



National Farmers'
FEDERATION

**PRODUCTIVITY COMMISSION –
ROAD AND RAIL FREIGHT
INFRASTRUCTURE PRICING**

NFF SUBMISSION

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The National Farmers' Federation

The National Farmers' Federation (NFF) was established in 1979 and is the single national voice for Australian agriculture.

The National Farmers' Federation is made up of State farm organisations, commodity councils, associates, affiliates and friends of NFF. NFF does not have individual farmer members, but through its members represents the interests of approximately 100,000 farmers.

While State farm organisations represent the interests of the agricultural sector in their respective States and national commodity councils represent individual commodities on national issues, NFF is responsible for the national issues which affect more than one State or more than one commodity.

Introduction

Australian agriculture's dependence on transport

There is a growing awareness of the importance of the Australian agricultural sector being coordinated along the supply chain, ensuring that productivity efficiency is maintained throughout all participating sectors, including transport. Therefore the Australian resource, food and fibre production communities have a strong vested interest in road and rail freight infrastructure pricing with a view to increasing productivity and our competitiveness in world markets.

With agricultural produce facing steadily declining terms of trade in world markets, the sector has been challenged to maintain a low cost base in order to remain competitive. Indeed, Australia's balance of payments is strongly dependent on this being the case.

However, Australian farmers have been able to meet the terms of trade challenge and have remained internationally competitive largely through productivity growth. The productivity of Australian agriculture has more than doubled over the past 14 years, and with annual average productivity growth of 3.8 per cent, is consistently outperforming other sectors of the Australian economy.¹

Therefore it is vital that efficiencies within the farm production sector are not constrained by inefficiencies in related sectors such as transport,

¹ Australian Government Productivity Commission, *Trends in Australian Agriculture 2005*.

processing, retail, food service or export. In effect, our agricultural supply chain is only as strong as its weakest link, and transportation infrastructure must be in line with world's best standards.

NFF comments on the PC report

The NFF is supportive of a fair and equitable system of road and rail pricing that enhances productivity and efficiency throughout the transport sector. We believe that improved transparency in freight price determination has the potential to achieve significant returns for the agricultural sector and we welcome efforts to enhance accountability in this area.

Too often farmers invest in on-farm transport infrastructure only to face a public road or rail system that is not up to the task of moving their product safely and efficiently. It is vital that farmers have this commitment to ensure the future of our rural export sector. The NFF is concerned that investment in transport infrastructure has declined from about 7 per cent to about 3.6 per cent of GDP since the 1970's.² This trend must be addressed.

As stated within the Corish Review of agriculture and food policy, a road-rail pricing mechanism that underpins efficient future investment in land transport infrastructure is needed, as well as a consistent approach to evaluating potential investments in transport infrastructure.³ With this in mind, NFF acknowledges the pressure to increase freight pricing into the future in order to cater for the increased expenditure on the freight infrastructure. However, we are adamant that this additional expense must be linked to real efficiency gains that improve Australia's global competitiveness and allows the agricultural sector to address the decreasing terms of trade.

Therefore the NFF welcomes efforts to ensure that the Government is able to make necessary investments within our transport infrastructure, underpinned by a market-driven pricing structure. However, we must ensure that any adopted pricing structure is based on a sound, transparent methodology, and an assurance that new charges are not imposed merely as a source of government revenue.

In addition, NFF believes that the industry will never realise the full benefits of a more efficient pricing structure while there remains a lack of consistency and coordination between state regulatory frameworks. This

² Rural and Regional Affairs and Transport Legislation Committee Review, May 2005

³ Creating our future – *agriculture and food policy for the next generation* 2006

regulatory inconsistency applies for both road and rail, and imposes significant costs on the farming sector.

Rail's competitiveness with road transport

While the Productivity Commission (PC) states that even substantial increases in road user charges are unlikely to have a significant impact on rail's modal share of freight, NFF remains concerned about the growing differential in the competitiveness of Australia's rail freight network. Australia's dating rail tracks mean that trains are speed limited and are hampered by unreliability and the lack of passing lanes on rail routes. As a result, the total capacity of our rail infrastructure is lacking and its competitiveness is suffering.⁴

It is vital that rail is viewed as a viable means of freight, providing genuine options to agriculture supply chain participants looking to build efficiencies. The NFF understands that for many agriculture and food businesses, trucking is the only option for transporting goods and will remain so.⁵ However, traditional rail user commodities such as grain, which uses rail for approximately 84 per cent of its total transport task, is increasingly being transported by road freight. NFF notes that this is in part due to the current state of repair of many branch lines, most of which were built in the late 19th or early 20th century, which has impinged on its reliability and flexibility.⁶

The Australian Bureau of Agriculture and Resource Economics (ABARE) notes that much of rail's infrastructure has elements of a natural monopoly that provides little incentive for the infrastructure owners to make the necessary investment to increase capacity and service provision.⁷ NFF hopes that such issues will be addressed in the ongoing debate and policy formation around rail infrastructure investment and pricing.

