

Submission to: CRRP Secretariat

Title: COAG Road Reform Plan – Funding and Implementation Issues

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Attachment A – Truck Impact Chart

1. Australian Trucking Association

The Australian Trucking Association (ATA) is the peak body that represents the trucking industry. Its members include the state and sector based trucking associations, the Transport Workers Union, some of the nation's largest transport companies, and small fleet owners and owner drivers.

Heavy vehicle road freight services all communities in Australia and is essential for domestic productivity and international competitiveness. The ATA welcomes the opportunity to provide input on the proposed architecture and implementation arrangements for a new road pricing and road supply mechanism, although little detail has been released to date and this limits the ability to comment.

2. Overview

The ATA has been heavily involved in public policy on charges and has had major successes including securing fuel excise rebate and the policy of the industry paying its fair share of road costs. In the PayGo system the freight industry pays its fair share, and while this is not perfect, it is not broken beyond repair.

The PayGo system recovers the marginal cost of maintenance and a portion of funding of capital investments that reflect heavy vehicle use. However, there is a problem in calculating the charge to recover those costs. We believe that the National Transport Commission (NTC) is not autonomous enough to act independently of the states in terms of changing the fixed registration charges that go directly to the states; and are not committed to increase the variable fuel proportion of charges (which the ATA is suggesting). The current system's heavy reliance on registration (fixed) charges overcharges some operators depending on the type of vehicle. "A" trailers are of particular concern, as these safer combinations are disadvantaged for being fuel efficient.

The ATA concurs with what the COAG Road Reform Plan (CRRP) is setting out to do in principle, that is, improve the efficiency of the road freight system. The trucking industry is currently paying more than its fair share of the burden of road costs. However, the ATA does not accept the current recommendations from the CRRP.

The CRRP report suggests that a change is needed to address the efficiency problem. Its main goal is to improve road provision and to promote funding reform. A direct link between revenue generated from heavy vehicles and road provision, including maintenance, is sought by CRRP.

The ATA proposed in some detail a fuel-based model for reform of charging and revenue distribution with incentive based freight road provision. The CRRP report does not mention this proposal, instead it focuses on four other options; a combination of the mass-distance and location models. These models seem favoured without sound justification but are the least feasible and most complicated methods.

The ATA suggests that further road pricing reform offers little relative to large economic benefits from significant reform in the road supply arena. This submission makes comment on CRRP proposals to reform road charge into prices and promote minor manipulation of road supply. The ATA submission calls for additional reform in the road supply arena to be completed prior to advancing any proposals to modify substantially the PayGo cost recovery heavy vehicle charging model. While the PayGo system includes some averaging, we feel that a total removal of the principles of PayGo is a step backwards from an efficient road reform policy in terms of productivity, accountability and sustainability.

The ATA believes that the best outcome for the Australian community is that the road transport industry should pay its fair share of its impact on the roads but no more. The projected doubling in freight demand in 20 years should be given greater gravitas to the issue of road supply reform than it appears to be given in the published report.

Specifically, there cannot be inappropriate policies that discriminatively impose costs of on road freight transport. The road freight industry is hypercompetitive and operates with very low profit margins. Caution needs to be exercised to ensure additional financial pressures are not imposed on the industry, as this would have detrimental effects on the whole economy. Road freight transport supports the Australian economy and lifestyle.

3. Recommendations

Recommendation 1

The ATA recommends that CRRP note:

- the industry accepts cost recovery of its fair share of its impact on the road system, as that is a sound economic efficiency principle
- the industry does not accept the CRRP's desire for forward looking prices nor for prices that include cost factors that are greater than marginal cost
- the ATA rejects the suggestion that supply side reform requires concomitant information flows and the discipline of more direct pricing
- the ATA rejects that access improvements are closely aligned to pricing, funding and expenditure reform
- road supply and maintenance efficiency is questionable as accountability is low and efficiency measures are of doubtful merit
- it is the ATA's strong view that improving expenditure accountability measures in the road supply side would advance the intended cause significantly, be extremely cost effective, and add no burden to the operators or the economy.

Recommendation 2

The ATA recommends that CRRP:

- note that road freight demand is set to double in 20 years, indicating demand signals for transport operator and for clients is vital to the success of the economy
- acknowledge the ATA fuel-based charging system encourages demand side incentives to a higher level than other proposed road reform models.

Recommendation 3

The ATA recommends that CRRP note:

- the ATA concurs with the report statement that: "it is unlikely that the economic benefits of pricing reform alone will outweigh the costs of implementation"
- it is incongruous to suggest that the proposed pricing scheme should have advantages over the PayGo model.

