

Productivity Commission  
Discussion Draft  
Road and  
Rail Freight  
Infrastructure Pricing

*Response by:*



Rail Tram & Bus Union (Old Branch)

*together with*



Queensland Public Sector Union

*November 2006*

## Contents

---

Executive Summary .....	3
RTBU & QPSU .....	5
Overview .....	6
1. Balanced Approach.....	6
2. Evaluation Methodology.....	7
3. Optimal Network.....	8
4. Charges, Taxes and Funding.....	9
5. Commercially-oriented Management.....	11
6. Data .....	12
Other matters .....	12
Integrated Rail Networks.....	12
National Road Fund.....	13
Sustainability.....	13

---

## Glossary

ACTU	Australian Council of Trade Unions
ALP	Australian Labor Party
btk	billion tonne-kilometres
BTRE	Bureau of Transport & Regional Economics
COAG	Council of Australian Governments
ITF	International Transport Workers Federation
NTC	National Transport Commission
PC	Productivity Commission
QPSU	Queensland Public Sector Union
RTBU	Rail, Tram and Bus Union
UITP	International Union of Public Transport

---

## Executive Summary

This is a response by the Rail, Tram and Bus Union (RTBU) (Queensland Branch), together with Queensland Public Sector Union (QPSU) on the Productivity Commission's Discussion Draft report: *Road and Rail Freight Infrastructure Pricing, September 2006*.

The RTBU has a special interest in transport and rail transport in particular, and on behalf of its members is seeking the right policy approach to improving transport productivity in Australia by facilitating efficient investment, operation and use of transport infrastructure.

The Queensland Public Sector Union (QPSU) represents public servants, in particular transport inspectors, who are the government law enforcement officials for road freight operations. QPSU has joined with RTBU in making this response.

We conclude that:

- To adequately address the task of **improving transport productivity** in Australia, an integrated package of measures is needed, including planning, operational, regulatory, funding and collaboration strategies.
- Efficiency in freight transport requires a **consistent balanced approach** to planning, investment and pricing across road and rail. Pricing regimes for using transport infrastructure should provide incentives for efficient allocation of the freight task to the most appropriate mode.
- A key strategy to ensuring a balanced freight transport system is to have a **consistent evaluation methodology for investment** across road and rail transport modes, **incorporating full economic, social and environmental impacts**.
- A longer term view is needed, considering the long lead times for planning and implementing transport infrastructure, so it is critical that planning, investment and pricing for freight transport relate to the cost of providing and maintaining an **optimal network**.
- A number of taxes and charges are considered as pricing or payments by freight transport – but in practice an appropriate and dedicated proportion of taxes and charges, such as fuel excise and enforcement penalties, **is not made available** for the provision and

management of the optimum freight network – a major concern in the face of the predicted growth in freight traffic.

- **Commercially-oriented management** for major freight routes is desirable, balancing investment and pricing across road and rail, using comparable performance standards.
- Urgent attention is required to **collect quality, specific data** and undertake appropriate research and analysis to enable robust recommendations to be made.
- We consider that there is an obligation to protect future generations from any negative environmental and financial impacts from today's decisions, hence the emphasis on **sustainable outcomes**.

## RTBU & QPSU

The **Rail, Tram and Bus Union (RTBU)** has 35,000 members in the rail, tram and bus industry across Australia.

The RTBU provides a unique perspective as a major stakeholder, being able to provide a practical experience to rail freight transport issues.

Best practice in delivering customer service, safety and security requires active involvement of staff and their union.

The RTBU has a special interest in rail transport, and on behalf of its members is seeking the right policy approach to improving transport productivity in Australia by facilitating efficient investment, operation and use of transport infrastructure. This response is being led by the Queensland Branch of the Union.

The **Queensland Public Sector Union (QPSU)** represents public servants, in particular transport inspectors, who are the government law enforcement officials for road freight operations. QPSU has joined with RTBU in making this response.

## Overview

The Productivity Commission Inquiry provides one of those infrequent opportunities to recommend fundamental reform in road and rail freight infrastructure pricing, by making recommendations to COAG on pricing to improve economic efficiency and sustainability of freight transport.

