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TRANSCRIPT OF PROCEEDINGS

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PRODUCTIVITY COMMISSION

INQUIRY INTO ROAD AND RAIL FREIGHT INFRASTRUCTURE PRICING

MR G. BANKS, Chairman
PROF C. WALSH, Associate Commissioner

TRANSCRIPT OF PROCEEDINGS

AT BRISBANE ON MONDAY, 30 OCTOBER 2006, AT 10.16 AM

MR BANKS: Welcome, ladies and gentlemen, to the first day of public hearings for the Productivity Commission's inquiry into road and rail freight infrastructure pricing. My name is Gary Banks. I'm Chairman of the Productivity Commission, presiding on this inquiry, and to my left is Prof Cliff Walsh who is the Associate Commissioner for the inquiry. As you probably know, this inquiry has its genesis in the February 2006 meeting of COAG. The commission subsequently received terms of reference from the Treasurer with a requirement to report back to COAG by the end of this year.

The task that we have has three main dimensions: the first focuses on the question of competitive neutrality between road and rail, and I think this has been largely based on the presumption that road has not been paying its way and that this has been negatively impacting on rail and rail's prospects. The second dimension is related to the potential for new road pricing instruments to achieve more accurate, cost-reflective prices, based in part on a view that technologies are now becoming available for the first time to make this a reality. The third part of our task focuses on non-price impediments to the performance of both road and rail, and there the Commission was given fairly open remit to look at regulatory and other issues impacting on both those modes.

The draft report, as you know, has been released. It contains the Commission's preliminary findings and raises a number of issues on which we're seeking further input from participants. The report follows quite extensive discussions that we've had with a range of participants and many submissions, in fact 70 or so submissions, many of which were quite substantial and quite helpful to us. We also had round tables with a range of participants, one up here in Queensland at Emerald looking at regional issues in particular. The findings of the report are summarised in the key points in the overview at the front of the report. But some of its key aspects have been a little misinterpreted in some of the press reporting that I've seen, and I thought I would just quickly recap for the record, given that this is the first public hearing we're having on this report.

On the first issue in relation to competitive neutrality, we found that competitive neutrality is very important, but that national efficiency or productivity should be the overriding goal for public policy. Of course, competitive neutrality is one aspect of that. In the event, the Commission found that competitive distortions between road and rail were not the main problem for the efficiency of land freight infrastructure. In aggregate, we found that the trucks were covering their costs for the road network overall. Semi-trailers were more than covering their average network-wide costs, but B-doubles were not covering their average network-wide costs. But the key issue related to trucks competing with rail on the major corridors, particularly, on the east coast.

The important point that we found, and this has been missed, I think, in some of the reporting, is that B-doubles were found to be imposing costs lower than average on the roads they actually use. There is a discussion within the report about the lower unit costs of the main corridors on which these B-doubles are mainly competing with rail. There are various complications to that in relation to how far trucks are travelling and the different mass involved, but the bottom line for the Commission was that we could find no compelling evidence that heavy trucks are relatively subsidised compared to rail, even accounting for externalities, and we have quite a lot of analysis in there looking at the question of externalities and how best to deal with them.

That conclusion has been reinforced by the fact that rail itself is receiving quite significant subsidies. Beyond that, we found that if we did raise charges for road freight significantly there would be little real impact on rail's share and that came out of some modelling work we did, but also relates to, I guess, points that people were making to us more generally about the different service characteristics of the two modes and the fact that road charges are still a relatively small proportion of total road freight costs.

On the second issue that I referred to we still saw good reasons to reform heavy vehicle charges. The current arrangements are highly averaged and blunt and we saw a need for them to become more like prices to provide signals both to users and to providers and achieve greater efficiency and productivity gains from the road network. But in looking at various ways of doing that, we found that there are a number of challenging issues. For a start, there are no off-the-shelf technological solutions at this stage. But even if there were - and we think in time they will become available - implementing such technological solutions would involve significant changes to current charging and institutional arrangements. In those important areas this discussion draft is seeking input and guidance from participants to help us see the best way forward.

Finally, on the third suite of issues, the commission found that within the current charging regimes there's a range of regulatory and other reforms that would help reduce costs and increase productivity of both road and rail. Indeed, we found that rail output would especially benefit from productivity improvements on that mode and, again, we're seeking views and feedback on the range of issues that we've raised there, but especially on the question of the competition regulation of rail and its costs and benefits and ways of refining that regulation going forward. So our goal in striving towards producing a final report by the end of the year, which will hopefully be before Christmas, is to clarify what concrete actions would yield some clear net benefits moving forward and perhaps where further work may be best directed. These public hearings, together with the submissions that we are now receiving on the discussion draft, are an important part of that process. They provide an opportunity for views to be put and discussed on the public record.

We would like to conduct the hearings in a reasonably informal manner, but I remind participants for the record that a transcript is being taken and for this reason comments from the floor cannot be taken, but at the end of the proceedings I will provide an opportunity for anyone who wishes to do so to make a brief presentation. Participants are not required to take an oath, but are required under the Productivity Commission Act to be truthful in their remarks. Participants are welcome to comment on the issues raised in other submissions. Following this hearing in Brisbane, hearings will also be held in Sydney, Canberra and Melbourne. Transcripts will be made available to participants and will be available from the commission's web site following the hearings. Copies may also be purchased using an order form available from staff here today.

I would now like to call on our first participant for the hearings today representing the Rail, Bus and Tram Union, the Queensland branch, could I ask you please to give your name and the capacity in which you're here today.

PROF CHARLES: My name is Prof Phil Charles. I'm from the University of Queensland. I am supporting the Rail, Tram and Bus Union, Queensland branch, and the Queensland Public Sector Union.

