National Farmers' FEDERATION

2007 Heavy Vehicle Charges Determination: Draft Regulatory Impact Statement

NFF Submission

July 2007

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Executive Summary

The National Farmers' Federation (NFF) is a firm supporter of the Pay-As-You-Go (PAYGO) system of heavy vehicle pricing and notes that farm vehicles comprise of over half the national heavy vehicle fleet. Our view on the Regulatory Impact Statement (RIS) are summarised as follows:

- *No link with productivity gains* - The NFF is disappointed that a transparent link with productivity gains has been lacking within the current heavy vehicle pricing determination process. Of particular concern is the lack of road network access for higher productivity vehicles and a poor regulatory environment.
- *Enforcement costs* – The NFF is opposed to the inclusion of enforcement costs in the determination. We believe that the data which underpins the proposed changes is not robust enough and a real potential exists for State Governments to 'double-dip'.
- *Uptake of higher productivity vehicles* - The NFF is concerned that the draft determination sends a poor signal to trucking contractors to continue to adopt higher productivity vehicles, such as B-Doubles.
- *Primary vehicle concessions* - The NFF believes that National Transport Commission (NTC) determination should factor in a uniform national primary producer concession that acknowledges the low on-road usage by primary producers.
- *Annual adjustment* – While the NFF supports the maintenance of the current annual registration adjustment process, we are concerned about broadening the scope for increased charges, while road spend accountability is lacking.
- *Phase in period* - NFF supports a three-year phase-in period for increases in vehicle charges due to current financial stress from drought, the potential for supply chain shocks and the potential to break pre-existing contracts.
- *Methodology* - The NFF calls for an independent assessment on the methodology underpinning the determination to provide greater assurances to the farm sector regarding the re-calibration of charges.
- *Determination timeframes* - The NFF is concerned about the overwhelming sense of urgency that has underpinned the current determination process.

The National Farmers' Federation

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

The NFF's membership comprises all of Australia's major agricultural commodities. NFF does not have individual farmer members, but through its members represents the interests of approximately 100,000 farmers. Operating under a federated structure, individual farmers join their respective state farm organisation and/or national commodity council. These organisations collectively form the NFF.

Each of these state farm organisations and commodity councils' deal with state-based 'grass roots' issues or commodity specific issues, respectively, while the NFF represents the agreed imperatives of all at the national and international level.

Introduction

The NFF is a supporter of the Pay-As-You-Go (PAYGO) system of determining heavy vehicle charges and acknowledges that under this system, cost recovery of vehicle construction and maintenance for heavy vehicles must occur.

The NFF notes that regardless of the composition of heavy vehicle charges, in most cases it is inevitable that the charges will be passed back to farmers, either directly or indirectly. Farm vehicles over 4.5 tonnes total approximately 120,000 in number, representing over 50 per cent of the total national fleet of vehicles over 4.5 tonnes.[1] The farm community is required to directly meet the costs of these vehicles imposed on it by the National Transport Commission (NTC) determination process. Yet it should also be recognised that the agricultural industry is also required to meet the indirect costs imposed by charges for heavy vehicle contractors.

Evidence, collated from NFF member surveys, suggests that farm-owned vehicles are meeting a decreasing proportion of the transport needs of farmers. Farmers are therefore contracting higher productivity vehicles for a greater proportion of their business needs, a trend that should not be halted by an inequitable allocation of vehicle charges.

[1] Translog 2000, *Based on TransEco 1996 for RTF*

Therefore, throughout the heavy vehicle pricing determination process, the NFF has called for a fair and equitable system of heavy vehicle pricing that is based on sound, transparent principles. Ultimately, farmers wear the imposed costs and therefore require a close correlation of increased prices with productivity improvements. Due to the nature of the industry, NFF members are unfortunately price takers and increased costs will come directly off the farm profit margin unless clearly linked to improved productivity.

In addition, the NFF must reinforce the need to take into account community service obligations and the contribution of agriculture to the Australian economy when determining road user charges. The broader impacts of additional cost impost, in an area integral to the operational needs of every Australian farmer, must be acknowledged, along with the flow-through effects on our ability to compete the global market.

It is the NFF's view that the NTC's draft Regulatory Impact Statement (RIS) does not provide the farm community with the full assurances they require. Outlined below are a number of specific concerns the NFF holds, that we trust will be addressed through the NTC's consultation process.

