



**AUSTRALIAN
AUTOMOBILE
ASSOCIATION**

**Constituent
Members**



**Standing Committee on
Transport and Regional Services**

**Inquiry into Integration of
Regional Rail and Road Networks
and their Interface with Ports**

Submission by the Australian Automobile Association

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GPO Box 1555

216 Northbourne Ave

Canberra ACT 2601

PH: (02) 6247 7311

Fax: (02) 6257 5320

email: aaa@aaa.asn.au

ACN 008 526 369

1. Introduction

Australian Automobile Association (AAA) represents the interests of over 6 million motorists through its State and Territory motoring Clubs and Associations.

Given that motorists share the road with freight transport operators and since rail competes with road for freight movement, AAA has an interest in ensuring that Australia has a road and rail network that moves passengers and freight efficiently. Clearly, investment in rail can result in benefits to road users, including motorists. But this should not mean a shift in funding from road to rail. Rather, there needs to be a significant increase in *overall* funding for road and rail and recognition that there remains a huge backlog of road projects which needs urgent attention.

The road funding provided under AusLink is welcome but more is required. Roads provide over 95 per cent of the transport task for private motoring, carry most of the freight tonnage and accommodate the great majority of public transport (taxis, buses, trams) – a dominance that is likely to continue, even with a significant freight shift to rail. However, it needs to be recognised that while a doubling of the freight task in 10 years may be a forecast, the rail system could not possibly absorb such an increase across the nation. And where absorption may occur, it will be limited to a handful of corridors.

It needs to be recognised that approximately 80 per cent of road freight is transported over distances of less than 100 kilometres¹. And approximately 85 per cent of Sydney's 1.3m TEUs stay within a 40km radius of Port Botany,² so the potential for mode shift may not be that great.

Thus while increased investment in rail may be necessary – whether it be by the public or private sector - we would not want to see funding simply shifted from road to rail at a time when there is a significant backlog in road projects across Australia. Bringing these projects forward and committing increased road funds is an urgent priority.

In this submission, we focus on the importance of increasing investment in the road network as a means of increasing the efficiency of moving freight. The submission also addresses the important issue of road pricing.

Current transport pricing mechanisms are unsatisfactory and lead to a number of distortions between road and rail and within the road sector. More efficient and transparent pricing of all transport is essential. A proper pricing framework is fundamental to the success of ensuring that freight is moved efficiently across road and rail networks. Without it, an appropriate balance of usage between road and rail will not come about.

¹ AusLink Green Paper, page 3

² Macquarie Research Equities; Australian Financial Review, 24 May 2005 (“Higher port fees fund transport shake-up”, page 1).

In this submission we also touch briefly on issues relating to the two rail freight lines in and around Sydney.

2. The relationship and coordination between Australia's road and rail networks and their connectivity to ports.

In preparing this submission, one of our Constituent members, NRMA, reports that in Sydney, there are only two dedicated rail freight lines:

- Port Botany to Enfield/Chullora
- White Bay to Enfield/Chullora

There are two rail passenger lines that connect Port Kembla and Newcastle port with Sydney. These rail passenger lines, the Illawarra and Central Coast/Northern lines, are two of the busiest lines on the rail network. To ensure efficiency in rail freight and passenger movement, it is essential that a separate freight line be built. The existing regional rail network would also have to be improved to provide direct links to Port Kembla and Newcastle. New inter-modal interchanges would need to be established.

The 'Long Term Strategic Plan for Rail' (June 2001) released by the Office of the Coordinator General of Rail, states that the rail system is rapidly approaching gridlock as there is a finite limit on how many trains can reliably and safely use each track and even more significantly, on how closely they can follow each other through multiple congested junctions and/or wait their turn. The estimated essential infrastructure track work on the rail network of the Greater Metropolitan Region (extending to Maitland, Nowra, Moss Vale and Lithgow) is \$30 billion.

