AUSTRALIAN TRUCKING ASSOCIATION

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Mr Gary Banks
Presiding Commissioner
Road and Rail Freight Infrastructure Inquiry
Productivity Commission
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Dear Mr Banks

Productivity Commission (PC) report into Road and Rail Freight Infrastructure Pricing

We welcome the recent release of the Discussion Draft relating to the above and regard the document as a substantial and valuable contribution to the oft-debated issues of road and rail infrastructure investment, charging, and related issues. It identifies that heavy vehicles pay their way for their fair share of road use, and there is no clear net community benefit in advocating fundamental changes to the current system of heavy vehicle charges.

The Australian Trucking Association (ATA) notes the following as key findings of the report.

- The draft findings recognize the importance of the road and rail freight transport industries to the national economy, with road freight transport contributing 2.42% of GDP i.e. $ 21.78 bn, and rail freight and passenger services contributing 0.54% of GDP i.e. $4.86 bn. The corollary of this recognition is that the current focus on upgrading land transport infrastructure to be more safe and efficient through the AusLink program is an important national objective.

- The draft findings confirm that trucks pay their way for their road use through the current PAYGO system which assesses road expenditure and road use, whilst acknowledging aggregate over recovery of attributable expenditure from trucks. It says that addressing the under-recovery from B doubles, implemented for safety, environmental and fuel efficiency reasons, would not lead to modal shift in freight i.e. that rail is not disadvantaged by this arrangement. The quantum of the under-recovery from B doubles is not identified in the report, but the ATA understands that it is 8% of allocated costs for that class of vehicle and believes that it would be helpful if the quantum of the under-recovery from B doubles at the current levels could be identified.

- In relation to the competitive neutrality issue, the report says "… the Commission has not found a compelling case to increase road user charges solely for competitive neutrality reasons…." The report correctly identifies that as heavy vehicle charges are only one cost to trucking businesses, that huge increases in charges would be necessary to substantially increase road freight rates to a level which would encourage modal shift, as other factors, including reliability, frequency of service, flexibility and security of freight are key drivers of freight customer modal choice decisions.

- The Productivity Commission asserts that heavy vehicle charges would rise if road expenditure increases, in order to maintain the trucking industry's position of paying its way for its attributable share of road use. However, this conclusion would depend on where and how the money was spent and the pattern of road use by all vehicles. Also, given that charges are based, necessarily, on historical data, current revenue yields from the trucking industry should also be considered. This point is addressed further in attachment A

- The report found that rail is not disadvantaged by the current overall heavy vehicle charging arrangements, and in fact is subsidised. "Government financial contributions to rail infrastructure allow access charges to be maintained below the economic costs of providing some rail freight services, further clouding assessment of competitive neutrality across modes". The ATA believes that addressing these government subsidies would promote competitive neutrality between road and rail freight infrastructure investment.

- The report emphasises that there are considerable productivity gains to be achieved by regulatory reform of identified non-price barriers, as distinct from advocating pricing reforms which have uncertain costs and benefits. "Reform related increases in productivity of 5 per cent for both road and rail would yield an estimated increase in GDP of $2.9 billion …[and] if road were able to achieve a 10 per cent productivity increase due to more fundamental reforms, estimated GDP gains are projected to be closer to $5.2 billion." This research by the Productivity Commission is very significant and emphasises the imperative to achieve the targets identified in the heavy vehicle regulatory reform program endorsed by the Council of Australian Governments (COAG) on 14 February 2006, and consider other aggressive regulatory reform to deliver improved heavy vehicle regulation, which is harmonised across jurisdictions.

- The report also targets the economic efficiency of current heavy vehicle regulation, saying, "Government road agencies typically regulate road access by heavy vehicles, prohibiting truck use of certain roads and/or by prohibiting certain types of vehicle, in order to contain road maintenance and replacement costs. There appears to be considerable scope to replace these prescriptive regulations with performance-based approaches, facilitating continuous productivity gains and innovation in the road freight sector. More generally, regulations affecting the road transport sector should be rigorously evaluated in accordance with regulatory impact criteria, to identify least-cost approaches and demonstrate net benefits. The appropriateness and cost-effectiveness of existing regulations should also be systematically reviewed, consistent with COAG's commitment that all governments undertake targeted annual public reviews of existing regulations." Page XLV. Such an approach would ensure that only appropriate heavy vehicle regulation is developed and implemented, and current inappropriate regulation is reviewed, and subsequently rescinded or altered.