Recommendation 4

The ATA recommends that CRRP:

- note the increase in the use of B-doubles and B-triples has increased freight fleet's productivity since the 1980s. However, there has been a relative decline in productivity year on year recently
- focuses on making sure any policy implemented reflects the need for productivity gains in the freight industry. This has not been shown in the proposals for mass-distance-location charging.

Recommendation 5

The ATA recommends that CRRP note there is no evidence of poor efficiency by industry. Industry makes the best of the rules in place simply because, if they don't, they are forced out of business due to strong competition in the market place.

Recommendation 6

The ATA recommends that CRRP note:

- the road transport industry will not accept that “an efficient pricing system for heavy vehicles should reflect the full cost of road provision” as recovery of the marginal cost is efficient pricing
- the CRRP plan to tax the more efficient vehicles more for a larger take, will damage the Australian economy
- current cost recovery processes under PayGo are fairer than the proposed up-front payment of projected prices with no accounting trail to ensure that the monies are expended on the relevant roads.

Recommendation 7

The ATA recommends CRRP acknowledges:

- on-board technology is not needed to reform charges or supply.
- broader advice from users and providers outside the TCA and agencies circle as this would provide CRRP with a holistic understanding of telematics
- further advice on enforcement would be useful, as the current report fails to acknowledge just how well the Australian Taxation system functions without telematic oversight of individuals using government certified devices.
- it needs to spend some time looking at the ATA model, discussing it with us, and overcoming biases against uncomplicated solutions without the burden (and cost) of every truck being fitted with use-capturing technology.
- demand assessment needs to include light, heavy vehicles and other users, so if telematics are needed for trucks, they are equally needed for motor cars, light commercials and cyclists.

Recommendation 8

The ATA recommends that CRRP note:

- the projected prices in the CRRP model will bear little, if any, relationship with how an individual truck interacts with the specific roads it travels, nor is the truck operator provided with any process that ensures that the price paid for that trip is sent to the relevant asset manager and used to mitigate the impact of that individual trip
- that larger, longer combinations with more axles will carry the freight task with less road impact.

Recommendation 9

The ATA recommends CRRP note the industry will not accept computable general equilibrium (CGE) modelling of the cost benefit approach as it is inappropriate and lacks transparency.

Recommendation 10

The ATA recommends that CRRP note:

- there is no doubt much of the road network “would not otherwise be provided by the road infrastructure provider acting commercially” triggering the COAG definition of a Community Service Obligation (CSO). The CRRP paper does not adequately address this matter
- pricing only some users of public goods is unusual policy. Attempting to construct a market from this base for the public good as the report proposes is even more unusual. To suggest such a market will be efficient when so many users are excluded is even more curious
- we see no evidence of any mechanism in the CRRP proposal that demonstrates assurances that road maintenance will be undertaken at optimal times.

Recommendation 11

The ATA recommends that:

- consistent with above recommendations, CRRP takes the time to study the ATA's fuel-based charges model as it provides a better revenue return and incentive structure supporting freight than the CRRP proposals. Further, the ATA model includes local governments as a beneficiary of its proposed reform to the distribution system. It should be noted, monies collected under a fuel-based charging system are collected via the ATO, at minimal cost
- CRRP takes the initiative to improve road provision by ensuring decision makers are held to the same accountability as other parts of the public sector by providing applicants with the right to external review for access decisions.

Recommendation 12

The ATA recommends that CRRP notes the industry believes the marginal cost paper to be based upon unsound grounds, leading to conclusions being reached without justification.

4. CRRP Policy Framework Issues

It has been suggested that CRRP believes it has support for pricing and supply reform from industry and treasuries. We find this most questionable, as the industry has been guarded in the matter and while interested in understanding the views of CRRP, has a formal policy supporting the ATA's fuel-based charges and revenue distribution model. The ATA has expected proper consideration of its suggested model. There is no evidence of this in the papers.

The industry accepts cost recovery of its fair share of its impact on the road system, as that is a sound economic efficiency principle. The industry does not accept the CRRP desire for forward-looking prices, nor for prices that include cost factors that are greater than marginal cost. Simply, the inefficiencies and risks are too high given the lack of accountability within current asset management structures. Further, demanding the industry to pay in advance (to mitigate bad debts) is not good economic policy as operator's funds are taken before there can be any recovery from clients. To be viable, operators will need to include the cost of financial interest as a component in their freight rates. This inflationary and inefficient economic policy, will damage our export trade.

Further, we would expect treasuries to ask many questions about the CRRP hypothecation proposals, and like the industry, be guarded until more details and policy evidence is available.

Below we list a number of important elements that we feel need to be examined at a greater depth than the report sets out to do.

