AUSTRALIAN LOGISTICS COUNCIL

SUBMISSION

To National Transport Commission
Discussion Paper - Heavy Vehicle Pricing Options:
Development and Assessment Framework

SEPTEMBER 2010

WHO WE ARE

The Australian Logistics Council (ALC) is the peak national body for Australia's freight Transport & Logistics (T&L) industry. The aim of ALC is to influence government policy decisions to ensure that Australia has a safe, secure, reliable, sustainable and competitive freight T&L industry.

SUBMISSION TO NATIONAL TRANSPORT COMMISSION DISCUSSION PAPER - HEAVY VEHICLE PRICING OPTIONS: DEVELOPMENT AND ASSESSMENT FRAMEWORK

THIS SUBMISSION HAS BEEN PREPARED WITH THE ASSISTANCE OF KM CORKE AND ASSOCIATES, CANBERRA.

PO Box 20 DEAKIN WEST ACT 2600
P: +61 2 6260 3274 F: +61 2 6260 4978 E: admin@austlogistics.com.au
www.austlogistics.com.au

CONTENTS

PRECIS

1. It is appropriate to examine whether the ARRB model based on the methodology and assumptions contained in Appendix A to the Discussion Paper will best reflect the marginal cost of road wear. However, a full exploration of the compliance costs associated with the operation of the ARRB model should form part of examination.
2. It is hoped that the proposed **'demand elasticity study' designed to measure behavioural changes that may flow from the adoption of a particular pricing model** will be sufficiently robust so as to allow the government to make a prompt, yet correct, decision.
3. The policy issue of whether short run or long run marginal costs are to be recovered should be determined as soon as possible.
4. To ensure there are no surprises for business in the development of the final road pricing mechanism, it would be highly beneficial if the level of coordination between the COAG Road Reform Review Group and the Treasury could be set out and the role the Treasury has in the determination of road pricing clearly outlined.
5. ALC will be closely monitoring how 'mark ups' for attributable costs, not collected by marginal cost pricing, are formulated and will be keen to ensure a clear:
   - identification of precisely what costs will be recovered by the finally adopted price mechanism; and
   - discussion as to whether costs will be recovered on a historical cost basis or at replacement value ('forward looking') basis.
6. When developing a funding model to replace PAYGO, there must be:
   - assurance that the technology to adequately support the preferred model exists;
   - proper costing of roll out costs for the technology;
   - a clear identification of the compliance costs imposed on industry by the model;
   - a presence of information needed to adequately operate the preferred model – for example that all Australian roads are correctly classified so as to allow the operation of the ARRB model to measure price road wear (if that forms part of the pricing model); and
   - assurance that all cross subsidies that can distort consumer choices as to how freight is conveyed have been, as far as possible, removed.
7. It would be beneficial if the status all of the work being conducted by the other work streams listed in page 2 of the discussion paper could be brought together in a holistic way so all stakeholders can be comforted that all issues (such as for example, the pricing of externalities) are being advanced.

About ALC

The Australian Logistics Council (ALC) is the peak national body for Australia's freight Transport & Logistics (T&L) industry.

ALC aims to influence government policy decisions to ensure that Australia has a safe, secure, reliable, sustainable and competitive freight T&L industry.

ALC members have interests across the full spectrum of the Australian freight T&L supply chain, including owners, providers and users of infrastructure, as well as suppliers of goods and services.

The Objectives of ALC are to:

1. Be the nationally recognised voice of the major participants in Australia's domestic and international freight T&L supply chains.
2. Support appropriate nationally consistent regulatory frameworks and transparent markets to ensure Australia enjoys the full benefits of national freight T&L policy development and reform.
3. Promote the freight T&L industry's image and profile and encourage greater recognition by governments and the community of the importance of the industry's contribution to Australia's economy.
4. Drive implementation of strategies to improve Australia's domestic and international supply chains.

Context

The Australian Logistics Council welcomes the opportunity to respond to the Discussion Paper *Heavy Vehicle Pricing Options: Development and Assessment Framework*. (**the discussion paper**).

As ALC said in its submission to the 2006 Productivity Commission report *Road and Rail Freight Infrastructure Pricing*[1]*:*

> ALC is strongly of the view that the overriding objective of the review should be to develop an approach to the pricing of freight transport infrastructure that will support economically efficient freight logistics. The pricing of freight transport infrastructure should be designed to foster the efficient use of the transport infrastructure that we have, and to encourage the timely provision of the infrastructure that we need.
>
> ALC believes that in framing future pricing arrangements the Commission should focus clearly on two key questions:
>
> » What pricing arrangements will encourage transport infrastructure providers to make the investments that will be necessary to cater efficiently for the future transport task?
>
> » What pricing arrangements will encourage freight transport service operators to make the right use of this infrastructure: that is, to use the right vehicles in the right way at the right time on the right routes?

