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Dear Mrs Owens

Cost Recovery - Draft Report

Thank you for sending a copy of the Draft Report to the Balanced State Development Working Group (BSDWG). Although members of BSDWG do not recall previously reading the Terms of Reference or any Discussion Paper published by the Commission we believe that it might assist the Inquiry if we were to refer to related studies which appear to have been overlooked in earlier submissions.

The studies relate to Road, Rail, Sea and Air Transport and to Telecommunications. For example on page D6 CASA is quoted as suggesting that 'cost recovery has been a feature of the provision of aviation regulatory services since 1956'. When the Department of Transport was established in Nov. 1973 I reviewed the former Department of Civil Aviation's (DCA) correspondence with the Department of the Treasury and was left in no doubt that the thrust through the late 50s and the 60s was to achieve a system of user charges.

Treasury was concerned that users, from private pilots to operators of domestic and international regular public transport, and suppliers, from Avgas/Avtur to spare and replacement parts for aircraft and ground equipment, regarded the aviation infrastructure and regulatory services as 'free issue' provided by the Commonwealth. There was no record on the file of any attempt by DCA or Treasury to apply economic or operational research principles. Rather the approach was to form a judgement as to what cost increases the users would tolerate and whether these would be acceptable to Ministers.

In 1969 the Public Service Board accepted a joint recommendation from the then Department of Shipping and Transport (DST) and the Treasury that a Bureau of Transport Economics (BTE) should be established by DST in Canberra. The early priorities for the BTE related to sea and rail transport but it was understood that eventually the BTE would take a much broader interest in all forms of public and private transport.

This approach was similar to that adopted in the UK when the Road Research Laboratory (RRL) became the Transport and Road Research Laboratories (TRRL). The inaugural Director of TRRL was Mr J. Lyons previously Director of the Guided Weapons Dept. at the then Royal Aircraft Establishment. The inaugural Director of the BTE was Mr R.W.Cole formerly a Division Head in the then Commonwealth Department of the Treasury.

Later in the year Mr Cole visited the Canadian Transport Commission (CTC) in Ottawa where I

was the inaugural Director of Science and Technology. Amongst the issues we discussed was the different policy basis for systems of 'cost recovery' and 'user charges' and their relevance to publicly funded transport infrastructure. We both were aware of examples related to funding of roads by federal governments.

In the USA the Highway Trust Fund administered by the Department of Transport's Highway Administration had, for decades, been funded through taxes on gasoline. The Fund could only be spent on the construction and maintenance of the National Highway Network and of the 'furniture' immediately associated with that Network. We agreed that this was an example of 'user charges'.

Mr Cole explained that in Australia Commonwealth Governments had become involved in providing funds to the States from Consolidated Revenue which could only be spent on road construction and that the annual Commonwealth Budget also made provision for roads in the Territories. He also mentioned the work of the (then) Bureau of Roads, a Melbourne based Commonwealth Bureau (CBR) which formed part of the Shipping and Transport Portfolio.

The CBR was required to examine the road needs of all States and Territories and, every three or four years, prepare a report based, in part, on a survey carried out in conjunction with State and Commonwealth road authorities, of (urban and rural) road needs in Australia over the next five years. Mr Cole explained that the Bureau was expected to (and did) recommend the levels of funding to be provided by the Commonwealth and the States. I believe that he also told me that he suspected that the Bureau formed its own view of each State's 'capacity to pay'. He did say that the Bureau appeared to be attracted to the concept of 'hypothecating' fuel taxes.

In December 1973 the Minister for Transport tabled the Bureau's 'Report on Roads in Australia - 1973'. It recommended a road program over the four financial years 1974-75 to 1978-79. The Commission may wish to review the arguments developed by the CBR.

At about the same time that the CBR was undertaking the surveys and studies which led to its 1973 report the Canadian Transport Commission undertook a major study on road pricing which took account of the key declaration in the 1967 National Transportation Act:

'.....an economic, efficient and adequate transportation system making the best use of all available modes of transportation at the lowest total cost is essential to protect the interests of the users of transportation and to maintain the economic well-being and growth of Canada...'

