



**AUSTRALIAN  
AUTOMOBILE  
ASSOCIATION**

**Constituent Members**



# Australian Automobile Association

## Submission to: COAG Road Reform Plan Preliminary Findings Consultation Paper

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WORLD WIDE AFFILIATION THROUGH THE AIT AND FIA



The Australian Automobile Association (AAA) welcomes the opportunity to make a submission to the COAG Road Reform Plan (CRRP) Preliminary Findings Consultation Paper.

The Australian Automobile Association (AAA) advocates the interests of Australian motorists nationally and internationally. The AAA's members include all of Australia's state and territory motoring clubs:

- National Roads and Motorists' Association (NRMA) Motoring and Services
- Royal Automobile Club of Victoria (RACV)
- The Royal Automobile Club of Queensland (RACQ)
- Royal Automobile Association of South Australia (RAASA)
- Royal Automobile Club of Western Australia (RACWA)
- Royal Automobile Club of Tasmania (RACT)
- Automobile Association of the Northern Territory (AANT)
- Royal Automobile Club of Australia (RACA)

Through these organisations, the AAA represents the interests of almost 7 million motorists and, indirectly, all Australian motorists at the national and international levels.

The AAA is aware that heavy vehicle pricing reform may be a starting point to develop a broader user-pays road pricing mechanism for all road users, and so takes a keen interest in the COAG Road Reform Plan. The AAA hopes these reforms will lead to better road funding outcomes for all road users.

## Recommendations

1. The AAA believes that the current charging framework does not reflect the actual usage of the road network by an individual heavy vehicle and supports pricing reform for heavy vehicles. The AAA supports the consideration of other pricing options and is interested in how the implementation of any new system will take place. The AAA believes these alternative models could have implications for general motoring taxation and road funding arrangements into the future.
2. There is a range of outstanding issues that require attention prior to any agreement on specific heavy vehicle road pricing reform details. The AAA requires further information regarding the likely impact on major road freight corridors and on local roads currently funded under the principle of community service obligations (CSOs), prior to offering support to a particular pricing model.
3. The AAA believes that the ideal pricing model is one based on the full marginal cost of road use.
4. The AAA notes the Project Board is currently considering a range of issues in relation to implementing a new charging system. In addition to the issues raised in the Consultation Paper, the AAA recommends the following issues are addressed prior to the introduction of any pricing reform:
  - Stakeholders need to gain an understanding of how the costs of moving freight by distance, mass and location are to be determined. The AAA notes the mass/distance/location formulas have been debated since this project was brought on board through the COAG agenda.
  - In relation to institutional/governance arrangements, the AAA urges the Project Board to take into account the issue of non-investment and poorly maintained parts of the road network, especially on state and regional roads. The AAA notes many regional and local government roads have not received adequate funding for many decades.
  - The issue of overall funding for the road network and how individual roads will be funded under the new charging system needs to be made clear. A mechanism to ensure appropriate balance between funding of major freight routes and local and regional roads needs to be developed.
  - In relation to this, under a new charging system, there needs to be an evaluation of all roads currently funded under the principle of community service obligations. This evaluation should include backlog maintenance profiles. This will enable government to determine the CSO costs to the community for both rail and road.

## Further Discussion

### Determining an accurate cost base model

The AAA believes that one of the primary failings of the current heavy vehicle pricing system is that the cost base is derived from road expenditure instead of the true cost of road usage. The Consultation Paper has outlined that one of the next steps of the process will be to undertake further analysis on alternative models for estimating the cost base. This process will be crucial to the effectiveness of any potential road pricing reform. The cost model developed will need to accurately reflect the cost of 'providing, maintaining and operating roads for use by heavy vehicles' as per the CRRP pricing principles.<sup>1</sup>

### Link between road revenues and road owners (federal, state and local)

The Henry Review of Taxation raised the key issue that the ownership of Australia's roads is spread across many jurisdictions.<sup>2</sup> There is little or no link between road revenues and road owners. The road owners do not receive the economic rewards from road investment. As a result, road investment is largely determined by the competition for the use of tax revenues rather than efficiency criteria.<sup>3</sup>

### Road investments

The AAA strongly believes revenue from road transport taxes should directly fund road construction and maintenance.

The AAA agrees with the Henry Review of Taxation finding that the existing road charging structure of fuel tax, annual registration and other road-related taxes is designed primarily to raise revenue.<sup>4</sup>

The Henry Review of Taxation outlined that the introduction of targeted road charges should coincide with road users paying less for existing road charges such as fuel tax. The Henry Review also envisaged that motor vehicle stamp duty would be abolished.<sup>5</sup>

The Henry Review of Taxation acknowledged that the amount of road damage caused by cars is negligible.<sup>6</sup> Since trucks only pay about half the excise that motorists, do it is evident that private motorists are paying too much for their road use.