NFF viewpoint

No link with productivity gains

The NFF is disappointed about the lack of a transparent link with productivity gains within the current heavy vehicle pricing determination process. It is proving increasingly difficult to convince the NFF and its members that increased charges are justified when our transport infrastructure has so much room for improvement.

It is our view that Australian farmers would possibly accept paying an additional 2.2 per cent[2] in trucking costs if they were assured that these costs could be made up by efficiency gains attained from improvements to the road infrastructure network. To date, this has not been evident. The end result is merely seen to be added cost and reduced competitiveness, particularly on global markets - on which 70 per cent of Australian farmers' production is sold.

On global markets, agriculture faces declining terms of trade, average tariffs more than three times higher than in non-agricultural goods, with some tariffs reaching as much as 800 per cent. No other sector has more

[2] NTC 2007 Heavy Vehicle Determination Draft RIS July 2007

distorting domestic support levels as those in agriculture.[3] This has challenged the sector to maintain a low cost base in order to remain competitive.

Australian farmers have been able to remain internationally competitive largely through productivity growth - consistently outperforming other sectors of the Australian economy.[4] Unfortunately, productivity gains within the road freight sector have been restrained by restricted access of higher productivity vehicles and an inefficient regulatory environment. This has created a situation in which farmers are unable to offset any additional costs that might occur through increased heavy vehicle charges. This is particularly evident on global markets where the competition is not exposed to the same cost factors.

The fact remains that higher productivity vehicles such as B-Doubles, B-Triples and Road Trains continue to have a very limited access to the national road network. As acknowledged by the Chief Executive Officer of the NTC, Mr Nick Dimopoulos "Quad-axle semi-trailers and B-Doubles can move heavy loads more safely and efficiently; particularly for bulk exports such as meat and wine."[5] The NFF believes that such access will be one way of ensuring that exporters are able to offset the additional costs from heavy vehicle charges.

Regulatory inconsistencies between state authorities, that inhibit productivity, have also failed to be addressed in areas such as header transportation guidelines, livestock and grain loading, speed rules, multi-trailer restrictions and general permit thresholds. Under such an environment, the application of a consistent national charge discriminates against those jurisdictions with tighter regulations.

For example, a transport operator in NSW has to abide by 2.5 metres width limits for trucks carting hay. In Victoria however, limits allow transport operators to transport hay up to a width of 3 metres. A transport operator in NSW would have to either use a larger truck or carry out more trips which imposes higher costs on the NSW operator.

This problem is also clearly demonstrated by the plight faced by an abattoir based in regional New South Wales that has undertaken work to quantify the costs imposed from poor road regulations. With Queensland's road truck weight regulations 2.5 tonnes higher than those allowed in New South Wales, Queensland processors gain a 6.3 cent per

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[3] http://www.dfat.gov.au/trade/negotiations/trade_in_agriculture.html
[4] Australian Government Productivity Commission, *Trends in Australian Agriculture 2005*.
[5] NTC releases build 'blueprints' for PBS quad axle vehicles, July 26, 2007 http://www.supplychainreview.com.au/article.cfm?StoryID=32113&SiloID=0

kilogram cost advantage in exporting beef to the global market. This gives Queensland processors a significant competitive advantage and places downward pressure on prices received for livestock in New South Wales.

Enforcement costs

Unwarranted calls to inflate the revenue raising capacity of heavy vehicle charges are vehemently opposed by the NFF. We are extremely concerned about the NTC recommendation that enforcement costs linked to Heavy Vehicle Mass enforcement (valued at $62 million) be included within the next determination.

The NFF is particularly concerned about differences in the definition of the 'enforcement costs expenditure' item across the states, as there is little transparency in calculating the true cost attributable to heavy vehicles. The NTC even notes within the current draft determination that the data associated with enforcement costs lacks "robustness"[6]. This same data is being used to potentially impose an additional $62 million of cost onto the heavy vehicle fleet - on which the farm community is heavily dependant.

