

31 October 2006

Mr Gary Banks
Productivity Commissioner
Road and Rail Freight Infrastructure Inquiry
Productivity Commission
Locked Bag 2
Collins St East
Melbourne, VIC 8003

Dear Mr Banks

Re: Inquiry into Road and Rail Freight Infrastructure Pricing

The Municipal Association of Victoria (MAV) is the peak body for local government with a responsibility to represent the interests of Victoria's 79 councils.

As the Productivity Commission would be aware, local roads represent the significant majority of the total road network throughout Australia (in terms of road length) and almost every freight journey will commence and finish on a local road. This ensures local government is an essential component of a debate and discussion on freight infrastructure pricing.

Local road network costs

The Commission noted in its discussion draft, *Road and Rail Freight Infrastructure Pricing*, there is evidence cross subsidies occur when comparing the pricing of road freight within a class of vehicles. It found that heavy vehicles can impose greater relative costs on arterial and local roads as opposed to the major freight corridors which are specifically designed for heavy freight. The Commission states:

The limited location-specific data that are available suggest that heavy vehicle cost allocations based on network cost averaging may actually involve significant cross-subsidies from users of major freight corridors to rural road users.

While this cross subsidy would be of little concern if all road infrastructure was financed from a single level of government, given the current distribution of responsibility for road financing, serious questions remain about the effectiveness of the current funding mechanisms for local road infrastructure. Particularly with the advent of heavier road freight, such as road trains and B doubles, the damage caused by road freight will fall disproportionately on local government. That is, the marginal cost of providing local road infrastructure is far greater than arterial and interstate infrastructure and the current distribution of the hypothecated taxation and vehicle registration unfairly excludes local government.

As the Commission would be aware, councils receive funding for renewal and maintenance of local roads under the successful Roads to Recovery program. While

this program assists councils in addressing the catch up of asset maintenance and the cross subsidy occurring between geographic locations, further support is required to ensure road freight adequately contributes to the costs of maintaining and renewing local road assets. In addition, any increases in freight will result in a further reduction in the ability of local government to fund its road infrastructure.

Inter-modal cost relativities

Given the rapid growth of freight forecast over the next 20 years, the current funding mechanisms are not producing competitive outcomes between modes, and the combination of funding and pricing is not producing needed outcomes. The current rail freight network is facing competitive disadvantage through 'gaps' in the logistics chain, driven partially by gaps in the funding chain. It is the view of the MAV that the Commission failed to adequately argue the case for the negative externalities associated with road freight to be excluded from the analysis.

Current investment decision-making processes tend to be silo-based rather than systemic which results in unsatisfactory outcomes. Moreover, road and rail funding is currently based on partial network criteria which results in an unintegrated approach. Thus while AusLink has a focus on the national network routes, produce has to move from farm/factory gate to port or destination node, which covers a number of transport options with various funding mechanisms and capacities. The overall network is not being strategically assessed from the point of capability or logistics.

Large parts of the rural rail network in Victoria are becoming obsolete and will soon be unable to compete with road transport.

Accordingly, it is the strong view of the MAV that rail funding and pricing needs to be reviewed on a 'whole' network basis rather than on a 'type of route' basis. Local government in Victoria believes that:

- The current state of the country and regional rail freight network is currently inadequate; and
- That a body should be created to develop an agreed long-term vision and Business Plan for the country and regional rail freight network.

Ultimately, it is the view of the MAV that the current state of the rail infrastructure is insufficient and places this mode at a comparative disadvantage. At a policy level, this disadvantage will manifest itself with the current political negotiations around government subsidies to maintain and renew assets facing the end of their useful lives.

If you wish to discuss the content of this letter further, please contact John Hennessy, Sector Development Consultant, on (03) 9667 5525 or at jhennessy@mav.asn.au.

Yours sincerely

ROB SPENCE
Chief Executive Officer