MR BANKS: I thank the union for appearing today and for the submission that we received earlier in the proceedings. You have indicated some of the points that you might like to address and I'll let you just proceed and do that.

PROF CHARLES: Thank you. I guess the first point we would like to make is that we commend the Productivity Commission in their endeavours of trying to put together a very complex issue. I mean, you've documented a whole range of perspectives. It's a challenging task, so our comments are really trying to help that process.

Just a quick background about the Rail, Tram and Bus Union. There's 35,000 members in the rail, tram and bus industry and they provide a unique perspective as a major stakeholder. They have practical experience in the rail freight transport issues and they are very keen on moving to best practice and delivering customer service, safety and security, and that really requires the active involvement of staff and the union. They have special interest in rail transport, and on behalf of the members, is seeking the right policy approach to improving transport productivity by facilitating efficient investment, operation and use of transport infrastructure.

The Queensland Public Sector Union also has an interest in this area. They represent public servants, in particular transport inspectors who are the government law enforcement officials for the road freight operation, so together they have combined to provide this comment.

There are a number of strategic comments I guess we would make, rather than more detailed comments, really looking at a series of issues. Firstly, we believe that the efficiency in freight transport requires a consistent and honest approach to planning, investment and pricing across road and rail. Pricing regimes for using transport infrastructure should provide incentives for the efficient allocation of freight tasks to the most appropriate mode. That is probably not as good as it could be at the moment. Currently, planning, investment and pricing for road and rail result in inefficient allocation of the freight task.

The second element is relating to the evaluation methodology, valuation of infrastructure investment in particular. An increased strategy to ensuring a balanced freight transport system is to have a consistent evaluation methodology for investment across both road and rail transport modes. That needs to incorporate full economic, social and environmental impacts. We talk about planning, investment and pricing because they're interrelated, so while the focus of the inquiry may be on pricing, we believe you really have to look at the elements of planning, investment and pricing across road and rail because of their interrelation.

Road investments, considered from a community perspective, are assessed considering socioeconomic costs and benefits. However, rail investment is based primarily on a financial analysis and must make a return on investment, so they're not on an equal basis and we're arguing there needs to be a consistent approach particularly for public investment.

A key strategy to ensure a balanced transport system is to have a consistent evaluation methodology for investment across all transport modes, with due consideration of externalities. The costs of external effects associated with freight transport should be incorporated in road and rail charges; in particular, congestion-induced externalities, pollutants, greenhouse gas emissions. Fuel consumption has been used as a proxy for that in the past but maybe that needs to be looked at in more detail.

The next area is that it's critical that planning, investment and pricing for freight transport relate to the cost of providing and maintaining an optimal network. It's not appropriate to compare existing road and rail infrastructure networks as they have not been developed or maintained to an optimal level. There's an historic investment over a number of years that really means that both of these infrastructures are not equal, and basing our analysis on that will result in inefficiencies.

Infrastructure funding has been imbalanced towards roads. For example, in the current AusLink funding contribution to road, rail and intermodal projects for the period 2004-2009, only 9 per cent of the $6 million has been provided for rail projects. In the report, you refer to:

> Moving to prices that reflect economic costs of providing road infrastructure services also has the potential to promote more efficient services.

We believe that to be the case. Hence, there needs to be an explicit linking of charges and funding based on the optimal infrastructure and operation needs, particularly important in the increases in the freight task. So we should be really looking at, depending on the level of investment available, what is the optimal network, not necessarily where are we at today and how will we maintain that.

In the areas of charges, taxes and funding, a number of taxes and charges may be considered in theory as pricing or payments for freight transport. In practice, an appropriate and dedicated proportion of taxes and charges such as fuel excise and enforcement penalties is not being made available for the provision and management of the optimum freight network. It's a major concern in the face of predicted growth in freight traffic. So saying that fuel excise is a pricing on transport is appropriate in theory, but in practice that money doesn't flow through to the infrastructure and that is a real issue. For example, appropriate levels of enforcement are not being delivered due to inadequate funding as there is no direct relationship between enforcement costs and penalty revenues. Even though there's mention of providing the administrative costs net of penalty, those penalty revenues don't flow through to administration either, so in essence, the levels of enforcement are not being delivered and that is going to be more and more of a concern.

A dedicated fund that directly links charges and funding would improve the efficiency of freight transport, not just for roads but across road and rail, and so maybe it's more appropriate to recommend a transport fund rather than just a road fund. We need to reduce or offset existing charges such as fuel excise, otherwise there is an impost on the transport operator, so one requires the other as well. There are complex institutional issues involved in that but I think the principle we need to be working towards and then look at the practicalities of achieving that.

New technologies are available for more efficient charging. You talked about the blunt mechanisms that we have in place. There are new technologies around. We can look at mass, distance, location, time, environmental emission, a whole range of issues that can be dedicated to the individual vehicle. So what we're recommending is that the principle or the goal of linking freight transport costs to prices be established and then that may need some staged implementation, what makes economic sense to use at the time, but heading towards a goal, rather than saying, "The technology is maybe not cost-effective, so we won't recommend that." The technology is not the issue, the issue is the principle, I believe. What is the principle that we want to achieve?

In terms of commercially oriented management, there's a comment about commercially oriented management for major freight routes. We believe that's desirable in balancing investment and pricing across road and rail. I think the context of the statement in the report really is reflecting on road, but I think there needs to be a nexus between road and rail in that consideration as well, using comparable performance standards, and that would allow a more direct link between infrastructure providers, operators and transport unions, so there's a much greater link to customer service responsive to user needs.

