# National Farmers' Federation

# Submission to the Heavy Vehicle Road Reform Consultation Paper

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# NFF Member Organisations

AGFORCE

ACGC Australian Chicken Growers' Council

Australian Dairy Farmers

AUSTRALIAN FOREST PRODUCTS ASSOCIATION afpa TREES | WOOD | PAPER

Australian Livestock Exporters' Council ALEC

ALPA

Australian Organic

AUSTRALIAN Pork

AVA AUSTRALIAN VETERINARY ASSOCIATION

BEECHWORTH HONEY

CANEGROWERS

CATTLE COUNCIL OF AUSTRALIA

COTTON AUSTRALIA

FCA FARMERS FOR CLIMATE ACTION

GICA Goat Industry Council of Australia

GrainCorp

Grain Growers

National Farmers Federation | Horticulture Council

NSWIC NEW SOUTH WALES IRRIGATORS' COUNCIL

nsw FARMERS

N.T.C.A.

PET PRIMARY EMPLOYERS TASMANIA

ppsa PRIMARY PRODUCERS SA

RICEGROWERS' ASSOCIATION OF AUSTRALIA INC

SHEEP PRODUCERS AUSTRALIA

SoilsForLife

Victorian Farmers Federation

WAFARMERS

WOOLPRODUCERS AUSTRALIA

The National Farmers' Federation (NFF) is the voice of Australian farmers.

The NFF was established in 1979 as the national peak body representing farmers and more broadly, agriculture across Australia. The NFF's membership comprises all of Australia's major agricultural commodities across the breadth and the length of the supply chain.

Operating under a federated structure, individual farmers join their respective state farm organisation and/or national commodity council. These organisations form the NFF.

The NFF represents Australian agriculture on national and foreign policy issues including workplace relations, trade and natural resource management. Our members complement this work through the delivery of direct 'grass roots' member services as well as state-based policy and commodity-specific interests.

# Statistics on Australian Agriculture

Australian agriculture makes an important contribution to Australia's social, economic and environmental fabric.

## Social >

There are approximately 85,000 farm businesses in Australia, 99 per cent of which are wholly Australian owned and operated.

## Economic >

In 2018-19, the agricultural sector, at farm-gate, contributed 1.9 per cent to Australia's total Gross Domestic Product (GDP). The gross value of Australian farm production in 2018-19 is estimated to have reached $62.2 billion.

## Workplace >

The agriculture, forestry and fishing sector employs approximately 318,600 people, including full time (239,100) and part time employees (79,500).

Seasonal conditions affect the sector's capacity to employ. Permanent employment is the main form of employment in the sector, but more than 26 per cent of the employed workforce is casual.

## Environmental >

Australian farmers are environmental stewards, owning, managing and caring for 51 per cent of Australia's land mass. Farmers are at the frontline of delivering environmental outcomes on behalf of the Australian community, with 7.4 million hectares of agricultural land set aside by Australian farmers purely for conservation/protection purposes.

In 1989, the National Farmers' Federation together with the Australian Conservation Foundation was pivotal in ensuring that the emerging Landcare movement became a national programme with bipartisan support.

## Executive Summary

The National Farmers' Federation (NFF) recognises the need for reform to Australia's model of road funding. In this submission, we provide a view on how service level standards could be designed so that they are acceptable to the agriculture industry. We also provide views on the appropriate mechanisms for the review of expenditure planning and the independent setting of heavy vehicle charges. The NFF is not necessarily opposed to alternative models, so long as they conform to the recommendations outlined below.

**Recommendation 1:** The quantity of heavy vehicle charges paid by the agricultural industry must not be commensurate to its use of the road network. This is in recognition of the fact that the industry relies on a much larger portion of the road network than most industries to get inputs and outputs to market.

**Recommendation 2:** Service Level Standards should not be solely determined by simply aggregating and weighing the differing preferences of all road users and allocating funding where the aggregate preference suggests. The Australian Government should develop a universal service obligation for roads. This would set a minimum standard above which all roads in Australia should be maintained.

**Recommendation 3:** A public review process should be taken every two years seeking views on what aspects of road infrastructure should be funded in order to meet the universal service obligation.

**Recommendation 4:** Since the benefits of any given heavy vehicle journey do not fully accrue to the operator of that vehicle, the costs of the road infrastructure needed for the journey should not be fully borne by that operator.

