

**Submission to
Productivity Commission**

**~ Inquiry into economic costs of freight infrastructure
and efficient approaches to transport pricing ~**

May 2006

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Executive Summary

Adequate road and rail infrastructure is essential for rural and regional Australia's economic and social fabric. It must be efficient, reliable, safe and secure while meeting the particular anomalies of Australia; namely its large distances, coastal population concentration and export orientation.

Recently much attention has been placed on this important issue; however it is increasingly evident that major transport infrastructural funding is ad hoc, short term in focus, impeded by State/ Federal Government politics and predominantly directed according to political pressure in metropolitan areas. The recent Federal and State Government budget announcements are a case in point.

Agriculture contributes \$20 billion to the NSW economy and provides 10 per cent of the State's overall employment – more than 300 000 jobs. Agriculture is directly responsible for up to 40 per cent of the economic activity across regional and rural NSW.

The freight task for Australia is estimated to double by 2020 with much of this being centred on rural and regional Australia. Hence there is a need for a clear process to be put in place to study the current transport systems and the freight corridors both between and within states to better understand the future major transport tasks that move transport from over-crowded coastal strips inland, and in the process encourage businesses and people to move inland.

Given agriculture's reliance on road transport, the Association seeks to ensure that heavy vehicle road pricing is equitable and fairly takes into account road funding, economic and social factors.

As highlighted in response to various questions under section 3.3 of the Commission's discussion paper, the Association believes that there would be a marked difference in heavy vehicle road use between local and arterial road use especially amongst the heavier vehicle classes, which in some cases have restricted areas of operation. Unless heavy vehicle road use between local and arterial roads is differentiated, systematic over-estimation will occur.

The Association is further of the view that current transport pricing mechanisms and the funding of the infrastructure are unsatisfactory and lead to a number of distortions between road and rail and within the road sector. The Association is of the view that if the freight industry is to achieve efficiency it is imperative that pricing of all transport is made more transparent.

Any pricing policy needs to bear in mind the economic and environmental costs of petroleum use, and the economic and environmental costs of other transportation fuels, including the costs and values of environmental externalities. There is also a need to establish a national transportation energy policy that results in the least environmental and economic cost to Australia to ensure that our future generation can continue to enjoy a clean environment in years to come.

Considering the difficulties that farmers and rural and regional communities have gone through over the last few years, ranging from drought to a reduction in commodity prices to increased costs of production, the implementation of any different pricing models will have to be phased in to enable farmers to adequately manage the adjustment costs.

The Association believes that a pricing framework must be transparent, be primarily based on efficiency and marginal cost principles and adequately take into consideration the propensity to pay among transport users in rural and regional areas.

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1. Introduction

NSW Farmers' Association is Australia's largest state farming organisation representing the interests of the majority of commercial farm operations throughout the farming community in NSW. Through its commercial, policy and apolitical lobbying activities it provides a powerful and positive link between farmers, the Government and the general public.

The Association is the key state representative body for both intensive and extensive industries ranging from broad acre, meat, wool and grain producers, to more specialised producers in the horticulture, dairy, poultry meat, egg, pork, oyster and goat industries. It also represents the interests of rural and regional communities and the important issues associated with natural resource management.

Currently Australian agriculture produces \$39.58 billion in food and fibre. Agriculture is the foundation of a \$55.3 billion food processing industry and a \$74.6 billion food retail service. Combined with flow-on effects throughout the economy, Australian agriculture over the six years up to and including 2003/04, on average contributed 12.1% of Gross Domestic Product or \$72 billion¹. This differs markedly from the often cited 3-4% or \$30 billion², which does not take into account the value of farm inputs, nor the flow-on activities that farming supports.

In 2001/02, the last financial year not dramatically impacted by drought, there were more than 386 000 people employed in Australian agriculture³. However when both direct and indirect effects are factored in, farming supports the employment of approximately 1.6 million Australians or 17.2% of the labour force, with half of these jobs found in the six capital cities⁴.

Considering the significant contribution of agriculture to the NSW and Australian economy in general, it is imperative that adequate investment into transport infrastructure is made by government in rural and regional Australia. Such infrastructure is imperative not only to continue the generation of strong economic activity in these areas but to make the freight infrastructure more efficient and the transport pricing more affordable. Agribusinesses are reluctant to commit new investments in the agricultural sector until such time there is some certainty about freight infrastructure and transport pricing to enable them to efficiently and competitively carryout their businesses.

Almost all farm inputs are transported by road and most farm produce will travel by road at some point in the logistics chain. On an economy wide basis, agriculture and associated industries are responsible for an estimated \$913 million dollars of transport and storage services, the majority of this is by road transport.

Through its close ties with farmers and farming communities, the Association is in a unique position to contribute to the '*Productivity Commission Inquiry into Economic Costs of Freight Infrastructure and Efficient Approaches to Transport Pricing*' and welcomes the opportunity to do so.

¹ Australian Bureau of Statistics (2003/04) *Agricultural Commodities* (cat. no 7121.0)

² Australian Farm Institute (2005) *Australia's Farm Dependant Economy Report*

³ Department of Agriculture, Fisheries and Forestry (2005), *Australian Agriculture and Food Sector Stocktake*

⁴ Australian Bureau of Statistics (2003/04) *Agriculture State Profiles* (cat. no. 7121.0)

2. Importance of Transport Infrastructure for Agriculture

2.1 Share of Road and Rail Transport and Economic Growth

Agriculture is an important sector contributing \$40 billion to the Australian economy. Transport infrastructure is integral for the transport of agricultural produce to both domestic and export markets with infrastructure services accounting for about 12% of GDP⁵. Agricultural supply chain costs amount to approximately 20% of farm gate returns.

Road and rail have approximately equal shares of Australia's freight transport task (approximately 35% and 37% respectively) with 30% of all Australia's road freight 'originating' in NSW and 29% 'destined' for this state. Food accounts for 22% of the total road tonne/km traveled while grain transported by rail accounts for approximately 4.7 billion net tonne/km.

There is also a direct relationship between transport infrastructure investment (roads, rails, ports and airports) and the country's economic growth and prosperity. For instance, the Bureau of Transport and Regional Economics has estimated that for every 1% improvement in transport delivery efficiency, GDP will increase by \$500 million. Recent research also indicates upgraded public infrastructure can generate 25% savings in costs and 68% improvements in output⁶. Further, if current underinvestment is corrected, export competitiveness would increase by 1.8%⁷, food prices reduce by 2.1% and agriculture's contribution to GDP increase by 0.8%.

Currently 64% of Australian agricultural product is exported. With our current record level current account deficit, it is vital that export infrastructure capability is not hampered and is a standard that is competitive with our international counterparts.

2.2 Importance of Transport Infrastructure

It is also important that transport infrastructure is adequate to effectively handle the domestic freight task. In NSW, 85% of the population lives on the coast and with the problems of distance to market, geographical barriers and past inefficiency of Government rail operators, the costs of rail freight to port is higher in NSW than the national average⁸.

The importance of transport infrastructure is also likely to increase over time. The AusLink White Paper 2004 stated that the total freight task in Australia is forecast to almost double in the next 20 years. With respect to agriculture, this trend is not surprising given that industries such as the grains industry have averaged over 3% productivity growth from 1977–78 to 2001–02. Such improvements are likely to continue into the future as increased mechanisation, improved herbicides/pesticides, better marketing strategies and management techniques are taken up.