The RTBU and QPSU strongly urges the Commission to make best use of this opportunity hopefully providing a catalyst for fundamental reform. Institutional reform is a critical component of any fundamental changes, otherwise business as usual or incremental change is all that occurs.

## 1. Balanced Approach

To adequately address the task of **improving transport productivity** in Australia, an integrated package of measures is needed, including planning, operational, regulatory, funding and collaboration strategies.

Efficiency in freight transport requires a **consistent, balanced approach** to planning, investment and pricing across road and rail. Currently planning, investment and pricing are not consistent across road and rail and this results in an inefficient allocation of the freight task.

A balanced approach would entail a consistent evaluation methodology, be based on an optimal network, a consistent approach to charges, taxes and funding and balanced investment and pricing across road and rail freight corridors – see further discussion on these points below.

Pricing regimes for using transport infrastructure should provide incentives for the efficient allocation of the freight task to the most appropriate mode.

*It is recommended* that the Productivity Commission does not limit its report to the pricing aspects, but pursues the most effective pricing regimes and ensures that consistent and balanced planning and investment approaches underpin these regimes, as an integrated approach is needed to be effective.

## 2. Evaluation Methodology

A key strategy to ensuring a balanced freight transport system is to have a **consistent evaluation methodology for infrastructure investment** across road and rail transport modes, **incorporating full economic, social and environmental impacts**. This is because:

- planning, investment and pricing across road and rail are closely inter-related.
- road investments (considered from a community perspective) are assessed considering socio-economic costs and benefits, while rail investment is primarily based on a financial analysis and the need to make a 'commercial' return on investment. This often results in rail being disadvantaged.
- a key strategy to ensuring a balanced transport system is to have a consistent evaluation methodology for **investment** across all transport modes, with due consideration of externalities, considered on a corridor basis, rather than independently by each mode.
- costs of external effects associated with freight transport should be incorporated in **charges or prices** – in particular congestion induced externalities; pollutants and greenhouse gas emissions. Fuel consumption is a good proxy for such externalities as an interim measure in the short term.

Externalities are not currently factored into the cost bases for road or rail used for pricing. All modes of transport generate externalities, however the '*external impacts of road freight are generally much larger than for rail freight.*' (Overview pXXXIV)

Infrastructure investment to improve freight transport in a corridor, should examine road and rail options, or some combination, however this rarely occurs because of the different evaluation methodologies and institutional barriers. Using consistent evaluation methodologies and undertaking investment analyses for freight corridors across road and rail will ensure a more balanced network.

The estimated economic cost from transport externalities are substantial and while there may be estimation challenges, this should not mean they are not being considered at all.

*It is recommended* that the Productivity Commission emphasise the need for a consistent evaluation methodology for investment across road and rail transport modes, which incorporates full economic, social and environmental impacts.

### 3. Optimal Network

It is critical that planning, investment and pricing for freight transport relate to the cost of providing and maintaining an **optimal network**.

We do not consider it appropriate to use the standard of existing road and rail infrastructure networks as the basis for pricing, as they have not been developed and maintained at an optimal level.

Infrastructure funding has been **grossly imbalanced** towards roads and there has been a history of inadequate funding for rail infrastructure. For example when considering investment in a road corridor to improve freight transport, it may be more effective to invest in a rail option, however this rarely occurs because of institutional barriers.

The imbalance continues to persist with AusLink, where of the \$6 billion total funding contribution to road, rail and inter-modal construction projects for the period 2004-09, only 9% is being provided for rail projects.

There is also a fundamental problem with conditions assumed under PAYGO, for annual road expenditure to be a reasonable approximation of the annualised costs of road provision, ie:

- *the network is neither expanding nor contracting, nor is the pavement or bridge condition changing significantly;*
- *network wide expenditure does not fluctuate markedly over time; and*
- *traffic growth is relatively steady.* (Box 4.3 p4.6)

Investment in road infrastructure has not kept pace with depreciation, as indicated by current expenditure levels in the three eastern states which are dramatically increased from previous years, in an attempt to reduce the backlog. Also the projected doubling of the freight task between 2000 and 2020 puts into question the steadiness of traffic growth.