4.1. Supply side issues

The ATA concurs that a road reform policy should stimulate road provision to a more effective level of investment and maintenance than it is at present. The report fails to give guidance on how it would actually carry out supply-side initiatives. We reject the suggestion that supply side reform requires concomitant information flows and the discipline of more direct pricing. Supply side reform would benefit provision, but this does not need pricing reform, it needs distribution reform. The ATA rejects that access improvements are closely aligned to pricing, funding and expenditure reform.

The report states "70% of the total potential benefits from road reform could be attributed to the implementation of funding and expenditure reforms." This is a large figure to be created by a change in road provision which apparently is intrinsically linked to pricing reform. However, the report uses this figure and does not give any concrete evidence of where this figure came from. Throughout the paper there is a lack of data and data analysis to give any foundation to the claims about road provision reform, and role of road pricing reform, that are made.

The ATA notes that while the NSW Roads and Traffic Authority (RTA) currently receives all registration revenue (both light and heavy vehicles), we see no evidence that access to this direct funding stream makes NSW the best practice road provision agency or that freight access is facilitated over other states. It should be recognised while the theory of good policy and economic growth should be best for infrastructure decisions there will always be the ability for government to spend heavily where they see fit.

The ATA recommends CRRP note the ATA's strong view that improving expenditure accountability measures in the road supply side would significantly advance the intended cause. It would be extremely cost effective, with no additional burden imposed on the operators or the economy.

Much can be done on the supply side by introducing the normal levels of accountability expected of Commonwealth public servants to state road agencies, such as making decisions open to external review, true competitive tendering of design and supply, transparent network capacity, condition and status. This leads to speculation on how CRRP will address road provision, as it hasn't concentrated on the issue in enough detail.

The fuel-based system that the ATA would like to see implemented offers a rational, incentive based reform to the distribution framework. With an allocated pool of funds for road providers to upgrade and maintain roads, there is an incentive for providers to optimise road use. Along with aligning revenue to roads, this system can only improve the investment incentives that are currently available. The ATA report has a full, in depth method of how the funds shall be dispersed, however no CRRP commentary has been made of the ATA model.

For example, information presented to South Eastern Australia Transport Strategy (SEATS) about the costs to improve the Gocup Road in NSW demonstrated that the NSW RTA estimates greatly exceeded the estimates from an alternative provider often used by the local council with proven road design and building skills. The industry has been precluded from lobbying for bridge enhancements to support HML in NSW because information about bridges requiring up-grade has been withheld. We note in both examples that registration revenue collected is actually held by the RTA.

Recommendation 1

The ATA recommends that CRRP note:

- **the industry accepts cost recovery of its fair share of its impact on the road system, as that is a sound economic efficiency principle**
- **the industry does not accept the CRRP's desire for forward looking prices nor for prices that include cost factors that are greater than marginal cost**
- **the ATA rejects the suggestion that supply side reform requires concomitant information flows and the discipline of more direct pricing**
- **the ATA rejects that access improvements are closely aligned to pricing, funding and expenditure reform**
- **road supply and maintenance efficiency is questionable as accountability is low and efficiency measures are of doubtful merit**
- **it is the ATA's strong view that improving expenditure accountability measures in the road supply side would advance the intended cause significantly, be extremely cost effective, and add no burden to the operators or the economy.**

4.2. Demand side issues

The ATA suggested fuel-based system of road reform pricing, would also address the demand side issues which are relevant to the road freight industry. With the increasing demand for freight coming from every sector of the economy, it is important that the demand side incentives are also present in order to keep the industry on projected growth and productivity.

The fuel-based system of pricing is the most effective in encouraging the demand to be filled by efficient road freight providers, leading to lower inflationary prices for clients, than the restrained current system would offer. In addition, the higher cost attributed to fuel will result in a transition towards fuel efficient vehicles that have many flow on benefits such as environmentally greener, safer and increased load efficiency. However, the industry must never pay more than its fair share, to ensure overall economic efficiency. The CRRP report does not tackle these issues.

Recommendation 2

The ATA recommends that CRRP:

- **note that road freight demand is set to double in 20 years, indicating demand signals for transport operator and for clients is vital to the success of the economy**
- **acknowledge the ATA fuel-based charging system encourages demand side incentives to a higher level than other proposed road reform models.**

4.3. Imbalance between costs and benefits of proposed reform

We note the report states at page 8 "it is unlikely that the economic benefits of pricing reform alone will outweigh the costs of implementation". The ATA strongly agrees with this statement.

While the paper concedes that there are inherent problems with calculating cost versus benefits of proposed projects, it is not a great indicator of the feasibility of the proposed changes when the report from Ministers' appointed experts state "benefits from pricing reforms alone may not outweigh the costs and therefore fail to achieve the COAG objectives". Indeed, it also states "expanded funding mechanisms" are needed with "associated oversight." We also note that the report implies the new price reform is not a cost effective solution for all, so a hybrid approach will be required. This in effect means that the CRRP propose to impose extra tax to the more efficient vehicles. This will significantly damage the Australian economy.

