AUSTRALIAN ROAD TRAIN ASSOCIATION Inc.

Including All Transport Operators

Carrying Australia's Economic Future

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Mr Gary Banks
Chairman
Productivity Commission
Locked Bag 2
Collins Street East
MELBOURNE VIC 8003

28th June 2006.

Dear Mr Banks,

ARTA RESPONSE TO THE COMMISSION'S REVIEW OF ECONOMIC COSTS OF FREIGHT INFRASTRUCTURE & EFFICIENT APPROACHES TO TRANSPORT PRICING

Our sincere apologies for the lateness of this submission but we respectfully request that it be included with rest of the submissions for the Productivity Commission.

The Australian Road Train Association supports the Productivity Commissions land transport pricing review albeit it has omitted a third mode, sea transport which also delivers line haul services for the domestic freight market.

Furthermore we wish to emphasise that although the inquiry has broad terms of reference in relation to infrastructure pricing, trucking businesses operate in a much wider context of market pressures and government regulation, which are equally important as pricing matters in determining the viability of their businesses, the cost of road freight transport in Australia and vital services to the rural and remote markets within Australia. The implications of the wider context for any possible pricing reforms need to be taken into account by the inquiry.

Key Issues

Some believe that the only 'pure' solution is to quantify and impose the full infrastructure and externality costs generated by each mode.

This approach assumes consumers of goods and services facing a higher price would reduce demand wherein BTRE estimates that full externality pricing may lead to a 12% increase in road freight rates could result in approximately $9 billion of goods and services not being demanded per annum. In road transport at least, increases in road freight prices that reflect full cost pricing are unlikely to lead to significant decreases in demand.

The practicalities are that the freight task for the market we service, the remote and rural communities is that demand is inelastic and would not decrease demand resulting in an increase in pricing to offset any externality pricing increases.

The second broad option available to Government is to recover costs via charging only for the infrastructure costs associated with freight transport use for both road and rail and exclude common costs generated by other users. This option includes the current NTC cost allocation model and charges based on nationally consistent heavy vehicle registration and a net diesel excise charge (i.e. the status quo) or mass-distance based charging.

The current NTC cost allocation/cost recovery model holds advantages as it is a transparent process; would hold no impact on vehicle and driver operations and; it generates a large quantity of revenue for government in a secure manner, through truck registration charges and net diesel excise, which at least recovers the costs allocated to heavy vehicles.

In respect to Mass-Distance Based Charging we believe it is problematic as; - realistically it does not take in to account that in a very big country like Australia it would produce inefficient results for regional and remote Australia; it would require fundamental institutional changes; it would at the least require greater administrative effort for trucking operators than the current system of heavy vehicle charges; and it would impact on truck and driver operations.

Given that mass distance charging would presumably incorporate a road wear factor related to axle loads based on a mathematical relationship involving a power rule, multi axle trucks would have mass distance charges which increase geometrically in relation to smaller trucks, and such a regime may well encourage trucking businesses to increase the number of vehicles on the road that are not optimal in terms having un-intended consequences for road safety, driver fatigue, and the environmental costs. For example this could result in a move to use more single trailer articulated trucks rather than Road Trains and B double trucks, and stifle the development of even more productive and road friendly articulated trucks.

The above assumes the market should operate in an environment of competitive neutrality in the respect of road and rail. However this is not the case as the markets are very much different and may not deliver the same advantages. This is because between BTRE estimates between road and rail only 10% of land freight is considered ‘contestable’; the products carried are not highly substitutable; and that price is not the main reason why a freight customer may substitute to an alternative mode. Thus competitive neutrality pricing intervention in road/rail may therefore be an ineffective instrument because its potential application will be extremely limited and may increase freight costs to the net disadvantage of the Australian economy particularly within our market in rural and remote Australia.

ARTA recommends a more viable solution of:

1. Exhausting all possible efforts to improve the functioning of each mode before introducing a further and potentially distortionary further pricing adjustment;

2. Limiting areas of government intervention;

3. Allowing competing modes to compete on their individual merits to drive efficiencies;

4. Maintaining the effort, through the National Transport Commission and the COAG process to advance road and rail regulatory harmonization; and

5. Increasing investment in transport infrastructure

Further to the above ARTA supports the analysis incorporated in the Australian Trucking Associations submission to you. Lastly, ARTA looks forward to discussing the above issues if further clarification is required.

Yours sincerely,

Garry (Darby) Sullivan

President
Australian Road Train Association