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TRANSCRIPT OF PROCEEDINGS

PRODUCTIVITY COMMISSION

INQUIRY INTO ROAD AND RAIL FREIGHT INFRASTRUCTURE PRICING

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

TRANSCRIPT OF PROCEEDINGS

AT CANBERRA ON MONDAY, 6 NOVEMBER 2006, AT 10.00 AM

Continued from 31/10/06 in Sydney

MR BANKS: Good morning, Ladies and Gentlemen. It's the third day of hearings for the Productivity Commission's inquiry into road and rail freight infrastructure pricing. My name is Gary Banks. I'm the Chairman of the Productivity Commission and presiding on the inquiry. To my left is Prof Cliff Walsh who is the Associate Commissioner assigned to this inquiry.

As you know, the inquiry had its genesis in the February 2006 meeting with COAG, and the commission subsequently received terms of reference from the treasurer asking us to report back to COAG by the end of this year. Just very briefly, the task assigned to the commission had three main dimensions to it. One focussed on the issue of competitive neutrality between road and rail. The second was the potential for new road pricing instruments to achieve more accurate cost reflective pricing of road. The third was a focus on the range of potential non-price impediments, the efficient functioning of both road and rail infrastructure.

The commission released a discussion draft at the end of September, which contains the commission's preliminary findings and a range of questions. That discussion draft followed extensive discussions held with a range of parties, including over 70 submissions and two round tables that were be held here in Canberra and one in Emerald, in Queensland.

These public hearings today, together with the submissions, will form an important part of the process, taking us forward to the final report. They provide an opportunity for views to be put and discussed on public record. We like to conduct the hearings in a reasonably informal matter, but I remind participants that a transcript is being taken. For this reason, comments from the floor cannot be taken, but at the end of the day's proceedings I'll provide an opportunity for anyone who wishes to do so to make a brief presentation.

Participants are not required to take a formal 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 these hearings here in Canberra we have a final round of hearings in Melbourne, commencing on Monday morning.

Transcripts of the hearings will be made available to participants and will be available at the commission's web site following the hearings and copies may also be purchased using an order form that's available from staff here today.

To comply with the requirements of the Commonwealth occupational health and safety legislation, you are advised that in the unlikely event of an emergency requiring the evacuation of this building, that the exits are located outside this room and I think one is required to descend via the stairs and exit via the front door. If there are any questions on any of that, please feel free to approach the commission staff.

I'd now like to welcome our first participants here today in Canberra, the Lachlan Regional Transport Committee Inc. Welcome to the hearing. We ask you please to give your names and your positions.

MR BARWOOD: I'm Bill Barwood. I'm the president of the Lachlan Regional Transport Committee Inc.

MR DUFFY: Max Duffy, secretary treasurer of the Lachlan Regional Transport Committee from Cowra, and I thank you very much for inviting us to this committee.

MR BANKS: I should say first of all thank you for the submissions that you've provided. They were helpful to us and I give you the opportunity now to raise whatever points you'd like to make in response to our draft report.

MR BARWOOD: Thank you. It's not our intention here this morning to rehash our original submission, rather to highlight a few of the points out of it, having in mind that sometimes points are better put across when we deal with them face to face, in this sort of forum.

I think it might be a good idea if we explain exactly what the Lachlan Regional Transport Committee is because, for a start, I and the secretary treasurer are not a member of any local government council. I'm a retired high school teacher and Max is retired from the rail industry. The composition of the Lachlan Regional Transport Committee is of 10 local government councils and we've got those listed for you, and if you study the range of those councils in New South Wales you'll find it covers a quite large geographical area.

The committee itself has existed since about 1983 as a result of public transport problems in New South Wales, with the demise of rail, in particular, and public transport in rural regions in remote New South Wales.

We feel that it hasn't taken an integrated approach to road and rail, as transport modes in the whole of the national scene. The committee has put in various submissions over many, many years that it's been functioning since the ones that we've listed here, the House of Representatives Standing Committees in 1997 and 98, and the commission's inquiry into competition policy. Mostly, every time, we've put up the same arguments, but the committee feels that for some reason or other we have this dichotomy occurring between what people view should be happening to roads and what should be happening to rail. It doesn't seem to be, in our mind, an integrated approach to get the best transport system working, whether it be road or rail as a combination of the two.

Now, unfortunately, we believe that it's to some extent perhaps getting a bit worse because these documents seem to be getting bigger and bigger and it's almost like driving through a fog. I retired as a science teacher and therefore we're sort of coming from the community level up, and the stuff that's in the discussion draft is quite massive, and I can understand specialists in the various fields who put together the statistics and everything else in there would understand it, but to the average person who is out there and is having trouble with land transport, it just doesn't even hit the deck with them. They still cannot understand why it is that we have a corporatised rail system, and yet, for all intents and purposes as far as they are concerned, the road system is open for all.

Then you get into the various semantics of the charging that goes on with rail because corporatisation and privatisation, charges for the use of the rail, whereas the only aspects of road transport that seem to be charged for is the fuel that goes into the vehicle, the registration fees, insurance fees, the driver's wages and those sorts of things - maintenance.

When you get around to discussing, as is so often claimed by the trucking industry, that there is a road user charge included as a component of the fuel that's used in the vehicle, most people say, well, how can that be? Surely, that is a fuel usage charge because a heavy road vehicle could sit on private land with the motor running consuming fuel and that really couldn't be considered as a road user charge. It's acknowledged that some of the excise that is paid on fuel, whether it's for heavy road vehicles or private motor vehicles, goes back on to roads. Everybody understands that it was never the intention that all excise would end up going back onto the roads.

The dichotomy that appears to have developed between road use and rail use, has had a devastating effect on a lot of the primary industry around - particularly the Central West of New South Wales. In 2002 the committee took a case to the Australian - the ACCC - Competition Commission, because it was believed, under part 4 of the Trade Practices Act, that primary producers, particularly farmers on grain, were being denied access to rail transport of grain - they were being forced to use road transport; and because the charging mechanism - access charging, and flagfalls, and booking of paths, and so forth - to use the rail system made rail - because of poor maintenance - made rail almost a totally uneconomical prospect as far as they were concerned. Therefore they are being forced to use heavy road vehicles, and now, (where there is a comparable rail track), that is now causing shocking deterioration of local roads, purely and simply because they're not allowed to use a rail system.

Therefore the owner of the track, and in the case of New South Wales, its RIC, (it was the Rail Access Corporation back before it was all split up just recently), are able to say, well, nobody is using the track so we'll shut it down. That's the denial of access, and of course, someone up there wasn't interested, because to that case - we didn't even get a reply, and yet we had a - there was a considerable interest in Canowindra and an officer from the ACCC came out, and took evidence and all else.

Now, we're becoming very, very concerned about the fact that, because the efficiency of rail is being slowly reduced, and therefore silos are now closing, as a result of the closing of silos, more and more use of road has to take place as far as grain growers are concerned and other primary producers, for inputs. Classic examples, there are lines in New South Wales which could be catering to the mining industry, and because those lines are under a corporate structure and in such a shocking state of repair then the mining company, the mining concern, is required to pay for the restoration of that track; and then, when and if that happens, then the mining company is charged - or the operator, the freight operator who actually moves the materials on the track, is then charged access for the use of the track, and yet the mining company has had to pay for the restoration of the track.

The opposite to that is the adjacent local government road system. The mining company is required to upgrade that particular road system to a state to cope with heavy road vehicles, particularly - and in the case of Alkane just near Dubbo to B-double, or even B-triples and road train vehicles, and once the road is upgraded then the responsibility of maintenance of that road falls back on local government, which in this case would be the Dubbo City Council.

I think in summing up we believe there's got to be a more integrated approach. We had meetings in Warren Truss' office when he was the minister for transport with his advisers, and under AusLink there was a manager of rail and a manager of road presentand the two don't really seem to communicate because of this difference in the corporate structure in the use of rail infrastructure as opposed to what appears to be this open access on road.

The other and last point that I'd like to make is that because most people now cry out for roads it's becoming obvious that “oil goes to the squeaky wheel” and therefore funding tends to go onto roadworks. Now, there are a lot of areas of the country in Australia that wouldn't know what a railway line looks like (some of the inland local government areas) and therefore the majority of local government now says, "Look, we want money for roads," and because there's not a belief in - "Look, we should be funding rail because rail can take pressure off roads”. Therefore, strategical planning is tending to favour roads." It all gets back to pricing, because it costs so much more to use rail. And as with the Stern report which has just come out, and seems to have an enormous economic base to it, power generation and road transport are apparently two of the main polluters, and this is on a global basis.

In addition to what I've given you we were asked to do a critique on a study which was carried out by the NRMA which sort of explains why it's so impossible to bring roads up to scratch. That's that critique that's attached. The other problem is, of course, when you improve a road, the more it's used - classic example is the New England Highway, because the Pacific Highway has been improved so much now heavy road transport is not going by the New England Highway; rather, it's travelling along the Pacific Highway. So that's exacerbating - with the physical constraints of the road system. Regardless of what it is, if the traffic volume increases then the competition for space between heavy road vehicles and private vehicles just becomes virtually unable to be rationalised.

We rest our case. But we're a grass roots organisation, you see, and I'm afraid we're coming from what the community is really feeling. As I say, it's sometimes very, very hard to comprehend how this can be applied to the solving of a very, very fundamental, simple problem.

MR BANKS: No, I understand that, and we do appreciate you participating, because you certainly add a different perspective, I think, sometimes to the ones that we get. But would you like to make any - - -

MR DUFFY: Yes. Adding to what Bill said about the social structure and its affects on country town and villages affected by the closing down of facilities in country areas. Note the cost of keeping a population in the city compared to the country areas. It seems to be that CityRail expenditure occurs in preference to money being spent on infrastructure in the country so keeping the population moving to the city. Farmers are affected by a drift of population to the city as their road and rail service centres increase in distance, thus increasing the farmer's costs. Thank you.

MR BANKS: Thank you. You've raised a range of things. I can understand that a time like this, apart from requiring certain strength in your right arm to lift, is heavy going to read through, and so I do appreciate you responding to it in the way you have. I mean, if we come down to the basics - - -

MR BARWOOD: I was a teacher.

MR BANKS: So you've carried some heavy books in your time. If we come back, I suppose, to the basics, I mean, the instructions for us in doing this review were that we should, base what we do on the principle that there should be cost recovery of both road and rail - and some of that's disputed, of the degree to which there is cost recovery occurring, and you will have seen that we do analyse both of those issues.

But I suppose a question for you is, you say that part of the problem is the corporatised approach on rail which is limiting investment, and you've talked about the deterioration of rail, which I think is quite evident. Why do you think that there isn't more incentive for private firms to invest in that rail infrastructure?

MR BARWOOD: Probably because the sections of the rail infrastructure that we're talking about are now in such poor shape that the cost of restoration is almost phenomenal, considering that private investment, likewise government investment through corporations, wouldn't see the possibility of retrieving the costs of that investment, let alone returning the profit from the use of the track. Now, for example, there's a railway line from Cootamundra to Tumut, and that was listed with five other lines for study back in 1998/99 under the state government. They had great guns. They were going to look at restoration of the six elected lines. Now, 70 kilometres of that track has been pinched and used for building cattle yards. Now, for the restoration of that line the cost of restoration includes also all of a sudden repairing and replacing the track. So, "Oh, no, that's too expensive, see?" And that line into Tumut is probably one of the most important industrial areas as far as the timber industry is concerned, that should be using rail.

At the moment, everything goes by road and the road system just can't cope. I think other similar examples of Cowra/Eugowra and Greenethorpe/Grenfell, Narrandera to Tocumwal. All very, very useful lines that could be restored and take freight off, both the state and national road systems.

The terrific venture that we see now is the proposal to construct this new rail link through western New South Wales off the Australian Railtrack Corporation track leased from NSW, in fact through Parkes, cutting across country - but likely to run into problems with the Rail Infrastructure Corporation because it will link into Rail Infrastructure Corporation track on the Coonamble line; then cross-country through Burren Junction and then linking into Rail Infrastructure Corporation track, Moree to Boggabilla. What looked to be a glimmer of hope there, all of a sudden is being realised that, okay, we must re-establish our rail system because of what's happening to the roads and the Newell Highway is a classic and that's one of the reasons why, the venture is being so heavily supported, locally.

This new route is going to be funded publicly; that's according to Mark Vaile and Warren Truss' statements in Parkes on 25 September, when the whole of this new route was proposed. But then there's a bit of a contradiction; will use of that track be charged when it's been funded by public money? So those are the problems that people see, Alice to Darwin. It's corporately owned by virtually private investment, Asia Pacific Corporation and they want their money back. The state owned corporations are the same thing.