An example is the AusLink corridor studies which have the potential to establish a balanced long-term approach for a corridor with shared objectives, strategic priorities and that would look at increases in efficiency, improved safety and security, improved productivity, improved reliability of travel and consistent with the viable long-term economic and social outcome. However, I say that, but on the recent draft, AusLink Brisbane to Cairns corridor study, it was serious deficient in looking at any strategic priorities outlined for rail. So yes, the mechanism is there but how it was implemented in this particular case was not optimal.

There are also other examples of pricing. You can price freight individually. I mean, there's the German example of Toll Collect, looking at charges for freight vehicles, so not necessarily a charge for every user has to be the same, so you could actually separate the ways of charging, if need be.

Also, the issue of what technology is available, the German technology is probably the first of its kind. It's going to have difficulties, it's going to have extra costs. The next time around we'll learn from that, it will be easier. So let's not focus on saying, "Well, the technology, that was the difficulty." That's the first example of it, the next time it will be easier. So it's a case of what is the principle we want to achieve and let's work out how we deliver it.

The final area that we want to focus on is data and lack of adequate data is constantly being used as a reason for not being able to make definitive recommendations and our concern is that will only result in business as usual or any incremental changes. The statements like "a lack of adequate data" or "the paucity of corridor, specific cost data, the lack of reliable data" is through the report and we understand that. However, the inquiry may not have the time or resources to produce that data but we believe that the Productivity Commission should recommend that urgent attention be given to collect quality-specific data and from that then being able to undertake appropriate research and analysis to enable robust recommendations to be made. The concern is that reports and inquiries and studies all will say that there's inadequate data, but I believe that more needs to be done in identifying the appropriate data to be collected so that that analysis can be done.

There were a number of comments at the end of the overview about areas that the commission would like to get some response on and we'll just briefly mention those. In the case of this submission, there is support for integrated rail networks, not necessarily reintegration but certainly integrated rail networks, they seem to be more effective. We support a dedicated transport fund, maybe rather than just a road fund. There are many international examples of transport funds. The dedicated assured funding will be an incentive to governments to overcome the jurisdiction issues, so I think if there's a genuine approach by COAG or the Australian Transport Council to want to move in that direction, then the actual issues will be worked through. I don't see that as an impediment. Commercially oriented management of major freight routes we would support but I believe it needs to be both road and rail. Thank you.

MR BANKS: Thank you very much. You raised quite a few issues there and we look forward to seeing the submission that's coming to elaborate on some of those. One of the earlier points you made is about the need for a consistent investment evaluation methodology and I thought I might just get you to comment a little bit more on that.

PROF CHARLES: In the road sector, from my experience, the evaluation methodology is fairly mature and robust, it incorporates full economic, social and environmental impacts but I don't believe that - I mean, there is work at the moment by the Australian Transport Council. They have some guidelines, they're redeveloping those, they're looking at that for public transport. There also needs to be that for freight and it needs to apply across road and rail which I don't believe at the moment, particularly for public investment, that that occurs. If we look at, for instance, at a toll road there is the requirement for a full economic, social and environmental impact to be understood and then they look at also the financial analysis.

I think in rail in a lot of cases there's a financial analysis without that broader - the issue then is that the externalities are not taken into account in that investment, so we're just saying that there needs to be at some point a comparable analysis so you can say, "If we have some investment on a corridor, what is the best use of that funding?" rather than saying, "Well, we'll look at road and rail separately," as it happens at the moment.

PROF WALSH: Can I just tease that out a bit. It's a bit unclear to me what the externalities are that are specific to a valuation of rail. That is, suppose we had to make a decision about whether we were going to support additional investment in roads, say, an expansion of its capacity, or additional investment in rail. If the road investment decision takes into account, for example, all the externalities that are associated with motor vehicle use, it would be double-counting to then say, "One of the benefits of rail is that it doesn't generate those sorts of externalities." So it's just not clear to me what are the externalities that are being missed out on in doing a financial analysis on rail if the road analysis is actually being undertaken, as you say, in a fairly high quality way.

PROF CHARLES: The road analysis would look at the costs to the community. There are two different levels, if you look at a toll road they have to justify their financial case to a funder, but they also have to justify to the community that this an appropriate project. I don't think that same analogy applies in the rail sector to that same degree. It's really a case of being able to compare investment in the two modes on the same basis. At the moment the full externalities that are involved in emissions - for instance, if you're looking at doing an investment in a section of rail, what is the impact on reducing road freight in that case? What's the impact of all of those aspects of safety on emissions? I'm not sure that that is really robustly undertaken at this point. So to some extent the rail is disadvantaged because it doesn't allow that full economic cost to be brought into play.

PROF WALSH: But what I was suggesting was that the road investment would already have taken that into account. One of the costs of expanding the capacity of road to carry freight, you would say, is additional pollution, additional accidents. If they're taken into account as a cost of the road, then to then say, "Well, rail saves those things," and are added into the evaluation on rail it would seem to me, in principle, to be double-counting.

PROF CHARLES: I guess this is a building block to get to the optimum network and unless you are doing consistent evaluation, you really can't compare this project with this project and that's more of what I'm looking at, rather than saying road takes into account, but the rail doesn't. You really need to say, "What are the options?" One option is to build some road infrastructure and another option is to be some rail infrastructure. They need to be evaluated on exactly on the same basis and then compared and saying, "Where's the best investment," or, "Where's the best combination investment," I take your point. But what we're saying is unless you do put all of those externalities in the two comparisons, you're not comparing the same thing. Further down I'm also saying that those comparisons aren't really done either across road and rail. So to be able to get to that point you really need to have a consistent approach.

MR BANKS: Is there a tension in - and it's perhaps intentional - what you're saying between the kind of move to more commercial approaches that we're seeing in rail and the need for this sort of integrated or coordinated public investment program that balances the relative merits of both modes?