A third question should also be added:

» *how much of a burden will the administrative and compliance requirements associated with the operation of a particular funding model impose?*

The overall intention is to set road pricing for conveying freight on the road at a level equal to the 'marginal social cost' - and thus the 'efficient price' in a manner limiting cross subsidies that distort consumer choice about how freight should be conveyed.[2]

In achieving this aim, this further observation from the ALC submission to the Productivity Commission should be borne in mind:

> From the perspective of economic efficiency, what matters is that the principles adopted for infrastructure pricing in the competing modes are non-distorting; that is, they do not result in an allocation of freight between the modes that is substantially different from that which would minimise total transport system costs.

To that extent, ALC notes the discussion paper suggests that it focuses on the issue of the pricing of road wear, scoping out issues such as (for example) a detailed consideration an analysis of social costs arising from the carriage of freight[3].

This makes a full consideration of a pricing structure based on recovering marginal social costs somewhat awkward if not impossible and the title of the discussion paper misleading.

Whilst the primary matter being dealt with in this discussion paper is important, it would be beneficial if the status all of the work being conducted by the other work streams listed in page 2 of the paper could be brought together in a holistic way so all stakeholders can be comforted that all issues (such as for example, the pricing of externalities) are being advanced.

1 Submission 7 - Road and Rail Freight Infrastructure Pricing. Inquiry report - 13 April 2007
2 It is noted the Australasian Railway Association does not accept that the CRRP proposals achieves this end.
3 See page i

Specific observations

Pricing road wear at marginal cost

The Discussion Paper suggests that it focuses on the issue of the pricing of road wear.

In that context it is appropriate to examine whether the ARRB model based on the methodology and assumptions contained in Appendix A to the Discussion Paper will best reflect the marginal cost of road wear as part of the CRRP project objective of developing a more appropriate pricing regime for infrastructure access.

ALC understands that the proposed model's methodology, assumptions and inputs as contained in the attachment to the discussion paper are designed on the premise that travelling on different roads will generate different cost signals depending on the original strength of the road.

ALC also understands that in practice roads will classified for the purposes of the model with a figure for pricing purposes determined on the number of axles passing over each road and the road's classification.

While sound from an engineering perspective, the methodology does seem to require records to be kept as to when a particular vehicle travels on a particular road, thus adding a recording and reporting burden.

A full exploration of the compliance costs associated with the operation of the ARRB model should form part of examination.

Development of a demand elasticity study

The discussion paper states that part of the process is to prepare and undertake a 'demand elasticity study' designed to measure behavioural changes that may flow from the adoption of a particular pricing model.

ALC is of the view that as valuable as the proposed exercise in developing a marginal cost model for road wear is, the real decision as to what change to current road pricing models (if any) should be instituted can only start once this study is carried out.

The survey should be sufficiently robust so as to allow the government to make a prompt, yet correct, decision.

As the discussion paper and subsequent information sessions generally discussed other policy issues relating to road pricing issues, ALC will briefly canvass these.

General observations

Recovery of short term marginal costs vs. long term marginal costs

The discussion paper discusses whether the short run or long run marginal cost for (at the very least) road wear should be captured by any pricing mechanism.

This is apparently an undetermined policy issue.

Pricing the long term marginal cost captures what may loosely be described as 'capital' costs: things such as putting down stronger pavements, wider or additional lanes or even new roads.

At an extreme, this would mean road users paying for all road infrastructures, with no, or limited, role for budget funding.[4]

It is noted the Henry Review on Taxation proposed capturing short run marginal costs.[5]

However, that said, it is important that any pricing mechanism does not act to distort the consumer choice as to the mode used to transport freight.

This is a policy decision that requires to be made as soon as possible.

The Henry Review generally

It is more generally noted that one of the factors permitting the formation of a minority Gillard Government was a commitment to a 'public discussion' or 'summit' about the Henry Review recommendations.

Part E3 of the Henry Review exhaustively discusses, and makes recommendations about, road transport taxation.

It canvasses a lot of the area dealt with by CRRP.

ALC has some concerns that there could be some 'silo thinking' within Government, with those involved with the Henry Review in the Treasury developing one set of policy proposals and and CRRP a different set.

An example of this is the prominence congestion charging may play in the overall pricing of road use.

It is a given that industry requires certainty so investment decisions can be made.

