MEYRICK AND ASSOCIATES

Towards an Infrastructure Action Agenda

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Discussion Paper

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1. INTRODUCTION

This project is intended to support the ALC in developing, and gaining support for, a national infrastructure action agenda. It is envisaged that this will be used to influence the decisions of COAG and the direction of the AusLink process. More generally it is intended to assist the ALC in establishing itself as a respected adviser on infrastructure issues by developing a credible, coherent and broadly supported position on all matters that are likely to significantly affect the provision or use of transport infrastructure.

This Discussion Paper is intended to provide some initial thoughts to guide the workshop at the ALC Forum on Friday March 3. It presents some suggestions on what criteria might be applied to the selection of items for inclusion in an Infrastructure Action Agenda, and some preliminary ideas on what such an agenda might include. These ideas are drawn largely from consultations with a cross-section of industry participants. Finally, the report puts forwards a few ideas on what needs to be done if the Infrastructure Action Agenda is likely to have any real influence on the actions of Government.

An effective Infrastructure Action Agenda will need to be sensitive and responsive to the broader policy context within which it must be pursued. Before we begin our discussion of the Agenda itself, we review a number of recent developments that highlight some important aspects of this context.

2. SOME IMPORTANT RECENT DEVELOPMENTS

2.1 Prime Minister's Task Force

The Exports and Infrastructure Task Force was charged with the task of identifying any bottlenecks, of a physical or regulatory kind, in the operation of Australia's infrastructure that may impede the full realisation of Australia's export opportunities.

In its Executive Summary, the Task Force summarised its main findings and recommendations:

- the Government should immediately require those regulatory agencies that are within its direct jurisdiction to make their decisions in a manner consistent with preset, clearly defined, timeframes.
- the AusLink programme should be expanded to encompass ports of national significance. As part of this, AusLink should be used to expedite joint planning processes, especially with respect to the port/rail/road interface.
- the Department of Transport and Regional Services should be asked to assist in the formation and operation of such groups and to report on any statutory impediments to their operation (such as those that may arise under the Trade Practices Act).
- the Government, where it has powers to do so, should direct regulatory agencies that are within its control and are regulating export orientated infrastructure to consider, in reaching regulatory decisions relevant to logistics chains, the implications of those decisions for the chain as a whole.
- the Productivity Commission should carry out, every five years, an infrastructure audit along the lines of that carried out in New Zealand.

2.2 Twice the Task

The National Transport Commission recently released a consultants' report on the challenges that will be posed by the anticipated doubling of the national freight task. The Commission's response to the report provides an indicator of its future direction and priorities. Collectively, the changes flagged in the response comprise a significant change of regulatory emphasis and open up new opportunities for industry to work with the Commission in defining and refining its future strategy.

The National Transport Commission defines the major changes as:

1. A move from direct, prescriptive rules to more cooperative forms of regulation that give transport operators more discretion about how they comply with public obligations and reflect advances in the sophistication and technology in the freight industry and the growing focus on collaboration between participants.
2. A change in the overarching aim of regulation, from asset protection to improved economic, social and environmental outcomes from the transport sector. This will shift the focus of regulation from constraining the use of assets to optimising asset use and pursuing consistency between modes.
3. The development of transport pricing that will directly relate the price paid for use of transport networks to infrastructure investment. Ideally, this will be as a result of a direct fee for service relationship between infrastructure user and suppliers.

4. Standards and compliance and enforcement tools based on outcomes and focused on the productive capacity of both the vehicle and infrastructure. This means that vehicle standards are no longer set to match minimum capacity across the network, but can vary so that both vehicles and infrastructure have matched requirements, but differing at different parts of the network. This change would be signified by a greater focus on performance based standards and the Intelligent Access Program.
5. The alignment and harmonisation of safety regulation for rail transport across jurisdictions.
6. A more proactive and flexible approach to implementation of reform across jurisdictions. (NTC, 2006)

2.3 COAG Communiqué

The COAG Communique of 14 February announced a new 'National Reform Agenda to help underpin Australia's future prosperity'.

