Submission to: House of Representatives Standing Committee on Economics

Title: Inquiry into impediments to business investment

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AUSTRALIAN TRUCKING ASSOCIATION

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Transport ministers should implement an independent and urgent review of the Heavy Vehicle National Law, including a strong focus on the route permit approval process for heavy vehicles by local governments and associated regulations.

Recommendation 2
The proposed 2019 Productivity Commission review of rail and road operating frameworks should be brought forward to 2018, including a focus on productivity, harmonisation of standards, safety and regulation.

Recommendation 3
The Australian Government should support a stronger focus on improving general gazetted road access to reduce the need for individual permits. The Government should deliver:

- a targeted funding round additional to existing commitments for the Heavy Vehicle Safety and Productivity Program, where successful projects will be based on opening up new routes for gazetted heavy vehicle access.
- a High Productivity Vehicle network program, where successful projects will be required to open up routes for gazetted, A-double road access.

Recommendation 4
The next review of the Australian Dangerous Goods Code should consider:

- Whether the ADG Code should be adopted into Australian law using the 'applied legislation' model. This is the same model used by jurisdictions to adopt amendments to the Heavy Vehicle National Law made by the Queensland Parliament; and
- Whether a common operations manual should be developed to be adopted by all jurisdictions to encourage a more uniform interpretation of the ADG.

Recommendation 5
The Australian Government should consider the impact of liquid fuel security on trucking operators and the community in its Fuel Security Review.

Recommendation 6
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Recommendation 8
Truck toll multipliers should be reformed to require:

- Evidence used in setting the multiplier should be made publicly available.
- Refunds of the truck toll multiplier to heavy vehicle operators when toll road time savings are not delivered by the toll road operators.
- Revenue from the multiplier should be hypothecated to road maintenance, and heavy vehicle targeted construction and services, such as truck priority lanes.

Recommendation 9
Heavy Vehicle Road Reform must include road funding reform to deliver:

- a National Road Investment Fund.
- independent management of the NRIF.
- setting of key expectations for the outcomes to be achieved by NRIF investments on a rolling three yearly basis.
- independence and transparency in the management of road maintenance and delivery of new road infrastructure by state, territory and local governments.

Recommendation 10
The Australian Government should increase the priority of upgrades to the regional and remote road network to better enable business investment, opportunity and connectivity. This should include:

- Allocating additional specific funding for regional and remote road projects in the short to medium term future.
- Developing and adopting an economic analysis framework for the assessment of regional and remote road projects by independent road funds.

Recommendation 11
Tax reform should be implemented for heavy vehicle trucks and trailers and include:

- Abolishing stamp duty.
- Implementing accelerated depreciation.

Recommendation 12
The Australian Government should implement a mandatory payments code for the trucking industry under Part IVB of the Competition and Consumer Act (CCA) to address the payment terms issues facing small trucking businesses.

3. Introduction

On 29 March 2018, the Australian Government referred an inquiry into the impediments to business investment to be undertaken by the House of Representatives Standing Committee on Economics.

The Government has asked the committee to inquire and report on:

- the interaction between regulatory frameworks across all levels of Government and how the cumulative regulatory burden can be reduced to support greater business investment;
- the impact of innovation policies, at the Commonwealth and State government levels, on business investment and the role of innovation policies in encouraging greater business investment, having regard to approaches taken in other countries;
- the role that taxation policy, at the Commonwealth and State government levels, can have on the encouragement of new business investment;

- the role that energy policies, at the Commonwealth and State government levels, can have on the encouragement of new business investment; and
- the impact of supplier payment times, including by governments, on business investment for small to medium enterprise.

The ATA welcomes this inquiry. There is a pressing need for a regulatory and tax reform agenda to enhance productivity and investment in the trucking industry, and as a result, underpin the competitiveness of Australian businesses and supply chains.

