 1999, p. 2.

Borrowing

7.47 In a private meeting with the committee, Fred Argy advocated that the government borrow to fund infrastructure. As discussed elsewhere in this chapter, he criticised the reluctance of governments to borrow for projects with clear economic returns for the nation. So too did the Industry Commission in evidence given to the inquiry into road funding by the House of Representatives Standing Committee on Communications, Transport and Microeconomic Reform. The commission referred to 'perceptions that public borrowing is less desirable than private sector borrowing - despite private or public sector debt having similar economic effects'.[57] Leighton Contractors also commented on the current political aversion to government debt. It pointed out that, in Queensland, that government's own legislation may prevent it from raising capital.[58]

7.48 In light of the great need for improved road infrastructure, the committee believes that the government's reluctance to borrow should be reconsidered. The committee is aware that that the House of Representatives Standing Committee on Communications, Transport and Microeconomic Reform also concluded that:

> … providing governments are prudent and recognise financing roads as an investment in an asset with net community benefits, then some governments may find it desirable to pursue public borrowing on the capital market for the provision of roads.[59]

On the other hand, there are those who regard the government's current fiscal prudence as essential to maintaining Australia's competitiveness in a globalised economy.[60]

7.49 Despite contrary views, the committee believes that the government should consider borrowing to fund road infrastructure. Any government borrowing for road projects should be modest and conservative. The possible returns from any such projects should be viewed in the context of their impacts over many years into the future. The committee further proposes that borrowing be considered only when no other possibilities for funding exist, either by more efficient use of existing funds or by

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57 Quoted by the House of Representatives Standing Committee on Communications, Transport and Microeconomic Reform, *Planning not Patching: An Inquiry into Federal Road Funding,* AGPS, Canberra, 1997, p. 110.

58 Leighton Contractors, Submission no. 125, p. 3.

59 The House of Representatives Standing Committee on Communications, Transport and Microeconomic Reform, *Planning not Patching: An Inquiry into Federal Road Funding,* AGPS, Canberra, 1997, p. 110.

60 D O'Neill, *Infrastructure: The Challenge,* paper given at the Regional Australia Summit, October 1999, p. 7.

private sector involvement in the project. Any project funded through borrowings would, of course, have to meet stringent benefit cost criteria and have regard to social externalities, as discussed later in this chapter.

Recommendation 53

7.50 **The committee recommends that the Commonwealth government consider borrowing to finance major road infrastructure when other sources of funds are not available.**

Recommendation 54

7.51 **The committee further recommends that the Department of Transport and Regional Services, in cooperation with The Treasury, develop criteria for assessing road projects to be considered for funding by borrowing.**

7.52 The committee is aware that the House of Representatives Standing Committee on Communications, Transport and Microeconomic Reform listed some of the legal and administrative impediments to government use of private and public sector financing. It recommended that all such impediments be identified and any that are unwarranted be removed,[61] a recommendation that this committee (on Primary Industries and Regional Services) supports.

Extending Commonwealth responsibility for roads

7.53 In addition to seeking more funding from the Commonwealth government, it was also put to the committee that the Commonwealth government's responsibilities should extend beyond the current network comprising the National Highway and Roads of National Importance.[62] For example, westward extension of the status as a Road of National Importance beyond Mount Victoria to the road from Sydney to Parkes was a possible candidate here.[63]

61 The House of Representatives Standing Committee on Communications, Transport and Microeconomic Reform, *op cit*, p. 112.

62 The Queensland government, for example, called for additional expenditure on the National Highway in that state (Submission no. 257, p. 11).

63 Department of Transport and Regional Services, Transcript of Evidence, 23 August 1999, p. 96.

> The extension of the network was also seen as being appropriate to situations where demands for roads are increasing rapidly, as in areas where timber plantations are being established.[64]

The Western Australian Regional Development Council made the general point that there is a need for governments to develop a model for responding to the infrastructure needs in regional areas where a significant new industry emerges in such a dramatic fashion.[65] In Victoria, some funding had been forthcoming from the state government but none from the Commonwealth.[66]

7.54 The committee understands that, under the proposed tax reforms, the present reimbursement of previous state fuel levies will be replaced by reimbursement of GST levies to states. Road agencies will be required to make arrangements at the individual state level for funding from state treasuries of amounts equivalent to the previous state fuel levies. Austroads points out that, if reimbursement arrangements are made on the basis of present fuel levies plus fuel consumption by motor vehicles, a slight increase in revenue from expected increased fuel consumption will occur.[67]

7.55 It is the committee's impression, however, that the deficit in local roads exceeds that for other elements in the national road network. The committee considers that the Commonwealth government should work with state, territory and local government to assess how local government access to road funding could be extended. Among other matters it should consider the possibility of revenue from:

- user contributions;
- whether additional funding could be sought, either from the private sector or from government borrowing; and
- whether Commonwealth contributions to local road funding should be increased.

7.56 In relation to the latter point, it should be noted that, of the $2.3 billion spent by local government on roads each year, the Commonwealth government provides $380 million.[68] The appropriateness of additional Commonwealth funding for local roads would need to be determined in

64 For example, the Great Southern Area Consultative Committee, Submission no. 165, p. 3; Timber Towns Victoria, Submission no. 159, p. 4.

65 Regional Development Council, Submission no. 286, p. 9.

66 Plantations North East, Submission no. 84, p. 2.

67 Austroads, *Implications for the Road Transport Sector of Potential Tax Reform*, Austroads Inc. 1999, pp. 55-56.

68 Department of Transport and Regional Services, Submission no. 255, p. 8.

the context of the relative priorities for all roads, a point that is discussed further later in this chapter.

7.57 The committee concludes that the most effective means at the present time for increasing the funds available for regional roads, over and above what is currently being spent, is from fuel excise. The committee believes that regional roads, together with rail, which is considered later in this chapter, are more in need of additional funds than other parts of Australia's transport network.

Recommendation 55

7.58 **The committee recommends that three cents per litre of the excise collected from fuel sales be preserved for expenditure on transport infrastructure. Of this three cents, two cents per litre should be devoted to the construction and maintenance of regional roads.**

Funding by the private sector

BOOT schemes and competitive tendering

7.59 In its inquiry into road funding, the House of Representatives Standing Committee on Communications, Transport and Microeconomic Reform summarised the three ways in which the private sector has been involved with roads. They were:

- competitive tendering for design and construction where ownership and financing remains with the public sector;
- build-own-operate-transfer (BOOT) schemes where construction and financing is by the private sector, which is granted a concession to operate the infrastructure before it passes to government ownership; and
- tendering for maintenance contracts.[69]

7.60 The rationale for private sector involvement in the provision of roads is its greater efficiency in both construction and maintenance and the likelihood that projects will be completed more quickly. The private sector is also seen as being more innovative financially and technologically and more

69 The House of Representatives Standing Committee on Communications, Transport and Microeconomic Reform, *Planning not Patching: An Inquiry into Federal Road Funding,* AGPS, Canberra, 1997, p. 99.

capable than the public sector of managing risk and resources. In addition, with the growth of superannuation funds, a source of capital for large projects is more readily available than it has been in the past. However, borrowing by the private sector may be more expensive than for the public sector. [70]

7.61 Austroads points out that the future capital cost for financiers building road infrastructure will be impacted by the proposed tax reforms. If GST credits can be accumulated during construction and claimed against future GST revenue from road tolls, then the capital cost could fall by 4.5 per cent. If this is not the case, then the addition of GST to the un-refunded capital expenditures and losses will be expected to worsen the marginal cost situation.[71]

7.62 A significant issue in private sector involvement in infrastructure is the allocation of risk between public and private sectors, which is discussed in more detail elsewhere in this report. Another matter of concern is the lack of appropriate skills for managing private sector involvement, particularly at local council level. ALGA observed:

> There is no doubt that a greater emphasis will be placed in the future on private sector financing (within a manageable Council debt structure) and on appropriate road pricing mechanisms.

However, as ALGA commented, at present many councils do not have the necessary skills to manage road infrastructure in this way. 'Only as Councils move up the continuous improvement path ... will they appreciate which industries require improved transport infrastructure and how to fund it'.[72]

7.63 The House of Representatives Standing Committee on Communications, Transport and Microeconomic Reform concluded that there was compelling evidence concerning the effectiveness of competitive tendering. It recommended the pursuit of economies of scale by bundling several smaller tasks into one larger task, and by letting longer term maintenance contracts.[73] This committee was advised that local

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70 Leighton Contractors, Submission no. 125, p. 3; D O'Neill, *Infrastructure: The Challenge*, paper given at the Regional Australia Summit, October 1999, pp. 2-3; The House of Representatives Standing Committee on Communications, Transport and Microeconomic Reform, *op cit*, pp. 100, 104.

71 Austroads, *Implications for the Road Transport Sector of Potential Tax Reform*, Austroads Inc. 1999, p. 56.

72 Australian Local Government Association, Submission no. 131, p. 6.

73 The House of Representatives Standing Committee on Communications, Transport and Microeconomic Reform, *Planning not Patching: An Inquiry into Federal Road Funding*, AGPS, Canberra, 1997, pp. 107-9.

government has obtained some benefits from national competition policy by learning to become more efficient.

7.64 However, a recent report by a Senate Select Committee on the socio-economic consequences of national competition policy found that competitive tendering often favoured large companies at the expense of local companies. For example, loss of road maintenance contracts by local councils was affecting local employment prospects. It urged review and finetuning of the policy, including clarification through the COAG of the public interest test governing its implementation. **The committee is concerned at the loss of employment in regional Australia due to national competition policy.**

7.65 The use of BOOT schemes is growing in Australia, and the experience gained is contributing to a body of knowledge about them. More recently the model has developed to include design and maintenance. In new road networks in the United Kingdom, for example, which have been constructed on a design, build, fund and operate basis, the private sector company designs the project to cover the cost of maintaining the asset over its whole life, rather than building to the specification of the road authority.[74]

7.66 As the success of BOOT projects depends on a revenue stream, which is usually based on use, BOOT roads are generally suitable only in more populated areas. Their usefulness to regional Australia may be indirect, in that, by financing urban and outer urban roads, government funds may be freed up for use on regional roads.[75]

7.67 Several local councils were reported to be considering BOO (Build-Own-Operate) and BOOT schemes, and guidelines to assist them have been developed, for example, by the Local Government Association of Queensland.[76] The New South Wales government has issued guidelines for use by all departments and authorities involved with private sector provision of public infrastructure. Although they are not binding on local councils, the government encourages councils to use the guidelines, within the strictures of borrowing requirements and the Loan Council.[77]

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74 Hon John Anderson, Minister for Transport and Regional Services, speech to the Local Government Association of Queensland, Queensland Road and Transport Forum, 21 April 1999.

75 Department of Transport and Regional Services, Transcript of Evidence, 23 August 1999, p. 94.

76 Warnabool City Council, Submission no. 274, p. 4.

77 *Guidelines for Private Sector Participation in the Provision of Public Infrastructure,* New South Wales government, undated, p. 2.

7.68 Reporting in 1997, the House of Representatives Standing Committee on Communications, Transport and Microeconomic Reform examined the BOOT model for road provision at some length. It identified several possible benefits, including the more efficient allocation of resources through pricing signals, encouragement of innovation, and better allocation of risk.[78] Information provided to the current inquiry reiterated these points.[79] However, that committee also listed a number of disadvantages, including substantial costs and the use of public resources.

7.69 The Hon John Anderson, Minister for Transport and Regional Services, recently acknowledged that the allocation of risk between private developer and the contracting government is a critical issue with BOOT arrangements.[80] Some commentators believe that it is more appropriate for the government to bear the risk of raising capital and leave the private sector to do what it is good at: design, construction and maintenance.[81]

7.70 The House of Representatives Standing Committee on Communications, Transport and Microeconomic Reform concluded that BOOT schemes were unlikely to be the best method of delivering Commonwealth, state, territory or local government road projects. It advocated continued public sector ownership of roads, competitive tendering and contracting out, and case by case consideration of any proposals to employ a BOOT approach.[82] At the time of that inquiry, the Commonwealth Bank also had reservations about BOOT arrangements.[83]

7.71 The committee is aware that the Commonwealth government currently seeks private sector operators that will finance and control the new infrastructure, as opposed to contracting out the task. In view of the arguments summarised above, the committee proposes that the government should monitor carefully the carriage of any new BOOT schemes into which it enters, and review and publicly report on its experience as well as that of other jurisdictions and countries.

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78 The House of Representatives Standing Committee on Communications, Transport and Microeconomic Reform, *Planning not Patching: An Inquiry into Federal Road Funding*, AGPS, Canberra, 1997, p. 113.

79 For example, *Wheatbelt Regional Transport Strategy*, Arup, November 1997, p. 36.

80 Hon John Anderson, Minister for Transport and Regional Services, speech to the Australian Council for Infrastructure Development Annual Conference, 14 October 1999, Canberra.

81 T Harris, *Private funding not the toll-road answer*, The Australian Financial Review, 16 November 1999.

82 The House of Representatives Standing Committee on Communications, Transport and Microeconomic Reform, *op cit*, pp. 114-15.

83 Quoted, The House of Representatives Standing Committee on Communications, Transport and Microeconomic Reform, *op cit*, p. 111.

