Australian Livestock and Rural Transporters Association

Position Statement

Road User Charge Determination (No. 1) 2012

ALRTA position

The Australian Livestock and Rural Transporters Association (ALRTA) is opposed to the proposal to increase the heavy vehicle road user charge by 2.4 cents per litre (cpl) from 1 July 2012. (The road user charge sets the effective rate of diesel tax paid by heavy vehicles in Australia.)

The proposed increase will raise the diesel tax from 23.1 cpl to 25.5 cpl, an increase of 10.39% in a single year. It will apply to all heavy vehicles, in all parts of Australia, raising $166m in 2012-13. It is believed to be the single largest increase in the diesel tax in over twenty years.

The ALRTA recognises the government cannot sustain the road system without increased revenue. The Association fully supports an increase in the diesel tax of 1.3 cpl, equivalent to 5.7%. This is the level of increase that would have been due under the established national 'Annual Adjustment' formula for handling routine increases in heavy vehicle registration charges and the diesel tax.

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Statement of reasons

The proposed increase relies upon advice to governments from the National Transport Commission (NTC), dated February 2012 and published on 21 March 2012.

The ALRTA opposes this increase for five (5) reasons:

1. It is **undesirable and unnecessary to apply such a large increase in a single year**. Especially in the current economic climate, it is undesirable to impose a 'price-shock'. This is particularly true in rural and regional Australia and amongst trade-exposed agricultural industries. Moderating a proposed charges increase has no direct impact on government road investment decisions, and it has been done before.
   i. While commonly mis-described as a 'cost-recovery system', the national heavy vehicle charging system is nothing more than an 'expenditure-recovery system'.
   ii. There is nothing about the national charging system that compels any government to recover their expenditures by some certain time after they have been outlayed. It is not a proper market-based pricing system. The charges do not influence the investment decisions made by governments. Rather, the charges are created as a by-

product of expenditures and road investments that are driven by road network planning and Budget imperatives.

iii. Previously, large increases to registration charges or the diesel tax have been phased-in, either in stages across more than one year, or by delaying implementation in order to allow industry to adjust.

iv. Since the national charges for 2012-13 were recommended, the States have demonstrated exactly this kind of flexibility. Four States have implemented, or publicly committed to implement, charges of their own choosing or concessions (rebates) that will act to remove some of the harsh impact of the NTC's recommendations in relation to registration charges. A fifth State, Queensland, is understood to be considering its position.

2. The NTC's own pricing model, shows that **Road Trains** – the workhorse of rural and regional Australia – **will be overcharged by 40% from 1 July 2012.** The pricing model enables the ALRTA to calculate that **from the diesel tax alone, the Commonwealth will single-handedly over-charge Road Trains by $27.9 m per annum.**

   i. Freedom of Information laws have been used to require the NTC to release its pricing model.

   ii. The pricing model shows that State and Federal Governments, combined, can expect to earn $34,858 per annum from each 'Double Road Train' in Australia, but the direct impact of these vehicles onto the road network is assessed to be only $21,097. Even allowing for a contribution to all the overheads of the State road networks, the true 'cost to government' rises to just $24,894. Double Road Trains are used throughout rural and remote NSW, South Australia, WA, and most of regional and rural Queensland.

   iii. For 'Triple Road Trains', which are essential to farming, mining and regional communities throughout rural and remote Queensland, WA and Northern Australia, governments can expect to earn $53,984 per vehicle, but they need to earn only a minimum of $40,982 and, at most, $46,734.

   iv. All four States that have already announced they are moderating the effect of the NTC's recommended registration charges for 2012-13 have explicitly highlighted the charges' impact on Road Trains.

v. Access to the pricing model has enabled the ALRTA to calculate that, from the diesel tax alone, the Commonwealth will over-charge Road Trains by $27.9 m per annum. Full workings are at Attachment 1.