**Recommendation 5:** The setting of the road user charge should continue to take into consideration the broader macroeconomic factors affecting the road transport industry at any given time. Failure to do this would mean that the road user charge comprises a higher portion of an operator's profit margin during economic downturn.

**Recommendations 6:** The total costs recoverable through heavy vehicle charges being capped at a certain portion of the expenditure required to cost-efficiently meet the service level standards.

## Introduction

Everything produced on an Australian farm will be transported on an Australian road before it reaches its final consumer. Two thirds of farm production will also consist of a journey via ship or aeroplane to an overseas market, the remainder will reach its final market via road freight.

This dependence on road freight comes with significant financial cost to agriculture. For some commodities, freight costs comprise 28% of the gross value of agricultural production[1]. The cost and efficiency of Australia's freight transport network is critical to the viability of Australian agriculture and its competitiveness in global markets.

The National Farmers' Federation (NFF) recognises the need for reform to Australia's model of road funding due to declining fuel tax receipts and sub-optimal processes to allocate federal transport funding. However, the NFF cannot support reforms that do not recognise the unique position of agricultural and rural communities with respect to road usage charges.

The NFF supports the development of service level standards (SLSs) and their use as the cornerstone of a reformed model for road funding in Australia. Fundamentally, service level standards will ensure the funding of roads in Australian is user oriented. NFF support for SLSs is contingent on the recommendations in this submission being adhered to.

[1] AgriFutures 2019, *The Impact of Freight Costs on Australian Farms*

## The rationale for reform

Road-related revenues have been declining relative to the demand for road services, and this decline is expected to continue in the future. The increasing fuel efficiency of vehicles, changes in travel preferences of commuters and the anticipated shift towards electric vehicles are eroding fuel tax receipts, the single largest road-related charge.

The allocation of funding for roads, by governments, is also far from optimal. The framework for fund allocation is convoluted, consisting of direct loans and grants from the Federal Government to state and territory governments, untied grants from the Federal Government to local governments and Federal maintenance of the National Land Transport Network. This is just the funding derived from Federal revenues.

Funding is often allocated in an *ad hoc* manner to support constantly changing policy objectives of various levels of government. Grant allocations to state, territory and local governments are not based on any consistent framework to identify priorities according to demand, or performance against consistently developed standards. Fundamentally, the views of road users do not directly inform spending choices.

While recognising the need for reform, the NFF has misgivings about the proposals set out in this discussion paper.

The agricultural industry relies on a much larger portion of the road network than most industries to get inputs and outputs to and from market. Any reform that requires the agriculture industry to pay, in heavy vehicle charges, an amount commensurate to the amount of the road network it uses would be inequitable and would not be supported by the NFF. Additional freight and logistics costs would severely dent Australian agriculture's international competitiveness, noting that the cost of freight and logistics is already one of the highest in the world.

The NFF also does not accept the notion that the benefits of a heavy vehicle using a particular road accrue entirely to the operator of that heavy vehicle. We therefore would not support road user charges set on the assumption that the entire cost of an operator's road use should be borne by that operator. Road infrastructure enables economic activity which benefits the entire nation, not just road users. The transport of agricultural commodities on rural and regional roads from farms to silos, saleyards, ports or other locations is merely the first stage of a supply chain that would not exist without these vehicle movements.

If markets for road transport, freight, logistics, port and shipping services were perfectly competitive and there was an absence of market concentration, the costs and benefits of road infrastructure would be reflected in the prices for goods up and down the supply chain. However, this is not the case, and the cost is generally borne by the weakest in the supply chain, including farmers.

## Service level standards

The NFF supports the development of service level standards (SLSs) and their use as the cornerstone of a reformed model for road funding in Australia. Fundamentally, service level standards will ensure the funding of roads in Australian is user oriented.

As road users are required to pay for road expenditure decisions and are most directly affected by these decisions, it is proper that they should determine road funding priorities. Those who use the road network and rely on it as an enabler of their business activities are best placed to identify its shortcomings and put forward proposals to address these shortcomings. For governments, this means that expenditure is directed to where it will produce the greatest benefits and where it is most urgently needed.

Funding priorities should not be solely determined by simply aggregating and weighing the differing preferences of all road users and allocating funding where the greatest quantity of preferences lie. A mechanism which did this would direct funding away from rural and regional roads, where the total number of users (and, therefore, the total quantity of preferences) is lower.

