

SUBMISSION **ECONOMIC FRAMEWORK FOR AN EFFICIENT TRANSPORTATION
MARKETPLACE**

JANUARY 2009



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1 Foreword

Over the coming decades Australia is facing supply constraints that have the potential, if not appropriately addressed, to impose a devastating restriction upon the nation's prospects for continued growth and rising prosperity.

Transport and transport infrastructure is foremost in this challenge and has long been an area of central government concern.

By virtue of market structures not conducive to efficient supply and the exceptional consequence of transport and its supporting infrastructure to productivity, growth and national standards of living, government engagement and intervention in transport markets is immense.

In the Australian context, the efficient regulation of transport markets and provision and use of transport infrastructure has and continues to be complicated by the federal separation of powers that confers jurisdiction over national markets to state and territory governments.

While much has been achieved to remove unnecessary economic burdens of state-centric approaches to infrastructure and cross-border inconsistencies in regulation, there remains much more to be done.

The establishment of Infrastructure Australia and discussions on a national framework for the regulation, registration and licensing of heavy vehicles represent significant first-step undertakings to improve outcomes in transport markets.

In moving beyond these first-steps, in pursuing an economic framework to deliver efficiency in transport markets, the constraints of a heavily compromised market, endemic governance failures and political reality must be acknowledged.

Microeconomic reform in transport has the potential to increase productivity, but only after some significant and difficult decisions have been agreed by ministers, adopted by parliaments and successfully implemented by bureaucracies.

Single, national regulation of transport is a base pre-requisite for achieving efficient transport and transport infrastructure markets.

Until this time, during the intervening period, misguided enthusiasm and convenient oversight have an overwhelming potential to further stagnate, perhaps even diminish, transport productivity.

The supply constraints generated in an economy recently burgeoning on capacity demand concerted and coordinated government action to enable an immediate expansion in the productive capacity of the trucking industry and, through it, all Australian industry.

National reform priorities to improve efficiency and enhance productivity in the trucking industry are established, yet implementation is failing.

In contemplating whether elaborate economic frameworks for transport could enhance national productivity; the significant question needs first to be answered: can the current governance framework regulating transport markets and transport infrastructure conceivably deliver productivity through overhauling reforms? The precedence, as observed by the trucking industry, suggests not.

Contrary to statements made in the issues paper, the 2008 implementation of heavy vehicle driver fatigue laws demonstrates an absolute failure in, rather than commitment toward, regulatory harmonisation under the current governance framework.

2 Introduction

In recognising the challenges faced by Australia's freight and passenger transport systems and the importance of transport markets to continued growth and rising prosperity, Australia's transport ministers agreed in early 2008 to develop a framework for delivering national reforms to facilitate improved transport outcomes.

The National Transport Policy initiative adopted by transport ministers led to the establishment of working groups within each of the states and territories, including the Economic Framework for an Efficient Transportation Marketplace Working Group co-chaired by the New South Wales Ministers on the Australian Transport Council (ATC).

Subsequent to establishment of the Working Group, Australia's transport ministers further agreed to establish a Ministerial Taskforce on the Economic Framework for an Efficient Transportation Marketplace to provide strategic guidance and direction to ATC on reforms for implementation of the framework.

The economic framework is intended to identify existing reforms to be given high priority as well as suggest new reform initiatives that will work to deliver greater efficiency and sustainability in the use of road, rail and intermodal infrastructure and support greater timeliness and efficiency in the provision and management of transport infrastructure.

Existing reforms to be considered in the economic framework include the Council of Australian Government's (COAG) road reform agenda, which arose from recommendations made by the Productivity Commission in its 2006 Inquiry into Road and Rail Freight Infrastructure Pricing.

The Ministerial Taskforce is required to present a report detailing the economic framework to Australia's transport ministers by May 2009, including a strategic plan for implementing the economic framework and reform priorities to support its implementation.

This submission details the views of the members of the Australian Trucking Association (ATA) and the wider trucking industry on the governance framework required to enable successful implementation of transport reforms, reform priorities urgently needed to deliver productivity to the trucking industry and inefficiencies imposing on transport markets.

3 Australian Trucking Association

The ATA was originally established in 1989 as the Road Transport Forum and is the peak national body uniting and representing the interests of the Australian trucking industry.

Membership of the ATA's General Council comprises the peak state and sector based trucking associations, the Transport Workers' Union, some of the nation's largest transport enterprises and representatives of small fleet owners and owner drivers.

4 A governance framework

Renewed enthusiasm in transport regulation is a welcomed move by transport ministers and their agencies; however, it appears to be a rushed proposition by the Taskforce to identify the current environment as presenting a timely opportunity to undertake rigorous thinking about market-design in the transport sector.

