Toll Group submission on *Heavy vehicle road reform consultation paper,* June 2020

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Purpose

To detail Toll's views on the proposed reform to the Department of Infrastructure, Transport, Regional Development and Communications (DITRDC)

About Toll Group

With over 125 years' experience, Toll Group, proudly part of Japan Post, operates an extensive global logistics network across 1,200 locations in more than 50 countries. Our 40,000 employees provide a diverse range of transport and logistics solutions covering road, air, sea and rail to help our customers best meet their global supply chain needs.

Toll Group welcomes the opportunity to provide feedback on the *Heavy vehicle road reform consultation paper – proposed changes to the way heavy vehicle charges are set and invested.*

Response to the Consultation Paper

As the operator of Australia's largest fleet of freight vehicles, Toll naturally takes great interest in the question of how and to what standard Australia's road network is funded. Each day we travel a distance equivalent to the moon and back. Safely engineered roads with sufficient infrastructure to promote the restorative rest of our drivers is a key priority, as are access arrangements that solve "last mile" challenges and promote high productivity freight vehicles.

The reform proposal contains elements that Toll supports in principle. These include transparent national service standards, a forward looking cost base and independent setting of fees and charges.

However, Toll believes that we can do much better to deliver a sustainable, equitable and holistic model than what is proposed. While supportive of moving away from the current "determination" model, Toll cannot support the model proposed by DITRDC in its current form. This is because the model:

(1) Perpetuates a charging model based on state-based registration fees and the road user charge, both shrinking and unsustainable sources of revenue;
(2) Is a partial market reform targeting heavy vehicles and ignoring "externalities";
(3) Excludes local government roads and so will not unlock the nascent productivity benefits intended by the Council of Australian Government (COAG) Heavy Vehicle National Law reforms; and
(4) Has limited power to bind governments to act on the advice of the independent regulator

Our concerns about the limitations of the model are outlined in further detail below.

Toll Group calls on the government to take a bolder, more creative approach to this important reform opportunity. Motor vehicle power train technology is currently within a once-in-a-century transition from the internal combustion engine (ICE) to electrified propulsion alternatives (including battery electric and hydrogen fuel cell vehicles). As such, policy makers need to take a holistic approach and ensure that Australia's road pricing regime meets the needs of the future. As a leader in technology within the heavy transport sector, we offer our support to the Department in making this happen.

State-based registration fees and the road user charge

Basing road pricing reform on state-based registration fees and the road user charge is to rely on a shrinking and unsustainable revenue base. The growth in low emission vehicles is driving fuel excise collection down.[1] Government revenues from registration fees will also fall as younger generations reject driver licences and car ownership in favour of ride-sharing and public transport.[2] The projected influx of autonomous vehicles will only exacerbate this trend.

Furthermore, the state-based registration system is vulnerable to gaming and perverse outcomes. Operators will seek to register their vehicles in the lowest-fee jurisdiction, even if they are deployed elsewhere. Consequently road infrastructure used by these vehicles will not benefit from investment derived from registration fees. The money does not “follow the truck”.

State-based registration can also distort charges by granting concessions to some sectors of industry, for example primary producers. Of necessity, other sectors must fill the revenue gap.

Finally, for cross border freight operators such as Toll Group that seek to operate compliantly with the law the current system is a handbrake on productivity. If Toll decides that a vehicle is better deployed in NSW than in Queensland, where it is currently garaged, the vehicle must be presented for inspection in NSW to confirm its roadworthiness.[3] Then we must apply for registration in NSW and cancel the registration in Queensland. Most states require operators to apply for a refund for the portion of unused registration. Operators have three months to advise of changes to garaging address, or face being fined if caught. The opportunity cost of having vehicles off the road while they are inspected as well as other administrative costs of transferring registration are around $3000 per vehicle.[4]

Ironically, the heavy vehicle national law reforms have disadvantaged interstate operators because of the abolition of the Federal Interstate Registration Scheme (FIRS) and the loss of stamp duty concessions for the purchase of newer, safer, cleaner vehicles.

More efficient and safer freight transport corridors is a national policy priority that should not discriminate based on antiquated (and frankly irrelevant) state and territory borders. Basing a charging system on state and territory-based registration is inequitable, unproductive and unsustainable. It resiles from a commitment made by the Council of Australian Governments for a national registration scheme. Toll calls on the government to explore alternative funding models incorporating insights from previous inquiries into mass, distance and location charging.

