

Submission to NSW 2023 Independent Toll Review

July 2023

Introduction

The complexities of tolling regimes demand careful consideration of the interests of all stakeholders, including freight operators, freight owners, consumers, and the broader public. Transparent tolling practices, fair pricing principles, and equitable cost allocation are vital for maintaining a balanced and sustainable freight transport and supply chain system. As Australia's domestic freight task is projected to experience a substantial 26% growth from 2020 to 2050¹, maximising the productivity and efficiency of our freight logistics and supply chain will be essential in meeting the challenges of this surging demand. The reliable delivery of essential goods and services, alleviation of cost-of-living pressures, and enhancement of Australia's overall prosperity all rely on the performance of our supply chain systems.

In this submission, the Australian Logistics Council (ALC) puts forth key recommendations to improve the existing tolling framework and foster an environment conducive to optimising supply chain efficiency and productivity. As the peak national body representing major companies in the freight logistics industry, ALC's policy focus centres on enhancing end-to-end supply chain efficiency and safety. Our recommendations aim to address tolling-related challenges and ensure a well-functioning, inclusive freight and passenger transport network that benefits NSW and given its economic significance, the nation. By working collaboratively and considering the diverse needs of stakeholders, we can pave the way for a more robust, efficient, and competitive freight logistics and supply chain system that meets the evolving demands of Australia's growing economy.

Understanding Freight Transport and Supply Chains

The Australian economy has become increasingly reliant on sophisticated, continent spanning and international supply chain networks. The freight industry serves as the backbone of the economy, facilitating the movement of raw materials, finished products, and essential supplies both within Australia and across the globe.

The supply chain is made up of a highly complex network of interconnected and interdependent parts, with each component playing an essential role in ensuring the smooth and efficient flow of goods and services from a myriad of suppliers to a myriad of end consumers. This comprehensive system involves various entities, including suppliers, manufacturers, warehouses, distributors, retailers, and consumers. Their connections are interwoven through a series of complex set of interdependencies that must work in harmony for supply chains to function effectively.

The productivity and efficiency of a supply chain hinges on the discrete performance and cohesive integration of its various sub-systems. This includes not only freight transport and logistics but also encompasses urban planning and planning regulations, communications, information technology, legal and regulatory systems, and the people and infrastructure that support the process.

¹ <https://datahub.freightaustralia.gov.au/updates-insights/insights/navigating-australias-freight-future>

Freight transport refers to the movement of goods/commodities/freight or cargo from one location to another and involves the use of various modes of transportation, including trucks, trains, ships, airplanes, and, in some cases, pipelines. Efficient freight transport systems are essential for reducing congestion, travel time, and emissions while enhancing overall connectivity. The performance of transportation networks is highly dependent on the infrastructure available, and tolling ideally in an integrated road network, plays a significant role in this.

Growth in Sydney

The Greater Sydney, Illawarra and Hunter regions will be home to around 9.6 million inhabitants by 2063, an increase of 3.28 million people from 2023 (+51%). The most significant population growth is anticipated in the Central and Western cities of Greater Sydney, accommodating an additional 1.8 million residents. Over the same period, the entire population of New South Wales (NSW) is expected to soar to nearly 12 million individuals².

Population growth is closely connected to consumer demand and trade volumes.

The forecasted growth of freight volumes to approximately 618 million tonnes by 2036 in NSW presents a significant challenge for the freight industry³. This surge in traffic is driven by various key factors, including robust domestic demand, rapid population growth, the strength of the NSW economy, fluctuations in the value of the Australian dollar, levels of domestic manufacturing, government trade policies, and the strategic locations of key distribution centres within the state.

As container volumes continue to escalate, it becomes increasingly crucial to have a well-functioning and efficient supply chain to ensure the seamless movement of goods throughout the region, thereby bolstering the overall competitiveness of both the New South Wales economy and that of Australia as a whole.

Liveable Cities and Efficient Freight Transport Networks

The availability of industrial land and its impact on logistics in Sydney are important factors influencing the city's competitiveness as a business and economic centre. As an integral part of freight logistics, industrial land serves as the connecting link between suppliers and consumers, encompassing logistics and supply chain facilities such as ports, intermodal freight terminals, warehouses, depots, and freight corridors. The location of these facilities and their integration with surrounding areas play a vital role in the overall efficiency of the supply chain.