PROF CHARLES: In an economic sense, and I'm not an economist, if you had a perfect economy the market would make that choice based on the most efficient allocation of capital. At the moment there are so many impediments, that can't happen, so it's trying to balance that, I guess, is what we're trying to look at.

MR BANKS: You talk about the optimal network and the need to compare optimal networks. Do I take it that you're reflecting on the extent to which there's been underinvestment in rail as being a problem going forward? Would you like to just comment on that?

PROF CHARLES: The issue is not to say, "Well, we need to build the rail up to an optimal network." It's really a case from here on where's the best to make the best investment. If you go between Brisbane and Sydney there are sections of that rail which are very inefficient in terms of speed, that results in a whole range of inefficiencies in the freight charges and costs and so forth. So it may be economical, but it really has to be evaluated. But the issue is you can't say, "Well, this is the current network, we'll only look at that." It's a case of, "Is it better to try and bring it to an optimal network." It may be a case that, no, we don't do that in rail or we build another rail line. You have to really look at those options. There has been lots of arguments saying, "The rail is at substandard level, we're going to build it up to an appropriate level." But that has to be looked at whether it can be justified first.

MR BANKS: Okay. You made another comment about the proportion of - I think it was AusLink expenditure - that had gone into rail versus road. You're effectively saying the 9 per cent is too low and I guess I just wanted to probe a little bit as to the basis for you arguing that.

PROF CHARLES: Having looked at, for instance, the corridor study between Brisbane and Cairns and looked at the lack of attention or focus on rail at all in that is very much of concern and I believe that's reflected in the level of investment that's put forward. I'm not saying I can justify that in anyway, it just really - it appears to be imbalanced, grossly imbalanced and I think that really needs to be looked at. If we follow this approach of having a system and methodology, having managing corridors then that can be overcome in time.

PROF WALSH: One of the observations we make in the report or at least a question we ask is whether the way that access regulation and access pricing currently works is disadvantaging rail and making it less easy for rail to recover full economic loss. Do you have a view about that?

PROF CHARLES: I think again the approach is appropriate, but if it's not consistent across road and rail and maybe it's trying to do too much too quickly but otherwise I really don't have a detailed comment about that issue.

PROF WALSH: Your point about fuel excise not flowing through to investment. I'm a little bit unclear about that and I guess part of the reason is because basically the charges that are being set for heavy vehicles are actually calculated on the basis of what investment has occurred in road, as a kind of proxy for what future investment is going to be, knowing and that might turn out to be wrong. Investment in road is increasing at the moment, and as we observe in the report it might not be very long before recovery of costs from road is inadequate. But I think you might get my drift, the level of charges reflects the level of investment. So to say that money isn't getting back into investment seems to me a bit peculiar. Can you help me?

PROF CHARLES: I guess there is quite a lag anyway. When the charges are set they look back as to what data is available and it's often a few years old and by the time it gets in place, so there is quite a lag, that's one issue. But the other issue is that - there's no guarantee of funding. We know funding goes up and down depending on political considerations - I think that's the issue more than the level. There are two issues there: one is what is the appropriate level of investment rather than saying, "This is what we're spending now and we'll put charges on that." I think that's the critical level. The other one is that there's no guarantee of the current excise and those type of issues flowing through to infrastructure. I mean, treasuries have been resistant to that, it's seen as broad tax. They argue that, "You put an excise on smoking, you're not going to put that back for smokers." There are lots of those types of argument.

But the issue really is that for some areas, particularly, say, enforcement, regulation, safety issues, there is no direct link between the charge. Each year the state jurisdiction, federal jurisdiction has to bid for funds and I think the issue is there needs to be a more direct link. I mean, I take your point, you're saying that it does reflect the existing investment. If that investment is not appropriate and not correct, it's not the most efficient way and also it leads to - we've seen changes in levels of funding dramatically from years to years - at the moment they're up - then that's not reflected in the pricing. I mean, it will take a number of years for the next determination to get some of those flow-on effects. In the meantime there's inefficiencies.

PROF WALSH: I seem to recall the Queensland transport minister saying that in effect the registration revenues, at least from heavy vehicles - I'm not sure about broadly - is in effect earmarked, that is, the government agrees that it will simply put that money back into the road agency. Is that not so?

PROF CHARLES: I understand that's so. It's a fairly blunt instrument, not a large proportion of the funds anyway. Most of the funds in the Queensland situation come from consolidated revenue, so there's no direct link. But I think getting back to the efficiency issue there needs to be that link between the pricing and the charging and without - I mean, there's a quasi link there now, but it's not strong and it's not guaranteed and there's no support for the future, so I think that's the issue more than anything.

PROF WALSH: Indeed, in the discussions draft we're very much - - -

PROF CHARLES: Yes.

MR BANKS: You raised the question of a transport fund, something that would be broader than a road fund. I guess the road fund in a sense was predicated on a publicly owned road network and how do you work towards joining up demand and supply in that situation. But the transport fund more broadly would - I'm just trying to think how in the Australian context that would operate and perhaps could you comment a little bit on other countries and what their transport systems have been like in this situation.

PROF CHARLES: I'm not prepared to comment in detail, but in the US system where there is certainly a much more nationally-oriented transport fund, it's allocated to various modes there's been a push to move it away from roads to look at public transport, to look at freight and so forth - that's only occurred in the last 10 to 15 years.

MR BANKS: This is a federal fund?

PROF CHARLES: A federal fund, yes. I think the issue is more about trying to get consistency in the allocation of public funding, so I'm not saying that you're going to control all funding into rail, for instance, or into toll roads, it's really looking at how you allocate public funding and by having a transport fund means it has to be a consistent approach and those priorities are considered together rather than one lot over here and another lot doing it independently. That's more the issue that I'm trying to focus on.

