Submission by

Freight on Rail Group

To

Infrastructure Australia

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This document has been prepared by the Freight on Rail Group (the Group). The Group is a rail freight focussed industry group established to engage with Government and key stakeholders on major public policy issues. It consists of the seven major rail freight businesses in Australia:

Aurizon
Aurizon has rail and road-based freight and infrastructure operations across Australia. Aurizon operates above-rail freight services from Cairns through to Perth, and manages the Central Queensland Coal Network made up of approximately 2,670km of heavy haul rail infrastructure.

Australian Rail Track Corporation (ARTC)
ARTC has responsibility for the management of over 8,500 route kilometres of standard gauge interstate track across Australia. ARTC also manages the Hunter Valley coal rail network, and other regional rail links.

Brookfield Rail
Brookfield Rail manages and operates a 5,500 kilometre open access, multi-user rail freight network extending throughout the southern half of Western Australia, providing access for intermodal, iron ore, grain, alumina and various other bulk commodities.

Genesee & Wyoming
G&W is a global vertically integrated rail freight company with a large Australian presence in SA, NT, Victoria and NSW. G&W owns nearly 5,000 kilometres of track in SA and NT, including the 2,200-km Tarcoola-to-Darwin railway.

Pacific National

Pacific National is one of the largest providers of rail freight services in Australia, providing intermodal, coal and bulk rail haulage services throughout Australia.

Qube
Qube is Australia's largest integrated provider of import and export logistics services. It offers a broad range of logistics services with a national footprint and a primary focus on markets involved in international trade in both the bulk and container markets.

SCT Logistics
SCT is a national, multi-modal transport and logistics company. It operates its own intermodal rail services from the eastern States to Perth, while also providing bulk rail haulage services. It has facilities in Brisbane, Sydney, Parkes, Melbourne, Adelaide and Perth.

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Introduction

This joint submission is made on behalf of the Freight on Rail Group, the members of which are listed above on page 2.

The Group welcomes the opportunity to make a submission to Infrastructure Australia in response to the Australian Infrastructure Audit Report (the Audit Report) released in May 2015.

Background: Australian Infrastructure Audit Report and Competition Policy Review findings

The Group recognises that the Audit Report is a broad ranging assessment addressing numerous issues relating the provision and operation of infrastructure in Australia. However, this submission is specifically concerned with the proposed introduction of direct road user charging and investment reforms for road infrastructure used by heavy vehicles. We are focusing on these particular reforms because they would, if introduced, contribute to improved productivity in freight operations, and lift the competitiveness of industries that rely on freight transport services.

We strongly support the following statement in the Audit Report:

> "Current arrangements for the funding of land transport are deeply flawed and represent the most significant opportunity for public policy reform in Australia's infrastructure sectors.[1]"

Importantly, the Audit Report also stated that:

> "The amount raised from fuel excise is likely to decline over time"[2];

and

> "Current arrangements do not encourage the most efficient use of the transport network"[3].

More broadly, numerous findings of the Audit Report[4] raise concerns about the manner in which future infrastructure will be funded. Some of the audit findings identify current funding arrangements for transport infrastructure, and particularly road transport infrastructure, as an area for concern. Furthermore, audit finding 30 states that Australia "needs to consider a broader system of pricing" for road transport[5].

The positions and findings in the Audit Report align with those of other recent government reports, including recommendation 3 of the final report of the Competition Policy Review which stated:

> "Governments should introduce cost-reflective road pricing with the aid of new technologies, with pricing subject to independent oversight and revenues used for road construction, maintenance and safety.
>
> … Indirect charges and taxes on road users should be reduced as direct pricing is introduced. Revenue implications for different levels of government should be managed by adjusting Australian Government grants to the States and Territories"[6].

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[1] Infrastructure Australia, Australian Infrastructure Audit Report, April 2015, page 50.
[2] Ibid., page 50.
[3] Ibid., page 50.
[4] For example audit findings 4, 14, 27, 28, 29 and 30 raise concerns with infrastructure service levels and infrastructure funding. These finding are outlined in Infrastructure Australia, Australian Infrastructure Audit Report, April 2015, pages 6-8.
[5] Ibid., page 52.
[6] The Australian Government Competition Policy Review, Final Report, March 2015, p. 38.

The Group strongly supports the position of the Audit Report and the Competition Policy Review in relation to the urgent need for road pricing and investment reforms.

