AAA RESPONSE TO PC DISCUSSION DRAFT: ROAD AND RAIL FREIGHT INFRASTRUCTURE PRICING, NOVEMBER 2006

Role of cars in the debate on infrastructure pricing

AAA believes that insufficient attention was given to the role of light vehicles in the Discussion Draft on infrastructure pricing. While we acknowledge that the Terms of Reference required the PC to examine issues associated with heavy vehicles and rail in moving freight, we consider that light vehicles cannot be left out of the equation because motorists contribute significantly in taxes and charges towards the cost of road infrastructure provision and use which is jointly used by cars and trucks.

The way in which revenue from road users is derived and the process for funding road infrastructure construction and operation/maintenance is complex. Investment in infrastructure is delivered by three tiers of government and the revenue derived from road users and others, flows from a range of taxes and charges imposed by these three tiers of government. For example, at the Federal level, motorists pay fuel excise of 38.1 cpl, none of which is hypothecated to roads. Trucks receive a rebate (18.5cpl) from this same level of excise and the residual - 19.6 cpl - is really only a notional amount and is referred to as a road user charge (RUC) - although this is not formerly hypothecated to a road fund. Nevertheless the designation of this 19.6 cpl as a road user charge is important conceptually.

By contrast, as we show in our earlier Submission to the PC (page 5), in 2006-07 the amount the Federal Government allocated to road spending ($2,721 million from consolidated revenue) is *equivalent* to the amount of revenue collected from only 7.3 cpl in fuel excise from all vehicles. This contrasts with a RUC of 19.6 cpl collected from heavy vehicles only and 38.1 cpl excise from light vehicles.

At the State level, cars and trucks pay registration charges, stamp duty and GST on fuel. Funding for roads which are the direct responsibility of the State is generally out of consolidated revenue. Some additional funding is provided by the Federal Government to fund roads which are part of the AusLink network. Roads which comprise AusLink are funded on a shared basis between Federal and State Governments. In the early stages of AusLink, funding was on a 80:20 Commonwealth/State basis for the former National Highway System and additions to the network were on a 50:50 basis. It is not clear whether these relative shares remain and/or if they apply to all projects on the Auslink network.

Local government receives rates at a Council level from rate payers which is directed in part to road investment. The Federal and some State governments also make grants available to fund roads in local government areas.

It would seem appropriate for the PC to map out and unravel these revenue and expenditure flows at all levels of government so that there can be a realistic attempt to set road charges based on costs for each level of Government and to ensure that there is a match between revenue and expenditure at these three levels of government. This would need to be done for trucks *and* cars to ensure competitive neutrality between these two vehicle classes and to set appropriate access charges and variable road use charges.

Since roads provide national economic benefits, such as economic growth and productivity, not all of which are captured exclusively by road users, there is a strong case for an institution such as a road fund to receive funds from consolidated revenue as well as road user charges to ensure a socially and economic optimum supply of roads.

Do trucks 'pay their way'?

The PC insists that trucks do 'pay their way'. This *may* be true when considered within the very limited PAYGO system of road charging and under certain conservative assumptions, but there are many other broader indicators which suggest that this is not necessarily the case.

Within PAYGO, there are many conservative assumptions made to allocate costs between heavy and light vehicles. This is not just our view, but that of the NTC. As we said in our submission (page 6), the NTC in its 3rd Heavy Vehicle Road Pricing Determination draft RIS, stated that 'they took a cautious, conservative and even sympathetic approach to its charging determinations'. We believe that the same can be said of the Determination which currently applies.

There is also a significant amount of local road funding ($2870 million, or 65 per cent of the total) which is excluded from the cost allocation process. We do not agree with draft finding 4.2 that this expenditure on local roads is simply to provide access to homes and businesses and should be recovered through Council rates and charges. This argument could just as easily be extended to State arterial roads. But such an approach would not result in creating the appropriate link between road costs and use, nor the link between revenue from roads and expenditure which is necessary to achieve more efficient use and provision of road infrastructure.