- The Productivity Commission has found that "The technical feasibility of more finely-tuned road user charges, such as mass-distance and location-based charges, is a necessary but not sufficient condition for them to be economically worthwhile" (Draft Finding 8.1) The ATA has concerns that the Productivity Commission is too sanguine about the technical feasibility of telematics-based charges. The Intelligent Access Program (IAP) has not been practically demonstrated, although we are aware that GPS tracking is used by many trucking operators for operational and management reasons, using data standards and at a cost that suits their business needs. Transport Certification Australia (TCA) claims that the IAP is currently operating, however the ATA understands that these instances are not operating under the legislative provisions developed by the National Transport Commission and have no detailed information about the standards required or the reporting format. The industry has urged TCA to provide a practical, cost effective demonstration of the IAP, including the recently announced Self Declaration Function, as soon as possible so that it can be practically assessed. .

- In relation to mass distance charging, the Discussion Draft is cautious about new, electronic technologies and direct user charging, including the commercially-oriented management of parts of the road network and national funding arrangements, because it recognises that institutional changes would be necessary to take advantage of such a system and the difficulty, if not the impossibility, of achieving these changes. It also acknowledges the significant issue of common use of the road network for private and commercial purposes, and the interest of the public in the public road network.

- The Productivity Commission suggest that the establishment of a road fund, either nationally, or in each jurisdiction, would secure revenues to road agencies which reflected more directly road use patterns for all vehicles, as compared to current departmental based road expenditure budgets, and would change the current attitudes of road users from regarding revenue raised from registration charges and fuel excise as government taxes, to prices paid for use of the road system which would, in turn, be reflected in investment. See attachment B for ATA comment.

- The report acknowledges the current extensive regulatory and commercial responses to heavy vehicle externalities and concludes, "A uniform externalities "tax" on road freight would be an ineffective and costly way of dealing with remaining externalities." The ATA supported this position, and notes the report's conclusion that such regulation should be more rigorously assessed in the case of both current and proposed regulation.

- The report does not promote incremental mass pricing, as advocated by the National Transport Commission in its submission, as a path toward direct user pricing for road use.

Report recommendations

At this stage the Productivity Commission is not recommending fundamental pricing or institutional reforms for road or rail, but is seeking more information on these matters prior to preparing the final report.

There are eight recommendations of which five are related to rail, and three to road. The road recommendations are (Draft recommendations 11.6 – 11.8):

- Prescriptive regulations that restrict particular types or configurations of heavy vehicle from using all or some roads should be replaced, where possible, with performance based regulations to promote flexibility, innovation and greater productivity in the road freight sector. The proposed package of Performance Based Standards to be agreed upon and implemented by all jurisdictions by end 2007 is a major step forward and it is important that the announced timetable is met.

ATA Comment: Although the development and national approval of PBS/SMART heavy vehicles may assist in addressing the rapidly expanding land freight task, the opportunities to deliver more productive vehicle and access arrangements, in a generic manner, without PBS, must also be strongly pursued. For example, the development of an extensive B triple network, including appropriate investment to extend the currently identified B triple network based on the AusLink network should be a priority. B triple combinations have been proven to be safe, when assessed against the extensive PBS/SMART vehicle safety standards and in practice where they have been running for some years, both in metropolitan Melbourne and on rural *and remote road train routes. Similarly, the extension of the national Higher Mass Limits network in New South Wales and Queensland, as long advocated by the ATA, should not be linked to the yet to be proven Intelligent Access Program (IAP) as this will limit the economic benefits of access to higher mass limits. Road wear concerns are fully addressed by the access conditions established in 1999, which require road friendly suspension for participating heavy vehicles, involvement in an audited mass accreditation program and restriction of access by administrative permit controls.*

The current NTC review of PNBS/SMART institutional arrangements is progressing, but both vehicle and infrastructure standards must also be reviewed with vigour to deliver productive outcomes from the PBS/SMART concept, and the publication of an extensive access network map should be an immediate priority.