Furthermore, the incorporation of enforcement costs, within the NTC determination process, merely encourages the establishment of a permanent bureaucracy that has little intention of reducing breaches. The focus of enforcement must be to reduce incidents of breach, rather than to secure an income stream for state Governments that is completely decoupled from the behaviour of truck operators. In addition, it should be noted that existing fines for mass, speed and fatigue breaches by heavy vehicle operators already contribute to the costs involved in the enforcement process. Collecting additional revenue from heavy vehicle operators for mass enforcement is therefore a 'double-dip' by the state Governments with no correlation to the actions of truck operators.

The NFF is particularly disappointed that the NTC has referred to a current under-recovery figure of $132 million that includes mass enforcement costs[7]. This not only sends a false signal to the Australian Transport Council (ATC) that under existing guidelines, heavy vehicle fleet is under-recovering by an inflated amount, but also insinuates that the debate over the inclusion of enforcement costs in the current determination is accepted.

Uptake of higher productivity vehicles

[6] NTC 2007 Heavy Vehicle Determination Draft RIS July 2007
[7] NTC 2007 Heavy Vehicle Determination Draft RIS July 2007

The NFF is concerned that the draft determination sends a poor signal to trucking contractors to adopt higher productivity vehicles such as B-Doubles. We acknowledge that NTC calculations on road use charges by net tone kilometres indicate that the higher productivity vehicles are more cost effective to operate, however a strong message needs to be sent to industry to ensure that this message is reinforced.

The NFF also notes that, while the NTC has proposed a methodology for the potential treatment of new higher productivity vehicles, it has not provided clarity on how they will be charged in the determination. Again, the NFF is concerned about the signal this gives heavy vehicle operators looking to invest in new technology, with the potential to deter them from choosing the higher productivity option. Such uncertainty is not positive for our road freight sector.

Primary vehicle concessions

To assist in the Heavy Vehicle Determination process, the NFF coordinated survey results from NSW Farmers Association, The Victorian Farmers Federation and Agforce Queensland, who provided information on truck ownership and usage by farmer members.

In summary, the collated truck farm survey found the following:

- Members, on average, own 1.56 heavy vehicles per-farmer.
- Members' heavy vehicles are used on average for only 5.4 months of the year.
- Average annual distance travelled on-road by members heavy vehicles was only 4,741 kilometres.
- Average annual distance travelled off-road by members heavy vehicles was only 1,511 kilometres.
- Only 39 per cent of heavy vehicle trips made by survey participants are fully laden.

Information on the distance travelled on-road is particularly important in demonstrating the relatively low on-road use of heavy vehicles by farmers and the importance of concessions for primary industry vehicle registrations within their vehicle class.

The NTC importantly acknowledges that "primary producers generally operate vehicles well below average usage"[8] and that state Governments have provided state concessions for heavy vehicle registration charges as a result. However, these concessions vary from state-to-state and the onus is very much on our sector to push its case with the individual states.

[8] NTC 2007 Heavy Vehicle Determination Draft RIS July 2007

The NFF believes that it is well within the NTC's capability to factor in a uniform national primary producer concession that acknowledges the low on-road usage by primary producers. Furthermore, such an inclusion would ensure equity between state jurisdictions which is currently lacking. The NFF points to analysis provided to the NTC by the NSW Farmers Association in highlighting the inequities between the NSW and Victorian primary producer concessions.

Annual adjustment

The NFF supports the maintenance of the current annual registration adjustment process based on changes in road expenditure from year-to-year and an assumption about the level of fleet growth. Currently, the adjustment cannot exceed CPI and cannot be below zero. The NFF notes that the CPI cap has been used on four occasions in the past six years.

The NFF is concerned about changing the existing system and in doing so, removing the incentive for Governments to ensure that their road construction and maintenance costs are properly accounted for.

The NFF has become increasingly concerned about the poor accountability of funds allocated to state Governments through the Auslink program. We have therefore called for proactive measures to be undertaken to ensure that Government funds are properly accounted for and that project overspends are minimised.

We acknowledge that cost overruns by state and territory governments can be brought about by an unavoidable increase in construction costs. However, reports that 22% of the Auslink projects completed so far are exceeding budget by more than a million dollars is, in our view, unacceptable[9]. Removing the CPI cap on registration fees or expanding the potential charge to include increments to the fuel charge would effectively remove the incentive for Governments to ensure the maximum utilization of the road spend.

