Response to Productivity Commission Discussion Draft on Road and Rail Freight Infrastructure Pricing

from the

Public Transport Users Association

1. Level of cost recovery

Analysis by the PTUA indicates that revenue from road users falls short of the costs they impose upon society by over $15 billion per annum, ***excluding*** congestion and the indirect impacts of car dependency on public health (e.g. increased rates of obesity and diabetes resulting from more sedentary lifestyles[1]). This shortfall is sometimes referred to as the 'road deficit' as shown in Table 1.1:

Table 1.1: The road deficit in Australia

Costs	**($ million p.a.)**	
Road construction & maintenance	8,800	
Land use cost	6,000	
Road trauma	15,000	
Noise	700	
Urban air pollution	4,300	
Climate change	2,900	
Tax concessions	4,800	
State fuel subsidies	600	**43,100**
Revenue		
Fuel excise (net of rebates)	9,800	
GST on fuel	1,700	
Registration fees	3,250	
Insurance premiums	9,000	
Tolls	750	
Other revenue	2,300	**26,800**
Road deficit		**16,300**

Source: http://www.ptua.org.au/myths/petroltax.shtml

While the PTUA has not sought to allocate these costs between light and heavy vehicles, we do note analysis by the Australian Automobile Association (AAA) suggesting that cars subsidise trucks[2]. Given the above, it would follow that there is under-recovery of infrastructure costs and externalities from heavy vehicles. Therefore we do not believe that the Commission could find conclusively that there is full cost recovery from heavy vehicles (Draft Findings 4.8 & 6.3).

We also note the Commission's draft finding that increasing charges for road freight infrastructure may not have a significant impact on rail's modal share. While competitive neutrality is clearly one of the key goals of infrastructure pricing, broader economic efficiency should also be sought. This would require the internalisation of

all negative externalities so that the aggregate freight task, regardless of mode, does not exceed the optimum level taking into consideration the social and environmental impacts of transport activity.

The level of costs allocated to road freight in the discussion draft seems unjustifiably low. The suggestion contained in the discussion draft that further research be undertaken into transport externalities is supported by the PTUA. In the meantime, we make the following observations about a number of items identified by the Commission:

Interest on borrowings

The discussion draft states that recouping loan interest repayments would overstate capital costs as they are already paid upfront under the PAYGO system. This conclusion relies on the assumption that PAYGO fully recovers all of the costs associated with transport activity. We believe this is not correct, and that expenditure on road construction, operation and maintenance together with external costs exceeds actual road-related revenue as discussed above.

We also note the likelihood of a shortfall in the future, even if externalities are excluded, given the failure of the Third Determination and rising road expenditure.

Local road expenditure

While local roads are theoretically intended to provide local access and amenity, often their size and engineering standards (and hence cost) exceed what would be required to meet the needs of light vehicles and especially of non-motorised users. It is also clear that freight vehicles do not operate in an "arterial road vacuum", but frequently rely on local roads and bridges to access collection, delivery and lay-over sites (generating noise pollution, wear and tear, crash and intrusion costs along the way).

It should also be noted that local government road spending is partially financed through grants from federal and state governments that are not necessarily identified as "road funding". As well as spending on local roads, council rates are intended to finance a range of other municipal activities, including community services and cultural activities. Furthermore, as there is no nexus between the setting of rates and the level of actual road use undertaken by property owners, it cannot be said that recouping local road expenditure through road use charges would amount to double dipping.

Air pollution

Emerging evidence indicates that the health impacts of airborne particulate matter are more severe than originally thought. In light of this, estimates of the cost of air

pollution may be too low and should be updated to reflect the most current information.

Greenhouse gas emissions

The discussion draft suggests that it would be economically costly to apply taxing instruments solely to key business inputs such as freight transport (Draft Finding 6.9). We note that a broad-based national greenhouse gas emissions trading scheme is currently under development by state and territory governments[3] and there is growing consensus in support of a pricing mechanism at a federal level. Accordingly, and in view of the serious social, economic and environmental impacts of climate change[4], we see no justification for exempting transport-related greenhouse gas emissions from any form of carbon pricing.

