National Farmers'
FEDERATION

3 June 2011

Mr Neil Aplin
CRRP Directorate
COAG Road Reform Plan
Level 7, 121 Exhibition Street
MELBOURNE VIC 3000

Dear Mr Aplin

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 per cent of Australia's merchandise exports. Exports are projected to grow to $32 billion over 2009-10. Australian agriculture currently produces 93 per cent all food consumed domestically in Australia and 1 per cent 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 NFF has also focussed on the need for an ongoing commitment to transport infrastructure investment, based on transparent decision making that addresses both strategic infrastructure needs and the continued maintenance of the infrastructure.

The NFF provided a response to the "Heavy Vehicle Pricing Options" paper issued in September 2010. That paper set out options for charging heavy vehicles for road use, and reviewed a set of options that ranged from maintaining the status quo to a mass-distance-location based price scheme. A criticism made by the NFF in its response to this paper was that it did not discuss how roads would be funded, and if the charges could be effectively reinvested in roads at the same level of detail that charging information is applied. The current Funding and Implementation Issues Paper focuses on the issue of re-investment. The issues paper notes that a review of the benefits from the COAG Road Reform Project indicates that a significant proportion of the benefits (70 per cent) from the Road Reform Project could be attributed to road funding reform[1]. The NFF believes that addressing road funding is an important component of the COAG Road Reform Project because of the opportunities to improve transport productivity and efficiency but also because of the relatively low benefits from implementing pricing reform alone. The NFF believes that a number of the points made in our September 2010 response regarding road pricing are relevant to the current issues paper, and that earlier response should be read in conjunction with this paper (Attached).

As a framework for achieving transparency in pricing and re-investment in road infrastructure, the NFF supports the principles behind the recommendation by the Henry Review on mass-distance-location pricing (see text box below).

> *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.*

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 must also be recognised. Implementation of road pricing reform and the allocation of road user charges, particularly on rural roads, are likely to present some challenges for implementation and the NFF's comments will focus on these and other issues relevant to rural roads.

Roads are vital for both productivity and access in rural and remote areas. Under the current PAYGO system heavy vehicles that travel on low quality roads that are typical of remote and regional Australia are effectively subsidised. Without these subsidies the production, delivery and consumption of goods would be affected in some regions. For this reason the issues paper notes that the potential impact of changes in funding would need to be carefully considered. Given the poor quality of many rural roads the NFF would be concerned if there was a significant withdrawal of funds as a consequence of changes in pricing arrangements that resulted in a further decline in the quality of these assets. The issues paper indicates that under these circumstances it may be necessary to limit the impacts of changed funding arrangements or implement more transparent subsidies where there are social objectives attached to a freight task. The NFF supports greater transparency of these funding arrangements, but would also note that social objectives related to providing access to properties should also be recognised when looking at universal service obligations related to transport funding.

[1] Page 8. COAG Road Reform Plan: Funding and Implementation Issues Paper, 13 April 2011

The use of the vehicle fleet in regional Australia is quite variable, with many farm heavy vehicles only registered for seasonal use. This presents practical issues related to the cost effectiveness of implementing mass-distance-location pricing and understanding how road-wear charges would be allocated. The Henry Tax Review recommended that differentiated compliance regimes be used where the costs of compliance and administration could not be justified, and the NFF would suggest that this would apply for many heavy vehicles used in the agricultural industries. Understanding road wear associated with the use of agricultural heavy vehicles presents challenges because of the seasonal nature of agricultural industries. Agricultural heavy vehicle traffic varies over the course of a year, and indeed over a period of years (such as the prolonged drought that has recently been experiences over much of Eastern Australia). Heavy vehicle use may change significantly over a year as a consequence of seasonal production cycles but also from year to year as a consequence of differences in annual production. These differences in road use over time have implications for how road use might be measured, but also how investment in roads would be scheduled in response to road use. The NFF would suggest that an ongoing program of re-investment in road assets would be preferable to sporadic investments in response to high production and high vehicle use years.

The issues paper recognises a number of market failures which currently exist in the road freight transport market as a consequence of incomplete markets and imperfect information. Incomplete markets occur under the current arrangements as a consequence of poor information about road use and uncertainty in funding resources.

The NFF supports transparency in road pricing, but notes that the economic benefits from pricing signals will be limited in many areas of remote and rural Australia where there is no route choice or no flexibility to optimise vehicle type or configuration. Indeed, special thought will be required as to how to support road managers in promoting the use of vehicle configurations which will improve productivity whilst reducing wear on roads. In many cases people in remote and regional Australia have no substitute for road transport, and must use heavy vehicles to move produce and farm inputs to and from receival points, markets or storage facilities. It is important that mechanisms to improve productivity and efficiency be available to road users in remote and regional areas in order to maximise the productivity from roads whilst minimising costs.

The NFF supports development of mechanisms to improve transparency and accountability for transport infrastructure funding. Transparent road pricing mechanisms would assist in ensuring more rigour and accountability on funding decisions. The NFF does not have a view on how road pricing and re-investment is best implemented, but recognises that ultimately decisions on investment will require regional expertise and knowledge. Informed investment in regional roads will require long term asset plans, clarity and certainty of funding and ensuring that those managing the asset base have the appropriate skills and expertise.

The NFF looks forward to continuing its engagement with the COAG Road Reform Plan on these issues. For further information regarding this submission, please contact the NFF Rural Affairs Manager, Dr Sam Nelson.

Yours sincerely

MATTHEW LINNEGAR
Chief Executive Officer

National Farmers' FEDERATION

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.

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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

NFF House 14-16 Brisbane Ave Barton ACT 2600 PO Box E10 Kingston ACT 2604 t 02 6273 3855 f 02 6273 2331 w www.nff.org.au
NATIONAL FARMERS' FEDERATION LTD ABN 77 097 140 166

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.

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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