I mean, New South Wales has very, very conveniently split the CityRail network off the rest from the regional network in New South Wales, so that RailCorp is responsible for infrastructure as far as Lithgow and all the electrical suburban network and CountryLink rail services - the passenger rail services, but from Lithgow it's Rail Infrastructure Corporation owned track.

Now, because it's a government-owned corporation, the argument is, “You have to prove to us that there will be an economic return if we are to spend this amount of money”. That's very, very easy to dismiss and say, "Sorry, it's going to cost too much," and that's what happened over those six lines that were up for review, 1999/2000.

PROF WALSH: You say the cost of restoring those lines would be phenomenal. Might it not be a better use of public money to build better roads?

MR BARWOOD: At what cost? $400,000 per kilometre to cope with B-doubles, B-triples? Every time - they're now increasing axle loads and every time you increase the length of a B-double - what, you add another tri-axle? You get the B-triples and road trains. Now, every time you increase the approved length of vehicles you increase by another five axles. You know, you've got the prime movers, six axle, then you've got a five-axle semitrailer hooked onto it and another one.

PROF WALSH: If we charge the trucks according to the damage they cause, then I mean, it wouldn't be public money, if you like, that would be going into roads.

MR BARWOOD: That's the main basis of our argument, that you don't gain by charging the trucking industry any more. You make rail cheaper and more available to use and therefore it will be able to do more - so much is being done by the roads which is far more expensive as far as the public is concerned. That's the general belief. You wouldn't increase rail use by increasing the charge on the trucking industry for the use of the roads because it means that they would still use them and consumers are going to pay more.

MR BANKS: In a sense what you're saying is land transport infrastructure should be free. Why shouldn't electricity be free and gas be free and water be free? Is there a difference in land transport infrastructure that makes it stand out from other forms of economic infrastructure service?

MR BARWOOD: I think so, because probably more by precedent and tradition that, you know, it's roads, and roads are virtually free now as far as everybody is concerned except for the hybridly built toll roads in and around Sydney and harbour tunnels and cross-city tunnels, which are the cause of all sorts of problems, but yes, they're in the minority. Now, the country was built on a transport system that was "free", and it's the reason for the nation's economy working, but - yes, I can see your argument. I probably don't have an answer - I've never thought of it in those terms but from the public's point of view, I don't think that the public would view the cost of using transport infrastructure in the same category as using power, electricity and water because you pay for what you use; you turn the tap on, you turn if off, and you turn the switch off, whereas transport really is something that has to happen.

MR BANKS: Although, as you say, people daily are using toll roads and dropping their money in and hoping their money doesn't miss that chute, you know.

MR BARWOOD: They haven't got any choice. Yes. They've got no choice really, have they?

MR BANKS: No, but they accept that. I don't think there's been - well, occasionally there's some of those decisions the community reacts to but generally people are voting with their - -

MR BARWOOD: But at what expense? I mean, let's not get into that because we really haven't gone - we're not sort of primarily getting involved in the metropolitan scene because our base is really in rural and remote and regional New South Wales and what's happening to local roads because the equivalent railway line is closed; it's got a big hole in the bridge or something or there's 70 kilometres of track gone.

MR BANKS: I suppose the only other point I'd make is that in a sense what might seem free to the user isn't free to society or the wider community because our taxes obviously have to pay for that in one way or another.

MR BARWOOD: The burden is shared much more equitably.

MR BANKS: Yes, although it's shared over people who don't use those services at all so they're paying for services they may never use.

MR BARWOOD: I don't know. Everybody benefits from the pound of butter that turns up in the supermarket.

MR DUFFY: Can I just go on a little further than that; as far as that - the idea is above all this, we've got to look after the country people. The country people; the city couldn't go on without the country people. Now, through this corporatisation, now, if you take note now, it's the ARTC or the Rail Infrastructure Corporation. Now, the private operators, they're all owned by overseas companies. That's how the rail operates. Now, their profit from the freight charges goes to the shareholders, does not come back to maintain the railway lines. All the ARTC gets out of it is access charges.

So that money is not coming back to regenerate the railway system - this through corporatisation, but I go back to the point that - we're looking at the future; 30, 40 years. Where is the fuel coming from for the roads? It's been proven that rail per kilometre is cheaper than road per kilometre. So you've got to look at that aspect of it too, and we've got to keep looking after our farmers who produce the food and get it to anywhere cheaper than by road. They're forced to use road now. Will that fuel be there in 30 years time?

MR BANKS: When you say they're forced to use road, I mean, a lot of the deterioration in the rail occurred in the so called good old days, didn't it, when these were run by departments of- - -

MR BARWOOD: Worn out after the second world war and no restoration was carried out when possibly it should have been - it wasn't done after the second world war. Everything got worn out, all the locos, the rolling stock, the track, everything, and we wouldn't be in the position we are in now had that happened. Of course the road lobby jumped in on the bandwagon and the balance swung totally in favour of road use.

MR DUFFY: Going back to road versus rail; now, in America, even in Europe - America did this 20, 30 years ago - cut out all the branch lines. Now, they're suffering. They're not allowing a lot of semitrailers on the road now. They've opened up these branch lines again and for smaller private operators that feed into the main line - now, Europe, we have correspondence from Brussels from the European market over there. They're building 20 kilometre tunnels for rail only. They're trying to force the traffic off the road onto the rail because they cannot maintain their highways or autobahns, as they call them over there. And that's a factor - and I can get the information on that - and they're very upset about it because they're hitting a brick wall as far as recovery from their roads expenditure. They're getting it back to improve their roads. And they're finding that the rail is the much cheaper option, and so far as pollution goes also.

PROF WALSH: It's clear in a number of places that governments are making a judgment about road-rail. Here in Australia the establishment of AusLink did actually mark a change, didn't it. It now is a vehicle by which money is being invested from the public sector into rail. Can you explain what you think the deficiencies are in the AusLink arrangement, because it provides some form of integrated transport planning.

MR BARWOOD: It's a very minuscule amount that's actually going onto rail through the Australian Rail Track Corporation, and I know the Acts have changed rather significantly since the Land Transport Act. It has sort of been replaced and there was the Black Spot Act and the Roads to Recovery Act and all those were rolled into one. I really haven't caught up with that but if you read the white paper - AusLink white paper, you notice that it's a bit misleading in just exactly how much is being spent on rail in relation to what's being spent on road.

By way of example, Commonwealth Federal money, Australian Government money now which is coming round through AusLink is now funding road projects that before, when only the national highway and roads of whatever importance are being considered, those were the only road routes that were actually being funded through Federal money direct; like the Newell Highway, the Hume Highway, Princes Highway and so on. But now there's terrific development going on. I mean, the proposal to redevelop that highway (Great Outback Highway) across the centre, we drove it, my wife and I, two years ago, and it nearly shook us to pieces. It's from Winton through the Northern Territory to Alice Springs then across into Western Australia. I think it ends up through Laverton and then to Leonora. They're now creating these particular new routes and they're prepared to spend the money on them, but we're still stuck with just the main east-west rail link virtually to Kalgoorlie. Beyond Kalgoorlie to beyond Perth is privately owned.

Tarcoola North to Alice Springs and Darwin now is virtually in the hands of the Asia Pacific consortium and the Australian Rail Track Corporation owns and controls to Broken Hill, it leases from Broken Hill to Parkes. The leased track circumvents central western New South Wales to Macarthur, south of Sydney, and to Broadmeadow north of Newcastle, then north to Brisbane and then south -this is all leased from New South Wales as far as the Victorian border. All sorts of strange arrangements of leasing in Victoria. But, you know, we're still just stuck with those major routes which the Australian Rail Track Corporation has taken over. But there's all this regional rail network that's falling to pieces.

I think Queensland, god love them - sticking to a narrow gauge is what saved the Queensland rail system from the same sort of problems. I suppose it's a bit like Peter the Great when he designed Russia's railway. He stuck to a broad gauge because he reckoned that nobody from the East was going to come in and invade Russia using his track because it was four foot eight and a half through Europe.

MR BANKS: And Queensland used the same logic again for the rest of Australia.

MR DUFFY: Yes indeed.

MR BARWOOD: So that's where I think it's very misleading, that you hear brief comments made about AusLink funding of national transport infrastructure and say x - you know, 11 billion dollars being spent on road and rail, but, you know, the emphasis is mainly on road, and that's sad.

MR BANKS: You mentioned that you and your wife took that trip and almost got shaken to bits and so on. Isn't that part of the problem in a way for rail, that they're competing with road, which is 80 per cent used by you and me; you know, by motorists as opposed to trucks? Trucks get the benefit of those road networks but they're not there primarily for trucks in a lot of cases, and people like their cars and they like the flexibility and so on.

MR BARWOOD: Yes, I agree. But the problem is that people who want to use rail - I'm talking freight - I mean, the passenger rail service is now almost - you can call them extinct. I mean, the Ghan and the Great Southern Pacific, Indian Pacific, they're really exclusive tourist trains; there's no other way to describe them. The Ghan, for instance, doesn't pick up passengers all the way along the route to Darwin and you've just got to catch the bus. But as far as freight is concerned there are forwarders who really want to use rail for freight but they're denied. The grain industry in New South Wales is a classic example. Because lines which traditionally had GrainCorp silos along them are now so inefficient that GrainCorp is saying, "Look, these silos, it's a waste of time us maintaining these silos, even though we've got a drought and there's going to be a low harvest, it's a waste of time us maintaining those because now farmers are on-farm storing, right," they're using - well, they were - AWB cheap rates to truck up to 200 kilometres to AWB major storages such as at Bogan Gate. There's one at Nyngan; Stockinbingal - - -

MR DUFFY: Stockinbingal, yes.

MR BARWOOD: And, you know, this is what's killing, it because the equivalent rail which could be used for the movement of that grain is so inefficient that it's economically not viable to be used. With freight operators who would cart grain on those tracks - say, "Look, there are so many speed restrictions that it's just not economical for us to try and operate a train which might take eight hours to do 70 kilometres," or something like that. So therefore the whole thing collapses. The grain silos are closing under GrainCorp. What, how many closed around the state?

MR DUFFY: 160.

MR BARWOOD: And as they use heavy road vehicles and farm store, using B-double grain trucks with 200 kilometre cheap rates to major AWB storages. You can see on an economic basis those railway lines, just don't get used so therefore rail infrastructure corporation says, "Oh, well, nobody is using them, we'll close it; that's it." So therefore, all the alternate roads are local government roads, and they are falling to pieces. And then for the local government to do something about it the RTA steps in and says, "Look, before any heavy road vehicles such as B-doubles, triples, road trains can use this road you've got to upgrade the road. You've got to extend the" - that's all in our original submission, the restrictions and the requirements that the RTA puts on, onto local government, to produce the roads which can do the job which should have been, in the first place, been done by rail.

PROF WALSH: You can correct me if I'm wrong but I thought that the creation of the kind of super silos was in part a way of enabling rail to at least carry some of the grain burden.

MR BARWOOD: Yes, only on the main line, which now is mainly Australian Rail Track Corporation line because the Rail Infrastructure Corporation, apart from into the northern wheatbelt, Moree, Narrabri around there and Walgett, Rail Infrastructure Corporation, isn't interested. And that's where NSW very conveniently hived off and created the two corporations: Rail Corp, where all the votes are, and from Lithgow - and in other words all the unelectrified track which they didn't lease to Australian Rail Track Corporation is there and they just look for every opportunity to shut it down.

MR BANKS: I guess the point that you're making is the increasing use of these country roads by trucks is causing damage to the roads. Is it also impacting on the community's impacts in terms of, I suppose, noise and other amenity effects and so on?

MR BARWOOD: I live in Canowindra and the frequency and volume of heavy road vehicles that now go through Canowindra is unbelievable . And Max living in Cowra the same highway, if you can call it a highway, runs past his front door and he probably experiences it more than I do - of B-doubles.

MR DUFFY: It's not only the juggernaut but when they make a turn these vehicles they're like a grader blade. They pull up the road surface and the Cowra main street has been renewed about four or five times in as many years. The intersection of Lachlan and Kendall Street, and Redfern Street has been renewed about four times in the last, say, two years because of these vehicles turning.

