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Mr Gary Banks
Chairman
Productivity Commission
PO Box 80
Belconnen
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Dear Chairman

NRMA Motoring & Services (NRMA) welcomes the Productivity Commission's (the Commission) discussion draft: *Road and Rail Freight Infrastructure Pricing*. This report is a well researched contribution to the debate regarding how Australia can best achieve efficiency in the provision and use of Australia's network of land transport infrastructure. It also explores a number of important issues concerning the future provision of land transport infrastructure and services that need to be addressed by Australian policy makers at all levels of Government.

The Australian Automobile Association (AAA), in co-operation with NRMA and other state motoring clubs provided a detailed submission in response to the Inquiry's Terms of Reference. This submission focused on issues in relation to road funding and the need for efficient pricing between light vehicles (i.e. cars, motorcycles and light commercial vehicles) and heavy vehicles as well as the issue of price neutrality between road and rail. Together we provided an independent report prepared by transport consultant Dr John Cox highlighting that the current road pricing system is inefficient and is not structured to ensure pricing neutrality between different classes of vehicles and within each class of vehicle. Dr Cox's paper identified a subsidy to heavy vehicles paid by passenger vehicles and light commercial trucks.

NRMA agrees with a number of the Commission's draft findings. We agree that government financial contributions to rail infrastructure allow access charges to be maintained below the economic costs of providing some rail freight services. By contrast, as a whole, Australia's road network is not subsidised but is paid for in full by road user fees and charges, such as registration fees and fuel excise. That said, however, evidence provided by Dr Cox suggests that heavy vehicles do not pay their fair share of the costs of the road network and are in effect subsidised by the users of light vehicles.

We also agree that if road charges for heavy vehicles were to rise, any shift to rail is unlikely to be significant. This reflects the different service characteristics of road and rail services as well as the fact that only a small proportion of the total freight task is contestable between the two modes.

Furthermore, we strongly agree that changes involving more fundamental institutional reform for road provision — such as the creation of an independent road fund, or direct road user charging combined with commercially-oriented management of major freight routes — offer the potential for substantial efficiency gains in the management and operation of Australia's road network.

Despite our support for some of the draft recommendations we believe that the Commission has not looked closely enough at issues in relation to:

- the efficient and equitable use of the existing road network; and

- the efficient and equitable provision of future land transport infrastructure.

We believe that trucks and heavy vehicles do not pay their fair share of the costs of the road network but are instead subsidised by light vehicles. We also believe that there exists an important opportunity for the Commission to further make the case for the establishment of a Road Fund which would be charged with addressing Australia's current and future road infrastructure needs using road related taxes and charges in addition to commercial instruments including, direct road user pricing, long-term borrowing and infrastructure bonds.

The remainder of this letter addresses two key issues. First, the need for the Commission to look more closely at the extent to which heavy vehicles are subsidised by light vehicles. Second, NRMA's strong support for a dedicated road user fund which is autonomous and transparent, as well as funded via the hypothecation of road user charges. Accordingly, this letter should be read in conjunction with those Inquiry Submissions made by the Australian Automobile Association (AAA) as well as the report prepared by Dr John Cox titled *Full Social Costing of Australian Road Transport 2004/05*.

1. **Achieving efficient road user charges**

As directed by the Inquiry's Terms of Reference, the Commission has focused heavily on the issue of competitive neutrality between road and rail infrastructure. By contrast, the Commission has not adequately addressed the extent to which road user charges for heavy vehicles are equitable relative to charges for light vehicles. This issue is of high importance because community welfare will not be maximised if the road user prices do not reflect the marginal social costs associated with road use across the various vehicle types.