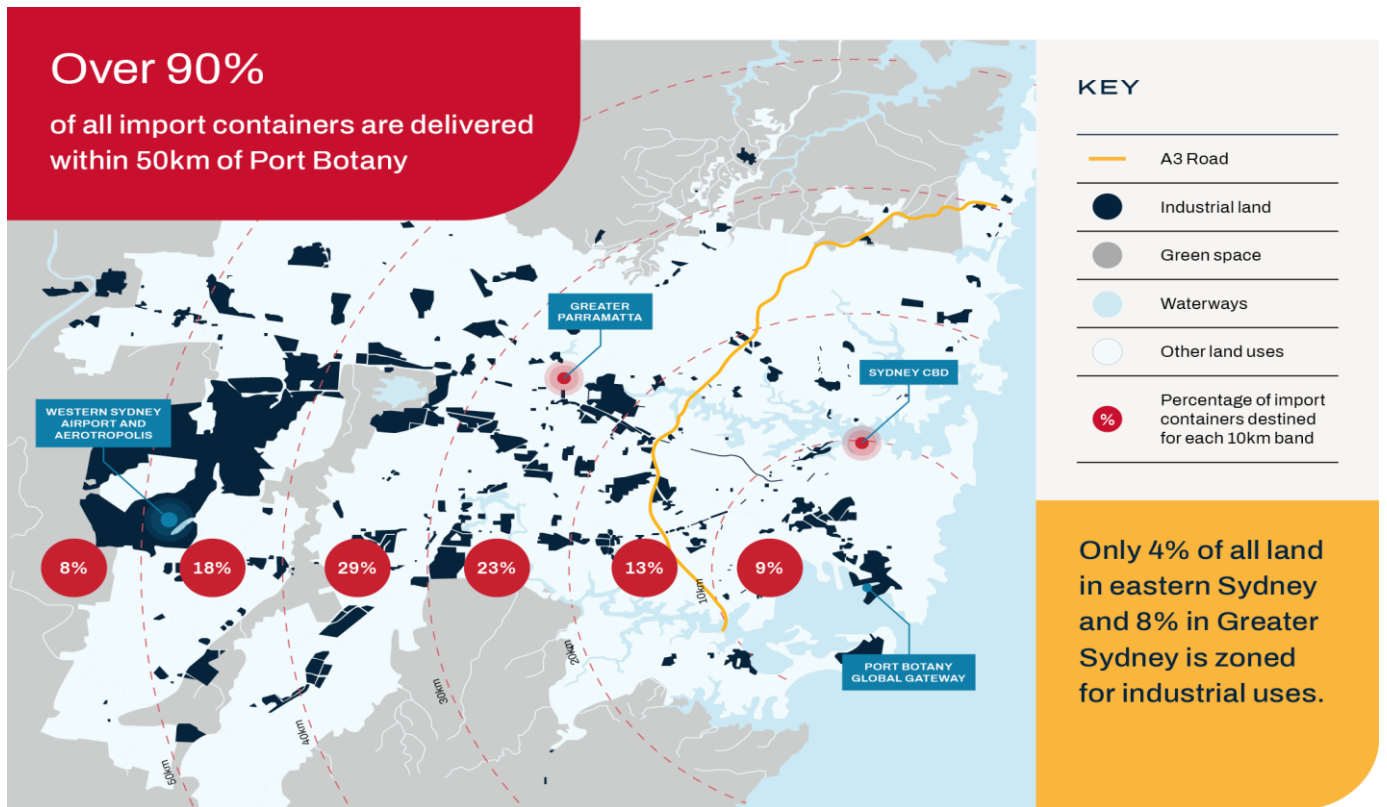
Despite the significance land plays in supporting supply chains and the economy, it only makes up a small proportion of overall land use in Australia's urban environments and is being increasingly retracted for other competing land use and economic activities. For example, only 8% of land in Greater Sydney is zoned for industrial with less than 4% of this located in Eastern Sydney⁴.

The availability of large-lot industrial zoned land in Greater Sydney determines where container imports are unpacked. These sites provide the necessary infrastructure for containers to be received and processed, and for goods to be distributed to their final destination.

² NSW Ports 2063 Our 40-year Master Plan for Sustainable Growth

³ <https://www.transport.nsw.gov.au/projects/strategy/nsw-freight-and-ports-plan-0/part-2-state-of-freight>

⁴ <https://content.knightfrank.com/research/2293/documents/en/australian-industrial-review-may-2023-10246.pdf>



Source: NSW Ports 2063 Our 40-year Master Plan for Sustainable Growth

Around 74% of import containers are delivered within a 40km radius of Port Botany. This compares to 81% in 2014. Over 90% of import containers are delivered within 50km of Port Botany. There has been an increase in containers heading further west, with a 179% increase in containers destined for the 40–50km zone from Port Botany between 2014–22⁵.