Partial market reform

The road network is usefully conceptualised as an ecosystem with multiple, sometimes subtle, interdependencies. Changes in one part of that ecosystem can affect the whole. As a result of the COVID-19 pandemic, around 25 per cent of public transport patrons may elect to use their private

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[1] Infrastructure Partnerships Australia, *Road User Charging for Electric Vehicles,* 2019, p.10

[2] Monash University, “No keys to this future: millennials ditch cars for transit”, https://www.monash.edu/news/articles/no-keys-to-this-future-millennials-ditch-cars-for-transit

[3] Unless the vehicle is enrolled in NHVAS maintenance in which case it is exempted from this requirement

[4] National Transport Commission, *Heavy Vehicle National Law Regulation Impact Statement*, 2011, p. 88

vehicles rather than public transport in the future.[5] More light vehicles on the road will impact transport task time with flow-on effects to scheduling, customer expectations, road degradation and driver health and wellbeing. Yet the reform does not include light vehicles – which is a fundamental weakness of this proposal. Focusing on heavy vehicles in isolation is flawed logic, especially given that the heavy vehicle fleet accounts for only the 2.4 per cent of registrations and 7 percent of vehicle kilometres travelled on Australian roads.[6] In the absence of holistic reform, the Federal Government will have minimal capacity to influence and affect the travelling behavior of light vehicle drivers through price signals. The freight industry may find itself paying for infrastructure assets such as rest bays freely used, but not funded, by non-freight vehicles.

Similarly toll roads, especially where alternative options for freight vehicles are not provided as with parts of North Connex, mean that sections of the network will be exempt from the national standards and free to impose fees that are entirely disconnected from the actual cost of the service.

As noted by Farrier Sweir Consulting in 2017, a 'full market expenditure' approach "recognises the reality that roads are designed, built, maintained and financed through an integrated process and provide services to both [heavy vehicles] and [light vehicles]".[7]

Exclusion of local government roads

Local roads account for 75 per cent of the total road length in Australia, administered by around 530 local governments. These roads are often the "last mile" roads on which Australian freight is so reliant. Without these roads the reform as proposed will have little benefit to industry.

The problem is this: road managers are not sufficiently incentivised to grant access. The existing road infrastructure funding model encourages an asset preservation mind-set because there is no direct relationship between granting access and funding to maintain/upgrade the asset. Road managers may also feel professionally (and even personally) liable if a structural failure occurs on their network.

While many road managers, particularly in regional areas, recognise the importance of road freight to their community, they are also answerable to that community for the condition of roads, culverts and bridges. Unsurprisingly, local government road managers may feel a greater obligation to their rate payers than transport operators seeking to travel in and around their communities – despite the fundamental role of the transport industry in sustaining their region. They can therefore exercise their power under s.156A(1)(ai)) of the Heavy Vehicle National Law (HVNL) to refuse consent because "the mass or dimension authority will, or is likely to, cause damage to road infrastructure".

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[5] Transurban, *Urban mobility trends from covid-19,* August 2020, p.6

[6] Bureau of Infrastructure, Transport and Regional Economics, *Heavy truck safety: crash analysis an trends,* Information sheet 78, 2019

[7] Farrier Swier Consulting, *Financial policy elements of developing a forward-looking cost base for heavy vehicle charging,* June 2017, p.24

This connection between infrastructure funding, access and productivity was made as early as 1998 when increased mass limits for road-friendly vehicles was first mooted.[8] It was recognised that a sustainable funding model for upgrading and maintaining bridges was required to facilitate access. The commonwealth, states and territories could not agree on the funding model and two decades later the issue remains unresolved.

Unless this deadlock is broken, access issues will remain and a significant reform opportunity lost. The answer lies in drawing the road reform (under the auspices of the Commonwealth) and HVNL review (under the auspices of the National Transport Commission) together. A funding system that directly links road access to asset maintenance including on local roads will give road managers greater confidence to "sweat the asset".

Powers of the Independent Regulator

While Toll gives in principle support to an independent regulator of road pricing and charging, nothing in the proposed model gives the regulator more than advisory powers. There is nothing that compels governments to act on the recommendations made by the regulator. Industry will therefore potentially be funding another layer of administration for minimal productivity and efficiency gain.

We point to the fact that freight operators are already regulated by the National Heavy Vehicle Regulator, Main Roads WA, WorkSafe, various Environmental Protection bodies, state-based transport authorities (the registering bodies) and the police. An Independent Safety Regulator has also been mooted. Any additional regulator must have a compelling case. Absent strong powers this case is not made.

Conclusion and Recommendation

Conclusion

The once in a century transition to electrified vehicles provides a unique opportunity to policy makers across Australia to undertake the bold, holistic reform that is very much needed. Electrified vehicles will gradually erode the fuel excise revenue base and it is critical that government get ahead of the curve and ensure a sustainable road pricing and revenue model that meets future needs. Efficient and effective reform should include light vehicles and heavy vehicles, and the fledgling state of this technology at present enables policy makers to build-in incentives to the new model to encourage policy outcomes. Such incentives could include pricing discounts to electrified vehicles to encourage greater uptake and lessen the current price differential to traditional ICE technology.

Recommendation

Toll urges the Department to rethink the fundamentals of the reform proposal. Toll will be a constructive partner and active participant in a reform that delivers sustainable and equitable outcomes.

[8] National Road Transport Commission, *Regulatory Impact Statement: Increased mass limits for road-friendly heavy vehicles,* April 1998