3. The ALRTA believes **the over-charging of Road Trains violates the 'pricing principles'** which governments have instructed the NTC to observe when developing its recommendations.

i. Governments have approved formal national 'policy principles' to guide the work of the NTC, when it calculates and recommends charges. The principles require, amongst other matters:

- *'full recovery of allocated infrastructure costs, while minimising both the under- and over-recovery from any class of vehicle'* and
- *'the need to balance administrative simplicity, efficiency and equity (e.g. impact on regional and remote communities/access)'.*

ii. In addition, in April 2007, COAG requested the relevant Ministerial Council to direct the NTC *'to apply principles and methods that remove cross-subsidisation across different heavy vehicle classes."*

iii. The $10,000 quantum and 40% level of over-recovery imposed on each Double Road Trains is extreme, and the figures for Triple Road Trains are nearly as bad. They certainly cannot be regarded as successfully 'minimising over-recovery' and it is clear that all Road Trains will grossly cross-subsidise other heavy vehicles.

iv. Due to the laws that apply to them, Road Trains can operate only in remote, rural and some regional parts of Australia and, indeed, they are the dominant vehicle class used for heavy haulage in Northern Australia and throughout the Bush.

v. This means the over-recovery imposed on Road Trains will not work to subsidise alternative vehicles that operate in competition with them.

vi. The over-recovery imposed on Road Trains will primarily work as a direct transfer of revenue, out of the Bush and into urbanised parts of the country. This is a completely inappropriate equity outcome.

4. Every transport operator, and every customer, in **rural and regional Australia does not see an adequate level of investment to justify the national charges.**

i. Regardless of which class of vehicle they may operate, Transport operators across rural and regional Australia all share a strong concern that, regardless of whether or not their vehicle classes are being overcharged, the taxes and charges paid by their businesses are not being returned to the regional road networks upon which they operate.

ii. The effect is that rural operators face higher running costs, higher repair and maintenance costs, and reduced safety standards.

iii. Indeed, there are strong concerns that rural and regional Australia is actually contributing excessively to funding urban and major inter-city roads and is paying a level of road user charges and taxes that is dictated by investments in other areas.

iv. The level of charges recommended by the NTC is over-whelmingly driven by expenditure upon State-owned arterial road networks, particularly including the interstate highway system. Around three-quarters of the $11b 'road expenditure cost-base' which drives the NTC's pricing model involves expenditures of this kind.

v. In the current Budget, the Government has made some progress to address this concern with its decision to renew the *Heavy Vehicle Safety and Productivity Program,* at a cost of $20m per annum. However, in the context of a $166m per annum increase in diesel tax ($698 million over the Forward Estimates period), this investment will not be adequate to redress inequities in charges and investments.

5. The NTC's advice to governments of February 2012 is **contradictory to previous advice** from the NTC to governments, and previous statements **to the Parliament**. It is also inconsistent with public consultation documents issued to industry in December 2011. The ALRTA suggests that, until this inconsistency is resolved, decision-makers should be reluctant to rely on the NTC's advice in setting this year's charge.

i. The Explanatory Memorandum that accompanied the Road User Charge Determination for <u>2011</u> advised Parliament that the NTC had recommended a charge that would *'ensure on-going cost recovery of the heavy vehicles' share of government road construction and maintenance expenditure'.*

ii. In 2008, 2009, 2010 and 2011, the NTC advised all governments that its recommendations in each of those years would secure cost-recovery.

iii. In contrast, the NTC's February 2012 advice now declares that the '*<u>NTCs previous verification processes have revealed an under-recovery</u> associated with the annual adjustment. This <u>historic under-recovery</u> increases under the status quo arrangements to $50.5 million'* (emphasis added). The advice indicates clearly that the problem has been recurrent: *'year-on-year, the annual adjustment has slightly under-recovered costs'.*

iv. This radical contradiction of previous advice is the reason why the proposed increase to the diesel tax is so very large. In February, the NTC advised governments that the charging system faced an under-recovery that would balloon to $144m from 2012-13 onwards, unless unprecedentedly sharp increases were approved. Had an ordinary 'Annual Adjustment' occurred, the diesel tax would be raised by 5.7%, rather than the now proposed 10.39%.

v. The ALRTA is disappointed that the industry consultation document issued by the NTC in late December 2011 completely failed to disclose this apparently looming problem and also the pre-existing $50.5m shortfall. Any problem from an existing or emerging under-recovery was simply not mentioned at all in the consultation document, but it is the driving force in the NTC's advice to governments, issued just over two months following, in February 2012.

vi. There is a strong sense amongst the ALRTA's membership that they are being required to pay immediately to remedy with great haste a problem which the NTC has not disclosed properly, and which appears to have been allowed to build up over some time.