4. Trucking industry productivity, investment and the need for reform

Freight is critical to the national economy, enabling Australian businesses, farmers, manufacturers and consumers to access local and global markets. The national domestic freight task is forecast to grow 26 per cent by 2026, having already grown 50 per cent in the 10 years to 2016. The growth in freight is above both population and economic growth, with Australia's population predicted to grow by 17 per cent, and the economy is predicted to grow by 21 per cent, over the 10 years to 2024.[1]

Trucking is critical to moving Australia's freight task. The Productivity Commission has found that only 10 to 15 per cent of the freight task is considered to be contestable across both rail and road.[2] For non-bulk domestic freight, more than 75 per cent is carried on Australian roads.[3]

Providing the backbone of supply chains, trucking is an Australian success story. Between 1971 and 2007, trucking industry productivity increased six-fold due to the uptake of high productivity vehicles like B-doubles. It has been estimated that in the absence of productivity improvements over this period that nearly 150,000 articulated trucks, in addition to the 70,000 registered for use in 2007, would have been required to undertake the 2007 articulated truck freight task.[4]

Australian trucking operators are global leaders that have pioneered modern, safer, and more productive vehicle designs. Road trains and high productivity vehicle combinations are delivering improved safety and productivity for our supply chains. An Austroads research report found that high productivity vehicles were safer, used less fuel, and offered significant economic benefits to a range of industries.[5]

Road freight is an enabler of opportunity, allowing businesses to reach domestic and international markets, consumers to purchase goods, farms to sell their produce, and construction materials to enable new developments. This is particularly critical to supporting jobs and economic growth in rural and regional communities. The Productivity Commission has reported on the importance of access to new domestic and international markets, provision of infrastructure, and removal of barriers to heavy vehicle access to encourage and support regional economic transition and development.[6]

The Productivity Commission's five yearly productivity review found that transport has had lower productivity growth compared to long-term averages.

Table 1: Recent versus long-term productivity growth for the transport industry

Labour productivity		Multifactor productivity	
1989-90 to 2015-16	2007-08 to 2015-16	1989-90 to 2015-16	2007-08 to 2015-16
1.8	0.3	1.0	-0.8

Source: Productivity Commission, 3 August 2017, 5 Year Productivity Review Supporting Paper No. 1, 16.

[1] National Transport Commission, August 2016, Who moves what where: Final Report, 21.
[2] Productivity Commission, December 2006, Road and Rail Freight Infrastructure Pricing, XXIX.
[3] Australian Government, 2014, *Trends: Infrastructure and Transport to 2030*, as quoted by Volvo Group Australia, 2016, *Professional Truck Shortage*
[4] Bureau of Infrastructure, Transport, and Regional Economics, 2011, *Truck productivity,* pixy
[5] Austroads, 2014, *Quantifying the Benefits of High Productivity Vehicles,* pi
[6] Productivity Commission, April 2017, Transitioning Regional Economies Initial Report, 121-127

More efficient and competitive supply chains enable increased economic output for other sectors. The Competition Policy Review (Harper Review) found that in relation to road transport:

> Even small changes in productivity in this sector can cascade through the economy, boosting productivity and output in other sectors. Also, given the size of the road transport sector, enhanced productivity in road transport can deliver large gains to the economy.[7]

However, delivering more of the same policy outcomes will not deliver the road freight productivity improvements required to enable increased economic output, and improving safety, congestion and environmental outcomes. There is a clear and pressing need for an enhanced road freight productivity agenda.

Increased costs, regulation, and slower productivity growth for road freight is ultimately a burden on supply chains for other economic sectors, creating a barrier and disincentive on potential business investment.

5. Regulatory reform: NHVR permit system and the HVNL

The heavy vehicle permit approval system for road access within Heavy Vehicle National Law jurisdictions is a barrier to productivity and investment. The 2011 Regulation Impact Statement that led to the establishment of the National Heavy Vehicle Regulator identified $8.4 billion in potential economic gains from improving arrangements for restricted access and oversize and overmass vehicles. This amounted to 97 per cent of the economic gains from establishing the NHVR.

These productivity gains have not been realised. For example:

- it can take more than 80 days to get a permit to transport OSOM steel products on the Transurban tollways in Melbourne, because the Transurban and NHVR processes do not work in parallel
- a company seeking to move OSOM mining equipment from the Pilbara to Weipa waited more than 100 days for a permit to move the equipment by road through Queensland. In the end, the company transported the equipment to Darwin by road and then barged it to Weipa
- the QTA has estimated that there are an estimated 4.5 million days lost in waiting for approval to move freight. This calculation assumes 20,000 permits issued by each jurisdiction and the NHVR, and then rounded down in light of the smaller jurisdictions and multiplied by the 30-day approval process.