I'm a licensed interstate heavy vehicle driver; I knew what my vehicle was like driving. I'd turn a corner on a hot day - the council would have to come up the next day and repair all the road I've travelled on. The rural ratepayers, the town rate payers, they pay for all this road damage. Let's not worry about RTA or city or anything like it, it's the rural ratepayers footing the bill. Even the farmers, they're putting these heavy - they've got to use heavy vehicles on the road, but who's paying for it? The farmer, being a ratepayer he pays for the road- his rates, he also pays for the road damage, and the cost of transferring that produce by road. He's getting a double whammy.

MR BARWOOD: Now access from local government roads which might have a heavy road vehicle approval given, and as far as I can make out now, local councils now can actually recommend reclassifying roads, local roads for use by B-doubles and road trains. Then the problem comes you've got a road that is approved for use by B-doubles, B-triples, road trains, whatever, which is usually west of the Newell Highway, and here's a farmer with 10 kilometres off that approved route, which is a local government road, and those vehicles are not allowed to access his farm. So he's between a rock and the hard place because what he used to do in the past was he had a little 10 tonne truck with a bin on the back and he'd load straight out of the harvester into the bin and he'd drive off to the closest silo, they'd unload there and back he'd go. Probably 20 or 30 kilometres at the most backwards and forwards.

But now, because the silos have gone and rail access has gone, and because it's a 10 kilometre trip on a local road which is not approved for heavy - he's really up a creek without a paddle in getting his grain from farm storage. He's got to farm store, because if he doesn't farm store there's nowhere else to go, because he's not going to run his little 10 tonne truck with a bin on the back 200 kilometres to the closest AWB storage or a remaining subterminal like the one at Parkes.

MR BANKS: So what is that fellow doing now?

MR BARWOOD: I think a lot of them, they're using the roads illegally.

MR DUFFY: It is going on, because we - at Cowra we've had B-triples - there's not a designated B-triple road but we've had them coming in through of a night-time now there.

PROF WALSH: One aspect of our report is about location-based charging for heavy vehicles, and while the technology isn't sitting there waiting for us yet, it's something that might happen. And one of the ramifications of what you're saying you would expect that the heavy vehicle charges in your rural areas would rise very significantly if we had location-based charging that was fully recovering the damage and construction costs. It's an open question but in there is the possibility that you would get some re-balancing towards rail in some of the rural areas.

MR DUFFY: Yes.

PROF WALSH: It might go the other way on the main lines, incidentally - - -

MR BARWOOD: If there was access to the rail. See but - the classic example is the railway line that goes from Molong, it's an alternate route from Molong through to Dubbo. It more or less runs parallel from the Main Western line which goes through Orange, through Wellington to Dubbo. In New South Wales a railway line can only be closed under and Act of parliament. Right? This isn't the only instance now that the RTA in it's wisdom decided to realign the Mitchell Highway to avoid an overpass road bridge over the railway line, they cut straight through the railway line - and bitumen straight through, and, you know, nothing is done about it. The same as I was saying about the 70 kilometres of track that's missing from the Cootamundra-Tumut line, nobody does anything about it. There are great sections of track that are gone from - on the Bombala line as far as Cooma - let the highway be restraightened. Those lines are effectively closed. You're not supposed to close a line unless there is an Act of parliament- there's only one in New South Wales which is closed by an Act of parliament.

MR DUFFY: Coolah.

MR BARWOOD: The Coolah line. See, so much goes on at a bureaucratic level that it's just ignored, and this compounds the problem. Now that railway line I'm referring to out of Molong, which the Mitchell Highway has been realigned to go through, that line is being contemplated to be used by the mining company, Alkane, and we refer to that in our original submission. If the company paid for the restoration of the track it then gets charged for using it, or pays for the restoration and reinforcement of the road into Dubbo and then - poor old Dubbo City Council pays for the maintenance for the B-double use. They want to use the line south from Toongi through Cumnock, Yeoval, but Mitchell Highway now has all of a sudden gone straight through, but anyway RIC wouldn't let them do it, because they say, "No, it's not economical to keep that line in service so we closed it." Whether or not the Mitchell Highway goes through it or not - because they wouldn't be able to use the line anyway unless they were prepared to spend however much to restore the line.

That's where it's all falling apart, so the local government roads are going to carry it, in this case Cabonne Shire Council pays the toll.

MR DUFFY: There's some other things too I think we've overlooked: that's the safety aspect of it. Now the year before last - I'm speaking as far as road transport now because I'm a heavy vehicle driver. Our - the road each has lost 76 drivers - fatalities. Now no-one has taken into account how much those cost the community. Every fatality - this is not cars, it's just semitrailers and B-doubles. Every fatality cost the community $1.2 million; so you've got the police, hospital, insurance, the solicitors, ambulance, loss of wages, and all that comes into the equation. That was the figures of two years ago, it could be - cost more now.

But if you have a railway disaster - headlines. You have a road - driver, one driver lost or - doesn't even get in the press. But that $1.2 million is borne by the tax payer, so that has to be taken into the equation also.

MR BARWOOD: I mean, the east-west passage of freight since Australian Rail Track Corporation took over from - virtually from Parkes now because the intermodals that are developing in Parkes - that's FCL and SCT - you know, that's really going ahead. And the amount of (my wife and I we have children in the west, Kambalda and Perth) we've driven across there on many, many occasions just to see grandchildren, and the frequency of heavy road vehicles going across to the west by road - it's phenomenal how it's dropped. It think it was 70 or 80 per cent of freight is now going by rail, but it's not happening north-south. And the reason why it's not - one of the reason why it's happening east-west is because there are too many drivers who say, "Hell, I'm not going to want to be away that long from my family." I mean the trip takes three days, two nights just in the car alone. Whereas the short-haul trips from Sydney to Brisbane it's not a problem.

The other problem is that the requirements now for drivers to be able to gain licences in B-doubles and road trains is becoming so intense that not many drivers now can get a licence under 25 to be able to drive a B-double. So what they're doing now is they're recycling fellows who have been truck drivers for 15 - out of the industry for 10 or 15 years, so they're up getting into 35, 40 years of age. So the average age now of long distance road drivers is in the 50 year bracket.

MR BANKS: From a safety point of view, is that a good thing, though; that you're getting more experienced drivers in those big rigs - - -

MR DUFFY: What's transpiring is, it's a double-whammy. First of all, you have like Bill said. Now also being - there's a shortage of drivers, I'll admit that. It's going to be a lot worse coming on because what's happening now is, the blokes who are unemployed and in their 50s - they're in their 50s and 60s now and they're pushing through a TAFE works, a week's course in B-double driving and they haven't the experience - anyone who comes up to - they have to know how to drive a truck. They have to know how to drive a train. Any Tom, Dick and Harry can get in and start the motor and go a few kilometres but it's the condition of the roads, the condition of the load, and all this comes into place and as Bill said, they're going to tighten up on the long distances because not only that, they're only beginning driving - so many hours and they have to have an eight-hour rest and that's going to make the - you have to have two drivers now instead of one. Get a run from Sydney to Brisbane, they have to have two drivers. That's really going to sort of affect the cost of road transport.

MR BANKS: All right. I thank you for that. It's been useful. Any other comments?

MR BARWOOD: No. I think we've probably covered more than we came along here to even mention but it's all relevant, very relevant and the opportunity to come and speak in this way is - it will relieve a lot of our frustrations in not being able to put everything - all the opinions and how you feel about things even though they're probably subjective and you'd appreciate that in our position we don't have much access to getting statistical information and I hope that what you might call community feeling and attitude, which is what we express from listening to the communities which we're associated with; 10 local government councils over that enormous area of New South Wales, helps to put a broader perspective on what the problem really is.

MR BANKS: Good, thank you. That's a good note on which to finish. So thanks very much again for attending today.

MR DUFFY: Thank you for allowing us.

MR BANKS: We're just going to break for a few minutes before our next participants. Thanks.

MR BANKS: Welcome, gentlemen. Our next participants are the Australian Trucking Association. Welcome to the hearings. Could I ask you please to give your names and positions.

MR ST CLAIR: Stuart St Clair, Chief Executive of the Australian Trucking Association.

MR GOW: Neil Gow, National Manager, Government Relations.

MR BANKS: Thank you very much for attending today. Thank you also for the earlier submission that you made and I think this may be a follow-up submission that you've just handed across here so we'll leave it to you to address the points you want to make.

MR ST CLAIR: Thank you very much, and certainly our apologies for not having that submission in on Friday. Time seems to run away at times when it's such an important issue as this and such a voluminous draft report that's been produced. So as I say, we've all been working very closely to ensure that we actually put an industry position forward rather just simply an isolated position and with the ATA we do come before the Commission as an industry, peak lobby group, which is made up of 11 state and sector associations, three foundation-sponsored companies and seven of the largest logistics and certainly trucking companies in Australia.

Mr Chairman, we do welcome the recent release of the discussion draft relating to the road and rail freight infrastructure pricing. We have tried to cover in our submission today many of those points raised in the findings of the report and just some of our views on those. I won't go through them right now but we had a look at the report recommendations and note that the Commission is not recommending any fundamental price and institutional reforms for road or rail but is seeking more information on these matters prior to preparing their final report and we think that that's appropriate and we'd like to participate in that process.

For the record, it's important my knowledge of pricing on these sorts of things is quite general, but I have got with me my colleague, Neil Gow, who has an intimate knowledge of pricing and road transport, being involved in many of the heavy vehicle charges determination before, and particularly the third charges. So if there's any questions Commissioners would like to ask that I find too difficult, Mr Commissioner, I'm going to flick them across to my colleague here who has a better knowledge of those than I have.

MR BANKS: Okay, thank you. Did you want to make further points about your submission?

MR ST CLAIR: I'm going to look to Neil as well. I wouldn't have thought so. I may have thought that we could have a good interchange about things that you're looking for, and offer further information. I mean, we've had a look at the report in detail and Neil certainly and his Taxes and Charges committee of the ATA have gone through the whole issue. We have always believed that the industry has been paying its way for road use, that it's had a request by government to raise certain amounts of money. We have done so. In fact, there's been an over-recovery. While the system is not perfect it certainly is delivering an outcome and the outcome is the fact that there is a substantial fund of money paid by heavy vehicles.

We also have tried to go out to the community as well, Mr Chairman. I've just completed ten days away on a drive from Wagga in southern New South Wales right through the coast to Grafton and then in the inland down to Tamworth, talking to local government authorities about heavy vehicles, pricing in particular, for their roads. How do we assist local government authorities to be able to fund their road network? I had 12 years in local government as an elected person and eight years as a mayor in a rural and regional area that opened its network up back in the middle 90s to heavy vehicles and to B-doubles in particular.

The reaction we got from many of the mayors we came across, in both small and big regional centres, was one of quite an understanding of the freight task and the size of the freight task and the importance of that freight task to their communities and to the wealth of their communities. We also came across and discussed with local government authorities the importance of their own network for access and how do we as an industry pay for that and how do they actually end up getting the money out for road improvements.

I raised a chestnut that was around back in the mid 90s, when the roads component of the Financial Assistance Grants to local government were in fact a component of those, with the tied road grants and there was much ado by many local government authorities to untie those grants, to keep them identified as a roads component, but to untie them. Now, many of us at that time, particularly in regional and rural areas of Australia didn't want to see that. We believe that if those funds were designated to be spent on road networks in local council roads, they should be actually spent on local government roads.

We would like to see, now that councils are raising the issue again, we would like to see some consideration given to those grants being tied again back to the road networks so that we do see local government spending that roads component on local council roads. We also discussed in detail the Roads to Recovery Program, which is a Federal initiative some providing funding direct to the local government authorities, and note there again that it's a pity that the Roads to Recovery money wasn't tied to local council roads because many local councils have used that money on main roads or state roads and we believe that that's taken some pressure off state authorities to fund those connecting regional roads and that's disappointing, because I think the original purpose of the Roads to Recovery Program was to actually give local governments some degree of kick start for their own local road networks.

So in those programs, the FAGs Grants, and Roads to Recovery Program, they should be looked at for use on local council roads. In saying that, I also understand that local government authorities would understand the importance of their regional road network and somewhere that's got to be funded as well and the state governments aren't going to fund that. Where are they going to get the funds from? We also found it interesting to look at some local government authorities, including in fact my own, many years ago, 10 years ago, who look at developments where you might have a levy for the development. It might be a sand mining project or a heavy metals project or manufacturing business, feedlot, abattoir or whatever, where you might have a look as part of that development process including what road networks you're going to use to access the major transport corridors and have a look at a levy system.

From an industry point of view, Mr Chairman, I think that it's important that there is a cooperative approach between all the levels of government; and what disappoints us is when one level of government is receiving funding for a network and maybe another level of government takes their funding away. That's certainly been the case in some places, and I think that you should be aware, if you're not, that there are cases where, you know, there's been pressure put on local government authorities to spend their rates revenue on a main road rather than on a council road.

