

Enquiries: Doug Barry
Phone: 03 6233 8736
Fax: 03 6233 3937
Email: Doug.Barry@dier.tas.gov.au
Your Ref:
Our Ref:

Ms Andrea Coulter
Freight Inquiry
Productivity Commission
LB2 Collins Street East
MELBOURNE VIC 8003

Dear Ms Coulter

**Tasmanian Government Submission - Review of Economic Costs of Freight Infrastructure
and Efficient Approaches to Transport Pricing**

Thank you for the opportunity for the Tasmanian Government to make a submission to the Productivity Commission's inquiry on road and rail freight infrastructure pricing.

The Tasmanian Government supported the role of the Council of Australian Governments (COAG) in raising the profile of road and rail competitive neutrality and ensuring that the assessment was based on full economic costs, including externalities.

The Tasmanian Government notes the considerable complexity of the issues associated with freight infrastructure pricing and the difficulties associated with reforming this area and implementing change. The issues associated with the Third Heavy Vehicle Road Pricing Determination demonstrate these difficulties and complexities and may provide insight on alternative future approaches to reform. The broad range of issues raised in the paper highlights this.

Tasmania as an island state is highly dependent on efficient and competitive transport arrangements. These competitive pressures have driven many changes to Tasmania's freight transport systems, resulting in a much more efficient transport system than was previously available. For example, coastal shipping services connecting Tasmania's ports with mainland Australia have largely consolidated at the northern ports, with land transport filling a much more demanding role as a result. Further development of Tasmania's forestry-based and mining industries is anticipated in the near future, which will substantially increase the demands placed upon its land transport system and services.

Tasmania's land freight task has already grown significantly in recent years, with the forecast doubling of the freight task by 2020 already well underway. Evidence of this growth can be seen both in terms of the movement of freight internally throughout Tasmania as well as externally through its ports.

In Tasmania's case, both road and rail modes make substantial contributions to performance of this task. For example, Tasmania's rail system carries around 50% of the non-urban freight task, in net tonne-kilometre (NTK) terms. Road freight carries the other 50% of the non-urban task plus the vast majority of short-haul freight. The Tasmanian Government sees this important role for rail remaining essential for the future, if the performance of the growing freight task is to remain safe, efficient and competitive.

The importance of the rail freight system to Tasmania's future is directly relevant to the nature and consistency of future infrastructure pricing mechanisms applying to each mode. It is hoped the review process will help deal with many of the practical and conceptual problems that have arisen over infrastructure pricing, including transport infrastructure, in recent years.

The Productivity Commission has raised many relevant issues in its Issues Paper. At this time, the Tasmanian Government wishes to discuss several broad topics in the context of the Review. These are: the need for an efficient transport system that identifies and addresses the competitive neutrality issues between road and rail; the existing system; the need for an efficient and cost-effective recovery mechanism for charges and the effect of past and future expenditure patterns.

The Need For An Efficient Transport System

Throughout Australia there has been a prolonged period of heavy investment in road infrastructure. However, investment in rail infrastructure, including Tasmania's, has been extremely low for decades, with some notable exceptions in relatively recent times. This has enabled road freight operators to take progressive advantage of the opportunities offered through larger, heavier and therefore much more efficient vehicles. Rail has struggled against this vigorous competitor, with replacement of its ageing infrastructure and rolling stock not always financially viable. Consideration needs to be given to the optimal level of investment in rail that is required, before a more balanced competitive environment will be able to emerge.

Balancing this past heavy investment in road infrastructure and the need for current and future investment in rail, within one charging system, is likely to be a difficult task, requiring some way of accounting for past and foreshadowed investment in both road and rail.

The Existing System

The need to maximise the operational and economic efficiency of both road and rail sectors in the transport system will be supported by an approach to pricing that reinforces economic efficiency. There is also a need for any future approach to pricing to be seen to be logical and transparent. The existing approach, particularly as it applies to road pricing, does not necessarily pass these tests.

For example, PAYGO's complexity was the subject of major objections in the Third Determination, with non-experts expressing difficulty with understanding its inner workings and its outputs. Therefore, as noted above, a logical and transparent methodology will need to be a key feature of a new charging system for transport infrastructure.

The modelling approach will also need to account for major shortfalls in data relating to the local road network. It is thought that a lack of data is also likely to be an issue for many parts of the rail network, including in Tasmania. Unless this shortage of data can be overcome, further objections are likely to arise, compromising the introduction of a new system.

Efficient & Cost-Effective Recovery Mechanisms

It is useful to note that in essence, mass-distance-location based charging is already widely used by rail infrastructure providers, usually in conjunction with a two part pricing system, and appears to work efficiently and well where freight volumes are high. The Tasmanian Government notes the issues and vigorous discussion that have arisen on rail networks where freight volumes are comparatively low.

There appear to be many hurdles to be overcome before mass-distance-location-based charging (and perhaps time-based) becomes practical and affordable for complex and highly interconnected road systems, both for infrastructure managers and users. Given that, the Tasmanian Government supports the continuation of the work and the development of the technology that may lead to its introduction.

Whatever approaches are finally recommended and/or implemented, several essential principles must be included. These include:

- A system that must be able to be implemented across infrastructure networks within a reasonable timeframe, in other words, a practical and workable approach;
- Affordable costs of implementation, both for infrastructure managers and users, assisting system efficiency and cost-effectiveness;
- Perceived “fairness”, especially its potential for acceptance by key stakeholders;
- Ease of collection, management, maintenance and access to supporting data for the system, also an efficiency and cost-effectiveness issue;
- Proven technology, assisting reliability of the system and its functionality.

Tasmania, as a small jurisdiction, has limited resources that can be applied to implementing a new system of transport infrastructure pricing. Transport operators, both road and rail, are also likely to have an interest in keeping the costs of complying with a new system at affordable levels. Therefore, as far as possible, a new transport infrastructure pricing system needs to remain affordable for both infrastructure owners and transport operators, thus achieving both the desired goals of economically efficient outcomes and cost-effectiveness.

Revenue and Investment Patterns

A major policy issue for consideration during the review is the linkage between past and future expenditure on transport infrastructure with the revenue raised through charging for its use. While this appears to be less of an issue overall for the rail system, it is a major issue for the road system, with no clear linkages evident to users. This lack of a relationship between charges and expenditure was raised as an issue during consultations on the Third Determination.

In conclusion, the Tasmanian Government welcomes the Inquiry and looks forward to the Commission's Draft Report, and will provide a further detailed submission at that time.

Yours sincerely

Scott Dobie
GENERAL MANAGER INFRASTRUCTURE POLICY

17 May 2006