In addition, we submit that the focus of the reforms should be on heavy vehicle road users, and the major freight networks that heavy vehicles use, for the reasons outlined in this submission.

Proposed objectives of the reforms

Major economic and infrastructure inquiries over the last ten years have consistently pointed to the economic and efficiency benefits that would be available from heavy vehicle charging and investment reforms. We submit that the objectives of the proposed reforms should be informed by these findings.

The Productivity Commission found in a detailed inquiry in 2006 that:

> "The available evidence, though not systematic, is consistent with potentially significant underspending and misallocation of investment (in road infrastructure). The deficiencies of current charging arrangements will be magnified with the projected doubling of national freight demand over the next 20 years[7]."

The same Productivity Commission inquiry report in 2006, and a further report in 2012 concluded that the combination of fundamental road freight pricing and institutional reform relating to investment in road infrastructure, could potentially increase freight transport productivity by 5 per cent, and contribute an additional 0.2 per cent to Australia's GDP. Similarly the Audit Report found that:

> "High levels of forecast growth in the overall road freight task with low levels of growth in vehicle capacity would result in a dramatic increase in the number of vehicles and drivers operating on the national highways. This trend could have significant implications for the national highways with regard to capacity, safety and maintenance costs[8]."

The Audit Report further stated that "developing funding methods that reflect (road freight) users' willingness to pay" is likely to emerge as part of a key strategy to address growing demand for national highways[9].

The Federal Government's response to the Productivity Commission's *Inquiry Report into Public Infrastructure* stated that:

> "The Federal Government acknowledges there are sound economic arguments for user charging on certain key freight and transport corridors that are under significant pressure…….Additionally, pilot schemes for user charging using telematics for commercial road users on particular stretches of roads could also be trialled[10]."

[7] Productivity Commission, Road and Rail Infrastructure Pricing, December 2006, page xxxix
[8] Infrastructure Australia, *Australian Infrastructure Audit Report*, May 2015, page 95.
[9] Ibid. Page 93.
[10] Australian Government response to the Productivity Commission Inquiry into Public Infrastructure, October 2014, page 6.

Based on the available evidence of what road pricing reforms could reasonably be expected to achieve, the objectives of heavy vehicle charging and investment reforms should be to:

- Improve the efficiency with which infrastructure is used through price signals that reflect the actual costs of road provision for heavy vehicles, including the costs of road damage.

- Increase freight transport productivity by improving infrastructure planning and investment so that infrastructure meets the current and future requirements of the freight task, and improves the competitiveness of freight supply chains for the benefit of freight customers.

- Provide Commonwealth and State Governments with a more certain funding stream linked to freight infrastructure requirements and all the costs of meeting those requirements, including maintenance costs.

- Introduce competitive neutrality on major freight corridors where road and rail compete, focusing on national highways and arterial roads (including metropolitan arterial roads). Applying similar regulatory and pricing regimes to road and rail infrastructure will minimise the distortion of choices between road and rail freight transport modes, with current distortions have a significant negative impact on efficiency.

- Generate additional benefits for the community, including environmental benefits from the more efficient use of both road and rail infrastructure across the freight network. In addition, improvements in efficiency will enable safety improvements in the form of less road accidents and contribute to reduced congestion.

Proposed focus on freight transport and heavy vehicles

We particularly endorse the need for policy reforms in the context of freight, and believe the priority should be on introducing reforms to road pricing for heavy vehicles and the associated arrangements for investing in road infrastructure where there is competition between road and rail freight; i.e. on national highways and arterial roads (including metropolitan arterial roads).

Because heavy vehicles use the road network for commercial purposes, giving the highest priority to introducing heavy vehicle charging and investment reforms would avoid a requirement to address social equity issues that would arise with applying road pricing to light vehicles being used for private purposes. Furthermore, it is heavy vehicles that cause damage to road infrastructure through pavement wear and the wear and deterioration of other components of transport infrastructure. Similarly, meeting the requirements of heavy vehicles involves developing or upgrading infrastructure to a higher standard, adding to investment and maintenance costs.

Importantly, we endorse replacing the existing heavy vehicle charging regime which comprises of fuel excise and registration charges, with direct user charging. Direct user charges for heavy vehicle access to road infrastructure would allow clear price signals be introduced for these users.

In order for there to be the provision of an effective price signal that acts as an incentive to use road infrastructure more efficiently, reform of heavy vehicle pricing should be based on economic principles of cost reflective pricing.