But it is an issue of which we're very much part of. We've had councils looking at ways to assess their road networks for higher mass limits, which is coming in, as you're aware, to improve productivity. Who should pay for that? At the end of the day, there is a balance between the benefit to the community as such, but there's also a lot of communities which don't receive any benefit, theoretically, from through traffic, for example. But there has to be a different way of thinking, and I think many local government authorities are thinking of different ways of funding that sort of thing.

MR BANKS: Could we just sort of go back, I suppose, to the general principle that really underlies this inquiry, and get you to comment on your position in relation to cost recovery as a general principle, and then unpack that a bit beyond there. But, I mean, do you agree with the notion that your industry should be recovering the costs that it imposes on the - - -

MR ST CLAIR: We do. We certainly do, and that's a really general industry view heed very strongly, that with a road user charge and the introduction of the on-road diesel grant system that gave us a road user charge, we believe that should accurately reflect the costs associated with heavy vehicle road wear. But we're also conscious of the fact that many people want to include an amazing array of extras into that sort of costing. We've already put in our submission the fact that we internalise a lot of our externalities, and we've talked about the fact that we have much cleaner engines, for example, with Euro 4 engines coming in on 1 January of next year, and later on Euro 5, and that will deliver greater outcomes in the sense of environmental benefits.

But they have a cost, and the cost is adding 10 or 15 thousand dollars onto the purchase of those vehicles; and a prime mover now, you know, is running up around that quarter of a million dollars mark. They've got the latest gear, they are a much different vehicle than what they were, you know, five or 10 years ago. The principle that we work on is that we should pay our way, and as an industry we accept that and we need to ensure that the cost allocation formulas that are used are scrutinised and open and transparent, and I think this is where Neil's expertise in our organisation comes in, and we've explained that to the NTC, that part of the process with the third charges determination is that a lot of things weren't open and weren't transparent, and we believe we do need to have a fully transparent system. But at the end of the day, Mr Chairman, safer trucks, safer drivers, safer roads gives us a safer community; and at the end of the day that will actually produce us more wealth.

PROF WALSH: What parts of the third determination process or content weren't transparent? Neil?

MR GOW: Yes, certainly. If you look from the beginning to the end of the process, there are questions about expenditures on roads. That data comes to the National Transport Commission from state governments, and of course through the ABS, the Australian Bureau of Statistics, to quantify the local government expenditure. It's impossible to verify those numbers from publicly published documents. So those are figures we do have to take on trust, rather than being fully transparent.

Then of course I compliment the NTC in their approach during prior determinations to actually share the data with stakeholders once it gets to the point of being into their model. But the other key data set of course arises from the Australian Bureau of Statistics, which is their road use data set, which we're conscious is produced from an increasingly slim base; and so the conclusions that are drawn for that across the whole heavy vehicle fleet sometimes are counter-intuitive, for example, issues of distance travelled or mass carried by vehicles. But those are the numbers one has to work with within the model; and so for, of course, many years the ATA has called for a more extensive data set to be used in developing the survey of motor vehicle use.

There are other areas that we would have questioned the judgements made, particularly in relation to the parameters of cost allocation, and the ability to convert data about the mass of trucks into road wear statistics using, of course, an equivalent standard axle number or figure there. There's contention about, of course, what is and what is not the correct numbers to be used there. So although those issues are transparent, I'm just extending the question a bit to areas of dissatisfaction, I suppose, as well. But we feel that those issues need to be further examined, not only about the inter-relationship between vehicles and roads, but between the weather, if you like, the effect of environmental factors, on roads.

PROF WALSH: Thank you. There's obviously a lot of judgements involved in there somewhere. Although we acknowledge in the report that trucks had been paying their way, a couple of things about the existing system, I guess we also point out, and I'd be interested in getting a response on. One is, road expenditures are apparently increasing quite substantially, and it looks like trucks won't be paying their way fairly soon, if they still are.

The other is that the system has so much averaging going on within it that the complaints of some that trucks using particular parts of the road system aren't effectively paying their way, is not an unimportant issue; and presumably particularly in rural areas where it's quite likely that the damage costs and so on are significantly higher than the average charge that the trucks are paying, which would be - - -

MR ST CLAIR: Could I just lead off, if I may, Commissioner, on the issue of the increased expenditure on road. We think that's a really good thing. We want to see even more money spent on infrastructure generally. Obviously during the process of allocation of where those funds are being spent and those funds that are being spent on the heavy vehicle network, those increases in funds on the heavy vehicle will be reflected in the road user charge. I think that's to be acknowledged and accepted from our industry's point of view.

We are a service industry, but we're also, because of the very nature in Australia, a highly competitive industry, and a generous industry, because every time we get a productivity improvement, as can be seen particularly with the introduction of B-doubles and later with some more productivity-orientated vehicles, we pass those savings on to industry; and therefore, at the end of the day the nation becomes more competitive because it has a competitive industry, competitive transport.

One of the things that does take us back, quite frankly, is discussions by people - and I'm just recalling one last week where a group of road asset managerssaying, "Well, it really doesn't matter what we charge you people because you're just going to pass it on anyway. So you know, you should be paying double what you're paying now." There seemed to be a lack of understanding that we are in fact part of a country that competes on a world stage, and one of the things that we do do exceptionally well is actually transport our goods to the wharves or to the export areas exceptionally well; and we do that because we are competitive.

To simply suggest that, "Well, it doesn't really matter what you pay, you know. Why do you worry so much about it? Why do you fight so hard to keep excise down or road user charge reflective?" Well, we do, because that's the competitiveness of the nature and we want to see the industry play its part in making Australia become more competitive. As to the second part of the question - - -

PROF WALSH: It was about the implications of averaging, yes.

MR GOW: Yes, certainly. Our notes in the submission that we've handed you, in attachment A, do go to the first question, and if I can just add a little to Mr St Clair's evidence there that the interrelationships within the NTC cost allocation model - of course, between those two data sets the road expenditure data set and the road use data set are complex and they're certainly - they're not linear, there's not a one plus one equals two. And so if that increased road expenditure, for example, was spent more on urban local roads then you wouldn't have the same flow through into heavy vehicle charges that you would have if it was on the arterial road network, for example.

So it's a case of a bit of wait and see to see whether in fact feeding fresh data into the NTC model would produce increased cost allocations for all heavy vehicles or in fact whether there might be a change in cost allocations between the different classes of heavy vehicles or thirdly, possibly no change at all, even though there's been an increased expenditure because of the interaction between those two data sets. So we were concerned within the report, and I think it was basically our only point of concern, that there'd been increased credence given to this concept that increased road expenditure automatically produced increased cost allocation, and that may not be the case.

MR BANKS: Yes, I think that's a good point. If you think of the sources of the increased expenditure AusLink obviously is one of them and I think a fair proportion of that presumably would be going to the networks that the heavy truck would be using.

MR ST CLAIR: And, of course, had been in place for some time, a lot of that expenditure anyway, as you know.

MR BANKS: Yes.

MR GOW: So there is quite an intricate interrelationship between the data sets; and, of course, it does depend on the allocation parameters that he used, which I previously said are still areas that need to be transparently debated and the inclusion or non-inclusion of some costs, including that of heavy vehicle enforcement which you refer to in the report, although in the report we note that's net of revenues produced by that enforcement - and there are difficulties, of course, of working out what is heavy vehicle and what is other vehicle enforcement. If a police car is driving from A to B and they only stop a heavy vehicle, was their role purely heavy vehicle enforcement or were they in fact there for all road users? We'd contend the second is more logical view, so there are problems even coming up with a clear definition of those costs let alone the principle of including them or not when in fact they raise revenue, and our position is they shouldn't be because they do raise revenue.

MR ST CLAIR: I think the other thing too, Mr Chairman, is that we view the freight task as the whole of Australia freight task; we don't view it as simply a, you know, a line or operation or a - or simply the small vehicle operations in the cities or whatever. It is a whole of nation approach, so we do have operators that are operating in the Tanami desert or operating in the Kimberleys, as much in their role, we believe, in creating wealth for the nation is just as important as those who move line haul from Sydney to Melbourne or Sydney to Brisbane. And when we try to, as an association, encompass all of those groups and we listen to their concerns and their issues, while they are different in many ways they are still part of this whole approach, in my view, of the network around Australia.

So spending more money on the network, that's a really good thing because we've still got people who operate on no roads at all and they still do the freight task and they still pay their road user charge although they're in five feet of dust - sorry, 1.5 metres.

MR GOW: On the second point, on the averaging, of course the antithesis to the averaging approach is a direct user charging system which is advocated by some, and it may be those who have a firm belief that direct user charging for heavy vehicles or in fact all road users in fact, it's in their interests to question the averaging system. But the averaging system is more sophisticated than some would say. There are some 25 or so heavy duty categories subdivided depending on their axle groups with B-doubles, whether they're, you know, eight or nine axles, et cetera, so this is not a very blunt averaging across the whole heavy vehicle fleet and within vehicle classes there are subclasses.

To make this job of doing the work on the cost allocation modelling fact work, some averaging is not only necessary but desirable. But there are some absolutes in there - I mean the numbers of vehicles are known - but there are issues around whether or not one should average on fuel consumption for a particular vehicle class, the mass, and of course the distance travelled. But the current system - and in fact the whole question has that inherent tension all the time between the efficiency considerations in calculations and of course equity considerations. And at it's broadest there's some averaging between in fact the rural and urban areas of Australia as well to end up with some workable figures.

One deficiency in the national network system which was acknowledged by the National Transport Commission in both the second and third charges was that they needed more data on a subset. And that was remote vehicle use which was then used to adjust the cost allocation based on the network averages for, in fact, that work being done by heavy vehicles, principally road trains and of course B-double, and taxed on the B-triple type combinations on unsealed roads because the data is sealed arterial road network. One thing we would ask is that more attention be given in a future determination to that subset of data.

So there are some refinements in the averaging we think are desirable, but I just wanted to try to make the point that in fact the averaging is not a particularly blunt instrument. In fact there are a range of vehicle classes, and the data that's used is quite extensive, and the technical reports put out by the National Transport Commission with a wealth of data in them, figures that are not only raw data but calculations in technical reports are quite expansive, should be looked at by people who are wishing to say that the averaging system is not accurate enough. There is a high degree of accuracy in the current model.

Then, of course, it just raises also the question that the system does need to be understood by the industry, and currently people can identify through their fleet what class particular vehicles fit into, the registration charges that apply to that particular class of vehicle and why, and also of course the net diesel excise charge that's common across all vehicle classes. Even the degree of averaging that is there now is quite complicated to explain to people in industry. But that's necessary for people to understand how the principle that they support, that there should be a cost recovery system for their road use, is actually implemented.

MR ST CLAIR: Clearly, what the industry has difficulty seeing, as a by-product to the system, however, is where the dollars they actually pay go in terms of investment in the road network, and I guess a question therefore is in moving to a system where, you know, users could have a greater confidence or understanding about where their dollars go in terms of investment. We’ve raised a number of mechanisms going forward.

PROF WALSH: I notice in your submission that the report, and I quote, "does not promote incremental mass pricing as advocated by the National Transport Commission as a path towards direct user pricing for road use." Since the discussion draft has come out I would have said we should be looking at that much more seriously as a first step because it has the advantage from the perspective that you've just been describing that I guess initially the users would be getting something for the extra that they're paying, so there'd be an implicit deal that you can use this particular road or you can use some part of a network that requires an upgrade if you're prepared to pay extra to allow that to happen. But I'd just be interested in the views of the ATA, if you have a view on these kind of incremental pricing approaches.

MR ST CLAIR: I'm just thinking, not for any other reason - but just a couple of things. We've probably got to throw in there also the fact of as an industry, do we think we're getting value for the taxes we pay now; do we believe that the road network, as you quite rightly pointed out, is having the right money on the right areas to get the right result? And that's always a challenge because, as we're aware, sometimes governments actually make decisions based on the number of votes they get in an area rather than whether the road is actually going to produce. But there is a concern I think industry does have, are we getting value - and it's a really serious note - for the amount of money that's going on to the road network.

The cost now of building a kilometre of road to a certain specification is just blowing out of proportion, as we've seen particularly over the last 10 years or so, but particularly even over the last five years. Has that been created because governments are now spending substantially more on road infrastructure, and have we got the people to build the roads? I think that we do question and we do have our members who raise with us constantly the amount - what they believe - they see as waste, particularly when you see large numbers by volume of heavy pieces of machinery owned by a road authority sitting on the road, doesn't work weekends, knocks off at 4 o'clock in the afternoon, or 3 o'clock, and then sits there until it fires up at 8 o'clock the next morning; whereas you also see some works that have been put out to contract, that those contractors are working seven days a week and what appears to be delivering a very much more tangible outcome for the dollars being spent.