The NFF would be willing to entertain expanding the annual adjustment mechanism to allow for additional spending, if the Government could demonstrate that effective structures are in place to deliver accountability to the road spend. Unfortunately, at this time, such structures do not exist and heavy vehicle owners, operators and customers should not be required to pay for such inefficiencies.

[9] The Hon Mark Vaile, BTRE Transport Colloquium, 13 June 2007

Phase-in period

Should a determination be agreed that imposes an increase in charges for heavy vehicle operators, the NFF would support a three-year phase-in period. The following factors support these calls:

Current financial stress faced by farmers due to drought **-** Severe drought across Australia is expected to see farm incomes in 2006/07 reach their lowest levels in over thirty years, with farm cash incomes in New South Wales, South Australia and Victoria and the dairy industry being the most adversely affected[10]. The resulting lowering of incomes (by over 60 per cent for many sectors) means that the current environment is a difficult one in which to incur increased costs.

Supply chain shock **-** The NFF is concerned that rushing the implementation of the increased charges, particularly for B-Double operators, may deliver undue shock to the supply chain. This could potentially result in the exit of trucking contractors.

Existing contracts – The NFF believes that a longer implementation phase is required to ensure that heavy vehicle operators do not feel forced into a position of breaking existing contracts with customers due to financial stress.

Methodology

The NFF believes that there must be transparency in any methodology that attempts to recalibrate the baseline assessment of the contribution of heavy vehicles to road construction and maintenance costs. However, we also note the Productivity Commission's (PC) acknowledgment that "given the limitations in data and engineering knowledge, determining the appropriate cost allocation to heavy vehicles necessarily involves a series of judgements and assumptions."[11]

The NFF obviously welcomes the PC's view that "the NTC adopts a conservative approach to its judgements", however this is not to suggest that continued debate regarding the methodology used by the NTC determination process should be disallowed.

The NFF refers to the analysis by the Australian Trucking Association (ATA) that demonstrates an alternate methodology points to the heavy vehicle fleet being in a state of over-recovery to the tune of $264 million –

[10] ABARE, Australian Commodities, March Quarter, 2007
[11] Productivity Commission – Road and Rail Freight Infrastructure Pricing, December 2006

as opposed to the $132 million under-recovery proposed by the NTC (assuming enforcement costs are included). The NFF believes that it is healthy that organisations such as the ATA are able to devote the required resources to undertake detailed analysis of the NTC methodology.

The NFF recognizes that neither methodology's point to an 'actual' figure and both rely on estimates and indexing to derive the final result. However, the ATA work demonstrates how easily a variation in the underlying model assumptions can affect the baseline amount derived, and impose significant differences in the cost impost on industry.

The NFF advocates that further analysis be undertaken on the methodology underpinning the NTC and ATA's baseline calculation methodologies. This would provide assurances on the integrity of the PAYGO system required by the farm sector. An independent assessment would give greater credibility to the calculations noting the perceived interests of the two parties with differing proposed models.

Regarding the road costs attributed to B-Doubles, the NFF is also concerned that this is calculated with the broad assumption that B-Doubles gain access to the complete road network. In fact this is not the case, B-Doubles only access only a small portion of the network. The NFF believes that this may have implications for the allocation of costs between vehicle classes and must be addressed.

Determination Timeframes

The NFF is concerned at the overwhelming sense of urgency that has underpinned the current determination process, imposed by the Council of Australian Governments (COAG). The notice provided by the NTC in late 2006 indicating a review was imminent, was followed by a large lag-time before the details of any proposal were made available for comment. We acknowledge that the NTC has endeavoured to consult with the NFF, however the timeframes to provide constructive feedback have detracted from the perceived transparency of the process. It must also be taken into account that key stakeholders, such as the NFF, have a dispersed membership base - which has not been acknowledged by the timeframes provided.

Conclusion

The NFF is a firm supporter of the PAYGO system of heavy vehicle charging and is calling for a fair, equitable and transparent allocation of charges through the current determination. This submission has outlined a number of concerns the farm sector holds with the current draft Regulatory Impact Statement (RIS) provided by the NTC. Our submission highlights concerns of the agriculture industry on the lack of improved productivity measures to offset potential cost increases, the proposed inclusion of enforcement costs, issues with vehicle class averaging, spend accountability concerns and perception impacts on technology adoption. We welcome further debate on these issues through the NTC consultation process.