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AUSTRALASIAN RAILWAY ASSOCIATION SUBMISSION

To

The Department of Infrastructure and Regional
Development

On the

Independent Price Regulation
of Heavy Vehicle Charges



THE ARA

The Australasian Railway Association (ARA) is a not-for-profit member-based association that represents rail throughout Australia and New Zealand. Our members include rail operators, track owners and managers, manufacturers, construction companies and other firms contributing to the rail sector. We contribute to the development of industry and government policies to ensure Australia's passenger and freight transport systems are well represented and will continue to provide improved services for Australia's growing population.

The ARA thanks the Department of Infrastructure and Regional Development for the opportunity to provide this submission. For further information regarding this submission, please contact Duncan Sheppard, General Manager, Freight and Industry Programs, via dsheppard@ara.net.au or 02 6270 4531.

BACKGROUND

The rail freight task consists of carrying bulk commodities over long distances and non-bulk freight, such as containerised goods, on both long and short haul rail journeys.

The non-bulk segment of the industry faces strong competition from the road freight sector, with most of Australia's non-bulk freight currently transported by road, due in large part to inequities in pricing.

If demand for freight transport grows at historical rates, volumes will approximately double over the next two decades. The growth of the rail industry, and its ability to accommodate the increasing transport task, depends on rail's ability to operate efficiently.

Rail's ability to compete with road is highly dependent on its capacity to offer a service of equivalent price, availability and reliability. The current road pricing and investment model does not lend to competitive neutrality between land transport modes.

For rail to continue to strengthen its role in supply chains in Australia, it needs to be both competitive and integrated. A key issue the rail freight industry is pursuing is the introduction of direct heavy vehicle user charging and investment reforms to create a level playing field between rail and road.

The proposed reforms outlined in the discussion provide an important foundation for future reforms to heavy vehicle pricing. These reforms are necessary to address inefficiencies in the current system. Currently, there are aspects in the current transport regulatory environment which hinder competition and thus, are counterproductive for future innovation and business growth, notably in pricing regulation and government investment.

Left unaddressed, they pose significant implications for Australian industries which rely on the efficient movement of freight for their continued viability. And with the rail freight sector contributing approximately \$13 billion to the Australian economyⁱ addressing these inequities is critical to the future growth and sustainability of the national economy. And, more broadly, levelling the pricing playing field is needed to maximise the non-economic benefits from rail freight, including reduced traffic congestion; safety improvements and a reduction in environmental impacts.

THE ROAD TO REFORM

The recent decision of the Transport and Infrastructure Councilⁱⁱ to progress heavy vehicle road reform via, in the first instance, implementation of independent price regulation for heavy vehicle charges, should be seen within the context of significant reports on this matter advocating the need for reform. These have included the Productivity Commissionⁱⁱⁱ, the National Commission of Audit^{iv} and the National Competition Policy Review.^v Most recently, Infrastructure Australia encouraged COAG to commit to the full implementation of a heavy vehicle road charging structure in the next five years, with the reform including the removal of all existing registration and usage charges under the Pay As You Go (PAYGO) model and the introduction of supporting regulatory and investment frameworks^{vi}.

In light of these studies, and the potential for real gains in national economic productivity, as well as important social benefits, the ARA is supportive of reforms to independent price regulation of heavy vehicle charges.

THE NEED FOR REFORM

As the ARA has previously advocated, including its report *Road Pricing Reforms – Why Road Pricing is Vital to Australia’s Economic Prosperity*^{vii} structural reform of the heavy vehicle

charging and investment model would provide benefit to both the road and rail industries through the more efficient use and supply of land transport.

This reform process provides an important opportunity to address competitive neutrality issues between land transport modes on corridors where road and rail compete and to create a more direct link between road user funds received and the investments made by governments. This, in turn, would provide a foundation for full market reform. Heavy vehicle charging and investment reform would also provide more efficient price signals to road freight operators, introduce important accountability measures, and provide incentives to more efficiently use infrastructure.

THE NEXT STEPS OF REFORM

The Heavy Vehicle Road Reform and the proposals outlined in the discussion paper offer important first steps to overcome the deficiencies of the current charging and infrastructure funding arrangements together with the potential to drive productivity improvements from freight transport. The ARA notes that in the short term, heavy vehicle charges would continue to be collected via existing mechanisms. However, over the longer term, a more direct form of user charging would replicate these charge collection mechanisms.

While acknowledging the Government has yet to decide on the form this direct user charging may take, the ARA encourages the transition to a Mass Distance Location (MDL) charging regime for heavy vehicles on arterial roads, including national highways. In the first instance, this reform could commence on national highways between Melbourne, Sydney and Brisbane. This new arrangement could be supported through new rebate mechanisms applied to the current fuel excise arrangements, and the establishment of a new regime for registration charges.

