ARTC

AUSTRALIAN RAIL TRACK CORPORATION LTD

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Committee Secretary
Senate Rural and Regional Affairs and Transport Committee
Department of the Senate
PO Box 6100
Parliament House
Canberra ACT 2600
Australia

Inquiry into Interstate Road Transport Charge Amendment (No.2) Bill 2008, and Road Charges Legislation Repeal and Amendment Bill 2008

ARTC Submission

Thank you for the opportunity to make a submission with respect to your above inquiry. Australian Rail Track Corporation's submission is attached. The preparation of this submission follows substantial active participation by ARTC with regard to NTC consultations in relation to the 3rd Heavy Vehicle Road Pricing Determination, the 2007 Heavy Vehicle Charges Determination, and the Productivity Commission's Inquiry into Road and Rail Infrastructure Pricing in 2006.

The comments contain no information considered 'commercial-in-confidence'. A copy of the submission has also been forwarded to your office via email. For further information regarding the preparation of this submission, could you please contact Mr. Glenn Edwards, (08)82174292 (Ph), (08)82174578 (Fax), gedwards@artc.com.au (Email).

Simon Ormsby
General Manager Commercial

Inquiry into Interstate Road Transport Charge Amendment (No.2) Bill 2008, and Road Charges Legislation Repeal and Amendment Bill 2008

ARTC Submission

The Senate Rural and Regional Affairs and Transport Standing Committee is inquiring into the provisions of the Interstate Road Transport Amendment (No.2) Bill 2008, and the Road Charges Legislation Repeal and Amendment Bill 2008. These bills amend the Interstate Road Transport Charge Act 1985 and related legislation to increase registration charges for heavy vehicles registered under the Federal Interstate Registration Scheme (FIRS).

The purpose of the Interstate Road Transport Charge Amendment Bill (No.2) 2008 (the Bill) is to amend the Interstate Road Transport Charge Act 1985 which imposes registration charges for heavy vehicles registered under the Australian Government's voluntary Federal Interstate Registration Scheme. A significant part of ARTC's business is in interstate intermodal freight markets where rail competes with FIRS registered road transport.

This Bill will enable implementation of the registration charge elements of the 2007 Heavy Vehicle Charges Determination which revises national charges for heavy vehicles and trailers, for application to heavy vehicles registered under FIRS. The Determination was agreed to by the Australian Transport Council on 29 February 2008 and was implemented by the States on 1 July 2008. The Northern Territory is currently introducing the new national charges into their Parliament with commencement expected before the end of 2008. The timing for implementation by the Australian Capital Territory Government rests on the passage of the Road Charges Legislation Repeal and Amendment Bill 2008.

The purpose of the Road Charges Legislation Repeal and Amendment Bill 2008 is to repeal the Road Transport Charges (Australian Capital Territory) Act 1993 (the Road Transport Charges Act) and parts of the Road Transport Reform (Heavy Vehicles Registration) Act 1997 (the Heavy Vehicles Registration Act) which refer to the Road Transport Charges Act, and to amend the Fuel Tax Act 2006 to implement changes to the heavy vehicle road user charge necessary to give effect to revised heavy vehicle charges agreed by all Australian Transport Ministers on 29 February 2008.

ARTC fully supports the intent of the proposed Bills.

Over the past 4 years, ARTC has actively participated in consultations in relation to the NTC's 3rd Heavy Vehicle Road Pricing Determination and 2007 Heavy Vehicle Charges Determination, and the Productivity Commission's Inquiry into Road and Rail Infrastructure Pricing in 2006.

In particular, the thrust of ARTC's submissions with respect to these inquiries, and heavy vehicle charges generally, in its submissions was as follows:

- ARTC identified a number of concerns it had with the existing approach to heavy vehicle road user charging, many of which give rise to an inconsistent approach to road and rail infrastructure pricing. ARTC believes that the approach to pricing of rail infrastructure provides a better framework for the improvement in cost recovery and ultimately full economic cost recovery in the long term.

- ARTC considered that two important elements that must be in place to establish an efficient and integrated framework for investment in the transport sector are competition and maximization of cost recovery. To achieve this, ARTC recommended the following elements of an efficient and competitively neutral pricing regime:

    - There should be a single regulatory objective, ideally efficiency in the use, provision of and investment in, road and rail infrastructure. It is also necessary to have regard to the impacts on competition in the road and rail freight market (between and within markets), when designing a road and rail infrastructure charging regime.

    - Full economic cost recovery (including social costs) underpinning triple bottom line investment decisions should be the long term goal.

    - In the first instance (short term), it is important that pricing of road and rail be based on the same economic criteria.

    - Infrastructure investment & planning should be based on economic (triple bottom line) criteria. Investment planning should be carried out on a network/corridor basis (where transport services are provided to a market or markets) vis-à-vis planned on a modal basis. There should be a long term focus on the development and sustainability of transport infrastructure and investment should be undertaken on an equitable, rigorous and transparent triple-bottom line economic basis. In the long term, both road and rail investment would be underpinned by through economic cost recovery (infrastructure provision would effectively operate as a 'business'). In the short term, achievement of this outcome is best underpinned by efficient, and competitively neutral, pricing of infrastructure usage.