MR BANKS: Is there an issue even at the moment with, say, AusLink funding that goes into roads effectively being recovered through the excise, but into rail not really being recovered and one of the issues that we lay out in the report is just the lack of cost recovery in rail. So in a sense one outlay is pretty much a subsidy, the other one is effectively being recovered and you could argue about the formula for recovering that and whether it's adequate or not. Do you want to comment on that?

PROF CHARLES: Talking about recovery it's a very complex issue and I'm not sure that I can speak authoritatively. But there are a lot of cases of roads that are community service obligations, you only provide a road to a regional community for access. It's a similar argument they have for a lot of the rail lines that they're community service obligations. So I think there is a case for that and that then is separate from the discussion. You're really then looking at - okay, we're looking at freight operation, how we're going to recover costs for that. It's a very complex arrangement but I think it's trying to put them on equal footing.

PROF WALSH: One of the problems that we had, and we say so, is it's very hard sometimes to really discover what the underlying objectives actually are for some of the subsidies. Everybody kind of uses CSOs as a convenient badge for this. Do you agree with that observation that it should be more specific?

PROF CHARLES: From my limited experience in Queensland there is quite explicit agreements between the government and the rail operator about what is community service, what they will get for it , what they have to deliver. They're quite - almost a contractual arrangement. So I think there is an example of it being explicit. Whether it's public or transparent is another question. There is confidentiality and those type of issues involved. But I agree that's the way it should be. It should be on an explicit basis, for a purpose. It's a clinical decision based on a community need. I have no argument with that. But it needs to be, as you say, explicitly determined, "Why are we doing it? What's the objective for it? How are going to measure that performance?" There has to be some performance base in it and I believe that does occur in Queensland, I'm not sure in other places.

MR BANKS: The only other point, I'll get you to elaborate or clarify a little bit, you say - and I agree with you - that we should be setting up a goal or principles that you wanted to go towards and I guess finding ways of moving in that direction, but I wasn't sure whether you were saying in a sense that we shouldn't be too worried about cost-effectiveness in achieving that or you were making a different point.

PROF CHARLES: No, I think cost-effective is critical to what you're proposing but our suggesting to the Productivity Commission that you shouldn't be drawing back and saying, "Well, we don't see that as cost-effective, so therefore we won't recommend it." There is some principle in place that we want to put in place. We may not be able to achieve it tomorrow, but that's where we should be heading over the next 10 or 20 years but it has to be cost effective whichever way we go.

MR BANKS: Yes.

PROF CHARLES: Rather than saying, "Well, the technology doesn't look like it's cost-effective, therefore we won't recommend mass distance charging or whatever at the moment." I think the principle should be, "We really need to look at this concept and take steps towards it as is appropriate. My concern is that you get an opportunity to make a recommendation, to set some policy framework, and if you don't take that, then we lose that opportunity." You make some incremental or short-term - rather than saying, "This is where we want to head over the next X number of years, the governments, the transport agencies, you work out what's the most effective way to get there, but at all times you have to make it cost-effective, you have to be efficient, have some principles on which you need to achieve that." I think you're saying that.

PROF WALSH: We think we're kind of saying that.

PROF CHARLES: I'm just reinforcing - - -

PROF WALSH: What you might be suggesting is that we might need the arguments in some respects perhaps by putting a large focus on how difficult it would be to implement it.

PROF CHARLES: I guess we're reinforcing that we think that's important for you to follow through. I'm not saying you didn't say it, I'm more saying we believe that's important, rather than saying, "Well, the technology is a problem," because people will seize on that and say, "Well, okay, can't do it, put that aside." I've seen that in deliberations - "This is not available, therefore we won't consider it" - and we've argued, "You really need to set the principle where you want to achieve and then say, 'Okay, in the first instance, we're going to move in this direction.'" We're much happier with that, if that's the way it went. The same issue with the data - I mean, "We don't have the data, therefore we can't make a decision" - that just keeps coming up and up. We need to bite the bullet and say, "Let's get the right data, what we need. We mightn't have it for 10 years but at least let's move in that direction. If we don't start now, we'll never get it."

MR BANKS: Good, thank you very much for that.

PROF CHARLES: Thank you.

MR BANKS: We'll just break for a moment please before our next participants.

MR BANKS: Okay. Our next participant is the Queensland Trucking Association. Welcome to the hearings. Could I ask you to give your name please and your position.

MR GARSKE: Yes, thank you, Chairman. My name is Peter Garske and I'm the chief executive officer of the Queensland Trucking Association.

MR BANKS: Thank you very much for attending today. As you know, we've received an initial submission from the Australian Trucking Association. I think when we were in Brisbane we had a useful conversation with you and again, you participated in the roundtable that we had at Emerald for which we thank you. So I'll leave it to you to perhaps make whatever remarks you'd like to make in response to the draft.

MR GARSKE: Thank you, Chairman. As you've said, the organisation with which I'm charged with the responsibility of administering did participate in Emerald. We are an active member of the Australian Trucking Association and its taxes, charges and roads policy committee. That group of course will be responding to the draft. That will not have been received by you yet. What I'm proposing to do today is simply make some brief comments, and I'm happy to table some notes that I have in front of me that you're welcome to take with you. Those notes will be part of the discussions that I'll be having within the framework of the Australian Trucking Association and its submissions to you and indeed I suspect appearance before you when you conduct this hearing in Canberra.

