

PRODUCTIVITY COMMISSION DISCUSSION DRAFT REPORT ON ROAD AND RAIL INFRASTRUCTURE PRICING: DRAFT REPORT

SA GOVERNMENT RESPONSE

The draft report has mainly focused on competitive neutrality in major freight corridors, the key role of ongoing regulatory reform, particularly in rail freight, and options for institutional reform in the road sector.

The report has not, however, given sufficient focus to practical issues and options outside of those relating to inter-capital freight corridors. As the report suggests, there may be issues of competitive neutrality on other corridors, however, there is no investigation of these issues or possible policy response options, including an initial assessment of costs and barriers. These issues should be considered to a level of focus and assessment at least comparable to that given to major freight corridors in the draft report. In particular:

- the situation in rural freight corridors (e.g. grain)
- the definition and treatment of Community Service Obligations (CSO's)
- the scope for improved cost accounting/attribution within the current pricing system
- the scope for improved pricing instruments (e.g. tiered registration charge based on annual km's or location or engine type, fuel tax rebates tiered on a fuel consumption rating, a tyre tax, optional (incremental) pricing beyond the standard charge, or other pricing options).

The Commission notes that there are likely to be significant benefits from reforming road charging arrangements, but that these benefits could be limited by technology and transactions costs and the current institutional environment.

The draft report does not provide sufficient guidance for governments to use improved pricing as a key tool to manage the expected doubling of the freight task over the next couple of decades or so.

Greater consideration needs to be given to:

- practical pricing reform options in the short, medium and longer term, including proper specification and assessment of those options and what is required to advance them
- rural, regional and remote impacts of those options, and the needs of those areas (as required by the COAG Communiqué)
- whether pricing reform options would complement or replace existing charging, in particular the fuel excise system
- the role of community service obligations in the cost benefit process to which investment proposals are to be subject.

The report gives considerable focus to institutional issues, including a potentially greater role for commercial models of road infrastructure service delivery. The following points are made on this matter.

In its initial submission to this inquiry, the SA Government indicated that experience with the purchaser provider model, would suggest caution if corporatisation type approaches were to be considered for roads. In particular, the report gives little guidance as to how the issue of commercial versus non-commercial use of freight corridors might be investigated or resolved.

The SA government also noted that the transport system has a number of characteristics that point to a significant ongoing role for government to ensure that decisions take account of numerous inter-related issues including overall network efficiency, multi modal linkages, land use planning, and regional needs.

The SA government continues to hold these views, and notes that, given the information constraints identified by the Commission, it is not clear that the alternative institutional arrangements presented in the draft report would result in more efficient outcomes in the absence of concerted action to improve information on corridor costs and traffic flows.

The draft report provides little framework to the notion of a national fund and hence gives limited guidance about the implications such a model may have for the provision of roads throughout Australia, in particular what principles might steer the fund to achieve a more direct linkage between road use and road provision.

While the report argues that institutional reform will lead to better investment decisions, little evidence of poor road investments or expenditure decisions under current institutional arrangements is offered, nor is it allowed that benefits could be reaped, within the current institutional setting, by adoption of the improved planning and project assessment methodology and processes that are being implemented separately under the COAG reform agenda.

In view of the likelihood that existing institutional settings will prevail, the Commission is asked to provide advice on pricing issues and recommendations on practical ways forward on road pricing reform, within the context of existing institutional arrangements, in its final report.

The Commission notes the complexity of the land transport system, and the current lack of data required to make firm recommendations about efficient pricing. The SA Government believes there could be a case for the inquiry to recommend new activity to address data and methodological deficiencies.