In summary, the CRRP process appears to want the industry to pay more for the same, as expanded access or capacity is not certain and also adopt a process that is more costly. This will result in less actually available for roads. Hence, the net effect is the industry will pay more for less.

The ATA recommends that a revaluation takes place on the choice of pricing reforms and on the implementation of said reforms. The road reforms will have little support if it simply turns out to be inefficient and therefore a sinkhole for taxpayer's money at the expense of real progress. It is incongruous to suggest that the proposed pricing scheme should have advantages over the PayGo model, as the network cost averaging and assumed foundations of the marginal pricing base are far more questionable than the reasoned distribution of expended monies and reasoned charges, even with the averaging within class problem of PayGo.

Recommendation 3

The ATA recommends that CRRP note:

- **the ATA concurs with the report statement that: “it is unlikely that the economic benefits of pricing reform alone will outweigh the costs of implementation”**
- **it is incongruous to suggest that the proposed pricing scheme should have advantages over the PayGo model.**

4.4. Productivity clarification

The CRRP paper stresses that the reform it recommends should ‘support improved productivity’. Although it gives recognition to the decline in productivity, it fails to articulate how a government implemented plan of changing the charging structure and altering supply side incentives would address this.

The ATA believes more government involvement in stimulating the productivity of the fleet is needed. While the introduction of the B-Double and B-triples and improved communication technology has greatly transformed the productivity of fleets over the years, the demand for freight continues to grow and greater need for productivity is ever present. The introduction of extra costs may hinder innovation, and create further detrimental effects on productivity.

The ATA has been campaigning for changes to regulation and institutional rules to allow greater volume and mass carrying than is currently prescribed. Unless this is allowed, productivity gains will be limited in the future.

Recommendation 4

The ATA recommends that CRRP:

- **note the increase in the use of B-doubles and B-triples has increased freight fleet's productivity since the 1980s. However, there has been a relative decline in productivity year on year recently**
- **focuses on making sure any policy implemented reflects the need for productivity gains in the freight industry. This has not been shown in the proposals for mass-distance-location charging.**

5. Funding and implementation issues

One stand out issue in the discussion paper is the problem with attempting to price use of public goods administered by several layers of government to multiple standards of service in a wide variety of situations. These problems escalate when attempts are made to link prices to provision. The report does not adequately deal with the fact that other road users use roads; roads are provided as part of property access and such access must be fit for purpose, hence, many must include truck access. In addition, there are basic community needs to be met which are the responsibility of governments to provide, even though such services will not be cost effective for the individual roads.

Report states: “heavy vehicle [use] prices that are more closely aligned to the actual costs of a heavy vehicle trip will promote efficient use of the road transport network (ensuring the right trucks and the right roads are used for the freight task)”. However, the commercial reality is that the industry already chooses the most productive vehicle it is permitted to use. There is no evidence of poor efficiency by industry. Industry makes the best of the rules in place due to competition in the market place. However, the same cannot be said for road supply and maintenance, where accountability is low and efficiency measures are of doubtful merit given that the road construction price index continues to be higher and grow quicker than the CPI.

Pricing only some users of public goods is unusual policy. Attempting to construct a market from this base for the public good as the report proposes is even more unusual. To suggest such a market will be efficient when so many users are excluded is even more bizarre.

Recommendation 5

The ATA recommends that CRRP note there is no evidence of poor efficiency by industry. Industry makes the best of the rules in place simply because, if they don't, they are forced out of business due to strong competition in the market place.

5.1. Full cost provision issues

The road transport industry will not accept that “an efficient pricing system for heavy vehicles should reflect the full cost of road provision” as recovery of the marginal cost is efficient pricing. This view is supported by the government published Henry Review which notes that government revenue, in general, will pay for road provision and that road transport “would not pay for the full cost of providing and operating the road network.”¹

Claimed benefits of the industry paying full cost of provision	Current situation and limitation	Comment
An efficient trucking fleet mix	Fleet mix reflects allowed regulations and access	Pricing cannot fix the regulatory limitations and lack of accountability on access decision. These problems can be resolved with political will without change to charge/pricing.
Better route selection for freight	Industry all ready chooses the most efficient route allowed by road managers.	Evidence from NSW situation where RTA already receives and holds the registration funds but access does not flow suggests the promise that pricing reform will bring access is an empty one.
Efficient use of the road network	The industry is efficient but access to network capacity is denied even for PBS vehicles.	Again the promise of PBS to unlock hidden network capacity has not been delivered. No evidence that changing from cost recovery of fair share to up-front payment of a price will unlock capacity.
Efficient freight modal choice at the margin	Road and rail use is determined by what they do well and range of service delivery factors, price is not a major factor and the contestable margins cannot be used to justify change in the road charging mode. Road and rail are companion modes, not competitors.	The Productivity Commission made it clear that each mode should be charged efficiently and little or nothing would be gained continuing to pursue competitive neutrality between road and rail.