The fact that the rail line south of Sydney ceases at the Shoalhaven River (south of Port Kembla) has implications for efficient freight movement, particularly from the south coast region (including Bega Valley and Eurobodalla shires). Freight from this region, therefore, has to be transported along the Princes Highway. In a recent NRMA audit, it was reported that the Princes Highway is in fair condition overall when considering lane widths, shoulder conditions and overtaking opportunities.³ Horizontal and vertical alignment were judged to be poor. Safe overtaking possibilities are restricted to only 10-16 per cent on the highway in the Shoalhaven and Bega Valley shires.

Unfortunately, the Princes Highway is not part of the AusLink network. Yet it is a major strategic freight connector and carries a large number of passenger vehicles. Consideration should be given to including this Highway in the AusLink network.

³ NRMA Motoring & Services, 'Princes Highway Route Audit Waterfall to Victorian Border', March 2005

In another part of NSW, the closure of grain rail lines is putting pressure on the Newell, Sturt and Mid-Western Highways in particular and solutions need to be found to cope with this diversion of freight onto these major interstate highways.

3. Policies and measure required to assist in achieving greater efficiency in the Australian transport network

The Terms of Reference of this Inquiry refers to opportunities to achieve greater efficiency in the use of existing infrastructure; and possible advantages from the use of intelligent tracking technology.

Reform of transport pricing, using tracking technology, is clearly one area where, in our view, significant gains in efficiency can be achieved.

3.1 Transport pricing

We note the comment in the White Paper that the proposed National Transport Advisory Council will focus its work on three key policy areas, including advice on strategies, policies and options for infrastructure pricing. We believe that the issue of pricing is of critical importance. So too did the National Transport Planning Taskforce when it reported as far back as 1994. The report stated that 'The Taskforce believes that a more efficient funds allocation within Government for transport infrastructure will only be partially effective, unless accompanied by more efficient road and rail infrastructure pricing'.⁴

AAA has undertaken detailed research in the past on road pricing and charging for cars and trucks. The most recent commissioned work was for AAA's submission to the Fuel Taxation Inquiry (October 2001).⁵

Our research indicates that cars are overcharged compared to trucks. We noted in our submission that charges levied by the NRTC on heavy vehicles (including 20 cpl fuel excise net of rebates paid by these vehicles) recover \$1283 million of the \$4570 million of annual expenditure on roads. A fuel charge of only 7 cpl (18 per cent of fuel excise) would be needed to recover the remaining expenditure. This is considerably lower than the current tax of 38.1 cpl.

The NTC methodology adopts a full cost recovery approach rather than the more appropriate economic efficiency objective of recovering the full marginal social costs of road use (including costs for air and noise pollution, crashes and roads use). On this basis, and if fuel excise were viewed solely as a charge to achieve cost recovery, heavy vehicles should pay an average of 42.9 cpl. This is well above the amounts heavy vehicles currently pay.

⁴ National Transport Planning Taskforce, 'Building for the Job', November 1994.

⁵ AAA, 'Towards a fairer fuel tax policy', Submission to the Fuel Taxation Inquiry Committee, October 2001.

This finding is consistent with the BTRE assessment, which reports that under the current road user charging regime, trucks overall are undercharged for their use of the road system.⁶

By contrast, based on the methodology of recovering full marginal costs of road use, light vehicle should be paying 25 cpl, rather than the 38 cpl they currently pay.

The need to promote greater neutrality in the pricing of road and rail infrastructure is mentioned in the Productivity Commission Inquiry Report on Competition Policy Reforms⁷, noting that there is under-recovery in relation to the largest vehicles that travel the longest distances and it is with these vehicles that rail principally competes.

More recent research shows the inherent cross subsidy for heavy long-haul trucks which compete with rail.⁸ The report prepared for ARA by Port Jackson Partners argues that the solution to these problems is to use mass-distance charges instead of either fuel-based or registration charges. The report mentions a number of European countries which have, or are about to, introduce mass-distance charging which will take account of vehicle and environmental and road damage characteristics.

AAA has been advocating a move in this direction for some time and we believe that the NTC should move more quickly down this path rather than the incremental approach which it is proposing in the 3rd heavy vehicle road charges determination. Much is to be gained from introducing GPS tracking technology to charge vehicles for road use across the national network.