There is a clear and pressing need for an independent, agile, and wide-ranging review of the HVNL. The review should focus on road access approvals and prescriptive fatigue law hours, including work and rest hour tolerances for electronic work diaries. It should be chaired by an independent and eminent Australian from outside the transport sector, and bring disruptive, innovative, and agile methodologies to the prescriptive and transaction based approach used by the regulator and road authorities.

Additionally, the proposed 2019 Productivity Commission review of rail and road operating frameworks should be brought forward to 2018, including a focus on productivity, harmonisation of standards, safety and regulation. This review would include the operation of the NHVR.

The ATA understands that the Inquiry into National Freight and Supply Chain Priorities is considering the need to review the permit system with a view to establishing a national standard and reducing the approval period to 24 hours on key freight routes, in line with national best practice. There is a growing list of examples of freight tasks where permit approval is granted in

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[7] Harper, Anderson, McCluskey, O'Bryan, March 2015, Competition Policy Review Final Report, 38.

Western Australia and the Northern Territory within 48 hours, but significant delays are encountered in the HVNL jurisdictions.

The existing framework for approving road access within the HVNL needs an independent and wide-ranging review. The regulator responsible for administering the laws, the NHVR, has said that the current legislation is not fit for purpose and does not allow the NHVR to deliver the reforms they were set up to do. This innovative, agile and disruptive review should consider:

- Digital, time sensitive and responsive solutions for road access, including the use of blockchain.
- Removing the role for issuing road access permits from the NHVR, so it can focus on its overarching safety regulatory role.
- Providing for a new entity or entities to issue road access approvals.

In addition to reducing permit approval timeframes, there needs to be a stronger focus on improving gazetted road access (which do not require individual permits for approved road access). As an example, the principles for assessing an application for restricted access vehicle approval in Western Australia includes the requirement for the assessor to consider where the assessment identifies the road meets all of the relevant Route Assessment Guidelines, that the road can be added to the relevant RAV Network.[8]

The National Transport Commission has reported that the more productive a heavy vehicle, the more likely it is to be regulated under a permit regime.[9] Additionally, the NHVR has cited the need for increased access and greater use of high productivity vehicles as a priority area for road reform.[10] The economic benefits of allowing staged access for high productivity vehicles to the highways connecting Brisbane, Sydney, Melbourne and Adelaide have been estimated at an additional $6.9 billion in direct real term benefits, with a majority of operational benefits a result of opening up the Hume Highway. This assessment by Austroads has also reported flow-on economic benefits in real terms of $5.6 billion, where 48 per cent of this benefit will flow specifically to the manufacturing, building materials, transport and food sub-sectors of the economy.[11]

In addition to productivity benefits, high productivity vehicles also deliver improved outcomes for safety, the environment, and reduced community impacts. Austroads has reported that high productivity vehicles:

- demonstrated 76 per cent fewer accidents than would be the case for conventional trucks, and a 63 per cent reduction in major accident incidents on a weighted fleet basis
- operational HPV fleets, due to the use of newer vehicles, are reported to make use of the latest emissions standards
- HPVs are expected to save 5.9 million tonnes of diesel by 2030
- through the use of lower numbers of trucks, HPVs reduce impacts on the community from noise, emissions, accidents and lead to lower pavement impacts on the road network.[12]

The ATA's truck impact chart illustrates that a 19 metre B-double can potentially move 1000 tonnes of goods in 27 trips, whilst an A-double can reduce the number of truck trips for the same job down to 19 trips.[13] Reform to improve gazetted road access for heavy vehicles must include the commencement of a gazetted, staged, modern, high productivity vehicle (HPV) road network for A-double combinations, similar to the current access and network for B-double combinations.

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[8] Main Roads Western Australia, September 2016, Guidelines for Approving RAV Access, 5.
[9] NTC, August 2017, Assessing the effectiveness of the PBS Scheme: Discussion paper, 21.
[10] National Heavy Vehicle Regulator, 2017, NHVR submission on the inquiry into National Freight and Supply Chain Priorities, 4.
[11] Austroads, 2014, Quantifying the Benefits of High Productivity Vehicles, pi.
[12] Austroads, 2014, Quantifying the Benefits of High Productivity Vehicles, pi.
[13] ATA, September 2016, Truck Impact Chart, edition 2.1, 9.

