ALTA
Australian Livestock Transporters Association

Mr Gary Banks
Chairman
Productivity Commission
Locked Bag 2, Collins St East
Melbourne VIC 8003

31 October 2006

Dear Mr Banks,

UPDATED AND FINAL RESPONSE TO PRODUCTIVITY COMMISSION DISCUSSION DRAFT: *ROAD AND RAIL FREIGHT INFRASTRUCTURE PRICING*

I write to provide the ALTA's formal response to your discussion draft on this matter. Please find a more detailed response attached. I apologise for the lateness of the reply. I would firstly like to congratulate you, Cliff, Lisa, Danielle and the rest of your staff on a comprehensive, thoughtful and progressive draft.

Given the COAG communiqué's explicit desire that rural and remote industry and its communities receive a focus in this inquiry, I believe there still remains considerable work to be done to achieve something approaching this focus in the final report. I expand on this observation in the attached comments. More generally, there are themes touched upon in your draft which can be developed with profit, in order to provide COAG with enough concrete structure to take the next steps forward. I am sure you will agree that positive, sensible action by Governments is the desired outcome to this whole process. It is vital that such positive, practical recommendations accompany any future pricing determinations, lest industry and Government repeat the past and fall to disputing both the process and the outcomes.

Whilst the draft deals thoroughly with pricing, it has also touched on the way forward for better expenditure and regulatory arrangements for our three-tiered system of transport and infrastructure management. Should this be expanded upon and embraced by Governments it offers a very significant step forward for the industry and the national economy more generally. I would be happy to discuss this response with you at your convenience on 0437 146 274.

Sincerely,

Original Signed

Luke Fraser
Executive Director

ALTA

Australian Livestock Transporters Association

ALTA RESPONSE TO PRODUCTIVITY COMMISSION DISCUSSION DRAFT – ROAD AND RAIL INFRASTRUCTURE PRICING

Summary of main ALTA points

- **Given the COAG Terms of Reference regarding rural and remote issues, more needs to be done in the final report to reflect such issues. Some of the discussion draft's assumptions regarding future pricing mechanisms such as mass distance locational charging need to be considered in light of these rural freight task realities and the vital part that heavy vehicle combinations like the B-double play in this task.**

- **The PAYGO model of road investment recover has been found to more than recover aggregate assessed costs. However, ALTA analysis has revealed that an unfortunate byproduct of this methodology is that in periods of significantly increased road investment, PAYGO will disproportionately over-recover the heavy vehicle industry. This effect needs to be considered in examining the impacts of any future pricing determination. It also further highlights the need to reconcile revenue increase from road freight with better outcomes in targeted road investment and performance based regulation reform.**

- **The discussion draft starts to move the focus to how Governments spend money on roads efficiently. This is an important debate which is worthy of greater emphasis in the final report. In this context, the current Australian Transport Council voting mechanism for raising road expenditure revenue, which is not in any way linked to expenditure obligations, deserves assessment;**

- **The discussion draft delivers an excellent outcome in relation to making the road freight pricing debate more transparent and less open to question. This allows industry and Government alike to progress discussions about safety and productivity opportunities;**

- **The discussion draft touches on running roads as a business, but could go further to consider private financing opportunities on freight routes;**

- **Regulatory reform will only begin to yield significant benefits if and when *Performance Based Standards* in truck design are complemented by *Performance Based Regulations* that have cost effective productivity improvements as a stated objective alongside traditional safety and compliance goals. This concept holds promise for efficient reform of Government transport and roads agencies and if pursued may actually lead to a much-needed red tape reduction across the road freight industry; and**

- **The discussion draft's treatment of alternative technologies for managing the road freight industry warrants some reconsideration.**

Treatment of Rural and Regional Issues in the Draft
In commissioning the Productivity Commission to carry out this inquiry, COAG was specific in its communiqué that the Commission should:

'develop proposals for efficient pricing of road and rail freight infrastructure through consistent and competitively neutral pricing regimes, in a manner that maximises optimal net benefits to the community, *in particular rural, regional and remote Australia* (ALTA italics)'.