Recommendation 56

7.72 **The committee recommends that the Auditor-General, in conjunction with state and territory auditors-general, examine, report and make recommendations on the operation of road BOOT schemes, and develop a best practice guide for BOOT schemes.**

7.73 The committee is aware that the government is examining UK experience with a partnership between public and private sectors for financing and operating roads and road networks which are not commercially viable and will not be funded by government alone.[84] There are also other suggestions that might be considered in relation to infrastructure, such as renting or franchising.[85] The committee applauds the search for new and refined approaches to involving the private sector in bearing some of the costs of providing and operating roads.

7.74 Current BOOT schemes normally involve design, construction, operation and maintenance with the owner recouping its investment from tolls or shadow tolls. Both tolling and shadow tolling present problems, including the difficulty of estimating the traffic flows over many years into the future. This has been the experience in both the UK and New South Wales.[86] According to officers from the Department of Transport and Regional Services, shadow toll schemes are only viable with a reasonable volume of traffic, which, in the Australian context equates to outer urban roads. The committee was told that 'if you look in regional areas, given the traffic volumes in regional Australia, the shadow tolls would have to be too high and it would not work'. The tolls have to generate a sufficient income stream to enable the private sector operator to repay its borrowings. If they do not, the owner of the road is effectively receiving a subsidy or concession and the government might have been able to borrow the money itself more cheaply.[87]

7.75 Another problem with shadow tolls stems from the tax regime which, according to the Australian Infrastructure Development Council, does not allow such an arrangement to work successfully.[88] However, the

84 Department of Transport and Regional Services, Submission no. 255, p. 14.

85 J Fallon, *Privatising Public Infrastructure: rationale and key issues*, Economic and Policy, vol. 27, pp. 175-89; T Harris, *Private funding not the toll-road answer*, The Australian Financial Review, 16 November 1999.

86 T Harris, *Private funding not the toll-road answer*, The Australian Financial Review, 16 November 1999.

87 Department of Transport and Regional Services, Transcript of Evidence, 23 August 1999, pp. 85, 92-93.

88 Australian Council for Infrastructure Development, Transcript of Evidence, 21 June 1999, p. 3.

Department of Transport and Regional Services argued that, while the regime makes private investment harder, it is not as great an impediment as is sometimes claimed.[89]

User contributions

7.76 Several instances were pointed out to the committee in which newly established businesses were making much more extensive use of local roads than these roads had ever experienced before. It was suggested that these businesses should contribute, other than just through the payment of rates, to the maintenance and upgrading of the roads. One such development was a large multi million dollar feedlot development in Emerald; a local resident raised the question of whether the feedlot owner had any responsibility to improve the road travelled by the many heavy trucks servicing this business. Strathbogie Shire Council in Victoria suggested that local quarrying and timber industries might contribute to the costs of the roads they used. Burketown Shire Council raised a similar issue in relation to the provision of roads used by Pasminco Century Mine.

7.77 The Department of Transport and Regional Services referred to the possibility that mining, timber and sugar industries might partially finance local roads.[90] According to officers of the South Australian Department of Primary Industries and Resources, that department was also exploring the possibility of mining companies contributing to road funding and maintenance.

7.78 Other submissions argued the contrary case. For example, sugar growers in the Herbert River area claimed that the government should provide funding because other industries, such as tourism and forestry, would also benefit from improvements to the roads. A representative of OJI Paper, ITOHUI Company, who met the committee in Bunbury, made the same point in relation to the timber industry in south western Western Australia. The committee learnt that the timber industry in Western Australia, although objecting to contributing to meeting the costs of providing roads, is funding rail and port infrastructure.[91]

7.79 Timber industry expansion poses particular problems for councils; timber trucks cause local roads to deteriorate under the pressures of heavy loads at a time when municipal rate revenue is declining with the switch of land uses.[92] This is also a problem for councils in dairying areas, wine growing

89 Department of Transport and Regional Services, Transcript of Evidence, 23 August 1999, p. 86.

90 Department of Transport and Regional Services, *op cit*, p. 94.

91 Transport WA, Transport Infrastructure Project, *Summary Bluegum Plantation Industry: A Business Case for Investment in Transport Infrastructure*, 23 August 1999.

92 Glenelg Shire Council, Submission no. 155, p. 2.

areas and areas where rapid expansion of tourism is occurring. Furthermore, since the privatisation of the Victorian Plantations Corporation, local councils in that area have been responsible for servicing roads previously maintained by the state government.[93]

7.80 The House of Representatives Standing Committee on Communications, Transport and Microeconomic Reform has also reviewed the arguments for and against private sector road users contributing to the provision and maintenance of public roads, if they receive significant benefit from them. It recommended that this suggestion be further examined for Commonwealth road projects.[94] This committee (on Primary Industries and Regional Services) supports the other committee's recommendation and urges the government to respond soon.

Planning for good road management

7.81 With insufficient funds to address the perceived needs for upgrading and maintaining roads, it is important that the funds that are available are used in the best possible way. They need to be directed to those projects that will maximise the resulting benefits. This point has been recognised for some time, and a number of elements identified and some of them introduced to assist in the cost effective use of road funds.

7.82 The basis for good decision making is information, and the committee's attention was drawn to the fact that adequate data are not always available. Austroads' 1997 report made this point:

> The development of an effective rural local road network needs knowledge of present and expected traffic demands. … It requires a relevant database … There is no rural local roads data base. Little is known about the condition and use of the local road network in any systematic way. There is, therefore, little quantified information which can lead to effective advocacy of needs and efficient delivery of services to users.[95]

93 Timber Towns Victoria, Submission no. 159, pp. 2-3.

94 House of Representatives Standing Committee on Communications, Transport and Microeconomic Reform, *Planning not Patching: An Inquiry into Federal Road Funding,* AGPS, Canberra, 1997, pp. 115-17.

95 D Kneebone & D Berry (eds), *Australia at the Crossroads: Roads in the Community - a Summary,* Austroads, 1997, p. 45.

In addition, this report stressed that databases need to be standardised to allow for the interchange and integration of data. Earlier reports also called for better databases.[96]

7.83 Following its examination of the available databases, the House of Representatives Standing Committee on Communications, Transport and Microeconomic Reform recommended that the Commonwealth government, in conjunction with state and territory governments, examine the scope for the development and maintenance of a national road data base to support the Commonwealth's strategic role in road funding. It further recommended that an appropriate organisation be determined to develop and maintain such a database.[97] **This committee (on Primary Industries and Regional Services) strongly supports the other committee's recommendation on this matter.**

7.84 Craig Parsonage proposed to the committee that the Commonwealth government, in conjunction with state and local government, should audit the nation's roads. He suggested that this measure would provide a precise assessment of the state of the nation's road assets and assist with forward funding programs. It would also increase the accountability of road agencies.[98] The House of Representatives Standing Committee on Communications, Transport and Microeconomic Reform recommended regular evaluation of the national highway.[99]

7.85 **Again, the committee agrees with the other committee's conclusion and recommendation. It also considers an ongoing audit of the state of the nation's roads is the only way in which well founded decisions about expenditure across all roads can be made.** Audits of state and local government roads are the responsibility of those levels of government and will be carried out by them. It is the committee's impression, however, that local councils may lack the resources to carry out such audits. The committee is also aware that a similar call has been made for audits of infrastructure in general. These topics are discussed elsewhere in this report and the issue of providing assistance to local councils is canvassed.

7.86 Another requirement for the better administration and funding of local roads is a regional approach to planning and management across governments and agencies. This represents a challenge, as Austroads'

96 B Cox, *Refocussing Road Reform,* Business Council of Australia, Melbourne, 1994, p. 5*;* National Transport Planning Taskforce, *Building for the Job,* AGPS, Canberra, 1994, p. vi.

97 House of Representatives Standing Committee on Communications, Transport and Microeconomic Reform, *Planning not Patching: An Inquiry into Federal Road Funding,* AGPS, Canberra, 1997, p. 95.

98 Craig Parsonage, Submission no. 276, p. 15.

99 House of Representatives Standing Committee on Communications, Transport and Microeconomic Reform, *op cit,* p. 25.

report pointed out, given the number of local councils in Australia.[100] According to information provided to the committee, the necessary coordination among road authorities and councils was not always apparent. Strathbogie Shire Council told the committee at a private meeting that the lack of cohesion between the three levels of government was a fundamental problem. It pointed out that, with ad hoc planning, efficiency gains were not being realised.

7.87 Examples of regional cooperation in data gathering and planning are the timber road evaluation studies (TIRES) which have been carried out in Victoria, New South Wales, and South and Western Australia. The stimulus for these studies was the rapid expansion of timber plantations in these areas. It became apparent that, while competitive rail charges and access to deep water ports are important, 'the weakest link at the present time is the matter of funding for local municipal roads'.[101] In Victoria, with funding from state and local government and the timber industry, existing and future woodflow data were quantified, and the strategic road networks required to support the development of the timber industry over the next 35 years were identified.[102] Western Australia's Regional Development Council pointed out that the TIRES approach in the south west of that state was an example of building close relationships between the three levels of government.[103]

7.88 The committee is impressed by the planning processes employed by TIRES projects, particularly those that extend studies to cover all requirements for transport within a region.

Recommendation 57

7.89 **The committee recommends that the Commonwealth government encourage state and territory governments to support regional planning for roads by consortia of regional stakeholders.** (see also recommendations 5 and 7)

7.90 Certainty of funding is another factor that assists the better delivery of road services. Greater certainty was recommended by the House of Representatives Standing Committee on Communications, Transport and

100 D Kneebone & D Berry (eds), *Australia at the Crossroads: Roads in the Community - a Summary*, Austroads, 1997, p. 45.

101 Plantations for Australia, Submission no. 84, p. 2.

102 Timber Towns Victoria, Submission no. 159, p. 2.

103 Regional Development Council, Submission no. 286, p. 9.

Microeconomic Reform, which called for a guaranteed funding approach for a three year rolling period for its tied road funding program. The Northern Territory government commented on the hardship caused to some communities when, in 1996, the Commonwealth government cancelled funding to the territory from the Strategic Roads program after only $5.2 million of $15.6 million had been spent.[104] This committee (on Primary Industries and Regional Services) also considers that greater certainty of funding would be desirable.

Conclusions

7.91 This committee (on Primary Industries and Regional Services) is concerned that the government has not yet responded to the 34 recommendations about federal road funding made by the House of Representatives Standing Committee on Communications, Transport and Microeconomic Reform. This committee regrets the tardiness of the government and recommends that the government respond soon. The committee has earmarked several recommendations that are of particular significance to this inquiry.

Recommendation 58

7.92 **The committee recommends that the Commonwealth government respond without further delay to the recommendations made in 1997 by the House of Representatives Standing Committee on Communications, Transport and Microeconomic Reform in its report, *Planning not Patching: An Inquiry into Federal Road Funding*.**

National Highway – inclusion of Tasmania

7.93 While the economic consequences of isolation and vast distances affect the whole nation, the physical separation of Tasmania from the Australian mainland is the source of a distinct financial disadvantage relative to other states. Persistently higher transport charges mitigate against the expansion of existing industries and Tasmania's development.

7.94 Schemes developed to address the transport disadvantage, such as the Tasmanian Freight Equalisation Scheme and the Bass Strait Passenger

104 Northern Territory government, Submission no. 232, p. 51.

Vehicle Equalisation Scheme (BSPVES), have had limited success, both in reducing the transport disadvantage and in increasing travel between Tasmania and the mainland. The National Sea Highway Committee (NSHC), representing major business interests across Tasmania, has developed a practical proposal for passenger fare equivalence across Bass Strait titled the Bass Strait Sea Passenger Equalisation Scheme (BSSPES). It aims to ensure that all Australians have equal rights and access to travel a truly 'national highway' for the purposes of interstate transport at an equal cost on a cents per kilometre basis, regardless of destination. Thus, sea travel to and from Tasmania would be equivalent to road travel, were that possible. The NSHC favours alteration to the Australian Land Transport Development Act so that, in the same way that vehicular ferries forming part of a 'road' between mainland capitals and crossing bays and rivers can be declared part of the national highway, ferries to Tasmania could be included and the national highway continued across to Tasmania. At present, Bass Strait ferries are excluded because they cross Commonwealth waters and technically travel outside a state.

7.95 The BSSPES proposal, tabled in federal parliament in August 1999 and supported by all major parties, was discussed with the committee during its visit to Longford. Clear equalisation, not subsidisation, is the aim. It incorporates the staged introduction of two fast catamarans (with capital costs met by the Commonwealth) to cut travel time across Bass Strait to about four hours, and two freight ferries offering limited passenger accommodation. The freight component of the ferries would be provided by the private sector with the state government supporting the passenger service. The reduction in diesel fuel costs from proposed tax reforms reinforce arguments for the scheme which involves two strands:

- changes to the BSPVES to achieve full cost equalisation for all passengers or, as a minimum, fares that equate to the cost of driving an equivalent highway distance for all vehicle passenger; and
- changes to TT-Line's fare structure to reduce the fare charged per passenger and to increase the number of passengers carried.

7.96 Proponents of the scheme claim that it would result in a significant economic boost to Tasmania with a potential increase of at least 655 000 passengers per year and an injection of $433 million into the economy, resulting in around 9 000 jobs. Benefits would also accrue to:

- Victoria (additional 343 600 visitors and $137 million per annum, leading to the creation of over 2 900 jobs); and
- the Commonwealth (improved budgetary position of around $150 million per annum due to lower welfare payments, increased taxation receipts and ultimately, a lower cost equalisation scheme).