If road infrastructure investment has not kept pace with depreciation, and is unlikely to do so in the near future, then road users are not faced by the full costs of their road use. Inefficient pricing can only lead to inefficient investment decisions.



We support the statement

*"Moving from recovery of actual road spending to prices that reflect the economic costs of providing road infrastructure services also has the potential to promote more efficient services" [Overview pXXXIX]*

It is recommended that the Productivity Commission emphasises the need for explicit linking of charges and funding, based on optimal infrastructure and operational needs. This is particularly important with the projected increases in the freight task.

## 4. Charges, Taxes and Funding

A number of taxes and charges may be considered (in theory) as pricing or payments by freight transport, however in practice an appropriate and dedicated proportion of taxes and charges, such as fuel excise and enforcement penalties, **is not being made available** for the provision and management of the optimum freight network – a major concern in the face of the predicted growth in freight traffic.

Sustainable funding for compliance and enforcement is critical to ensure safety and regulatory compliance.

We support the Commission's view that regulatory enforcement costs should be included in the heavy vehicle charging system (Overview pXXXIII). However we do not support discounting these costs by the revenue received from penalties, as under the current arrangements penalty revenue is not made available to fund appropriate levels of enforcement.

An appropriate level of enforcement to deliver the desired outcomes is currently not being delivered due to inadequate funding. There is no direct relationship between enforcement costs and penalty revenues. This can only result in inefficiencies in freight transport, reduced safety and increased externality impacts on the community.

It is recommended that the Productivity Commission reiterates that that road freight industry bear the cost of regulatory enforcement and that adequate funding be dedicated to enforcement activities to ensure appropriate levels of enforcement are able to be delivered.

In the case of road freight, there is currently **less direct links** between infrastructure costs, access prices, revenues and infrastructure investment programs.

The introduction of **mass-distance charging** is the critical first step in establishing a road charging mechanism which sends appropriate signals to road users about the cost of their road use.

NTC allocates costs based on an engineering rather than an economic basis – an approach like Ramsey pricing would providing pricing signals encouraging more efficient use of road and rail infrastructure.

A number of factors can be included in the road freight price. Using the current German truck pricing as a basis, and extending to other aspects with technology availability and policy initiatives being considered the following factors are suggested:

- vehicle characteristics – vehicle class, dimensions, engine & fuel type and gross weight, through to dynamic on-board weighing.
- distance travelled – using global positioning systems.
- externalities – environmental factors associated with congested areas, time of day, location, type of road, seasonal etc, plus noise, emissions.

New technologies are available for more efficient charging – including mass-distance-location-time. It is agreed that any proposed pricing mechanism should make economic sense.

However we recommend establishing the ultimate **principle** or **goal** of linking freight transport costs to prices and not missing this opportunity for fundamental reform in freight transport pricing. There may need to be a staged implementation, introducing approaches and technologies when they make economic sense.

There will also need to be consideration of offsets or reductions in current charges such as fuel excise. While there will be considerable institutional issues involved, these can be overcome if the incentive of more efficient freight transport is emphasised. If this opportunity is lost then only business as usual or incremental change can be achieved.

*It is recommended* that the Productivity Commission establishing the ultimate **principle** or **goal** of linking freight transport costs to prices, and implementation is progressed when it makes economic sense.

Another option worth considering in the provision of rail infrastructure is the Bill introduced into US Senate in July 2006 called "*Freight Rail Infrastructure Capacity Expansion Act*" would provide a 25 percent tax

credit for any business investing in new rail track, inter-modal facilities, rail yards, locomotives or other rail infrastructure expansion projects. Railroads, ports, shippers, trucking companies and other transportation-related businesses would be eligible. US State transportation officials report that costs of adding enough highway capacity to meet the projected 67 percent increase in demand to 2020 are prohibitively high.

*(For further information see Association of American Railroads <http://www.aar.org/itc/itc.asp>)*

## 5. Commercially-oriented Management

Commercially-oriented management for major freight routes is desirable, balancing investment and pricing across road and rail, using comparable performance standards. This would allow a more direct link between infrastructure providers and operators and transport users and result in infrastructure being more responsive to user needs.