Dangerous goods

The transportation of dangerous goods is regulated by the Australian Code for the Transport of Dangerous Goods by Road and Rail (the ADG Code). Each state and territory separately implements the ADG Code and associated updates to their dangerous goods transport regulations. It is also the case that each jurisdiction can have a number of different agencies responsible for enforcement of the ADG Code.

This has led to unfortunate inconsistencies both in the legislative implementation of the ADG Code as well as its interpretation on the ground.

The ATA, in conjunction with the Australian Logistics Council, have requested that the next review of the ADG Code, scheduled for 2020, should consider:

- Whether the ADG Code should be adopted into Australian law using the 'applied legislation' model. This is the same model used by jurisdictions to adopt amendments to the Heavy Vehicle National Law made by the Queensland Parliament; and
- Whether a common operations manual should be developed to be adopted by all jurisdictions to encourage a more uniform interpretation of the ADG.

Fuel Security

The ATA and its members have a number of concerns about fuel security, and the impact on trucking operators during a potential shortage. The Governments Fuel Security Review must consider the impact on trucking operators during a shortage.

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6. Tax reform: Fair and independent heavy vehicle charges

Heavy vehicle operators are overcharged. Governments initially decided to freeze heavy vehicle charges at 2015-16 revenue levels until 1 July 2018. For 2018-19 and 2019-20, governments decided to freeze charge rates instead of continuing the freeze on revenue, which means the overcharging will be higher than it would have been. The projected over-recovery for 2018-19 will be $189.5 million, $40.7 million more than if the revenue freeze was continued.

The Government has committed to releasing a Regulation Impact Statement on the introduction of an independent regulator to set heavy vehicle charges, expected to be released by mid-2018. Additionally, the Government has also announced a National Heavy Vehicle Charging Pilot and Business Case Program for location specific trials, as a step towards establishing a fairer, more efficient national heavy vehicle user charging system.

Establishing the independent price regulator is fundamental to reforming heavy vehicle charges and should remain the immediate focus for Government.

Additionally, charges will not be fair nor meet expected efficiency outcomes if they do not include all charges, and do not include linked reforms to road funding decisions.

Landside port charges

Stevedores have increased the burden on trucking operators through significant increases in landside port charges.

ACCC Chair Rod Sims recently commented that infrastructure fees imposed by stevedores on transport companies have gone up a lot more than costs have gone up, and that apart from increasing profits it is unclear what rationale there is for the increased charges.

Surcharge increases introduced in 2017 have ranged from $20 to $30 per container, and in some cases have increased twice within the one year. DP World imposed a surcharge in Sydney of $21.16 per container in early 2017, and then almost doubled the charge to $37.65 per container from 1 January 2018.

These charge increases cannot be avoided by trucking operators; they have not been subject to detailed regulatory scrutiny; they simply build additional costs into Australia's supply chains.

Toll road charges

Whilst trucking operators already overpay for their use of the roads, private toll road owners and state governments have been increasing toll road charges on heavy vehicles whilst avoiding a fair distribution of increases with light vehicles.

The New South Wales Government has progressively increased the truck toll multiplier to 3 times the car toll on new and renegotiated toll road concession agreements.

In Queensland, the truck toll multiplier on the Logan and Gateway motorways will be progressively increased to 3.46 times the car toll once the Logan Enhancement Project is completed in mid-2019. In Victoria, the toll for heavy vehicles using CityLink increased by up to 125 per cent to fund the CityLink-Tullamarine widening project.

The NSW Government has claimed the higher truck toll multiplier is a result of increased road maintenance costs for heavy vehicles.[14] However, this is already factored into the heavy vehicle road user charge, and the truck toll multiplier does not differentiate between different types of heavy vehicles. Additionally, the cost increases have been implemented at the same time as commencing new motorway construction.

[14] NSW Legislative Council, Road tolling in New South Wales, October 2017, 79.

Transurban have also raised the higher operating costs for heavy vehicle operators to justify the higher truck toll multiplier. This rationale has been explained on the basis that these higher operating costs mean the time travel savings deliver a higher value to heavy vehicle operators.[15] However, this is only the case when the time travel savings are actually delivered and should not be charged on heavy vehicle operators when time savings are not delivered.