- Cost allocation, pricing and investment processes should be underpinned by high quality and specific data collection. Whilst ARTC recognizes, and supports, advances made by the NTC to improve data quality, there remains a significant element of 'averaging' resulting in highly utilized vehicles (those travelling more distance and/or carrying more mass) being undercharged. Many vehicles registered under FIRS would fall into this category.

- There should be a national basis for economic and safety regulation for both modes.

- ARTC recognises that the achievement of an efficient and competitively neutral infrastructure pricing regime is not a simple exercise and may be a long term development. ARTC recommends, in the first instance, a focus on those aspects of road and rail infrastructure where competition exists. This would primarily impact on that part of the road fleet that is FIRS registered. In particular, ARTC makes the following recommendations in relation to implementation of mechanisms to deliver efficient and competitively neutral infrastructure pricing.

    - **Technology based mass-distance tracking for road.**

      ARTC believes that there is potential for the application of technology (such as GPS) to deliver mass distance charging by the adoption of a suitable approach in a smaller scale in the first instance. Initially focusing to the competitive interstate freight markets limits the extent of the fleet participation to around 4% (road industry estimate of the rail competitive component). Application could also focus on only those elements of the defined national transport network used to predominantly serve these interstate freight markets. It should be noted that the benefits of GPS tracking and vehicle weighing technology extend beyond the improvement of pricing and investment signals, and assisting in the delivery of competitive neutrality between modes. With regard to safety, authorities would be far better placed to ensure vehicle maintenance and operating standards are maintained if vehicle travel patterns could be monitored. Certain parts of the existing road fleet have already invested in GPS tracking technology for fleet and supply chain management. The benefits of mass-distance charging as part of future reforms have also been recognized in recent proposals by the Productivity Commission, ATC, NTC and Garnaut. Mass-distance charging is currently being widely introduced in Europe, and will help address the averaging problem described earlier.

- **Competitively neutral pricing framework and full economic cost recovery.**

  ARTC has proposed that this could be considered to be a long term objective. Moving to pricing of road and rail based on the same economic criteria in the short term is likely to be more achievable. ARTC would support the estimation of the full economic cost of road and rail provision, using DORC valuation principles. This should focus on the infrastructure used by both modes where in competition. By proper allocation of cost to those vehicles competing with rail, a comparison of the extent of full economic cost recovery could be undertaken.

- **Competitively neutral and consistent regulatory framework.**

  Rail needs to have a single national regulator in respect of economic regulation. It is not necessary that the same regulatory body be used for both modes. It is more important that the regulatory objectives and mechanisms be consistent. In any event, economic regulators need to operate independently from government decision making. ARTC would strongly support adoption of the ACCC as the single economic regulator for the national rail network. This would deliver the required consistency and independence in access regulation and pricing.

ARTC noted that the Council of Australian Governments (COAG) endorsed much of the Productivity Commission ("PC") Inquiry (into Road and Rail Freight Infrastructure Pricing). In particular, the NTC was requested to develop the 2007 Determination having regard to the PC Inquiry report and to:

- Consider the inclusion of heavy vehicle enforcement costs in the cost base; and
- Allow for incremental charging for higher productivity vehicles.

Further COAG directed that any determination should ensure no cross-subsidisation between vehicle classes. Those vehicles receiving the benefit of this cross-subsidisation are predominantly registered under FIRS, and compete directly with other transport modes including rail. ARTC welcomed this as a first step to addressing some of its concerns raised earlier.

The resulting 2007 Heavy Vehicle Pricing Determination by the NTC produced a set of charges that ARTC considers removes some of the cross-subsidisation, but still suffers from being based on historical assumptions, averaging and less than perfect data.

Nevertheless, the new charges represent a significant improvement on the existing charges. These charges were established in 2000 and have been updated annually by CPI. They have clearly not kept pace with rapidly rising road expenditure, increasing well in excess of inflation.

ARTC recognizes and accepts that these charges are being introduced on a staged basis to mitigate the impact of higher charges on longer term contractual commitments in the road industry.

The proposed Bills represent an opportunity to at least partially correct a previous imbalance in infrastructure pricing that has already impacted on the achievement of most efficient market outcomes and investment. The existing cross subsidization, issues around certain cost allocation methods and averaging, and need for mass distance charging has been widely recognized in many industry and government inquiries as discussed above.

To continue to move towards reform that creates an improved framework for efficient competition in the transport industry and investment in transport infrastructure, ARTC strongly supports these Bills enabling:

- implementation of the proposed heavy vehicle charges with respect to those vehicles registered under FIRS (and predominantly competing with rail), and

- improved alignment (now and going forward) of the road user element of fuel cost with road construction and maintenance costs.