Cost of externalities

The NFF agrees with the PC finding that an all-encompassing, uniformly applied, externalities charge on freight operators would be an inappropriate and inefficient mechanism for reducing freight transport externalities. We welcome the finding that the costs of externalities such as accidents, environmental impacts, greenhouse gas emissions and congestion are either being internalised, are being addressed through

⁴ Export Freight, October 2006

⁵ Creating our future – *agriculture and food policy for the next generation* 2006

⁶ ABARE, Australian Commodities, June Quarter 2006

⁷ ABARE, Australian Commodities, June Quarter 2006

existing regulation and/or are much broader issues than being just applicable to the freight transport sector.

Creation of an independent road fund

The NFF believes there is a need for more information and further consultation with industry stakeholders on the concept of a national 'Road Fund'. We believe that the aims and objectives for such a fund must be well established before progressing this avenue, to ensure that the interests of rural and regional businesses reliant on the local roads network, are taken into account in the discussions.

The NFF recognises that a Road Fund will add transparency to the way that national road expenditure is funded, ensuring that revenues from road related taxes and charges are dedicated to road expenditure, rather than being channelled into consolidated revenue. However, we are concerned that if the 'Road Fund' expenditure decisions are managed by an autonomous agency, independent from direct government control, then significant portions of the road network may be neglected.

Local roads provide an invaluable service to farm businesses, which rely on them for the efficient delivery of their produce to domestic and export markets. There is the real possibility that the drive to increase the direct connectivity between areas contributing to road charges and the areas in which roads expenditure is undertaken will override future investment decisions under such a proposal. The NFF believes that this cannot be the sole driver of road investment decisions, and governments must also take into account community service obligations and agriculture's contribution to the Australian economy when making investment decisions. Without acknowledging such factors, there may be under-investment in some of the more remote local roads.

Community service obligation

As reported by the Department of Transport and Regional Services, the costs for regional businesses are considerably higher than in metropolitan areas. Over the five years to 2000, the expenditure for every dollar of profit increased for the average regional business by almost 8 per cent, while in the cities, it decreased by 11 per cent in the same period.⁸ Therefore, regional businesses are already facing cost pressures not felt by their urban counterparts.

The NFF argues the existing cost challenges of doing business in regional and rural Australia must be acknowledged. We believe that reliable road

⁸ DOTARS, *Regional Business – A Plan for Action*, 2003,

network access is a universal service obligation, or basic essential service that government is expected to deliver, independent of autonomous decisions by a Road Fund administrator. Neglecting to do so could be an additional disincentive to doing business in rural and regional areas, placing additional stresses on our already overcrowded capital cities.

Agriculture's significant contribution to the economy

The NFF believes that agriculture's contribution to the economy cannot be ignored in addressing the issue of road and rail freight infrastructure pricing and a potential Road Fund.

Agriculture currently contributes approximately 3 per cent of Australia's total Gross Domestic Product (GDP), with a Gross Value of Farm Production equating to \$36.2 billion. However, including the vital flow-on economic activities supported by farm production, agriculture can then be said to account for 12.1 per cent of GDP (approximately \$103 billion in 2004-05 dollar terms), supporting 1.6 million jobs.⁹

Agriculture is also a major contributor to Australian exports, accounting for one fifth of total Australian merchandise exports. Annual Australian agricultural exports are currently valued at \$27.6 billion and account for approximately 70 per cent of Australia's total agricultural production.¹⁰

Therefore the NFF believes that society as a whole derives a benefit from an efficient agricultural sector, which in turn depends on reliable access to road and rail freight infrastructure.

Cost of establishment

Another concern of the NFF with implementation of a Road Fund is establishment cost. We urge regulators to not only take into account the set up costs, but also the costs of enforcement and compliance. The additional productivity and efficiency benefits of implementing the Road Fund must be shown to outweigh the costs.

Mass distance and location based charges

The NFF is supportive of a more transparent mechanism of road pricing that enhances equitability for those making financial contributions to the network. We would welcome the opportunity to work towards a form of

⁹ based on modelling by Econtech for the Australian Farm Institute, *Australia's Farm Dependent Economy Report*, 2005.

¹⁰ DAFF, Australian Agriculture and Food Stocktake, 2005

mass-distance pricing that gives road users better signals about their use of the network and enhanced accountability for their allocation of the cost.