In fact there is a great deal which could be done by Government in the way of demonstration projects in the technology area to achieve greater efficiency in inter-modal integration of freight and passenger movements. Within the AusLink Bill, there is a category of funding for transport development and innovation projects. Consideration should be given to a range of projects which could benefit from funding as a means of improving the movement of passengers and freight.

3.2 Tracking technology

AAA has long argued the importance of encouraging the rapid introduction of tracking technologies using GPS. In addition, instantaneous traffic information should be available to motorists and transport operators alike particularly in congested areas. Drivers, dispatchers and freight managers should be able to decide to avoid congested areas. Information currently available to State road

⁶ Bureau of Transport and Regional Economics, 'Competitive neutrality between Road and Rail', Working Paper 40, September 1999

⁷ Productivity Commission Inquiry Report No 33, 'Review of National Competition Policy Reforms', February 2005

⁸ Australasian Railway Association, 'The Future for Freight' (2005), page 33

managers through the SCATS style traffic systems can be communicated by intelligent signs, the internet or SMS messaging services to aid this decision making. Systems currently exist for the tracking of specific heavy vehicles, ie cranes, to monitor their locations and to assist in traffic planning.

Many other intelligent transport systems (ramp management, weather information, emergency recovery) can make a significant improvement to traffic management resulting in greater transport productivity. Information systems can also be use in the tracking of freight, improving scheduling at the road, rail and ship interfaces.

While the private sector can install and operate many of these systems, there can be a useful role for government in installing the overarching systems infrastructure. This is the role the US Government has taken with the supply of GPS services at no cost.

4. The role of the three levels of Government and the private sector in providing and maintaining the regional transport network.

AAA strongly supports the Government's policy approach set out in its White Paper of developing a National Network to encompass the former National Highway System (NHS) including its connections through urban areas, other nationally important interstate and inter-regional transport links, as well as links to ports and airports. AAA has been advocating for such a network for some time.

When the AusLink White Paper was released in June 2004, AAA welcomed its launch noting that the integration of road, rail and research funding into one rolling five-year plan was a desirable shift towards a more strategic long-term approach to transport infrastructure. AAA also supported the recognition by Government that a broader network of transport corridors required Federal funding.

In terms of the role of the three levels of Government and the private sector in transport investment and operations, we believe that their roles need to be clarified as a basis for decision making and establishment of inter-governmental agreements and arrangements. We look forward to a quick resolution of the bilateral agreements between the Commonwealth and the States.

4.1 AusLink funding

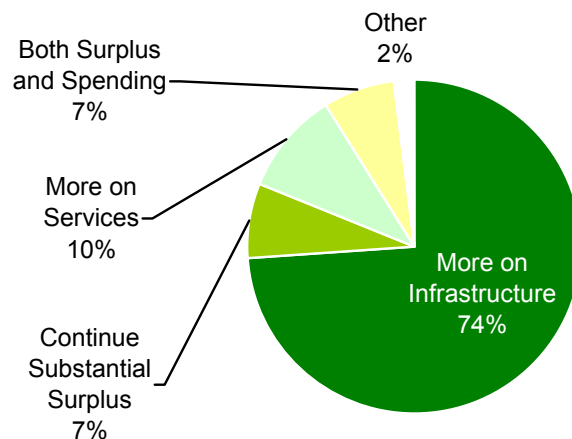
AAA was pleased to see new funding included as part of the AusLink plan – and additional funding as part of the 2004 election campaign – but we noted that more funds for roads is necessary to achieve the full vision. AAA called on the State and Territory governments to increase road funding. We also pointed out that although the Federal Government had committed \$11.8 billion – since increased to \$12.5 billion – over the next 5 years, during the same

period motorists will pay an estimated \$70 billion in petrol excise and \$16 billion in GST on fuel. AAA would like to see a greater proportion of this revenue spent on roads.

Following the AusLink release, AAA also reported that road expenditure should be seen as an investment, not a cost, as there are significant benefits which are widespread throughout the economy. These benefits extend to the road safety area; the implications of the Government's National Road Safety Strategy of reducing the fatality rate between 1999 and 2010 by 40 per cent, is that 700 lives can be saved every year, with 332 coming from safer roads. Road investment will translate into savings in the health, welfare and justice components of the Federal Budget.

