



AUSTRALIAN LOCAL GOVERNMENT ASSOCIATION

SUBMISSION TO THE PRODUCTIVITY COMMISSION INQUIRY INTO

ROAD AND RAIL FREIGHT INFRASTRUCTURE COSTS AND PRICING

MAY 2006

INTRODUCTION

The Australian Local Government Association (ALGA) welcomes the opportunity to make a submission to the Productivity Commission Inquiry on Road and Rail Infrastructure Pricing.

ALGA is a federation of state and territory local government associations and the Australian Capital Territory government.

GENERAL STATEMENT OF INTEREST

Local government has a profound interest in freight transport at two levels. In the first instance local government is an important stakeholder in the development of policy on freight transport because of the various ways in which the sector impacts on local communities, be it through the cost of goods and materials, or through the more deleterious impacts of heavy freight transport such as noise and pollution.

The second level goes specifically to local government's custody of the local roads network. Local government is responsible for almost 680,000 kms or some 85 percent of the road network, and strategically it is interested in better pricing and funding outcomes for that network.

The Productivity Commission review as sought by COAG, is an integral element of an ongoing process to reform the regulation, management and funding of Australia's transport freight systems, and accordingly support the continued improvement in the economy's global competitiveness. Local government is a member of COAG and has supported these reforms with the expectation that the benefits accrued from them will flow through at the local community level.

The Inquiry's terms of reference make reference to a requirement for the Commission to assess the "social costs of providing and maintaining road and rail freight infrastructure..." at least to the extent that it is feasible. Whilst local government has a stake in a strongly performing economy in terms of what it means for the general wellbeing of its communities and its own revenue base, it is also interested in ensuring that the negative impacts of freight transport are addressed through the pricing system and by other means (including regulation and compliance measures), to the extent practicable and sensible, and that these impacts are not discounted or ignored in the pursuit of productivity goals.

Communities lose interest in matters of export competitiveness if their children are imperilled on their walk home from school, or the amenity of their residential areas is significantly reduced by noise and vibration. Failure to address such matters risks economic progress and productivity gains that might otherwise be achieved by sensibly balancing economic and local

amenity goals, and by appropriate investment in the infrastructure and community engagement needed to secure that outcome.

Local government supports the Productivity Commission review because it offers the prospect of an objective picture of both the financial and social costs of providing road and rail freight infrastructure. Transparent and impartial data on road and rail costs provides an objective basis from which policy positions can be formulated and argued.

Local government supports a better understanding of the total costs of transport infrastructure. It also supports the adoption of policies that promotes equity in the provision of freight services. Accordingly, local government will continue to support the moderation of full cost recovery policies for remote truck dependent communities.

THE KEY SETTINGS FOR LOCAL GOVERNMENT

The Bureau of Transport and Regional Economics (BTRE) reports that Australia's freight task, between 2003 and 2020, is set to grow for bulk freight by 2.3 percent per annum, and for non-bulk freight by 3.6 percent per annum. Non-bulk freight, which is mainly carried by land based transport, will accordingly effectively double in this period. If the Australian community continues to expect increasing standards of living and the ready availability of consumables, then those communities will need to embrace new methods of managing freight transport, and their economic, social and technical implications, particularly with existing limitations on infrastructure investment.

Those freight markets in which road and rail contest market share is very limited. It is estimated to be about 10 percent of the available land based freight. On those routes where competition does exist, capacity constraints currently exist in one form and another, differing institutional and regulatory frameworks are in various stages of reform, and owners of freight are making decisions about modal choice on factors other than price. Unlike services offered by energy or telecommunications suppliers, sectors where competition reform has also been carried out, services offered by road and rail carriers are not homogeneous.

While all freight sectors are expected to experience robust growth in the future, urban freight movement stands out as a major challenge in terms of both the projected growth in inter-state freight movements, much of which terminates within metropolitan areas at ports and other terminals, and the growth of intra-urban freight growth projected to be in the region of 3 percent pa.

Given these settings it is reasonable to question the need, at least in the short term, to pursue a pure form of competitive neutrality which will be difficult to achieve and measure. A more appropriate way forward may be to continue various initiatives within each mode to increase their efficiency, consistent with the reasonable aspirations of communities to be protected from the negative impacts of heavy freight transport. Having said that ALGA supports

the principles of competitive neutrality and recognises the resource allocation and consumer benefits that will flow once institutional, regulatory and other constraints (egg on access) are addressed.

