National Secretary
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Ref. RTSA-NS-121

14 November, 2006

Mr Gary Banks
Commissioner,
Road and Rail Infrastructure Pricing Inquiry
Productivity Commission
LB2 Collins St East
PO Box 546
MELBOURNE VIC 8003

Dear Mr. Banks

**Re: DRAFT DISCUSSION ON INQUIRY TO REVIEW ECONOMIC COSTS OF FREIGHT INFRASTRUCTURE AND EFFICIENT APPROACHES TO TRANSPORT PRICING.**

Please find enclosed Railway Technical Society of Australasia's comments to the discussion draft of the above inquiry.

Please note that the Railway Technical Society of Australasia (RTSA) is a technical society of Engineers Australia. The RTSA has over 800 members nationwide it practices the study of rail in the transport and logistics sector, and identifies opportunities to promote rail, where appropriate in the wider economic, social and environmental context for communities.

Yours sincerely

John Dring CEng. MICE

National Secretary

**COMMENTS ON DISCUSSION DRAFT**

**INQUIRY TO REVIEW ECONOMIC COSTS OF FREIGHT INFRASTRUCTURE AND EFFICIENT APPROACHES TO TRANSPORT PRICING**

The RTSA has carefully studied the draft discussion on Inquiry To Review Economic Costs Of Freight Infrastructure And Efficient Approaches To Transport Pricing and provide the following comments on the draft.

The draft report makes eight recommendations of which five relate to improvements in rail and three to performance in road. However one critical aspect, Mass-Distance-Location (MDL) road pricing, has not been considered or recommended, which the RTSA believes is a necessary condition for economic efficiency in land transport.

## 1. Competitive Neutrality and Mass-Distance-Location (MDL) Road Pricing

The RTSA supports mass-distance (and location) pricing as a legitimate instrument in road pricing - moving away from an input fuel tax to a direct user pays method. There is overseas evidence of the welfare benefits of direct user charging[1] Given Australia's geographical features, the nature of its land transport system and the maturity and up-take of technology systems, the RTSA believes there is a strong case for MDL based road-pricing systems.

The Productivity Commission report qualifies its road analysis on the basis of network wide aggregation and lack of detail information within heavy vehicles classes and corridor usage. On the basis of information alone, and its significance to corridor planning and provisioning, MDL may be justified.

Moving to an initial light-handed approach on MDL pricing will reveal corridor and truck class information necessary to make the direct links between road use and capital / maintenance funding.

[1] ECMT *Conference on Road Charging Systems: Technology Choice and Cost Effectiveness* http://www.cemt.org/topics/taxes/Paris06/Conclusions.pdf Table 1 demonstrates the cost effectiveness of these schemes whilst the European Parliament and the Council of the European Union adopted Directive 99/62/EC - 'Eurovignette' is the legislative framework for European mass-distance charging.

The RTSA does not agree with the Productivity Commission assessment that on competitive neutrality grounds, heavy trucks 'pay their way'. In the interstate markets and corridors that matter and the services that support these markets, road service cost recovery is largely subjective. There is widespread opinion supporting the position that 'trucks do not pay their way' in these competitive markets. Fundamentally, due to a lack of source data, opinions vary and the RTSA does not see the Productivity Commission arguments as compelling and would urge to consider its position.

## 2. Rail Frameworks

The Productivity Commission appears to question the merits of vertically separate (infrastructure and operations) rail access regulation (in its draft recommendation 11.4). The RTSA advocates the strong links across the rail / wheel interface. Technical features of the track such as cant deficiency, loop length and axle loads/speeds are measures that directly impact above-rail productivity.

Although there is evidence that new rail infrastructure corridors such as Alice Springs to Darwin can be funded in partnership (with the private sector), there is also painful experience in Victoria and Tasmania where network-wide track infrastructure arrangements sold to private enterprises failed to live up to the expectation of governments and communities. Recent Victorian government and opposition party announcements, of repurchasing these assets is clear evidence of this unsuccessful experiment. The RTSA believes it is unrealistic to expect that selling current under-invested government rail assets to the private sector will in itself change the viability of rail.

There is no evidence to suggest that any transactional costs (associated with vertical separation) would outweigh the moral hazard of governments selling existing interstate rail corridors.

