ATTACHMENT 1

Road and Rail Freight Pricing History

Historically, under Australia's Federal system of government each state and territory has been responsible for road transport regulation in its jurisdiction. At the end of the 1980s, road transport in Australia was subject to a diverse array of differential State and Territory legislation, supplemented by Commonwealth regulation of specific aspects, primarily through the *Motor Vehicle Standards Act 1989* and the Federal Interstate Registration Scheme.[1] "This approach led to a lack of uniformity in driver and vehicle operations and standards, and vehicle weights and dimensions. In the early 1990s, governments agreed to address the differences in regulation, establishing the Heavy Vehicles Agreement and the Light Vehicles Agreement in 1991 and 1992 respectively".[2]

In 1990, an ISC report to Ministers (ISC 1990) recommended the establishment of the National Road Transport Commission (now the National Transport Commission (NTC)). The NTC was formed in 1991 to overcome these barriers to more efficient road transport by introducing nationally consistent transport policies and laws.[3]

In the 1995 National Competition Policy (NCP) Reforms, governments committed to principles of competitive neutrality. Included was the setting up of the ATC to oversee the implementation of the competition reforms.

Prior to the NCP Reforms in 1995, rail freight transport was regulated on a state by state basis. It was recognised that the Australian rail industry had evolved in an uncoordinated and fragmented manner, reacting to state priorities, rather than national objectives such as a compatible approach to technology investment and safety management.[4]

In 1997 State and Cth Transport Ministers agreed to establish the Australian Rail Track Corporation (ARTC) to provide a "one stop shop" for national rail operators in providing access to rail lines.[5]

In 1997 the BTRE took a comprehensive look at the economic efficiency of taxes and charges on all freight in Australia. They concluded that the current system was out of date; not applied consistently; externalities were not adequately accounted for; and called for a detailed review of opportunities of increasing the efficiency of the system of taxes and charges in the transport sector. Any such review would need to encompass subsidies and regulations to ensure completeness.[6]

In April 2000 the Federal Government responded to three reports containing recommendations on road and rail transport.[7] The reports are:

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[1] Australian Trucking Association, *Response to the Australian Government Regulation Taskforce*, November 2005, p.4

[2] National Competition Council, *Assessment of Government's progress in implementing the National Competition Policyand related reforms: 2005*, Commonwealth of Australia 2005, ISBN 0-9757067-6-4, p8.1

[3] National Transport Commission website, 'About us' section, http://www.ntc.gov.au/ViewPage.aspx?page=A02300407400440020

[4] Ed Willet, *Assessing the State of National Competition Policy for Rail*, a presentation to IIR: Rail Competition and Access Conference Sydney, 18 February 2000, p2

[5] Australian Rail Track Corporation website, 'About us' section, http://www.artc.com.au/about/history.htm

[6] BTCE, Working Paper 34 Taxes and Charges in Australian Transport: A Transmodal Overview, Australian Government Publishing Service 1997, ISSN 1036-739X, p35

[7] Richard Webb, Transport Economics, Commerce and Industrial Relations Group, **Research Paper 28 1999-2000**, *Cost Recovery in Road and Rail*, 27 June 2000,

- *Tracking Australia. An inquiry into the role of rail in the national transport network*, prepared by the House of Representatives Standing Committee on Communications, Transport and Microeconomic Reform and released in August 1998 (the Neville report)
- *Revitalising Rail. The private sector solution*, prepared by the Rail Projects Taskforce and released in May 1999 (the Smorgon report) and
- *Progress in Rail Reform*, prepared by the Productivity Commission and published in August 1999.

With respect to competitive neutrality between rail and road, the *Neville* report recommended that:
The Commonwealth develops a more consistent, equitable approach to transport infrastructure to ensure competitive neutrality between modes.

The *Smorgon* report recommended:
Governments develop an appropriate framework for private and public sector investment that includes efficient taxing and charging regimes and competitive neutrality between government agencies and the private sector.

The *Productivity Commission* recommended that:
The National Road Transport Commission should prepare and recommend to the Ministerial Council for Road Transport for adoption a revised schedule of heavy vehicle charges which ensures that each class of vehicle pays the full cost of its road use.

