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Heavy Vehicle Charging: The Australian Experience

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Overview

- Today I wish to introduce two broad issue areas
 - Australia's charging experience to date
 - The current challenge – where we are trying to go



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Some important context

- There are two important preliminary observations
 - Australia is a Federation
 - Australia's current heavy vehicle charging policy objective



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Australia's Federation

- Federal system of government, nine individual jurisdictions - Australian Government, six States and two Territories
- Australian Government has some specific heads of power, eg taxation, defence, interstate trade; States/Territories cover the rest eg policing, transport
- An outcome, historically, was significant variation in transport regulation and heavy vehicle pricing across Australia
- But over the last two decades, a considerable focus on trying to deliver national consistency to underpin efficiency in today's more competitive and linked markets



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Heavy Vehicle Charging – the Policy Objective

- Put simply, the policy objective to date has been to recover in aggregate the average financial cost that heavy vehicles impose on the roads infrastructure
- This contrasts with the remaining vehicle fleet that pays charges that over-recover roads expenditure – ie road users contribute to general government revenue



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Heavy Vehicle Charging Reform History

- Impetus for uniformity borne out of trucking industry disputes over level of charges levied by individual jurisdictions in late 1980's
 - All Governments agree the need for uniformity and for a national body to pursue charging and regulatory reform
- First heavy vehicle charges Determination
 - Implemented by 1995-96, established uniform charges
- Second Determination
 - Updated charges from 2001
- Third Determination
 - Proposed charges put to Ministers early 2006 but rejected



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Charging Methodology

- National Transport Commission calculates charges to achieve full recovery of heavy vehicles' allocated infrastructure costs and to minimise both under- and over-recovery of costs from different classes of heavy vehicle
- Cost allocation model estimates heavy vehicle share of road expenditure, allocating non-attributable (common) costs on basis of vehicle kilometres travelled and attributable costs by various measures of road use
- Allocated costs are an average per vehicle class and are recovered through (varying) registration charges and excise (fixed in cents per litre)
- NTC proposed charges » Vote by Ministers » Determination



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Charging Methodology (cont)

- The methodology – known as PAYGO – has its detractors
 - Black box, false precision, assumption dependent
- But independent assessment, while noting scope for improvements, supports continued use for now as no evidence of other superior methodologies (of cost recovery)
- And there is no clear evidence that it systematically subsidises heavy vehicles, compared to alternate transport modes (rail in particular)



The (Failed?) Third Determination

- New determination due (5 year cycle)
- Cost recovery falling well behind expenditures
- But Ministers voted against the proposed new charges
- Contributing factors included
 - Proposed charges would have produced over-recovery (around 10%) due to rigidities in the registration charge
 - Fuel prices had spiked
 - Strong industry lobbying
 - Current Productivity Commission inquiry into road and rail freight infrastructure pricing provided opportunity to address a number of concerns with the methodology
- Strong debate about outcome – appropriate due process or failure of process?



Future Directions

- Leadership role of the Council of Australian Governments (COAG), setting policy framework and directions for Ministerial Councils, eg Australian Transport Council of transport Ministers
- In 2004 and 2005, COAG focused strongly on reviewing the 10 year competition reform program, seeking to answer the question what are the most worthwhile reforms in the future
- The February 2006 COAG meeting approved a new National Reform Agenda, encompassing human capital, competition and regulation reform



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COAG Transport Reform

- COAG competition reform stream includes strong transport component, including a key focus on pricing reform
- COAG commissioned Productivity Commission inquiry into road and rail freight infrastructure pricing (2006)
 - Key questions included considering competitive neutrality between road and rail and providing governments with clear path for pricing reform
- Commission reports December 2006
 - No compelling evidence that pricing regimes favour road over rail
 - Cost recovery approach can be improved but should be continued for now
 - Supports ambitious three phased approach to road pricing reform that progresses towards more direct road pricing and considers institutional reforms to link road supply and demand



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COAG Transport Reform (contd)

- COAG endorses phased reform proposal
 - April 2007 Communique excerpt:
 - *COAG has agreed to a phased approach to the reform of road pricing aimed at promoting the more efficient, productive and sustainable provision and use of freight infrastructure*
 - *The agreed approach focuses on: immediate efficiency enhancements from regulatory reforms and improved decision making frameworks; as well as an ambitious forward research and policy reform agenda to lay the foundations for considering alternate models of road pricing and funding*



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COAG Road Reform Plan

- Phase I (2007-08)
 - New charges determination that delivers full cost recovery, removes current cross subsidies between heavy vehicle classes and improves annual adjustment process to maintain cost recovery
 - Undertake pricing reform 'building block' research on externalities, road vehicle use and costs, community service obligations and incremental pricing for higher mass and other innovative vehicles
- Phase II (2009-10)
 - Evaluation of trials and examination of arrangements to better link road freight revenues to investment
- Phase III (2011-14)
 - Feasibility study, and possible implementation, of mass-distance location-based charges



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How is this being delivered?

- Australian Transport Council charged with progressing this plan, liaising with central agencies and providing regular reporting to COAG
- The National Transport Commission is already well advanced with the work on the new charges Determination, which is due to take effect from July 2008
- Research work streams have commenced in collaborate taskforce process of jurisdictions transport officials with participation of the National Transport Commission.



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But significant challenges are ahead

- The move from cost recovery will bring a range of challenges, for example
 - Jurisdictional differences can be significant and agreed national policy doesn't always translate to national regulation
 - Significant fiscal impacts will be associated with the change
 - Data requirements will be significant – and there many sources of variations – networks, climate, traffic etc
 - Administrative and operational costs are uncertain, and supportive technologies not yet operational in Australia
 - It hasn't been done anywhere yet



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Thank you