There is support for increased investment in road and other infrastructure in the community. In recent polling undertaken by ANOP for AAA, in answer to whether they think the Federal Government should continue to have a substantial surplus or whether it should be spending more on infrastructure like roads, 74 per cent of respondents said there should be more spending on infrastructure. Just seven (7) per cent thought that the Government should continue to have a substantial surplus.

Figure 1: Motorists' Attitudes on Government Surplus vs Spending More on Infrastructure



Source: ANOP, 2005. *National Survey of Motorists' Attitudes and Priorities*, conducted for AAA

AAA welcomes the additional funding for roads under AusLink. However, the level of funding is not as significant as has been portrayed. And clearly more is needed if the backlog of economically viable projects is to be addressed. In a speech to the Australian Local Government Association Roads Congress in 2004, Senator Ian Campbell indicated that increases in funding under AusLink were substantial, to say the least. For example, he indicated that there would be a 118 per cent increase in Victoria and a 76 per cent increase in New

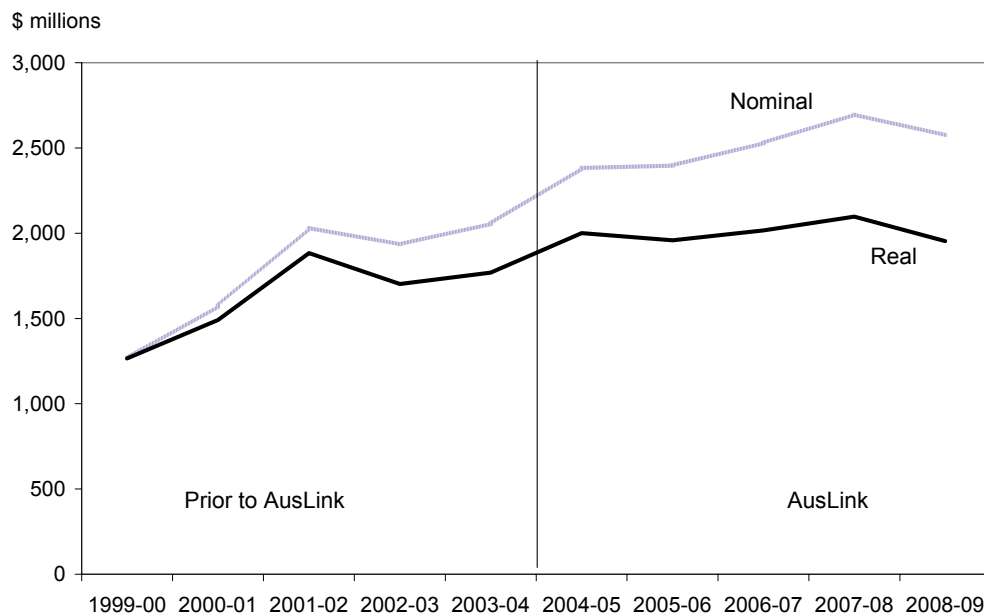
South Wales.⁹ Overall, the AusLink White Paper indicated that funding would increase by 64.2 per cent under AusLink.¹⁰

However, the quoted figures appear to have compared AusLink expenditure over 5 years with previous Forward Estimates which is a somewhat dubious basis for comparison (particularly since the exact figures used in the comparison appear to not be readily obtainable).

AAA has undertaken an analysis to compare actual Commonwealth road funding for the 5 year period prior to AusLink, with projected funding for the first five years of AusLink. This seems to be a more reasonable basis for comparison. Importantly, we believe it is crucial to inform the community, and motorists, about just how much funding is being directed to improving the road network.

Our analysis indicates that the increase in Commonwealth road funding in real terms is nearer to 24 per cent for the 5 years of AusLink compared with the 5 years before AusLink, which is somewhat lower than the quoted 64 per cent in the White Paper, even allowing for the fact that we are considering road funds alone. The results of our analysis, showing Commonwealth funding expressed in nominal and real terms (1999-00 dollars) is shown in Figure 2 (full results in Appendix 1).

Figure 2: Commonwealth Road Funding, 1999-00 to 2008-09



Sources: see Appendix 1.