NRMA believes that heavy trucks are subsidised by private vehicles. As detailed in the paper prepared by Dr Cox and provided to the Commission by the AAA there is a significant undercharging of heavy vehicles in both regional and urban areas. According to Dr Cox:

> *The Energy Grants Credit Scheme presently gives a rebate of 18.51 c/l for articulated trucks in rural and urban areas and for rigid trucks between 4.5 and 20 tonnes in rural areas only. After July 1, 2006 all trucks in both rural and urban areas will receive this 18.51 c/l rebate. Table A8.3 shows that there is a significant undercharging of heavy vehicles of 32.6 – 19.6 = 13.0 c/l in rural areas and an even greater undercharging after July 1, 2006 of 60.9 – 19.6 = 41.3 c/l for trucks in urban areas.*

By comparison, light vehicles in both rural and urban areas are overpaying. According to Dr Cox's analysis light vehicles in urban areas are paying 3.5 cents per litre (38.1 – 34.6 = 3.5) too much, while in rural areas light vehicles pay 4.4 cents per litre more than their share of costs (38.1 – 33.7 = 4.4). Hence, according to Dr Cox's analysis heavy vehicles are receiving a subsidy at the expense of passenger cars, motor cycles, and the growing light commercial vehicle fleet.

NRMA urges the Commission to look more closely at this issue.

2. **A national road fund**

Draft finding 9.8 of the discussion draft states:

> *Compared with present arrangements, a Road Fund model would facilitate more efficient decision-making, funding and provision of road infrastructure. Appropriately-designed, a Road Fund could provide a regular and reliable source of road finance, improve governance of road funds and efficiently discipline road spending. However, to be effective, a Road Fund needs to have a dedicated source of funds, a significant degree of autonomy and transparent processes for allocating funds efficiently. Implementing this model in Australia would pose a number of particular challenges, principally because of different responsibilities of different levels of government. While each jurisdiction could operate its own fund, a single national road fund would provide a more direct and transparent linkage between heavy vehicle charges and efficient road expenditure.*

However, there are a number of issues that would require inter-jurisdictional agreement, including:

- *which road-related revenues would be hypothecated to the Fund (vehicle registration fees, fuel excise taxes and/or some form of mass-distance charge);*

- *how future revenue requirements and heavy vehicle charges would be determined; and*

- *criteria for efficiently allocating funds to road projects and between road agencies***.**

NRMA strongly agrees that a road fund would facilitate more efficient decision-making, funding and provision of road infrastructure compared with present arrangements which are subject to a significant degree of political influence. We believe, however, that in order for such a fund to be effective it would have to meet the following criteria.

- *Autonomy* — the Fund should be established as a corporation subject to the Corporations law. However, it should be charged with a community service obligation which is clearly identified, costed and directly funded by government.

- *Accountable* — the fund should be managed by a board which is accountable to Parliament in relation to its financial performance. It should be set targets in relation to return on assets and dividends to Government based on its mix of assets.

- *Effective* — the fund should be charged with overseeing the efficient investment in, and delivery of, nationally important road infrastructure. By necessity it would need to be willing and able to effectively work with government agencies at the Commonwealth, State and local levels of government. In particular, a Road Fund would need to work with local councils and state planning agencies to ensure an integrated and efficient provision of infrastructure that meets the needs of both the nation and the local community.

- *Transparency* — transparent processes would be required for assessing the merits of road infrastructure projects. Such processes should be based on an economy-wide assessment of the benefits and costs of proposed projects taking into account economic, social and environmental impacts.

- *Innovative* — of particular importance the Road Fund should consider all project delivery options and the extent to which their use will deliver social and economic benefits to the community at large. For example, the use of Public Private Partnerships to deliver road infrastructure projects should be considered only on the basis that their use will deliver greater net benefits to the community as a whole. The Road Fund should consider the use of shadow toll arrangements and public sector borrowings.

- *Hypothecation of road user charges* — the fund should have a dedicated and stable source of revenues. Ideally, this would mean that all road user charges and taxes be hypothecated to the Fund. It should also be able to enter into contracts and raise loans.

NRMA would be happy to provide more details to, or discuss with, the Commission any of these issues. My colleague Mr James Endres can be contacted via telephone on (02) 8222 2148.

Yours sincerely

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