Australian Livestock and Rural Transporters Association

A-Trailer Charges and Annual Indexation:

Submission to National Transport Commission
February 2012

1. ALRTA greatly appreciates the attention given to the A-trailer charges issue by Ministers and the NTC

This submission from the ALRTA is made in response to the Discussion Paper of December 2011, in which the National Transport Commission (NTC) publicly presented its options for resolution of the A-Trailer charges issues. That paper also addresses the treatment of the next round of Annual Indexation of national charges, due to apply in 2012-13.

The ALRTA takes this opportunity to publicly record our great appreciation of the close personal attention and high policy priority that has given to this issue by all Ministers who are members of the Standing Council on Transport and Infrastructure (the Ministerial Council).

We also express our appreciation to the National Transport Commission (NTC) for the full engagement of its senior resources in undertaking the current review of A-trailer charges.

Across 2010-11, and into 2011-12, the ALRTA met repeatedly with Ministers, Commissioners and senior officials of both the NTC and various Departments to seek action upon A-Trailer charges. We are delighted to see such a strong response from government.

2. Key points

The operation of the current charging system is governed by 'charging principles' that have been approved by the Ministerial Council. The ALRTA believes it is impossible for the NTC to meet all of the principles, in full, at the same time.

Specifically, it appears impossible to require the NTC to ensure that each vehicle class must meet its allocated costs in full, while simultaneously requiring that there be no over-recovery from industry in aggregate.

The ALRTA ***recommends*** that the NTC ask the Ministerial Council to determine a hierarchy amongst these principles, to provide guidance to the NTC and industry on the relative importance of fulfilling each principle.

The ALRTA ***recommends*** that the Ministerial Council should be asked to endorse, as its most important principle, the existing requirement that there must be no over-recovery in aggregate from industry.

The current charging system will continue to generate difficulties for industry and hardship for many operators, even after the A-trailer issue is resolved, and simply 'waiting for CRRP' is not a satisfactory strategy.

The ALRTA ***recommends*** that the NTC should commence a study of options to deliver fairer outcomes within the current system, including through the use of nationally consistent concessions.

The ALRTA strongly ***recommends*** that the NTC should not use the 'revenue criterion' proposed in the Discussion Paper when selecting what Option it may ultimately proposed to the Ministerial Council.

The ALRTA believes that it is important to the integrity of the NTC's independent role that the Commissioners should not take onto themselves a responsibility for resolving inter-governmental funding issues that may flow from a charging reform. Those issues should properly be left to Ministers.

The ALRTA has consistently called for governments to act with urgency to resolve the A-Trailer charges issue and we have previously asked governments to implement a solution 'on-the-road' by 1 July 2012.

Noting the NTC's advice that some or all of the versions of Option 2 or Option 4 could face delays inside the machinery of government, the ALRTA would now support implementation on a later date in 2012 if the Ministerial Council found that desirable.

However, the ALRTA ***suggests*** that the solution to A-Trailer charges and the Annual Indexation adjustments for 2012-13 should be implemented on a common date.

At the time that the current submission was due, the NTC was still actively working upon the PAYGO model and was continuing to update the charges and fuel tax rates that might be achieved under each Option (numbered 1-4) and each Scenario (labelled A and B). It is difficult for the ALRTA to endorse a specific Option in those circumstances.

The ALRTA ***suggests*** that Options 1 and 3 should now be abandoned. These two Options have limited appeal and there seems little merit in progressing them to the Ministerial Council.

On the available figures, Option 2 appears to be the most attractive and beneficial to our members.

If the Ministerial Council were to favour Option 2, the ALRTA ***suggests*** that Ministers should adopt whichever version delivers the lowest Road Use Charge. At present, we understand this to be Option 2A.

Industry has well known ambitions to see the charging system place a greater reliance upon the Road Use Charge, and reduce the relative importance of registration charges.

Option 4 purports to adopt this approach and, no doubt, many stakeholders will expect that this should make it attractive to industry.

However, in its current form, Option 4 involves inputs and design assumptions which reduce its benefits relative to the other Options and which are not well understood and not currently accepted across industry. The ALRTA is not currently in a position to endorse Option 4.