The Communique announced a number of initiatives of direct relevance to the future development and management of the infrastructure on which Australia's supply chains rely. In a special section devoted to Transport, it noted that

> *Transport already generates approximately five per cent of GDP and Australia's freight task is expected to almost double over the next 20 years. COAG has agreed to improve the efficiency, adequacy and safety of Australia's transport infrastructure by committing to high priority national transport market reforms*

Specific initiatives listed were:

- ask the Productivity Commission to develop proposals for efficient pricing of road and rail freight infrastructure through consistent and competitively neutral pricing regimes, in a manner that maximises net benefits to the community, in particular rural, regional and remote Australia . The Productivity Commission will make recommendations to COAG by end 2006 on optimal methods and possible implementation timeframes. The inquiry will include analysis of how particular communities might be impacted. When COAG considers this report it will ensure that the interest of rural, regional and remote Australia are addressed;
- harmonise and reform rail and road regulation within five years, including productivity-enhancing reforms, improved road and rail safety regulation and performance-based standards for innovative vehicles that do less road damage;
- strengthen and coordinate transport planning and project appraisal processes to ensure the best use of public investment by adopting Australian Transport Council-endorsed national guidelines for evaluating new public road and rail infrastructure projects by December 2006; and
- reduce current and projected urban transport congestion, within current jurisdictional responsibilities, informed by a review into the main causes, trends, impacts and options for managing congestion focusing on national freight corridors.

COAG also formally responded to the recommendations of the Exports and Infrastructure Taskforce by signing a Competition and Infrastructure Reform Agreement. The objective of this agreement is to 'provide for a simpler and consistent national system of economic regulation for nationally-significant infrastructure, including for ports, railways and other export-related infrastructure'.

COAG noted a variety of initiatives aimed at improving national transport planning and facilitating infrastructure development:

- a commitment to complete all 24 corridor strategies under AusLink by 30 June 2007 at the latest;
- extending the corridor strategies to include relevant capital city and associated regional ports on the AusLink National Network;
- undertaking a stocktake of logistics chains of national importance and encouraging industry to establish their own logistics chain coordination arrangements; and
- establishing a 'one-stop shop' in each jurisdiction by 30 June 2006 for significant development projects.
- the provision by each jurisdiction of infrastructure reports by 31 January 2007.

2.4 The Work of State Councils

The member Council of the Australian Freight Councils have been extensively engaged in research and analysis that is of relevance to the formation of an Infrastructure Action Agenda. This work is too extensive and diverse for us even to attempt to summarise it in this discussion paper. But the following sampling of recent publications gives some idea of its extent:

Victorian Freight and Logistics Council, *Freight Forward* (on Infrastructure Priorities)

Victorian Freight and Logistics Council, *Business Activity Harmonisation Study* (on coordination measures that would improve the efficient use of infrastructure)

New South Wales Sea Freight Council, *Landside Infrastructure Capability: International Containers* (on the ability of landside links to cope with expected container trade growth)

South Australian Freight Council *Transport Infrastructure Principles & Project Priorities*

Western Australian Sea Freight Council, *Alternative arrangements for transport, handling and storage of shipping containers associated with Fremantle Port inner harbour*

Tasmanian Freight Council *Optimising infrastructure utilisation by small-medium enterprises.*

3. CRITERIA FOR AN INFRASTRUCTURE ACTION AGENDA

This section suggests a set of criteria that we believe would be useful in deciding how an Infrastructure Action Agenda should be formulated.

3.1 Areas where industry needs government to act

There are many areas in which improvements can be made to supply chain performance. Many of them lie entirely within the control of industry. Industry is continuously working to make these improvements. There is no point in whingeing and asking government to do what industry can do perfectly well by itself.

3.2 Changes that will make a real difference to supply chain performance

The industry has limited resources to devote to influencing the national infrastructure agenda. This makes it particularly important that efforts focus on the areas in which improvements in the provision or use of infrastructure, or the removal of obstacles to the efficient provision or use of infrastructure, will make a real difference to supply chain performance.

3.3 Breadth of support within industry

The Australian Logistics Council comprises a diversity of interests. In some areas, issues that will advance the interests of one group will be contrary to the interests of others. In other cases, matters that may be important to one small set of constituents will be of no interest to others.