- Regulations applied to the road transport sector should be rigorously evaluated in accordance with regulatory impact criteria, to identify least-cost approaches and demonstrate net benefits. The appropriateness and cost-effectiveness of existing regulations in the sector also should be systematically reviewed, consistent with COAG's commitment that all government undertake targeted annual public reviews of existing regulations.

ATA Comment: The ATA fully supports this recommendation, and has noted above its objection to the imposition of additional regulatory controls on access to the Higher Mass Limits network in New South Wales and Queensland through the mandating of the IAP requirement.

Additionally, in this section (pages 11.7 – 11.8) the Commission also seeks the views of participants as to whether there are impediments to arrangements between heavy vehicle operators and road providers which would allow heavy vehicle operators to pay directly for particular road upgrades.

ATA Comment: There are fundamental problems with this approach to road infrastructure investment because of its potential impacts on the national heavy vehicle charging system. Such payments, where they relate to access to newly developed land, or land that has undergone a change of zoning for use are currently required from some developers and/or local government, however to impose such a one off cost on trucking operators, or place on-going levies or charges on particular freight types (including shipping containers) or sections of road, where expenditures on such roads have already been taken account of in the national cost allocation model, corrupts this system. It constitutes double charging. Also accountability for such payments is problematic, and may encourage cost shifting.

The AusLink Regional Strategic Fund, which is currently considering applications for Australian Government funded road expenditures which have an economic benefit, will inform the discussion about local roads funding, in relation to both its methodology and the quantum of sound projects identified, when assessed against the investment guidelines.

- To improve existing investment decision-making frameworks, road infrastructure funding mechanisms should include a clear selection process, stakeholder involvement and public transparency, including formal procedures for public consultation. These principles have been broadly adopted as part of the AusLink framework for investing in the national highway system and endorsed by COAG. They should be applied across all jurisdictions as soon as possible.

ATA Comment: The ATA recognizes that efficient road investment expenditure is critical to providing a safe and productive road network to underpin the delivery of the growing land freight task, and should be implemented in a nationally consistent manner to ensure efficient expenditure. Such decisions need not only to assess the need for such investment but also the wise expenditure of such funds, once allocated, to ensure that roads are built in a manner *which is fit for purpose. Thus engineering standards should be reviewed and standardized nationally.*

The ATA believes that the principles started above by the Productivity Commission in relation to road infrastructure are equally applicable to rail infrastructure investment processes.

Requests for further information

The Productivity Commission is seeking participants' views about the following matters:

- the potential costs and benefits of reintegration on specific rail networks;

ATA Comment: The ATA has no expertise to comment on this matter, other than to note that competition is a key driver of efficiency and that reintegration of specific rail networks may restrict competition both within the rail mode and between road and rail modes.

- the feasibility of establishing a national road fund, particularly how inter-jurisdictional issues might be resolved; and

ATA Comment: see attachment B

- the feasibility of introducing more commercially-oriented management for the major freight routes, the potential benefits and costs, and how pricing, network "boundary" and other implementation issues could be resolved

ATA Comment: The ATA notes that the key driver for the introduction of a more commercially oriented management of major road freight routes in Europe is to capture revenue from trucks, which are not registered in and not taking on fuel and paying fuel taxes, whilst transiting these countries. This pre-condition is not applicable to Australia, as has been recognized by the Productivity Commission. Also it has been claimed by rail interests that rail infrastructure in Australia is subject to commercially-oriented management and that this model should be applied to roads. Significantly, the report recognizes the fundamentally different characterizes of each mode which are reflected in their different institutional arrangements.

The ATA believes that governments have an ongoing role to provide an efficient and safe road network, particularly as they collect registration and fuel excise charges and taxes from commercial and private users of the road network.