7.97 The committee supports the proposal and urges the government to develop a means of implementing the scheme as soon as possible.

Recommendation 59

7.98 **The committee recommends that the Commonwealth government work with the Tasmanian government and the private sector in implementing the Bass Strait Sea Passenger Equalisation Scheme as soon as possible.**

Rail

Introduction

The role of rail

7.99 The Australian rail industry contributes to the national economy in a number of ways, providing employment in regional areas and transporting key export commodities. The use of rail for the transport of freight and people saves thousands of road trips, improves road safety and reduces road damage and road congestion.

7.100 Rail has a dominant role in moving export coal, iron ore and wheat to our ports. These large freight tasks are being performed with increasing efficiency, which is vital for Australia's international competitiveness.[105]

7.101 Rail is no longer a significant provider of passenger transport in regional and rural Australia. The withdrawal of some rail services across some rural and regional communities has reduced access to medical services, educational institutions and employment opportunities for people living in these areas.[106] An exception to this trend is Queensland Rail's tilt train, operating from Brisbane to Rockhampton and Bundaberg. The service began in November 1998 and within the first six months had carried 100 000 passengers.[107]

7.102 Rail employment in regional areas generates significant economic benefit by returning millions of dollars in earnings to regions each year.[108] There

105 Associate Professor Philip Laird, Submission no. 31, p. 1.

106 Human Rights and Equal Opportunity Commission, *Bush Talks*, 1999.

107 Associate Professor Philip Laird, Submission no. 296, p. 1., and supplementary Submission no. 31 p. 3.

108 Australasian Railway Association Inc, Transcript of Evidence, 21 June 1999, p. 12.

are over 180 companies in the Australian rail industry employing some 80 000 people, with a significant number of jobs in regional areas such as the Hunter Valley in NSW and Maryborough in Queensland.[109]

Other inquiries

7.103 As with the other sectors of the inquiry, the committee has taken into account previous inquiries and reports. Of particular relevance to the rail industry are:

- Rail Projects Taskforce, *Revitalising Rail: the private sector solution*, April 1999 ('the Smorgon report');
- Productivity Commission, *Progress in Rail Reform Draft Report*, March 1999; and
- House of Representatives Standing Committee on Communications, Transport and Microeconomic Reform, *Tracking Australia: an inquiry into the role of rail in the national transport network*, July 1998 ('the Neville report').

7.104 The government has not yet responded to the reports. However, the Department of Transport and Regional Services has indicated that it will provide advice covering all three reports to the Minister for Transport and Regional Services by March 2000.[110]

A changing rail industry

The reform process

7.105 Since 1991, both the structure and operations of the Australian rail industry have been undergoing major reforms, driven at both the Commonwealth and state levels.

> Profitability, privatisation and innovation are the key words of today's rail industry. Australia's railways have embraced reform, cut costs and sought new markets.[111]

7.106 Reforms have involved either commercialisation or corporatisation, with the general aim to improve the efficiency of railways and to promote competitive neutrality between public and private operations. In some

109 Australasian Railway Association Inc, Submission no. 175, p. 7.

110 Senate Standing Committee on Rural and Regional Affairs and Transport, Legislation Committee, Transcript of Evidence, 1 December 1999, p. 95.

111 Australasian Railway Association Inc., Submission no. 175, p. 3.

instances the reforms have been used to prepare railways for privatisation.[112]

7.107 The Productivity Commission's report *Progress in Rail Reform* provided a stocktake of what the Commission considered to be the key reform initiatives implemented in each Australian jurisdiction since 1991.[113] A summary of initiatives that impact regional and rural Australia is given in Table 7.3

Table 7.3 Key reforms impacting rail in regional and rural Australia during the 1990s

Date	Nature of reform or policy initiative
1991	Industry Commission's inquiry into rail transport.
1991-92	National Rail Corporation (NRC) established by Commonwealth government to operate interstate rail freight.
	Queensland Rail established as a corporate body, providing vertically integrated freight and passenger operations.
1993-94	Australian National (AN) interstate freight business transferred by Commonwealth to NRC.
	Provision of access allowed two private operations to provide freight services in competition with NRC.
1994-95	Western Australian government abandoned plans to corporatise Westrail in favour of financial reforms under the 'Right Track' program (commercialisation).
1995-96	V/Line Freight and VicTrack established as body corporates.
	Queensland Rail corporatised.
1996-97	An access regime created in New South Wales, allowing the State Rail Authority of New South Wales to be restructured into four independent entities. Of the new entities, the Rail Access Corporation and FreightCorp corporatised at the outset and Rail Services Australia in 1997-98.
	Westrail outsourced all track maintenance and development work.
1997	National Rail Summit: Commonwealth and State Ministers signed Heads of Agreement on Interstate Rail Reform.
1997-98	Freight and passenger rail operations of AN sold by Commonwealth government to three private sector operators (Australia Southern Railroad, Great Southern Railway and Tasrail).
	Australian Rail Track Corporation (ARTC) established, being fully owned by the Commonwealth government.
1998-99	ARTC commenced operation, managing access and infrastructure maintenance in South Australia (and parts of Northern Territory, New South Wales and Western Australia) as track owner and in Victoria as track manager under a five year lease.
	Five corporatised and vertically integrated businesses were established to operate Victoria's passenger trains, including V/Line Passenger.
1999	V/Line Freight privatised and bought by FreightVictoria, a consortium headed by RailAmerica.

Source *Productivity Commission, Progress in Rail Reform Draft Report, March 1999*

112 Productivity Commission, *Progress in Rail Reform Draft Report*, March 1999.

113 Productivity Commission, *op cit*, pp. 27 - 54.

Outcomes of the reform process

7.108 As a result of the reforms to date, there is now greater competition between railways and more private sector participation. The broad outcomes of the process are summarised in Table 7.4. Indications are that government-owned freight railways have shown significant improvements in productivity, for example, the rates paid by freight customers have declined on average by 20 per cent.[114]

> Efficiency improvements in Australia's railways have lowered the cost of grain transport by 25% over the past ten years. This has significantly improved the export competitiveness of Australian wheat and lowered domestic food production costs.[115]

Table 7.4 Summary of the outcomes from the reform process

Outcome	Examples
Wide range of structural arrangements	Single integrated railway authority that provides all services (freight, passenger, maintenance of rolling stock and provision of track infrastructure), such as Queensland Rail.
	Horizontal separation of rail businesses; for example the former State Rail Authority of NSW has separated into four businesses.
Ownership and governance arrangements	Commercialisation, for example Westrail.
	Corporatisation, such as the rail authorities in NSW (Rail Access Corporation, FreightCorp and Rail Services Australia).
	Privatisation, such as V/Line Freight.
Access arrangements	Track owned by the Commonwealth is covered by PartIIIA of the Trade Practices Act and administered by the ARTC.
	Each mainland State has introduced a different access regime.
Safety regulation and operating standards	Several joint initiatives between governments and industry to improve consistency between standards have been undertaken.
Greater participation by the private sector	Numerous private operators are owned by consortiums that include groups such as RailAmerica, Secro Asia Pacific and GB Railways Australia.

Source *Productivity Commission, Progress in Rail Reform Draft Report, March 1999*

7.109 The interstate track is owned by the government but has competing freight operators.

> … by the end of 1999 the Commonwealth's only equity involvement in the rail industry will be through the Australian Rail Track Corporation (which has a $250m investment

114 Productivity Commission, *Progress in Rail Reform Draft Report*, March 1999, pp. xxiii-xxiv

115 Australasian Railway Association Inc, Submission no. 175, p. 4.

> programme) which provides access to interstate rail track and has no operational role in the industry.[116]

Tasrail

7.110 The privatisation of rail in Tasmania has been one of the success stories of the reform process. Under private ownership, Tasrail has been profitable for the first time in 127 years, reporting a profit of $1.2 million in its first seven months of operation.[117]

7.111 The Australian Transport Network acquired the Tasmanian rail network from the Commonwealth as part of the sale of AN in 1997. The network, operating under the name Tasrail, has in place an investment of $30 million assisted by a capital grant of $5 million from the Commonwealth government.[118]

7.112 Tasrail is demonstrating its importance to regional economies by reopening lines and aggressively winning back traffic that many thought had been permanently lost to road. Cement, coal, logs, containers, newsprint and even milk have all been targeted for increased market share by the newly privatised Tasrail.[119]

> Because it is under private ownership, Tasrail has also gone into a very aggressive marketing campaign and is attracting a lot of traffic back to rail that the previous Australian National government owner was basically getting out of. Had that rail system remained in public ownership, it may very well have shut down. Under private ownership, with the new entrepreneurial approach to things and with aggressive marketing, they have got back into a lot of markets where they have seen opportunities. So it is a combination of aggressive private sector ownership plus good government and private sector cooperation and an integrated transport policy, essentially.[120]

Calls for further reform

7.113 Despite achieving positive outcomes from the reform process through the 1990s, there have been calls for further reforms. The Rail Projects Taskforce argued in its report to the Prime Minister that there is still an

116 Department of Transport and Regional Services, Submission no. 255, p. 13.

117 West and North West Tasmania's Regional Councils, Submission no. 229, p. 18.

118 i*bid*.

119 Australasian Railway Association Inc, Submission no. 175, p. 6.

120 Australasian Railway Association Inc., Transcript of Evidence, 21 June 1999, p. 15.

urgent need for reform and that 'fundamental changes are required to how governments have approached the rail industry to date'.[121]

7.114 The Productivity Commission also recommended further reforms, indicating that 'problems facing the industry have not been fully addressed by the reforms of the 1990s and that new problems have emerged', referring to:

- inadequate government investment in rail infrastructure;
- governments, as shareholders, not enforcing the same degree of commercial discipline as that placed on private sector operators; and
- the absence of competitive neutrality between transport modes or between government and private railways.[122]

State of the track

7.115 The infrastructure that supports the rail industry – a rail network of some 40 000 km – is 'a significant national asset and plays a key part in the economic well being of the country'.[123] **However, at the end of 1998 none of Australia's nine major rail corridors were at world's best practice**.[124]

7.116 The committee received overwhelming evidence from both government and industry groups, reaffirming the findings of previous inquiries, that Australia's national rail network is in urgent need of upgrading.[125]

7.117 FreightCorp captured the current situation, observing that:

> Australia's current rail network falls well behind world standards in terms of infrastructure. … in many cases the gradients and alignments on [the major intrastate and interstate rail] corridors are no different to those which existed in the lines of those first surveyed and constructed in the late 19th Century and early 20th Century.[126]

7.118 The standard of rail infrastructure impacts directly on the costs of operating and running trains and hence their reliability and transit

121 Rail Projects Taskforce, *Revitalising Rail: the private sector solution*, 1999, pp. v-vi.

122 Productivity Commission, *Progress in Rail Reform Draft Report*, March 1999, p. xxvi.

123 Australasian Railway Association Inc, Submission no. 175, p. 4.

124 M West & O Hayford, 'Transforming Australia's railways system', *Privatisation International*, no. 129, July 1999.

125 For example, Associate Professor Philip Laird, Submission no. 31, pp. 8-9; Winton Shire Council, Submission no. 127, p. 2; Wakefield Transport, Submission no. 81 p. 2.

126 FreightCorp, Submission no. 174, p. 5.

times.[127] The consequences of deficiencies in rail infrastructure were highlighted by the Australasian Rail Authority:

> Restrictions on train speeds, lengths and weights have all limited the productivity and efficiency of Australian rail operators. Faster transit times and increased train weights would lower rail's costs and improve the export competitiveness of a wide range of commodities.[128]

7.119 The committee met with Silverton Rail at Parkes which argued that the lack of investment in rail infrastructure has severely limited the industry's ability to capitalise on or maximise the advances in rail technology that have taken place in recent years.

7.120 By comparison, there are instances of world standard Australian rail infrastructure, such as the privately owned, single-industry rail networks of the iron ore railways in the north west of Western Australia:

> … over 130 millions of tonnes of iron ore in the Pilbara region of Western Australia are now moved each year in the world's most efficient freight trains. The 'world best practice' efficiency of the iron ore railways is due to their high quality track and leading edge heavy haul technology developed in Australia.[129]

Investment in rail infrastructure

7.121 **The three recent inquiries into the rail industry all reached the conclusion that investment in Australia's rail industry has been inadequate and that this has impacted on the standard of rail infrastructure. Evidence to the committee strongly reaffirmed this finding.** [130]

7.122 The committee learned that inadequate investment in rail infrastructure is impacting on rural development.

> Significant investment is required by the federal government into rural railway infrastructure to address the impediments to rural development.[131]

And:

127 Bureau of Industry Economics, *Rail freight 1995 – International Benchmarking*, report no. 95/22, 1995, p. 80, quoted in New South Wales government, Submission no. 260, p. 20.

128 Australasian Railway Association Inc, Submission no. 175, p. 15.

129 Associate Professor Philip Laird, Submission no. 31, p. 1.

130 For example, Associate Professor Philip Laird, Submission no. 31; FreightCorp, Submission no. 174; Australasian Railway Association Inc, Submission no. 175; Tasmanian government Submission no. 284.

131 FreightCorp, Submission no. 174, p. 1.

> Productivity improvements in Australia's rail industry remain hampered by lack of investment. This increases the costs of rail transport to rural communities.[132]

7.123 The Australasian Railway Association highlighted the disincentive to private investment in the rail industry as a consequence of the generally poor standard of the track.