If the Ministerial Council were to favour Option 4, the ALRTA ***recommends*** that further work be undertaken with the objectives that:

- the charges for A-Trailers should be less than twice the charge for B-Trailers; and
- the Road Use Charge should increase by not more than twice the rate of inflation, measured against the current charge of 23.1 cpl.

Although the critical issues at hand are the reform of A-trailer charges and calculation of Annual Indexation for 2012-13, the ALRTA closes this submission with some suggestions upon how industry and the NTC might better engage in our on-going dialogues regarding the operation of the charging system.

The ALRTA strongly ***recommends*** that industry and the NTC should work together to improve this dialogue.

An essential step to improve this dialogue is for the NTC to release the PAYGO model.

The NTC has been reluctant to take this step and has very recently declared to industry that 'no other pricing regulator publishes its models'.

The ALRTA accepts that this is the NTC's sincere belief but, regrettably, it is mistaken.

Pointing to just two well respected pricing regulators, the full release of spreadsheet models is standard practice for the NSW Government's *Independent Pricing and Regulatory Tribunal (IPART)* and, at Federal level, the *Australian Energy Regulator (AER).* The websites of both agencies make their spreadsheets available to any member of the public.

The ALRTA trusts that the NTC will move promptly to match the standard practice of these two well respected regulators.

To provide on-going certainty, the ALRTA also strongly ***recommends*** that the NTC should seek the Ministerial Council's agreement to entrench a permanent commitment and well defined procedure to the routine release of the current edition of the PAYGO model and the Annual Adjustment formula.

3. Internal conflict within the 'charging principles'

The operation of the current charging system is governed by 'charging principles' that have been approved by the Ministerial Council.

At present, one of these principles requires that there should be no cross-subsidy between individual classes of heavy vehicle.

Logically, the effect of this principle is that each class of vehicle *must* 'pay its own way'. If any class of vehicle did not pay its own way, it would have to be receiving a cross-subsidy and therefore would be in breach of the principle.

At the same time, the Ministerial Council's charging principles require that there should be *no* over-recovery, in aggregate, from industry.

The ALRTA believes it is impossible for the NTC to meet both of these principles, in full, at the same time.

It is impossible to imagine any real-world situation where the revenue raised from each class of vehicle will fully meet the costs attributed to that class of vehicle, *without* the aggregate amount raised from industry exceeding the total target costs.

If no vehicle class is under-recovering, then it is certain that one or several vehicle classes must be over-recovering, because all vehicle classes must pay the one standard Road Use Charge (fuel tax).

Relying on the information that has been released to industry, it is difficult for the ALRTA to determine how the NTC has resolved this conflict of principles during the current review of A-trailer charges and Annual Indexation process.

Regardless of that, the ALRTA believes that the NTC should not be forced to choose between conflicting principles without more detailed guidance from Ministers.

The ALRTA ***recommends*** that the NTC ask the Ministerial Council to determine a hierarchy amongst these principles, to provide guidance to the NTC and industry on the relative importance of fulfilling each principle.

The ALRTA ***recommends*** that the Ministerial Council should be asked to endorse, as its most important principle, the existing requirement that there must be no over-recovery in aggregate from industry.

4. Need for a 'customer acceptance' principle

Industry's concern over the current A-Trailer charges has been strengthened by the way that the charges are deeply counter-intuitive to operators and also cut across the commercial logic of their business – what is likely to be an operator's smallest, less often used and lowest revenue-earning trailer is currently charged at more than four times the cost of other trailers.

The ALRTA notes that none of the current charging principles directly requires that there be *'customer acceptance'* regarding the structure of the national charges.

The ALRTA suggests that governments are likely to find that future charges decisions, including any proposed reforms to the charging system, are more readily accepted if the structure of the charges appears to operators to have some intuitive alignment with how their vehicles are used and has a natural alignment with their commercial practices.

The ALRTA ***suggests*** that governments could usefully take this opportunity to entrench 'customer acceptance' within the charging principles, so as to ensure that the lessons of this A-trailer review are permanently captured.

5. Current system must find a way to deliver fairer charges

No transport operator relishes high costs but the ALRTA's concerns with the A-Trailer charges has never been merely that the charges are *'too high'*.