Toll revenue has been increasing faster than traffic flows, and at the same time as increasing toll road operator profits. On Melbourne's CityLink toll revenue is up 14.2 per cent, whilst average daily traffic has actually declined by 1 per cent. On Sydney's network toll revenue is up 9.8 per cent, whilst average daily traffic is only up 2.9 per cent.[16]

Toll roads are increasingly becoming a monopoly asset for heavy vehicle traffic, with NorthConnex in Sydney being accompanied by truck bans on alternative routes.

Ultimately it is important that in seeking to address urban congestion and connectivity that governments to not build in new transport inefficiencies, locked in for years to come. Toll road charges which prioritise revenue raising will only risk creating an inefficient network, with some trucks avoiding toll roads when able to do so.

Local government access charges

In the latest example of unregulated, unsustainable and uncoordinated fee increases being imposed on heavy vehicle operators, some local governments have increasingly imposed additional access charges on heavy vehicle operators to use local roads.

This has been a particular issue in Western Australia:

- In a regional shire example, a trucking operator is charged $700,000 for use of a particular road. In addition, the operator also pays for road maintenance and provide a report to the local council on how the maintenance is spent on the road. The access charge goes into consolidated revenue.
- In a metropolitan example, trucking operators running concessional loads pay a dollar per tonne per kilometre amount. The requirements include a 500 per cent escalation clause in the event that road wear is underestimated. Revenue goes into consolidated revenue.

In the above metropolitan example, at least one company has abandoned concessional loads, and now runs an additional 1,420 truck movements per annum for a single product line within the council area.

These new charges, similar to toll road and landside port charges, threaten major cost impacts on Australia's supply chains. They should be included in the independent regulation of heavy vehicle charges.

Recommendation 6
Heavy vehicle charges should be set by an independent regulator, such as the ACCC, and include road user, registration, landside port, toll road, and local government access charges.

Recommendation 7
Australian Government funding of toll road projects should be contingent on heavy vehicle charges being determined to incentivise heavy vehicle use on these corridors, maximising the efficiency of the overall urban road network, and not utilisation of heavy vehicle toll charges for revenue raising.

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[15] NSW Legislative Council, Road tolling in New South Wales, October 2017, 79-80.
[16] Transurban, ASX Release, 13 February 2018, Appendix 6 & Appendix 7.

Recommendation 8
Truck toll multipliers should be reformed to require:

- Evidence used in setting the multiplier should be made publicly available.
- Refunds of the truck toll multiplier to heavy vehicle operators when toll road time savings are not delivered by the toll road operators.
- Revenue from the multiplier should be hypothecated to road maintenance, and heavy vehicle targeted construction and services, such as truck priority lanes.

7. Road funding reform

The Government has stated that Heavy Vehicle Road Reform (HVRR) is seeking to fix the poor links between the needs of road users, the charges they pay and the services they receive. The Government also says that a more direct user charging system and a system of reforms to the ways governments plan, fund, invest in and deliver road infrastructure is needed to establish a market and improve these links.

The Government also estimates that HVRR could deliver a productivity dividend for the national economy between $6.5 billion to $13.3 billion over twenty years. However, the current focus of HVRR is on the system of collecting charges, and not on how governments plan, fund, invest and deliver road infrastructure. Without these accompanying reforms, the estimated benefits are unlikely to materialise.

The current system of funding roads is broken. The Productivity Commission has reported that the current governance, taxation and institutional arrangements for the provision and funding of roads are ultimately unsustainable. The Commission also reported that road funding decisions are often based on inadequate information, inadequate assessment of the costs and benefits of projects, and are subject to budgetary and electoral pressures.[17]

Austroads reported that despite Australia spending approximately $19 billion maintaining, expanding and operating our extensive road network in 2013-14, and despite steady growth in expenditure, parts of the road network are poorly maintained, accessibility in remote and regional areas continues to be a concern, the road network continued to be congested, and heavy vehicle productivity has plateaued impacting on freight transport costs and leading to an anticipated growth in the number of heavy vehicles on the network.[18]

In its public infrastructure report, the Productivity Commission recommended the adoption of a well-designed road fund model, where independent road funds would make transparent funding decisions.[19] The funds would receive hypothecated revenue from road users and government funding to cover community service obligations. The Harper Competition Review made a similar recommendation.