> … because there is a lack of government funding in rail, it makes it harder for the private sector to invest in commercial projects … if you look at the interstate rail network, there is a lot of work that needs to be done on that to bring it up to a level where the private sector would happily invest in projects that would provide a commercial return.[133]

7.124 Maintenance of rail lines is extremely costly, especially to upgrade existing lines to a standard suitable for modern vehicles. Future investment should be economically, socially and environmentally justifiable to deliver a net benefit to the Australian people.

> A detailed analysis undertaken by the Queensland Government has confirmed that without increased funding in 1999-2000 and beyond, business and industry costs for use of the transport system will rise substantially; employment in the roads and rail construction and related industries will reduce; and existing infrastructure will deteriorate.[134]

Interstate Rail Investment Fund

7.125 Commonwealth involvement in upgrading the interstate network is via the Interstate Rail Investment Fund, a $250 million program over four years commencing in 1998-99 to be managed by the ARTC.

7.126 The fund will provide seed money to a number of projects, with support also coming from state governments and the private sector. Specific aims of the fund are to improve track quality, decrease travel times and improve network reliability. A summary of spending by rail corridor is given in Table 7.5. Along with minor improvements, main areas where track standards will be raised are:

- resilient track fastenings on the Melbourne-Albury lines that will help extend track life ($14 million);

132 Australasian Railway Association Inc, Submission no. 175, p. 14.

133 Australasian Railway Association Inc, Transcript of Evidence, 21 June 1999, p. 12.

134 Queensland government, Submission no. 257, p. 13.

- rail straightening, grinding and track repair measures for the interstate track in Victoria and South Australia ($20.5 million funded jointly by the Commonwealth government and the ARTC);
- upgrade of the mainline rail track between Perth and Kalgoorlie ($18 million);
- lengthening of the crossing loops across interstate network ($53.4 million); and
- a dedicated freight-only rail line through the Sydney metropolitan area ($124 million).[135]

Table 7.5 Commonwealth Interstate Rail Investment Fund spending on rail corridors, 1998-2002

Corridor	Spending
Sydney metropolitan	$124 million
Sydney – Melbourne	$33 million
Sydney – Brisbane	$19.9 million
Sydney – Crystal Brook	$4 million
Melbourne – Adelaide	$36.29 million
Adelaide – Perth	$27.56 million

Source *Media release, 'Commonwealth commits additional funds to national rail network', www.dotrs.gov.au/media/anders/archive/nov_99/a168_99.htm, accessed on 6 December 1999.*

7.127 The committee understands that the Interstate Rail Investment Fund partially addresses some of the concerns conveyed during the inquiry. However, again, as recent inquiries into the rail industry have previously reported, the committee received evidence that the level of investment in the Interstate Rail Infrastructure Fund is inadequate.

> FreightCorp welcomes the Federal Government's currently planned $250 million investment in rail but believes that this amount is insufficient.[136]

7.128 The committee was told of the concern of the Goldfields-Esperance Development Commission that Commonwealth funding of rail infrastructure:

135 The Hon John Anderson, Minister for Transport and Regional Services, Media releases: 'More efficient rail travel between Adelaide and Perth'; 'Commonwealth commits additional funds to national rail network'; 'Commonwealth funding for upgrading railway between Perth and Kalgoorlie'; www.dotrs.gov.au / media / anders / archive, accessed on 6 December 1999.

136 FreightCorp, Submission no. 174, p. 7.

> … through the Australian Rail Track Corporation is being allocated to improving major inter city lines; regional or spur lines are being ignored.[137]

7.129 State governments also contribute to investment in rail infrastructure. For example, the New South Wales government has a $2 billion funding program to 2010, for rail maintenance in rural New South Wales and the reopening of disused lines.[138] Investment by the private sector is discussed later in this chapter.

Planning

7.130 In the evidence received by the committee, there was widespread support for rail to be part of a broader, integrated approach to transport planning.[139] There were calls for a national scale approach taking into account issues such as:

- a coordinated view of land transport, taking advantage of the different aspects of road and rail:

  > The rail industry sees a role for both rail and road and recognises the economic importance of a good quality road network and an efficient road transport industry. However, the rail industry is a cost-effective partner for highways because of its many economic and environmental advantages over road transport.[140]

- efficient and effective links between all modes of transport, including land, air and sea:

  > … the case needs to be made for improving the transport links and not just funding for roads. The investment needs to be targeted and consistent with an integrated transport outcome for the region. Depending on the nature of the regional development, this may place a greater emphasis on air and rail infrastructure and services than roads.[141]

- the impacts on regional development, including growth centres and emerging industries:

137 Goldfields-Esperance Development Commission, Submission no. 153, p. 7.

138 New South Wales government, Submission no. 260, p. 14.

139 For example, Australasian Railway Association Inc, Submission no. 175, p. 3; NSW Farmers' Association Submission no. 228, p. 9; National Farmers' Federation, Submission no. 238, p. 40; FreightCorp, Submission no. 174, p. 9; Australian Local Government Association, Submission no 131, pp. 9-15.

140 Australasian Railway Association Inc, Submission no. 175, p. 9.

141 Australian Local Government Association, Submission no. 131, p. 11.

> FreightCorp Portlink underpins regional development and growth of exports, and ecologically sound freight transport by utilising the respective benefits of rail and road transport.[142]

And:

> Industry development and support for exports require significant expansion of the road and rail network to provide for transport of raw materials and final products, as well as specific links to ports and airports.[143]

- the roles and participation of the three levels of government and the private sector:

> … land transport where it is provided by the Commonwealth and State Governments needs to be coordinated and integrated, both among modes (road and rail) and across jurisdictions (Commonwealth and States). This should deliver a more efficient transport network with community wide and national economic development benefits.[144]

7.131 The Australasian Railway Association cited Mt Gambier as an example of transport infrastructure provision that had occurred without integrated planning. Since being isolated from the national standard gauge rail network in 1995, freight to and from Mt Gambier to Adelaide, Melbourne and the Port of Portland has been transported by road. One consequence has been the necessity for the Victorian government to invest $4.5 million in road bridge strengthening to allow increased truck mass limits.

> Infrastructure provision in south-west Victoria is a classic example of the lack of integrated transport planning. Integrated transport planning would have evaluated the merits of upgrading bridges for heavier trucks compared with using rail for the same freight task, examining all costs, benefits and externalities. On that basis, it is highly likely that the same conclusion would have been reached that was determined when evaluating the conversion of the western grain lines to standard gauge – namely that the rail alternative is more effective at meeting the region's long term economic interests.[145]

142 FreightCorp, Submission no. 174, p. 3.

143 Queensland government, Submission no. 257, p. 12.

144 NSW government, Submission no. 260, p. 20.

145 Australasian Railway Association Inc, Submission no. 175, pp. 14-15.

Connection to the national standard gauge grid

7.132 Because rail in Australia evolved as a series of independent state networks, the country has been left with a network of three different track gauges that is focussed on transporting commodities from regional areas to ports. The Commonwealth government has been attempting to solve the gauge problem since the end of World War II. By 1995 a rail link from Brisbane to Perth, connecting Australia's capital cities (except Darwin and Hobart), was finally standardised.

7.133 Problems still being experienced as a result of not being connected to the national standard gauge grid include a restricted flow of freight and passengers between regional areas and no efficient rail connection to major ports or other transport hubs.

> Australia's rail services have not been established effectively. There is no standard gauge throughout Australia, inhibiting the flow of goods between States. The majority of rail freight travels east west with only a small proportion able to flow north south. Despite the agreement reached some years ago, an integrated network is a long way off.[146]

And:

> The present mix of standard and broad gauge rail lines in rural Victoria virtually isolates the western region from the rest of the State. This inhibits the cost-effective flow of goods and products to the Port of Portland.[147]

7.134 The committee met with Ballarat City Council, which discussed the negative impacts on regional development as a result of not being connected to the standardised rail network.

> If Ballarat is denied the opportunity of being connected to the National Standard Gauge Railway Line, it will be restricted in its ability to ship bulk goods to interstate locations in the short term, and to the Port of Geelong in the longer term. In the future, this will prove to be a disincentive for potential investors and the development of central Victoria.[148]

146 NSW Farmers' Association, Submission no. 228, p. 10.

147 Glenelg Shire Council, Submission no. 155, p. 4.

148 Ballarat City Council, Submission no. 92, p. 9.

Interconnecting infrastructure

7.135 Lack of interconnecting rail infrastructure between regions and from regional centres to major cities or transport hubs had similar impacts on regional development.

7.136 The committee received evidence, and was advised during regional visits, that regional centres in close proximity to capital cities were missing opportunities due to a lack of interconnecting rail infrastructure. At its private meeting with the committee, the Eastern Downs Regional Organisation of Councils argued that there was an urgent need to upgrade train links between Toowoomba and Brisbane. Safer and faster access to Brisbane and Brisbane port were needed. Freight levels on the Warrego Highway were the highest in Queensland and a four-fold increase in present freight levels is forecast by 2020, with the safe capacity of the present road expected to be exceeded by 2005.[149] Planning for a road / rail link has been funded by the state government and the benefit:cost ratio is excellent (>2). Disadvantages of the present rail link to Brisbane's port were its age, low maximum speeds and operational curfews.

7.137 Ballarat City Council also presented a case for upgraded train links between Ballarat and Melbourne.

> The [rail] linkage with Melbourne is very important to Ballarat, as Melbourne is a significant market for Ballarat businesses; it is a major source of Ballarat's inputs; and increasingly it is becoming the place of work for Ballarat's residents … The provision of the appropriate transport infrastructure will be the stimulus for the development of a commuter population, particularly if travel times are reduced to less than one hour. This increase in population brings new revenue into the community, and new entrepreneurs who in time stimulate investment and employment.[150]

7.138 In addition, the committee also received evidence supporting the need for rail connections from one regional area to another:

> In NSW, Countrylink rail services are based on a network which focuses on the Sydney region as the key destination, restricting the flow of goods and individuals between regional centres.[151]

149 Data derived from the Toowoomba Network Transport Study by McIntyre Maunsell.

150 i*bid*.

151 NSW Farmers' Association, Submission no. 228, p. 10.

Major rail infrastructure projects

7.139 While the committee received representation on major infrastructure projects like Melbourne to Darwin inland route and Alice Springs to Darwin, there was a concern that government funds should not be invested in large projects at the expense of maintaining and upgrading the current rail infrastructure.[152]

> … a lot of attention to the existing network is being deflected by all those grand schemes, which may have a commercial basis ... The government should not be diverted from what is required in terms of the existing network.[153]

Alice Springs to Darwin

7.140 A number of submissions supported the proposed Alice Springs-Darwin railway, which was provided for in the *Northern Territory Acceptance Act 1910*.[154] The project has been subject to a detailed bidding process that was aimed at selecting a consortium to build, own, operate and transfer (BOOT) the railway for an agreed period of time (expected to be around 50 years). The preferred builder is the Asia Pacific Transport Consortium.

7.141 Agreement between the Commonwealth, South Australian and Northern Territory governments was reached in October 1999 and the railway will be built with $750 million in private capital and $480 million in government contributions. The construction is scheduled to begin in May 2000 and should be completed by mid 2003, providing employment for 7 000 people in regional Australia.

Sydney-Canberra Very High Speed Train

7.142 Another BOOT scheme, the Sydney-Canberra Very High Speed Train (VHST) will be one of the largest private infrastructure projects ever undertaken in Australia. It is estimated that the $3.7 billion project will take three years to complete.

7.143 The preferred proponent is the Speedrail Group, a joint venture between ALSTOM and Leighton Contractors. It is undertaking a scoping study with the Commonwealth, New South Wales and Australian Capital Territory governments to establish the commercial viability of the proposal.

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152 For example, Associate Professor Philip Laird, Submission no. 31.

153 Australasian Railway Association Inc, Transcript of Evidence, 21 June 1999, p. 20.

154 Northern Territory Area Consultative Committee, Submission no. 191, p. 7; Northern Territory government, Submission no. 232, p. 15, 24; Council for Regional Development Northern Territory, Submission no. 189, p.2; Katherine Region Economic Development Organisation Inc, Submission no. 169, p. 5.

7.144 It is estimated that the Speedrail project will generate 18 500 jobs in construction and supply of components, 1 800 permanent jobs in New South Wales and ACT when operations commence, and up to 4 500 jobs from regional development induced along the route.

7.145 The Group's submission also referred to benefits from private sector investment in public infrastructure, in particular, the efficiencies of BOOT projects:

- projects are generally completed ahead of schedule and at a lower cost than conventional public sector provision;
- there are synergies from integrating design, construction and operation of infrastructure facilities; and
- the proponents optimise risk and minimise costs such that innovation is more likely to occur.[155]

Competitive neutrality with roads

7.146 The committee is aware of the concern that, even after the major reforms of the 1990s, competitive neutrality between rail and road has not been achieved.