An effective Infrastructure Action Agenda will need to have a broad base of support within this diverse constituency.

3.4 Of national relevance

The defining characteristic of the Australian Logistics Council is that it is a national industry body, and its primary point of interface with government will be at the national level. There are already well-established bodies in each State that are actively addressing infrastructure issues that are specific to each State.

3.5 Likelihood of success

There is little to be gained by the Australian Logistics Council endorsing an Infrastructure Action Agenda that is radically incompatible with the policy directions and major initiatives to which Governments are committed, or which explicitly or implicitly makes demands on funding that are unrealistic.

3.6 Keep it short

A short list of key action areas that are likely to yield benefits to industry is likely to more effectively focus future ALC activity than a long shopping list of items. It will communicate more effectively to government the real priorities of industry. In our view, the Industry Action Agenda should be limited to between six and a dozen items.

4. ELEMENTS OF AN INDUSTRY INFRASTRUCTURE ACTION AGENDA

4.1 Physical Infrastructure priorities

4.1.1 Preparing the rail system for future challenges

There is a widespread view that rail will need to play a greater role in handling the national freight transport task in the future, but that current rail infrastructure is not capable of providing an adequate level of service even for the existing task. Current deficiencies impact on the reliability and cost of supply chains in a number of ways:

- Deterioration in track quality limits train speeds and axle loads
- Track passing loop and terminal design restrict trains to sub-optimal lengths
- Too few passing loops reduce the number of train paths available.
- Height limitations preclude double stacking of containers on some routes.

Focussed investment on those elements of the rail network that are—and will increasingly be—critical to efficient and effective supply chain performance is a top priority for industry. These critical elements are:

- the rail links between the nation's capitals
- rail links serving the key bulk export supply chains

4.1.2 Improving road standards on key freight routes

Although most industry participants expect the share of the national freight task carried by rail to increase, the majority of the nation's freight will continue to be carried on the road system. The road task is by its nature diffuse: trucks make use of all sorts of roads, from major national arteries to unsealed local roads. But as with the rail network there are high concentrations of freight movement on a relatively small number of nationally critical routes, and infrastructure quality on these routes is likely to have a major effect on supply chain performance. As with the rail network, the critical elements are:

- the primary routes between the nation's capitals
- routes serving the key bulk export supply chains

The challenge in this area is twofold, and may well be addressed in two stages:

- ensuring that the infrastructure on these nationally critical routes is adequate to cater for the safe and efficient operation of trucks conforming to current road vehicle limits
- further developing these critical routes to accommodate the operation of high productivity, restricted access vehicles.

4.1.3 Investing in access to ports

Ports will play a pivotal role in the supply chains of Australia's exports and imports. Throughout Australia and internationally, import and export volumes in both the bulk and container tradess are rising much more rapidly than domestic freight movements. As the internationalisation of the Australian economy continues to gather pace, the importance of port-related freight will increase further.

While additional berths, handling facilities and storage areas will be needed to cater for increased demand, there is at present no general shortage of port capacity. In general, the required infrastructure within ports can be provided on a commercial basis as demand grows, as long as government:

- provides an appropriate planning and regulatory framework and
- where it retains ownership of port organisations, these organisations are free to invest in the development of new facilities that are commercially viable.

However, the effective and economical use of these facilities will require improvements in landside access links in the vicinity of the ports. In particular, government assistance may be necessary to ensure that land transport access links:

- are physically adequate to handle the road and rail vehicles that are necessary for efficient carriage of cargo to and from ports
- have sufficient capacity to ensure that the volume of cargo that can be handled through the port is not constrained by the land access links
- provide connections to the main arteries that are, as far as reasonably possible, free of delays due to local road congestion or interaction with other traffic streams.

4.2 Legislation and Regulation

4.2.1 Improvement in economic regulation

All indications are that the development of critical transport infrastructure will increasingly rely on investment by the private sector. This will bring with it a continuing need for economic regulation.

Each jurisdiction currently adopts a different approach to the economic regulation of transport infrastructure. Approaches vary in many different ways. Substantial differences exist in what types of infrastructure are covered by formal economic regulation; in the rules by which the prices that are charged for the use of regulated infrastructure are set; and in the processes by which access to regulated infrastructure is secured.