However, before changing the current pricing mechanism there is a need to fully examine the most appropriate mechanism and the net impacts of a change in charging policies prior to implementation. This pricing mechanism analysis should take into account the complexities of mass impacts on the road network that, as a single indicator, may not accurately reflect the real impact on the infrastructure. As we move towards performance based standards for road transport we may find that the cost impacts from particular vehicles are not merely a factor of mass.

NFF also believes that a mass-distance pricing mechanism should take into account concessional rates for low distance users and ensure that the farm sector is not cross subsidising other sectors of the road transport sector. Earlier work from a 1988 survey by the Australian Bureau of Statistics suggested that the average farm truck travels a distance of only 13,000km per annum. While NFF would welcome more recent figures on farm truck usage, clearly a road pricing mechanism should accurately reflect this relatively low on-road usage by the 120,000 strong fleet of farm vehicles over 4.5 tonnes, and ensure that no cross-subsidisation occurs. With the farm fleet representing over 50 per cent of the total national fleet of vehicles over 4.5 tonnes, this issue is clearly of considerable potential value to the farm community.¹¹

NFF has concerns regarding the adoption of mass-distance location based charges, which have been highlighted by the PC as having the potential to '*increase significantly*' the charges for lightly used rural and some arterial roads. As the predominant users of such roads, the farming community is obviously concerned about the potential impact on farm costs and agricultural productivity that would occur under such a system.

Another issue that must be taken into account regarding mass-distance location based charges, is its potential to divert freight transport towards sub-optimal routes. Productivity may suffer if freight is channelled along roads that meet the 'cheaper' classification, despite the option of taking a quicker, more direct route. This may also draw additional externalities in the form of increased traffic congestion in regional towns and the safety aspects that come with this.

Adoption of new road pricing instruments and technologies

While the NFF acknowledges the potential benefits of moving towards a more transparent and equitable pricing mechanism for road transport

¹¹ Translog 2000, *Based on TransEco 1996 for RTF*

such as mass-distance pricing, we believe that more analysis should be undertaken to examine the costs of implementation for individual businesses. The PC correctly notes that new road pricing instruments using electronic and satellite technologies are now becoming technically feasible, making such pricing mechanisms more achievable to implement. However, the cost impost of adopting such technologies may be inhibitive for individual farm businesses, which often use their trucks in intermittent or seasonal patterns.

Justifying the additional investment of state of the art, GPS based charging instruments, which would allow farmers to be compliant with the new on-road pricing structure, would be difficult for many farm businesses. This pay-off should also take into account the low average distances travelled on-road by farm vehicles, which would make it difficult for them to recoup the cost outlay of adopting such technologies.

Regulatory framework for transport

NFF agrees with the PC recommendation that national consistency and coordination in rail regulatory frameworks – including of safety, operational and technical standards – should be expedited. However, we are of the belief that this principle should also be extended to road regulations.

NFF believes that a key to the future efficiency of the national transport networks is the need to have uniformity between state transport/road authorities. We note the inherent differences between state authorities in areas such as header transportation guidelines, livestock loading, multi-trailer restrictions and general permit thresholds, which are creating inequities between transport in various state jurisdictions. For example, livestock loading schemes exist in Victoria and Queensland, however, disappointingly an equivalent scheme does not exist in NSW. This adds an additional level of complexity and cost to interstate transport of livestock.

There are currently 750 separate agencies across the nation responsible for controlling Australia's 800,000km of roads, representing a \$100 billion asset.¹² Figures such as these are a concern for the farming community who are directly impacted upon every day by inconsistencies in the regulatory transportation framework in which it operates. Over-regulation or unpredictable regulation can impact adversely on cost of transport and on the incentives for new investment, particularly given the large costs and lengthy time-horizons involved. A coherent, transparent

¹² Export Freight, *Friction Freight*, October 2006

and stable regulatory environment is needed to encourage investment in appropriate modes of transport.

Furthermore, it is important that all jurisdictions (local, state, federal) have an involvement within the current road pricing debate and understand and endorse the eventual outcome. Industry cannot afford a pricing system that creates further divisions between the state jurisdictions and the inefficiencies that would result.

Conclusion

Transport efficiency is a key priority for the Australian farming community in ensuring that it can maintain its competitiveness on the global marketplace. A transparent and equitable freight pricing mechanism has the potential to enhance productivity within the sector and the NFF welcomes further analysis and consultation on the most appropriate mechanism for Australian conditions. Furthermore, future investment in our road and rail freight infrastructure must be based on optimising productivity, while taking into account the service obligation to rural communities and agricultures' significant contribution to the national economy.