Recommendation 6

The ATA recommends that CRRP note:

- **the road transport industry will not accept that “an efficient pricing system for heavy vehicles should reflect the full cost of road provision” as recovery of the marginal cost is efficient pricing**
- **the CRRP plan to tax the more efficient vehicles more for a larger take, will damage the Australian economy**
- **current cost recovery processes under PayGo are fairer than the proposed up-front payment of projected prices with no accounting trail to ensure that the monies are expended on the relevant roads.**

¹ http://taxreview.treasury.gov.au/content/FinalReport.aspx?doc=html/publications/Papers/Final_Report_Part_2/chapter_e3.htm

5.2. Telematic issues

On-board technology is not needed to reform charges or supply. We disagree with the CRRP board's views that such technology is the best cost/benefit trade off to establish a basis for funding and expenditure. There are already monies being collected from trucks. Road providers can readily undertake responsible effective supply side reform without any changes to revenue collection methods. The addition of an extra tax on most operators is just not economically viable. We advise that government agencies need to agree to split the pie differently and more efficiently. Once they have proven they can improve on what they do now, it might be appropriate to talk to industry about charging reform.

The report suggests in-vehicle tolling devices would "help achieve benefits such as development of intelligent transport systems". Clearly, the proponents for pricing reform are not aware that the industry is using commercial telematics for business purposes and using them at an increasing rate. Further, in the Australian context, regulatory intervention in the telematics space has not been helpful for either productivity or adoption rates, specifically IAP for HML and B-triple and AB-triple use in NSW. The report actually admits there is no case for an electronic based pricing reform, but then fails to act upon that conclusion. The paper's telematic discussions ignore the facts and state of play with operators using fully integrated transport business systems where in-truck units are critical components. The ATA suggests that broader advice from users and providers outside the Transport Certification Australia (TCA) and agencies circle would benefit CRRP's understanding.

The methodological side of how the conclusions about telematics are reached is a concern. The ATA believes the data collection and enforcement parts of the report are poorly thought out and fail to acknowledge just how well the Australian Taxation system functions without telematic oversight of individuals using government certified devices. The ATA does not see value on addressing such poor work line by line.

The ATA notes the suggestion that on-board mass gauges record 'dynamic mass'. The mass regulations are limits on mass measured in a static condition. Generally speaking, on-board scales are used to assess mass during loading processes in a static state so that comparisons can be drawn to legal mass limits. What is meant by the dynamic mass measurement? What does the CRRP intend to try to measure; existing limits, or something completely new?

There are plenty of ways for road agencies to gather feedback on demand and use of roads, without telematics-based heavy vehicle pricing or charging. Demand assessment needs to include light, heavy vehicles and other users, so if telematics are needed for trucks, they are equally needed for motor cars, light commercials and cyclists.

Recommendation 7

The ATA recommends CRRP acknowledges:

- **on-board technology is not needed to reform charges or supply.**
- **broader advice from users and providers outside the TCA and agencies circle as this would provide CRRP with a holistic understanding of telematics**
- **further advice on enforcement would be useful, as the current report fails to acknowledge just how well the Australian Taxation system functions without telematic oversight of individuals using government certified devices.**
- **it needs to spend some time looking at the ATA model, discussing it with us, and overcoming biases against uncomplicated solutions without the burden (and cost) of every truck being fitted with use-capturing technology.**
- **demand assessment needs to include light, heavy vehicles and other users, so if telematics are needed for trucks, they are equally needed for motor cars, light commercials and cyclists.**

5.3. Confusion over vehicle impact

Several statements about the impacts of vehicles in the report are quite misleading. The pricing system they are implying, of mass, distance and location pricing, has wrongly identified larger vehicles as causing more wear to roads.

The use of "higher mass vehicles" is most confused, as it appears to mean different things at different times in the report. At times it appears to refer to the impact of additional mass on an existing vehicle (higher axle group loads), and at other times to refer to other vehicles with larger gross mass (more axles).

The ATA has developed and had peer reviewed a truck impact chart that sets down the true effects of truck configurations at various masses. A copy is attached to this report. In simple terms, the mass effect of multiple axles groups is reduced as more axles are used. Hence, larger, longer combinations with more axles will carry the freight task with less road impact (ESA).