Our consistent complaint, as detailed in our previous submissions to Ministers and the NTC, has been that the current charges have an unfair impact upon

- Low mileage operators, who simply don't get the use out of their trailers that has been anticipated by government in setting the charges; and
- Operators who are required to have 'too many' trailers in order to serve their local community (such as the many rural operators who are required to own, say, a full set of stockcrates and tippers or flatbeds); and
- B-Triple operators, who must overcome a $10,000 per annum penalty in order to operate a safer, modern alternative to the traditional Type 1 (Double) Road Train.

The ALRTA has consistently sought a response from governments that would restore justice and fairness to low mileage, multi-trailer and B-Triple operators.

The ALRTA is concerned that the current charging system will continue to generate outcomes that are unjust and unfair to these kinds of operators.

Across all jurisdictions, the consistent response of officials is to suggest that the COAG Road Reform Plan (CRRP) will resolve all these issues, in the context of a move towards more direct charging methods.

Even if they were supported, approval of any reforms arising from CRRP will raise both whole-of-government and inter-governmental considerations. There is nothing to suggest that this will occur quickly.

The ALRTA suggests that merely 'waiting for CRRP' is unsatisfactory and in fact risky for both industry and governments. Both parties are exposed.

The ALRTA ***recommends*** that the NTC should seek the Ministerial Council's agreement to undertake a study of possible means to make the current charging system fairer. This study should include consideration of the possibility of determining a common national set of concessions to selected disadvantaged operators.

6. The NTC should abandon the 'revenue criterion'

In the discussion paper, the NTC proposes that one of the criteria it might use in selecting an Option to formally recommend to the Ministerial Council will be consideration of the impact of each Option upon the revenues of each of the governments.

The ALRTA strongly ***recommends*** that the NTC should not adopt this criterion as the basis for its recommendations.

The ALRTA believes that NTC's accountability should be tightly focused upon ensuring that industry is 'paying its way' and that the current charging system is operating fairly and efficiently.

In the ALRTA's view, allocating revenues amongst jurisdictions is not the function of the charging system and it should not be a formal criterion for any of the NTC's recommendations to the Standing Council.

The ALRTA believes that revenue and funding allocation is properly a matter for governments, who can legitimately be expected by industry to resolve any issues amongst themselves, provided that the charging system is economically credible and is agreed to be raising the right total amount from industry.

The ALRTA is concerned that adopting a 'revenue criterion' would tend to diminish the independence and role of the Commission and, particularly, would have adverse implications for the conduct and resolution of future Determinations.

The ALRTA understands that the previous National Heavy Vehicle Charges Determinations have, on occasion, involved material adjustment to the revenues of one or more jurisdictions.

If a 'revenue criterion' were to be adopted in the context of this A-Trailer Review, it is difficult to see what would prevent any jurisdiction asking the Commission to adopt it in future Determination processes and, particularly, disputing any Determination outcome that failed to satisfy this criterion.

7. Adjusting the treatment of B-Triples is supported

The NTC's discussion paper discloses that current allocated costs for B-Triples were set in the expectation that they would have access to a considerably expanded share of the road network, very different to the type of road network that is available to traditional road trains.

This has not eventuated and B-Triples are, for the majority of their use, operating on the road train network and in completion with traditional road trains.

As outlined in the NTC's discussion paper, the allocated costs for road trains are calculated with regard to the special characteristics of that network. The ALRTA agrees that it is therefore appropriate that the allocated costs for B-Triples are set using the same method.

We note that, technically, a change to allocated costs can facilitate but need not directly cause any change to the prices paid by any class of vehicle.

The ALRTA supports the change to the treatment of B-Triples and believes it should be made a permanent feature of the charging system. However, the technical nature of this change means that it is not itself a sufficient reason for the ALRTA to endorse Option 4 at this time.

8. Exclusion of flood recovery costs from Annual Indexation is appropriate

The ALRTA welcomes and supports the NTC's intention, disclosed in the discussion paper, to exclude from the cost base used for Annual Indexation those recent road expenditures that arise from disaster recovery and reconstruction.

We note that this exclusion will also need to be applied in any future Determination.

The ALRTA considers that this exclusion is consistent with the NTC's usual practice of excluding expenditures that are funded from special identifiable revenues, such as Council rates, or are due to environmental factors.

9. Improving the dialogue between industry and the NTC

The ALRTA is concerned that the current dialogue between industry and the NTC requires a large resource commitment and is characterised too great a level of confusion and frustration. This does not assist either party.