Council of Australian Governments' meeting communiqué
10 February 2006

Given the distances, sensitive margins, isolation and community importance entailed in rural and remote transport tasks, these subjects were seen by COAG as worthy of specific emphasis. The hardening of drought conditions across the country only serves to reinforce the importance of COAG's emphasis. The ALTA does not believe this flavour has as yet been sufficiently captured in the discussion draft. Whilst the overall approach of the report is worthwhile and this should not be threatened, the ALTA does believe that rural and remote issues are worthy of their own chapter or sub-section at the least. The content of this chapter might address the following issues:

The 'aggregating effect' involved in rural freight and options for better expenditure
The initial ALTA submission to this inquiry revealed through detailed research how sensitive rural commodities were to even marginal movements in transport costs. Meat products in particular were cited as the most freight-sensitive of rural commodities (ALTA submission, fig 1, p.11). The sensitivity of these products stems from the fact that they are freighted intensively – a final meat product, for example, may have been transported on road many times during the life of the animal, from birth to slaughter and then post-slaughter to a final domestic or export destination. It is important that the inquiry not lose sight of the aggregated transport requirements of rural commodities. This helps explain why even minor pricing variations in trucking loom large in rural economies. It would be worthwhile for the final report to link this factor with the opportunity to spend the revenue generated from any future pricing decision more efficiently in rural areas. One ray of light in this respect is the *Auslink Strategic Regional Programme*, the concept of which allows local councils to access additional funds to spend on, amongst other things, construction and maintenance of roads and bridges not on the National Land Transport Network.

Such a programme may be a way forward towards addressing rural transport expenditure needs that can often fall outside of the main 'strategic corridors' that are so often the focus of roads expenditure. The ALTA submission (figure 12, page 29) illustrated this situation in relation to the meat and livestock industry, where in the great majority of cases the major fixed infrastructure of the industry – farms, feedlots, saleyards and processing plants – is not located on the 'strategic corridors' generally being offered funding priority.

B- Doubles, Flexibility and Rural Freight Tasks: some considerations for Mass Distance and Mass Distance Locational Charging in a rural and remote context

Your report considers these forms of alternative charging for the industry. The ALTA supports the general views that the discussion draft advances on these issues. However, from a rural/remote perspective, the statements supporting the case are worthy of a more sophisticated appreciation. For instance, the discussion draft states on page xxxiii of the overview that:

'For instance, B-doubles tend to operate on major interstate corridors, whereas smaller trucks tend to operate in urban areas. Road trains operate only in rural areas'.

Although the ALTA appreciates the intent of the statement, this over-simplistic appreciation could lead to poor pricing decisions downstream. The B-double is prevalent across rural Australia in all but the more remote regions dominated by the larger combinations. The B-double design offers a unique 'hybrid' ability to offer a larger payload that generates efficient and cost effective productivity gains for rural industry whilst still maintaining the size and flexibility to access the urban fringe; in many cases, the forward trailer of the B-double can be unhitched to provide for continued access for the transporter under a traditional semi-trailer configuration. It is this sort of inherent design flexibility that needs to be protected and promoted as a primary objective in moving forward the efficiency of the road freight task.

One of the rural road freight industry's greatest requirements from any future pricing determinations would be the augmentation of infrastructure to allow even greater access to these very efficient and flexible vehicles. The final inquiry report should not lose sight of this fact. The B-double is not simply an intercapital linehaul workhorse. Its inherent flexibility has done much to underpin the productivity of Australia's rural commodity sectors.

This need for greater sophistication in considering how the rural freight task is carried extends to any treatment of road trains. Access for road trains continues to improve, as the cost effective productivity advantages that these vehicles offer for rural commodity sectors in particular is recognised by Governments; the recent granting of double road train access into inner-Adelaide is a good example of this trend.

How would regional and rural interests best be served in this context?
The key for a freight-sensitive economy such as rural and remote Australia is for the revenue generated from an efficient pricing regime to find its way into more targeted expenditure into rural and remote road infrastructure, complemented by a regulatory regime that has productivity as a core objective. This concept of 'bundling' an outcome as a means of promoting optimal future pricing determinations is expanded upon in some of the points below.

PAYGO and Heavy Vehicle Charging in the Context of Increased Road Investment
As your discussion draft confirms:

Within the existing PAYGO system of road charging, heavy trucks in aggregate more than cover their assessed costs

Discussion Draft Overview, p xxvi

By which ALTA understands your draft refers to the costs of and on capital invested. The ALTA conducted modelling through CRA international to consider the PAYGO system and the effect of iterative charging determinations on the heavy vehicle sector. One of the traditional difficulties in approaching this problem has been the lack of a valuation figure on the road stock to compare the efficacy of the PAYGO outcome. For this reason, the ALTA looked to the *Australian Bureau of Statistics* valuations of the total road stock as a comparative source of data to test the equity of the PAYGO outcome.