The ATA is concerned about this confusion as the reflected costs of the vehicles would be calculated to be greater than the actual value, once again leading to the industry paying more than its fair share because of bad categorisation and calculations. The ATA recommends that CRRP note that larger, longer combinations with more axles will carry the freight task with less road impact. This was not reflected in the report. The fuel-based charging system that is endorsed by the ATA has already divided vehicles into two vehicle groups, the different use costs they would be charged reflects their impact on infrastructure.

Recommendation 8

The ATA recommends that CRRP note:

- **the projected prices in the CRRP model will bear little, if any, relationship with how an individual truck interacts with the specific roads it travels, nor is the truck operator provided with any process that ensures that the price paid for that trip is sent to the relevant asset manager and used to mitigate the impact of that individual trip**
- **that larger, longer combinations with more axles will carry the freight task with less road impact.**

5.4. Modelling issues

We note the report proposes that the wider economic benefits and costs be assessed using a computable general equilibrium model (CGE). We question the use of this approach as it is very unreliable, very costly and not suited to assessing reforms within a sector of an economy.

This form of shock modelling is very complicated, heavily dependent on the variables and assumptions, and really is about assessing major whole of economy issues where sound long term data is available. The only reason we can see that the CRRP process would be seeking to use this model is that the intention is to slug the industry with huge cost increases and attempt to argue that there is some form of wider economic benefits in doing so. CRRP does not have robust input for such modelling as many of the CRRP research projects are from a questionable base such as the marginal cost report, and the elasticities study.

We understand from reports on CGE its use in the cross-city tunnel assessment that it generated numbers which turned out to be horribly wrong. Further, this form of modelling is very difficult to make transparent as it more akin to witchcraft with black boxes. The industry will not accept CGE modelling of the cost benefit approach as it is inappropriate and lacks transparency.

What would be feasible and worth pursuing would be using accurate prices and attempting to see how this fits with operators' current cost models (that of course makes assumptions about competition and the market response). We note that CRRP talked about doing this, but did not proceed.

If the effect of other sectors is what is desired, there could be some analysis on specific sectors (livestock versus general freight) or good types. The NTC used this approach for the annual adjustment of grocery products, offering a percent price change that would occur for urban or rural groceries due to different charges.

These estimates will not be perfect, but will be no less flawed than CGE and will provide an idea of the impacts that are required.

Recommendation 9

The ATA recommends CRRP note the industry will not accept computable general equilibrium (CGE) modelling of the cost benefit approach as it is inappropriate and lacks transparency.

5.5. Issue of the road being a public good – who pays what?

The fact that roads are provided as a public good adds a level of sophistication that we believe needs to be examined further to make sure that the freight industry is not overburdened by its use due to political or institutional demands.

Public goods are rarely provided in an open market, as by definition they are things that the private sector would not normally provide. The road systems are public goods. Currently we have an imperfect market even though there are processes to introduce market signals into the mix associated with heavy vehicle use. There is no doubt that the industry pays for its assessed impact through the PayGo system. Further, there is no doubt that much of the road network “would not otherwise be provided by the road infrastructure provider acting commercially” triggering the COAG definition of a Community Service Obligation (CSO). The CRRP paper does not adequately address this matter.

Even the report acknowledges that in a partial system, only relevant costs should be allocated to relevant users and monies collected should be expended on outcomes to benefit the relevant party. Generally speaking, any road improvements for heavy vehicles have spin off benefits for light vehicle and other roads users, the one possible exception being bridge strengthening. But even then, if the strengthening allows more freight to be carried with less trucks there is a safety benefit in less trucks being used for the same task. Intersections that are truck friendly are also better for other road users, for example due to better spatial delineation.

There are issues with distribution of heavy vehicle related funds between governments. However, this can (and should) be fixed without imposing further burden on the industry. In fact the industry has offered a robust, simpler, and fairer collection and distribution system via fuel-based charging. The ATA option has strong use related signals related to mass, distance, location, congestion, speed of operation, and terrain. The industry has also offered suggestions on distribution of funds that links funding to freight needs in a low cost way. The industry solution would ease the compliance costs, and provide better signals to clients. Clients are increasingly aware of the effects of fuel on freight rates due the use of fuel levies in contractual situations.

The ATA perceives no evidence of any mechanism in the CRRP proposal that demonstrates assurances that road maintenance will be undertaken at optimal times. In fact, the ATA sees the incentive may be to delay expenditure to allow the monies paid in advance by the industry to be “grown” within the trust accounts of agencies or applied to non-heavy vehicle matters.