Given the substantially higher energy efficiency of rail freight, significant reductions in carbon emissions could be achieved by diverting freight from road to rail. This should be recognised in freight infrastructure pricing.

2. A Road Fund

Demand for transport infrastructure is a derived demand resulting from the desire to move people or goods from one location to another. In our experience, use of private motor vehicles is often not reflective of a desire to drive and use the road *per se*, but a rational choice based upon the quality and availability of substitutes or transport alternatives. This experience is supported by a range of other research[5] demonstrating that many road users would switch to public transport if improvements were made in a number of key areas such as:

- geographic coverage of the system,
- frequency and service spans of services,
- integration and connectivity between services, and
- reliability.

Modal choice for freight transport is likely to be even more responsive to price and quality factors, hence a significant amount of freight activity is undertaken by road not as a result of an inherent preference for bitumen, but rather through lack of adequate alternatives. The ability of rail freight to attract a larger proportion of freight movements has been severely constrained by a long-standing bias towards road funding and neglect of rail networks. While many billions have been poured into the road network, the rail network has seen little improvement since the steam age, and this is reflected in freight mode share. The allocation of revenue from freight activity exclusively to road infrastructure would perpetuate this imbalance even where rail provides the optimal long-term response.

It should be noted that the vast majority of Australia's population is concentrated in a small number of cities with large distances between them by international standards.

This configuration is highly suited to rail freight provided that rail infrastructure is maintained to a standard at least comparable to the road network.

There is now also growing recognition that an integrated, multi-modal approach to transport needs is required to adequately respond to growing problems such as congestion, pollution and greenhouse emissions. Focussing solely on road infrastructure will not guarantee the most economically efficient response, nor will it ensure the minimisation of negative externalities or the achievement of social policy goals.

In light of the above, a "Road Fund" is at best a partial solution to transport needs, with potentially negative outcomes. To the extent that revenue from road users is earmarked for transport expenditure, it should also be made available to rail freight and public transport in order to address the underlying demand rather than responding only to the resulting derived demand for road infrastructure. To some extent AusLink provides this framework, however the failure to invest in urban public transport under AusLink has distorted funding allocations and severely constrained its effectiveness.

It is also clear that revenue should only be allocated to a Fund after the social and environment costs of transport activity (i.e. all negative externalities) have been deducted from the net proceeds of road-related revenues.

The transparency, efficiency and effectiveness of transport funding would benefit from the adoption of best-practice techniques in project identification, analysis and selection. The Transport Analysis Guidance produced by the UK Department for Transport[6] provides a good model that is worthy of adoption in Australia.

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[1] Robotham, J. 2006, 'Fat chance of losing weight for commuting drivers', *The Sydney Morning Herald*, 19 January, viewed 15 October 2006, <http://www.smh.com.au/news/national/fat-chance-of-losing-weight-for-commuting-drivers/2006/01/18/1137553651219.html>

[2] AAA 2001, *Towards a fairer fuel tax policy*, Australian Automobile Association, Canberra, viewed 8 June 2006, <http://fueltaxinquiry.treasury.gov.au/content/Submissions/Industry/downloads/AAA_228.pdf>

[3] http://www.emissionstrading.nsw.gov.au/

[4] <http://www.hm-treasury.gov.uk/independent_reviews/stern_review_economics_climate_change/sternreview_index.cfm>

[5] Australia Bureau of Statistics, 2003, *Environmental Issues: People's Views and Practices*, viewed 15 October 2006, <http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/4602.0Main+Features1Mar%202003?OpenDocument>;
Booz, Allen & Hamilton 2001, *Bus Improvement Strategy: Final Report*, Report prepared for the Victorian Department of Infrastructure, Melbourne;
Hughes, G 2006, *Melburnians less likely than Sydneysiders to take the morning train*, media release, AAMI, Melbourne, 6 February

[6] http://www.webtag.org.uk/