Transport reforms are failing in the trucking industry. Progressive reform has stalled, productivity is being compromised and the recent undertakings of some agencies are set to take the productivity of the trucking industry backwards.

The problems currently facing the industry are not generated as a result of a lacking economic framework in transport and transport infrastructure markets, but rather, as a result of a lacking governance framework that provides insurmountable avenues for political and bureaucratic intervention to disrupt the successful development and implementation of reforms that hold tremendous promise to deliver productivity.

The highly competitive market structure of Australian trucking is the key facilitating element to the achievement of efficiency and productivity across all freight transport markets. Unfortunately, the current governance framework regulating the trucking industry is detracting from the benefits of competition and imposing upon the potential for expansion in the productive capacity of Australian industry.

Freight transport is a highly integrated intermediate input to production. It both facilitates and is influenced by the scale of production, the nature of consumption and the level of exchange within and between national economies.

Productivity gains in the trucking industry deliver unparalleled pricing, innovation and service benefits across the entire freight transport sector through both the operation of competitive pressures in contestable freight markets and complementarity in intermodal transport supply chains.

The competitive structure of Australian trucking ensures that cost savings arising from productivity gains in freight transport are passed on to the downstream industries and communities who depend, for prosperity and growth, upon individualised, on-time and efficiently priced freight transport services.

More importantly, however, in terms of the magnitude of potential savings benefits to the economy and the long term prospects for growth and rising standards of living, are the opportunities generated by freight productivity for deepening trade in final product markets (inter-regional, inter-state and international) and enhanced integration of production across economic regions and national economies.

The price and reliability of freight transport is of tremendous consequence to the level of economic activity.

In Australia, the macroeconomic importance of freight transport is greater than elsewhere around the world, given the country's huge land mass, diffuse production and distribution centres, dispersed population and trade advantages in minerals, energy and agriculture production.

Unnecessarily complicated, duplicative and inconsistent regulation is imposing direct costs and productive losses on trucking operations.

The more significant and compounding long-term costs imposed upon the economy by the dysfunctional governance framework regulating the trucking industry and its supporting infrastructure are the opportunity costs of the cumulation of lost opportunities for implementation of positive, productive and wealth generating reforms.

Running in concurrence with the work by New South Wales on an economic framework is the work of the Commonwealth on a governance framework for regulation, registration and licensing of heavy vehicles.

To expect successful implementation of an economic framework to precede implementation of a workable governance framework is convenient for the enthusiastic theorist, a difficulty easily overlooked for a well-intentioned bureaucracy and disgracefully mischievous for the opportunistically inclined.

At this early stage, difficulties already appear to be encroaching on development of a governance framework that could realistically be expected to deliver productive benefit through overhauling, market-based and technology-driven reform in the trucking industry.

Contrast these first-step difficulties in achieving a governance framework for regulation of the trucking industry with conservative estimation of what would be required to achieve a governance framework that could facilitate successful and overhauling reform across all transport and transport infrastructure markets and it very quickly appears quite an overwhelming task.

Contrary to the statement that the current environment presents a timely opportunity to undertake rigorous thinking about market design in the transport sector, recent precedence suggests the current environment presents an overdue opportunity to undertake concerted action on governance in the transport sector.

Market-based economics is always preceded by facilitating governance and the same must be thought to apply to elaborate and complicated market-based regulation.

The ATA and its members strongly support development of a workable national governance framework for regulation of the trucking industry, including its supporting infrastructure, and submit that this is a base pre-requisite for implementation of an economic framework to be successful in furthering productivity.

5 Reform priorities to deliver productivity

Productivity gains in the trucking industry delivered through an economic framework that promotes the efficient supply and utilisation of transport infrastructure would produce undeniable economic, social and environmental returns through cost savings, improved road safety, reduced energy reliance, lower greenhouse gas emissions and enhanced air quality outcomes in congested metropolitan regions.

However, the achievement of productivity through development and implementation of an economic framework is far from a certain outcome over the long term and is an absolute uncertainty under the current governance framework in the near term.

The increasing freight task and projected increase in the penetration of road transport in the domestic freight market demands successful political undertakings to deliver expansive productivity reforms in the trucking industry now, not at some time in the future.

Since the wide-spread introduction of B-double access in the mid 90s, reforms in the trucking industry have stalled. While, the reasons for this will be the subject of debate and conjecture in this review and in others, the outcomes are certain – more trucks on the road delivering the nation's essential freight.

The trucking industry plays the major role in transporting Australia's non-bulk freight. It transports nearly 80 per cent of the non-bulk freight moved along Australia's seven major transport corridors¹ and almost 75 per cent of the total non-bulk freight task.²

¹ Australian Trucking Association, 2004, *Trucking – Driving Australia's Growth and Prosperity*.

² Bureau of Infrastructure, Transport and Regional Economics, 2006, *Freight Measurement and Modelling in Australia*.