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Background

NTC advice to governments

On 10 May 2012, the Hon Anthony Albanese, Minister for Infrastructure and Transport made the Road User Charge Determination (No 1) 2012 under the *Fuel Tax Act 2006.*

The Determination, and its accompanying Explanatory Memorandum, were tabled in the House on 23 May 2012.

The Determination relies upon advice prepared by the National Transport Commission in February 2012, which was considered on 21 March 2012 by a meeting of the Standing Council on Transport and Infrastructure (SCOTI).

The NTC's advice was published on 21 March, triggering the 60 day period required under sub-section 43-10 (9) of the *Fuel Tax Act* 2006, which expired on 20 May 2012.

Elements of the NTC's advice

The advice presented to SCOTI by the NTC on 21 March essentially dealt with three topics.

- Correction of the anomalously high registration charge that applied to 'A-trailers' in B-Doubles. The NTC presented a solution which successfully reduced A-Trailer charges by 50%, which the ALRTA has publicly praised.
    - Correction of the difficult A-Trailer charge was a campaign goal of the ALRTA from March 2010 onwards, and the Association has appreciated the interest shown by members of the Federal Parliament.
- Delivery of an 'Annual Adjustment' of registration charges and the fuel tax. As noted above, industry and governments all accept that an 'ordinary' annual adjustment would have produced an increase of 5.7%.
- Urgent correction of a previously un-disclosed 'under-recovery' problem, as described above. The structure and tone of the February advice presents this '$144m under-recovery' as the driving force behind the NTC's recommendations and the consequent increase in charges.

Access to the NTC pricing model

Freedom of Information laws have now been used to force the *National Transport Commission* to release its 2012 pricing model.

The NTC pricing model is the basis for the recommendations considered by governments on 21 March. It has never previously been made available to industry.

The ALRTA's information is that relevant government agencies who advise the Ministerial members of SCOTI, including the Commonwealth Department of Infrastructure and Transport, did not have access to the complete pricing model on or prior to 21 March 2012. Officials appear to have relied on the report prepared by the NTC in February 2012.

Neither that report, nor the 2012 pricing model, provides insight into the origin of the 'historic under-recovery' which has allegedly arisen in the charging system.

Decision of SCOTI and subsequent actions of the States

At the SCOTI meeting of 21 March, a majority of governments reached a notional agreement to adjust registration charges for heavy vehicles and to increase the rate of diesel tax with effect from 1 July 2012.

In Budget Paper 2, the Commonwealth has noted the notional agreement of SCOTI to the NTC's recommendations. Under the *Fuel Tax Act* 2006, it is not clear that this is a relevant consideration.

Four of the six States have now acted, or publicly committed, to mitigate the increases to registration charges for road trains that were notionally approved on 21 March. A fifth State, Queensland, is understood to be considering its position, having been in caretaker mode when the SCOTI meeting was held.

- On 3 April 2012, the West Australian Government confirmed that it will not be implementing the agreed charges but instead will apply a 5.7% increase to its existing charges. The WA Government commented upon the national charges for Road Trains as one reason for being unwilling to proceed with the national charges;
- On 4 April 2012, the Northern Territory Government announced that it would apply a 3.7% increase to existing charges, which simply reducing A-Trailer charges to match other trailers. The NT Government commented upon the national charges for Road Trains as one reason for being unwilling to proceed with the national charges
- On 11 April 2012, the South Australian Minister, the Hon Pat Conlon, made a public statement indicating an intention to discuss the charges further at the subsequent SCOTI meeting, scheduled for 18 May 2012.
- On 16 May 2012, the NSW Minister, the Hon Duncan Gay, made a public statement which committed the NSW Government to providing 'relief for small operators and, especially, operators of Road Trains'.
- On 31 May 2012, the South Australian Government announced a 100% concession on 'road train dollies' – a distinct vehicle component, uniquely used within Road Trains.

ATTACHMENT 1

OVER-CHARGING OF ROAD TRAINS

Discussion

Freedom of Information laws have now been used to force the *National Transport Commission* to release its pricing model. The NTC pricing model is the basis for the recommendations considered by governments on 21 March. It has never previously been published.