The Auslink corridor studies have the potential to establish a balanced long-term approach for a corridor, with shared objectives and strategic priorities, which increases efficiency, improves safety and security, improves productivity of freight corridor, improves reliability of travel and is consistent with viable, long term economic and social outcomes. However, the recent draft Auslink Brisbane to Cairns Corridor Strategy was seriously deficient in the very limited consideration of rail.

*It is recommended* that the Productivity Commission support commercially-oriented management of key freight corridors incorporating both road and rail.

## 6. Data

Lack of adequate data is constantly being used as a reason for not being able to make definitive recommendations. Examples in the draft report:

- *A lack of adequate data about corridor costs and traffic flows precludes a definitive conclusion. [p xxxiv]*
- *The assessment of any (true) subsidisation of road is clouded by network-wide cost averaging and the paucity of corridor-specific cost data. [p xxxvi]*
- *While the Commission has sought to address them all to some extent, the inquiry timeframe, and a lack of reliable data in relation to some issues, has affected both the emphasis and approach. [p1.2]*

Understanding that the Inquiry may not have the time or resources to undertake data collection, it is recommended that the Productivity Commission should indicate that urgent attention be given to **collect quality, specific data** and that an appropriate organisation (such as BTRE) undertake appropriate research and analysis to enable robust recommendations to be made.

## Other matters

In relation to the other matters that the Commission sought advice (Overview pLV), the following comments are provided.

### Integrated Rail Networks

Vertical integrated rail networks can provide many benefits, including the opportunity to price more effectively, improvements in operational efficiency by reducing operating costs through minimising transaction costs and better management and assignment of risks and internalising externalities such as the administrative load and risk of regulation. The costs of re-integration would need to be considered on a case by case basis.

## National Road Fund

A dedicated fund which **directly links charges and funding** would improve the efficiency of freight transport. There would need to be consideration of reducing or offsetting some existing charges, particularly the fuel excise.

Rather than proposing a Road Fund, it is more appropriate to consider establishing a broader Transport Fund, combining public funding for both road and rail. This would help achieve a consistent, balanced approach to infrastructure funding.

The governance arrangements and allocation processes would need to be credible and accepted by all parties involved.

There are many inter-jurisdictional issues involved with establishing a national fund, and there are a number of international examples to draw from. However it is considered that providing dedicated, assured funding will be sufficient incentive to governments to overcome jurisdiction issues.

*It is recommended* that the Productivity Commission propose a transport fund combining public funding for both road and rail.

*Comments on commercially-oriented management have been provided earlier.*

## Sustainability

We consider that there is an obligation to protect future generations from any negative environmental and financial impacts from today's decisions, hence the emphasis on **sustainable outcomes**.

Appropriate consideration must be given to sustainability, particularly in the light of the recently released Stern Review on the *Economics of Climate Change* (30 October 2006). For example in the report, Stern made the assessment that *each tonne of CO<sub>2</sub> that we emit now is causing damage worth at least US\$85*. This provides a useful base enabling the inclusion of externalities into evaluation and investment decisions.

For more information on Stern Review on the Economics of Climate Change see: [http://www.hm-treasury.gov.uk/independent\\_reviews/stern\\_review\\_economics\\_climate\\_change/stern\\_review\\_report.cfm](http://www.hm-treasury.gov.uk/independent_reviews/stern_review_economics_climate_change/stern_review_report.cfm)



Rail, Tram & Bus Union  
Queensland Branch  
428 Upper Edward Street  
BRISBANE QLD 4000



Queensland Public Sector Union  
96 Albert Street  
BRISBANE QLD 4000

Enquiries regarding this submission please contact:

Noel Morris, Branch Council &  
National Executive Delegate RTBU

Phone: (07) 3839 4988

Mobile: 0419 762 133

E-mail: [n.morris@rtbu.com.au](mailto:n.morris@rtbu.com.au)

Web: [www.rtbu.com.au](http://www.rtbu.com.au)

---

*This submission was prepared with the assistance of  
Professor Phil Charles, Centre for Transport Strategy,  
The University of Queensland.*