So we have got concerns about the amount of money being spent. And just before Neil talks about some of this incremental stuff, I still go back to the issue that our simple premise since this beginning of the inquiry, Mr Chairman, was that as an industry the further we drive, the more tax we pay, and the heavier the load, the more tax we pay, because that's the way fuel consumption works, and that's the way, of course, the road user charge, being tied into that, works. On registration fees I'm not sure whether there's any basis of how registration fees actually come around, other than maybe just a pig in a poke to say, well, this seems like a good idea at the time. And I can remember at our last round table here in Canberra someone talking about the issue if there's a productivity going to the industry of X amount of dollars, half of that should go to the government. Well, hang on a second - aren't we on a user pays system? I mean, what do you want us to pay? And there needs to be some degree of validation or accountability for where that money goes.

I go back in my memory of when we used to have 38 tonnes on a truck, but for another three and a half thousand dollars you could purchase another X amount of tonnage to go to 42 or whatever. But did that money actually go onto the road network? I very much doubt that it did. And it's that degree of accountability, and I think from an industry point of view, if we could see that the moneys raised were being spent economically to deliver us an outcome and that they were all being spent on that, maybe there would be a different attitude. But there just is not that degree of faith.

MR GOW: If I could add a little on the incremental issue, please. We did include that very blunt statement in the submission to make sure that we did understand your position, and you say that that's being reviewed as you go forward since the draft findings document has come out, because it appeared to me there was a potential - in fact, I think there was some confusion between incremental changes to charges and incremental mass pricing per se. And of course what I'm addressing is incremental mass pricing, which was part of the debate during the third charges determination for heavy vehicles - that vehicles carrying mass over and above a statutory limit, and in other words adding an additional road wear factor, so in the case of heavy vehicles equipped with road friendly suspension, that would have to be over and above higher mass limits, and for those not, then above the statutory mass limits on their axles.

That was the definition, if you like, that was considered during the third charges determination discussions. When we spoke of averaging, an alternative way in fact of addressing vehicles carrying extra mass would be to consider the possibility of actually creating an extra class of vehicles or classes of vehicles to do that unless the increment or the incremental road wear, because we're talking about the marginal cost of the extra mass here, aren't we, is the same across all axle groups and all vehicles, and we just don't know that. Would the increment to pay for an extra tonne on a rigid truck be the same as on a B-double? We, given the ESA arrangements, et cetera, wouldn't expect that would be the case.

PROF WALSH: You said maybe create another vehicle class. Isn't the problem often that you've got a sort of infrastructure bottleneck - some bridges on a particular road which can't take the higher mass? You're not going to overcome that problem by having a separated vehicle class that is able to operate at that higher mass but is still not going to be able to operate on those roads. So the incremental pricing idea - I might misunderstand it - would be one that says "We'll fix up the bridges if you're prepared to make an additional contribution, because then you will be able to use more productive trucks on those roads."

MR GOW: That presumes a direct relationship, Commissioner, between the use and the revenue raised and then its allocation to that particular bridge or road as you've mentioned. But if in fact there was an additional class to get these higher productivity vehicles on the road within the national charging system, there would be more revenue, and then it's a matter of a more cooperative, - or just more money in the system anyway, to enable those projects to be met through the current approaches, because of course the flip side to incremental charging is the question of who gets the money, and if it's going straight to the state road authority - and of course you'd have many local governments putting up their hands too, saying "We also are road authorities," whether or not they'd be prepared to look at a mechanism based in state government to then redistribute that to local governments. There are some significant administrative issues about administering a fund separate to the money raised through the national network charges.

Although I understand the theory of a more direct relationship between the use and the expenditure in these cases where higher mass is allowed, it seems to me that we're only at the beginning of thinking how complex the administrative system of collection and expenditure would be and the accountabilities for those moneys as distinct from just looking at the possibility of collecting more money from higher productivity vehicles by looking imaginatively, creatively, at the possibility of one or more extra classes, and that money being available overall to address these particular issues, because that's the way most road expenditure is done. It's a bottom-up process, saying "We've got a problem with this bridge or that road," or "There's not enough passing lanes," or whatever, on a road, and of course these things then get prioritised within the overall expenditures both at local government levels, as Mr St Clair has referred to, within their dedicated funding, or state road expenditure budgets.

PROF WALSH: With the extra class of vehicle you still have something of a problem with that whether the extra money actually gets into the roads that you want to be able to put these vehicles on.

MR ST CLAIR: And historically we have seen jurisdictions have particular programs that they have funded - for example, a bridge replacement program - that a couple of years down the track suddenly gets withdrawn. Again, this question of whether we're getting value for money, where is the money going, et cetera, et cetera. And much of that I think is subjected to community pressure to provide an upgrade somewhere else.

MR GOW: Also, if you're looking for a perfect relationship between use and pricing and expenditure, the use doesn't happen until the expenditure has been made. So you might identify a bottleneck as you've referred to, but you don't know the real demand for that until it's been fixed and people use it. So it's not illogical to have a PAYGO type approach to recovery of road expenditures because it reflects the usage that people - the value that people put on the upgrade once it's available for use.

MR ST CLAIR: And what public pressure has been brought to bear. I was talking to a local government authority two weeks ago that has a bridge that was washed out and reconstructed. It has a weight tolerance on it and the weight is exceeded by the school bus when it's full of children so they use a bypass that goes down through the river. The pressure will happen on that when the river is up again and the children have to disembark on one side of the bridge and walk across while they put the bus across first so it doesn't exceed the weight limit and that will then raise the issue and someone will say, "Out with the chequebook. Fix the bridge."

PROF WALSH: You're making all these points about the connections between the revenues and the value of the investments and so on. That's obviously of an issue that we've looked at quite a lot and acknowledged that one of the weaknesses in the current system is that the money disappears into a government bucket and quite where it comes out again is unclear; how the decisions are made. Do you have particular views about the mechanisms we're suggesting? Perhaps we'd start with the road fund because that could conceivably operate even with existing charging arrangements.

MR GOW: Can I just add one thing though, to the incremental charging discussion before we go to the road fund, please, and that's in relation to the assumption that to have an incremental direct user charging or pricing system that it would need a technological base as well. The technology would have to be part of that and the ATA is very cautious about using that technology for any charging mechanism because we believe that in the Australian environment it's as yet unproven. I mean, we acknowledge that businesses are using GPS-based technology for fleet management and operational purposes at the level at which the business enters into an agreement to the have the services provided but there needs to be considerable caution before looking at applying that to charging mechanisms which have to be got right and of course have to be above criticism when it comes to actually billing people for a use.

So I just wanted to say that if incremental charging is dependent also on a technological base then the ATA is very cautious about that and at this stage would want to see a lot of work done about the feasibility, let alone the actual quantums of money that are involved before we're in a position to accurately assess an incremental mass pricing scheme.

PROF WALSH: Sorry, it might be best to sort of stick with that before we come to the road fund because I mean, the point you're making is quite an important one in principle it seems to me to put the argument rather than to come to a definitive conclusion. Some of the problems you were alluding to earlier about local government and the money that it gets; these problems about the road system in general and getting the linkages between the expenditures and prices paid. The location based charging model sounds like the most logical thing to go to, right, where the road owners receive the revenues.

They're getting the signals about where the highest value for the dollar would be on the road system. Your members would be able to see that the money that was being collected for road X is actually getting back to road X and so on. In principle, that looks like an ideal model and I wonder about your perspective on the statement about principle first and then - can you explain to us; I mean, almost everybody seems to think that while the technology isn't there, we're in a process of getting to the technology that would enable the incremental pricing and even up to location based charging. We'd like to hear a little bit more about what the problems are from your perspective about the technologies.

MR ST CLAIR: I don't think we should lose sight that everyone likes to spend somebody else's money, and people have very strong views about how other people should raise their money and spend it. We're actually the industry that's paying and we believe we're paying our way and should pay our way and should pay our way into the future. I think the question - in our view there is also an argument being put forward by many of the jurisdictions who don't believe they're getting a fair deal out of the Commonwealth as to the fair share of the split of moneys and we're not necessarily going to enter into that.

We just look at the total amount of dollars that are going onto the network who again produces an outcome that is good, but if you were going to change the way, and I believe that none of the governments are going to relinquish their ability to write cheques out for road networks, to be quite honest, so from a national fund and from a policy point of view, it may have a view and incremental charging may have a view but we're still on a whole nationwide view of the transport task. It's just as important to get livestock from the Kimberleys to Broome for export as it is to move manufactured product from Melbourne to Sydney, for example, and I think that what concerns us is that if you go purely to an electronic system you don't necessarily get all the signals that are going to make it competitive the whole way across the market, in a sense.

MR GOW: I think if I could just add to those comments a little, in reverse actually. You've mentioned the desirable principle of the close relationship between use and expenditure, but I think it's worthwhile questioning how far we are away from that in practice anyway with the current arrangements, be they, as we say in our submission at one point in attachment B, complex and including many stakeholders. If you look at the general expenditures on what was the national highway system, now incorporated into the AusLink network, it's been identified as a network that delivers key economic benefits to the country as well as providing use by private users and their amenity and safety is also of importance.

In fact the majority of funds are spent on that key road network which has now been expanded through the AusLink network having got away from the old distinctions between a national highway system, roads of national importance et cetera. So I don't think one necessarily needs to endorse the principles still to have an outcome that spends money generally in the right areas and the significant announcements through the AusLink bilateral processes of governments, Commonwealth and state and territory governments signing up to do certain things over a five-year period is very heartening from an industry point of view.

So I'm not trying to put words into your mouth, Cliff, saying that we don't know where the money goes. I don't want to misrepresent you, but we largely do know where the money goes and in fact having those bilaterals publicly available since April this year, at the AusLink network website in fact does provide a level of transparency and expectation that hasn't been there before.

PROF WALSH: The charging system doesn't provide either incentives for use of particular roads, appropriate incentives for use of particular roads or a mechanism by which - it seems to me the clearest case is perhaps out in the rural areas. It isn't where the damage that's being caused on those roads is relatively high; almost certainly higher than the average charge and that a mechanism that actually saw prices reflect that and got the revenues back to the local governments who were bearing these costs. It was at that level of principle I was talking.

MR GOW: Yes, although the damage is, you're saying, to local roads and if you're talking about unsealed roads there during, for example, a harvest period by trucks using them, the maintenance budgets required to repair those roads and put a decent and safe surface back on them after that period is very different to maintenance on sealed roads. Having been a rural resident for many years and a driver of heavy vehicles on those sorts of roads, you saw that those maintenance expenditures mainly reflected the cost of putting a grader, water cart and roller over those roads after a period of activity with heavy vehicles, like for example during a harvest, which is nowadays with modern technology a much shortened operation to what it used to be.

So the maintenance level on those roads is reflected in the road type as well, although ideally it would be nice to have an arterial road quality road to everybody's front gate, whether they're in the city or in the country; and I think we'd all agree that's unachievable. So consequently, the money available to be spent on maintenance on local roads, there are a number of sources. They include, of course, in the case of development of new roads, the levies that Mr St Clair referred to in his opening comments, as well as the rate based revenues of local government, and state and Commonwealth funding sources.

So it's not necessarily that there's no money available; we're not talking a system that's broken here, but one where some would like to see more refinements through these direct relationships. But as we've said before, often those direct relationships are not reflected until after an upgrade has happened. So the economic efficiency argument of linking these things is often retrospective rather than prospective.

MR ST CLAIR: And some of those decisions that councils make or road authorities make obviously aren't necessarily based purely on a cost/benefit ratio or whatever. I mean, if you have a culvert that washes out, do you replace the culvert because it services three or four farms, for example? Or do you just leave it and say, "Well, I'm sorry, we're not going to - you know, the 50,000 or that 100,000 dollars we're not going to do"? Is that because the person can't get their stock in and out, in other words a heavy vehicle issue; or is it simply that they can't get to school?

They're decisions local governments make quite regularly. Some will say, "Well, bad luck. There's only six of you on that road, I don't care." Some will say, "Well, we have an obligation to provide access to those three or four people or families," and proceed to do that, and do it to a standard where they know that twice a year or five times a year or whatever, there is a vehicle that travels. Often these vehicles are farm vehicles themselves. They're not part of what we'd call the hire and reward industry. They are farm vehicles that are often either used only for harvest time or only for breeding time, or whatever, as you're aware. Those vehicle sizes vary tremendously.