However one could be forgiven for thinking that Governments are not reflecting the value of agriculture and rural and regional communities when making transport infrastructure decisions.

⁵ Business Council of Australia report, Investing in Australia's future, 1995

⁶ Economic Record 2003

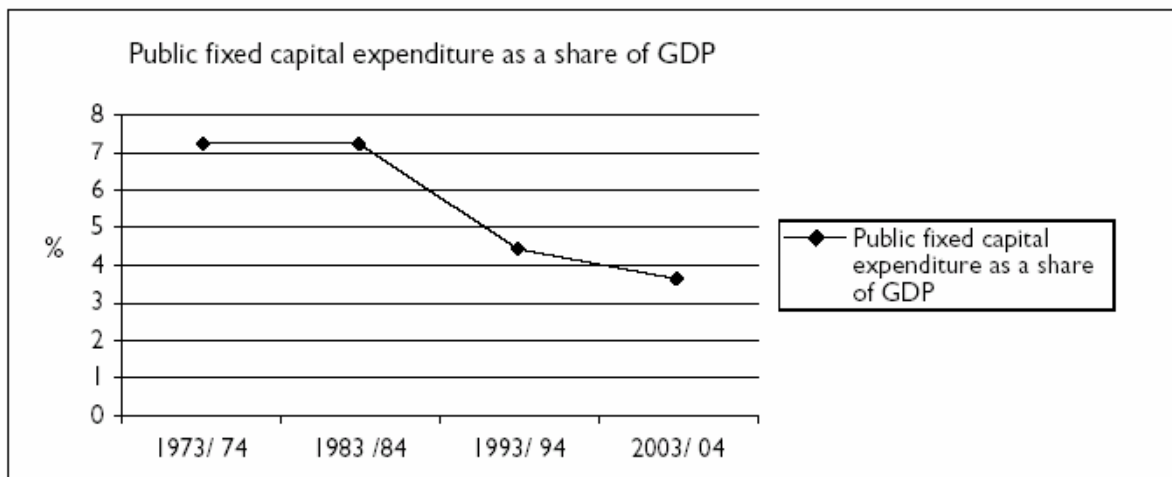
⁷ AusCID report, Modelling the economic effects of overcoming underinvestment in Aust infrastructure, EconTech 2004

⁸ For grain exports NSW freight to port costs are \$60/ tonne compared to the \$45 tonne national average

3. Costs of Providing and Maintaining Road and Rail Freight Infrastructure

3.1 Decline in Government Expenditure

Since the 1970s investment in transport infrastructure has declined from about 7% to about 3.6% of GDP⁹. Roads investment has fallen from 22% of GDP in the 1960s to 10% now¹⁰.



3.2 Under-Investment in Road and Rail Infrastructure

In 2001, Engineers Australia gave national roads a grade of 'C' and railways a grade of 'D minus'. Also in 2001, the Australian Rail Track Corporation estimated that \$3 billion was required to bring the interstate rail network up to the Australian Transport Councils targets for speed, axle, load and train length. Overall it is estimated that Australia has underinvested in key areas of infrastructure by \$24.8 billion, with \$18 billion from road and rail.

Estimates of Australian public infrastructure and under-investment

Road	\$10 billion
Rail	\$8.06 billion

Source: AusCID (Econ Tec 2004)

The restricted rail branch line network in NSW is a good example of this trend of declining Government investment. In 2001/02 the 15 restricted rail lines in NSW transported approximately 190 million tonne/km of grain valued at an estimated \$500 million. These lines represent 24% of the rail line network in NSW and freight approximately 67% of NSW wheat exports on an annual basis. Overall, rail moves significant volumes cheaply to meet harvest and shipping needs. However, the State Government has continually and significantly underinvested in these lines to the extent where they are being 'suspended' due to safety reasons. This conflicts with their community service obligations towards these lines.

In mid April 2003, Minister for Transport Services, John Watkins announced \$21 million to go towards the maintenance and upgrade of these lines for the 2003/2004 year and in July 2003 a further \$23 million per year for the next three years.

⁹ Rural and Regional Affairs and Transport Legislation Committee Review, May 2005

¹⁰ Committee for Economic Development of Australia, Infrastructure report April 2005

Both announcements were extremely disappointing from a number of fronts. Firstly, the funding of \$23 million per year over the next three years is significantly less than the \$168 million recommended in the NSW Government commissioned GHD report to upgrade these lines to a sufficient standard.

Secondly, the announcement again highlighted how the Government had turned its back on its own \$170 million per year funding commitment by former Minister Carl Scully in 2001 until 2010.

Thirdly, the April announcement declared that four lines were to be suspended. This is synonymous to closure given that it is unsafe to actually use these lines following years of Government neglect. It also enables the State Government to avoid the political notoriety of closing the lines as this requires an Act of Parliament.

Fourthly, the reluctance of a long term State Government commitment to maintain these lines removes significant commercial opportunities for PPP (Public Private Partnerships) and Federal Government funding through such programs as AusLink.

Lastly, the State Government has failed to provide any funding commitment to roads to compensate for the 9 000 B-Double trucks required to transport the grain diverted from the four suspended rail lines. This lack of integrated road/rail planning will shift a large cost burden to financially strapped Local Governments who will be faced with the costs of upgrading and maintaining these affected local roads (approximately \$5 000 per lost train trip¹¹). This will create serious safety concerns due to the increased number of trucks on local roads. It also ignores substantial evidence which concludes that returns from investment into rural local and arterial roads are between one and two times greater than break even¹².

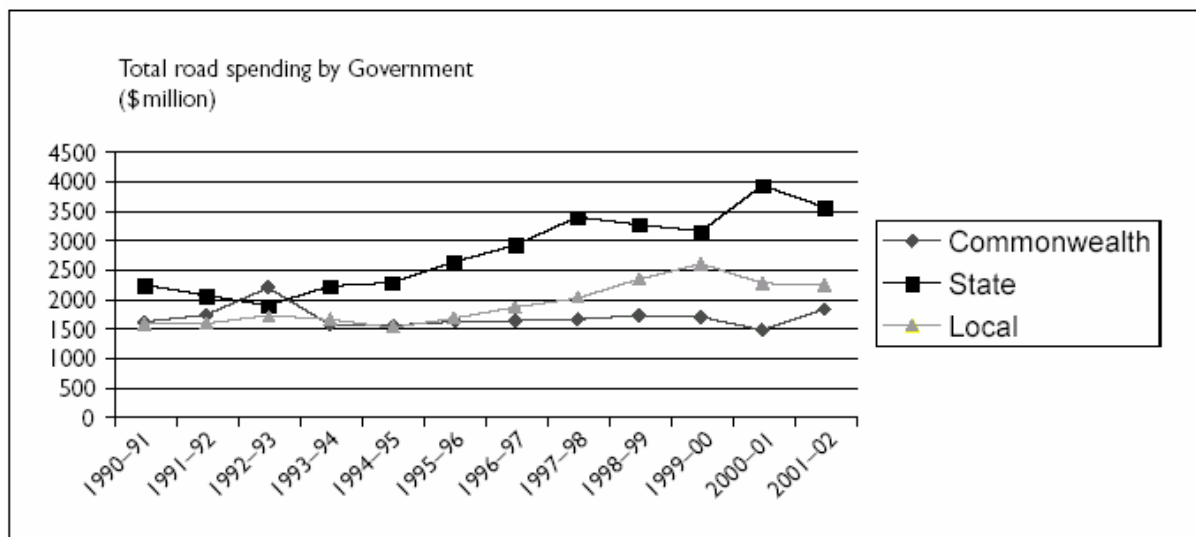
The graph below demonstrates that while the overall level of road funding has increased over time, State and Local Governments (who are responsible for rural and regional roads) have reduced their road spending in recent years. Of concern also is that much of this road funding increase over time has been captured by inflationary increases in road construction and maintenance inputs. For instance, of the respective 60% and 35% increase in State and Local Government road funding since 1993–94, almost a third of the State Government increase and half the Local Government increase was lost to a 17% inflationary increase in such inputs. This is doubly concerning given that NSW has the country's second highest proportion of gravel and formed roads behind Queensland.