To ensure there are no surprises for business in the development of the final road pricing mechanism, it would be highly beneficial if the level of coordination between the COAG Road Reform Review Group and the Treasury could be set out and the role the Treasury has in the determination of road pricing clearly outlined.

4 Except for some quite discrete areas such as rural roads, where a community service obligation has been identified by government.
5 Australia's Tax Future Report to the Treasurer December 2009 Recommendation 62 and the discussion at page 378

Recovery of 'total costs'

The discussion paper says:

> heavy vehicle prices that are set at marginal costs will generally not recover the total heavy vehicle cost base, which includes, for example, the overhead costs associated with managing road networks. Overhead expenditures are not included in marginal costs. To recover total road agency costs from road user prices, additional cost components will need to be added to the marginal cost estimates. This could include using mark-ups on marginal cost-based usage rates and/or separate rate elements designed to ensure that the total cost base is recovered.6

The 'mark ups' are to cover 'attributable costs' covered by the current PAYGO system ranging from capital improvements to government overheads such as administrative cost, with the nature of the mark up turning on the pricing model ultimately used.

ALC will be closely monitoring how these 'mark ups' are formulated and will be keen to ensure a clear:

» **identification of precisely what costs will be recovered by the finally adopted price mechanism; and**

» **discussion as to whether costs will be recovered on a historical cost basis or replacement value ('forward looking') basis.**

Practicality of pricing models

Any pricing model must operate fairly and efficiently.

The issue of compliance costs associated with the ARRB engineering-economic cost model was discussed earlier.

It would also be wrong to have a pricing model heavily weighted towards imposing price on the basis of distance travelled where a road user is obliged to travel longer distances because, for example, a local council refuses to allow a specific class of heavy motor vehicle to travel on a particular road.

It is finally noted that, as in other jurisdictions, there is a preference to adopt mass distance-location-based pricing.

However theoretically likely such a price model i s to capture the real 'efficient price' for funding a road; there must be a practical capacity to implement it.

For instance, in a 2009 report to the US Congress the National Surface Transportation Infrastructure Transport Commission recommended a transition to a 'user pay' system of road funding.

However it also recommended an increase in fuel taxes to fund roads, noting it would take until at least 2020 to roll out the technology to support a 'miles actually travelled' model.[7]

When developing a funding model to replace PAYGO, there must be:

» **assurance that the technology to adequately support the preferred model exists;**

» **proper costing of roll out costs for the technology;**

» **a clear identification of the compliance costs imposed on industry by the model;**

6 Page iv5 Australia's Tax Future Report to the Treasurer December 2009 Recommendation 62 and the discussion at page 378

7 National Surface Transportation Infrastructure Financing Commission *Paying our way:A new Framework for Transportation Finance* (2009) http://financecommission.dot.gov/Documents/NSTIF_Commission_Final_Report_Advance%20Copy_Feb09.pdf (accessed 7 September 2010) – see Chapter 8 generally

- **a presence of information needed to adequately operate the preferred model – for example that all Australian roads are correctly classified so as to allow the operation of the ARRB model to measure price road wear (if that forms part of the pricing model); and**
- **assurance that all cross subsidies that can distort consumer choices as to how freight is conveyed have been, as far as possible, removed.**

ALC looks forward to the further development of this project.

Australian Logistics Council
September 2010

September 2010

AUSTRALIAN LOGISTICS COUNCIL

M E M B E R S

PLATINUM

GOLD

SILVER

BRONZE

ARRB Group
Australian Air Express
BlueScope Steel
Broome Port Authority
Coca-Cola Amatil
National Foods Limited
Newcastle Port Corporation
PGA (Management) Pty Ltd
Port Kembla Port Corporation
Port of Melbourne Corporation
Swire Cold Storage
Transport Certification Australia
Wallenius Wilhelmsen Logistics
WestNet Rail

GOVERNMENT SPONSORS

Department of Defence
Department of Transport and Main Roads QLD
Department of Transport VIC
Transport NSW

INDUSTRY ASSOCIATION

Australian Food & Grocery Council
Australian Furniture Removers Association Inc
Australian Institute of Export
Australian Shipowners Association
Chartered Institute of Logistics & Transport in Australia
GS1 Australia Limited
Ports Australia

INDUSTRY ASSOCIATION (CONTINUED)

Transport & Logistics Centre
Transport & Logistics Industry Skills Council
Transport Unions Federation
Victorian Freight & Logistics Council
Victorian Transport Association

ASSOCIATE

Merrill Lynch
Victoria University

PO Box 20 DEAKIN WEST ACT 2600
P: +61 2 6260 3274 F: +61 2 6260 4978 E: admin@austlogistics.com.au
www.austlogistics.com.au