> The lack of competitive neutrality between rail and road remains a serious impediment to the establishment of a world class transport network. This must be addressed.[156]

7.147 The committee received evidence, in the same way that the House of Representatives Standing Committee on Communications, Transport and Microeconomic Reform did, that rail is currently ill equipped to meet the continuing pressures from road transport. For example:

> … rail has not proved as effective [as road] in terms of transport task. This may be related to infrastructure cost recovery arrangements but an important factor is the low quality of the infrastructure. Currently, this is substandard over much of the interstate network and impedes efficiency.[157]

7.148 There are implications for regional and rural Australia if the inequities between road and rail are not addressed.

> … there is the lack of competitive neutrality between rail and road. I think that investors see a government that favours road transport in terms of investment funding and cost recovery—those sorts of

155 Speedrail, Submission no. 224, pp. 7-8.

156 NSW Farmers' Association, Submission no 228, p. 10.

157 New South Wales government, Submission no. 260, p. 14.

> areas—and when they look at investments they may tend to see rail as perhaps less attractive than some other areas because of the ability to make an effective return.[158]

7.149 **Without the continuing participation of the private sector in the provision of rail infrastructure, opportunities for regional development may be lost.** As AusCID noted in relation to impediments to private investment in infrastructure:

> … there is considerable unrealised regional and rural infrastructure opportunity in relation to rail, road and bridge upgrading as part of achieving neutrality between road and rail to gain more efficient land transport outcomes.[159]

The way forward

Private sector participation

7.150 While railways have been traditionally a government business, there is now much greater participation of the private sector in the provision of rail infrastructure, for example, the significant commitment from the private sector in the Darwin–Alice Springs track and Sydney–Canberra very high speed passenger train projects, as discussed earlier.

7.151 The Australian rail industry invests heavily in rolling stock, that is, the 'above track' component of rail infrastructure. The industry invests some $1.5 billion annually in manufacturing and maintenance of locomotives, passenger cars and freight wagons.[160]

7.152 Some submissions highlighted the impediments faced by the private sector when trying to invest in rail infrastructure. Associate Professor Philip Laird was of the opinion that 'in Australia, there is little incentive for the private sector to invest in rail track'.[161]

7.153 In its submission, Kinhill Pty Ltd stated that:

> The private sector is keen to provide infrastructure which will improve development of rural areas of Australia; unfortunately existing legislation, practices and policies effectively discourage the private sector from investing in and providing much needed public sector infrastructure.[162]

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158 Australasian Railway Association Inc, Transcript of Evidence, 21 June 1999, p. 14.

159 Australian Council for Infrastructure Development Limited, Submission no. 215, p. 9.

160 Australasian Railway Association Inc., Submission no. 175, pp. 8-9.

161 Associate Professor Philip Laird, Submission no. 31, p. 6.

162 Kinhill Pty Ltd, Submission no. 134, p. 1.

7.154 Kinhill went on to suggest that:

- Legislation be changed so that 'essential [rail] infrastructure' can be operated and owned by the private sector where appropriate.
- Where track is not being used, has fallen into disrepair and there are no plans for its reinstatement, it be opened up to the private sector to develop it at their risk.
- The benefits of the infrastructure to the whole community be examined and tax credits or similar be allowed in order to provide the private sector with more incentive to provide infrastructure than just direct charges to users.
- Competition be allowed 'below the wheels' as well as 'above the track' on rail lines.[163]

7.155 Silverton Rail argued that, if the rail industry is to take full advantage of the open access regime, the industry must be free to invest in infrastructure that matches the demands of business.

7.156 FreightCorp was also of the opinion that there are few opportunities for private investment in rail track to meet market needs.

> Investment in 'above rail' capacity is not an issue on the NSW network as investments have occurred to match the demand of customers. The key priority is for significant investment in the 'below rail' infrastructure. There have traditionally been limited opportunities for this type of private sector investment in rail infrastructure.[164]

7.157 The Goldfields-Esperance Development Commission urged the committee to ensure that regional Australia is not disadvantaged as a result of privatisation in the rail industry.

> Rail transport is of particular importance with the proposed privatisation of Westrail Freight Business. One of the major infrastructure concerns of the [Goldfields-Esperance Development Commission] is that whatever privatisation option is chosen, the state of rail infrastructure in the region is not downgraded and the region benefits from lower freight rates through competition.[165]

Public assistance / public role / Commonwealth government's participation

7.158 The Australasian Railway Association cited Section 51AD of the Income Tax Assessment Act as posing impediments for private investment in rail

163 Kinhill Pty Ltd, Submission no. 134, p. 3.

164 FreightCorp, Submission no. 174, p. 8.

165 Goldfields-Esperance Development Commission, Submission no. 153, p. 6.

infrastructure.[166] The Department of Transport and Regional Services stated in its submission that:

> … arguments can be made for closer public-private partnerships to ensure the provision of regional infrastructure. Our tax system currently makes such partnerships highly problematic.'[167]

7.159 Many of the issues arising with tax provisions are common to other sectors and are discussed in chapter 4.

7.160 The Infrastructure Borrowing Tax Offset Scheme is the Commonwealth government's principal mechanism for assisting private infrastructure development, as discussed in chapter 4. The second round of project applications, received by the Department of Transport and Regional Services in March 1999, included the Freight Victoria Limited acquisition of V/Line Freight.[168]

7.161 The Speedrail Group has suggested that governments can do more to encourage private sector investment. The group also highlighted the importance of the partnership approach by governments and the private sector.

> Infrastructure projects such as the Sydney-Canberra VHST have the potential to transform the Australian economy in the first half of the next century.
>
> In order for this to occur, governments will have to actively encourage private sector financing of these projects.
>
> … governments still have vital and important roles to play in setting priorities and in facilitating the delivery of infrastructure projects, particularly in assisting such projects in the early stages.
>
> Major projects such as the Sydney-Canberra VHST require a partnership approach by governments and the private sector.[169]

7.162 The committee suggests that there is a role for the government in funding transport infrastructure from part of the excise on fuel sales. In recommendation 55, the committee indicates that three cents per litre of the excise should be devoted to expenditure on transport infrastructure, of which two cents would go to roads and the remaining cent to other modes. The committee envisages that this one cent per litre would be devoted predominantly to rail infrastructure.

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166 Australasian Railway Association Inc., Transcript of Evidence, p. 15.

167 Department of Transport and Regional Services, Submission no. 255, p. 2.

168 Department of Transport and Regional Services, Submission no. 255, p. 16.

169 Speedrail, Submission no. 224, pp. 7-8.

Conclusions

7.163 The evidence gathered by the committee leads it to support the recommendations of previous inquiries, particularly in relation to:

- the Commonwealth government assuming the leadership role and consulting widely in developing an integrated national strategic transport plan;
- the Commonwealth government, in consultation with state and territory governments, enhancing the role of rail in the national transport network by addressing chronic deficiencies in the interstate national track;
- the Commonwealth government undertaking responsibility for investment in the declared national track and allocating additional funds to Australian Rail Track;
- the Commonwealth government, in consultation with the state and territory governments, developing a more efficient environment for further involvement of the private sector in the rail industry; and
- the Commonwealth government developing a more consistent, equitable approach to transport infrastructure charges to ensure competitive neutrality between modes.

These measures will enhance the prospects of achieving true competitive neutrality between transport modes.

Recommendation 60

7.164 **The committee recommends that the government respond without further delay to the recommendations:**

- **in the 1997 House of Representatives Standing Committee on Communications, Transport and Microeconomic Reform report, *Tracking Australia: An Inquiry into the Role of Rail in the National Transport Network*;**
- **in the Productivity Commission's report, *Progress in Rail Reform*; and**
- **in the Rail Projects Taskforce report, Revitalising Rail: The Private Sector Solution.**

Ports

7.165 Seamless and efficient cargo movements are the key to achieving a competitive edge for Australian products, and ports are a vital link in the transport chain.

> Given their critical position in logistics chains, port operations can directly and indirectly effect the competitive advantage of companies, regions, and nations involved in the process of trade. Accordingly, the provision of timely, cost effective, and appropriate port infrastructure including streamlined links to land and rail transport can enhance the competitive advantage of port users. Conversely, impediments that act to delay or negate the provision of port infrastructure can generate negative impacts on the competitive advantage of port users.[170]

7.166 Growth in emerging industries that are able to compete on world markets, especially market driven industries such as raw and processed food and beverages, and increased value adding in Australia add to the need for efficient, reliable handling and despatch through the ports.

> … agriculture is the fastest growing employment sector in Australia over the past three years as a result of growth of agricultural exports, particularly in non-traditional areas of agriculture such as horticulture products, wine, dairy, canola, cotton, sugar, fisheries products, live animals, aquaculture products, rice, flowers, tea and coffee …[171]

And:

> The structure of commodity production systems is changing rapidly. It is now common to see production units in many industries which were not even contemplated 10-15 years ago. Efficiencies of scale … and on farm value adding industries such as oil crushing plants, feed mills, wineries and horticultural processing plants are all part of the drive to compete with the world's best.[172]

170 New South Wales government, Submission no. 260, p. 24.

171 J Chudleigh, quoted by Department of Agriculture, Fisheries and Forestry, Submission no. 253, p. 31.

172 J Chudleigh, *Agriculture – an exciting growth industry*, paper provided to the committee at a private meeting on 11 August 1999 by the Department of Agriculture, Fisheries and Forestry, 1999.

Other inquiries

7.167 As it did for roads and rail, the committee has considered previous inquiries touching on ports. Of particular importance are the report and three volumes of research published in December 1994 and January 1995 by the NTPT. The Minister for Transport established the Taskforce in 1994 to inquire into land transport.

Charges

7.168 The NTPT endorsed competition as a spur to efficiency, including through oversight of charges by monopoly service providers, such as at ports. The lack of transparency in port charges was of concern.[173]

7.169 The submission from the Victorian government discussed the need to stimulate competition in a monopoly situation such as ports, arguing that governments needed to investigate whether the introduction of more competition would result in better service provision.[174] The Victorian Farmers Federation supported privatisation of the Geelong and Portland ports and development of a new stevedoring operation at the Port of Melbourne.[175]

7.170 The Queensland government claimed that charges at Gladstone port were world-competitive due to 'economies of scale…achieved through multi-user facilities [and] … aided by an integrated labour force operating these facilities'.[176]

7.171 West and North West Tasmania's Regional Councils advised the committee that reform and corporatisation of the two ports in the region had occurred 'without disruption and the ports are now focussed on their commercial role…hav[ing] also developed special handling facilities for the particular products and needs of their regions'.[177]

7.172 On the other hand, at a private meeting in Parkes, the committee was advised of track and scheduling problems for rail freight at Port Botany. FCL Interstate Transport Services said that significant congestion resulted from scheduling coordination difficulties and the lack of priority given to rail freight by stevedores.

7.173 National competition policy has resulted in pressure to reduce prices and incentives to improve products and service across a range of industries.

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173 National Transport Planning Taskforce, *Building for the Job*, AGPS, Canberra, 1994, p. 51.

174 Victorian government, Submission no. 247, p. 5.

175 Victorian Farmers Federation, Submission no. 233, p. 16.

176 Queensland government, Submission no. 257, Attachment 1, p. 10.

177 West and North West Tasmania's Regional Councils, Submission no. 229, p. 18.

Despite the introduction of the policy, the committee is aware that not as much progress has been made in relation to ports and shipping as has been achieved in other transport modes.

Land transport links to ports

7.174 The New South Wales government emphasised the mutual dependence of ports and land transport such that 'land transport issues are now seen as being as critical to the efficient function of a port as the operations within the port itself'.[178] Development of integrated road, sea and rail access was a feature of discussions during several of the committee's visits to regional areas. In line with the increasing volume of product being handled there is a trend to proposals for dedicated transport link infrastructure. At a private meeting in Bunbury, the committee was told about plans for integrated road, sea and rail access to Bunbury Port (see Box 7.1) that would include:

- a dedicated port access road to cope with estimated port expansion; and
- a service corridor for new industries at Kemerton and Picton / Waterloo.

7.175 Upgraded rail links are needed to several ports, for example:

- Bunbury Port is presently serviced by only a narrow gauge. Upgrading to a standard gauge rail line would encourage imports; and
- Esperance Port is in danger of losing its major client, Portman Mining, to Kwinana because:
  - ⇒ the railway connection to Kwinana would allow transport of more tonnage to the port; and
  - ⇒ Kwinana accommodates larger vessels capable of shorter sailing times to market.

This list is not exhaustive and several other examples were brought to the committee's attention.

Multi-user, multi-cargo ports

7.176 Multi-user, multi-cargo ports, generate capital cost savings.[179] Several submissions argued for capital injections from the federal government to encourage shipping in regional areas through provision of containerisation. This has the potential to cut transport costs and increase competitiveness for exports, attract industries to regions and boost

178 New South Wales government, Submission no. 260, p. 15.

179 Queensland government, Submission no. 257, Attachment 1, p. 10.

regional towns, especially where containers originate in areas accessible to ports.[180]

Box 7.1 Bunbury Port

As part of the Commonwealth funded Better Cities program, the Bunbury Area Strategy was jointly funded by the Commonwealth ($10.6 million) and the State governments ($21.4 million) and attracted $20 million private investment initially, with estimates of $80 million over 5 years.

By relocating infrastructure and constructing new services, housing, transport, tourism and recreational facilities, the city changed from being industrialised, landlocked by transport corridors and industrial facilities, to a waterfront city.

Bunbury Port redevelopment occurred in a spirit of enterprise and government and community initiative and cooperation. The port services the most diversified economy in Western Australia, with exports of alumina, mineral sands, forestry products and other regional produce from the south west region estimated at more than $10 million per annum by 2000.