While the Association welcomes the \$2.3b upgrade of transport infrastructure (both roads and rail to ports) through the Auslink program announced in the May 2006 Federal Budget, it was made clear that these funds would be targeted at national highways, with very little if any of these funds earmarked for regional roads, which are critical for agricultural freight from regional areas destined for the export markets. The injection of an additional \$307.5m to Local Councils this financial year, whilst welcomed, appears to be a one-off funding injection targeted at the Roads to Recovery program, rather than the commencement of a longer-term strategic investment capable of addressing the local and arterial roads problems in rural and regional Australia.

The Association also welcomes the additional \$270 million allocation to the Australian Rail Track Corporation charged with interstate rail infrastructure between Perth and Brisbane, but is of the view that more needs to be done for the branch lines to ease the rail freight problems.

¹¹ The Bureau of Transport and Regional Economics Road estimates that for each lost train trip road damage costs will increase by \$5,000

¹² Allens Consulting Group report for Australian Automobile Association, 1993



Source: Bureau of Transport and Regional Economics

Also of note is the fact that State Governments received \$4.498 billion in motor vehicle taxes and charges in 2001–02. This amount excludes stamp and customs duties and GST revenue on the sale of fuel, cars, parts and services etc a significant portion of which is also received by State Governments. As a result, less than half of motor vehicle related taxes that State Governments receive actually goes back into road repair and maintenance.

3.3 Answers to Questions Raised in the Issues Paper (pages 17-19)

3.3.1 Do participants agree that the Commission should focus on economic costs as the relevant measure of the costs of providing transport infrastructure?

According to the Bureau of Transport Economics 1999¹³, economic theory suggests that users should pay the full cost of providing transport services through charges and taxes. Thus, prices of road transport services should reflect not only private costs—such as fuel, wages and depreciation—but also social costs such as damage to roads, environmental costs, and the social costs of road accidents. Failure to reflect the cost of road damage in prices would constitute a subsidy to road users from taxpayers, who pay for the construction and maintenance of roads. The divergence of private from social costs would be a misallocation of resources.

However, in practice, it is difficult to apply efficient pricing principles to charges and taxes so that user prices incorporate social as well as private costs. As a result, actual charges and taxes diverge from economically efficient prices and give rise to inconsistencies. The absence of mechanisms to compensate for the cost of externalities means that those who bear the costs are generally not compensated. It is also difficult to calculate optimal levels of externalities and appropriate taxation levels¹⁴.

3.3.2 Are these approaches appropriate for each mode? Why or why not? What are their advantages and disadvantages? Are there other approaches that would be more appropriate?

The Association supports measures that will ensure that there is a level playing field between road and rail transport modes. Government should

¹³ Bureau of Transport Economics, *Facts and Figures in Benefit-Cost Analysis*, report 100

¹⁴ Bureau of Transport and Communications Economics, *Taxes and Charges in Australian Transport: A Transmodal Overview*

not aim to promote one mode over another by using different methodologies. If differential pricing methodologies which favour one mode over the other continue to be used, this will – over a period of time – lead to the under-utilisation of the infrastructure of the more expensive of the two modes of transport resulting in that mode becoming unprofitable over time. This will in turn lead to less capital injection for proper repairs and maintenance of the infrastructure.

3.3.3 In particular, how well does the PAYGO approach capture capital costs of providing the road network? Is it likely to under or over estimate capital costs of road? Why?

The PAYGO approach does not appropriately capture the costs of providing the road network. The 2005 Infrastructure Report by Committee for Economic Development of Australia reveals that road investment has fallen from 22% of GDP in the 1960s to 10% now. This no doubt shows that road capital costs have been underestimated, especially when one looks at the growth in the number of vehicles on the road today compared to four decades ago.

3.3.4 Should the same methodologies for assessing capital costs be applied in each mode?

If a level playing field between the transport modes is to be achieved then it is only appropriate that same methodologies are adopted for assessing capital costs. It is the Association's view that capital costs for road and rail infrastructure should be estimated by using a forward looking 'Depreciated Optimised Replacement Cost (DORC) methodology.

The capital costs for rail infrastructure are generally estimated using a forward looking DORC, whereas capital costs of road infrastructure are not based on such a forward-looking, lifecycle approach. DORC methodology is therefore able to take into account future capital costs that may be required.

3.3.5 How should land be valued?

The Association is concerned that prime agricultural land is often undervalued in circumstances where such land is required for public infrastructure. A case in point is the Tintenbar-Ewingsdale (T2E) Pacific Highway upgrade in northern NSW. Whilst the Roads and Traffic Authority (RTA) has identified four options for the upgrade, its preferred option cuts through large tracts of prime agricultural land. This is despite a Northern Rivers Farmland Protection Project undertaken by the Department of Infrastructure, Planning and Natural Resources (DIPNR), which assessed the impact of the RTA proposed by-pass on the 60 effected farmers. The report in particular expressing concern about unnecessary development on the State or Regionally Significant Farmland within the study area.

The Association understands that the RTA's preferred option was in part based on the amount of compensation that it will be required to pay to acquire the land for the bypass. The Agricultural Economic Analysis for T2E assessed the preferred route to be only 1 per cent traversing plateau land even though more than 50% of it is traversing plateau land. In the study, plateau land is valued at \$40 000 and other land at \$17 000. In monetary terms, this translates to the preferred route being grossly under valued.

It is the Association's view that apart from the normal criteria for land valuation, the following should also be taken into consideration when assessing the value of agricultural land:

- Land productivity for agricultural purposes;
- Soil fertility, accessibility and irrigation opportunities;
- Location and produce orientation; and
- Conservation and Resource Management practices put in place.

3.3.6 Given a requirement for full recovery of freight infrastructure costs, how should common costs be allocated across freight and passenger uses? What are appropriate criteria? For example, should common costs be allocated on the basis of 'fairness' or of efficiency? Should common costs of road and rail be allocated in the same way?

Although the Association agrees that transport operators and by extension transport users must pay their fair share of road and rail costs, the Association believes that society as a whole derives a benefit from the transport system operating efficiently through less pollution, cheaper prices, less congestion and regional development. Therefore society should contribute to transport costs.

Currently rail-based transport covers a larger proportion of its total costs, compared to road-based transport. Consequently, all evidence suggests that there is overconsumption of road transport. The Association believes that common costs should be primarily based on efficiency criteria (so that appropriate market signals to transport operators and users is obtained). However, we also contend that there also needs to be consideration of equity or fairness such that the impact of cost allocation does not overly negatively impact upon small businesses such as famers.

3.3.7 Do participants have any comments about the analysis or methodologies used in these studies?

Although the Association notes that the estimation process described in the *Third Heavy Vehicle Road Pricing Determination: Technical Report 2005* is superior to the method used in the second determination, the Association agrees that the survey may systematically overestimate the use of larger heavy vehicles on local roads.