The closer the industrial lands are to the end consumers, the cheaper the landside transport costs, as illustrated below.

Scenario	Description	Cost
Base case: Direct journey Port Botany to Alexandria (approx. 12km)	Container goes from Port Botany to Alexandria for unpacking and goods distribution	\$122.82
Scenario 1: Port Botany to Alexandria via Auburn (approx. 50km)	Container unpacking location is moved to Auburn, and goods destined for Alexandria now travel via Auburn rather than direct.	\$561.01 – a 357% increase on the base case
Scenario 2: Port Botany to Alexandria via Erskine Park (approx. 100km)	Container unpacking occurs at Erskine Park before the goods are transported to Alexandria	\$1,006.80 – a 720% increase on the base case

Source: NSW Ports 2063 Our 40-year Master Plan for Sustainable Growth

⁵ NSW Ports 2063 Our 40-year Master Plan for Sustainable Growth

Due to limited availability, logistics and supply chain facilities have been compelled to shift to the ever-expanding periphery of the metropolitan area, resulting in major logistics centres being relocated further away from the urban centre and customers and consumers across Greater Sydney. With the current concentration of distribution centres and warehouses in Western Sydney, freight is required to cover increasing distances and incur greater cost: with the number of trucks, trip times, fuel use and emissions all increasing. This trend is expected to continue as new areas of land are rezoned for industrial purposes adjacent to the Western Sydney Airport.

Urban Planning Challenges with Accelerated Growth

Before 2019 supply chains were largely overlooked by policy makers, functioning as hidden enablers. However, the outbreak of Covid-19 thrust them into the forefront, underscoring their critical importance and the extent to which we rely on them for every good and service. This newfound awareness highlighted a concerning gap in formal undergraduate and post graduate university education in urban planning faculties across Australia and Sydney.

The findings of targeted university research most recently conducted by QUT in 2022 unequivocally revealed not one of Australia's urban planning undergraduate or post graduate courses accredited by the Planning Institute of Australia (PIA) contains any formal education about supply chains, freight logistics, freight transport, economic trade in urban areas, freight city systems, and the means to creating supply chain efficiency, productivity, resilience, and sustainability. These courses do however all focus on social planning, amenity, active transport (bicycle riding and walking) and the enjoyment of space.

The research clearly shows a major gap exists in awareness and deep knowledge about the fundamental economic driver supporting our society's way of life – i.e., supply chains and freight logistics. Without effective supply chain policy and planning the cost-of-living increases, as do the number of trucks, truck drivers, emissions, and fuel. It is essential this gap is overcome to support the competitiveness of our import, export and domestic supply chains and to reach government targets such as net zero by 2050.

Sydney's rapid and unplanned growth has resulted in various challenges, stemming from historical development practices. The private sector played a significant role in the swift construction of roads, funded through toll-based mechanisms, in a piecemeal approach, contributing to a fragmented and inconsistent approach to development.

Regrettably, the tolling burden faced by Sydney is unparalleled in the country, earning the city the unenviable title of being the heaviest tolled city in Australia. Compounding the challenges further is the lack of cohesion within the tolling network itself. One part of the system operates independently of the other, lacking seamless integration and coordination. This fragmentation undermines the effectiveness of the tolling system and compromises its ability to function as a part of a unified and efficient transportation network.

Recent announcements, like the development of 13,000 new homes in Appin without a corresponding infrastructure plan, only serve to exacerbate the existing issues⁶. This symptom highlights the urgent need for comprehensive urban planning that encompasses not just residential expansion but also robust infrastructure development to support the growing population.

To address such complexities and enhance the overall competitiveness of businesses, policymakers must begin to prioritize the provision of well-located industrial land, protect freight corridors throughout the metropolitan areas and support various urban freight planning techniques such as utilising the back hours for freight movements thereby separating freight transport from the peak hours wherever possible, and ending curfews that most often have unintended consequences such as intensified peak traffic and reduced community safety.