The Bunbury Port Authority is committed to competition. All services are provided on a commercial and competitive basis with the emphasis on facilitating trade.

Major issues for the port are:

- concrete gravity structure industry potential (first contract worth about $100 million);
- the port access road;
- future containerisation; and
- port expansion - quarantined from new residential development.

7.177 The committee was also advised of significant existing state government investment in port facilities.

- The proposed Gladstone Container Terminal is a multi-user, multi-cargo facility that:

  will encourage additional resource processing and manufacturing industry in the Gladstone area. It also provides Central Queensland's containerised agricultural products with an

180 Victorian Farmers Federation, Submission no. 233, p. 16.

inexpensive export outlet. The need to develop infrastructure for the receipt, storage and shiploading of containerised general and break-bulk cargoes is being met through a staged development plan'.[181]

- About $60 million is being spent to upgrade the bulk grain handling facility at Esperance Port.
- A feasibility study into bunkering capacity for cruise ships visiting Darwin is underway. A $1.4 million passenger terminal development at Stokes Hill Wharf at Darwin has recently been opened. Darwin is also a major freight hub, handling container, general and bulk cargo, with potential for substantial growth in the latter. Potential landbridging through Darwin of southern Australian produce offers substantial time savings. The catalysts for the port's future development will be completion of:
  - ⇒ Stage I of East Arm (in the final phase of construction);
  - ⇒ the Adelaide to Darwin rail link; and
  - ⇒ Stage II of East Arm (estimated cost $100 million) that will include an automated, high-capacity container facility.

The port facilities have been designed to accommodate a rail terminal with high speed links to Australia's southern states.

Value adding and clustering

7.178 The committee was advised of inadequate levels of investment in ports infrastructure all around Australia. Many submissions called for increased federal government funding to remedy this situation. According to the Victorian Association of Forest Industries, 'the Commonwealth can facilitate a quantum leap in overcoming an existing infrastructure impediment for the Victorian timber industry' through ports infrastructure funding.[182]

7.179 Gippsland based businesses are at a disadvantage because of lack of access to a port. Solutions proposed include:

- development of Welshpool Port; or
- upgrading of Eden port to a multi-purpose facility with fair and equitable third party access (especially for timber products).[183]

181 Queensland government, Submission no. 257, Attachment 1, p. 10.

182 Victorian Association of Forest Industries, Submission no.16, p. 3.

183 *ibid*.

The proposed relocation of a defence armaments facility to Eden port could produce a 'dynamic cluster' spinoff of specialised business. Improved export capacity for the Twofold Bay Wharf and upgrading of Eden port would give regional producers (particularly the forestry industry) an alternative to road freight to service Sydney, Melbourne and international markets, and provide an international port gateway to the region.

7.180 Value adding through processing of raw products near their production source offers the potential for reduced physical transport of goods and more efficient transport options. The committee congratulates those communities that are promoting value adding on a regional or corridor basis through working with government, industry and business to develop clusters of supporting and service industries using integrated transport infrastructure, including that associated with ports.

7.181 During its visit to Bunbury, the committee was advised of the ongoing redevelopment of the city, involving relocation and upgrading of the port area, and development of prestige housing, services and recreational facilities on a former industrialised site. The South West Regional Development Commission is managing a series of interdependent projects, including 'the container facility at the port, the expansion of Kemerton Industrial Park, the construction of the Kemerton power station, and various resource value-adding projects [that] are inextricably linked'. While considerable private investment has been attracted to the area, the submission from Australian Project Developments considered that 'institutional investors must be encouraged to pull it all together and capture the financial benefits available from the cluster'.[184]

7.182 Gladstone port (see Box 7.2) is Queensland's largest multi-commodity port. It has a reliable supply of energy and water and, with state government support and a strong supportive community, the region is becoming known internationally for its potential to support a diverse range of processing and new manufacturing industries such as chemicals and plastics. The existing aluminium industry could be augmented by magnesium and titanium metal industries based on nearby raw materials.

184 Australian Project Developments Pty Ltd, Submission no. 254, p. 4.

Box 7.2 Gladstone Port

The Port of Gladstone, one of the largest ports on the eastern seaboard and Queensland's largest multi-commodity port, moves over 30 per cent of the state's exports by volume and close to 10 per cent of the nation's exports by volume (more than 39 million tonnes of cargo per annum). The Asia-Pacific area, within 10 to 12 days-sailing time, is the port's main international destination.

Gladstone has the fifth largest capacity coal export port in the world. Coal represents over 60 per cent of Gladstone's total cargo and is exported to more than 20 countries. Other products exported include alumina, aluminium, cement, grain, woodchip and chemicals. Raw materials imported include caustic soda, petroleum products, petroleum coke and bunker fuel oil with bauxite being the principal import.

Internal road systems allow the transportation of goods without impacting on the city centre or dense population areas. The Gladstone region is a major operations area for Queensland Rail, due to its significance as a coal-exporting centre. Electrified rail links Gladstone to Brisbane, Rockhampton and the coalmines in the Bowen Basin. Non-electrified rail extends the network to encompass agriculture and other mineral resources. Queensland Rail has also established a dangerous-cargo spur line and direct access links to the port of Gladstone and the containerisation facility. Regular freight and passenger rail services are available within Queensland, from Cairns to Brisbane, and interstate, linking with the major ports of Sydney and Melbourne.

7.183 The Mount Isa to Townsville Economic Development Zone Incorporated (MITEZ) has shown outstanding leadership by facilitating collaboration between industry (through an 'Industry Linking' program), all levels of government and the community in developing a regional profile and assessment of required infrastructure for the region. Its 'Corridor Project' recognises that all regional infrastructure (road, rail, airport, communications, water storage, gas, electricity, ports) along with the service capacity of each, contributes to investment decision making. The MITEZ submission emphasised the need for incentives for development to move from being resource-driven to value adding and development of a cluster of supporting and service industries, in light of the unprecedented opportunities in the region.

> … although base metal mining has had a long term influence on Australian economic and employment performance, current opportunities to add value to mine product and to develop a cluster of supporting and service industries are unprecedented in northern Australia. … recent factor additions such as natural gas to Mount Isa and upgrading of rail facilities have triggered investment resulting in a very high period of capital investment

> and employment growth. … [growth] potential is greater than that currently achieved by a factor of many times.[185]

7.184 MITEZ claimed that investment in Townsville was slow due to infrastructure limitations and highlighted the importance of efficient access to Townsville Port for the minerals industry (see Box 7.3). Townsville City Council also drew attention to the 'resurgence of mining in the North West Minerals Province' and the opportunity for Townsville 'to value add to minerals and become a major base metal processing centre'.[186]

Box 7.3 Townsville Port

The Port of Townsville is the key shipping gateway for North Queensland. The port is located at the junction of land transport corridors running north-south of the city and west to Mount Isa. It is a significant generator of economic growth, with investment at the port of more than $200 million in the past five years.

Townsville is the transport hub for both the mining and agricultural sectors in the North and North West of the State. The third largest industrial port in Queensland, it accounted for 88.1 per cent of total commodity exports from the northern region at a total value of some $1 670.4 million. This represented some 12 per cent of the total value of exports from Queensland ports in 1997.

The port's business is predominantly in multi-commodity bulk shipping and cargo, including nickel ore, copper, lead and zinc concentrates, raw sugar, cement, copper, lead metal and live cattle. Growth areas in the future are likely to be in mineral concentrates, general cargo and high analysis fertiliser. Projections indicate that trade through the port will increase by 50 per cent by 2005 and almost double by 2025. Cargo traffic is forecast to increase from a 1996-97 level of 7.59 million tonnes to between 13.6 and 17.1 million tonnes by 2025, assuming growth is unconstrained by land transport links.

7.185 The committee was advised of the importance of transport reforms in relation to value adding potential. Given the competitive nature of global minerals investment, transport (especially land and sea transport and the interface between these transport modes), energy and industrial relations reforms would enhance the economic viability of further minerals processing in Australia.[187]

185 MITEZ Inc., Submission no. 264, p. 2.

186 Townsville City Council, Submission no. 176, p. 4.

187 Minerals Council of Australia, Submission no. 277, p. 3.

Shipping patterns

7.186 Another issue raised with the committee was the changing pattern of international shipping, with shipping companies wanting to minimise ports visited in any one country and to concentrate visits on the major centres of production and consumption.[188] The Bunbury Port Authority was meeting this challenge by engaging ports around the country in discussion with a view to obtaining an appropriate volume and frequency of shipping traffic for Bunbury.

7.187 At a private meeting, Transport Western Australia advised the committee that alternatives to large ports could include very fast ferries, for example, to transport produce between the Kimberley-Pilbara-Gascoyne region and Asia.

Funding

7.188 The Victorian Farmers Federation discussed the monopoly or oligopoly characteristics of ports and the absence of 'attendant pressures on price and product/service quality (and with the potential for providers to charge monopoly rents)' in its submission. Referring to the work of Dwyer and Lim on National Competition Policy, the submission argued that government support for strategic national assets, based on rigorous cost-benefit analysis, was not only justified but essential on the grounds of equity for rural and regional Australia and to ensure national development.

> Even National Competition Policy (NCP) recognises that some infrastructure facilities are essentially natural monopolies and that owners left uncontrolled might well be tempted to use their infrastructure as licences to tax the using producers and consumers.
>
> Accordingly, NCP allows for declarations to be made that certain infrastructure represents essential facilities, which should be available to all at a reasonable price.[189]

7.189 Government investment in ports was also supported by the submission from the New South Wales government which stated that 'capacity limits which, in the absence of investment, will produce rising costs and deteriorating levels of service quality' were less of an issue for rail and ports. It referred to Bureau of Industry Economics findings that

188 New South Wales government, Submission no. 260, p. 24.

189 Victorian Farmers Federation, Submission no. 233, pp. 2-3.

investments in rail and ports were justified 'on the basis of improving operating efficiencies, costs and service levels to users'.[190]

7.190 The Western Australian government submission argued that government sponsorship of the initial costs of ports development, 'possibly along the lines of the State's headworks program', was justified when ports required for private sector resource developments were obliged, for example, under competition policy, to service other industry and community needs.[191]

7.191 The Department of Industry, Science and Resources advised the committee that the Commonwealth government should take a flexible approach to its involvement in infrastructure development that reflects national interest considerations. It cited Commonwealth involvement in resolving congestion at the Newcastle port by developing a rationing system that required ACCC approval and encouraging acceleration of expansion plans. The Commonwealth government also worked with customers to minimise the negative impact on Australia's reputation as a reliable and competitive supplier.[192]

Conclusions

7.192 The committee considers that renewed efforts to promote competition at ports is needed, and supports private sector involvement in existing and new ports. It also considers that further reform of the structures, practices and culture of the transport industry is needed to ensure efficient use of infrastructure throughout the transport chain.

7.193 The committee supports the conclusions of the NTPT for more transparent methods of pricing for all transport infrastructure, including development of pricing mechanisms linking use of port, airport and rail infrastructure to the costs of provision.

7.194 Although the Commonwealth government was the client and primary recipient of the NTPT report, much of the transport task responsibility lies with the states and territories, so implementation of the recommendations requires cooperation and action from these jurisdictions.

190 New South Wales government, Submission no. 260, p. 20.

191 Western Australian government, Submission no. 273, p. 14.

192 Department of Industry, Science and Resources, Submission no.168, pp. 17-18.

Recommendation 61

7.195 **The committee recommends that the Commonwealth government work with state and territory governments to encourage full competition in the delivery of ports services.**

7.196 In relation to funding of ports infrastructure, the committee has reached a conclusion similar to that for roads, as expressed earlier in this chapter. It is persuaded that government investment in strategic infrastructure, on the basis of priorities determined from benefit cost analysis that takes account of economic, social and environmental considerations, is justified. It agrees with the NTPT's view that 'where governments decide to proceed with investments that are not capable of meeting their costs through user charges, they should explicitly justify the investment in terms of broader economic or social priorities, and be prepared to pay directly for those benefits'.[193]

Airports

7.197 Air transport not only provides essential services and vital transport links to many rural communities and landholders, but also a relatively inexpensive, productive and efficient mode of travel for conducting business and to support mining, other extractive industries and public works. The contribution of air transport nationally, particularly for freight export, is increasing due to emerging agricultural industries' growth.

Essential Services

7.198 People in remote areas pay high costs for services delivered by air that are taken for granted in other parts of Australia.

> Often community people consider air travel as many other Australians would their public bus service and usually one or more charter aircraft can be permanently based at community airstrips to cope with high demand and use frequencies. The use of aviation as a means of service delivery is expensive relative to surface transport so Governments delivering services to remote

193 National Transport Planning Taskforce, *Building for the Job*, AGPS, Canberra, 1994, p. 53.

> communities by air and members of the communities themselves pay a premium for access to such services.[194]

7.199 The Northern Territory is particularly dependent on air transport, with many services only able to be provided by air. Air transport:

- provides essential links to remote areas, including many Aboriginal communities, for health, education, law enforcement, social contact and other services, especially during the monsoon season;
- is the major transport mode for tourists, the second largest industry in the Territory; and
- provides essential services to the mining industry including links between Darwin and the major mining provinces.

Remote Air Service Subsidy Scheme

7.200 The Remote Air Service Subsidy Scheme (RASS), presently under review, provides essential services to areas that currently have no suitable alternative mode of transport.