An improved method of estimating local road use (and road use generally) could include the use of log book data, consignment information and GPS technology to establish typical journeys undertaken by heavy vehicles. Although the amount of data required for a useful sample would be very large, it would greatly improve road use estimation.

The Association is concerned that the costs for local roads are being incorrectly allocated. Although the amount spent on local roads and arterial roads are estimated separately it appears that the usage levels are not separately allocated. The discussion paper states:

'...a number of assumptions are needed about how much of local road expenditure is spent on different types of road work as very little data is available on this. The shares in this paper are based on the average shares for arterial roads...'

Further, the technical report only presents one set of results for local road use (p22) rather than a separate set of results for local and arterial roads.

The Association believes that there would be a marked difference in heavy vehicle road use between local and arterial road use especially amongst the heavier vehicle classes, which in some cases have restricted areas of operation. Unless heavy vehicle road use between local and arterial roads is differentiated, systematic over-estimation will occur.

As the technical report noted, “heavy vehicles share of road costs are highly sensitive to the estimated proportion of local road use”. It follows that the Association is keen to ensure that the estimates are as accurate as possible.

3.3.8 For example, do participants agree with the NTC’s Third Determination estimates of variable road costs attributable to different classes of vehicle?

The Association believes that the range of scenarios in the technical report for cost allocation rules provides a reasonable range of options.

Given the conclusions of the statistical work undertaken by Urban Logistics Group (technical report, p. 29), Scenario 1 most closely reflects how road pavement and shoulder maintenance costs should be allocated.

However, heavy vehicle enforcement should not be included in the cost allocation. The gain in increased safety from enforcement is shared by society as a whole, and as such, enforcement costs should be borne by the broader community.

3.3.9 Do they agree with the NTC’s estimates of common costs and the way in which they are allocated? Why or why not?

The setting of the minimum registration charge should be revised downward to reduce the over-collection of costs from the smallest of the heavy vehicles within the heavy vehicle road pricing regime. The Road Use Pricing Principles clearly state that one of the principles is “full recovery of allocated infrastructure costs while minimising both the over and under recovery from any class of vehicle”. The setting of the minimum registration charges to ensure continuity with vehicles under 4.5 tonnes is not consistent with this principle.

Some state regulatory authorities will argue that this will create an absurd situation where a vehicle of 4 tonnes may pay more for registration than a vehicle of 4.6 tonnes (States set registration costs). The Association asserts that where this is caused by the States’ non transparent and inefficient registration pricing policy it should not unduly affect the setting of heavy vehicle pricing. Further, it would be desirable for the road pricing determining process to make recommendations regarding the reconciliation of State and Federal pricing for small trucks.

3.3.10 Do they agree with the exclusion of some costs, such as enforcement costs, from the cost base for road charges?

Heavy vehicle enforcement expenditure should not be included in the costs to be recovered from heavy vehicles.

Enforcement has two fundamental purposes: to limit the amount of damage to infrastructure, and to increase safety. If enforcement did not take place then the cost of repairing road damage would increase as would the costs due to increased accidents.

To use an economic analogy In economic terms¹⁵; the most efficient amount of enforcement is when the cost of an extra unit of enforcement equals the cost in road damage and road accidents that would be incurred if that extra unit of enforcement had not been used. This then provides the least cost method of ensuring the integrity of the road system.

Using this model it is then possible to draw some conclusions as to who should pay for enforcement.

If no trucks were ever overloaded then the cost of ensuring the integrity of the road system could be equitably paid for through the costs recovered from heavy vehicle charges. The necessity for enforcement is bought about by those that breach the rules and try to gain an advantage by overloading or cutting costs in some other way. This creates externalities in the form of extra road damage, and increased risks of accidents. Therefore it follows that in order to internalise the externalities that these parties cause, the cost of enforcement should be recovered from those parties that cause the externalities – ie breach the rules.

Further, the gains in increased safety from enforcement are shared by society as whole, not just heavy vehicles; therefore society as a whole should contribute to some of the costs of enforcement.

¹⁵ Profit maximisation theorem.

4. Full Economic and Social Costs of Road and Rail Freight

4.1 The Concerns

Rail has significant advantages over road transport, particularly for long distance freight. The Australasian Railway Association estimates that rail transport has a cost advantage of \$26 per thousand net tonne/km over road with one train removing up to 80 B-Doubles off the road. This cost advantage will improve over time as fuel prices increase and chain of responsibility legislation is enacted (as the liability risk of overloading trucks increases).

While the state of the country's road infrastructure is of concern, its neglect of rail infrastructure is even more so. For instance, at a Federal level the Auslink program remains heavily weighted to road transport – \$10.9 billion for roads and \$1.8 billion for rail. At a state level, spending on new 'fixed' rail assets has increased, however the amount spent on 'maintenance' for regional rail is not publicly available. In January 2002, the then state Government treasurer Michael Egan announced a Community Service Obligation of \$285 million per year for maintenance of country rail infrastructure over the next five years. However, the extent of this allocated expenditure each year on restricted branch lines is unknown.

It is therefore unsurprising that rail has reduced its modal share over the last 30 years. The effect of this history of poor investment in rail has seen a serious deterioration in track quality and the restricted branch lines in NSW are good examples of this trend.

Rail Infrastructure Corporation Maintenance Expenditure

2001 – 02	\$606.5 million
2002 – 03	\$531.5 million
2003 – 04	\$695.6 million

Source: NSW Rail Infrastructure Corporation Annual Reports (2001-02 and 2002-03)

NSW Farmers' Association is in particular concerned about the social and environmental cost of State Government infrastructure investment decisions. This is aptly demonstrated by the suspension of 4 restricted rail branch lines following years of declining State Government expenditure which has led to increasing local road use and associated negative impacts as seen by the following table.

Impacts of Suspending Restricted Rail Branch Lines in NSW

	Additional trucks required to freight tonnage ¹	Amount of additional CO2 released from trucks versus rail use (tonnes/yr) ²	Fuel used from additional truck use (litres/million) ³	Oil used for tyres from increased truck use (litres/million)	Increased deaths from truck use ⁴
Gwabegar to Binnaway	2 185	239	127.21	3.85	0.04
Rankin Springs to Barmedman	2 963	258	137.44	5.21	0.04
Burcher to West Wyalong	1 111	45	24.14	1.96	0.01
Willbriggie to Yanco	852	26	13.85	1.50	0.00
SUB TOTAL	7 111	568	302.63	12.52	0.09

1. Based on a maximum 27 tonne load per truck for a standard 6 axle 42.5 tonne GVM truck

2. For truck use – source: Apelbaum Consulting Group Pty Ltd (2005), "Australian Transport Facts 2005". Based on an articulated truck in NSW in 2002/ 03

For rail use – Source: Apelbaum Consulting Group Pty Ltd (2005), “Australian Transport Facts 2005”. Based on an articulated truck in NSW in 2002/ 03

Truck vs Rail – Source: Apelbaum Consulting Group Pty Ltd (2005), “Australian Transport Facts 2005”. Based on an articulated truck in NSW in 2002/ 03

3. *Litres per tonne km Source: Austroads 2003*
4. *Fatalities which involved articulated trucks in 2002/ 03. Source Australian Trucking Association report August 2004, 'Trucking, driving Australia's growth and prosperity'*
Fatalities which involved articulated trucks in 2002/ 03. Source Australian Trucking Association report August 2004, 'Trucking, driving Australia's growth and prosperity'.