⁹ http://www.alga.asn.au/newsRoom/mediaReleases/20040712Campbell_2.php

¹⁰ AusLink White Paper, page 29

A comparison of this nature is not easy, as funding arrangements have changed over this period and certain estimates have had to be made. For example, State Financial Assistance Grants identified for roads were abolished in 2000-01 and replaced by GST. We have therefore deducted the State FAGs from the 1999-00 Commonwealth road expenditure figures to compare 'like with like'. Even then it should be said that we do not know how much of the GST payments have been allocated to roads by the State governments, but that is a separate issue.

In our analysis, we have also retained the funding commitment of \$541.5 million for the Scoresby (Mitcham-Frankston) Freeway. Since this funding was conditional on the Victorian Government reversing its position on tolls for the freeway, and given that this has not happened - and is now unlikely to change in the short-term - our Constituent member, RACV, considers that this money should be allocated to other urgent road needs in Victoria. RACV has identified the projects where funding should be re-allocated in its 2005-06 Budget submission to the Federal Government.

Also in our analysis we have included expenditure on the Fuel Sales Grant Scheme. This seems reasonable, because the beneficiaries of the Scheme were (presumably) motorists and when the Scheme is abolished in 2005-06, the White Paper reports that \$810 million will be directed to new road investment as a result of the decision to abolish the Fuel Sales Grant Scheme.¹¹

Although this increase in funding of 24 per cent is welcome, it needs to be pointed out that the AusLink network is presumably much longer than the current length of the NHS and RONIs (unfortunately, there is no information in the White Paper identifying its length). Increased investment is surely justified on this basis alone, let alone to accommodate increases in traffic and freight volume between the one five-year period and the next. Further analysis conducted by AAA indicates that passenger traffic will increase by nearly nine (9) per cent between the two five year periods, and the AusLink White Paper indicates that freight traffic is likely to increase at an even higher rate.¹²

AAA acknowledges that the Commonwealth has an expectation that States and Territories will invest in those projects on the National Network which provide benefits at the State and Territory level, meaning that in many cases, projects costs will be shared with State and Territory Governments. AAA's Constituent members will continue to inform the relevant road authorities in the States and Territories, as well as the Commonwealth, of its views on project priorities and funding expectations. As far as the Pacific Highway and the Hume Highway are concerned, we believe that to wait until 2016 and 2012 respectively for these two highways to be fully duplicated to four lanes is totally unsatisfactory, particularly if we are seeking to achieve significant improvements in road safety.

¹¹ AusLink White Paper, page xi

¹² Adapted from BTRE data; AusLink White Paper, page 4

The need for additional funding is justified on the basis that there is a significant backlog of economically viable projects. In a report prepared for AAA by Allen Consulting in May 2003, it was estimated that current required road works (including upgrades and new construction) in NSW total around \$4.4 billion, in Victoria total around \$3.8 billion and in Western Australia total around \$2.2 billion.

Recent research conducted by Econtech for the Australian Council of Infrastructure Development (AusCID) indicated that GDP would rise by almost one per cent, a wide range of consumer prices would fall and our export performance would be enhanced if Australia corrected under-investment in a range of the nation's basic infrastructure, including the \$10 billion for roads. According to the Econtech model, the nation's improved competitiveness would boost exports by 1.8 per cent.¹³

The report also concluded that significant benefits will flow to the household sector, not only through lower prices for the energy and transport services they consume, but also as lower business costs from improved infrastructure are passed on in the form of lower prices for most consumer goods.

There will also continue to be a significant maintenance requirement for the broader national road network. The BTCE (as it was then known, now the BTRE) estimated in 1997 that maintenance needs of the National Highway (which is just one component of the AusLink Network) would be \$280 million in 1998 and then rising to around \$360 million through to 2014-15.¹⁴ On these figures, the Government's decision to invest \$1500 million over 5 years towards the cost of maintaining the road links on the National Network is, in our view, insufficient. Increased funding needs to be allocated to maintenance. In addition, the Government needs to identify and report on the asset value of the National Network so that the appropriate level of maintenance spending can be identified and account for depreciation of the asset.