> The RASS subsidises five air operators to service approximately 200 specified remote ports, with a population of almost 9,000 people, located predominantly in Queensland and the Northern Territory, with some in SA and WA. These include cattle stations and remote indigenous communities. The services primarily provide regular deliveries of mail and educational needs, as well as carriage of general freight and passengers. The 1998/99 funding for RASS is $1.258m.[195]

7.201 The submission from the Isolated Childrens' Parents' Association of Australia urged retention of the RASS as a free regular mail service and a passenger and freight service to isolated families and communities where there was no reliable alternative.[196]

7.202 Both the Northern Territory government and the Regional Airlines Association of Australia referred to the reduction in the RASS in recent years, relative to the cost of its provision.[197]

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194 Northern Territory government, Submission no. 232, p. 58.

195 Department of Transport and Regional Services, Submission no. 255, p. 18.

196 Isolated Children's Parent's Association of Australia (Inc.), Submission no.94, pp. 5-6.

197 Regional Airlines Association of Australia, Submission no. 91, p 2; Northern Territory government, Submission no.232, p. 57.

Recommendation 62

7.203 **The committee recommends that the Commonwealth government ensure that, where reliable alternative service provision is lacking, essential air services to regional and remote communities are maintained.**

Regional airport infrastructure, charges and government regulation

7.204 The impact of the Commonwealth government's withdrawal from responsibility for aviation infrastructure is discussed in several submissions. The Queensland government pointed to a growing budget shortfall as more and more communities seek assistance. It urged the Commonwealth government to work with state and local governments to develop a comprehensive framework for future aviation investment. The committee was advised that the 1998 Aviation Plan for Queensland is concerned with the provision of aviation infrastructure and services in that State for the next 10 to 15 years. The Queensland government considered that its primary role was to facilitate, coordinate and open communication channels between key industry players.[198]

7.205 In its submission, the Western Australian government referred to the work of the Aviation Working Group of the Australian Transport Council in 'preparing a case for Commonwealth assistance for strategically located regional airports' that were required for safety reasons and to serve community needs.[199]

7.206 The submission from the Aircraft Owners and Pilots Association (AOPA) also pointed to deteriorating infrastructure and called for quantitative analysis of the implications of a continuation of this trend.

> AOPA is of the view that a trend that is now occurring in the provision of this vital infrastructure facility to Regional Australia is for licenses to lapse and aerodromes to revert to meeting only minimum standards for distances and landing areas, and maintenance to provide obstacle free take-off and landing areas or for repairs to runway surfaces and other structures to be neglected. Similarly, terminal buildings at many regional aerodromes are now poorly maintained, if at all …

198 Queensland government, Submission no. 257, pp. 23, 36.

199 Western Australian government, Submission no. 273, p. 14.

> AOPA would recommend that the Committee initiate or recommend that a thorough cost-benefit analysis be undertaken that would measure the cost to the community of any further degradation in aviation infrastructure in regional Australia.[200]

7.207 The submission from the Regional Airlines Association of Australia claimed that, following privatisation, revenue from the high charges imposed at regional airports was often used for 'non-airport related activity' rather than airport maintenance.[201] In addition to the cost impacts of charges on business and tourism, the submission stated that exorbitant regulations (for example, for equipment in smaller aircraft and location specific charging) imposed additional costs on passengers without any specific benefits being received. The Northern Territory government called for regulation to prevent overcharging by the private sector.[202]

7.208 The submission from Auto Rent Hertz highlighted the particular impact of airport privatisation on tourism, especially in Tasmania. It urged subsidisation of regional air services to Tasmania on the grounds of lack of competition from road transport and the absence of economies of scale due to use of smaller aircraft on regional routes.

> Consideration could be given to either:
>
> - A system of subsidies on airfares where the subsidy varies according to the economic condition of the region.
> - A system of subsidies on airfares (across Bass Straight) in the same spirit that three [*sic*] is a subsidy on motor cars. To subsidise TT-Line (with a capacity of only 10-15% of Tasmania's inbound traffic) doesn't seem fair to the Airlines who provide 85-90% of the capacity.[203]

7.209 Some submissions suggested co-funding by government and industry of airports infrastructure, for example, for mining ventures, on the basis of rigorous cost benefit analysis, similar to the arrangement considered earlier in this chapter for roads. The relative contribution by industry and government would be determined according to the benefits accruing to each.[204]

7.210 The Department of Transport and Regional Services advised the committee that the present subsidisation of the operation of airport control towers would be extended, prior to initiatives to stimulate competition for alternative tower charging models.[205]

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200 Aircraft Owners and Pilots Association of Australia, Submission no.145, pp. 3-4.

201 Regional Airlines Association of Australia, Submission no.91, p. 2.

202 Northern Territory government, Submission no. 232, p. 11.

203 AutoRent-Hertz, Submission no. 270, p. 4.

204 Northern Territory government, Submission no. 232, p. 16.

205 Department of Transport and Regional Services, Submission no. 255, p. 11.

7.211 The committee accepts arguments put to it concerning high regional airport charges and the need for regulatory review. It considers that alternative charging models should ensure that overcharging by private operators does not occur, and that regulatory review should occur with a view to encouraging investment in regional airport infrastructure through removal of unnecessary intervention and allowing minimum cost and maximum efficiency in regional aviation operations.

Recommendation 63

7.212 **The committee recommends that:**

- **the Australian Competition and Consumer Commission investigate charges at regional airports;**
- **the Commonwealth government investigate, through its agencies, whether appropriate regulations are being applied to regional airports; and**
- **the Commonwealth government work with the states, territories, communities and the private sector to facilitate and coordinate future investment in aviation infrastructure, and to ensure continued access to and maintenance of strategically located regional airports.**

Intermodal transport systems - 'just in time' delivery

7.213 Like ports, airports are increasingly important to market driven industries that require access to efficient transport infrastructure to meet 'just in time' transfer requirements. Other industries such as tourism, international education (for example, in northern Queensland) and the aerospace industry (Avalon Airport) are also reliant on efficient, reliable air transport.

7.214 The committee was advised during visits to several regional areas that the continuing dependence of agricultural and horticultural industries for airfreight on the international passenger market was unacceptable. A dedicated international airfreight industry with aggressive marketing of outbound freight was needed.

7.215 Cairns Regional Economic Development Board told the committee at a private meeting that the establishment of global airline alliances and the move by Air Services Australia to derive costs based on volume of traffic would marginalise Cairns by comparison with the larger capital city

airports. It was pointed out that loss of international passenger traffic would heavily impact the present levels of horticultural and agricultural produce able to be transported out of Cairns.

7.216 The submission from the Department of Agriculture, Fisheries and Forestry referred to the regional importance of aquaculture for Tasmania (salmon) and South Australia (tuna).[206] At a private meeting in Port Lincoln, the committee was advised that the market potential for the region's aquaculture industry was huge. It was pointed out that transport was the largest cost for the industry and that live freight export was an alternative to containers, whose relocation costs were high. Similar proposals were outlined to the committee in relation to Parkes and Avalon Airport, and an international air freight service providing integrated transport from Avalon Airport, Parkes and Cairns was canvassed.

7.217 Avalon Airport has been developed as an intermodal freight hub and international export centre for south eastern Australian goods, particularly perishable produce. The committee was advised, however, of difficulties in securing transport to Avalon Airport by freight transport operators that often led to delays in obtaining suitable passenger flights and customs inspections. By contrast, Avalon Airport offered efficient two hour turnaround times and world class facilities for handling of agricultural and horticultural produce.

7.218 The committee is aware of the 1997 Export Gateways Initiative to facilitate commercial self-help solutions to logistics issues by bringing together key players in the transport logistics chain, including establishment of air and sea freight export councils at major export hubs to foster strategic partnerships and better communication.[207]

7.219 It considers, however, that increased efforts are needed on the part of the Commonwealth government to facilitate resolution of logistics issues associated with airfreight. It is also persuaded by arguments for a dedicated international air freight industry and considers that regulation should be developed to ensure efficient structures, practices and a reformed culture involving all operators in the transport chain.

206 Department of Agriculture, Fisheries and Forestry, Submission no. 253, p. 10.

207 Department of Foreign Affairs and Trade, Submission no. 249, p. 4.

Recommendation 64

7.220 **The committee recommends that the Commonwealth Department of Transport and Regional Services:**

- **increase its efforts to facilitate resolution of logistics issues associated with international air freight; and**
- **work with state and territory governments and the private sector to facilitate development of an integrated, dedicated international airfreight industry.**

Cross-sectoral issues

A national integrated transport plan

7.221 As noted earlier in this chapter, the committee received compelling arguments all around Australia for development of a national, integrated approach to transport planning. Calls for strategic national transport planning are not new and were the subject of a major recommendation by the NTPT in 1994.

7.222 The NTPT concluded that a much greater national perspective that focussed on identifying and meeting strategic transport needs was required. It considered that infrastructure investments needed to be prioritised according to their importance within a national network covering all modes, and that this should include connections between major interstate links and major freight generating areas, such as ports, rail terminals, airports and industrial regions. It recommended that governments negotiate (and seek endorsement from COAG) to establish a framework for national strategic transport planning, with primary attention given to investments of economic significance.[208]

7.223 The NFF's submission to this inquiry argued that an integrated system would benefit 'many aspects of life – from collecting welfare benefits to a dental check-up', in addition to being vital to reducing the time and costs for products to reach markets.

208 National Transport Planning Taskforce, *Building for the Job*, AGPS, Canberra, 1994, p. 39.

> A well-maintained, high quality integrated transport infrastructure would help reduce the cost of travelling (through improved efficiency and reduced wear on vehicles or by reducing the time required to cover the distance). … The regionalisation of many services and government administration, such as health, land and council administration, increases the need for improved transport networks. As regional centres develop, farmers and other rural residents will have to travel greater distances to access basic services. … Improved transport facilities are required to enable the rural aged to access the same basic services provided to other people in NSW. [209]

7.224 The New South Wales government suggested developing a national transport plan to build on the recommendation from the House of Representatives Standing Committee on Transport Communications and Micro-economic Reform's 1988 report *Tracking Australia* for a national land transport plan.

> The complex issues surrounding infrastructure provision, investment and the need to secure optimum transport outcomes has been behind the calls for the development of a National Transport Plan. … The argument for the National Transport Plan is that land transport infrastructure where it is being provided by the Commonwealth and State Governments needs to be coordinated and integrated, both among modes (road and rail) and across jurisdictions (Commonwealth and States). This should deliver a more efficient transport network with community wide and national economic development benefits.[210]

7.225 The New South Wales Department of State and Regional Development told the committee that Commonwealth leadership and an integrated approach covering all modes were needed. The present cooperation between the New South Wales and Queensland governments to ensure coordinated management of roads and bridges in the cross-border region was cited. The department indicated that the New South Wales government would cooperate with an overall national transport strategy, provided that it included surety of funding from the Commonwealth government.[211]

7.226 The Queensland government argued that, in relation to the funding, provision and coordination of transport, the primary role of the Commonwealth government was to 'facilitate a national vision for

209 National Farmers' Federation, Submission no. 228, p. 9.

210 New South Wales government, Submission no. 260, pp. 20-21.

211 New South Wales government, Transcript of Evidence, September 27 1999, p. 194.

regional development, and strategic objectives to make a long-term funding commitment that is consistent with this vision'. It considered that implementation of the vision should rest with state and local government working with industry, business leaders and community representatives.[212]

7.227 The Victorian government advised the committee that it was working with local governments, the private sector and local communities to ensure an integrated approach to decisions on infrastructure provision, including transport infrastructure. It urged 'integration of the Commonwealth' into these processes 'to ensure regions gain the maximum benefit from infrastructure delivery and management'.[213]

7.228 The recent report on infrastructure by the Institution of Engineers, Australia (IEAust) also called for a national sustainable transport strategy.[214]

Assessment of transport infrastructure – benefit cost analysis

7.229 Emphasis on the efficient use of economic resources, corporatisation of government enterprises, national competition policy and globalisation pressures have all contributed to the need to target investment, including in transport infrastructure, to gain maximum returns. Rigorous cost benefit analysis, taking account of economic, environmental and social impacts, has been advanced as mandatory to underpin project evaluation and prioritisation.

7.230 Argy *et al* suggested that a clear set of budget goals and assessment of the stock of productive resources available for additional infrastructure investment would facilitate project evaluation. Determination of investment priorities (in terms of both regions and projects in which to invest) can be assisted through establishing:

- the types and mix of economic benefits a government should be seeking to exploit;
- whether investment other than in infrastructure could deliver these benefits more effectively; and
- the choice between alternative infrastructure investment options.

7.231 Argy *et al* further argued that key elements of an active infrastructure policy included:

212 Queensland government, Submission no. 257, p. 41.

213 Victorian government, Submission no. 247, p. 9.

214 Institution of Engineers, Australia, *A Report Card on the Nation's Infrastructure: Investigating the Health of Australia's Water Systems, Roads, Railways and Bridges*, December 1999, p. 33.

