

14 July 2017

Land Transport Market Reform Branch
Department of Infrastructure and Regional Development
GPO Box 594
CANBERRA CITY ACT 2601

HVRR@infrastructure.gov.au

Dear Sir/Madam,

SUBMISSION: INDEPENDENT PRICE REGULATION OF HEAVY VEHICLE CHARGES

Cement Concrete and Aggregates Australia (CCAA) thanks the Department of Infrastructure and Regional Development for the opportunity to submit on the Discussion Paper: *Independent Price Regulation of Heavy Vehicle Charges*.

CCAA is the peak body for the heavy construction materials industry in Australia. The heavy construction materials industry is vital to the nation's building and construction industry and underpins the development of Australia's physical infrastructure.

CCAA members operate cement manufacturing and distribution facilities, concrete batching plants, hard rock quarries and sand and gravel extraction operations throughout the nation. They account for approximately 90% of the \$7 billion in revenues generated by these industries, that between them, employ 18,000 Australians directly and a further 80,000 indirectly.

The heavy construction materials industry is a significant road user and a key supplier of materials for road infrastructure. Our industry contributes up to 10% of Australia's total road freight by volume and operates a fleet in excess of 6,500 concrete agitators, 2,500 tippers and 1,200 cement tankers.

The Heavy Vehicle Road Reform (HVRR) Road Map represents a potentially significant step change for road user charging in Australia. Any changes to the heavy vehicle charging regime will impact directly on our members and their businesses. CCAA emphasises the need for a well-considered approach to reform that accurately accesses the cost and benefits of proposed changes for industry participants and State, Territory and Federal Government.

HEAVY VEHICLE CHARGING PRINCIPLES

In light of recent momentum surround heavy vehicle road reform, CCAA's members have developed a set of high level policy principles.

These principles outlined below, identify the issues of importance to industry and represent the key considerations that industry feels should be taken into account to ensure a properly structured heavy vehicle charging regime.

1. The Heavy Construction Materials Industry supports a strong and consistent pipeline of infrastructure projects that supports a productive and efficient Australian economy.
2. CCAA recognises that the road freight industry is a significant user of the road network and accepts that as such the industry should pay a fair, but not disproportionate, contribution to service the road network.

3. Any reform package must however, take into account the vital role the road freight industry plays in building our economy and communities. Disproportionate charging will result in downstream impacts on goods and services.
4. More specifically, heavy construction materials are an essential component in the infrastructure delivery chain, increased road user charges will impact directly on our industries' ability to deliver affordable construction materials for infrastructure projects.
5. In general, CCAA supports road pricing reform that facilitates an efficient road network, is not overly burdensome for industry and effectively accounts for on road and off road usage.
6. Supports the linking of road user charges to road expenditure, requiring revenue recovered through road users be ear marked for investment back into the road network, provided that:
 - a. There is a clear and transparent link between funds raised and investments made based on clear priorities.
 - b. It should not be simply a revenue-raising exercise for Government and not result in "double dipping" or cross subsidisation.
7. Supports the Mass-Distance-Location model for heavy vehicles provided that:
 - a. the system on which the model is based can accurately account for the mass, distance and location of heavy vehicles;
 - b. it does not result in undue administrative burden for the heavy vehicle sector; and
 - c. concerns regarding storage and protection of commercially sensitive data are addressed effectively.
8. Road charging reforms for the heavy vehicle sector must be accompanied with or followed by similar reforms for light vehicles.

While this submission will make specific recommendations relating to the primary issues raised in the Discussion Paper, these should be considered in the context of the above principles.

INDEPENDENT PRICE REGULATION

Independent price regulation would result in heavy vehicle charges being set by an agency or organisation at arm's length from Government, an approach which is supported by CCAA.

Under the current system States and Territories provide expenditure data to the National Transport Commission (NTC). The NTC then runs this data through the PAYGO model before making recommendations to State and Territory Transport Ministers, who then have the discretion as to whether or not to follow these recommendations.

In 2014, when the NTC determined that the current PAYGO methodology was over charging the heavy vehicle users, Minister's agreed to make the necessary amendments, but delayed implementation for two years. This effectively gave States an additional two years to manage the impact of the new determination on road revenue and allowed for further over-recovery of the sector. When it was time to implement in 2016, Ministers again pushed back and instead of finally implementing the improvements, they decided to freeze revenues until such time as the new model caught up with the current charges; effectively allowing for systematic over recovery for a number of years.¹

¹ Cement Concrete & Aggregates Australia, 19 October 2015, Submission - Options to Improve the PAYGO Heavy Vehicle Charges Methodology, http://www.ccaa.com.au/imis_prod/CCAA/Public_Content/CCAA_Publications/Industry_Submissions/Transport/NATIONAL_-_Options_to_Improve_the_PAYGO_Heavy_Vehicle_Charges_Methodology.aspx?WebsiteKey=4998d6ce-2791-4962-b1e2-6b717f54a8d3

Independent price regulation of heavy vehicle charges would remove this level ministerial discretion from the price setting process, by empowering an independent agency to set charges that would be binding on Governments.