In shallow markets marginal cost pricing is fraught and a willingness to pay model may be appropriate. Marginal cost pricing may price-out the road-user and destroy the economic activity that is reliant on that road use, above and beyond the cost of the maintenance of the road. The NSW Independent Pricing and Regulatory Tribunal (IPART) determination for WaterNSW determined that cost-recovery for water infrastructure was inappropriate in the Peel River region and would hollow out economic activity in the region, which would then further perpetuate issues with cost recovery. NSW IPART recommended a move to a willingness-to-pay model for such markets[2].

The NFF further suggests that Australian governments have a responsibility to provide all citizens with safe, accessible road infrastructure. Fundamentally, roads are a public good and their equitable provision to all Australians is an essential duty of government.

For this reason, the NFF considers that the mechanism for setting service level standards should operate as follows.

<u>Development of a universal service obligation</u>

The Australian Government should develop a universal service obligation for roads. This would set a minimum standard above which all roads in Australia should be maintained. It would consist of a set of high-level criteria, such as:

- All road-users can meet their obligations set out in Australian legislation and regulations[3].

[2] WaterNSW Prices for Rural Bulk Water Services 2016, Cost Recovery Scoping Study
[3] For example, a lack of appropriate rest stops on rural roads may prevent operators from meeting their fatigue-management duties under the Heavy Vehicle National Law.

- The road network is equally accessible to all road users. No road user is faced with a lower level of access because of where they live.

<u>Regular long-term reviews on meeting the universal service obligation</u>

The NFF seeks that a public review process be taken every two years seeking views on what aspects of road infrastructure should be funded in order to meet the universal service obligation. Submissions would be required to present evidence linking each proposed funding priority to at least one of the criteria which comprise the universal service obligation.

The independent body would assess the proposed funding priorities against the universal service obligation and determine which priorities will best enable the Government to meet the universal service obligation. The chosen priorities would become the SLSs for the period until the next public consultation. The independent body would publish a report detailing its assessment process, to ensure full transparency.

The NFF asks that the Department of Infrastructure, Transport, Regional Development and Communications, the National Transport Commission or another appropriate body publish options papers on these three elements, for comment.

## Expenditure planning and determining what costs can be recovered from heavy vehicles

The NFF supports the total costs recoverable through heavy vehicle charges being capped at a certain portion of the expenditure required to cost-efficiently meet the service level standards. We also support the determination of the portion of road expenditure recoverable from heavy vehicle charges being independent of government and fully transparent.

The NFF does not have a preferred governance model, so long as the adequate checks and balances are in place to ensure charges are set at the appropriate level. Provided this condition is met, the governance system should aim to minimise duplication of existing processes. We note that the Australian National Audit Office may be suitable to play a role in these governance arrangements.

We request that the proposed model for calculating what portion of road expenditure should be recoverable from heavy vehicles be made available for public comment. With the limited information available at this stage, the NFF would only reassert the principle that since the benefits of any given heavy vehicle journey do not fully accrue to the operator of that vehicle neither should costs.

## Independent setting of heavy vehicle charges

The National Farmers' Federation supports the proposed model for setting heavy vehicle charges. The NFF agrees that this model would have important benefits including smaller price fluctuations, improved inter-generational equity and assurance that road users are paying for the standard of roads they have identified as appropriate.

One major change the NFF would recommend is that the setting of charges take into account the broader macroeconomic factors affecting the road transport industry at any given time. When exogenous factors are placing downwards pressure on the terms of trade of the road transport industry, the level of the road user charge should be decreased by an appropriate amount. Failure to do this - designing the road user charge to not take this into account - would mean that the road user charge comprises a higher portion of an operator's profit margin during economic downturn.

Effectively, this change would mean that a greater portion of road expenditure is drawn from general revenue during times of economic hardship. The NFF considers this appropriate. Governments are able to fund this expenditure through debt finance, which they can access in quantities and prices unavailable to operators in the road transport industry and should therefore use fiscal policy to protect the productive base of the economy when external factors threaten to erode this base. The long-term economic damage would be greater if the nation's productive base was made to absorb the full impact of economic shocks itself, which is what would be the case if the road user charge was determined as outlined in the discussion paper.

We note that the Transport and Infrastructure Council already takes these factors into consideration when determining the appropriate level of the road user charge[4]. To design the new model without taken these factors into consideration would therefore be to abandon a sound principle of public policy.

The NFF has no view on what the most appropriate body would be to undertake the setting heavy vehicle charges, provided the processes are transparent and industry given the opportunity to provide formal submissions to this process.

[4] Transport Infrastructure Council Communique 22 November 2019