The Commission's report seeks comment on the frameworks for regional rail networks. The RTSA is pleased to inform the Commission that this issue has being actively pursued by the RTSA. As a result of the House of Representatives Inquiry into the Integration of Regional Rail and Roads and their Interface to Ports (Neville Inquiry), the RTSA has been involved in study tours in NSW and submissions to this inquiry. As a result of this study tour and the impacts on regional communities the RTSA in conjunction with Charles Sturt University is holding a symposium on Future Frameworks for Regional Rail on 1 February 2007 in Wagga Wagga.

The aim of the symposium is to explore elements of a regional rail framework, including:

- Emerging practices in a small-medium enterprise rail,
- Developing models of regional governance,
- Program that facilitate partnerships between government, communities and SME's,
- Capability building,
- Alliances in logistics, and
- Measures to balance road/rail transport and promote chain efficiency

The RTSA will be sponsoring a keynote speaker from Saskatchewan, Canada to talk at this symposium, on transforming Canada's rural railways.

The RTSA invites the Productivity Commission to attend this symposium. The RTSA web site (http://www.rtsa.com.au/) has program and registration details, whilst the study tour report and submission to the Neville Inquiry (April 20006) are at http://www.rtsa.com.au/events/study-tours/ and http://www.rtsa.com.au/publications/submissions/ respectively.

## 3. Rail / Road Productivity

The RTSA notes the Commission's comment, that rail could improve its productivity by reducing regulatory fragmentation. Moving from separate jurisdictional to a national framework would benefit intermodal freight rail. Although reform in rail regulation is moving forward, its pace is slow and time is running out. A sense of urgency is required to meet the looming transport challenges ahead. The RTSA commends COAG's continued focus on microeconomic regulation reform in the land transport sector.

The Productivity Commission report canvasses a separately managed road trust fund. The RTSA believes this could possibly only be achieved if implemented in conjunction with MDL. There would be little or no benefit in hypothecated funds based on existing fuel levies or input taxes. The RTSA suggests the provisioning of road / rail intermodal terminals could be included in any such trust. The linkages between road and rail are key areas that need strengthening, for an integrated land transport system.

Improvements in rail productivity and market penetration are a result of many factors including modal interchanging, infrastructure performance, consistent regulation and mode pricing signals. The RTSA believes there is widespread local and overseas research[2] on externalities to support cost recovery practices of externalities, and commends the Commission to make specific recommendation for externalities in road / rail pricing.

## 4. Energy

In its original submission to the Commission and more detailed submissions to the Senate on Inquiry into Australia's Future Oil Supply And Alternative Transport Fuels (http://www.rtsa.com.au/publications/submissions/oil-senate-submission.pdf) the RTSA provided data on energy usage for both rail and road haulage. The RTSA recommends that the Commission consider the impact on fuel usage in terms of effect on balance of payments and broader economic impacts, carbon dioxide emissions (carbon tax potential), national dependency on overseas resources (national security), and particulate pollution (health).

The RTSA commends the Commission to study the impacts on the economy due to oil price spikes. Econometric modelling on fuel price sensitivity between modes would reveal the relative level of demand between modes. The RTSA is concerned that bottlenecks in rail capacity and capability will be quickly exposed due to spike in demand, and the lag to build additional capacity and capability could take several years to correct. The opportunity cost manifesting itself in rapidly escalating and prolonged input prices is unknown, and a concern of the RTSA.

## 5. Conclusion

The report makes eight recommendations of which five relate to improvements in rail and three to performance in road. The RTSA requests the Productivity Commission to reassess its priorities in its recommendations. Particularly, the RTSA is concerned with the relative insignificant efficiency gains for the recommendation of stronger rail coporatisation, relative to the more significant gains of greater transparency through direct road pricing of heavy vehicles (which is not recommended).

[2] ECMT, UIC INFRAS, QR, BTRE, ARRB

The RTSA sees much of the worldwide debate on the theory and research of road pricing has moved on, and now many countries are implementing direct road pricing for heavy vehicles for the welfare of their communities. The RTSA requests that mass-distance-location road pricing be included as a recommendation in the Commission's final report, so that clear price signals occur, that drive optimal market demand for each separate mode, as well as driving the levels of integration between modes.