These inconsistencies undermine the fundamental goal of economic regulation: providing an incentive for infrastructure to make appropriate investments while ensuring that efficient use of the infrastructure by other parties is not unnecessarily restricted. While it is important to recognise that different circumstances may require some differences in the way regulation is applied, more can and should be done to:

- Promote a common approach to regulation between the various jurisdictions
- Ensure that regulatory processes speedily resolve issues that may inhibit needed investment

- Develop simpler, quicker and more predictable ways of determining the terms and conditions, including price, for third party access to essential infrastructure.

4.2.2 Harmonisation of technical and safety regulation

Despite a long process of reform, many inconsistencies remain in the technical and safety regulation of transport, particularly in the rail sector. Accreditation requirements for rail rolling stock differ between states; communications protocols differ; training undertaken in one jurisdiction is not always recognised in another; and there are niggling inconsistencies in safety equipment requirements. Although more progress has been made in the road sector, we still face a situation in which B-Doubles operating one of Australia's busiest freight routes—the Hume Highway—are subject to different technical requirements as they cross the State border. The regulation of driving hours also differs between States.

These differences inhibit the efficient operation of transport services that operate across State borders, and add to costs and increase transit times.

4.2.3 Accelerated adoption of performance based vehicle standards

Historically, regulations that define what vehicles can be used on Australian roads and how they can be used have focussed on what these vehicles look like: their dimensions, their mass and how they are equipped. However, there is an emerging trend to define vehicle standard in terms of what they do: what their handling characteristics are, and how their use affects the road system (Performance Based Standards).

The recently released Twice the Task study notes that:

> *Performance Based Standards (PBS) aim to give greater flexibility to designers and operators of road vehicles to design vehicles which achieve greater productivity for given tasks, within broad overall requirements determined by safety and infrastructure size and strength limits. PBS will allow … framework which encourages operator driven flexibility in vehicle design and operation, while meeting agreed safety and road asset standards.*

The flexibility accorded by a move to performance based standards will maximise the scope for innovation in transport, and in so doing support the achievement of the ALC's supply chain objectives.

4.2.4 Support for collaborative supply chain arrangements

There is widespread agreement that there are significant benefits to be obtained from collaboration along the supply chain, and the Hunter Valley Coal Chain Logistics (HVCCL) initiative has provided a convincing practical demonstration of this.

There are transferable lessons to be learned from this initiative. But the collaborative agreements necessary to support such arrangements are not comfortably accommodated within competition legislation: the supply chain collaboration agreements that have been developed in both the coal and grain export industries required specific authorisation from the ACCC. Such a requirement acts as a brake on experimentation in devising the type of collaborative arrangement that is required for supply chain optimisation. Devising an approach that would minimise this disincentive would be helpful. Perhaps this could be done through specific guidelines for acceptable collaboration in export supply chain management.

More broadly, the challenges of developing a similar level of collaboration in more complex and fragmented supply chains, such as intermodal container movements, are immense, and finding ways to meet these challenges will require a long process of systematic engagement between government and industry.

4.2.5 The use of template legislation

Where things that affect the supply and use of transport infrastructure are under the control of States, the use of template legislation is a useful and efficient means of ensuring consistency across jurisdictions.

There has been an encouraging tendency to adopt this approach under the auspices of COAG and the ATC. However, the effectiveness of the approach relies on the willingness of each jurisdiction to refrain from modifying the template. Unfortunately, recent experience has indicated that this has not always been forthcoming.

Supply chains would benefit from a greater commitment to ensuring that the uniformity of template legislation is preserved in its enactment.

4.3 Planning and Policy

4.3.1 Clearly articulated freight transport plans

There have been encouraging signs that the needs of freight are being increasingly recognised in the government planning for transport. Apart from the Commonwealth Government's AusLink program, most States have active programs examining freight transport needs, including the work of the Freight Infrastructure Advisory Board in NSW, and the South East Queensland Intermodal Freight Terminal Study.

However, the work that has been undertaken to date remains piecemeal. No jurisdiction has as yet developed a clear, consistent and comprehensive statement of how it will deal with the challenges that will be posed by the supply chain needs of tomorrow.