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<sup>1</sup> COAG Road Reform Plan, 2010, *Policy Framework Reference Guide*, p. 7.

<sup>2</sup> Australia's Future Tax System, 2010, *Final Report: Part 2 – Volume 2*, p. 396.

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<sup>4</sup> Australia's Future Tax System, 2010, *Final Report: Part 2 – Volume 2*, p. 376.

<sup>5</sup> Australia's Future Tax System, 2010, *Final Report: Part 2 – Volume 2*, p. 373.

<sup>6</sup> Australia's Future Tax System, 2010, *Final Report: Part 2 – Volume 2*, p. 392.

## Key Questions Addressed

Responses to the specific questions raised in section 1.5 of the Preliminary Findings Consultation Paper, are provided below:

1. *What are the principal impediments to continuing improvements in heavy vehicle productivity and efficiency?*

The main challenge for the CRRP is to implement a reform that has at least some level of support from the industry. The level of funding and associated condition of the road asset is the greatest barrier to further productivity and efficiency improvements. Any pricing reform must ensure funds are hypothecated to road infrastructure.

2. *What are the practical concerns (if any) with moving to a more direct heavy vehicle road user charging system based on distance and location, with static mass measurement?*

The AAA does not offer a view on this question.

3. *Are there particular advantages and disadvantages for industry of each alternative static mass measurement approach?*

The AAA does not offer a view on this question.

4. *Are there alternative or modified options that might be preferred, and how are these expected to deliver greater benefits compared to those options that have been assessed?*

The AAA does not offer a view on this question.

5. *What are the matters that should be considered as part of implementing direct heavy vehicle charging?*

**Driving efficiency**

The AAA agrees with preliminary finding 4 in the discussion paper. It states:

*The road costs directly incurred by a heavy vehicle using a local road are likely to be many times that of using a freeway. When faced with these cost difference, heavy vehicle users are likely to switch to an alternative route. However, the opportunities for route switching are limited, and so overall behavioural changes might be limited in practice.<sup>7</sup>*

As noted in the report, the view is supported by a study conducted by the NTC which states:

- *the opportunity to use an alternative route is particularly limited for local roads (only 11 per cent of travel on local roads could be done on an alternative route, compared with almost 25 per cent for freeways); and*
- *the opportunity for vehicle switching was also found to be low (a 1 per cent increase in heavy vehicle charges was found to only decrease the number of vehicle kilometres by at most 0.18 per cent)<sup>8</sup>*

If a heavy vehicle operator has no alternative routes available to them, a charge that incorporates the mass of the vehicle can encourage more efficient use of the road network in this circumstance. Better efficiency could be achieved in relation to what type of vehicle (e.g. size, length) an operator decides to use on these routes based on the price signal.

As the vast majority of heavy vehicle movements do not have reasonable alternative routes, there are equity issues that would need to be considered prior to the introduction of a heavy vehicle charge that takes into account location in its pricing structure.

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<sup>7</sup> COAG Road Reform Plan- Preliminary Findings Consultation Paper. P 13

<sup>8</sup> COAG Road Reform Plan- Preliminary Findings Consultation Paper, p 20

## **Question 5 Continued**

### **Funding model**

As noted in the COAG consultation sessions, the reform seeks to create a 'closed loop' regarding revenue and road funding. This reflects AAA's general principle in relation to road funding, namely revenue raised from road users should be hypothecated to funding for renewed investment into the land transport network.

In relation to the policy considerations presented in the Consultation Paper, the AAA offers the following suggestions.

*How will local roads currently maintained by local governments be treated?*

If a local government is responsible for maintaining a particular road, it should receive sufficient revenue or incentive to ensure that the road meets the minimum agreed standards.

*What should be the legal and regulatory framework?*

An appropriate framework should ensure that revenue collected by the road provider is hypothecated to the road network.

*How should expenditure oversight be provided?*

Road providers should be required to submit expenditure figures to a national authority (either new or existing) for assessment. The federal body should have the capacity to audit road providers to ensure the expenditure is utilised appropriately.

*What is the role of price setting?*

The role of price setting is to ensure heavy vehicles pay for their total contribution to road wear. It should also provide a sufficient price signal to encourage more efficient use of the road network.

6. *Over what timeframe could/should direct heavy vehicle charging be implemented, and what staging of reforms might be required?*

With road freight volumes expected to double by 2030, reform in relation to heavy vehicle pricing is important. However it is also vital that the reform is done effectively.

7. *What opportunities exist to build these charging reforms on existing arrangements within the industry, such as through the use of existing technology?*

The AAA does not offer a view on this question.