The Association notes in particular certain elements of your report, that part that recognises the importance of both road and rail transport industries to the national economy and the relative contributions that both road and rail make to GDP. You've already mentioned this morning and we note that your expressions and views in relation to trucks paying their way through the current PAYGO system which assesses road expenditure and road use and acknowledges the over-recovery, and I take your point about future road investment. Our organisation has never resiled from the fact that the industry should not pay its way but rather that we, in paying our way, have an economic response which is clearly transparent and equitable in terms of the role we play in the economy of the country.

We note that you make comments about competitive neutrality and the fact that you did not find a compelling case to increase road user charges solely for competitive neutrality reasons and your finding that the government's financial contributions to rail infrastructure allow access charges to be maintained below the economic cost of providing some rail freight services which then further clouds potentially the issue of competitive neutrality and I note there are some comments you make from the table this morning in that regard.

Your report in our view emphasises that there are considerable productivity gains to be achieved through regulatory reform and my organisation and the industry that I represent believe it's imperative that we achieve the targets identified by COAG earlier this year in terms of outcomes of both productivity and efficiency for the benefit of the community.

I'd follow that by making a couple of observations. With respect to the commission raising the question of a road fund, indeed I think I'm right in saying that the political party currently in opposition federally has a view. I'm not sure if they've made a submission to you but I think prior to the last election, they had a view about a road fund. Having said that, I would express in a sense a hesitation or a concern that unless the establishment of a road fund and its administration were to be truly independent, then we still have the potential for inefficiency, political influence on priority and a lack of transparency in a system of the allocation and prioritisation of road funding across the country. Those who know me well enough know that I can be pretty parochial about Queensland when I want to be, but equally so, I have some professional colleagues who feel the same way in respect to other states such as Western Australia or South Australia and have been fairly vocal. I guess if we have a competitor or foe in the area of who gets the adequate amount of funding, we probably all look south of the Murray, but that might be more a political statement on my part than it is an objective one. However, the issue I think is one that while conceptually the notion of a road fund - and if by that you mean you mean the notion of an equitable allocation of taxes state and federal being administered independently with transparency to deal with the priorities of road funding in this county, that to me has some attraction, but I have the reservations that I've already canvassed. So I say that clearly there needs to be some rigorous debate about that.

In a sense, picking up on some of those issues, this state, of course - and I remind you perhaps, albeit maybe not necessarily, of some of the comments that were made to you in Emerald by a range of stakeholders there. I mean, the state is very geographically diverse. We need high productivity vehicles to meet the freight task right across this state. The future of road pricing needs to consider the real impact of regional communities in its economic analysis. We believe that there is a need to recognise that efficient road investment, of course, is critical to road safety and productivity outcomes and therefore the expenditure needs to be implemented in a way that is (a) nationally consistent, but nationally consistent in meeting the objectives and I've identified, I think, two of those, productivity and safety.

The future of road pricing and its impact on our industry, we say, is one that should not lead to further economic and administrative burden on our industry. By that I'm not saying that there won't be an increase in pricing or charges going forward but that if we move to a different form of measurement and a different form of calculation and whether that may or may not involve technology going forward, that if that in itself, apart from the charge that comes out of the end of it for the use of the road, if the actual use of the technology creates a further cost and a further administrative burden, that will flow through to the customers of our industry. It will not be absorbed by our industry and therefore I think we have to think very carefully about the ability of the community to pay for the introduction of that technology if that is to be at some stage in the future a solution to road pricing.

There has been some mention this morning of externalities. I think we have said as an industry to you in the past, and I won't labour the point, but we would say that there is evidence that our industry already makes a contribution, whether it be something as simple as the insurance cover that a company would pay for in its daily business life to cover road accidents and therefore some of the costs on the community and on the company in relation to road accident or road trauma through to examples that exist and continue to grow in the areas of carbon credit programs in dealing with environmental outcomes. The issues of enforcement revenue is certainly one that has been well debated. I wonder if there's not some dichotomy though in dwelling on a focus of the revenue obtained from enforcement but rather shouldn't there be a focus and shouldn't we have a pricing system that encourages operators to in fact operate more safely and deliver road safety outcomes for the community and into the future.

Whether that means under fatigue management and driving hours regulation that transport operators embrace either accreditation systems, perhaps in some cases even forms of technology, to deliver those outcomes, I believe that the issues that surround enforcement revenues and enforcement costs, if they get sucked into a significant role in road pricing then we'll lose the focus on what I think we should be trying to achieve, and that is a reduction in our road toll and a reduction in road trauma, and that those externality costs need not play a major role in a pricing regime because they are in fact a contribution to improving outcomes for the community in those areas of road safety, road trauma, road fatality. I certainly try to involve myself - not that it's a matter for you - in areas associated with road safety on many fronts and it would just concern me that - and as I have read a lot of the material over the last six or eight months and indeed, prior to this commission's task being assigned to it, the debate around those issues of enforcement and enforcement revenues and therefore enforcement costs lose sight of the goal that I think is more important to the community and indeed my industry. I won't labour that point any further. I summarise that by saying that governments have an ongoing role to provide an efficient and safe road network.

Finally, I would touch on the issue of the involvement of the private sector in road construction and the development of, to give them a label, tollways, toll roads. If in fact the community, including my industry, is to pay for the use of those tollways, we believe that those expenditures need to be quarantined from the heavy vehicle recovery cost process. We say that the government has a responsibility to make sure that alternative routes are available and that the use of tollways and the cost of using tollways is a matter then of whether or not the operator believes that paying the toll to use the road delivers the efficiency, efficiency ultimately which passes back to the customer through a reduction in the cost. Indeed, there are examples here where there are quite significant infrastructure projects where the heavy vehicle industry will gain little or no benefit out of - and I'm not sitting here arguing for access, I hasten to add - but things like tunnels under rivers et cetera are not always accessible to all types of the heavy vehicle industry and where an operator is able to use those pieces of infrastructure they pay the price of doing that, that becomes a cost to them doing business, that needs to be, as I said, quarantined from the recovery process.