Establishing road funds with operational independence from governments would help separate long term infrastructure decisions from the budgetary and electoral cycles. The road funds would require stable, long-term funding to enable them to enter into contracts which can seek efficiency savings for road investments, including for maintenance. Road funds should also be required to utilise freight and traffic data to make investment decisions based on achieving improved network outcomes.

Governments should continue to set the outcomes required of the network. As an example, Government could specify the outcomes required in terms of opening up new routes for gazetted

[17] Productivity Commission, Public Infrastructure, May 2014, 303.
[18] Austroads, Reforming Remote and Regional Road Funding in Australia, August 2016, i.
[19] Productivity Commission, Public Infrastructure, May 2014, 303.

high productivity vehicle road access, and in the provision of appropriate rest areas. The independent road funds would then have to deliver these outcomes.

Critically, this independent decision making should include road maintenance. Austroads has reported that the current system of road funding delivers relatively constant amounts for maintenance with increases or decreases in budget allocations depending on new road projects. These are set in competition with other government spending priorities, creating uncertainty about funding levels and its allocation.

The practical effect, according to Austroads, is less than optimal expenditure on road maintenance compared to new road projects. This lack of focus on maintenance is likely leading to higher overall life cycle costs for the road network, as proper maintenance of existing roads is often a cost effective way of reducing future road replacement costs.[20]

Similarly the Victorian Auditor-General made a number of concerning findings about maintenance of Victorian roads, including:

- Funding allocations to regions being made based on past allocations, and not current needs.
- VicRoads being unable to demonstrate that it is making the best use of existing maintenance funds.
- Targeted early intervention to prevent roads from needing more costly and extensive maintenance has been limited.

The audit also found that VicRoads has limited central oversight of the delivery of its road pavement maintenance program, with regions only reporting on coverage rates, not on cost, time or quality of outcomes. As a result, VicRoads is unable to drive continuous improvements in the development and delivery of its maintenance program.[21]

An example of reform options can be seen in New Zealand, which operates a road fund with independent assessment of investments, and the United Kingdom, which is progressing a significant road funding and investment reform agenda.

The ATA has previously made detailed recommendations on road funding reform, in particular in the ATA submission to the inquiry into National Freight and Supply Chain Priorities and for the 2018-19 Pre-Budget submission. This work should proceed in 2018 and deliver:

- a National Road Investment Fund, to provide long term and stable road funding, based on hypothecated charges.
- independent management of the NRIF, by either establishing an independent, statutory National Road Investment Corporation or setting up a National Road Investment Team within Infrastructure Australia.
- Government oversight of the outcomes to be achieved by the NRIF, by providing either the NRIC or IA with key expectations on the outcomes to be achieved by NRIF investments. The Government should renew these expectations on a clear, consistent three-year basis (ie once during each parliamentary term).
- introduction of greater independence and cost transparency for management of road maintenance and delivery of new road infrastructure by state, territory and local governments.

Regional roads

Addressing road infrastructure gaps in remote and regional areas provides significant benefits. The 2016 report by Austroads, *Reforming Remote and Regional Road Funding in Australia*, found a number of benefits which include:

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[20] Austroads, Reforming Remote and Regional Road Funding in Australia, August 2016, 48.
[21] Victorian Auditor-General, Maintaining State-Controlled Roadways, June 2017.

- Improved accessibility and connectivity to a community (such as providing year round road access, rather than access limited to six months of the dry season).
- Benefits associated with the avoided costs of having a better road (such as reduced storage costs for fuel and avoided delivery costs by other transport modes, such as air freight).
- Wider social benefits such as health and educational benefits.
- Ability for new trips to be made, which improve access to health, education, work, and shopping, delivering increased earnings, improved health, social involvement, and additional spending in local communities.
- Avoidance of relocation costs to larger communities, both for individuals involved and for the local smaller communities. [22]

Independent management of the road network and assessment of investment priorities would assist with building a better regional road network.

However, the task of building better regional roads is urgent and has a significant impact on business investment in critical supply chains. The Northern Australia Infrastructure Audit found that the road network in Northern Australia is essential for connecting people and freight with places of residence and economic activity. Critically, the audit identified road infrastructure gaps, including:

- North – south access, as linking northern Australia to southern jurisdictions was found to be essential for the region's economic development.
- Road links between major northern urban centres to their hinterlands.
- Regional links for the resources industry.
- Agricultural industry road links.
- Bridge condition and strength, which can limit road route access for heavy vehicles and if improved, can also improve flood resilience.
- Urban road and public transport links, which impacts the overall performance of the road network and is critical for the economic and social needs of urban centres.[23]

Fixing these road infrastructure gaps, and the gaps in other regional areas, will require additional funding. The current funding framework for regional roads is not sufficient.

