10 September 2010

Mr Matthew Clarke
CRRP Pricing Stream Leader
COAG Road Reform Plan
121 Exhibition Street
MELBOURNE VIC 3000

Dear Mr Clarke

The National Farmers' Federation (NFF) was established in 1979 and is the peak national body representing farmers, and more broadly, agriculture across Australia. The NFF's membership comprises of all Australia's major agricultural commodities. Operating under a federated structure, individual farmers join their respective state farm organisation and/or national commodity council. NFF also has a number of associate members who participate in the agricultural supply chain. These organisations form the NFF.

Australian farming underpins domestic food consumption and is a significant export industry. In 2008, Australian farm exports were valued at $31 billion, accounting for approximately two-thirds of Australia's agricultural production. Despite deep and widespread drought, over 2007-08, agricultural product accounted for 15% of Australia's merchandise exports. Exports are projected to grow to $32 billion over 2009-10. Australian agriculture currently produces 93% all food consumed domestically in Australia and 1% of all food consumed in the world.

Transport of agricultural produce forms a significant cost in the agricultural supply chain, and road infrastructure is a critical element in being able to move food and fibre efficiently and effectively to market. The challenge of moving the increasing volumes of food and fibre required by domestic and international markets will continue to grow. The NFF maintains that the pricing of transport, including road and rail, should be transparent to ensure that farmers are able to make informed decisions about how to transport their produce in the most efficient and cost effective manner.

The "Heavy Vehicle Pricing Options" paper sets out options for charging heavy vehicles for road use, and reviews a set of options which range from maintaining the status quo to a mass-distance-location based price scheme. The paper does not discuss how roads will be funded, and if the charges can be effectively re-invested in roads at the same level of detail that charging information is applied. As a consequence of the lack of information, particularly how regulation, road charges and road funding will interrelate, it is not possible for the NFF to critique the options provided in the paper. Without some detailed information, and a clear description about how these aspects of road reform interrelate, it is difficult to see how the projects under the COAG Road Reform Plan Project are coordinated, and how they will deliver the 'seamless' solutions to road reform which are required. In the absence of detailed information and options it is not possible the NFF to provide specific feedback. However, the NFF would make the following general observations on the principles and options set out in the discussion paper.

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 and that these funds will be reinvested in our road networks. In addition, NFF believes that the agricultural industries 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 regulatory inconsistency applies for both road and rail, and imposes significant costs on the farming sector.

The NFF supported the findings of the finding of the 2007 Productivity Commission Report "Road and Rail Freight Infrastructure Pricing" that an all-encompassing, uniformly applied, externalities charge on freight operators would be an inappropriate and inefficient mechanism for reducing freight transport externalities. Infrastructure Pricing should focus on the marginal cost of the infrastructure. The 2007 Report identified that the costs of externalities such as accidents, environmental impacts, greenhouse gas emissions and congestion are either being internalised, are being addressed through existing regulation and/or are much broader issues than being just applicable to the freight transport sector. It is not appropriate for these costs to be included in the pricing of the infrastructure.

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. For example, it seems likely that different soil types in different regions and annual rainfall will influence the durability of roads and the cost of their maintenance.

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 a mass-distance location pricing framework. The NFF believes that this cannot be the sole driver of road investment decisions, and governments must also take into account service obligations it has to Australian communities, as well as agriculture's contribution to feeding the nation and to the Australian economy more broadly when making investment decisions. Without acknowledging such factors, there may be under-investment in the local roads of regional and remote Australia.

NFF has concerns regarding the adoption of mass-distance location based charges. The Productivity Commission highlighted mass-distance-location based charges 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. The NFF continues to champion the need for appropriate funding for the maintenance of these local roads, and the service obligation the Government has to Australian communities to ensure this essential infrastructure is maintained.

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 a '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. Work is required to understand the implications for regional transport

The NFF notes that the Henry Review made recommendations on the issue of mass-distance-location pricing (see text box below), and noted the principle that funds collected from these charges should be returned to the affected roads. The Henry Review recognised that costs of implementing the mass-distance-location pricing regime must be considered, and that the costs of administration and compliance for groups of road users should be considered. The NFF contends that farmers should be specifically considered as one of these groups of road users in the analysis. Farmers manage complex businesses, which rely on the use and movement of heavy vehicles which they either own or contract. In many cases farmers have no substitute for road transport, and must use heavy vehicles on local roads to move produce and farm inputs to and from receival points, markets or storage facilities. The high elasticity of demand for agricultural commodities at the farm gate also means that it is not possible to pass these costs on to those purchasing the commodities.

> *Recommendation 62: The Council of Australian Governments (COAG) should accelerate the development of mass-distance-location pricing for heavy vehicles, to ensure that heavy vehicles pay for their specific marginal road-wear costs. Revenue from road-wear charges should be allocated to the owner of the affected road, which should be maintained in accordance with an asset management plan. Differentiated compliance regimes to enforce this pricing policy may need to be considered to balance efficiency benefits from pricing against the costs of administration and compliance for some road users.*

In developing heavy vehicle pricing options, the NTC must undertake research and modeling to understand the implications of the pricing options for Australian farmers. Australian Bureau of Statistics work from 1988 identified that the farm fleet represented over 50 per cent of the total national fleet of vehicles over 4.5 tonnes, indicating that this issue is clearly of considerable interest to the farm community. A 2007 survey coordinated by the NFF of truck ownership and usage by farmer members of NSW Farmers Association and Agforce in Queensland indicated that:

- 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.

The NFF would welcome the collection of more recent and comprehensive 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, ensure that no cross-subsidisation occurs and understand what the implications of pricing will be for the operation of this vehicle fleet. Whilst in-principle farmers may pay less for the transport of produce to local markets and receival points, it is unclear how prices will change for transport further along the agricultural supply chain. Agricultural commodity prices are impacted heavily by international markets and there is little opportunity for Australian farmers to absorb additional costs.

While the NFF acknowledges the potential benefits of moving towards a more transparent and equitable pricing mechanism for road transport such as mass-distance location pricing, we believe that thorough analysis should be undertaken to examine the costs of implementation for individual businesses. The Productivity Commission noted in its 2007 report that new road pricing instruments using electronic and satellite technologies are becoming technically feasible. However, the cost impost of adopting such technologies may be prohibitive for individual farm businesses, which use their trucks in intermittent or seasonal patterns. Recommendation 62 of the Henry Review clearly recognizes that a differentiated compliance regime should be considered in light of the costs of administration for different users.

The NFF looks forward to engaging with the COAG Road Reform Plan to deal with these difficult issues. It is important that more detailed work is undertaken to better inform stakeholders of the implications of the proposals being developed. For further information regarding this submission, please contact the NFF Rural Affairs Manager, Dr Sam Nelson.

Yours sincerely

BEN FARGHER
Chief Executive Officer