They are only a few brief comments, chairman, that I'm leaving with you. I am happy to give you a copy of some notes I've made in preparation for this morning and I would simply repeat that the industry, in a broader context through our national body, will be making a more detailed response.

MR BANKS: Thank you very much. Just a couple of things along the way that I was wondering about and perhaps get you to explain a little bit more. When you were talking about externalities, I thought you were saying that there should not be a charge to cover externalities. Perhaps you should clarify whether you did say that and what the logic of that was. Was it because they're already being in a sense dealt with via regulations.

MR GARSKE: In a sense the latter. I'm saying that while there is - within the current arrangement there is a process for looking at externalities, equally I'm arguing that we should be looking at what the industry is already doing and not double-dipping, double-counting. If we're looking at externalities in relation to the environment, then what is the industry doing in relation to managing their environmental responsibility and what is the cost they're incurring within their own business away from the charge by government and clearly identifying those parts out, if you like.

MR BANKS: Two externalities that are often talked about, and one you've raised yourself, is the question of safety and I'll perhaps just get you to comment on how you see that having gone over time. I mean, is the industry a lot safer in terms of its accident rates and so on than it was before? Is the technology in trucks itself now facilitating better safety?

MR GARSKE: There is no question that Australian standards in relation to vehicle manufacturing are delivering better outcomes for the trucking industry, as indeed arguably they are for the motor car industry. Demonstrably the industry's record has improved significantly over the last 10 to 15 years. If you were to examine perhaps the last two years you might find that in some areas the great improvement has slowed, indeed as it has for the wider community. I certainly argue that's not a reason for giving up, it's a reason for working hard to find new solutions. But if we find new solutions and then even taking into account the improvement over the last 10 or 15 years, all of which is identifiable through the federal government's collection on road safety data.

Indeed even Queensland transport, if we improve the standards in our industry, and we seek to encourage participation and continued improvement by our industry, there is an investment that the industry makes in that outcome and if as a consequence - could I also plead that I'm not an economist - there is a reduced revenue to government through enforcement because our industry rises to better standards and greater compliance through a cost it makes in running its own business and achieving those outcomes, then I think there needs to be a very thorough look at what is the continued appropriateness of cost and recovery on the compliance area.

I may not have made the point very clearly, I still may not be, but I worry that the whole issue of cost and recovery in the area of the charging regime around compliance takes the focus away from what I believe we should be trying to achieve in the area of road safety outcomes and I would prefer that governments and industry focus more on the realities of delivering safety on the road and the outcome.

PROF WALSH: In principle at least I think you'll find that in the report we do actually acknowledge that and indeed argue for better information about the magnitude of some of the externalities and the extent to which they're already being internalised in the costs.

MR GARSKE: Yes.

PROF WALSH: I wonder if I might come to a slightly different point. Prof Charles was arguing that what we should do is basically paint the light on the hill, you know, "Where are we heading? Where should we be heading towards?" I'm a bit unclear about what you think that should be. For example, is mass distance and location-based charging something which you - and maybe not the industry as a whole, you mightn't want to speak on behalf of the industry as a whole - but is that something that you see as being where we eventually should be heading?

MR GARSKE: I think we've argued as an industry, particularly last year in what's commonly called the third charges process that the system was inefficient and we argued quite strongly that the outcomes that were recommended by the National Transport Commission and ultimately rejected by minister were arrived at through a process which was either inefficient or failed to properly react to the data that's available and delivered distorted and inappropriate costs, particularly to the most efficient sector of our industry, the multiple-combination vehicle; not only the most efficient, but arguably the safest. So if I want to can that, what's my vision for the future, I think is what you're asking?

Again, like Prof Charles said, I think he did it twice, I want to say I'm not an economist - but there's no question that what my industry looks for is some certainty in terms of the outcome. We're happy to, and we've said it and I've already said it, pay our way but we need to find a system which is transparent and equitable and delivers to our customers because at the end of the day it's our customers and the community that will pay whatever the impost is that's on our industry. If that cost becomes too great, well, clearly that is going to have some economic impact. The alternative arguably, from the view of some, is technology, the use of mass distance charging and the like and are there good examples of what happens in Europe et cetera that we can learn from? My understanding from some of my reading about Europe, of course, is that they actually have some unique problems in that countries build roads the trucks travel on, when the truck's origin and destination has nothing to do with the country who is putting the infrastructure in place and so they have issues about how they collect revenue, a problem that doesn't - well, sometimes I think it does - but arguably in this country shouldn't exist because conceivably we are all one.

That technology, on my reading of it, is still in its very early days and will prove costly to implement in our industry. Is it appropriate to say, "Set ourselves the goal"? I think the focus of my industry, the focus of our submissions so far to this inquiry have been on the immediate impacts on our industry because it's the immediate impact that affects our cost of operation and therefore the charges that we put on the community in transporting products around the country. I don't think I could sit here and argue from a personal or indeed an industry perspective that it is inappropriate to have a goal. I'm not sure though that I have the answer or am in a position to comment in relation to what is the goal, what is the light on the hill, so to speak and certainly, for my part, what I'm looking for and what I know our national submission will look for is some certainty in the immediate environment within which we operate because we have some enormous challenges in the immediate environment to meet the freight tasks that confronts the country that delivers the challenge in meeting that freight task comes at a cost, a cost that gets passed to the community. So to some extent I guess I'm saying that we're so focused on the now and the immediate that maybe we haven't spent sufficient time looking at the light on the hill.