The *Smorgon* report also recommended:
Rail operators to be treated like other 'off road' diesel users for the purposes of fuel taxation.
In the agreement with the Australian Democrats, the Government agreed to the full exemption of rail from the diesel fuel excise.

The *Productivity Commission* also recommended that:
The Commonwealth Government should establish a public inquiry into road provision in Australia. This inquiry should examine:

- road transport planning processes;
- methods of investment appraisal (including the evaluation and allocation of costs and benefits);
- funding arrangements (including taxation, charges and grants);
- the scope to improve road pricing; and
- current institutional arrangements and alternatives.

The Government did not accept this recommendation. Among the reasons given were that the Government does not see the need for another public inquiry into road provision; institutional arrangements for road provision are adequate; and current methods of investment appraisal allow the Commonwealth to ensure the national highway system keeps pace with demand and is appropriately maintained.[8]

In June 2000 the Parliamentary Economics, Commerce and Industrial Relations Group published a research paper titled 'Cost Recovery in Road and Rail Freight'. The report clearly identified the desirability for economically efficient and competitively neutral pricing from a wealth of research. Nonetheless the government

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[8] *Supra*

did not act on these changes. It is interesting to note the current PC inquiry is investigating just there issues.[9]

In the 2002 Auslink Green paper the issues currently before the PC were highlighted. The following was noted:

- Significant pricing differences exist not only between road and rail modes but also within each mode. While charges for heavy vehicles are calculated by the NTC to recoup the costs of their road wear, some vehicles pay more than their due while others pay less because of the averaging provisions. Trucks that carry less than average loads or travel less than average distances bear more than the costs attributed to them. Conversely, those trucks that carry greater than average loads and travel greater than average distances bear less than the costs attributed to them by the NTC.

- More efficient pricing arrangements for both road and rail would also contribute to the improvement of different modes competing on a more even basis, enabling the inherent strengths of road and rail to be drawn on more effectively by users. The NTC recommends registration charges for heavy road vehicles for implementation by the Commonwealth, States and Territories, which, in conjunction with an imputed fuel excise charge, are aimed at full recovery of all attributed road costs. In contrast, rail infrastructure managers, whether publicly or privately owned, set prices commercially through negotiation with train operators, albeit on the basis of a general pricing approach that is approved by competition authorities.

- A road user charging system for heavy vehicles, based on variable weight and distance - a mass-distance regime - could provide a much better fit between the incidence of road damage costs and the charge.

- Similar discrepancies occur with rail. Rail charges generally do not provide a sufficient return to ensure the long-term viability of the track providers, besides coal services. Ideally, consistent pricing principles should be adopted for all modes of transport to ensure an efficient allocation of resources and to encourage each mode to attract their optimal proportion of the freight task. In addition, pricing consistency is arguably more important now, with a significant proportion of the nation's rail infrastructure under private ownership or management, and no longer backed by the resources of government.

- Further the ATC set up the NTAC to advise it on such pricing issues.[10]

Following the February 2006 COAG meeting the PC was given the task of developing proposals for efficient pricing of road and rail freight infrastructure "through consistent and competitively neutral price regimes". Two weeks later the terms of reference for a review by the commission of the economic costs of freight infrastructure and efficient approaches to transport pricing were announced. The issues to be considered by the PC are not new. They have been recognized and understood for many years.

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[9] *Ibid at 7*

[10] *Auslink Green Paper, November 2002, Chapter 2, Better land transport infrastructure pricing,* http://www.auslink.gov.au/policy/overview/background/greenpaper/chapter2a.aspx

Following the announcement of the PC's terms of reference the NTC set out its desired principles which require that each class of truck, from small trucks to huge B-doubles and road trains, should pay according to the damage they do to road infrastructure. However, in practice the heaviest trucks - the B-doubles and road trains - have been cross-subsidised by other trucks. Further Warren Truss, National Party MP and transport minister, announced the Government would oppose these changes and the state governments followed suit.[11]

[11] *Alan Wood, Truss transport policy is off the road (and rails), The Australian Newspaper, March 29 2006*