A comparison of PAYGO outcomes in the context of ABS total road stock valuations showed that historically, the charging outcome for heavy vehicles had indeed recovered the cost on and of capital and in addition to leaving a small residual to cover previous years' investments. However, the testing revealed another feature of the PAYGO system. In periods of significantly increasing investment of road infrastructure, the PAYGO charging model will significantly over-recover the Heavy Vehicle sector in comparison to what otherwise might be expected to be the charges levied on this sector for a return on and of capital; that is, in a period of increased road investment, PAYGO will deliver a heavy vehicle charging outcome that recovers above the level that the increased investment would represent as a percentage of the total stock valuation.

This statement reveals an unhappy byproduct of PAYGO under conditions of increased road investment – heavy vehicles will pay more than what the increased investments represent as a percentage of the total road stock. This is an important feature - especially for cost-effective productivity considerations - which deserves consideration in the final report of the inquiry. It is also a feature of the PAYGO methodology itself and not an outcome of the valuation figure used to derive the effect. That is to say, even if the accuracy of existing ABS road stock valuation statistics were put into doubt, the effect on heavy vehicle charging in a high investment environment would be similar based on any reasonable valuation of the *quantum* of road stock.

The discussion draft goes on to state that:

Whether or not pricing reform actually delivers net benefits depends on the structure and level of charges. The capacity to monitor and charge for road use may not promote efficiency if charges are set at inappropriate levels. This requires better understanding of the relationships between road use and road damage as well as appropriate pricing structures that minimize consumption distortions while covering total costs.

Discussion Draft Overview p. xli

The ALTA agrees with this statement. As with previous statements made by this association, the ALTA does not advocate a major change to the pricing regime methodology. However, in this context the ALTA does expect the inquiry to be mindful of the effect of the PAYGO system on heavy vehicle charging in a climate of rising road investment. The fact that heavy vehicles would suffer over recovery in this environment is an undesirable feature of PAYGO, but noting the difficulties implicit in moving to any other system, this should only reinforce the need to 'close the loop on the revenue and expenditure paradigm and ensure that any future charging determinations deliver tangible outcomes in terms of both targeted road investments and performance-based regulatory reforms.

Such caveats on any future charging determination in the climate of increasing road investments should, in the ALTA's opinion, be prominent in any final report to COAG.

Pricing and Expenditure Outcomes in the Draft

Noting the discussion above, ALTA believes that the discussion draft advances the matter of road and rail pricing substantially. For the trucking industry, the past has been characterized by a relative lack of clarity in dealing with pricing issues with Government and regulators. It is to be hoped that the firm findings of the discussion draft regarding trucking 'paying its way' based on current road expenditure levels are replicated in the final document. This will serve to remove any remaining doubt and sets a firmer basis for considering pricing into the future. It also allows the industry and Government to pursue the productivity agendum without a constant recourse to the distraction of arguments over truck industry pricing outcomes. These arguments are time consuming and costly for industry and Governments alike.

The discussion draft also extends its consideration from revenue to expenditure. This is a critical point. Having established that trucking pays its way, it is vital that the matter of how that money is spent is addressed. The discussion draft, in particular draft recommendations 11.7 and 11.8, give some way forward on this matter. The ALTA would like to see this issue strengthened in the final document. It is possible that investment in road infrastructure will be required to increase in real terms in coming years to meet continuing productivity goals of the nation. If this is to be the case, it is important that COAG in particular be given a mechanism for managing the link between revenue raising and funds expenditure more efficiently and effectively.

On this point, the ALTA notes the time and effort dedicated in the discussion draft to the relative efficiency of the 'architecture' of Government decision making. One point that was missed in the draft, however, was the matter of the current voting process in the Australian Transport Council for considering matters such as pricing and charges and its ability to influence revenue-raising without any connection, either direct or indirect, to how these monies are expended to best effect. At present, given the manner in which revenue for road expenditure is raised, there is in the ALTA's view a potential imbalance in having 9 equally-weighted votes available to the Federal, State and Territory participants on pricing determinations.