MR GOW: I think that particular example given there just highlights the more general issue and difficulty with looking at moving to a more direct and use-reflective pricing system of the common use of roads. I know it's an area that you've identified, but there are no easy answers to that. So the question as to whether it's worthwhile to be looking at refining heavy vehicle charges, it's a step that can't be considered unless one is also, I believe, committed to going the whole hog with private light vehicle use of the road system.

MR BANKS: Certainly, as you point out, that's one of the complications identified in this report, particularly moving into more commercial orientation of, say, the cooperation of the National Transport Commission. You've said that we were a bit sanguine in relation to the technical feasibility of telematics based charges and so on. Others have accused us of being too pessimistic about that.

But I guess - I know you've commented here, but I guess for the sake of the transcript, I mean, what are your concerns in this area? Because others are saying, "Look, it's almost on the shelf. You could take it off, or if it's not it's going to be there - - -"

MR ST CLAIR: They're probably the people who are selling the equipment, and I suppose if I was selling something that - you know, if I was a solution looking for a problem, then I would try and create a problem out there, and I think in many cases the telematics being used by - and GPS being used by trucking companies as a management tool is not as widespread as probably we'd first give thought to. It really isn't.

And having been talking to people for quite some time, operators, about this, it surprises me that in a - and I'm just thinking of one big community where there's one trucking operator that has about 250 trucks. He has no GPS in his vehicles whatsoever, but runs them quite successfully. Another one there that has a hundred trucks has GPS, depending on what their tasks are and what the values are. So there's not a broad take-up at this point in time.

The accuracy - while improving and obviously will improve in time - accuracy of information received, the cost of the implementation or upgrading all the time as new technology comes out. Many of the fleet operators, and even big operators are saying to us, "Why are we going down all these paths? It's going to end up costing too much money. Do we really need to? Do I have to fit this equipment eventually to operate?" Well, in the case of New South Wales as one jurisdiction, and Queensland, which appears to be coming along the same; if you want to access higher mass limits in New South Wales as you know you need to pre-enrol for IAP, and when it becomes available you have to fit it. That means that people will think, "Do I want to fit it or not?" In other words, what is the economic benefit?

While we don't want to see loss in the industry and for Australia as a nation, this economic benefit that could come through that's simply saying, "Well, it's too hard. We're not going to put that into our vehicles." The cost could be quite substantial, quite substantial. While keeping an open mind on those sorts of things, as I say, when you consider that the main company promoting the accreditation etcetera of IAP is owned by the road authorities around Australia, you've got to wonder their motives.

MR BANKS: Any further comments, Neil, on that, on the IAP or the technology?

MR GOW: No, I think that's been well covered, thank you.

MR ST CLAIR: Again, Mr Chairman, I mean, some states are embracing, some states aren't. Some states are much further ahead, as you're aware, on some of the reforms under COAG. I mean, the industry, from our industry's point of view, it's the same old chestnut. There is no consistency between the jurisdictions, and that is affecting productivity. Just leave the pricing alone for a moment; just on productivity. We don't want to see some jurisdictions simply say, "Well, improvement in productivity means that we can make more money without having an accountability as to where that money is spent."

MR BANKS: We were on our way to talk a little bit more about the road fund idea, I think. As you know, we put these ideas out accompanied by a bunch of complexities and issues that need to be addressed to have confidence in moving forward. I think you've sent us back here in attachment B a bunch more questions for us to look at. But perhaps I'll just get you to - if there's any general comments you'd like to make about this possible approach.

MR ST CLAIR: I think we need to acknowledge from industry's point of view there have been significant improvements in the road networks over the last five or 10 years - significant improvements. They've been starting to - a recognition in particular of the importance of the infrastructure and the fact that governments of all persuasions, both State and Federal, have left infrastructure alone. To see the Australian government Treasurer stand to deliver the budget this year in May and actually talk about infrastructure as one of the first things that came across, I think is a recognition that it has been neglected. However, we do think that they have made a significant step forward in all jurisdictions.

As to having a separate fund, again we believe there's much more to be achieved by having a cooperative approach between all levels of government who deliver that infrastructure. But there is a more of an understanding if private players are going to get involved under public/private partnerships that it's not just simply a question of being able to - for governments to be able to change the rules of what was actually designed in the first place by simply shoving the toll up higher and higher; that a separate fund may provide a whole host of more other people to be involved in where are they going to spend the money, and therefore be subjective.

At the end of the day, we elect politicians to run our states and our local government authorities and our Australian government, and it's our view that if you elect them you have the right also to unelect them. Much better than have a statutory body that is going to decide on who or where moneys are going to be spent for road infrastructure.

MR BANKS: I take it from that you're not happy with a road fund?

MR ST CLAIR: One could say that.

MR BANKS: Right. I mean, effectively, there aren't too many markets, however, where politicians decide the price and then they decide where the money goes, effectively. You don't see this as a problem ultimately? I mean, if you think about any other economic infrastructure area, effectively decisions are made on commercial grounds, perhaps with principles that clearly in many cases are principles that have been, as you said, political, you know, at a broader level.

MR ST CLAIR: I don't think so. I mean, the road asset in our case is used by 400,000 trucks. It's used by 13 million motor cars. It's used by motorcyclists, and God bless their hearts, it's used by pushbike riders who are out there on those main roads with all of this; whether it be cars or it be heavy vehicles and we share that same road asset with pedestrians. I think there needs to be a clear understanding by elected people that they are elected in these places to lead these countries and if that's going to be the case of having a transport network and what are you going to have as that network, then communities should have an influence in that.

MR GOW: I'm possibly splitting hairs, Gary, a little in saying - in your comment there that politicians set the prices; they only vote on the recommended prices. The setting in fact, is through, as I've said before, quite a complex and largely transparent process.

MR BANKS: Yes, but we had a third determination; an attempt to set prices that were politically overruled, so I guess, at the end of the day - - -

MR ST CLAIR: And thank goodness, because if it's demonstrating that we're already paying our way, why would we want to pay more? If the third charges determination were being put forward was recommending charges that in fact would over-recover even more, then thank goodness our elected people - all of them, I mean all the states, and this is the interesting part, is that all the states and territories and Federal government voted against it. It's not just one that voted against it, and the comments were made is that the industry is paying its way. Now, that's a good thing that there is at least that valve there and that valve, as a responsibility, needs to sit with someone. Now, whether that gets changed as you get closer to elections where people will want to exert their own influence from political reasons, that's a separate issue.

MR GOW: If in fact that level of political influence you could claim was in fact endorsing a set of charges where heavy vehicles were in fact not paying their way, that would be a very contentious matter but in fact your draft findings show that not to be the case.

MR BANKS: In aggregate.

MR GOW: Yes, in aggregate. Correct.

PROF WALSH: I guess one of the critical issues is ensuring that the moneys that are collected, assuming the charges are sort of roughly right, are going into the right areas, being spent on the right parts of the road network from the point of view of getting best value for money, including from your industry's perspective and it was that sort of thinking that was driving us as much as anything else. If you could take it into a frame work where you had an approved set of criteria, agreed set of criteria that would be applied more or less independently by an organisation that was driven by an independent board and so on, that that might make a better linkage between you know, the revenues collected and the efficiency of expenditure decisions. I

It's sort of your point about politicians being ultimately responsible and that's got to be true of other areas and the obvious parallel here is rail. I mean, we made the decision to try and keep the politicians, out of making the decisions about rail because of the difficulties that it created in the past, whether it was inefficient investment decisions or inappropriate charging, failure to approve appropriate sort of increases in charges on rail and so on. So I'm not quite sure what the difference is here.

MR ST CLAIR: We would believe that if you went purely to a road fund run by an independent board, I think that the level of understanding of rural, regional and remote Australia would be lost substantially. That there is a particular requirement out there and history has shown to me that the moment you lose local control to a certain degree and it gets centralised somewhere, the people who will lose at the end of the day are the little people or the small people and that's particularly the case, I think as you can start to see on some of these rail lines that are being shut at the present where the community involved may only be a hundred or 200 people, so there's no votes in that, so let's shut it, let's do the economic part.

I think while you still have a transport task that is conducted all over the country, including as I say, the Tanami desert or western Queensland or theNorthern Territory or the Kimberleys, there needs to be understanding of those road tasks and the freight tasks and those freight tasks are simply that people want to have access to be able to move their product and I think that a road fund may not necessarily have the expertise to do that.

MR BANKS: I mean, you could have provision for CSOs, as occurs actually in New Zealand, where I think the government can put extra money in to cater to particular communities and needs like that. I guess the advantage that we saw conceptually and we're testing these ideas of such an approach - it perhaps gets back to the earlier point about transparency, where you can have in a sense, transparency built into the operation so it's clear where trucks are paying for the cost they impose and that they're not paying necessarily for roads that they're not using or to support roads that they're not using and, indeed, then the question of how those roads are funded becomes an issue in itself which requires some transparency around it. Now, these are sort of conceptual points and the point you've made is probably a more practical political one.

MR ST CLAIR: Maybe also the fact that if we did have some coordinated transport plans, you know, both done on a city based sort of thing but also regionally where there was some degree of cooperation, but having sat on regional groups of councils that have tried to work out whose regional road is more important than somebody else's regional road, let me assure you that even at that level that's extraordinarily difficult to come up with a set of criteria. In fact, I can think of one regional road now that a small - it was about 80 kilometres long, of which one section of it in the middle of it was controlled by an adjoining council that did no maintenance on that road at all because they actually wanted the traffic not to travel on that road; they wanted it on another regional road that more benefited their little community.

That's even really at a local level. So there was - difficult to get a degree of cooperation at that levels. However, in saying that, there needs to be coordinated transport plans done both regionally and from a city point of view, particularly in our capital cities where 80 per cent of the freight is anyway.

MR GOW: Just on the question of CSO's, I think it's valuable that in the draft findings you've recommended that these be clearly identified, whether for road or for rail and that's a good conclusion. It begs the question that presumably within a road fund structure such a group would actually be able to go back to government and so we actually need more than we've got to spend because we've got certain CSO's we wish to meet or was there an expectation that they would be met within that road fund?

I think it's the former and if that's the case then of course even if you did set up the road fund along the lines you've been arguing, if those fund managers or directors, whatever, are able to go back to governments and argue for additional funds for CSO's, albeit clearly identified, that doesn't - where that money is spent goes back to the allegations that there isn't transparency or proper accountability for those funds as well.

So I think with a road fund with CSO's added onto it can raise those problems, but I emphasise that, as you've seen from our response, we still have more questions about the matter than answers, although I think you're clear on our general thinking on the matter. That doesn't mean the door is shut at all. It doesn't. I mean, we're receptive to any discussions that are going to at the end of the day to deliver a better outcome.

MR BANKS: Okay. It gets back to the - I was expecting to ask this, being the Productivity Commission, but it gets back to the issue of productivity within each mode and I guess you're reasonably well placed to talk about whether you see productivity gains coming in the future from the road and road freight. This is of interest to us partly in arguing a case I suppose for better public policy in this area to talk about potential gains from unleashing productivity improvements that may not otherwise have been achievable. You've already talked about the raising of mass limits and so on as generating important economic benefit, but are there any other points you'd like to make in terms of potential sources of productivity gain coming out of road freight?

MR ST CLAIR: I think the greatest one even bigger than higher mass limits, to be honest with you is the degree of regulatory consistency and conformity between the jurisdictions; that's the greatest impediment I believe on behalf of industry to improving productivity. This includes road rules, road regulations, driving hours, weights et cetera. I think the other part is individually having a look at the freight task and ensuring that we have performance-based standards that recognise the freight task. I'm sure you've had a submission by some of the building board people where our industry carries - standard building board is 1250 millimetres and 1300 millimetres and you can't stack it side by side, you've got to stack it on top and we're losing something like 30 per cent productivity for the sake of an inch either side of a semitrailer.

There needs to be a degree of common sense. We understand where the road authorities will sometimes say, "You fellows always want to go quicker and carry more and go wider and higher and longer."I understand that, but let's have a look at the freight task. And let's try and match - providing safety is the first criteria and so it should be - let's have a look at what productivity gains can be made by having vehicles that are more productive in the sense of physically more productive.

Hence our desire to, if the road assets are proven to be safe enough and to take it on the B-triple - introduction of B-triples. The scare campaign has started by many who are saying we are talking about road trains and we're doing this and we're doing that. B-triples have been running on a trial from Geelong to Melbourne for 10 years without incident, not five minutes or six months; 10 years without incident. And we believe as the road - and we're not talking high mass limits here, we're just talking volumetric basically loading. That is a significant way of improving productivity, as we saw with B-doubles.

