SAFC

South Australian Freight Council Inc.

COMMITTED TO LEADERSHIP IN FREIGHT AND LOGISTICS

DATE: 23 May 2006

Freight Inquiry
Productivity Commission
LB2 Collins Street East
MELBOURNE EAST VIC 8003

Dear Sir/Madam

Productivity Commission Inquiry into Road and Rail Infrastructure Pricing

Thank you for the opportunity to provide comment on the Productivity Commission's Inquiry into Road and Rail Freight Infrastructure Pricing.

As you may be aware, the South Australian Freight Council Inc (SAFC) is a multi modal industry association covering all 4 modes of transport (including both road and rail) with representation from along the full logistics chain - paddock to plate. As such, the Council is placed in a difficult position in providing comment, without conveying a message that supports one mode over another.

Nonetheless, attached is what SAFC believes is a mode-neutral submission for your consideration.

SAFC comments have been deliberately curtailed so as refrain from discussing the specific merits of one mode over another. Nonetheless, we would be happy to expand on any of the principals outlined in this paper at a mutually convenient time.

Feel free to contact me on the numbers listed below.

Yours Sincerely

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General Manager

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The South Australian Freight Council Inc is proudly supported by both the Federal and State Governments, as well as Flinders Ports Pty Ltd and Adelaide Airport Limited

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As a basic principal, the South Australian Freight Council Inc (SAFC) believes that **competitive neutrality between all 4 modes is a desirable objective**, and should be encouraged wherever possible. In theory, if logistics systems were truly competitively neutral, then each individual mode would succeed in areas where they have a comparative advantage - perhaps rail and sea for longer and bulk hauls; road for pick up and delivery and shorter tasks. Air would have a niche in time sensitive freight.

A universally applied charge to recoup costs, including externalities - across all 4 modes - could lead to sea freight emerging as a viable alternative in domestic long haul freight markets. Sea freight generally has a better environmental and safety performance compared to the other modes, and infrastructure provision/maintenance costs can be relatively minor (you do not need to build shipping lanes). Coastal shipping could experience a renaissance.

SAFC does however contend that the efficient modal allocation of the freight task is only possible if all other business inputs are also allocated efficiently (regulation, labour markets etc). Unfortunately we do not live in this perfect world and there are distortions that result in inefficient modal choice.

> We should acknowledge that road plays a crucial support role for the other 3 modes – effectively providing door to door services – where the other modes do not have available infrastructure. Rail does not run down every street. Road provides high levels of flexibility.

Secondly - any system aimed at efficiently recouping or reallocating costs should **ensure that the revenues generated roughly correspond to actual/planned infrastructure investment, maintenance and operating costs, as well as the contribution of the industry to externalities and normal profits**.

SAFC highlights that the freight and logistics industry already pays a raft of taxes and charges which include:

- registration and licensing fees, fines and penalties;
- stamp duties from compulsory third party insurance premiums;
- GST; and the biggest ticket item
- excise on fuel sales.

These taxes and charges generate revenue for governments, which far exceeds the level of reinvestment back into transport infrastructure. For example, the Federal Government collected about $13.62billion in fuel excise levies during 2004/05 alone, yet plans to reinvest only $12.7billion over the current 5-Year Auslink funding period.[1] Additionally, the SA State Government Budget Papers indicate that revenue of almost $880million will be received in the 2005/06 year, yet planned expenditure is well below these levels.

> The transport and logistics industry is already making a significant contribution to general revenue, which should be acknowledged when considering externality costs and their allocation.

Additionally, SAFC believes that the transport and logistics sector will not be able to continue to withstand the burden of funding social infrastructure (schools, hospitals and the like) while its own infrastructure (roads, railways etc) is under-funded and rapidly deteriorating in quality. This situation

[1] $2.3b of additional funding has been allocated to the AusLink program in the 2006/07 Federal Budget.

leads to issues associated with what is considered to be appropriate levels of freight transport infrastructure provision and maintenance - the third point that SAFC would like to highlight.

The Commission's Issues Paper suggests that the Study will need to '... estimate the full financial costs of providing and maintaining freight transport infrastructure on major road and rail networks'. SAFC contends that measurement of the current spending levels by Governments at all three levels and the private sector will not be sufficient. There is a general consensus that transport networks (both road and rail (with some notable exceptions)) are subject to a **critical backlog of maintenance** that is not adequately funded. In South Australia's case there is a large (upwards of $160m) backlog of road maintenance that is unfunded, and elements of our regional rail infrastructure have deteriorated significantly. Additionally, there are **a number of investment projects required** to bring the respective road and rail networks up to a standard suitable to facilitate effective competition between the modes. SAFC attaches a copy of our most recent publication *Moving Freight,* which was released in March 2006 and outlines infrastructure principles and project priorities, for your reference (Attachment 1).

> SAFC contends that the Productivity Commission’s calculation of network provision and operating costs should **come from a whole-of-life perspective**, and that revenues raised should be utilised to ensure an ongoing high infrastructure standard is created and then maintained.

SAFC also believes that If externalities are to be included in access charges, then issues associated with prior use will arise. Should the transport industry be hit with externality based charges when new residential and commercial developments are allowed to freely establish along designated freight corridors (both road and rail)?

> Transport corridors attract development due to the efficiencies that they offer to individuals and companies alike. People and businesses that build homes and facilities adjacent to major transport corridors should also expect to be impacted by the negative externalities emanating from users of that route.

SAFC also contends that to ensure a comprehensive analysis, the **definition of externalities could be expanded** to include pollution of waterways and land (arising from transport activities). For example, costs could be calculated for the environmental damage caused by oil washed from roads into waterways, as well as for land remediation where herbicides have contaminated land within rail corridors.

The Council also takes this opportunity to highlight that difficulties can arise in determining **which mode generates specific externalities**. Is a train or truck responsible for greenhouse gas emissions emitted whilst the truck idles at a level crossing, waiting for a train to pass? There will also likely be issues raised when allocating investment costs to beneficiaries. Who benefits from a new passing lane on a national highway – freight, tourists or commuters?

> To be truly neutral, the system should ensure that **all** infrastructure user groups contribute revenue in line with their contribution to costs incurred (including externalities).

Cyclists should pay for cycle lanes on roads. Passenger transport activities should also face a system which allocates costs (including externalities) to users. It might also be possible to isolate additional infrastructure expenditure that is associated with freight transport (eg: thicker pavements, heavier rail gauge etc) and to allocate costs accordingly (although the NTC has recently found that this can be difficult and controversial).

There may also be **opportunities to "reward" behaviour that has a positive impact** on negative externalities (and economic costs). A company shifting freight from road to rail could be rewarded for the positive externality outcome with a credit on taxes and charges which might accrue elsewhere (eg: vehicle registration charges, stamp duty etc).

The PC paper correctly points out that any implementation of mass-distance and locational pricing **will require significant investment in technology**, by both operators and infrastructure owners. These added costs will also need to be recouped (through charges and ultimately freight rates). As transport and logistics is derived demand (generated from the demand for goods and services) any change in freight rates will manifest themselves in changes to the prices of goods on supermarket shelves. Issues would also arise as to who should pay for the installation of technology - the users (transport industry) or the beneficiaries (the community at large).

Finally, SAFC encourages the Productivity Commission to consider the impact that any pricing changes might have on specific industry sectors and supply chains, as well as for the smaller States (such as SA) and regional communities. For example, the implementation of a system of mass-distance pricing might disadvantage rural communities that do not have a viable rail option which can compete effectively with road.