As a further indicator of whether trucks 'pay their way', we note the PC's commentary that 'if it were the case that some costs currently treated as common are actually attributable, this would imply a cross subsidy from light to heavy vehicles' (page 4.20). And the subsequent draft finding 4.5 states, in part, that the NTC's estimates [of common costs] are at the upper end of those in other available studies. If more of the common costs were attributable, it is clear therefore that light vehicles would be subsidising heavy vehicles.

Another indicator as to whether trucks ‘pay their way’ can be found in the rather cursory discussion in a footnote (page 4.31, footnote 9) dealing with the recovery of allocated costs for rigid trucks. This is also one of the few references to light vehicles, albeit indirect. Here it is stated, correctly, that to ensure exact recovery for these [rigid] vehicles, the fuel excise would be set to recover the allocated cost for these vehicles minus the registration charge. It goes on to say that this would result in a significant decrease in the fuel charge to approximately 12 cpl, but that the NTC rejected such an approach because of the very high registration charges that this would imply for the heaviest vehicles.

We believe that this issue needs to be addressed in more detail. It would be interesting to know the actual level of registration charge for rigid trucks which has been used in this example and whether in fact it actually lines up with the registration charges for light vehicles.

In research conducted for AAA for our submission to the Fuel Taxation Committee Inquiry, it was found that under the NTC’s Second Determination, a fuel charge of only 7 cpl would be needed to recover light vehicles share of the total allocated costs. This is considerably lower than the current tax of 38.1 cpl indicating that charges for light vehicles are excessive.

In the Draft Report, the PC comment on page 4.4 that ‘if heavy vehicles are to ‘pay their way’ their use of the road network should not be subsidised by other parties (other road users, or taxpayers, for example). The analysis we present here and in our submission suggest that trucks do not pay their ways since cars are overcharged for the use of the road system and trucks are undercharged.

If the analysis were extended to include external costs of crashes, air pollution and noise pollution, it is again clear that trucks do not ‘pay their way’. In an Appendix to our submission, we present an estimate in Table A9.6 of relevant external costs (i.e. those not already internalised by other regulatory instruments such as emission controls or insurance premiums).

We have expressed these external costs – or marginal social costs - in terms of cents/litre to enable ready comparison with what is already being paid by road users via fuel excise. It can be seen from Table A9.6 that the external costs for light vehicles in urban and rural areas are 24.9 cpl and 34.1 cpl respectively. This is below the actual fuel excise impost of 38.14 cpl.

By contrast, the corresponding estimates for heavy vehicles are 51.33 cpl and 31.54 cpl respectively. This is well above the amount of 19.6 cpl (38.1 cpl minus 18.5 cpl rebate) paid by heavy vehicles.

As we state in our submission, a road user charge could be introduced which reflects these costs. An ideal road user charge would have two components - an access charge and a user charge. The access charge would cover the costs of vehicle registration to enable monitoring for security and other reasons.

The user charge would have four components:

- a road wear charge levied according to the wear attributed to vehicle and axle classes;
- an environment charge levied according to engine type and fuel type;
- a charge to help fund the external cost of crashes; and
- a congestion charge collected directly according to road location, time of day and type of vehicle and collected only if the vehicle contributes to congestion.

In the short term, the user charge could be a fuel-based charge (though not for congestion), *replacing* excise. In the longer term, the implementation of electronic charging systems is most likely.

A uniform externalities charge

In the Discussion Draft, the PC addressed the issue of imposing a general charge on road use to cover the cost of externalities (page 6.24). The AAA submission is referenced in this context. However, we should stress that we do not advocate such a general charge and we agree with the PC that an all-encompassing averaged, externalities charge has a number of critical deficiencies.

Indeed, we argued in our submission (Appendix, page 10) that at least when estimating external crash costs, that not all of them should be attributed or charged to ordinary road users but should be targeted, for maximum effect, on those that are causing many of these crashes, namely drunk, speeding, drug affected or fatigued drivers.