Where private investment is applied to the construction of tollways, governments must satisfy themselves that their overall objective in providing a safe and productive road network are met by such projects, and that such expenditures are quarantined from the heavy vehicle cost recovery process and that alternative routes are available.

"Boundary" issues are significant, and certainly impact on private investment opportunities. For example, the proposal to exclude local traffic from paying tolls when using the proposed North Coast motorway, which would provide an alternative to the Pacific Highway, would seriously limit revenues, and thus commercial interest in the project.

The experiences of the commercial management of rail freight routes over recent years may provide some insights into the benefits and disbenefits of such a policy decision, although the absence of private users from the rail network may limit these insights.

The ATA looks forward to further consultation with the Productivity Commission prior to the completion of the final report, including through the public hearings and round table activities.

The contact officer on the ATA Secretariat for this inquiry is Neil Gow, National Manager Government Relations (phone 02 6253 6921, email gown@atatruck.net.au)

Yours sincerely,

(signed)

Stuart St Clair
Chief Executive

Attachment A

The relationship between road expenditure and heavy vehicle cost recovery

The Productivity Commission, in Draft Finding 4.8, comment that:

"…following rejection of the Third Determination, cost recovery is unlikely to be maintained if road expenditure continues to rise with no increase in charges"

The ATA notes that because of the relationships of the NTC heavy vehicle cost allocation model, that it will increase charges if relevant road expenditure levels increase.

Fundamentally the NTC cost allocation model is based on the interaction of two data sets, viz the road expenditure data set and the road use data set. There is considerable potential for changes in these data sets between determinations and, as they interact with each other, outcomes are difficult to predict, without a good understanding of the model.

Although it is logical to assert that. "cost recovery is unlikely to be maintained if road expenditure continues to rise with no increase in charges", this may not be the case. For example, in the data assembled for the second and third heavy vehicle charges determinations, there was a trend to expend a greater proportion of road expenditure on urban local roads. As a significant proportion of these funds are deemed to be non attributable as they are for access purposes, then this changed level of expenditure, including a proportionate growth in the light vehicle population, may mean that current heavy vehicle charges do recover their allocated costs.

Also the growth in revenues paid by heavy vehicles after the implementation of a determined set of charges needs to be taken into account as growth in revenues from heavy vehicle owners may, in itself, balance those increased road expenditures relevant to heavy vehicles..

Attachment B

Establishment of a national road fund

Whilst wishing to ensure that the road network is continuously improved to meet safety requirements for all road users and deliver the expanding freight task, the ATA believes that the current arrangements, although complex and including many stakeholders, is making significant progress.

Fundamentally, these improvements are being achieved through a partnership approach, based on greater accountability in relation to funds provided for road expenditures, as reflected in the AusLink Bilateral agreements, and recognition of the federal system and role of local government.

Given that transport issues are now being addressed by the Council of Australian Governments, along with other key national issues, including security, water, health and education, we believe that this focus will allow the delivery, on an enhanced basis of co-operation, of improved arrangements in relation to road transport infrastructure.

The ATA offers the following points for consideration by the Productivity Commission on the matter of a national road fund

- this suggestion is another way of re-visiting the long debated issue of hypothecation of revenues raised from road users, from both light and heavy vehicles.
- Given that registration charges are paid to the states and fuel excise (including net diesel excise paid by heavy vehicles at the rate of 19.633 cpl), is paid to the Australian Government, how likely is it that such arrangements will change? Is such a change necessary when the partnership arrangements referred to above serve to indirectly address this vertical fiscal imbalance?
- Is there a case for a stand-alone national road fund for heavy vehicle charges?
- Would such a fund pre-suppose a national vehicle registration system?
- On what basis would funds be distributed to state and territory governments? Would their continuing ownership and control of the road system, including heavy vehicle regulation and access arrangements, be compatible with a national road fund system?
- What would be the governance arrangements of such a fund? Would it be based on the model of the National Transport Advisory Council, which has not been constituted? If all stakeholders were represented, there would be many competing interests based on geography and many other considerations.