Recommendation 10

The ATA recommends that CRRP note:

- **there is no doubt much of the road network “would not otherwise be provided by the road infrastructure provider acting commercially” triggering the COAG definition of a Community Service Obligation (CSO). The CRRP paper does not adequately address this matter**
- **pricing only some users of public goods is unusual policy. Attempting to construct a market from this base for the public good as the report proposes is even more unusual. To suggest such a market will be efficient when so many users are excluded is even more curious**
- **we see no evidence of any mechanism in the CRRP proposal that demonstrates assurances that road maintenance will be undertaken at optimal times.**

5.6. Institutional issues

Local government is excluded from the CRRP modelling. The ATA model includes local governments as a beneficiary of its proposed reform to the distribution system.

The proposed pricing model in the CRRP process combined with the funding and implementation report alarms the transport industry, as road transport could become less efficient.

GST and Commonwealth Grants Commission assessments process implications of changing the distribution of heavy vehicle funds between states and the Commonwealth must also take into account any additional revenue from trucks. It is apparent that CRRP is determined to introduce inefficiencies to the economy by taking the full cost of roads rather than the economically efficient marginal costs of use by heavy vehicle.

The ATA notes that the ATA's own fuel-based charges model has a better revenue return and incentive structure supporting freight that the CRRP proposals.

Road agencies have had far too much influence in the determination of heavy vehicle charges since 2007, especially when the NTC has refused to release the PayGo model, its inputs and assumptions to the industry for open and transparent review.

NSW RTA already directly receives considerable funding from road users, and we see no evidence of outstanding performance relative to other agencies who work within normal government budget processes. The CRRP proposals do not set down how they will reform the NSW situation.

We do not understand why Ministers would want to be constrained as the CRRP proposals suggest. In our view the key reform needed is transparency in decision making and greater efficiency in provision of roads and their maintenance, not constraints on Ministers meeting political imperatives.

Recommendation 11

The ATA recommends that:

- **consistent with above recommendations, CRRP takes the time to study the ATA's fuel-based charges model as it provides a better revenue return and incentive structure supporting freight than the CRRP proposals. Further, the ATA model includes local governments as a beneficiary of its proposed reform to the distribution system. It should be noted, monies collected under a fuel-based charging system are collected via the ATO, at minimal cost**
- **CRRP takes the initiative to improve road provision by ensuring decision makers are held to the same accountability as other parts of the public sector by providing applicants with the right to external review for access decisions.**

5.7. Data analysis issues

The report's weakest points are its lack of empirical support to back up its claims. We have seen that the calculations are based on unjustified or suggestive numbers that are only used to persuade instead of illuminate.

The marginal cost paper contains many weaknesses. The ATA met once with some of the project team and during that meeting it was clear that the foundations to the marginal costs paper were unsound. The ATA has been seeking the release of the actual original paper for some 18 months. The paper released is considerably different and less detailed than the original, but the unsound foundations remain.

The ATA is concerned about:

- use of unrepresentative inputs,
- doubtful averaging rules,
- broad scale averaging of inputs and select scenarios of questionable validity
- poor reasoning of estimation approached and methods,
- diagrams that mislead current operation space on impact curves
- use of unproven and non-traditional exponents,
- inadequate consideration of weathering effects,
- poor recognition of existing status and foundation of roads,
- poor knowledge basis of existing network,
- assumed use patterns that are not reflective of actual industry practices (for example most trucks do not run at GVM or even the 80% GVM used in part of work they run lighter as indicated in SMVU data), and
- some charts show unexpected results but there is no explanation, and finally
- there are assumptions about efficiency in the responses to road wear.

This amounts to conclusions being reached without justification.

Recommendation 12

The ATA recommends that CRRP notes the industry believes the marginal cost paper to be based upon unsound grounds, leading to conclusions being reached without justification.

6. The ATA model is robust

To assist CRRP we offer the following observations about the ATA's fuel-based charges model as it provides a more efficient revenue return and incentive structure supporting freight than the CRRP proposals. The model would effectively and efficiently transform the charges on the freight industry without causing the negative impact we have pointed to in the above paragraphs.

The fuel-based system is simply a change in who pools the revenue and a switch from dependence on fixed (registration) to variable (fuel) charges. The end result of this system will:

- encourage productivity,
- give road providers incentives,
- improved fuel efficiency and
- adjust the current cross subsidising distortion that happens under the PayGo system charges calculation.

Achieving all this, while maintaining the appropriate level of revenue and making the trucking industry pay its fair share, appears to be sound policy.

Also, the report mentions that a registration cost will always be charged regardless of the road reform price. The ATA puts forward the proposal of lowering the registration cost and putting in place a fuel-based road pricing reform that would achieve what the CRRP process sets out to do. We would encourage the project team to review our fuel-based charges paper and report its benefits factually. It currently has not been fairly or accurately addressed by the CRRP project.