Further, local government is a strong advocate of governments taking every step to ensure that the rail sector achieves its full potential, recognising that road transport will continue to grow under the most optimistic predictions of rail sector performance, and recognising that there is an undeniable community concern about heavy trucks, particularly in the areas of conflict with lighter traffic and with community amenity.

Under present circumstances a debate about pricing and freight markets, is, for local government, somewhat academic.

Local government has custody of the local road system and is responsible for its maintenance and development. It does not, however, have access to revenue derived from users of the local road system that has a nexus to road costs imposed by those users, and to the general roading task for which local government sees itself responsible. Rather, funds available from the other two spheres of government, both of which are beneficiaries of road based revenues, are more a function of budget cycles. In addition, such funds have diminished in real terms. Thus, local government had no immediate stake in the recent decision by Transport Ministers to vote down the third charges determination other perhaps than in one or two jurisdictions where hypothecation, or partial hypothecation, exists.

ALGA and its constituent associations maintain that, as a matter of principle, it is reasonable for local government to seek access to revenues that bear a more robust relationship to roads costs and revenues associated with the local road system.

Local government has a strong interest in the National Transport Commission's (NTC) work on incremental pricing. I the limited number of models that have already been developed, albeit at a fairly rudimentary level, particular local governments secure increased funding for particular routes on their networks (in some cases direct from users), in exchange for productivity (egg increased mass) and safety benefits, that produce a very positive net gain for those local communities.

Finally, a very important setting for local government is the current lack of data and information on the local road system and a lack of knowledge of how local roads are affected by factors such as dynamic vertical loads. The allocation of costs on the local road network in the context of the third charges determination, was based very much on (a better) knowledge of the arterial road network, and in some cases almost on guesswork – what seemed reasonable at the time. It is probable that local roads costs attributable to heavy vehicles were understated as a result.

This is recognised as a significant issue by ALGA and the State and Territory associations which are investing a considerable amount in improving the

quality of data available on local roads. ALGA is undertaking a National Local Roads Data Base Project to bring together existing data sets into a single cohesive data base. There is also work of a more strategic nature taking place to improve the quality of the input data.

PARTICULR ASPECTS

1. Separable Costs

ALGA is of the view that a review of the NTC methodology on separable and non-separable costs allocated to the whole vehicle fleet, and, in turn apportioned to heavy vehicles, is warranted. ALGA does not necessarily disagree with the approach of treating nearly 30 percent of all road expenditure as “non-allocable”, and apportioning over 90 percent of non-separable expenditure to light vehicles, but believes that the methodology which generated these outcomes would benefit from review. Further, the assigning of a figure of 10 percent heavy vehicle usage to the local road network requires a far more rigorous analysis than it has previously enjoyed.

Work currently being undertaken under the auspices of Austroads on dynamic loads might provide a better basis for assigning local road costs to heavy vehicles.

2. Pricing Reform

Road pricing (or charging) is currently subject to a process that has recognised limitations. But the process, and the data used by the NTC in making its recommendations has the advantage of being transparent and available to all stakeholders. The NTC has, up till now, been obliged to rely on utilising historical data on road expenditure to generate recommended charges. Further, the directions paper issued by the Commission (*4th Heavy Vehicle Road Use Pricing Determination Scoping Study*) counsels against under-estimating the difficulties that will be encountered in moving to other approaches, and to pricing externalities.

A decision by governments to move to a proper pricing system will encounter substantial implementation issues particularly institutional change and financial redistribution. ALGA does not view these potential difficulties as prohibitive and supports the need to proceed in a measured way to ensure any structural reforms to the pricing system are not discredited, and to allow the establishment of new structures that recognises local government as a key stakeholder.

Mass distance for heavy road vehicles has been viewed by many stakeholders as the panacea for a more efficient approach. Mass distance charging, combined with the adoption of appropriate technologies, offers a more precise link between road use and road damage. It also offers the opportunity to provide appropriate price signals to promote optimum use of the road system and particular freight routes, including at the local level. Additionally it provides opportunities to invest in the road system to provide

levels of service that equate more accurately to usage. Reform of this kind offers an opportunity to eliminate distortions between various classes of heavy vehicles, rather than being locked into distorting outcomes inherent in the existing methodology.