However, the introduction of cost reflective pricing should not be constrained by the potentially inconsistent requirements of revenue neutrality, as was proposed by the Competition Policy Review, because this would negate effective price signals and potential productivity gains.

Furthermore, direct user charges should be introduced by way of mass, distance and location charging utilising technology systems that record these key components of road use by heavy vehicles. The technology to facilitate the efficient introduction of direct user charging, including in-vehicle technology, is currently available.

Road agencies would be expected to have the opportunity to directly recover that part of the cost of providing infrastructure that is attributable to heavy vehicle operators through the price that is charged for access and use of the infrastructure.

This would be a key aspect of the governance and investment reforms that accompany the introduction of cost-reflective pricing, together with better planning and investment that is responsive to the requirements of heavy vehicle operators, including requirements for infrastructure improvements that would enable productivity gains.

We also support the specific proposal of the Competition Policy Review that the Australian Government and state and territory governments develop pilots and trials of the proposed reforms[11]. This proposal is strongly supported on the basis that the trials should only involve heavy vehicles.

We submit that the development and implementation of trials should be a high priority for governments over the next six to twelve months, noting that following the release of Infrastructure Australia's audit report, the South Australian Government offered to trial "different elements of heavy vehicle road user charging", based on mass, distance and location charges that reflect the "actual" use of the road network[12]

Additional considerations aimed at improving the efficiency of freight

We further propose that the Infrastructure Australia's 15 Year National Infrastructure Plan reflect the following additional considerations and principles in relation to road pricing reforms.

As we have emphasised in this submission, road transport reforms should have the objective of improving the productivity and the overall efficiency of land freight infrastructure.

However, we recognise that there would be major complexities involved in attempting to apply cost reflective pricing on lower volume roads and to light commercial vehicles.

Therefore, we propose that heavy vehicle charging and investment reforms should in the first instance:

- Be restricted to the national highway and arterial road network (including metropolitan arterial roads).

- Only apply to heavy vehicles that weigh 4.5 tonnes or more.

[11] Ibid. p. 216.
[12] The Hon Jay Weatherill, Speech at the National Press Club, 8 July 2015, pages 19 and 20.

Furthermore, pricing reform for heavy vehicles should be based on the following principles:

- Pricing should reflect the full cost of access to, and the use of, the relevant infrastructure attributable to heavy vehicles, including return on and of capital.

- Revenue arising from heavy vehicle charges should be returned directly to the road owner.

- Pricing reform should be accompanied by, and linked to, infrastructure investment reform. Realising the full potential for productivity benefits from pricing reform will require improvements to infrastructure planning and delivery by road managers, i.e. road infrastructure agencies. These improvements should include improvements in direct consultation, principally between state road agencies and freight operators to ensure that infrastructure investment plans match current and future freight requirements.

- Road pricing determinations should be overseen by an independent economic regulator using pricing and regulatory approaches that are already used in the economic regulation of other utilities and infrastructure in Australia (including rail infrastructure).

- Consistent with these proposed arrangements, prices should be determined by a building block model, incorporating a properly constructed regulated asset base. This approach is widely used in Australia and is generally recognised as providing a reasonable and transparent framework for setting and giving approval to infrastructure access prices.

In order to enable the effective development and implementation of these reforms within a reasonable timeframe, the Group proposes that Infrastructure Australia recommend that Governments:

- Agree to the trialling of both pricing and investment reform (i.e., the trialling of direct mass, distance and location charging with corresponding reforms to infrastructure planning and investment, including improvements to the governance arrangements for investment), consistent with the proposals spelt out above, on the national highway and the arterial road networks of states that offer to host trials.

We submit that trials would deliver the following benefits:

- The development of a mechanism to demonstrate how the pricing arrangements and the practical direct user charging arrangements would work in practice on designated freight corridors and networks.

- The development of an arrangement that allows the linking of pricing and investment reforms to be established under trial conditions.

- Enabling accurate assessments to be made of appropriate technologies.

- Allowing detailed consultation, as the trials are developed and implemented, with the road freight industry and other stakeholders.

- The ability to more readily make adjustments and improvements during the trial phase.

Overall, the Group strongly support the intent and direction of the findings of the Audit Report with respect to road infrastructure funding and pricing, but believe that the implementation of road pricing reform should focus on heavy vehicles transporting freight on national highways and arterial roads (including metropolitan arterial roads) for the reasons we have outlined in this submission.


RAILWAY
CROSSING
STOP
LOOK
FOR
TRAINS