On the general issue of externalities, it is fair to say that any form of transport potentially imposes social costs in the form of accidents, air and noise pollution, greenhouse gas emissions, loss of amenity for other road users and pedestrians, opportunity cost of land used for transport and damage to wildlife. Congestion also imposes major social costs, consuming valuable productive time. It is therefore imperative that any pricing policy bear in mind the economic and environmental costs of petroleum use, and the economic and environmental costs of other transportation fuels, including the costs and values of environmental externalities. There is also a need to establish a national transportation energy policy that results in the least environmental and economic cost to Australia to ensure that our future generation can continue to enjoy a clean environment in years to come.

4.2 Answers to Questions Raised in the Issues Paper (pages 20-21)

4.2.1 What are the major externalities associated with road and rail freight infrastructure use?

One of the main external costs of transport relates to environmental damage. Environmental impacts are usually divided into the following categories:

- Air quality: Transport use has an effect on health because of particles;
- CO, NO₂ and toxic emissions from cars, trucks and trains;
- Climate change: CO₂ emissions causing negative greenhouse impacts;
- Noise and vibrations;
- Landscape;
- Biodiversity: habitat and wildlife destruction;
- Heritage;
- Water pollution and the cost of marine accidents;
- Recreational and Community disruption; and
- Community severance and accessibility.

4.2.2 How are these externalities related to road or rail use? For example, do the impacts vary by vehicle type, mass, distance travelled, location and type of road?

A number of studies have demonstrated substantial efficiency and externality improvements if larger vehicles are utilised or trains are used for long distance transport tasks.

For instance, the Australasian Railway Association has estimated that after taking into account the operator costs, infrastructure costs and externalities associated with road versus rail; rail is more efficient by \$26 per thousand net tonne kilometers.

This outcome is consistent with studies undertaken by the BTRE 1999¹⁶ which estimated that, in order to achieve competitive neutrality between

¹⁶ Bureau of Transport and Regional Economics (BTRE) 1999 Public Road Related Expenditure Revenue in Australia
Canberra

road and rail, road freight should be charged 0.01 cents per tonne/km to cover (non-greenhouse) pollution costs and 0.033 cents per tonne/km to cover noise pollution. The respective charges for rail were estimated to be 0.004 cents per tonne/km and 0.02 cents per tonne/km.

4.2.3 Are any of these external effects already incorporated in freight costs? By what mechanism? To what extent do existing mechanisms adequately address the externalities? What are the costs of these mechanisms?

BTCE (1997) provides an extensive catalogue of taxes, fees and charges that apply to all modes of transport and concludes that:

- the current regime of taxes and charges is not applied coherently or consistently across modes;
- it is now technically feasible to employ electronic monitoring devices to effectively charge for infrastructure use by heavy vehicles, noise and congestion; and
- a detailed review is necessary to identify opportunities for increasing the efficiency of the system of taxes and charges in the transport sector.

State governments impose annual registration and third-party insurance charges for all vehicles using public roads. The charges generally increase with the weight of the vehicle. According to Webb 2000¹⁷¹⁸ this charge is deficient (as a cost recovery mechanism) in that it does not vary with distance travelled and hence damage to road pavements. Nor does this charge address the cost of externalities associated with road use. Accordingly, it has been proposed in the literature that these charges be shifted from an annual basis and instead be levied by the kilometre or, where this is impractical, per litre of fuel consumed.

4.2.3 How should greenhouse gas emissions be valued?

Greenhouse gas emissions should be evaluated according to internationally accepted standards.

¹⁷ Webb, R. 2000, Petrol and Diesel Excises, Research Paper No. 6 Parliamentary Library, Canberra

5. Options for Pricing Reform

Various economic forecasts are predicting the economic growth in Australia to be around 3% annually over the next decade. The Organisation for Economic Co-operation and Development (OECD) and the Food and Agriculture Organization of the United Nations (FAO), in its eleventh edition of the *Agricultural Outlook: 2005-2014*¹⁹ assumes strong and sustained economic growth in almost all regions of the world. Growth in the OECD area is projected to be around 2.6% per year, with less expansion in the euro-area and Japan than in the United States.

Rising demand will no doubt provide the foundation for an increase in agricultural trade over the projection period. This undoubtedly will result in rapid expansion in the freight task. It is therefore imperative that an efficient pricing arrangement for road and rail freight transport infrastructure is adopted to ensure that Australia maintains its competitive advantage in agricultural trade.

While pricing reforms have the potential to enhance the efficiency and productivity of the freight transport task and investment choices by government and the private sector, it has to be borne in mind that a more efficient pricing formula will ensure direct infrastructure investment to the most appropriate modes and projects. This will result in more efficient sharing of the freight transport task within and across modes which will result in less road accidents, greenhouse emissions, noise and dust pollution.

Pricing that fairly reflects the costs of providing and using road and rail infrastructure will lead to rail and road competing on a more equal footing and in the process ensuring that the anticipated growth in freight task is carried on the most appropriate and efficient mode.

It is the Association's view that the objective of any transport pricing model for rail and road freight should not be to increase government revenue but rather to make the current models more efficient that will result in more competitively neutral pricing regimes which has the potential to maximize the net benefits to rural and regional Australia.

5.1 **Answers to Questions Raised in the Issues Paper (pages 22-24)**

5.1.2 *How efficient are current charging arrangements for heavy vehicles? What are the major sources of inefficiency? Would changing the weight attached to registration fees, on the one hand, and fuel levies, on the other, result in more efficient pricing of heavy vehicle road use? How, and to what extent?*

Please refer to response under 3.3.9.

5.1.3 *What are the key attributes of road use likely to affect road infrastructure costs (for example, vehicle and load mass, the distance travelled, the location and type of road)? What is the nature of the linkages?*

Overloading appears to be the major factor affecting road infrastructure costs related to road pavements, rutting, seal and bridge failures. For instance a single drive bogie trailer configuration carrying 6.5 tonnes over its legal limit which amounts to 20 per cent overloading will cause twice the damage that a legally loaded vehicle would have done. The same vehicle overloaded by 10 tonnes or 32 per cent would cause three times the damage.

¹⁹ Organisation for Economic Co-operation and Development (OECD) – Food and Agriculture Organisation (FAO), 2005. *Agricultural Outlook 2005-2014*.

While the Association does not condone overloading it nonetheless would like the various agencies to recognise the difficulty of in-field loading a bulk commodity such as grains, with varying moisture contents and densities, to within an accurate weight tolerance. The Association therefore supports the Grain Harvest Management Scheme which is designed to benefit the grain, the community and the road transport industry.

- 5.1.4 *How accurately can road use by trucks be linked to generation of infrastructure costs? How does the type of road affect these costs?*

Please refer to answers 3.3.7, 3.3.8 and 3.3.10.

- 5.1.5 *What criteria should determine how much each user contributes above marginal cost? Should every user contribute the same amount? Should recovery be based on principles of efficiency? Of equity?*

Please refer to answer 3.3.9.

- 5.1.6 *Should costs of some or all external effects associated with freight transport be incorporated in road and rail charges? Which ones? Why or why not? Is it feasible to incorporate costs of some or all externalities in road and rail prices?*

While the Association agrees that transport operators – and by extension transport users – must pay their fair share of road costs, society as a whole derives a benefit from the transport system operating efficiently through less pollution, cheaper prices, less congestion and regional development. Therefore society should contribute to road costs.