Forecasts by the Bureau of Infrastructure, Transport and Regional Economics (BITRE) project that the domestic freight task will grow at an average annual rate of 2.8 per cent over the period to 2020, with growth in the movement of non-bulk freight (3.6 per cent) substantially outstripping that of bulk freight (2.3 per cent).³

As a result, the road transport task is forecast to grow at an average annual rate of 3.8 per cent through to 2020, leading to an increase in the modal dominance of road transport in the domestic freight market and a doubling in the output of road freight transport over the period.⁴

More than one-third of the freight task undertaken by the trucking industry is interstate, with BITRE estimates projecting that this proportion will be maintained through to 2020.⁵

The projected increase in demand for freight is expected to result in the addition of 50,000 trucks to the national fleet between 2005 and 2020, with more than half of these being semi-trailers and multi-combinations.

There are many existing productivity reforms in the trucking industry that have been agreed by transport ministers but have not yet delivered the desired productivity gains, including:

- Performance based standards;
- Higher mass limits (particularly in New South Wales); and
- B-triple access.

Before the significant focus of transport agencies moves towards discussion and debates of elaborately complicated economic frameworks, it is vitally important that the existing productivity agenda is successfully rolled-out.

The continued deferral or elimination of productivity in the trucking industry will impose significant economic costs across all Australian industry and adversely affect safety outcomes and environmental performance emanating from transport markets.

6 An economic framework

What are the major inefficiencies experienced in the transport marketplace?

The major inefficiencies imposed on transport markets relate to failures in the governance framework that would optimally deliver the “same outcome in the same circumstances”.

Achieving efficient, productive and transparent decisions with respect to network access is a particular challenge facing the trucking industry, with recent difficulties in establishing a workable framework for Performance Based Standards demonstrating continuing difficulties in achieving cross-border cooperation under the current governance framework.

Transparent decision making processes with regard to the provision of road infrastructure is also important, with development processes offering significant room for improvement in facilitating enhanced classification of road networks. The ATA supports the establishment of Infrastructure

³ Bureau of Infrastructure, Transport and Regional Economics, 2006, *Freight Measurement and Modelling in Australia*.

⁴ Bureau of Infrastructure, Transport and Regional Economics, 2006, *Freight Measurement and Modelling in Australia*.

⁵ Bureau of Infrastructure, Transport and Regional Economics, 2006, *Freight Measurement and Modelling in Australia*.

Australia as a significant step in the right direction to facilitate and enhance productive infrastructure investment and network access.

The Productivity Commission's 2006 Inquiry into Road and Rail Freight Infrastructure Pricing arrived at a significant conclusion that concerns of distortions in competitive neutrality between road and rail freight are not well supported.

To achieve efficiency and greater productivity in freight transport markets, the Productivity Commission recommended that reforms should focus on achieving enhanced outcomes in each of the freight modes individually, as opposed to embarking on reforms that seek to manipulate the competitive balance between modes. The ATA strongly supports the Productivity Commission in its views.

What are the underlying causes of the inefficiencies?

The underlying cause of inefficiencies in transport markets relate significantly to the non-competitive market structure of transport infrastructure and the requirement, therefore, for significant government intervention.

While there are many mechanisms available to support efficient and productive regulation of transport infrastructure, the current governance framework is prohibiting optimal decision making and seriously constraining the successful implementation of transparent processes for government oversight of infrastructure provision and network access decisions.

The cause is laws and regulations and access policies that constrain, rather than facilitate, the safe and efficient transport of freight. The result being more trucks on the road than otherwise would be necessary, with commensurate increases in exposure from a road safety perspective and higher levels of greenhouse and air pollution emissions.

These same issues also result in freight rail services being secondary in consideration to urban passenger services.

A lack of transparency in bureaucratic decision making processes, combined with either overly burdensome or non-existent review and dispute mechanisms seriously reduces public sector accountability.

What can or should be done by government to reduce or remove these inefficiencies? Are there non-legislative options that could be adopted?

The ATA and its members strongly support development of a workable national governance framework for regulation of the trucking industry, including its supporting infrastructure, and submit that this is a base pre-requisite for implementation of an economic framework to be successful in furthering productivity.

Transparency in governance processes across agencies is a key element in removing inefficiencies in infrastructure provision and network access decisions.

Also important in the development of a national governance framework is consideration of the role of local government and mechanisms that could be employed to enhance the ability of local government to efficiently manage and maintain its local road networks and implement national decisions relating to heavy vehicle access.

What can or should be done by businesses to reduce or remove these inefficiencies?

The issues of concern to the trucking industry relate to effective governance, which can not be resolved by private businesses.

With regards to transparency, enhanced review mechanisms of infrastructure decision making processes could facilitate greater private sector involvement in ensuring public sector accountability and consistency across Australia.

