

**Senate Standing Committee on Economics**

**ANSWERS TO QUESTIONS ON NOTICE**

**Treasury Portfolio**

Budget Estimates 3-5 June 2008

**Question: bet 5**

**Topic: Road User Charge**

**Hansard Page: Written**

**Senator Boswell asked:**

I refer to the address by Ken Henry, the Secretary to the Treasury to the Australian Business Economists in Sydney on Tuesday 20 May 2008. In that address, the Secretary discussed a number of economic issues such as the value of an inflation target, the virtues of a flexible labour market and structural policy requirements. In terms of structural policy matters, the Secretary criticised the Opposition, when the Secretary appeared to defend the indexation of the diesel fuel excise – a measure introduced by the Keating Government and the abolished by the Howard Government in early 2001.

In terms of context, the Rudd Government tried to reintroduce this tax when it tabled the necessary regulation in the other place on 13 March 2008. This measure, known as the Road User Charges pegs an indexation of the diesel fuel excise at a rate higher than the CPI. It's a measure that would tax the drivers of the nation's 365,000 trucks and increase grocery prices. To protect Australia from this inflationary measure, the Opposition disallowed the regulation in the Senate on Wednesday 14 May.

In the speech the Secretary of the Treasury disapproves of this decision and mentions that this Road User Charge is a "pre-condition for other, more important, land transport reforms."

1. What does the Secretary mean by "pre-condition" for other, more important land transport reforms?
2. What are the land transport reforms to which the Secretary of the Treasury refers?
3. The diesel fuel excise, or the Road User Charge, has been defended on the basis that it is a cost-recovery measure to cover the impact of trucks on our road system.
  - Does this mean the Secretary is supporting other road user changes that are designed to implement further cost-recovery mechanisms?
4. What does the Secretary of the Treasury mean by other more important land transport reforms?
5. In terms of the comments of the Secretary of the Treasury's comments, how is the successful passage of the Road Users Charge through Parliament a "pre-condition" for such reforms?

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#### **Answer:**

Heavy vehicle road user charges have been set nationally using a pay-as-you-go approach since 1992. In April 2007, the Council of Australian Governments (COAG) agreed to a phased approach to the reform of road pricing aimed at promoting the more efficient, productive and sustainable provision and use of freight infrastructure. This program consists of three distinct phases designed to run over the period 2007 to 2014 (see **Attachment A**).

The first step is to ensure that the current charging arrangements fully recover from heavy vehicle road users their allocated share of road infrastructure costs in aggregate and that they not involve cross-subsidies across heavy vehicle classes. COAG requested the Australian Transport Council (ATC) direct the National Transport Commission (NTC) to apply these two principles in developing the new heavy vehicle charging determination. COAG considered that achieving full cost recovery was a necessary precondition prior to the introduction of more sophisticated charging regimes outlined in the reform program.

The NTC recommendations, subsequently endorsed by the ATC in February 2008, were for an increase in the road user charge from 19.633 to 21.0 cents per litre, annual adjustment of the road user charge to reflect future changes in road expenditure, and changes to heavy vehicle registration fees. The proposed changes to the road user charge were designed to address the current under recovery of costs for heavy vehicle use of the road network.

More broadly the reform program is focused on developing more efficient charging mechanisms for heavy vehicles, such as mass-distance-location based charges. Mass-distance-location based charges seek to ensure that heavy vehicles pay for their use and impact on the road system through charges based on vehicle mass, and distances and routes travelled by individual heavy vehicles. User charges based on this methodology offer the potential for each vehicle to be charged for its actual use of the road network and the engineering and maintenance demands it places on the network.

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#### Attachment A

#### ROAD REFORM PLAN

Progression beyond Phase I is subject to COAG consideration of the outcomes of Phase I and further research.

Timeframe	Action	Date for completion
<b>Phase I 2007-08</b>	Implementation of National Guidelines for Transport System Management for project development and appraisal, for new public road and rail infrastructure projects, applied in a transparent manner with improved consultation and ex-post project evaluation processes	Jul 2007
	Revised heavy vehicle pricing determination formulation and cost estimation and allocation processes, to apply from 2008, to ensure ongoing delivery of aggregate cost-recovery and removal of cross-subsidisation across heavy vehicle classes (recognising that a phased approach may be required)	Dec 2007
	Continued implementation of agreed regulatory reforms, including Performance Based Standards (PBS)	Dec 2007
	Independent review of policy-relevant externalities of heavy vehicle road use and cost-effective policies for attaining efficient abatement of external costs	Jul 2008
	Independent review of heavy vehicle road use and costs to refine PAYGO, improve investment decision making and provide an information base for examination of location-based charging	Jul 2008
	Government research to identify road spending to meet Community Service Obligations (CSOs) to assist transparency of funding for CSOs and help inform future charging arrangements	Dec 2008
	Detailed review, including trials (building on the Intelligent Access Program) to assess the impact and feasibility of incremental pricing schemes for higher mass and other innovative vehicles which allow access to parts of the road network from which they are currently excluded.	Dec 2008
	<b>Phase II 2009-2010</b>	Evaluation study of incremental pricing schemes
Each jurisdiction will consider examining alternative institutional arrangements to better link road freight revenues to investment and enhance decision-making		Jul 2010

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Reviews of road freight infrastructure regulation under  
general annual best practice regulation review  
cycles Jul 2010

Subject to subsequent COAG consideration,  
implementation of the results of Phase I and Phase  
II work programmes where the benefits are clearly  
expected to outweigh the costs Dec 2010

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**Phase III** Feasibility study of mass-distance location-based Dec 2011  
**2011-2014** charges

Subject to subsequent COAG consideration,  
implementation of the results of Phase III work  
programme where the benefits are clearly  
expected to outweigh the costs Dec 2014

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