- 5.1.7 *What other instruments are available and how efficiently would they address externalities?*

The Association is of the view that in so far as heavy vehicles are concerned, the use of log book data, consignment information and GPS technology could be used to address the issue of externalities.

- 5.1.8 *Are some externalities already being addressed by other mechanisms? For example, through liability laws, infrastructure construction (including, for example, safety features and noise barriers), vehicle standards and regulations, road rules (for example, speed limits, driver fatigue regulations), or by actions of individuals affected? Are these the best feasible ways of 'internalising' the externalities?*

The 'polluter pays' principle suggests that the company or person that causes pollution should pay for the cost of removing it, or provide compensation to those who have been affected by it. Thus prices of road and rail transport services should reflect not only private costs such as fuel, wages and depreciation, but also social costs such as damage to roads, externalities and social costs of road and rail accidents.

However it is difficult to apply efficient pricing principles to charges and taxes so that user prices incorporate social as well as private costs because it is difficult to calculate optimal levels of externalities and appropriate taxation and other charges mentioned above.

6. Impacts of Different Pricing Regimes

The issue of transport pricing is of critical importance to farmers, particularly those involved with grain, livestock and horticultural industries. It is interesting to note that the National Transport Planning Taskforce in 1994²⁰ reported that a more efficient funds allocation within Government for transport infrastructure will only be partially effective, unless accompanied by more efficient road and rail infrastructure pricing.

The Productivity Commission Inquiry 2005²¹ mentions the need to promote greater neutrality in the pricing of road and rail infrastructure considering there is under-recovery in relation to the largest vehicles that travel the longest distances and it is with these vehicles that rail principally compete.

A number of studies have shown that the consequences of government charges and taxes on the relative competitiveness of rail and road transport have long been contentious. In the Smorgon report 1999²² the rail freight industry argues that the charges and taxes are not competitively neutral but advantage road over rail. However, according to NRTC Report 1998²³, the road freight industry claims that its inputs are more heavily taxed than other industries.

According to the Bureau of Transport Economics 1999²⁴, if both road and rail paid more competitively neutral charges, including charges for externalities, in a system designed to fully recover costs from users, road freight rates would rise by 12 per cent and rail rates would increase by about 4 per cent relative to the post-A New Tax System (ANTS) situation. The net effect of introduction of ANTS and associated legislation, in conjunction with a hypothetical shift to more competitively neutral charges, would see both road and rail input costs fall by 5 per cent relative to actual costs in 1998-99.

The Australian Automobile Association 2005²⁵ research reveals that NTC methodology adopts a full cost recovery approach rather than the more appropriate economic efficiency objective of recovering the full marginal social costs of road use (including costs for air and noise pollution, crashes and roads use). On this basis, and if fuel excise were viewed solely as a charge to achieve cost recovery, heavy vehicles would end up paying an average of 42.9 cpl instead of the current tax of 38.1 cpl. If this were to happen than the freight cost of those farmers using road as a means of transporting their produce and livestock is likely to increase by approximately 13 percent, a cost increase which the farmers will not be able to bear given the tight margins that they currently operate under.

However Port Jackson Partners 2005 in their report to Australian Railway Association show the inherent cross subsidy for heavy long-haul trucks which compete with rail. The report argues that the solution to these problems is to use mass-distance charges instead of either fuel-based or registration charges. The report highlights that a number of European countries which have, or are about to, introduce mass-distance charging which will take account of vehicle and environmental and road damage characteristics.

While the Association does not reject the concept of mass-distance charging outright, the estimation process described in the *Third Heavy Vehicle Road Pricing Determination: Draft Technical Report* (technical report) may systematically over-estimate use of the larger heavy vehicles on local roads. As mentioned in the introduction, farming

²⁰ National Transport Planning Taskforce, 'Building for the Job', November 1994.

²¹ Productivity Commission Inquiry Report No 33 2005, 'Review of National Competition Policy Reforms'

²² Rail Projects Taskforce (Smorgon report), 1999. *Revitalising Rail. The Private Industry Solution*, pg 25.

²³ National Road Transport Commission, 1998. *Updating heavy vehicle charges: draft policy paper* pg 3.

²⁴ Bureau of Transport Economics, 1999. *Competitive Neutrality Between Road and Rail*, Working Paper 40

²⁵ Australian Automobile Association 2005, *Inquiry into Integration of Regional Rail and Roads Networks and their Interface with Ports* pg 4.

operations are in the main reliant on road transport. This reliance ranges across all classes of vehicle, so the Association does not see any benefit in one class of vehicle 'subsidising another'.

The Association is of the view that an improved method of estimating local road use (and road use generally) could include the use of log book data, consignment information and GPS technology to establish typical journeys undertaken by heavy vehicles. Although the amount of data required for a useful sample would be very large, it would greatly improve road use estimation.

6.1 Answers to Questions Raised in the Issues Paper (pages 22-24)

6.1.1 What are the likely resource impacts of a shift to pricing regimes that better reflect marginal costs of using road and rail infrastructure?

Basic economic theory suggests that marginal cost prices optimise the static allocation of resources. Under pure competition, they optimise the dynamic allocation of resources. However marginal cost pricing signals to consumers they need to get at least as much value out of using the product as the value "used up" in making it. If prices are lower, consumers may 'waste' the product, and suppliers could in turn go bankrupt. If prices are higher, consumers may unnecessarily avoid using the product thus missing out on productive value, while suppliers make super-profits, attracting additional suppliers who drive the price down.

However pricing at marginal cost will produce the greatest allocative efficiency. In a competitive market, Short Run Marginal Cost (SRMC) incentives will optimise dynamic allocation of resources. Further, adequate rules are required to ensure timely supply of capacity which are important for developing the lowest cost transport system.

6.1.2 How would such pricing affect use of existing infrastructure? Would impacts vary across corridors? If so, why?

A number of reports indicate that, including all known costs and revenues, rail freight is perhaps 80% commercial at present, whereas road freight is perhaps 50%. If they both had to pay 100% of the full commercial and societal costs then the modal split would change towards rail.

Various papers highlight that rail carries approximately 20% of the inter-capital general goods traffic on tracks which have had very little invested on them. However given that they cannot provide the fast service of which trucks are capable, they must reduce the price they can charge. The rail operators pay tonne-km charges to the track owners and still come close to break-even.

On the other hand, the interstate highways carry perhaps four times the goods, but have costs perhaps twenty times the investment to establish. Additional capacity at each end of the interstate link has invariably been needed. Because the system is so attractive it will need more capacity in coming decades. However if the revised pricing structure favours rail freight it will have the potential of moving freight from roads to rail in selected corridors.

6.1.3 What are the likely efficiency impacts of difference allocations of non-separable costs?

The overall efficiency of the road and rail system depends on both the short-run decisions made by users and the long-run decisions made by

governments who are responsible for providing capacity. Short and long-run decisions are interrelated. Road and Rail users will normally face higher costs if governments have under-invested in the system - that is, if they have not invested in increasing road and rail durability and expanding road and rail capacity up to the point where any further spending would more than offset the savings from reduced road and rail wear and congestion costs. Since the focus of road and rail pricing, however, is on influencing the behaviour of users, efficient road and rail prices should be based on short-run costs. It is short-run marginal social costs that will provide users with the information they require to make socially optimal decisions with respect to such matters as the vehicle they use, the frequency of their trips, the route they choose, and the size of the load they carry.