In the context of this discussion paper, the ARA supports Option 1 – The Australian Competition and Consumer Commission (ACCC) undertaking independent price regulation of heavy vehicle charges. The ACCC's existing probity powers strengthens the suitability of the Commission to undertake this role.

ARA notes this option paves the way for full economic regulation of heavy vehicles and draws on the capabilities and experience of the ACCC in economic regulation. To support this transition, the ARA encourages governments to ensure the ACCC is sufficiently resourced to acquire the necessary level of expertise in respect of heavy vehicle regulation.

The ARA does not support the National Transport Commission or State and Territory based economic regulators as options to progress this reform, as the potential disadvantages outweigh the benefits.

The transition to a regulated utility model (and overseen by an independent economic regulator) would provide benefits to both the road and rail industries by achieving greater efficiency in the freight logistics supply chain.

Charges should be based on a standard regulatory pricing model i.e. incorporating both future operational costs and both past and future capital investment. Failure to incorporate past capital investment in the cost base would significantly undermine the efficiency gains expected from the reform process. The ARA believes the successful introduction of reforms on national highways between Melbourne, Sydney and Brisbane depends on the simultaneous introduction of direct MDL charging reform that allows for charges to be based on both operational costs and both past and future capital investment.

ARA understands the introduction of independent price regulation for heavy vehicles is a necessary precursor to the future transitioning to a regulatory environment involving more consistent regulation of substitutable transport modes. The ARA is supportive of this process through the establishment of a well-functioning competitive market for land transportation.

The establishment of national economic regulatory framework would help to ensure consistent principles underpinning road pricing determinations and rail access charges, which in turn would help to ensure competitive neutrality between road and rail freight and enhance consistency in the regulation of infrastructure for the two competing modes.

A competitively neutral framework would enable competitive elements of the supply chain to compete efficiently. Market forces would drive modal outcomes and create an efficient mechanism for delivering investment in infrastructure.

ARA has previously suggested the national regulator as an independent arm of the Australian Competition and Consumer Commission, which would take over the economic regulations of interstate rail where there is competition between the transport modes, as well as pricing regimes for road infrastructure. The ACCC would be responsible for implementing economic regulations dealing with competition, pricing and access in the land transport sector. The key principles underpinning its establishment include:

- Independence – impartial and independent from government
- Openness – a transparent decision-making framework

- Collaborative – governments should work closely with the regulator to ensure the success of the regulatory process.

CONCLUSION

ARA regards the potential reforms outlined in the Discussion Paper as important to the future international competitiveness of Australia's industries and thanks the Department of Infrastructure and Regional Development for the opportunity to provide comment.

ARA also notes that reform of road freight investment and pricing is a complex issue and work on reform has been proceeding for some time, including through the COAG Road Reform Program and the Heavy Vehicle Charging and Investment project.

In light of this, ARA encourages a practical reform pathway that can be delivered at the earliest opportunity in a way that provides business certainty, productivity improvements and community benefits. ARA therefore supports:

- The introduction of a MDL charging mechanism, commencing with major highways
- The ACCC being responsible for independent price regulation of heavy vehicles
- Incorporating both past and future capital costs in new charging models
- A future transitioning to a national economic regulatory framework, regulated by the ACCC, on interstate rail where there is competition between road and rail

ⁱ ARA Freight Transport Group 2017-2019 Strategic Plan
https://ara.net.au/sites/default/files/u16/FTG_Strategy_Booklet_2017-19_WEB.pdf

ⁱⁱ Transport and Infrastructure Council, Communique, 19 May 2017
http://transportinfrastructurecouncil.gov.au/communique/files/Council_7th_Communique_19_May_2017.pdf

ⁱⁱⁱ Productivity Commission, Public Infrastructure Report
http://www.pc.gov.au/data/assets/pdf_file/0003/137280/infrastructure-volume1.pdf

^{iv} National Commission of Audit, 2013
<http://www.ncoa.gov.au/>

^v Competition Policy Review
http://competitionpolicyreview.gov.au/files/2015/03/Competition-policy-review-report_online.pdf

vi Infrastructure Australia Plan

[http://infrastructureaustralia.gov.au/policy-publications/publications/files/Australian Infrastructure Plan.pdf](http://infrastructureaustralia.gov.au/policy-publications/publications/files/Australian_Infrastructure_Plan.pdf)

vii Why Road Pricing is Vital to Australia's Economic Prosperity

<https://www.ara.net.au/sites/default/files/uploads/publications/RoadPricingReforms2010.pdf>