The NTC's own pricing model shows that the registration charges and fuel tax rate recommended by the Commission would result in the Commonwealth and State governments jointly overcharging road train operators by as much as 40% from 1 July 2012.

State and Federal Governments, combined, would expect to earn $34,858 per annum from each 'Double Road Train' in Australia, but the direct impact of these vehicles onto the road network is assessed to be only $21,097. Even allowing for a contribution to all the overheads of the State road networks, the true 'cost to government' rises to just $24,894. Double Road Trains are used throughout NSW, South Australia, WA, and many parts of Queensland.

For 'Triple Road Trains', which are essential to farming, mining and regional communities throughout Queensland, South Australia and the Top End, governments can expect to earn $53,984 per vehicle, but they need to earn only a minimum of $40,982 and, at most, $46,734.

Ministers have approved formal national 'policy principles' to guide the work of the National Transport Commission (NTC), when it calculates and recommends prices. The principles require 'full recovery of allocated infrastructure costs, while minimising both the under- and over-recovery from any class of vehicle.'

The ALRTA suggests that, for road trains, the NTC's 2012-3 prices will significantly breach Ministers' policy instruction to 'minimise over-recovery'.

NTC figures on over-charging of Road Ttrains

In Table 1, all dollar figures are taken directly from the NTC's official pricing model, without any alteration, adjustment or calculation whatsoever by the ALRTA.

Percentages have been added by ALRTA.

Table 1: Over-charging of road trains: individual vehicle sets

	Revenue required from vehicle type:		**Forecast revenue per vehicle**	**Over-recovery …**	
	Attributable cost per vehicle	***Allocated cost per vehicle***		***… against attributable cost per vehicle***	***… against allocated cost per vehicle***
Double Road Train *(Prime mover and two trailers)*	$21,097	$24,894	$34,858	$13,761 *(65%)*	$9,964 *(40%)*
Triple Road Train *(Prime mover and three trailers)*	$40,982	$46,734	$53,984	$13,001 *(32%)*	$7,249 *(16%)*

Source: National Transport Commission, "Model Option 3B – Worksheet *'CHECK – Charge'* ", document published following FOI application, located at www.ntc.gov.au/ViewPage.aspx?DocumentId=2287

Note 1: All revenue entries are a combination of State-based registration and federal diesel tax receipts which, together, comprise the national heavy vehicle charging system

Note 2: *'Attributable cost'* is the minimum each class of vehicle must pay in order to meet its own direct cost impact on the road network. It is equivalent to a 'marginal cost'.
'Allocated cost' is the desired target price for each vehicle class, and includes a contribution to various road network overheads.

Surplus revenue taken from Road Trains

Table 2 shows that the *aggregate* value of the overcharging of each road train comes to a total of $50.4 M per annum.

This table takes additional data from the NTC pricing model and calculates the amount by which forecast revenue exceeds the aggregate costs that must be recovered in the NTC model.

Table 2: Over-charging of road trains: aggregate surplus

	Cost allocated by vehicle type …			**Revenue obtained by vehicle type …**		**Aggregate surplus revenue**
	Allocated cost per individual vehicle set ***(a)***	***Number of vehicle sets*** ***(b)***	***Aggregate cost to be recovered within NTC model*** ***(c) = (a)*(b)***	***Forecast revenue per vehicle***	***Aggregate revenue within NTC model*** ***(d)***	***= (d) – (c)***
Double Road Train *(Prime mover and two trailers)*	$24,894	4,286	$106.7 M	$34,858	$149.4 M	$42.7 M
Triple Road Train *(Prime mover and three trailers)*	$46,734	1,068	$49.9 M	$53,984	$57.7 M	$7.7 M
Totals	-	-	$156.6 M	-	$207.1 M	$50.4 M
Data source	*(1)*	*(2)*	*ALRTA calculation*	*(1)*	*(2)*	*ALRTA calculation*

Sources: National Transport Commission, "Model Option 3B – (1) Worksheet 'CHECK Charge', and (2) Worksheet 'Revenue' documents published following FOI application, located at *www.ntc.gov.au/ViewPage.aspx?DocumentId=2287*

Note: All revenue entries are a combination of State-based registration and federal diesel tax receipts which, together, comprise the national heavy vehicle charging system

Commonwealth surplus revenue from Road Trains - $29.7m per annum

Table 3 calculates the Commonwealth's share of the surplus revenue derived from road trains.