PROF WALSH: You did sound at one stage as if you were suggesting that at least one of the next steps is something like incremental pricing. Did I interpret you correctly there?

MR GARSKE: One of the things that I think I might have even said in Emerald in brief was that the industry that I represent in my membership at a Queensland level or a national level is not homogenous and if there is to be a solution in some form of mass distance charging, how do we accommodate the enormity of difference in, I'll call it, the road train travelling from south-east Queensland to Darwin, to the super B-double that's running on the waterfront as we speak this morning in Brisbane, taking containers from the waterfront to hubbing parks within a five to 10-kilometre radius, and will we get an equitable outcome? While I don't have it in my head, I know I should have it, but the very significant majority of the trucks on the road today of course don't run to maximum weight capacity. That's not the perception of most journalists, I might add. The reality is, most of the freight tasks mean that the trucks run below their maximum weight.

But conceivably, if we look at it from a different perspective, it might well be the case that a prime mover and trailer which in its development today has the potential to carry weights to what are called the manufacturer's ratings. Those weights are considerably in excess in most cases of what we actually lawfully can run. So on pieces of infrastructure developed into the future where there is the potential for a particular freight task, whether that's associated with a mining task, a waterfront task, conceivably it is possible that there are some operators who might be prepared to be part of that freight task, carrying significantly more weight because they've got the gap between the regulatory or statutory max limit and the manufacturer's rating. There may be some significant economic advantage both to the operator and to the community in making use of that gap, but being prepared to pay for that if there is, in its application, an economically sustainable business case.

MR BANKS: Yes, and I guess, as we've talked before, one of the virtues of having a charging system that's more like a price than a tax, and the good thing about that light on the hill, is that ultimately there are benefits both for the user and the producer and I think you've just given one example. Could I just go back briefly to this question of externalities. Something that crops up every time we talk about this inquiry and the question of whether each mode is paying its way and so on is the notion of intrusion costs. Now, I don't know whether you're familiar with this but my understanding of it is it's a concern that some have that there's an externality imposed by trucks just being on the road in terms of, I guess, frightening little old ladies in cars or indeed - - -

MR GARSKE: I can think of a couple of that frighten me - little old ladies, I'm talking about, not trucks.

MR BANKS: I seem to recall that in Emerald too this came up and it's not unrelated to the safety issue, I think, where I guess the commentary there was that the road infrastructure wasn't adequate to have both modes of transport on the same road, forcing people to kind of take risks and so on. But have you heard about this notion of intrusion costs? It seems to me in part a psychological thing. Is it reacting to the present realities or is it a reflection perhaps of some of the past imagery that the trucking industry may have had in the past?

MR GARSKE: I don't claim to know a lot about the notion of intrusion; I have read very little of it. I suppose my response would be this: whether it's the heavy vehicle on the road or whether it's the freight train on the track, it is performing a task (a) for the community and (b) for the good of the economy, and they do that relatively well. You identify that in your report. If we're going to suggest that there's a notion of some intrusion that needs to be paid for, then what's the alternative to not paying, not intruding, not performing the task, not delivering for the economy? With respect to the little old ladies who have a problem with B-doubles on the highway, perhaps they shouldn't be on the highway if that's the problem, but it's not for us to determine today, I suspect.

MR BANKS: At least not in the middle of the night.

MR GARSKE: Certainly not in the middle of the night. I don't know if I can add any intelligent comment beyond what I've said, if indeed it is intelligent at all. I'm a person who has never driven a truck, nor owned one; I've been for a ride in one every now and again. The reality is they are there and my challenge constantly with journalists is to demonstrate to them that the truck and its owner and its driver are not simply out there driving on their roads because they enjoy doing it. They are making a meaningful contribution to the economy. They are playing a very meaningful role in employment in this country, albeit we can't find enough drivers, and they're performing a task that, without its performance, would leave many of us, in terms of our standard of living, at a very different position in life because we simply wouldn't be able to - we would get to a point like it is in America where you might go to Harvey Norman on Saturday to get your fridge but you won't actually get it delivered for quite some weeks, whereas here, we go on Saturday morning and we expect it to be delivered Saturday afternoon, if not Sunday before breakfast.

So I guess I find, from an industry perspective, the notion of intrusion or some public inconvenience because of the heavy vehicles that are on the road or indeed the train that's even on the track and of necessity has to, at some part of its journey, go through a community area or a residential area, I think the trucks - and I advocate quite loudly - have a responsibility to behave in a manner that's consistent with community expectations and that might mean not travelling in certain areas and using air brakes or engine brakes in the middle of the night when it's simply and plainly not necessary, or perhaps using an alternative piece of road, if there is an alternative piece of road. But there are limits to which we can expect both modes of transport to cease to function simply because it's a bit inconvenient to somebody who wants to use a piece of road or live in a certain area.

PROF WALSH: Just to make an observation perhaps, I think in relation to the road fund, hopefully our analysis of that was reasonably clear. We argue that governance and independence is a pretty important thing. There's experience of so-called first generation road funds that were really just earmarking of taxes and there was no guarantee of more efficient decisions, whereas the second generation funds like the one in New Zealand do have a - - -

MR GARSKE: Yes, and I acknowledge those points that you made. I wasn't meaning to infer that you hadn't made them because I was restating them.

PROF WALSH: Thank you.

MR BANKS: Thank you very much for that. I'd just ask for the record now if anyone else would like to appear this morning; obviously we have time. If no-one does, I adjourn these proceedings and we're going to resume tomorrow morning in Sydney. Thank you.

AT 11.34 AM THE INQUIRY WAS ADJOURNED UNTIL
TUESDAY, 31 OCTOBER 2006

INDEX