As an example, Austroads identified approximately 78 per cent of the Tanami Road (790km linking the NT and WA) as unsealed and either fully closed or restricted for lengthy periods of up to 60 days during seasonal weather events. During these periods access to mines, stations and communities along the road is limited, with safety risks due to poor road geometry, excessive corrugations, and poor visibility.

Upgrading the Tanami Road is reported to deliver key benefits, including:

- Lower living and business costs for communities along the corridor.
- Improve access to areas of economic activity, including mining, agricultural and tourism.
- Improve access for products from the region to south eastern states and cities.
- Create opportunities, assist meeting closing the gap targets, and enhance connectivity for remote communities.
- Enhance economic opportunities for Alice Springs, Halls Creek, Kununurra and Wyndham.
- Improve road safety.

Despite these benefits, Austroads report that the cost benefit analysis for the proposed upgrade of the Tanami Road focused on traditional benefits such as vehicle operating cost savings, travel time savings, crash cost savings, environment externalities and residual value of assets, which resulted in a benefit cost ratio of 1.1.

Austroads also reported that if a more detailed analysis, including the wider economic benefits had been used, that larger benefits for the project would have been likely to have been quantified.[24]

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[22] Austroads, Reforming Remote and Regional Road Funding in Australia, August 2016, 45-75.

[23] Infrastructure Australia, Northern Australia Audit, January 2015, 111-114.

[24] Ibid, 59-60.

In its report on Public Infrastructure, the Productivity Commission discussed concerns with the use of wider economic benefits in cost-benefit analysis. Due to the framework for estimating these benefits being in its infancy, the Commission reported that their inclusion has the potential to show one project to be superior to another purely because of differences in the way such benefits are defined and estimated. The Productivity Commission also reported that where project selection runs contrary to a cost-benefit analysis, that the reasons should be clearly explained.[25]

The establishment of independent road funds will need to include a transparent assessment framework that includes some of the wider economic and social benefits of regional road projects.

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- independence and transparency in the management of road maintenance and delivery of new road infrastructure by state, territory and local governments.

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The Australian Government should increase the priority of upgrades to the regional and remote road network to better enable business investment, opportunity and connectivity. This should include:

- Allocating additional specific funding for regional and remote road projects in the short to medium term future.
- Developing and adopting an economic analysis framework for the assessment of regional and remote road projects by independent road funds.

8. Tax reform: Accelerated depreciation, company tax and removal of stamp duty

Tax changes and business investment are central to political debate in the lead up to the 2019 Federal election.

Company tax and accelerated depreciation

The Australian Government has legislated reductions in company tax for firms with an aggregated turnover of less than $25 million for the 2017-18 financial year, and less than $50 million for the 2018-19 financial year. For eligible firms, the rate will reduce from 30 per cent to 27.5 per cent, and in 2025-26 and 2026-27 it will reduce progressively to 25 per cent.

The Government has also introduced legislation to remove the threshold for the company tax reductions, although this has yet to secure the support of Parliament. If passed, the turnover threshold for the lower rate would progressively increase in coming years before being abolished in 2023-24.

As of June 2017, there are just over 50,000 trucking businesses in Australia. Of these, 94 per cent have a turnover of $2 million or less. A further 4.8 per cent of trucking businesses will also receive the lower corporate tax rate under the legislated reductions due to having a turnover of $10 million or less. The final 1.2 per cent of trucking businesses have a turnover of greater than $10 million, of which some will be eligible for the reduced rate. The proposed corporate tax rate for companies with a turnover of over $50 million only effects a small number of trucking businesses.

[25] Productivity Commission, Public Infrastructure. 27 May 2014, 94, 103.

As part of the ongoing process of tax reform, the ATA recommends that improvements are made to accelerated depreciation or write offs for new trucks and trailers. New trucks and trailers are safer, more fuel efficient, and utilise the latest safety technologies.