Under the proposed new diesel tax, the over-charging of road trains will see the Commonwealth gain surplus revenue from road trains with a value of $27.9 M per annum.

Table 3: Over-charging of road trains: Commonwealth share of surplus						
	Composition of revenue by vehicle type within NTC model …			**Allocation of surplus revenue from each vehicle type …**		
	Regist'n charges ***(a)***	***Diesel tax*** *(25.5 cpl)* ***(b)***	***Total revenue*** ***(c)***	***C'wlth share of revenue by vehicle type*** ***(d) = (b)/(c)***	***Surplus by vehicle type*** ***(e)***	***C'wlth surplus revenue*** ***= (d)*(e)***
Double Road Train *(Prime mover and two trailers)*	$68.8 M	$80.6 M	$149.4 M	54%	$42.7 M	$23.0 M
Triple Road Train *(Prime mover and three trailers)*	$21.5 M	$36.1 M	$57.6 M	63%	$7.7 M	$4.9 M
Totals	-	-	$207.1 M	-	$50.4 M	$27.9 M
Data source	*(2)*	*(2)*	*(2)*	*ALRTA calculation*	*Table 2*	*ALRTA calculation*

Sources: National Transport Commission, "Model Option 3B – (2) Worksheet 'Revenue' documents published following FOI application, located at www.ntc.gov.au/ViewPage.aspx?DocumentId=2287

ATTACHMENT 2

Background material

History of the national charging system

Since 1990, there has been a national arrangement which sees all Transport / Roads Ministers seek to agree on 'nationally uniform registration charges' for Heavy Vehicles.

This arrangement is not legally binding. Registration charges in Australia are set, and collected, by each registering jurisdiction.

The same decision by State / Territory Ministers also recommends the 'Road Use Charge' which the Commonwealth Government then implements as the national diesel tax. Since 1990, the Commonwealth has *always* implemented the fuel tax figure approved by the majority of States.

A small, stand-alone government agency, called the National Transport Commission (NTC), has the role of calculating and recommending appropriate charges, for consideration by Ministers.

The general objective of the national charging scheme is to ensure that each heavy vehicle is paying for the costs it imposes onto the road network.

There have been a number of occasions where Ministers have rejected or declined to implement the recommendations of the NTC; this has been done by individual State Ministers or even by the entire group of Ministers in the past.

What are attributable and allocated costs?

"Allocated expenditure: This is the allocable expenditure distributed across the various classes or groups [of heavy vehicles]. This report will generally refer to heavy vehicle allocated expenditure, which is the share of allocable expenditure recovered by all vehicles over 4.5 tonnes. Total allocated expenditure equals allocable expenditure.

Attributable expenditure: This is the expenditure related to the provision and maintenance of roads and which varies depending on the use of the road system by different types of vehicles. *It is equivalent to the long run marginal cost* and therefore includes capital as well as operational costs. These costs are directly attributable to vehicle types."

Source: National Transport Commission, *2007 Heavy Vehicle Charges Determination Regulatory Impact Statement Volume 1,* 'Box B1: Definition of key terms', p5, located at www.ntc.gov.au/filemedia/Reports/2007HVChargesDetRISVol1Dec2007.pdf

(Emphasis added by ALRTA)

Planned increases in government charges to road transport

On 21 March, the Standing Council on Transport and Infrastructure met to approve registration charges and the rate of federal fuel tax for financial year 2012-13.

Ministers approved an important correction to registration charges on 'A-Trailers', which impacts on the total registration fee for B-Doubles and B-Triples. The ALRTA has publicly welcomed this improvement.

However, Ministers also approved the largest-ever annual increase in registration charges for many vehicles and to the rate of the federal diesel fuel tax.