This situation may contribute to the problem of inefficient inter-jurisdictional expenditure of the *quantum* of charges revenue. The current voting system certainly creates an easy mechanism for ensuring that charges to the trucking industry increases as a result of any determination process. However, as the discussions draft's summing up at point 9.9 states, at the same time there is almost no process-derived guarantee to ensuring that any of this money is spent efficiently in a manner that promotes the most efficient and productive outcomes for industry (and by inference, the national economy). These outcomes may well extend beyond mere road expenditure to include complementary regulatory reforms such as are discussed in the draft discussion paper's recommendation 11.6. The inquiry might consider commenting upon this matter in the final report – pointing towards a way of re-engineering the existing architecture to force better accountability for optimal expenditure of the revenue raised by Governments from the trucking industry.

In summary, the matter of voting protocols for charging determinations should not be overlooked in considering how decisions about better road expenditure can be made across our 3 levels of Government in the future. A considered analysis of the current system and opportunities for improvement may yield a viable alternative to a road fund outcome which, as it serves to hypothecate funds across Governments, is likely to be less than attractive to Treasuries across the country.

Private Road Funding – A Change of Focus for PPPs

The discussion draft raises the concept of 'running roads more as a business'. The ALTA believes that this is a worthy avenue for COAG to explore more fully. The discussion draft points to some of the difficulties involved in managing both extremes of public or private ownership of a monopoly service like the road network. However, the ALTA feels there is a middle way available that deserves prominence in a final report to COAG:

Private Finance Leasing Arrangements for Road Construction and Upgrades
The ALTA submission to the inquiry offered a detailed rural case study outlining the benefits that would flow to the regional community from even incremental improvements to a complementary combination of upgraded road infrastructure and regulatory reforms to allow for more productive vehicle access to these roads. In the case study cited (ALTA submission, Part 5, pp 29-42) these improvements translated into lower livestock transport costs to the meat industry of between 12-15%. This saving was in turn then expressed as a reduction in ex-works cost of around 1%, which itself reliably anticipated increased export sales for the Australian export meat industry of around 12%. In addition, the social benefits of less truck movements and greater fuel efficiency were notable.

Once expressed as an annuity (ie by employing a standard social benefit interest rate denominator) the net present value of these efficiency measures to the local community was found to be considerable, more than outweighing the cost of investment.

Moving Beyond Toll Roads
The ALTA believes there is real merit in looking at financial leasing of road construction and upgrades where such clear NPV analysis is forthcoming. In this respect, freight routes are in many ways the most obvious and profitable choices for consideration.

Why Major Freight Routes?
Major urban road funding projects such as toll roads appear to have garnered most attention for this type of funding arrangement in the past. However, compared to major rural transport routes, urban toll road projects display a relatively stronger focus on the efficient movement of commuter traffic (albeit for understandable second order productivity benefits in the industries that commuters work in). Instead, rural freight routes in particular, with their relatively high levels of heavy vehicle activity, stand to produce very healthy and reliable project net present values through targeted road infrastructure improvements and complementary regulatory reforms. The distances involved between alternative freight routes in rural areas also solve the ‘substitution risk’ that has been shown to be inherent in urban toll road initiatives – on rural trunk routes, the larger distances from alternative routes and highly sensitive freight rates can combine to give a stronger guarantee of reliable usage levels, particularly if there is no tolling disincentive for the user. This reliability in turn offers potential investors greater project costing robustness.

If reliable figures for such activities could be presented, it would seem logical that in future, on a case-by-case basis, Governments may come to agree relatively accurate, fair and stable financial lease amounts (ie 'rental rates') with private road constructors – *provided that* complementary regulatory reforms in vehicle access were part of the arrangement.

The ALTA would like to see these issues considered by all Governments. Financial leasing arrangements for road infrastructure is unlikely to ever become the predominant mechanism for managing these issues and questions of treasury commitments of 'outer year' revenues in any leasing arrangement must be weighed up, but the ALTA believes that the proposal deserves to be considered, particularly given the perennial problems involved with ever-higher road construction and engineering costs, the growing freight task pressures underpinning continuing national economic growth and the need to use scarce taxpayer funds in the most efficient and effective way possible.

Treatment of Regulations and Reform in the Draft
It is good to see a focus on the discussion draft on the importance of complementary regulatory reform to promote the most cost-effective productivity benefits in our freight task. However, the ALTA would like to see this logic synthesized further for presentation to COAG in a manner that promotes the most practical outcomes. Beyond establishing that the trucking industry 'pays its way' for road use, the ALTA views this as the next most important potential road freight outcome from this inquiry.