CCAA considers that this would provide for a fairer, more transparent and consistent means of setting charges for heavy vehicles and to this end, supports the introduction independent price regulation.

MOVING TO A FORWARD LOOKING COST BASE

Another major element of the HVRR Road Map is the intention to move towards a forward looking cost base (FLCB) in terms of calculating the revenue that will need to be cost recovered from heavy vehicle users.

This involves moving from a backward looking approach, where road agencies previously reported on past expenditure, to a forward looking approach which calculates expenditure required to provide and maintain an efficient road network for heavy vehicles. The FLCB will also allow for the capital costs of a road to be recovered over its “economic” life, helping to smooth out the price of charges over time.

While there are obvious merits in such an approach, there are inherent challenges in respect to accurately calculating future expenditure.

The successful implementation of a FLCB approach will rely on making road authorities more accountable for their expenditure, ensuring it is prudent, efficient and can transparently demonstrate the value delivered to heavy vehicle users. This will require a method for ensuring that forecast costs align with actual expenditure and where not, that this be interrogated to some extent.

Another element of concern for CCAA is that road infrastructure decisions remain vulnerable to political interference and are not always certain, an example being Melbourne’s East West Link. How such occurrences would be reconciled within a FLCB will need to be convincingly addressed before this approach can be adopted.

CCAA agrees that consideration of a transition period is warranted to test the efficacy of the FLCB approach, while also avoiding any price shocks to industry.

OPTIONS FOR ESTABLISHING AN INDEPENDENT PRICE REGULATOR

The Discussion Paper presents three options in terms of proposed entities to carry out the function of an Independent Price Regulator, they are:

- Option 1: The Australian Competition Consumer Commission (ACCC);
- Option 2: The National Transport Commission (NTC); or
- Option 3: State and Territory based Economic Regulators.

CCAA does not support Option 3 on the basis that this would lead to inconsistent charging across States and Territories, which in turn creates inequities and leads to perverse outcomes, such as jurisdiction shopping for registration charges.

In regard to Options 1 and 2, CCAA does not have a strong preference, but feels that the ACCC might provide that greater level of independence, trust and rigour to provide the heavy vehicle users with the confidence that heavy vehicle charges set appropriately.

Regardless of the entity chosen, CCAA recommends the following fundamental principles should apply to the Independent Price Regulator. The Independent Price Regulator should:

- Be genuinely independent of Government, pseudo independence will not suffice;
- Have powers to set heavy vehicle charges without political interference (preferably in legislation);
- Set heavy vehicle charges at a national level, ensuring consistent application across states (preferably in legislation);
- Ensure that the inputs into and the methodology for calculating charges is transparent;
- Audit input data from road authorities to ensure expenditure is relevant to the provision of road infrastructure and is of benefit to heavy vehicle users;
- Avoids cross-subsidisation of light vehicle users or cross-subsidisation across heavy vehicle classes;
- Have the appropriate resources and capabilities to perform the task. CCAA notes that greater resourcing is likely to be needed for any of the organisations proposed in the options.

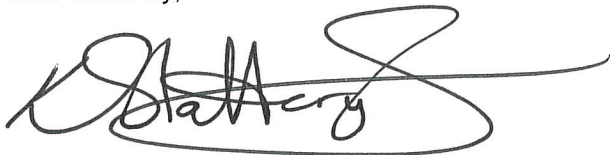
CONCLUSION

CCAA appreciates the opportunity to submit on the *Independent Price Regulation of Heavy Vehicle Charges* discussion paper. CCAA considers this proposal to be a significant step in the implementation of the HVRR Road Map.

CCAA supports a move towards independent price regulation for heavy vehicle charges and in doing so has outlined a number of policy principles, that industry believes should be taken into account in the reform process.

We look forward to further engagement with the Department of Infrastructure and Regional Development on various elements of the heavy vehicle road reform project.

Yours sincerely,



KEN SLATTERY
Chief Executive Officer
CEMENT CONCRETE & AGGREGATES AUSTRALIA