Planned increases in government charges to road transport from 1 July 2012				
Fuel Tax				
	Fuel Tax	**% change from today**	**Fuel Tax Credit**	**% change from today**
Road Use Charge	25.5 cpl	+10.39%	12.643 cpl	-15.95%

Registration				
	Prime Mover ($)	**Trailers ($)**	**Total ($)**	**% change from today**
6-axle semi	4,744	1,650	6,394	+11%
9-axle B-Double	9,457	4,950	14,407	-8%
12-axle B-Triple	9,457	8,250	17,707	-20%
Double Road Train	9,457	4,400	13,857	+21%
Triple Road Train	9,457	7,150	16,607	+21%

ATTACHMENT 3

POLICY CONTEXT FOR ALRTA PROPOSAL

ALRTA's policy approach

The ALRTA supports the concept of industry 'paying its own way' and the concept of managing heavy vehicle charges through a national approach. The road transport industry requires a seamless national market to work efficiently, and the national charging system contributes to that.

The ALRTA has an expert understanding of the national heavy vehicle charging system. We seek to advocate proposals that are compatible with the policy principles that guide the current system.

Economic objective and characteristics of the charging system

The economic objective of the national heavy vehicle charging system is to ensure that each 'class' of heavy vehicle is paying for the costs that it imposes onto the government-funded road network.

The economic requirement is that each vehicle must pay for at least its 'direct impact' on the road system – these minimum, marginal costs are known as the 'attributable costs'.

The target price for each vehicle is a higher figure, set to match the 'allocated costs', which will see each vehicle contribute to the 'overheads' of the road system

Heavy vehicles make their required payments through a combination of State-based registration fees and a uniform-rate federal diesel tax paid by all heavy vehicles. The pricing system is a 'two-part tariff': a fixed fee, and a variable fee.

Any 'two-part tariff' can be expected to produce some under- and over-recovery, as the use of a fixed fee cannot produce a precisely targeted outcome.

In road transport, this effect is increased because required prices are calculated for complete 'combination vehicles' (eg, 'a double road train') but charges are levied on individual components (eg, 'a prime mover'). It is difficult to ensure that the 'sum of the parts' matches the desired total for each combination.

Ministers have approved formal national 'policy principles' to guide the work of the National Transport Commission (NTC), when it calculates and recommends prices. The principles require 'full recovery of allocated infrastructure costs, while minimising both the under- and over-recovery from any class of vehicle.'

State-based concessions are an established means of partially 'correcting' the system

Every Australian State offers a large and extensive set of registration 'concessions' that work to correct pricing problems that are created by the national charging system.

The largest example of these concessions is the 'primary producer discount'. Farmers own large numbers of heavy vehicles, but they do not use them very often. Applying the full national charge to farm vehicles would be unfair, and economically inefficient. In recognition of this, every State grants primary producers a concession that discounts the national charges by 50% (or more in some jurisdictions).

Since 21 March 2012, the ALRTA has sought to persuade a number of State Government to apply State-based concessions as their least-disruptive means of correcting anomalies such as the over-charging of Road Trains.

Currently, there are no equivalent mechanisms available for the Commonwealth to apply in order to mitigate any over-charging or other anomalies.

Australian Livestock and Rural Transporters Association

About ALRTA

1) The Australian Livestock and Rural Transporters Association (ALRTA) represents 900 companies across regional Australia who provide the 'first and last' link of the supply chain for Australia's agricultural industries and communities.

2) Australian agriculture relies on ALRTA's members in order to access domestic and global markets. Almost all inputs to, and production from, Australian agriculture involves transport by truck.

3) Our members deliver the fertilizer, hay, feed, water, fuel and other supplies that Australia's farmers need to stay in business, and we deliver their grain, livestock, wool and other products to the domestic market and the nation's export ports.

4) Two-thirds of Australia's agricultural production is exported, comprising 20% of Australia's global merchandise exports.

5) Established in 1985, ALRTA is Australia's oldest purely policy-focused road transport industry association. ALRTA has no political affiliation and does not engage in industrial representation.

6) The National Council of the ALRTA is solely comprised of road transport operators, as are each State Council. ALRTA and its State bodies represent transport operators located in every Australian State and Territory. Our member operators are engaged in both short haul operations and long-distance haulage, extending to trans-continental movements. Our members provide services to remote stations, regional communities, coastal urban areas and regional and metropolitan ports.

7) The ALRTA is a member of the Australian Logistics Council (ALC), the Australian Trucking Association (ATA), and the Council of Small Businesses of Australia (COSBOA).