6.1. Supply side issues

The fuel-based charges model stimulates supply side investment and initiatives by effectively making it easier for road providers to be granted funds from a pool of money. The inclusion of local government interaction in the model means that these important road managers have incentives to open roads to trucks as these providers have a dedicated funding stream to assist with maintaining the roads. It should be noted, monies collected under a fuel-based charging system are collected via the ATO, at minimal cost.

The failure of the existing registration systems to cope with the NTC's unique charges for "A" trailer units is evidenced in agencies being unable to robustly deal with the compliance problems arising. We also note that the future is one HV registration process administered by the National Heavy Vehicle Regulator, although the CRRP model takes no account of this. While there has always been a disconnect between the revenues that come from heavy vehicles and what goes to the roads, the ATA system merges these two, to make a more direct link between the damage created by the freight and the repairs that they pay for.

6.2. Demand side issues

The lowering of the registration charge for trucks encourages best truck for task selection as it lowers a barrier to selection that operators encounter. Over time this would lead to a more stable freight rate for customers and an uptake in safety standards, greener vehicles and more efficient freight industry as operators become even more competitive.

6.3. Cost and benefits

The CRRP report stated there was a high possibility that the costs of the chosen reform would not outweigh the benefits, and the reliance on taking in monies in advance is just not acceptable to the industry. The fuel-based charge would not incur such a benefit deficit as it is simply tweaking the current system and tightening up accountability. The accountability of the project can even be seen in our figures, which indicate that the same amount of revenue is taken but with the added positive externalities discussed above. Currently, road provision is not held to the same accountability as other parts of the public sector, and it is not correct to imply that they are. For example, there is no right to external review for an access decision.

On page 26 of the report we note a reference to full pass through, and we wish to point out that the ATA model achieves this in a fair and transparent incentive based manner. We concur that the approach will be very cost effective. CRRP would do well to spend some time looking at the ATA model, discussing it with us, and getting over its biases against simple solutions without the burden (and cost) of every truck being fitted with use-capturing technology. The ATA recommends that CRRP takes the initiative to improve road provision by ensuring it is held to the same accountability as other parts of the public sector by providing applicants with the right to external review for access decisions.

6.4. Productivity

The reforms that the CRRP paper leans towards that of mass-distance pricing would not promote the same productivity gains that the fuel-based reform would. The ATA's goal to make regulation a more effective body has been shown in our tireless wish to rationalise and to make regulation serve the purpose in which it is envisioned.

One of the greatest restrictions on productivity is the limits on volume and mass that heavy vehicles can carry. Enhances in these areas would deliver improvements in productivity. The adoption of business enhancing in-cab technology at the freight operators' own discretion will enhance business efficiency. This differs from the methods proscribed by the CRRP where there is forced take up of distance/mass/location measures at great cost. In the ATA model road providers are provided will direct incentives to improve provision productivity due to the improved access to funds for improving assets for the freight task. This will increase efficiency in optimising the roads.

7. Conclusion

We would urge the CRRP committee to truly review all other potential and viable options for changing the road supply system, as changes may have substantial effect on not just the road freight industry, but on the Australian economy.

We propose that the CRRP should examine the ATA's suggested fuel-based charges paper carefully, as we offer a system that is cost-effective with the proper market signals to both infrastructure providers and users.

The CRRP fails on some major issues:

- lack of defined supply side stimulation
- horizon pricing is not a justified charge to levy on the industry and that increasing funding does not equate to an increase in efficiency in road provision
- demand and productivity are not addressed to the level of concern that they should be
- costs are greater than benefits; there must be a re-valuation of the viable road supply reform
- charging the industry full costs for using roads in order to recover above the marginal cost does not reflect the industry paying its fair share. Along with burdening the more efficient trucks with extra costs, it is going to have a detrimental effect on the efficiency of our economy
- the reliance on telematics is a costly and unnecessary
- information and therefore empirical conclusions on truck impact, are incorrect and must be re-calculated
- use of the CGE model is not appropriate in this circumstance
- accountability of decision makers in road agencies is below best practice public sector levels.

Ultimately we feel the CRRP paper is wrongly motivated in recommending the road reform policy of mass, distance, location pricing. With the lack of comprehensive data and ignoring the industry's wishes to pay its fair way, it is seen as destroying productivity, stalling growth and leading to further ambiguity in transparency and accountability. It fails to achieve many of the principles that it has set out to accomplish. Further, we would like to add that the Victorian Auditor General's announcement on the 15 June 2011 revealed problems consistent which those we have mentioned in terms of that states road agency under the former Government. We ask the CRRP to take these finding into account.