Some in the trucking industry may argue that reform of this kind will dissuade operators from investing in the more efficient combinations such as B-Doubles and other multi combination vehicles. Any such assertion needs to be robustly tested. A more flexible pricing system will enable governments to provide incentives for investment safer, or more environmentally efficient equipment, if they so wish.

As previously indicated for local government, issues of road pricing reform cannot be separated from broader local government funding issues and reform that ALGA has been pursuing. ALGA continues to seek secure growth funding from other governments, and to ensure that special purpose funding for local roads becomes a more permanent feature of the financial relationships with the Australian government and with the state and territory governments.

The discussion about pricing reform runs the risk of being of peripheral interest to local government in the absence of engagement about how such reforms might be inclusive of pricing revenue flowing to local government in some sort of acceptable relationship with the use and investment requirements of the local road network.

In terms of pricing reform as it impacts on the rail industry ALGA observes that the review will, in the first instance, deliver some transparency about costs and pricing in that sector. There is a lot of subjective comment in the public domain about the relative position of the road and rail sectors when it comes to issues of cost recovery, recovery of capital costs, relative safety and environmental performance etc.

Governments will always have good policy reasons to support or provide financial concessions to both road and rail services. For example, in the context of the third charges determination ALGA argued that there was a case for moderating charges on multi combination vehicles that serviced remote area communities. The Tasmanian community appears to accept that its rail system be subsidised because of the negative externality impacts of heavy trucks, and its view that the tourism industry will benefit. Likewise in other jurisdictions communities have a strong belief that bulk commodities such as grain and coal should, as much as possible be confined to rail because of perceptions about the “costs” and impacts of road transport. Such views are prevalent within local government because, amongst other things, local government does not receive funding that equates to the costs that road transport imposes on the local road systems.

Grain lines present a very good example. It is not reasonable to expect local governments to accept an economically rationale policy to the financial viability of grain branch lines, which are increasingly subject to closure, in the

face of chronically under-funded local road networks (i.e. they are not funded to meet the freight task placed upon them) that incur substantial damage from grain trucks, that, in many instances, operate over statutory mass. Accordingly, until this financial issue is addressed structurally, ALGA and its constituents will continue to adopt a strident policy on the closure of grain lines.

3. Externalities

Externality costs fall most commonly into the categories of congestion, safety and environmental costs. These are very real issues for communities as they relate to heavy road vehicles (and in some instances to freight trains), and perceptions of the impacts of heavy road vehicles.

There are a number of issues associated with inclusion these costs within the pricing system. These issues include the extent to which the road user, relative to third parties, bears the costs of congestion and accidents. There are questions of achieving optimal levels of congestion such that the road system is utilised with best effect. A partial approach to pricing particular vehicles for congestion, accident costs and the measurable health costs of pollution is problematic. Any pricing system would also need to ensure differential pricing applied to impacts, for example, in urban areas on the one hand, and regional and remote areas on the other hand.

In other countries, including in Europe, the practice appears to be to price heavy vehicles on formulas that encompass number of axles, gross vehicle mass, and emissions performance. ALGA supports such efforts but recognises that there will be limitations to the scope of any such formula. A core objective of any such approach would need to be to ensure that significant distortions are avoided and that governments are satisfied that investment in infrastructure is meeting their overall objectives.

ALGA believes that Australia should look at best practice overseas and the applicability of such approaches to the Australian transport environment. European countries are heavily populated with high densities on their freight corridors, their roads heavily trafficked, they have highways of different quality to most Australian roads, and they have relatively good rail systems.

ALGA is strongly supportive of current environmental reforms applying to trucks including measures to improve emissions, reduce noise and improve crash worthiness. These measures will go some way to ameliorating the impacts of trucks on communities. The noise, pollution and safety impacts of heavy vehicles remain however key issues, they impose very real costs and should be reasonably addressed through the pricing system to the extent that is practicable.

In this context local government has taken a keen interest in the incremental pricing work being developed by the NTC. ALGA believes that communities and the trucking industry can create win-win situations by incrementally pricing (for example) particular routes that cater for extra mass and to which

heavy vehicles would be confined through compliance measures. The revenue would not only be used to maintain the particular route in question but could also be applied to noise amelioration, flashing lights to enhance the conspicuity of school zones or invested in compliance measures such as road side devices to target those vehicles that unnecessarily use engine brakes. Rail operators might similarly make contributions to amelioration measures where noise and vibration caused by goods trains is an issue.

ALGA looks forward to discussing its submission further with the Commission