- 6.1.4 *What would be the impact of different pricing regimes on costs and use of different truck types and the overall level of road freight if mass–distance and/or location-related prices were imposed? How would this affect transport operators? How would they respond? What would be the effect on road freight prices?*

Given that agricultural produce is generally grown large distances from port and / or major domestic markets, transport costs can comprise up to 20% of farm-gate prices (see table below). It is also undertaken predominantly by third parties contracted to farmers in increasingly large trucks such as B-Doubles. As such, the Association would be concerned about any pricing regime based on mass-distance and/or location that would increase the transport cost burden either directly or indirectly through contracted third parties. In particular it must be noted that farmers have no party in the supply chain to pass on cost increases and their rapidly declining profit margins would be impacted accordingly.

NSW Supply Chain Costs (2002/03)

	Farm to Country Silo	Country Storage and Handling	Rail Freight	Port	Total
Average Dollars Per Tonne	\$12	\$12.20	\$24.90	\$10.50	\$59.60
% of Total	20%	20%	42%	18%	

Source: NACMA and GrainCorp

- 6.1.5 *If, for example, road user charges were directly related to the distance traveled and marginal damage to roads, including regional road networks, what implications might this have for regional and remote communities? What are the major constraints on modal choice in these areas (for example, access to rail or intermodal facilities)?*

See prior question. In addition, given the declining investment by the NSW Government in rail infrastructure and resulting closure of 4 restricted rail branch lines, up to 9,000 trucks will be required to transport the grain freight task over the local road network. This will have a negative impact upon rural and regional communities from a number of perspectives including increased road damage and road safety risk. Importantly, the Association does not believe that farmers should be effectively penalised through higher road user charges when the State Government was responsible for this outcome.

Secondly, declining State Government investment in rail infrastructure and resulting rail line closures has reduced the access for farmers to nearby rail linkages meaning that rail is likely to be a less financially attractive alternative for those affected farmers into the future. This series of events has led to the closure of 100 GrainCorp silos in the three eastern states (with many located on closed rail lines) meaning that grain trucks are now more likely to travel further distances on roads to access the closest receival site for grain. Again, the Association believes that farmers should not be penalized through higher road user charges when the State Government was responsible for this outcome.

6.1.6 How sensitive are freight users to price changes?

Freight demand is considered to be inelastic, that is relatively unresponsive to price changes when there are few alternatives or where a transportation mode either road or rail possesses some structural or intrinsic advantage in the carriage of particular types of freight over certain journey lengths. In these situations, the demand for freight is classified as being non-contestable, that is, not affected by competition from another mode.

However BTRE 2003²⁶ states that there is a consensus view that Australian rail services in bulk freight (largely minerals and grains) face relatively inelastic demand, while non-bulk freight (mostly containerised finished goods) is price elastic, due in large part to road transport being a close substitute. Notably this conclusion is dependent on access to alternative transport modes; where farmers (eg grain producers) have readily accessible transport alternatives demand is elastic and this is reflected in the competitiveness of prices in that area.

There is an abundance of international evidence on the approximate levels of road and rail freight price elasticities, however there are few recent Australian-based estimates.

6.1.7 What are the key drivers of their decisions to use either road or rail transport?

The predominant agricultural commodity where there is contestability between rail and road transport in NSW is grain. This is because it is a bulk product that can be readily freighted via rail and the fact that many rail lines were developed to source grain from the key grain growing areas in the state for export. Regardless, for grain to be railed to these port facilities, it must first be road freighted from farms to receival sites at rail heads.

In general however the perishability of farm produce, the lack of versatility and geographical access to rail prevents other commodities being transported to market via this mode.

The key driver of grain producers' decisions as to whether to transport via road or rail is the transport price offered by the key storage and handling operators and the only rail provider in NSW Pacific National. Transport prices are mainly a factor of the distance from port and the efficiency of the rail provider with road and rail competing on a more equal basis on this transport route. Importantly, while in the past the majority of grain was exported via rail, increasing domestic demand by particularly the intensive livestock industry has meant that grain is being transported more by road

²⁶ Bureau of Transport and Regional Economics (BTRE), *Rail Infrastructure Pricing: Principles and Practice*, Report 109, Canberra

freight. Regardless, given that export grain is still the main market for grain (approx 70%), grain price and by association domestic freight rates must remain competitive to attract and divert grain from this traditional market option.

- 6.1.8 *On which routes and for which freight tasks are road and rail more likely to compete? What are the key factors influencing contestability? Are these factors likely to change? What proportion of the freight task is contestable?*

Please refer to 6.1.7.

- 6.1.9 *For which tasks and for what proportion of the freight task are road and rail complements?*

From an agricultural perspective, grain export freight will always involve both road and rail transport as grain must still be moved from farm to rail receipt sites. As such, it is critical for such producers that adequate Government investment and pricing reflect this relationship.

- 6.1.10 *Given scope for intermodal substitution and other adjustments, what would be the eventual impact of different pricing options on freight costs, output prices and output levels in user industries? What are key factors affecting this impact — for example, whether goods carried are exported and their prices set in world markets?*

Unless the different pricing option is able to strike an appropriate balance between efficiency and equity, provide cost effectiveness of pricing instruments; and show transparency, there will be a major impact on farmers' costs of production. This will affect our competitiveness in international markets given that the majority of agricultural produce in Australia is exported. As stated previously, transport expenditure is a fixed cost which represents up to 20% of farm gate returns and therefore changes to transport costs will have a large impact upon farmers' net profits.

Farmers have no ability to influence farm-gate prices given that prices are either set by international markets or the behaviour of other supply chain participants such as supermarkets. As such, changes in freight costs will have a direct impact upon farmers' costs of production.

7. Design and Implementation Issues

It is important that costs be allocated between vehicle classes as accurately as is possible.

Whilst the Association agrees that transport operators – and by extension transport users – must pay their fair share of road costs, society as a whole derives a benefit from the transport system operating efficiently through less pollution, cheaper prices, less congestion and regional development. Therefore society should contribute to road costs. In particular, the Association believes that where costs are not directly attributable to heavy vehicles, society as a whole should bear the cost.

Related to this is the issue of the registration costs of B-Doubles. Some consideration should be given to the benefits B-Doubles provide over other articulated trucks. Because of their modern design they bring benefits over other articulated truck classes beyond private cost savings in the form of less pollution, less congestion and increased safety; society as a whole benefit from these. The Association feels it is in everyone's best interests to encourage the use of B-Doubles by providing some subsidisation of registration costs.

The Association believes that there should be competitive neutrality between road and rail use. The pricing determination should be careful to avoid giving road transport an unfair disadvantage over rail.

There is no mention made of primary producer registered vehicles or impacts on remote and regional areas made in the issues paper. Primary producer trucks do low kilometres and only move freight for the farm business that owns the truck. The Association feels that these issues must be addressed in any freight pricing formula.

7.1 **Answers to Questions Raised in the Issues Paper (page 28)**

7.1.1 *If mass–distance and/or location charges were deemed to be efficient and technically feasible, how quickly should they be introduced? What are the major implementation tasks and risks?*

If such a charging paradigm were introduced, the Association would support a phased introduction to allow for farmers to make adjustments to their cost structures.