The principal researcher was Dr Z. Haritos and the results were published in 1973 by the CTC in

'Rational Road Pricing Policies in Canada'.

All costs and revenues directly related to the provision of road transport were identified. They included all costs associated in each Province with the licensing of vehicles, and the costs associated with regulating and controlling traffic as well as, on the revenue side fines, transfer of vehicle ownership fees etc.

The approach is clearly one based on 'cost recovery' and provides a 30 year old example of some of the issues explored in the Commission's draft report.

In November 1973 the former Departments of Civil Aviation and Shipping and Transport were merged to form the Department of Transport. At a later stage the BTE and the CBR were amalgamated into an enlarged BTE.

The BTE undertook a major study of cost recovery in Australian transport. The report 'Cost Recovery in Australian Transport 1974-75' includes a detailed assessment of cost recovery theory, as well as comments on alternative cost recovery measures. It was released by the Minister for Transport in March 1978 and formed the basis for the policy approach, endorsed by Government, which the Department pursued with respect to its various responsibilities for the movement of people, freight and raw materials by Road, Rail, Sea and Air.

These included negotiating appropriate fees for the provision of various services provided by the Bureau of Meteorology, and prices paid to the then Australian Telecommunications Commission and the then Overseas Telecommunications Commission for the provision of secure services including, where necessary, duplicate lines on alternative routes to achieve the required degree of reliability for Aviation and Marine operations. At a later stage the same principles were also applied to negotiations with Aussat for access to satellite routes which improved the operational integrity of Flight Service operations in Regional and Remote Australia.

I should add that the Commonwealth Minister for Transport tabled the BTE report at meetings of the (then) Australian Transport Advisory Council and the (then) Marine and Ports Council of Australia. At the request of Ministers meetings, seminars and workshops were then held to ensure that the conclusions and implications were understood by senior officers in each State and Territory.

The BTE report together with two papers presented at the fourth annual meeting of the Australian Transport Research Forum

-Economic Theory and Economic Pragmatism in Pricing Transport Decisions

-Optimisation in the Transport Sector - a much neglected objective

are relevant to the Inquiry into Cost Recovery.

In the early 1980's the Government established a Department of Aviation (DOA). The fact that the annual reports of DOA include sections on Cost Recovery must be contrasted with the lack of comparable sections on either 'User Pays' or 'Cost Recovery' in the annual reports of the former Department of Civil Aviation.

The Commission's draft report draws attention to the 1984 Bosch Report. That report, commissioned by the Secretary to the Department of Aviation, correctly describes itself as an 'Independent Inquiry' the objective being to confirm that it was not unduly influenced by Departmental Officers. Nevertheless a comparison of Bosch (1984) with BTE (1978) and CTC (1973) demonstrates the evolution of a rigorous approach to cost recovery which was developed further when the Government established a Department of Transport and Communications (DTC) and, subsequently, the Civil Aviation Authority and the Australian Maritime Safety Authority.

It should also be mentioned that, in the mid 1980's, this approach to cost recovery was followed in the Department of Communications. Discussions were held with the United States Federal Communications Commission and work was initiated on a system of charges which might be appropriate to rental charges for use of defined bandwidth within the Electromagnetic Spectrum. After the Government established DTC this led to the Spectrum Management Agency (SMA).

When DTC was established the BTE was enlarged to become the Bureau of Transport and Communications Economics (BTCE). In May 1988 the then Minister for Transport and Communications asked the BTCE to prepare a report on the costs and cross-subsidies associated with the provision by Telecom Australia of identifiable community service obligations.

Although the BTCE report was vigorously criticised by Telecom Executive management BSDWG believes that the approach advocated was soundly based and that the report is relevant to the current Inquiry.

Please let me know if you would like clarification, or further development, of any of the issues raised in this letter. All the reports referred to can be found in the Parliamentary Library and/or Departmental Libraries. The distortions caused in the USA by the Highway Trust Fund were covered in a number of papers delivered to the (USA) Transport Research Forum in the late '60's and early '70's.

Yours Sincerely


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