Submission to the National Transport Commission
on the Third Heavy Vehicle Road Pricing Determination
Discussion Paper, July 2005

24 August 2005
Summary

The ARA in this submission specifically addresses the need for full implementation of the proposed 3rd Heavy Vehicle Road Pricing Determination to take effect on the scheduled implementation date of 1 July 2006. The ARA recognises that this is a modest increase in road pricing and does not address the long-term structural issues that cause competitive bias between modes for the contestable freight market.

While the Discussion Paper outlines a range of increases, the preferred option would be a scenario that provides for pavement maintenance to be fully attributable and include the cost of heavy vehicle enforcement. While this is still a long way from the full economic cost recovery scenario that underpins rail pricing it is the scenario that, within the limits of the NTC work, comes closest to a comparable outcome with rail.

In parallel to the introduction of the 3rd Heavy Vehicle Road Pricing Determination an independent (or Productivity Commission led) inquiry into the economic sustainability of the Australia’s land transport networks should be undertaken. The inquiry would cover:

- The needs for a new transport microeconomic reform agenda;
- Road and rail infrastructure pricing;
- Competitive neutrality for the contestable freight market; and
- Pricing sustainability for heavy haul and agricultural freight.
Introduction

Three key issues need to be taken into account in considering the implementation of the 3rd Heavy Vehicle Road Pricing Determination.

Firstly, road pricing is viewed by the rail industry as a contributor to the competitive distortion between the modes. The ARA report “The Future for Freight” highlighted the impact that efficient infrastructure pricing could have on modal choice. Moving to an efficient pricing modal would not only have significant implications for government policy on investment and transport planning, but also impacts on investment by transport operators and influences modal choice by transport clients.

While any direct comparison of the current road and rail pricing frameworks is not particularly helpful, given the fundamentally different basis on which they are developed, road pricing however cannot be determined without taking into account the impact it has on modal competition.

Secondly, there is the broader issue of the role of pricing in ensuring sustainable infrastructure. In recent years most infrastructure, including government owned infrastructure, has moved to a system of economic pricing; there is no reason for road infrastructure to be exempt from this process. It is questionable if the current PAYGO approach is an effective approximation of economic pricing.

The third issue is the relationship between pricing and investment. The price distortion influences competition thereby influencing modal share. This then feeds into skewed investment outcomes for both road and rail track. Furthermore, the level of road and rail track investment determines the level of investment by the private sector in operating infrastructure such as trucks, rollingstock and supporting infrastructure eg terminals.

Unless road pricing is reflective of the true economic cost of the infrastructure an efficient freight network will remain illusory.

Competition Policy

Pricing principles
The pricing principles agreed by ATC include:

“national heavy vehicle road use prices should promote optimal use of infrastructure vehicles and transport modes”.

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The Discussion Paper fails to address adequately this key element of the pricing principles. The assumption that the current methodology approximates the economic costs of the road is untested. Certainly, ARA research as outlined in the “Future for Freight” report articulates that the road pricing methodology allows for significant subsidisation by other road users in addition to cross subsidisation within the trucking fleet.

While it is recognised that the NTC by virtue of its limited charter has been constrained in its ability to consider a broad review of road pricing it is nonetheless disappointing that the same methodology and cost allocation processes continue largely unchanged.

The NTC’s Discussion Paper addresses the cross-subsidisation of the B-Double fleet, by the rest of the trucking fleet, and improves some of the databases that the charges calculations rely on, although not all.

The ARA acknowledges that the removal of subsidies for the B-Double fleet may have impacts on the trucking industry however; it should be argued that the continued subsidisation is not equitable to other classes of trucks or to rail, which primarily competes with the B-Double fleet.

**Local road use**

The assumption that local road use is uniformly 16% around the country mitigates against any nexus being able to be established between road use and road costs on local roads. This is a major shortcoming of the Discussion Paper and an area that warrants the closer engagement of local governments so that they can make informed decisions about investments in road and rail infrastructure.