Additionally, ANZ analysis in 2017 found that the national average fleet age continues to age at record levels, and that the **industry will need to invest in excess of $3.5 billion in capital over the next 5 years just to meet expected demand.**

Investment would need to be higher to reduce the average age of the truck fleet, which should be a priority. Newer vehicles have the latest safety technologies, meet newer emissions standards, and are quieter.

The vast majority of trucking businesses, as small businesses, will not be impacted by further changes to the company tax rate. Targeted measures are required to allow the industry to invest in new vehicles, meet growing freight demands, and improve safety and environmental outcomes.

An additional investment write-off for assets such as trucks would provide businesses with an incentive to upgrade their fleets.

Stamp duty

Additionally, the Australian Government has introduced legislation to repeal the Federal Interstate Registration Scheme. This will increase the annual stamp duty tax burden on trucking operators by $6.2 million.

Increasing the reliance on state and territory stamp duties goes against one of the original intents of FIRS, by increasing reliance on inconsistent state and territory stamp duty regimes. The proposed removal of the FIRS stamp duty exemption is especially problematic because stamp duties are economically inefficient: they restrict the efficient allocation of capital and labour. Governments should be looking at reducing their reliance on stamp duty, not increasing it.

The Australia's Future Tax Review (Henry Tax Review) recommended in 2010 that there should be no role for any stamp duties in a modern Australian tax system.[26] In 2015, the Australian Government released a tax discussion paper (Re: think) noting that stamp duties are some of the most inefficient taxes levied in Australia, and that such taxes are more likely to discourage turnover of taxed goods.[27]

KPMG has noted that the more inefficient or distorting a tax is, the more likely resources will be moved away from their highest-value use, leading to lower productivity across the economy and lower living standards.[28] KPMG also reported that motor vehicle taxes, including stamp duties, are taxes on capital and increase the cost of investing in motor vehicles. This in turn leads to a reduction in investment in vehicles, and a high excess burden.[29]

KPMG has estimated that increasing motor vehicle stamp duty by a small amount has a marginal excess burden (representing an additional loss in living standards) of 33 cents per dollar of additional government revenue.[30] With the closure of FIRS estimated to increase stamp duty revenue by $6.2 million per year, this would lead to an estimated $2.1 million annual loss in living standards.

Whilst this calculation is only an indicator of the likely cost as the modelling is not specific to the closure of FIRS, it should also be noted that KPMG reported that the modelling only captures the reduction in vehicle sales and not the lower frequency and size of vehicle transactions. As a result, the estimated excess burdens are likely to be conservative.

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[26] Recommendation 51 in Australia's Future Tax System report to the Treasurer, December 2009.
[27] Australian Government, March 2015, Re:think tax discussion paper, 145.
[28] KPMG, September 2011, Economic Analysis of the Impacts of Using GST to Reform Taxes, 1, 4.
[29] Ibid, 6.
[30] Ibid, 5.

Recommendation 11
Tax reform should be implemented for heavy vehicle trucks and trailers and include:

- Abolishing stamp duty.
- Implementing accelerated depreciation.

9. Payment terms and trucking businesses

The trucking industry consists almost entirely of small businesses and is characterised by tight margins. Research by the ANZ shows that the median EBIT margin for trucking businesses was 4.2 per cent in 2015. The bottom quartile of trucking businesses recorded negative, unsustainable EBIT margins.

At the same time, the vast majority of the costs incurred by small trucking businesses must be met before they can bill their customers. These include wages or personal living costs, fuel, tyres, insurance, finance costs, registration and maintenance. Small trucking businesses are therefore very vulnerable to adverse changes in their payment terms, and often have little capacity to negotiate them with large customers.

The ATA has advocated developing a **mandatory code for the trucking industry under Part IVB of the Competition and Consumer Act** (CCA) to address the payment terms issues facing small trucking businesses. The provisions of existing industry codes show it would be possible to construct a code covering payment terms for these businesses, which could for example include payment times – recommended as no more than 30 days from the date an invoice is issued – a prohibition on set offs and pay when paid arrangements, and alternative dispute resolution. It would also be necessary to include special rules covering recipient created tax invoices (RCTIs), to prevent customers from delaying the creation of these invoices to avoid triggering the 30-day period.

Recommendation 12
The Australian Government should implement a mandatory payments code for the trucking industry under Part IVB of the Competition and Consumer Act (CCA) to address the payment terms issues facing small trucking businesses.