⁶ <https://www.abc.net.au/news/2023-07-03/appin-house-build-approval-amid-infrastructure-concerns/102554564>

One major retailer alone in Sydney operates daily, with over 100 delivery curfews instigated by local governments plus more stores are limited by local agreements and even new stores in new suburbs open with curfews in place – a problem for all supply chain companies not just major and SME retailers. The unintended negative impacts are constant: freight traffic being forced to compete with peak hour traffic in local areas to deliver essential community goods; truck emissions increasing as trucks idle unnecessarily in peak hour traffic and waiting to enter truck curfew zones; and truck drivers avoiding congested toll roads as best as they can to complete their schedules.

In short, policy makers need to work closely with the supply chain and freight logistics industry to develop sustainable land use policies, and establish effective arterial road tolling to promote efficient logistics and supply chain networks. A sufficient supply of well-located and well-connected industrial land is needed to boost freight efficiency, minimise traffic emissions, and amenity impacts, and contribute to Sydney's status as a thriving business and manufacturing hub. To achieve this goal, land use policies should strike a balance between preserving existing industrial lands and making provisions for additional, well-serviced industrial zones. Policy makers also need to see the highly interdependent role of land use and tolling either to improve, or as they currently do, largely hinder supply chain and freight logistics efficiency, productivity and sustainability.

State and local planning policy needs to recognise the interconnectivity of land use planning, transport regulations and tolling to improve productivity and the efficiency of the city as a complex spatial system.

Tolling Charges Impact on Freight

The impact of Sydney's tolling charges on freight logistics is a matter of growing concern for the industry; the tolling system in Sydney is fragmented, costs are high and variable, and there is a lack of system connectivity between the tolling roads. This plus congestion leads to increased costs that cannot be passed onto commercial customers and consumers, a lack of reliability, decreased efficiency and no opportunity for productivity gain.

As tolls continue to rise, freight transport operators are compelled to revert to using secondary road networks to avoid the burden of toll fees, which further challenges efficiency, productivity and safety. This indicates that the perceived benefits of toll roads do not outweigh the costs for the freight industry, prompting the search for productivity gains elsewhere.

The establishment of regulatory solutions that mandate the use of toll roads through access restrictions on alternative networks further emphasise questions about the true benefits of tollways. Although new roads funded through tolls often promise increased productivity, they frequently fail to deliver on these promises, leaving the industry burdened with additional costs and limited (if any) benefit. Some toll roads improve efficiency and productivity, others don't.

There is a misalignment of costs in building new toll roads and the value of using these roads for freight transport. While these new roads are funded through tolls that are paid disproportionately by the freight operators (3 times more than private vehicles), promising increased productivity, they often fail to deliver on these promises. Conversely as the freight is removed from secondary roads (at the expense of freight transport) the value is captured by the surrounding suburbs. The improved amenity leads to increased property values, benefiting residents and subsequently benefiting the state government through higher land tax and stamp duty revenues. In this scenario, it becomes apparent that the freight industry bears the cost of moving to toll roads, while the positive effects primarily benefit the residential areas adjacent to these roads, rather than directly contributing to Sydney's freight and supply chain related economic requirements.

The financial burden of tolling charges is challenging for the transport operators to pass on to their customers due to established contract pricing and highly competitive markets. This reality threatens the viability of the freight transport industry, as operators face increasing cost pressures (in many ways including labour, fuel, spare parts and CPI) without the ability to transfer these expenses to commercial customers who are then expected to pass them onto consumers. As a consequence, consumers are likely to bear the brunt of Sydney's tolling costs, either through a potential decline in supply chain service quality face higher prices for goods and services. This situation can have ripple effects

throughout the supply chain, impacting various sectors and leading to potential disruptions in the flow of goods and services.

Transparency and Application of Charges

During the previous Upper House hearing, it was acknowledged that the toll charges imposed on heavy vehicles accessing the NSW toll road network are subject to a 'large vehicle multiplier,' resulting in tolls being set between 2 to 3 times higher than those for cars. This higher toll rate for trucks was justified based on the perceived value derived by road operators from time savings and reliability gains that freight vehicles experience when using toll roads. Additionally, the submission from Transurban suggests that the wear-and-tear caused by one articulated truck is equivalent to that of 6000 cars.

However, there is a lack of concrete evidence to support the automatic application of a three times uplift in tolls accurately capturing the true costs and benefits associated with heavy vehicle use of toll roads and no evidence to date supporting the Transurban claim that the wear-and-tear caused by one articulated truck is equivalent to that of 6000 cars. This raises questions about the fairness and accuracy of the current tolling system, particularly concerning whether the tolls truly reflect the maintenance and repair costs involved in accommodating heavy vehicle traffic. In light of this, a comprehensive review or the establishment of an appropriately resourced body becomes essential to examine the veracity of the presumption that a 3x uplift in tolls serves as an accurate proxy for recovering maintenance and repair costs related to heavy vehicle use.