We have also argued (see page 9) that a congestion charge should be collected directly according to road location, time of day and vehicle type and collected only from vehicles actively contributing to congestion.

And as far as environmental externalities are concerned, we acknowledge that charging directly and accurately for environmental damage is difficult (see AAA Submission, page 12) but that it may make sense to impose some of the environmental charge through registration fees – which could reflect, for example, engine size and $C0_2$ output. We also acknowledge that fuel standards and fuel quality legislation could be an appropriate regulatory instrument to deal with environmental externalities. However these reforms would only be acceptable if they were part of a comprehensive reform involving reduction or abolition of fuel excise.

We also addressed the greenhouse issue (see AAA Submission, page 13) and noted the well established principle that the optimal approach to greenhouse gas abatement is to find a policy framework that equates the marginal cost of abatement for *all* emitting sectors, noting that light vehicles are a relatively minor part of the problem (approximately 7 per cent of total greenhouse emissions).

To sum up our position on external costs, it is worth reiterating our views that were expressed in the AAA Submission (see page 10): we have estimated the charges which might apply to heavy vehicles – including buses – and light vehicles in urban and rural areas to cover the costs they impose. These charges are expressed in terms of cents/litre so as to compare them with current fuel excise rates and rebates provided to heavy vehicle classes. While the costs can be recovered via a fuel charge, our preference is to move to a system where the costs are recovered more directly via electronic means.

Intelligent Transport Systems (ITS) and electronic road pricing

At the Public Hearing, we mentioned the rapid evolution and implementation of a range of ITS technologies worldwide and referred you to papers presented at the recent 13th World Congress and Exhibition on Intelligent Transport Systems and Services. A number of papers from the World Congress are attached.

One of the papers ('Intelligent Road Pricing Because Mobility Matters') notes that UK road pricing is set to cover all vehicles on all roads in the UK by 2015. The paper takes a comparative view of the German and potential UK scenarios, outlining workable solutions for charge calculation and billing that are acceptable to consumers, government and road charge operators alike.

Another paper ('Keeping Road User Charging Simple') looks at the question of "how can a scheme have a higher chance of success by design?" and sums up by saying that "simple is best"

In another study, ('Road Pricing with a fundamental approach – charging by mobile phone use') examines the possibility of road pricing being done by tracking mobile phone movement and discusses the issues related to fairness and their technical feasibility.

There is no doubt that the various technologies which are currently available will very soon overwhelm the political debate and become a critical component of the road system - whether it be applied to cars, drivers or the road.

Our concern is that these technologies will be introduced without consideration of the wider policy debate – which in our view must accommodate consideration of 'beneficiary pays' ('not user pays') and secondly find an equitable attribution of user costs amongst user classes. We believe that the current PC Inquiry must acknowledge both of these considerations.

A Road Fund

The PC Report requests further information on the feasibility of establishing a national road fund, particularly how inter-jurisdictional issues might be resolved. We note the reference in the Discussion Draft to an earlier proposal that AAA put to the 1997 Neville Inquiry into the Federal funding of roads.

While we do not want to be too prescriptive as to the exact nature of a Fund which might be established, we think that there are some fundamental principles which need to be considered when establishing such a Fund:

- The scope and configuration of the road network which would be funded under this 'Road Fund' must be clearly defined. It should include roads which contribute significantly to explicit national objectives.
- A starting point must be an assessment of the adequacy of the existing road network. The current backlog of transport needs must be addressed.
- Investment should be directed towards projects which contribute to national economic and social development.
- Selection of projects should be made on the basis that they satisfy an explicit benefit-cost criterion and take account of social and environmental factors.
- Environmental factors should be accommodated in new projects through the requirement that they satisfy State/Territory EIS requirements.
- The entity managing such a fund should be subject to the usual regulatory oversight of pricing and anti-competitive behaviour through the Australian Competition and Consumer Commission (ACCC).
- If all road projects are to be funded from this single source, there must be some provision or alternate source for projects which do not have an economic justification, but which meet other national social criteria (such as local access roads, access to remote areas or defence needs).