The ALTA would hope to see the final report being far clearer to COAG on the matter of Performance Based Regulations. Regulations that are drafted without any stated requirement to consider productivity outcomes not only harm the industry that works with them; they also render useless the Performance Based Industry Standards approach to technological innovation in the trucking industry. The ALTA took pains in its original submission to this inquiry to discuss the need for reforms in the 'architecture of Government planning and regulation' of roads and trucks. The best outcome possible would be to see all relevant Government agencies embrace a Performance Based Regulations approach to complement the Performance Based Standards already being driven by industry and the National Transport Commission. The ALTA views the two as the 'double-entry accounting' equivalent of the road freight industry. Investment in innovative vehicles is a worthless pursuit without a complementary regulatory regime, and *vice versa*.

In the ALTA's view there is no reason why the mandating of a Performance Based Regulation approach could not coexist with extant safety and compliance objectives. It represents an opportunity to overcome the impasse that exists between State Road Agencies and State Transport Agencies; the one protecting the road asset from an 'avaricious' industry, the other struggling to manage and promote efficiencies in the freight task in the face of a 'hostile' roads agency. A final report to COAG that offers this way forward may well be a trigger for truly productive structural reform of the transport and road infrastructure sector. This approach is a step further than the current discussion draft's recommendation 11.6 but it is surely worth pushing this matter the extra distance in order to secure enduring beneficial reforms.

Performance-Based Regulatory Reforms: Red Tape Dividends On Offer?
I is to be hoped and expected that a push for reform of regulatory bodies along performance-based regulation lines would promote identification and removal of red tape barriers across many road freight regulatory agencies.

The 'overhead' on the road freight operator - measured in extra working hours that can be caused by inefficient regulations from several different jurisdictions - is considerable. It has the effect of increasing the complexity and cost of doing in business in road freight. This is particularly concerning for rural road freight, which in many cases has not to date experienced the same degree of vertical integration that the urban and intercapital sector has. As such, rural road freight remains characterized by a very significant amount of 'Mum and Dad' companies that struggle to incorporate growing regulatory and compliance overheads that seemingly offer no productivity or performance dividend.

Things could be improved. It is very likely that a move to performance-based regulations would spark productivity-driven regulatory reforms and reduce industry red tape at the same time. The opportunities for red tape reduction that Performance Based Regulatory Reform promises are worthy of discussion in a final report.

New Road Pricing Technology – A comment on the Draft's treatment
In closing, the ALTA offers some thoughts on new pricing technology for road freight. The discussion draft reports that:

instruments using electronic and satellite technologies are becoming technically feasible, but whether their use makes economic sense depends on their costs, how charges are structured and their effects on the efficiency of road use and road construction.

The ALTA believes this statement understates the inherent risk that these approaches pose and therefore has the potential to mislead Governments. Accordingly, it is felt that only a more measured statement should warrant a place in the final report.

Electronic and satellite tracking technology, in and of itself, is not new to the industry; it has been used for several years, predominantly for dispatch scheduling and engine management. However, the widespread application of this technology for compliance and access reasons is by no means straightforward. Historically, these applications have been limited to the management of access for vehicles wanting to use roads that they would not otherwise have access to, such as crane units moving in urban areas (ie to and from ports). The broader application of this technology to erstwhile 'as of right' access vehicles is problematic. Trials are in their infancy. Compliance costs are not transparent.

Management structures and their overhead costs have not been put forward for assessment from a cost-benefit perspective. Clearly, much work remains to be done. In this respect, the ALTA believes that it would be imprudent for Governments to extend too far forward on the technological innovation curve.

Avoiding the ‘Technology Trap’.

This assessment is offered to promote a more measured discussion of this technology and its feasibility in the final report. The ALTA is well aware of the historical fondness of Governments and industry alike for attractive and apparently elegant technological solutions. However, the trucking industry does not wish to be lumbered with the productivity losses and unnecessary red tape that have a habit of following unready applications of contentious technology. The ‘Paperless Office’ debacle of the late 1990s springs to mind. Whilst the ALTA notes COAG’s interest in learning more about this matter, it believes it would be irresponsible for the final report to treat electronic or satellite technologies as anything other than immature and potentially cost-ineffective technology when viewed in a broad-scale application context.

The alternative, although perhaps a less alluring prospect than the technological cure-all, is for Productive Vehicle Standards to be complemented by regulatory regimes that likewise place a premium on securing cost-effective productivity outcomes. Such reforms would in the ALTA’s view be a quicker and more reliable path to long term benefits for safety, compliance and productivity gains for the bulk of industry.

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