- strategic goal setting and planning;
- regional and export targeting;
- the exploitation of inter-dependencies between firms and industries; and
- partnerships with industry.[215]

7.232 At a private meeting with the committee, Fred Argy elaborated on cost benefit analysis particularly in relation to externalities flowing from infrastructure projects, stating that:

> These externalities … are spin-offs for or returns to the economy as a whole which are not captured by the investor. Therefore, the social, if you like, or the national benefit cost ratio is higher than the private benefit cost ratio. To close that gap between the two you need government assistance. But, of course, the government can still channel its assistance through private financiers, private institutions and entrepreneurs. … In fact, you can develop new infrastructure with the large part of the risk being borne by the private sector but with some input from government in the form of subsidies or risk-sharing arangements.[216]

7.233 The submission from the Western Australian government considered economic evaluation of projects critical:

- to enable the economic viability of a project to be assessed on a stand-alone basis;
- to allow ranking of projects; and
- to assist with optimal project scoping.

7.234 The submission emphasised the importance of evaluation from a state, national and regional perspective, taking account of all benefits including intangibles or externalities.

> While an infrastructure project can provide a major stimulus to a region's economy, if it results in resources being drawn away from other regions, then the national and / or State economic benefits may be lower or even negative.
>
> Cost benefits analyses … also need to take account of intangible benefits flowing to a region as a result of infrastructure being provided. These can include the quality of life of individuals in the

215 F Argy, M Lindfield, B Stimson, P Hollingsworth, *Infrastructure and Economic Development*, CEDA Information Paper no. 60, background paper for Contribution of Infrastructure in South East Queensland to the State Economy Conference, Brisbane, April 1999, pp. 21-22, 25.

216 Fred Argy, Transcript of Evidence, 22 September 1999, p. 144.

> region as a result of improved access to infrastructure … or better services quality.[217]

7.235 The NTPT report considered that pricing and management of environmental and social effects should be an essential part of the overall transport infrastructure investment decision-making process. It considered that the results of rigorous economic analysis of individual projects should be published to provide a comparison with benefits that might result from large transport projects compared with improvements to other transport infrastructure.

7.236 The committee considers that, since 1994, there has been progress towards consistent determination of major roads investment by states through the Austroads process. However, it is aware that different criteria remain for the economic evaluation of investments across all transport modes.

7.237 As noted earlier with regard to rail, the committee received arguments for and against the merits of funding large projects. The Northern Territory government's submission suggested that, in light of the recent decision in support of the Adelaide to Darwin rail link, there are grounds for the Commonwealth government to reconsider whether active involvement in funding infrastructure was now more appropriate.[218]

7.238 The IEAust report recommended 'the application of the principles of ecologically sustainable development' to underpin decisions on infrastructure. Developing state government transport planning initiatives aim to move passengers and freight efficiently and reduce car dependency through development of coordinated, sustainable transport systems that reduce travel demand while ensuring social justice and maintenance of environmental quality. Reduced environmental impact is an underlying principle for the use of new technologies in transport and the development of Intelligent Transport Systems.

Freight – multi-user, multi-modal systems

7.239 In Australia, more goods leave regions than return to them and the size of the transport task is continuing to grow strongly in line with growth in population and as a result of globalisation. The New South Wales government emphasised the growing trend to agricultural diversification resulting in 'new demands on infrastructure as more products are destined for national and international markets.'[219]

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217 Western Australian government, Submission no. 273, p. 5.

218 Northern Territory government, Submission no. 232, p. 61.

219 New South Wales government, Submission no. 260, p. 4.

7.240 The percentage of production cost attributable to transport varies across industries but is uniformly high. The percentage cost of wood attributable to transport was noted earlier in this report. There are other examples:

- 18-25 per cent of production costs for the pastoral and harvesting industry, the predominant industry, in central west Queensland are attributable to freight. An upgraded road link could cut freight costs by as much as 30 per cent;[220] and
- up to 50 per cent of the cost of developing a mining project can be to upgrade, enhance or develop infrastructure to maximise economies for the transport of mineral products.[221]

7.241 The NTPT report described the need to 'move away from the concept of a separate network for each mode towards consideration [of transport] on a corridor-by-corridor basis across all modes'. It suggested broadening the concept of the National Highway System, in conjunction with the states and territories.

7.242 Integrated systems covering land, sea and air transport and involving the development of multi-modal and multi-user infrastructure allow the seamless transfer of people and goods between various modes. As the NFF stated:

> In many instances, produce moves across a number of different modes (e.g. grain is typically trucked to silos, railed to port and shipped to export destinations). The more efficient the inter-modal designs the less time and handling attach to the produce the better the quality and lower the cost in achieving sales. For industries such as horticulture and dairying, which are rapidly expanding their export markets, and for whom delays in transit can mean significant decreases in product quality, these issues are particularly important.[222]

7.243 Rural and regional areas offer advantages as locations for intermodal terminals. Reduced road transport time due to less congestion than in urban areas allows trucks and containers to be directed to areas without traffic for more efficient transport to customers. Use of less congested rail lines outside of metropolitan areas also increases efficiency and reduces costs.

7.244 New technologies are also intrinsic to the new intermodal terminals. The committee met with representatives of FCL Interstate Transport Services in Parkes. The company has developed a state-of-the-art intermodal rail

220 Outback Highway Development Council, Submission no. 188, p. 7.

221 Minerals Council of Australia, Submission no. 277, p. 2.

222 National Farmers' Federation, Submission no. 228, p. 9.

and road terminal at Goobang Junction in Parkes, strategically situated halfway between Brisbane and Melbourne. Road delivery of produce followed by rail long haul allows efficient two way use of containers for distributing imports and despatching exports to ports. Fast, economical rail transit to Perth and landbridging to and from Fremantle and Adelaide ports for international trade is already being provided, but could be significantly expanded.

7.245 The facility will contain tailored warehousing to centralise the Central West's primary and secondary exports and is presently operating at only about 3-5 per cent capacity, moving 250-300 containers per day.

7.246 **The committee supports the aggressive promotion of regional areas as viable alternatives to capital cities for freight transport and strongly supports those communities and private businesses that are developing innovative intermodal transport concepts.**

7.247 The committee was advised by FCL of problems being experienced at Port Botany. Coordination of scheduling at the port was a problem as was the lack of priority from stevedores for rail freight.

Recommendation 65

7.248 **The committee recommends that the Commonwealth government work with state governments, businesses, industry and communities to encourage the establishment and development of intermodal transport hubs in regional areas.**

Transport chain management – value adding and clustering

7.249 The importance of ensuring the efficiency of the entire transport chain was emphasised to the committee in submissions and during regional visits. The submission from the Victorian government referred to the need for control over the distribution system by industry.

> Increasingly, industry is seeking infrastructure that can provide a quality transport service through greater accessibility, availability and reliability, and control over the distribution system. Access to customers and suppliers is of paramount importance. Transport is an integral cog in the production process, hence good roads, rail and intermodal linkages can result in reduced transport costs. These benefits can then flow on to achieve reduced manufacturing and business costs, more efficient use of resources, increased

> production capacity, opportunities for investment in plant and equipment, and importantly, the creation of jobs and increased competitiveness.[223]

7.250 Transport chain management is a key issue for agri-food industries (encompassing agricultural and manufacturing industries producing raw and processed food and beverages) that are located largely in rural and regional Australia. The Prime Minister's Supermarket to Asia strategy recognises the increasing opportunities in the export markets to Asia for fresh food and produce. The Queensland government's submission supported the strategy's role in relation to freight:

> … it is heartening to note that the Commonwealth and State Governments are working closely in the coordination of activities and funding in the area of freight logistics. A range of initiatives following on from the Prime Minister's Supermarket to Asia Council, are helping to improve freight logistics, particularly to and from regional areas of the State.[224]

7.251 On the other hand, at a private meeting with the committee, Agrifood Industry Development of the Department of National Resources and Environment, Victoria claimed that the 'Supermarket to Asia' strategy did not go far enough. It supported the 'Food and Fibre Chains' programme that aimed to assist businesses to shift from supply driven to demand driven chains by building stronger and cooperative relationships, from the raw material supplier to the consumer. But it argued that the budget for the overall strategy was too small, that more people were needed on the ground and that the strategy should be directed not just to Asia, but to the world.

7.252 The Department of Agriculture, Fisheries and Forestry told the committee that value adding and market development based on supply rather than demand was the key to future success for agribusiness. It emphasised the importance of establishing and maintaining an appropriate level of knowledge, including business and marketing skills, in rural and regional communities.

> In terms of supply chain management, if you look at agribusiness and agrifood industries, I would think it is well behind other Australian manufacturing or processing industries and certainly well behind world's best practice. … If you think about where our competitive advantage in some of those industries will rest longer term – and it is producing safe, high quality products – people in regional areas need to understand how to implement HACCP

223 Victorian government, Submission no. 247, p. 4.

224 Queensland government, Submission no. 257, p. 36.

systems to produce safe food and how to implement quality systems. They need to have access to the business skills and advice to do that.[225]

Recommendation 66

7.253 **The committee recommends that the Commonwealth government extend the successful 'Supermarket to Asia' strategy to other parts of the world, and increase the funding and resources for the program.**

Recommendation 67

7.254 **The committee recommends that the Department of Transport and Regional Services work with agribusiness, the tertiary education sector and communities to develop targeted programs to provide business and marketing skills for people involved in the agrifood industry.**

Infrastructure audit

7.255 In addition to arguments relating specifically to roads, the committee received much representation on the need for a national transport infrastructure audit.

- The New South Wales Department of State and Regional Development indicated to the committee that it would support an audit to underlie development of a national transport plan, provided it was completed quickly to allow swift action on transport needs. Collection and collation of detailed information on transport infrastructure was already underway in New South Wales.[226]
- The South Australian Regional Development Taskforce recommended that the state government conduct an infrastructure audit in all regions in South Australia within the next financial year to:
  - ⇒ identify current strengths and weaknesses;
  - ⇒ assess future development opportunities and constraints to their achievement related to infrastructure provision; and

225 Department of Agriculture, Fisheries and Forestry, Transcript of Evidence, 11 August 1999, p. 74.

226 New South Wales government, Transcript of Evidence, September 27 1999, p. 190.

⇒ develop clear guidelines for prioritising infrastructure needs and expenditure within and between regions.

- It was explained to the committee that, through the TIP, Western Australia was undertaking a gap analysis of deficiencies in transport infrastructure, so as to facilitate targeted investment. Medium and longer term projects were being considered and the state government supported development of a strategic framework that would include funding.

7.256 The need for improved and nationally consistent data to underlie national and metropolitan strategic planning was considered a matter of priority by the NTPT. It recommended that the Bureau of Transport and Communications Economics coordinate the collection, maintenance and reporting of data necessary for national strategic decision making in transport.[227] The IEAust 1999 report referred to the road transport sector's well-developed performance measurement system, but pointed out that this covered major agencies only and that there was very little consolidated and consistent data available for local government assets.[228]

7.257 In a private meeting with the committee, Fred Argy stated that, in terms of a national strategy for infrastructure and assessment, he considered that 'the first need [was] for the relevant federal and state agencies to collate information about infrastructure needs, infrastructure opportunities across the nation, and to disseminate this information'.[229]

7.258 Another issue raised with the committee was the lack of integrated transport regulations across jurisdictions and the additional costs imposed on transport operators and businesses as a result of this.[230]

Conclusions

7.259 The committee is persuaded by arguments put to it concerning the need for coordinated strategic planning, based on an integrated, national, sustainable transport network. It considers that such a network should build on integrated transport planning being undertaken by states, and that a mechanism should be put in place to deal with potential conflicts between priorities for infrastructure between jurisdictions, for example, 'roads of national importance' and state priorities.

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227 National Transport Planning Taskforce, *Building for the Job*, AGPS, Canberra, 1994, p. ix.

228 Institution of Engineers, Australia, *A Report Card on the Nation's Infrastructure: Investigating the Health of Australia's Water Systems, Roads, Railways and Bridges*, December 1999, pp. 8-9.

229 Fred Argy, Transcript of Evidence, 22 September 1999, p. 142.

230 Murrindindi Shire Council, Submission no.7, p. 5.

7.260 The TIRES study carried out in Victoria, New South Wales, and South and Western Australia, cited earlier in this report, and the cross-modal, cross-industry study being conducted in the Greater Green Triangle Area are examples of regional cooperation in data gathering and planning. The committee considers that these could provide a model for a process under COAG to develop a framework for a national transport network.

7.261 The committee considers that infrastructure priorities should be determined on a national basis and across modes, using the latest benefit cost analyses and research, and without being tied to existing or previous funding formula. It considers that cooperation between governments is vital to develop uniform evaluation criteria and that all values, including intangible benefits and externalities, should be included in the analysis.

7.262 The committee is strongly of the view that a key role of the Commonwealth government is to set an appropriate taxation and federal regulatory environment to encourage private sector investment. It also considers it appropriate for the Commonwealth government to work with all levels of government, including through COAG processes, to streamline inter-jurisdictional processes and to encourage development of regulation by other levels of government, appropriate to enabling investment by the private sector. It is persuaded that direct government funding for specific transport infrastructure projects, on the basis of rigorous cost benefit analysis, is not only appropriate but, at the present time, essential.

Recommendation 68

7.263 **The committee recommends that, through the Council of Australian Governments, and under the leadership of the Department of Transport and Regional Services, the Commonwealth government work with the states to develop an integrated, national, sustainable transport infrastructure strategy covering all modes. Implementation of the strategy should result in development of a seamless, efficient national transport infrastructure network.**

The strategy should provide for flexible allocation of funds and not be dependent on existing or historical transport funding precedents. (see also recommendations 7 and 10)