Industry planning for future supply chain development would be greatly assisted by the clear communication by Government of:

- where the key freight routes and interchange points will be
- what infrastructure will be developed on these routes and at these interchange points

- how the land occupied by and surrounding this infrastructure will be protected to ensure that freight operations can be conducted efficiently.

4.3.2 Overtaxed urban infrastructure

Overtaxed urban infrastructure is already a major problem for freight movements. Truck productivity is seriously reduced because of slow transit times on congested urban roads. Efforts to promote the use of rail are undermined by the inability of freight trains to secure suitable paths through networks that already carry a heavy passenger train load.

In some cases, it will be possible to alleviate these issues by building additional infrastructure: the planned dedicated freight route to southwest Sydney is an example of the development of new urban infrastructure that will have a significant effect on supply chain performance. But in other cases it will be a matter of ensuring that the available infrastructure resources are allocated in the way that will deliver the greatest economic benefit.

This may mean the introduction of explicit congestion pricing on key urban routes. Or it may mean the development of allocation rules for train paths in urban areas based on the economic value of the service provided. These are complex and difficult questions, and there are likely to be no easy answers. But as urban congestion is one of the most important impediments to efficient supply chain operation they need to be addressed openly and determinedly.

4.3.3 Facilitating infrastructure development

When major infrastructure projects are contemplated, whether by the private or the public sector a proper evaluation of their likely environmental, social and economic consequences is clearly appropriate. But current planning and approval processes are complex, sometimes unpredictable, expensive and time-consuming, and have become increasingly so over time.

A thorough review of the approval processes for critical infrastructure projects is overdue. The procedures envisaged in the NSW Environmental Planning and Assessment Amendment (Infrastructure and other Planning Reform) Act 2005 (EPA Act), illustrate one approach that, if effectively implemented, could provide significant benefits. The Act provides for the formal designation of certain proposals that the Minister considers to be essential for the State for economic, environmental or social reasons as 'critical infrastructure projects'. These projects would be fast-tracked via a separate, integrated 'single assessment and approval regime for all major infrastructure and other projects' and will replace the need for single issue approvals under eight other Acts.

The anticipated increasing reliance on private financing of public infrastructure also makes an effective approach to public private partnerships (PPPs) a critical element in facilitating infrastructure development. At present, each State has its own approach to PPPs, and there are significant differences between these approaches. The development of a common, streamlined approach to PPPs is desirable.

4.3.4 Infrastructure pricing

The pricing of infrastructure has an important role to play in ensuring that future supply chains are constructed in such a way that the real economic cost of freight logistics is minimised.

There are well-publicised inconsistencies between the approaches that are currently adopted to the pricing of road and rail infrastructure. Improved pricing could lead to the better allocation of freight between transport modes. And we have already mentioned the possible use of pricing measures to manage urban congestion. But improved pricing practices could also lead to other efficiencies, especially if pricing measures are used to replace regulatory constraints on mass limits.

5. INFLUENCING OUTCOMES – WHAT SHOULD INDUSTRY DO?

There is no point in developing an Infrastructure Action Agenda if it does not ultimately make a difference to the decisions that are made by Government. There is no point in deluding ourselves that an Infrastructure Action Agenda developed by ALC will radically transform infrastructure policy. But with thoughtful, persistent and constructive engagement it should be possible for ALC to play a significant role in shaping the way in which the broad policy thrusts are converted into specific initiatives, and to exert an influence on the timing and prioritisation of common reform objectives.

This influence is likely to be most profound and far-reaching if

- the Agenda clearly and succinctly spells out what it is that industry cares about, and why
- the Agenda is designed to work with the prevailing flow of government policy, and the ALC is forthcoming in acknowledging initiatives and developments that serve to advance the priorities articulated in it
- the Agenda is aligned to the priorities of other organisations with similar interests, and especially with the priorities of the members of the Australian Freight Councils Network
- the ALC and its members are prepared to 'bring something to the table' in working with government: in particular to provide data, and to make time available to share with government insights into the current functioning of supply chains, and the implications of future supply chain developments for infrastructure developments
- the ALC and its members stay 'on message' with the Agenda in all dealings with government.

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