Based on the outcome of this inquiry, it may be necessary to consider some form of statutory intervention. If the current tolling system is found to potentially include a premium that disproportionately benefits concessionaire shareholders, it could be resulting in higher costs for freight operators. Ultimately, these additional costs could be passed down to consumers, impacting overall affordability and competitiveness in the market and the costs of living.

By undertaking a review and increasing transparency, transport operators, consumers, and the broader public can gain a better understanding of tolling policies and their implications in Sydney, fostering trust and enabling more constructive discussions on tolling practices and their impacts on various stakeholders.

Furthermore, effective inter-operability between tolling systems is essential, especially for national operators who operate in different cities and jurisdictions. Creating a cohesive and standardized approach to tolling can enhance efficiency, reduce administrative burdens, and facilitate smoother cross-border logistics operations, benefiting interstate linehaul activities and overall freight transport. Similarly, the freight task in Greater Sydney alone requires this interoperability, clarity, consistency, and transparency.

Recommendations

Taking a holistic approach and a firm understanding of supply chain dynamics is essential in a tolling review to identify unintended consequences, potential bottlenecks, cost escalations, or inefficiencies introduced by inefficient tolling systems.

Considering the pivotal role of the freight industry in underpinning the Australian economy, the government's responsibility becomes vital in addressing tolling challenges. Instead of placing undue burdens on transport operators and consumers, the government's role should focus on facilitating an increase in freight efficiency, sustainability and productivity. This involves investing in infrastructure that supports efficient freight transport, streamlining logistics operations, and fostering innovation in the sector. By implementing strategic policies and partnerships with industry stakeholders, the government can create an environment conducive to improved freight productivity, promoting economic growth and sustainable development.

Australia will progressively transition away from the Commonwealth fuel excise regime, with greater penetration of electrified vehicles reducing the excise tax base that presently (in principle) contributes to the cost of road maintenance. Policy makers across all Australian jurisdictions, including NSW, should consider the cost implications privately owned and operated toll roads in the design, implementation and operation of broader road user charging models across Australia.

ALC proposes:

- 1. A comprehensive review examining the veracity of the presumptions that, a 3 times uplift in toll pricing serves as an accurate proxy for recovering maintenance and repair costs related to heavy vehicle use.**
- 2. Review the necessity and unintended consequences of existing truck delivery curfews and restrictions and ensure that future planning and regulatory approvals do not impose curfews and delivery restrictions and caps on freight, logistics and industrial activities, other than by justified evidence-based exceptions.**
- 3. Introducing State-wide minimum building design standards for all residential and sensitive use developments in urban areas to mitigate amenity impacts on the community from economic generating activities such as ports, freight transport and logistics operations and industrial activities.**
- 4. Implement dynamic pricing models that offer incentives for using toll roads during less congested hours. This will further encourage transport operators to shift their operations to off-peak periods, where possible, contributing to smoother traffic flow and reduced congestion.**
- 5. Improve accessibility and efficiency of toll roads by incorporating slip lanes onto main arterials that prioritize freight traffic. Dedicated freight lanes on toll roads should also be introduced, ensuring the streamlined and more efficient movement of goods.**
- 6. Promote the use of rail for freight transport wherever possible. Establish freight shuttle services using high productivity freight vehicles (HPFV) and rail, integrated into network planning to reduce the burden on road networks and improve sustainability.**

It is important to recognize that tolling and pricing alone cannot solve all the challenges faced by the freight industry.

But an effectively managed and realistically priced toll road network can support freight logistics by enabling supply chain efficiency and productivity gain while also encouraging behavioural change of all road users including freight transport.

A new holistic approach is needed in Sydney that considers infrastructure development, the protection of industrial land and freight corridors, operational strategies, and sustainable transportation options across the city's greater spatial system is essential.

By viewing the tolling network as a cohesive system of interconnected toll roads, policymakers can develop more efficient and effective solutions for managing freight transportation in Sydney. Emphasizing collaboration among stakeholders and incorporating multiple solutions will ensure a balanced and sustainable approach to meet the city's evolving supply chain and freight logistics and transport demands.