Are there situations where some buyers or sellers have insufficient information to make an informed transaction? Are there situations where some buyers or sellers have more information about a transaction than others? How can these additional data and information needs be fulfilled?

The heavy vehicle charges process is an area acutely lacking in transparency and accountability. Asset provision and access decisions are also hidden decisions and public accountability needs to be significantly bolstered.

The ATA and its members were successful in achieving amendments to the *Road Charges Legislation Repeal and Amendment Bill 2008* in December 2008 that seek to protect the integrity of the heavy vehicle charges process and improve the information disparity that exists between government and industry regarding road infrastructure expenditure and cost recovery.

Parity of information between buyers and sellers is a key enabler of efficient market outcomes. To this end, the ATA will continue to lobby on behalf of its membership for transparency and oppose any future attempts that seek to reduce or remove accountability in government infrastructure decision making.

Furthermore, the public good of transport is often over looked in the pricing debate and the focus appears to be on less positive aspects of transport. Road agencies must shoulder some of the blame for this as they are not acting as facilitator of freight. Freight must be facilitated as it is the core activity of societies that are non-longer dependent upon individuals growing, hunting or gathering their basic living needs.

Are there any particular impediments to providing a seamless service across borders? If so, how could they be removed?

In the Australian context, the efficient regulation of transport markets and provision and use of transport infrastructure has and continues to be complicated by the federal separation of powers that confers jurisdiction over national markets to state and territory governments.

The ATA and its members strongly support development of a workable national governance framework for regulation of the trucking industry, including its supporting infrastructure, and submit that this is a base pre-requisite for implementation of an economic framework to be successful in furthering productivity.

This solution is clearly demonstrated by the recent failures of the transport reform process lead by the National transport Commission. After seven years of development, the national fatigue reforms were not implemented uniformly. Failure to achieve uniformity through cooperation and model laws on such a primary safety matter is justification to require surrender of transport power to a national regulator by each state and territory.

Are there elements of transport infrastructure or services that should be deemed ‘public goods’? How should such ‘public goods’ be defined and accounted for?

All transport systems and services have an element of public good as transport of freight and people provide basic community services and access to essential goods.

Roads provide what some may call ‘private goods’ by allowing access to homes and businesses, but in reality access is a property right that is purchased or acquired with the sale or lease of the land from the crown, in effect giving a public good in return for the right.

The public good from roads is often dismissed by parties seeking to suggest trucking is not paying its fair share, but provided the marginal cost of the additional capital and maintenance cost are recovered from trucks it is entirely defensible that the industry pays its way.

On local government roads, land holder access will be a primary function, which is a public good.

How should other government or community objectives, such as social inclusion or regional development, be dealt with in the transport marketplace?

Community service obligations are the responsibilities of government. Funding to achieve government or community objectives should be sourced from outside transport markets.

Which transport tasks are generating significant costs borne by others? Should these costs be recovered directly from those who generate them? What is the role of government in minimising costs to users or providers?

Congestion in some urban metropolitan areas is generating significant costs that are borne by all road users.

Seeking to internalise the costs of urban congestions through pricing or other taxation measures will only be effective where businesses and individuals are able to cost-effectively satisfy their requirements through other avenues.

In this respect, seeking to reduce the costs of urban congestion through fiscal measures will only be successful if complemented by other government measures that provide easy and cost-effective access to alternative commuter transport.

The administrative costs of implementing and maintaining an externality pricing regime and particularly the extent to which externality pricing can be cost-effectively targeted and enforced are issues that need to be given significant consideration.

What reforms have been particularly effective in improving the efficiency and productivity of the transport marketplace?

Two foundation network access reforms, including the use of 42.5 tonne general access 6-axle semi-trailers and growing access for 25 metre B-doubles, has significantly bolstered efficiency and productivity in the trucking industry.

The removal of indirect taxation on the trucking industry, through the introduction of the goods and service tax and subsequent implementation of the fuel tax credits system has also significantly enhanced efficiency in freight transport markets.

Many of the other road and rail reforms have been of small or marginal benefit because of either differences in implementation or erosion of benefits over time through the adoption of ultra-conservative policies (such as quad-axle mass limits) or great ideas that do not flow on access (Performance Based Standards).

Some recent reforms have had a negative outcome against all best intentions – for example the recent fatigue reform.

What if any changes are required to give Australia the best possible institutional arrangements in the transport marketplace?

The ATA and its members strongly support development of a workable national governance framework for regulation of the trucking industry, including its supporting infrastructure, and submit that this is a base pre-requisite for implementation of an economic framework to be successful in furthering productivity.

7 Conclusion

The ATA and its members appreciate this opportunity to make a submission to the Taskforce detailing the trucking industry's views on the governance, productivity, economic frameworks and inefficiencies in the regulation of transport and transport infrastructure markets.