The ALRTA strongly ***recommends*** that industry and the NTC should work together to improve this dialogue.

It is evident that the NTC desires to engage directly with operators in consultation events. Few operators are familiar with the workings of PAYGO and it may be helpful for the NTC to provide a short user-friendly outline of PAYGO for operators to study, prior to and after consultation events.

Within their businesses, many of the ALRTA's members are accustomed to offering or receiving clear and firm price-quotations. The iterative nature of the NTC's work is not a familiar practice and can cause confusion.

There are some disagreements between industry and the NTC regarding certain assumptions and design choices adopted within PAYGO. It may be helpful for the

NTC to maintain a publication that acknowledges, describes and explains these issues. For issues that can be resolved through research or benchmarking, this publication could establish a joint work program.

10. Publish the PAYGO model and the Annual Adjustment formula

The NTC has taken welcome steps in recent times to ensure that the input data used within the PAYGO model is available to industry. However, industry does not have access to the full set of algorithms that are applied to the data in order to generate the final charges.

These algorithms, which comprise the PAYGO model, form an important part of the reasoning for the decisions that lead to the national charges being set. Release of these algorithms would be in line with the general practice of making the basis and reasons for governments' policy or administrative decisions available to the public.

The ALRTA is strongly concerned that industry's engagement with the national charging system is made very much more complicated, time consuming and contentious due to industry's inability to access the full PAYGO model.

The NTC has recently stated to industry that it regards the model as 'intellectual property' and also that it believes 'no other pricing regulator publishes its models'.

The ALRTA believes it is both unnecessary and inappropriate for the NTC to withhold the PAYGO model in an attempt to maximise its intellectual property.

Protection of intellectual property is only a valid concern for an organisation that might suffer some loss if its property was copied. The NTC is not such an organisation. It derives no income from ownership and use of the PAYGO model.

The NTC's existence and role cannot be threatened by release of this intellectual property. The NTC's exclusive role as the advisor to the Ministerial Council is protected by the *National Transport Commission Act* 2003 and the related agreement signed by all governments in connection to that Act.

While the ALRTA accepts that the NTC has a sincere belief that 'no other pricing regulator publishes its models', regrettably this is simply incorrect.

At State-level, to take just one example, the NSW Government's *Independent Pricing and Regulatory Tribunal* publishes a wide range of spread-sheet models associated with its enquiries and determinations of regulated prices. These are freely available for any person to download from its website (www.ipart.nsw.gov.au).

Similarly, to take an example at the Federal level, the *Australian Energy Regulator* also publishes the complete spread-sheet models that comprise its determination of regulated prices. Again, these are freely available to download from the agency's website (www.aer.gov.au).

The ALRTA trusts that the NTC will move promptly to match the standard practice of these two well respected regulators.

To provide on-going certainty, the ALRTA also strongly ***recommends*** the NTC should seek the Ministerial Council's agreement to entrench a permanent commitment and well defined procedure to the routine release of the current edition of the PAYGO model and the Annual Adjustment formula.

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BACKGROUND MATERIAL

About ALRTA

1) The Australian Livestock and Rural Transporters Association (ALRTA) is the national federation that represents road transport companies 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 some transport by truck. Two-thirds of Australia's agricultural production is exported, comprising 20% of Australia's global merchandise exports.

3) Established in 1985, originally as the Australian Livestock Transporters Association, ALRTA is Australia's oldest purely policy-focused road transport industry association. ALRTA has no political affiliation and does not engage in industrial representation.

4) The National Council of the ALRTA is solely comprised of road transport operators, as are each State Council. ALRTA and its member 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.

5) Over 50 per cent of ALRTA's member operators run fully or partially diversified businesses in order to service the needs of the regional and rural communities in which they are based. In addition to their focus on livestock, many of our member operators are involved in transport of grains, feeds, fertilizer and other bulk materials cartage, fuel, milk, molasses, water and other tanker operations, refrigerated transport, inland retail fulfilment, and various forms of industrial and general freight cartage. Predominantly smaller businesses, our member operators are operationally complex.

Status of this submission

6) The submission was authorised by ALRTA's National Executive on 6 February 2011. This submission is a policy statement of the ALRTA.

7) Enquiries should be directed to ALRTA on (02) 6247 5434 or office@alrta.org.au. It is available at www.alrta.org.au.