When I asked the last 16 mayors a couple of weeks ago what's their view on B-doubles, they say, "No-one raises the issue any more, never been an issue. People are accustomed to it. They're used it. They know it." As our industry is embracing new technology in vehicles much quicker they had in the past, that also is providing a degree of security for communities to say, "Well, these vehicles are safe." And we need as an association, which we've been doing, to work with local government to say, "How can we work with you so that you understand where we're coming from a productivity point of view that will benefit you guys? But how can we work with you and your communities to ensure that there's a degree of confidence that our vehicles are safe and the road networks will take it?"

But I do think, Gary, consistency between jurisdictions, as I'm sure rail would also say to you, just makes so much difference that people would have the confidence to load up in Adelaide to go to Brisbane and be able to travel consistency through all those jurisdictions.

MR GOW: Also those important reforms, if you like, in relation to heavy vehicle regulation need to be - are a prerequisite, if you like, to continuing a climate where people are willing to invest in the industry, whether that's to organically grow the fleets that they have or in fact for new entrants to come in. So it's incumbent on governments - to provide a productive road infrastructure on which for those people's businesses, their investments in fact, to operate. So that needs to be recognised that of course the prerequisite on the infrastructure side is a key thing along with improving heavy vehicle regulation to continue to have people confident enough to invest in our industry to in fact address the growing freight task about which we've all heard a lot in a general sort of doubling fact up to 2020. But that is a fact. It is being addressed.

So part of the productivity - even though it would be nicer to have even more productive vehicles - is being met simply by having people willing to invest in expanding the fleet; and that is that case.

MR BANKS: You've mentioned twice the task, the freight task, that in itself is being used by people as an argument for moving more freight onto rail and I guess the oneliner is, "Can you imagine double the number of trucks on the roads is not sustainable," and so on. I'm interested in just how you'd respond to that kind of general observation.

MR ST CLAIR: Can I just say from ATA and industry's point of view we support a tremendous growth in the rail industry and it should become economic; it should become productive and it should pay its way; because it actually has to carry double the task as well to simply stay equal. So there's a lot of work to do.

But we do believe that by having more productive vehicles you actually stem the number of increase in the number of trucks coming onto the road and that can be quite substantial and we saw significant gains made with the introduction of B-doubles and the fact that you have a higher trained operator and you have a much more modern vehicle to be able to do those tasks and therefore such as road-friendly suspension et cetera.

It's with the changing of the goalpost that governments often do - and in the case of higher mass limits for example which was going to give some improvements in productivity, where the original arrangements really were, "Look, we can go to higher mass limits but you need to have road-friendly suspension." And some states embrace that quite substantially in the case of Victoria where something like 98 per cent of the regional and arterial highway network was open to higher mass limits since 1999 but in the case of NSW, at 30 June it was probably only about 6 per cent of that network and that 6 per cent was the Newell Highway which is federally funded anyway.

And then they suddenly say, "We do have high mass limits." But now to actually access high mass limits forget about your road-friendly suspension, you need that but you also need IAP. And it's this uncertainty of investment that comes down to the shifting of the goalposts by government before persuasion.

MR BANKS: Thank you very much for that. We appreciate you taking the time to go through that. As I said, we haven't had the chance obviously to read all of the submission. You might allow us to get back to you if there are any further questions.

MR ST CLAIR: I'm always available, as you know, at any time, to assist.

MR BANKS: Our next participant this morning is the Australian Automobile Association. Welcome to the hearings. Could I ask you to give your names, please, and your positions.

MR McINTOSH: Thank you. I'm Lauchlan McIntosh, the executive director of the Australian Automobile Association.

MR METCALFE: John Metcalfe, director of research and policy.

MR BANKS: Thank you for taking the time to attend today. Thank you also for the submission that you made prior to us putting out the draft and for your participation also in a roundtable that we held here in Canberra.

You've given us an indication of the sorts of things you may wish to raise. Why don't I just let you proceed through those points.

MR McINTOSH: Thanks very much. I think firstly we'd compliment the commission on a comprehensive discussion draft. And I think as you say in the report there are a complex range of issues to be addressed and in particular the complexity of the definition of competitive neutrality in this isn't easy. But I think our view really is based on our representing the other road users, the motor vehicle owners through our motoring clubs. We recognise that the terms of reference really work for road and rail freight infrastructure and relating to truck and rail but I think there are some issues particularly that do impact on us as motorists or on the motorists so we'd like to just raise some of those issues.

I think we, as you say, have emailed to you a list of issues we'd like to raise. I'll just run through perhaps just a few of the key ones of those and then our aim would be to, if you have time I guess, to put in a more recent submission; but I know the timing is difficult.

I think we disagree with the view that the trucks pay their way. We think there is an issue in distinguishing between charges and taxes. And the issue of whether how much motorists pay and how much trucks pay is pretty obvious I think from the work that John Cox did which I think you've referenced anyway that we think that the charge for light vehicle is below the heavy vehicles charge and motorists we believe already more than pay their way and if heavy and light vehicle charges were hypothecated in a single fund, then all users should pay a fair share.

So the question of whether rail subside road we think has probably been adequately addressed. But there has to be some recognition of the need to improve the productivity and efficiency of the road network and more direct connection between the charges to the road use. The revenue collected and investment in the network needs to be developed; and that should include the cars in a reform charging mechanism.

Then that of course is the question of where the money goes and how is it used. We think that road user charges or taxes and charges be identified separately. The fixed road user charge component paid by registration would represent a charge for access to the road system. And with some contribution to road capital and maintenance cost particularly for heavy vehicles. The variable component would be the road construction cost of - the majority of the maintenance cost, the environmental impact and the charge to reflect the external costs of crashes not covered by insurances.

In the short term the variable component could be a fuel-based charge as it is now, but it needs to be clearly more linked to the activity not in the case as it is now. I know we've raised it in other ways but no so much in the note here, there are other beneficiaries of the transport and road system, particularly the land owner and the real estate market clearly does see significant benefits from improved and efficient infrastructure. I mean railways in the United States of course were built and mainly funded by the land owners, not by the users. The rail in Florida is a classic example.

I think there's been quite a bit of work done over time but it often gets omitted, we forget that; that there are other beneficiaries in the process. The question is how do they pay and how should they be charged. I guess the Canberra airport is a classic example where we now have a situation where a developer has built a large group of offices and owns an airport. The traffic has dramatically increased; who should pay for that road infrastructure? It's a microcosm in a way but it is a good example where the issues has been handed over to the government to solve and the question is who should pay. Is it the user of the airport? Is it the airline that should pay? Is it the public because we want to have that facility? Is the owner or whatever or the new shop owners to boot as well, I guess. So there is this good example I think of the number of complexities in the charging issue.

I think the question then of the roads fund, which we think should - we take up the point that you picked up our submission that there is a case for a road fund and we made that submission back to the Vale inquiry I think it was called Planning Not Patching in October 1997. We think there is a case for consideration of another way to do that. I think Auslink has set up a new way of funding of the major infrastructure and we think that's an approach that's really worth expanding on. The Auslink has had some teething problems I think getting the states to agree but now it does seem to at least have an engagement between the commonwealth and the states and that's in effect what the road fund would really do.

Now, the question though is that is the Auslink process independent enough and we think there could be further independent put into that process and maybe a national roads authority with its own funds and its own ability to allocate the funds has a lot of merit. We think it's worth exploring further. And I guess in the end you have to also decide how you would handle rail in that situation; should that be a national transport fund or should it just be a road fund or maybe a progression from one to the other. I think they are complex issues and ones that I think they would really impact on the efficiency.

There is a backlog in the road network and we've said that many times on and off in the last decade. So you need to determine how to fix that up. I think the issue of fixing the bridges if you like in New South Wales is not an issue that should be addressed in this inquiry. That's an issue of the state of the infrastructure as it stands at the moment. That's an issue that should be funded separately from some other mechanism. It may not be funded by some other mechanism but at least it's an issue that belongs to another matter, ie the current infrastructure is inadequate. Whether the trucks should be upgraded or downgraded or whatever, it's currently inadequate for the current fleet of vehicles we have. So therefore - and that money hasn't been spent and a lot of maintenance work is in that sort of situation.

Then investments should be directed towards project contributing to the national economic and social development. I don't think it's difficult to add CSOs to what we need to do if we want to have a road to a particular area where there is no economic development but we think it's important for a social or national issue to make that investment. I don't think that's a - we shouldn't say that just because we're going to have some roads for economic development, we won't have some for CSOs. I don't think that's a difficult issue.

And the environmental factors could be accommodated in new projects. The entity of the road fund should be subject to the user regulatory oversight or pricing in any competitive behaviour. So I think they're quite possible. I think we'd like to see a little more about the information on what are the actual charges that are collected across the network. I think in some local government areas or some states there is a collection from trucks for local government roads from mining companies or other organisations and it's not clear, I don't think it's transparent where those charges are or how much they're contributing to the local roads.

We know the commonwealth often has the view that the states tend to direct their traffic, state traffic onto federally funded roads and then don't have to fund the state roads. We think it's not that - there's not enough transparency in that process. I'm sure local government will probably accused of the same activity. But equally they've been provided with funds separately from the federal government through the roads recovery program. Is that a straight subsidy? Is it a - what are the purposes of that and how does that fit in with economic efficiency? There has been some, as I understand it, groups of councils working together to efficiently use those funds, but that doesn't happen.

The other issue, probably the last issue I just raise is the issue of how to spend the funds in the best way and I think that's an issue that isn't addressed through the current mechanisms very well. There are new tendering processes being considered in some states, alliance and partnership tendering where least cost tendering is not being considering, where in fact it's part of the PPPs but you could also have situations where ownership of the road for a 10 or 15 year period can be funded and built by an independent group who have a clear responsibility for the length of the life of the infrastructure.

The AAA has some information on that and we've been speaking to the federal government about it. We think that a road fund would have that ability to determine more efficient costs or least cost constructions methods of construction and ownership. I don't think we see too much of that in many cases. There is a case where it says, "This road will cost X billion," and then the money is allocated. We think there are mechanisms particularly in some of the states where we've seen in the PPPs a much more long-term partnership arrangement being put in place.

Some of those are difficult from the competitive point of view. People need to be assured that they are competitive but equally you shouldn't just be having least cost tendering all the time because I think there are some problems in there where in many large infrastructure projects which range from dredging I guess through to major infrastructure projects such as roads and airports; sometimes least cost doesn't necessarily work.

I think the very last point is the electronic road pricing technologies and applications. I was fortunate to be at the World ITS Congress in London in early October. I have some papers from that congress. Road pricing was a major part of that congress which traditionally has looked at mapping, technology, road safety and other information systems. But as the technologies for tolling and road pricing have developed, I think we're now seeing quite a dramatic shift in the interest in electronic pricing. The view is that all roads in the UK by 2015 will be covered by electronic road pricing; it's only nine years away. There's a huge shift and they're expecting that some 30 million vehicles would be equipped to pay for road pricing. Pay as you go insurance is now being offered in the UK as well as the US albeit in a small way; but it's actually happening, and the reliability of the system is very high. So I think that as insurance become available pay as you go, road pricing will be just another offshoot of that.

There were suggestions in China of road pricing using the mobile phone as a device and I think that I've also seen in Shanghai quite a lot of electronic tolling. I think that the technology is now no longer an issue, it's now the political issue of how we're going to manage it and set it up. So there is a big shift already happening in the technology. And the reality is that if it improves the efficiency, then perhaps it requires a substantial investment from the national government in a new system in order to start.

The question is should we wait till the rest of the world does it or do we start first or do we at least get involved in a major national pilot project? It would seem to be it would be very useful to be able to look at those issues. There are some pilot projects running in the UK. If we're going to look at the competitive neutrality of the various systems, why not get involved in a major project fairly early in the process. We'll provide some of these papers with our submission. But there is certainly a lot of work and a lot technologies now available in that area. That's probably all I need to say.

MR BANKS: Thank you very much for that. You've covered a fair bit of ground. Just going back to where you started in disagreeing with our bottom line at least retrospectively that the heavy trucks were paying their way, you put an interpretation on the fuel excise I think there you see it as a tax rather than a charge. Can I get you to comment on that, because as you know we are keen to see more pricing and less taxing. On the other hand it seemed to me that you're also saying that the fuel excise could in the short term be the variable charge that you see as part of the ideal system. So I just wasn't sure whether that was consistent with your early observation.