**Mass Distance Charging**

It is disappointing that mass distance charging has not been progressed as part of the 3rd Heavy Vehicle Road Pricing Determination. If road pricing is to be internally equitable, and comparable to rail, mass distance charging is essential. In addition, information gleaned from mass distance charging would have the potential to provide good information to feed into planning and investment scenarios.

While it is accepted that the introduction of mass distance charging is in the early stages overseas this does not mean that ATC cannot commit to its introduction and commence work on refining a technology and developing an implementation strategy.

**Externalities**

The Discussion Paper has disappointingly discounted the inclusion of any form of externality charge into the Pricing Determination based on insufficient available data. However, there is sufficient data for at least a nominal charge to have been
included. The failure to take into account externalities discounts from the modal choice argument choice based on costs to the community of greenhouse emissions, accident costs over and above those covered by insurance, congestion and the impacts on community amenity. Some of these additional costs imposed by road operators will therefore continue to be directly passed on to taxpayers.

**Economic sustainability of land transport networks**

The rail industry has called for an independent enquiry into the economic sustainability of Australia’s land transport networks. The inquiry should consider:

- The needs for a new transport microeconomic reform agenda;
- Road and rail infrastructure pricing;
- Competitive neutrality for the contestable freight market; and
- Pricing sustainability for heavy haul and agricultural freight.

Reform of government policy to ensure economic sustainability of the land transport infrastructure is essential. This should start with a review by the Productivity Commission, or like body, to assess economic sustainability and pricing. Sustainable transport policies require pricing frameworks that allow for full transparency of any subsidies to individual transport modes. This should apply to more than direct infrastructure costs but include social costs with an agreement on equitable payment of these costs for each transport mode.

Assessment of the future of the infrastructure and the establishment of economically efficient pricing regimes are needed to underpin a national transport strategy to meet the freight task. Such a strategy needs to extend further than Auslink to include regional freight networks. The strategy to be effective also requires a transport infrastructure plan committed to by the three levels of governments and supported by policy and regulatory frameworks that encourage the development of alliances between modes to optimise the transport chains, eg multi modal hubs and/or interchanges.

The review would support the recommendation by the Productivity Commission in its recent Report reviewing National Competition Policy that:

“The Australian Government, in consultation with State and territory governments, should initiate an independent national review into the requirements for an efficient and sustainable national freight transport system (encompassing all freight transport modes). Taking account of reforms to date by the Australian Transport Council and individual jurisdictions, this review should map out what is required to:

- achieve competitive neutrality across all transport modes;
address barriers to competition and efficiency in individual modes; and
enhance interfaces between modes.

It should also examine what future institutional arrangements would give best effect to the next phase of freight transport reform.” (Recommendation 8.8)

**Pricing and investment**

The nebulous nature of the relationship between road pricing and infrastructure investment delivered does not sit easily with more sophisticated approaches to determining land transport investment, in particular the Auslink program. For investment decisions to be fine-tuned considerably more accurate data is needed on road usage. While the ABS road user surveys are feed into the heavy vehicle road pricing methodology and also used by rail to determine modal share figures, how close an approximation they are to actual road use is not known.

One way to obtain better data would of course be through mass distance charging.

**Conclusion**

Failure to price appropriately road infrastructure where road users pay the full economic cost of provision of the infrastructure will continue to have a detrimental effect of rail. The practice of pegging rail prices to road to foster competition cuts off the rail industry’s long-run investment revenue stream. This is compounded in areas were the track suffers a past underinvestment. Without a total review of the economic sustainability of the land transport networks road pricing will continue to either increase the need for government investment in rail track or see the closure of rail track.

The ARA agrees that the 3rd Heavy Vehicle Road Pricing Determination reflect the scenario in the Discussion Paper that includes full cost recovery of pavement maintenance costs and heavy vehicle enforcement costs. Implementation of the new charges on 1 July 2006 is supported. A determination based on the Discussion Paper will go some way to addressing the current competitive distortions faced by rail although it will not fully meet the ATC endorsed road pricing principles.

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