7.1.2 *What would be the best approach to implementation? For example, should any new regime replace existing arrangements across the board or be introduced on an incremental, 'opt in,' basis? Or should such charging be confined to major corridors or classes of truck? If so, which ones?*

Given the proportion of road freight travelling on the major transport routes, the Association would support an implementation strategy whereby only trucks on the major transport corridors were charged in this fashion.

7.1.3 *Would a system of incremental charging, as outlined by the NTC (2004a), provide a useful stepping stone to broader application of mass–distance charging? Are there drawbacks to such an approach?*

Please refer to answer at 3.3.8.

7.1.4 *How could or should any adverse impacts on transport operators and users, including those in remote and regional communities, be managed/minimised?*

The Association believes that any potential adverse impacts of charging policies should be taken into account prior to implementation with a view to mitigate such impacts. Due consideration of the propensity to pay of transport users, strategies which target the main freight corridors, phase in periods and the implementation of other schemes would assist in this regard.

For instance, currently farmers (particularly grain and livestock producers) are unfairly be exposed to penalty and liability risk under chain of responsibility (COR) legislation as they cannot accurately assess truck weights on farm due to variations in grain and livestock weight and because produce is only weighed at destination or not at all. For instance due to density and moisture variation, wheat test weights at Narrabri last harvest for the same volume varied by 21% with barley varying by 26%. Livestock weights similarly vary due to differences in breed, age, condition, feed retention and weather. As a result, despite farmers' best intentions, trucks could easily breach regulation gross vehicle mass limits under COR legislation.

Given these concerns, the Association has attempted to introduce schemes that will provide grain and livestock producers truck weight flexibility under the legislation. While a Grain Harvest Management Scheme has been introduced in Queensland and Western Australia, the NSW Government will only support a scheme that offers negligible truck weight flexibility (monthly truck mass average of 250kg above regulation limits) in return for the provision of substantial weighbridge data for enforcement purposes. Similarly, every state in Australia has introduced livestock loading schemes, yet the NSW Government refuses to acknowledge farmers' unfair liability exposure under COR legislation. The implementation of such schemes would assist farmers to comply with COR legislation and help negate the adverse impacts of road/ rail charging policies.

8. Impediments to Efficient Pricing and Operation of Transport Infrastructure

The issues facing rural and regional road and rail users include: increasing capacity requirements and congestion, significant backlog in maintenance and rehabilitation works, decreasing funding (in real terms) dedicated to roads and rail networks over the years due to competing demands and increasing environmental concerns. Much of this pressure is generated by the mechanism by which road and rail funding is collected.

The possible use of road and rail freight pricing however should not only be seen as a tool to implement freight demand management through pricing or as a way to increase revenue. The Association believes that road and rail freight pricing, using cost effective emerging technologies, has the potential to one day provide a more equitable and efficient system of pricing and charging for road and rail freights throughout an entire network.

Since building new infrastructure is very expensive and funding is limited, it is unlikely that many new highways and additional rail lines will be built in the near future. This therefore puts pressure on cost-effective solutions such as maintaining assets, improving operations, using advanced technologies and linking road and rail freights to address excess capacity in either modes of transportation.

As highlighted under section 2, AusLink White Paper 2004 has forecast the doubling of freight task in Australia in the next 20 years. Such being the case it is the Association's belief that the productivity of freight transportation firms and their ability to provide timely and reliable service depends not only on the efficiency of individual modal systems and the effectiveness of the laws and regulations under which they operate, but also on the efficiency of intermodal facilities that govern the effectiveness of their connections to one another. In order to ensure a safe, reliable and efficient transportation system that is internationally competitive our members have entered into contractual regimes that govern the movement of freight. However sometimes these regimes result in conflicts with public regulations and create impediments to the safe and efficient operation of freight transportation. While government typically regulates the safety and environmental aspects of infrastructure and equipment, it may also be appropriate for government to facilitate problem solving and provide technical assistance where private and public sector requirements create barriers to safe and efficient freight movement. The Grain Harvest Management Scheme (GHMS) is a case in point.

There is also a need for some process to be set in place to study the current transport systems and the freight corridors both between and within states to better understand the future major transport tasks which move transport from over-crowded coastal strips inland and in the process encourage businesses and people to move inland.

The Association believes that these impediments could be addressed through appropriate policies that are aimed at balancing integrated transportation system with modal choices that increases the efficient movement of farm produce and other goods. There is a need for rural and regional transportation plans that identify:

- Major transportation generators
- Routes and modes that connect freight facilities with highways and intermodal facilities, and
- Major intercity and intra-city transportation corridors and supporting transportation networks.

8.1 Answers to Questions Raised in the Issues Paper (page 29)

8.1.1 *Other than price, what are the major impediments to efficient use of road and rail freight infrastructure? These might include (but not be limited to):*

- *prescriptive regulations;*
- *differences in regulations across jurisdictions;*
- *inadequate infrastructure investment decisions;*
- *access impediments to rail track or intermodal facilities;*
- *regulatory and planning impediments to private infrastructure investments; or*
- *industrial relations issues affecting service levels.*

Other issues that need to be addressed to make the freight transport industry more efficient include:

- Increased Government investment in transport infrastructure in rural and regional communities so that it is competitive with our international counterparts and adequately takes into account the industry's importance to the economy.
- Chain of responsibility (COR) legislation flexibility. As stated previously, COR legislation unfairly targets farmers (particularly grain and livestock producers) as they cannot accurately assess truck weights on farm due to variations in grain and livestock weight and because produce is only weighed at destination or not at all. As a result, farmers need some truck weighed flexibility so that they are not unfairly exposed to penalty or liability.
- There is a need for more coordination on freight issues between the three levels of government, the private sector and within government departments. For example, inadequate consultation between the State Government transport and road Ministers resulted in four restricted rail branch lines being closed without any increase in road funding meaning that 9 000 B-Doubles are now impacting upon an already crumbling and under funded Local Government road network.
- Congestion at the larger intermodal transfer points, and intermodal access elsewhere need to be addressed. Acceptable strategic public sector investment in intermodal freight will help improve the current bottle necks in the system

8.1.2 *How should these impediments be addressed? Which are the most important? Is there a preferred sequence of reforms?*

The Association suggests that increased Government funding for the rural and regional road and rail network; the introduction of grain harvest management and livestock loading schemes; and increased communication between and within all levels of Government regarding transport decisions are the most important priorities in the short-term.

8.1.3 *How can infrastructure investment decision-making be improved? For example, through application of consistent and transparent cost–benefit methodologies?*

The timely, efficient provision of infrastructure is critical to the achievement of sustainable transport system. High infrastructure costs and bottlenecks can thwart economic growth nationally and within regions.

While sector specific regulation is likely to remain important, especially where infrastructure has natural monopoly characteristics but the right

balance needs to be struck. Over-regulation or unpredictable regulation can impact adversely on the incentives for new investment, particularly given the large costs and long time-horizons involved. A coherent, transparent and stable regulatory environment is needed to encourage investment in industries with long duration assets.

Regulation also needs to be sensitive to differences between industries – the rate of technological change for example. Different regulatory approaches may be appropriate at times to encourage road or rail freight choices. While getting the right regulatory environment is critical, infrastructure providers and those who use their services also have an important role to play. They must work closely together to share information to ensure the best possible investment decisions are made whether in new infrastructure, more efficient use of current infrastructure, or in demand management mechanisms.

There are also opportunities for the public and private sectors to work more collaboratively. Public-private partnerships and other innovative financing arrangements have the potential to broaden and deepen Australian capital markets and free up scarce public capital.