AAA welcomes the four year extension of the Roads to Recovery program (R2R2) announced in 2004 and the additional funding provided in the election campaign. According to our Constituent members, the program is working well. We also note the findings of the R2R review completed in May 2003 which found that Roads to Recovery had made the roads safer, improved the ease with which goods and people can use them, enhanced economic development and improved the amenity of living in many places.

In the recently released report by CEDA¹⁵, Lauchlan McIntosh, Executive Director of AAA, reported that infrastructure is not only about efficiency and productivity, it is also about safety. It follows that when addressing the role of Australia's regional arterial road and rail network in the national freight

¹³ Econtech, 'Modelling the economic effects of overcoming under-investment in Australian infrastructure', August 2004

¹⁴ Department of Transport & Regional Development, Submission to the Federal Inquiry into Federal Road Funding, February 1997.

¹⁵ CEDA, 'Infrastructure: Getting on with the Job', Growth 54, April 2005

transport task, the issue of road safety must be recognised. In the CEDA report, McIntosh reminded us that five people die and 60 are seriously injured every day from road crashes and that inadequate road infrastructure is the major cause of death and injury. He said “that today’s vision must be to invest now to achieve by 2010 a road network that is not only productive, but safe”.

AAA welcomed the announcement during the 2004 election campaign to extend the Black Spot program for a further 2 years to 2007-08. The Black Spot program has proven particularly effective in recent years. According to the BTRE, between 1996 and 2000, the number of casualty crashes at treated sites decreased by approximately 31 per cent in capital cities, and approximately 48 per cent in rural areas. The BTRE also estimates that the program produced a benefit cost ratio of 14.1. That is, every \$1 invested produced a \$14.10 return in reduced deaths, injuries and related costs.¹⁶

Given the significant benefits, AAA would like to see increased funding being allocated to this category and a greater emphasis given to safety in the selection of all AusLink projects for funding in the future.

Support for increased Black Spot funding has also come recently from the House of Representatives Standing Committee on Transport and Regional Services. In its report ‘Eyes on the Road Ahead’ released in May 2004, the Committee recommended to the Australian Government that Black Spot funding throughout Australia be increased by 25 per cent. AAA is awaiting the Government’s response to this and the other 37 recommendations.

5. Conclusion

In arguing for an increase in road transport infrastructure funding and more efficient road pricing mechanisms, we know that the Australian economy will benefit. These two policy measures can help to achieve lower vehicle operating costs, reduced travel times and important safety outcomes. In turn, these benefits will be reflected in higher productivity in road transport, better coordination between road and rail networks and their connectivity to ports, and subsequent improvements in the competitiveness of the economy. This is one of the reasons why road infrastructure spending should be seen as an investment, not a cost.

¹⁶ BTRE, The Blackspot Program 1996 – 2000: The First Three Years.

Appendix 1 – Commonwealth Road Funding

Year	Total funding ¹	Fuel Sales Grant Scheme ²	Nominal funding	Road construction index ³	CPI ⁴	Real Funding
	(\$ m)	(\$m)	(\$m)	(1993-94 = 100)		(\$ m) (\$1999-00)
1999-00	1266	0	1266	109.1	2.40	1,266
2000-01	1459	115	1574	115.1	6.00	1,491
2001-02	1822	210	2032	117.7	2.90	1,883
2002-03	1720	215	1935	124.0	3.10	1,703
2003-04	1836	220	2056	126.8	2.25	1,769
2004-05	2158	225	2383	130.0	2.50	2,001
2005-06	2167	230	2397	133.5	2.75	1,958
2006-07	2530	0	2530	136.9	2.50	2,017
2007-08	2697	0	2697	140.3	2.50	2,097
2008-09	2575	0	2575	143.8	2.50	1,954

Sources

- 1 Commonwealth Budget Papers; BTRE, 2004, Public Road Related Expenditure and Revenue in Australia, Information Sheet 23
- 2 Figures for 2004-05 and 2005-06 AAA estimates.
- 3 Figures for 2000-01 to 2002-03 from BTRE. Remaining figures estimated by AAA using CPI.
- 4 Commonwealth Budget Papers; ABS Cat No 6401