MR McINTOSH: I think the first point is about the level of the fuel excise and then the second is the fact that the fuel excise does exist and we can collect it.

MR METCALFE: Yes, in the report I don't think you've adequately distinguished between what is a tax and what is a charge particularly when you look at that so-called road user charge. It is in a sense the excise. And of that road user charge of 20 cents or thereabouts per litre, the Federal government at least only spends 6 of that on roads. So I think what's lacking to some extent in the report is an indication of revenue flows and expenditure across the jurisdictions. I can elaborate on that a little bit too in terms of local government.

You've left out, and I think you're comfortable with the NTC leaving out, about 2 and a half billion dollars worth of local government expenditure because it provides access and amenity; but yet the commonwealth providing grants to local government directly and then there's of course revenue collected from rates. I think it would be useful to bring together the revenue flows and expenditure decisions across the jurisdiction. So on that point of the 20 cents a litre, the federal government clearly is not using that as an amount directed to road expenditure. So that's the simple point.

When it comes to actually charging for road use, we feel that in the first instance the fuel excise would possibly be the way of applying that charge. So it would be a charge at the fuel pump rather than a tax if you like, but it would be the way of actually collecting the road user charge from all vehicles across the network.

MR BANKS: Although it's the same instrument, you've redefined it as a charge because the money is flowing back.

MR METCALFE: Exactly, the money is flowing back to road investment. So I think it's important to make that very clear distinction between the excise and the charge and the road user charge. The road user charge, while it might be 20 cents a litre, it's a notional amount too, that's the other point. Why is it that 20 cents was chosen as the starting point? My understanding is that that is the amount which would recover the attributable costs of the smallest heavy vehicle, so it lines up, supposedly, with the light vehicle fleet. But there's nothing in the report that indicates to me that that is the appropriate amount, the appropriate starting point. Why couldn't you for example, have a much lower road user charge and a much higher heavy vehicle registration charge in order to recover the total costs?

PROF WALSH: I think from memory the problem is that - or at least the constraint that's been imposed is that the registration charge on the lightest class of so-called heavy vehicles at 4.5 tonnes has to line up with the next level down. So then the fuel excise comes in to try and more or less recover from that class although it doesn't completely. We speculated a little bit about whether you could actually have variable rebates across classes. There are some complexities there.

MR METCALFE: The lowest heavy vehicle class, as I understand it, is designed to line up with the light vehicle class.

PROF WALSH: That's right.

MR METCALFE: But I haven't seen any evidence in the report that shows that that is the appropriate amount; that is in fact the registration charge for light vehicles. I actually thought it would probably be a lot higher than that.

The other point that I'd like to make is that if we applied the same template to light vehicles, in order to recover costs from light vehicles based on the allocation of costs to heavy and light, you'd only need a 7 cents per litre fuel excise or road user charge and yet light vehicles are paying 38 cents a litre. So clearly light vehicles are overcharged compared to heavy vehicles.

PROF WALSH: So what you're saying is what we do with the heavy vehicles is we take them out of the system, calculate a charge for them that's based on a typical allocation of common costs. We notionally do exactly the same thing for light vehicles but then we add on top of that a tax.

MR METCALFE: Yes, exactly.

MR McINTOSH: It's all taxed for light vehicles. We only talk about a notional charge for trucks. But the trucker doesn't actually see that as such. I think that's the problem, it's not very transparent. We have an argument whether it should be 18 cents or 21 cents and that's all to do with a rebate that's sort of not really related to use. It's sort of is but it's still within the taxation system, not in the using system.

MR METCALFE: So to come back, I guess, to the original question about whether they're paying their way, well, we don't think so, if you bring the cars into the equation, which you haven't really done. And then of course, you've also forgotten the 2 and a half billion local government expenditure which is a sizeable proportion of total government outlays on roads.

MR McINTOSH: There's also some other funding local government collects from some users which is (indistinct) paid by the industry but it must get passed on somewhere.

MR BANKS: So what's your position on the local road, the local access issue?

MR METCALFE: I think you argued or the NTC argued - and I think you supported them - that local government expenditure of 2.5 billion was largely for access and amenity. I think that's really hard to justify. I don't know why you couldn't say the same thing about all road expenditure for that matter. Why is it that it's just the local government funding that's being put under that category of amenity and access? So I think there's a lot of expenditure there that should be allocated to light and heavy vehicles. Maybe if we had the diagram, if you like, of the revenue flows and the expenditure by jurisdictions, it would help to clarify things a little bit.

PROF WALSH: I couldn't agree more. We've had a certain amount of difficulty in actually managing to get the data that would enable that to be done. We've got commitments from various people that they will help us sort that out at the end of the day.

MR METCALFE: But it's very clear that of the 20 cents per litre road user charge, only 6 or 7 cents of that actually goes to roads. So at the commonwealth level I think the situation, at least in those sort of broad figures, is fairly clear. I think it's important to look across the jurisdictions. So that if we're looking for reform, we need to see where the problems are in terms of revenue and expenditure.

MR BANKS: Is that as clear as that, that it's - - -

MR METCALFE: It's not earmarked, no, it's true. It's true it's not earmarked but I think the commonwealth expenditure is around about 2.7 billion dollars per year. And they collect about 350 million for every cent per litre in excise. So maybe seven times 350, eight times 350, 8 cents per litre is what they're getting. 8 cents per litre will translate to around about the 2.7 billion dollars in expenditure. So when motorists pay 38 cents per litre, they're paying 38 cents per litre in tax and only 8 cents of that is going back into the roads.

MR McINTOSH: It'll go up marginally. There was a significant increase in the last budget but it's still in the order of 9 cents a litre instead of 6; that's the raw numbers. And that's a good thing. But it's not related - no-one sees that when they buy the fuel at the pump, I think that's the point I'm making. You need to either take it off and show, "Well, we see GST but we don't see this other -" and the GST revenue is supposed to go back to roads as well; that's the plot, that that money would go back to the states and the states would then spend that 10 cents on the roads. If you could find that, that would be very good too, but it isn't easy. As you say, there are flows that make it complex. As I say, there are rates and charges as well that local government raises money for roads.

And then we have other obligations for CSO. So if we want to have a road across Australia, we want to have a road across Alice Springs to Darwin. We want to have a railway. We make that decision, right, wrong, economic, who cares. That's a decision that's made.

MR BANKS: From Melbourne to Brisbane.

MR McINTOSH: Absolutely, the railway from Sydney, Melbourne to Darwin.

MR BANKS: You lead into the road fund by talking about Auslink and how that's an improvement and you're getting much more engagement and so on. You raised the question I think about the independence of its governance and so on. But was there an implication that you would see the road fund as having a similar kind of coverage to Auslink or being workable in that context (rather than) the national road system.

MR METCALFE: We haven't put forward any prescriptive form that the road fund should take, although you have picked up our proposal back in 1997. But I think you cover very well in the report the various principles that might be addressed when setting up a road fund. I think we would like to see some accountability, commercial discipline, transparency, a clear definition of the network that's going to be funded and; yes, the Auslink network I think would be a very good starting point for such a network. We'd like to see, obviously, investments made on the basis of cost benefit criteria which are also made publicly available.

MR McINTOSH: I think there has to be a certain - if you take that network, you then agree that it's going to be at a certain standard for a certain period of time. And there has to be some ownership. At the moment that's not the case. There is to a certain extent and Auslink is beginning but I think there has to be a broader picture that says, "Well, if this is the standard of road we want across Australia, at this level for this period of time, then we have to stay with the investment," and the road funding agency or whatever would be charged with that responsibility. At the moment no-one owns the maintenance, it gets handed out through the commonwealth after an argument with the states about where the maintenance should go. And the federal government argues that, "The states are putting more traffic on our roads, therefore they should pay for the maintenance."

In the end the ordinary motorist or truck driver doesn't care. We expect there to be a national network of the road, it's the same in rail I guess that has a certain quality at which you can drive certain trucks and cars at certain speeds and access rates and for a certain period of time; but that doesn't happen. The road fund could actually have those objectives.

MR BANKS: The other issue that you raise is in relation to externalities and charging for those. If I can just get you to comment - I mean, you're clearly in favour of an average externalities charge as a way of dealing with this. We'd raise concerns about the extent to which such a charge could actually be effective in abating externalities and indeed I suppose we're concerned that it might otherwise implicitly just become another tax. In other words, hit activity without reducing the externality. You differentiate your point, I think, between accidents and in terms of pollution and other things. I'll just get you to comment on that. That was a reason why I guess we didn't - in fact you make a similar point when it comes to greenhouse, I think, where you're concerned about the distortion that occurred.

MR METCALFE: Actually, I did note the comments in the report about average externality costs and it's not something that we were proposing at all. So I would agree with what you've just said. And in fact in our appendix we distinguish quite clearly between urban externalities and rural externalities. And you can see in that appendix very different costs associated with urban and rural areas with respect to heavy vehicles, light vehicles and also in relation to accident costs and environment costs, air pollution, noise pollution.

MR BANKS: But still your implicit instrument for - - -

MR METCALFE: Not necessarily. It was designed to provide a bit of a guide in part as to what the charges might be if externalities were included. But we do acknowledge that there may be other ways of dealing with the externalities; for example, not applying the crash costs to drunken and speeding drivers for example would be inappropriate. And insurance would be another instrument for dealing with accident costs. Heavy vehicle emission standards and fuel standards could potentially address some of the air pollution and noise pollution externalities as well. So it wouldn't necessarily be a charge or a tax. But the objective of the exercise was, in part, to show the relativities between urban and rural and between the classes of vehicles.

PROF WALSH: The values that are attached to the externality components are pretty substantial, aren't they? As you say, differentiated but pretty substantial – and suggest that you don't really support the view that a very large proportion of the externality costs are internalised already.

MR METCALFE: On the advice that we've got from John Cox, he has accounted for at least a fairly large proportion of crash costs that are internalised by insurance premiums for example; and similarly I think noise and air pollution costs are picked up to some extent with regulatory standards. But that's the advice we have. And I think the analysis there is pretty robust.

Yes, your report didn't really pick up our appendix numbers to any extent. I wondered whether you were dismissive of them - you mentioned some of them individually but - - -

MR BANKS: Perhaps we need to have another - - -

MR METCALFE: The point about average costs is certainly not something that we were proposing.

MR BANKS: Yes. Without going through the detail of it, I think my memory of our assessment of it was that some of it still seemed to be more encompassing or including more gross cost than net but you take the point that you obviously have to net out the internalised component.

MR METCALFE: Absolutely. I think John Cox in the appendix has endeavoured to do that in a fairly realistic way.

PROF WALSH: I don't know whether you've had a chance to do it, but there's probably more reference to it and discussion of the Cox estimate both in the attachment to your submission and also in some of his other work in our own appendix.

MR METCALFE: Yes, I did notice you did make a number of references in the appendix. But you didn't really pick up the notion, I didn't think, of addressing the external costs when talking about whether trucks pay their way or not. You seem to discount the external costs, I thought.

MR BANKS: That's certainly something we do need to look at. As you know I mean that whole question of measuring those costs was something that we thought further work needed to be done on pretty systematically.

MR METCALFE: I think some of the costs in terms of however you want to represent them, as percentage of GDP or whatever, I think are fairly consistent with some of the European research in this area.

PROF WALSH: I don't think it would be fair to say we dismiss the externality component. I mean when we try and bring it all together to talk about competitive neutrality, we can see that one of the difficulties we're having in comparing, given that rail is being subsidised - one of the difficulties we had in coming to a firm view about whether, say, on the interstate corridors road is being subsidised relative to rail is that we don't know exactly what the relative magnitude of those externalities is. Nonetheless, we're arguing that on average they're relatively low, probably a bit lower than is implicit in the estimates that you've got from the Cox attachment.

MR BANKS: I don't think we have any further questions. Certainly on those matters we will be looking at those issues again and go back to the work that you've already kindly presented. In fact John Cox's work goes back quite a long way, doesn't it. That work for the BCA which we found quite useful - - -

MR METCALFE: Refocussing road reform, yes, back in 96.

MR BANKS: Yes, that's right. Although again he got some numbers that we had some difficulty replicating ourselves. I think it was probably some of the estimates of the gains were quite substantial. And we've done a little bit of work trying to get to the bottom of those. But it's all very useful stuff. If there are no other comments from you, thanks very much. We'll end it there.

There being no other participants here in Canberra, we will adjourn the hearings and we resume next Monday morning in Melbourne. Thank you.

THE INQUIRY WAS ADJOURNED ACCORDINGLY

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