Joint Submission by

Asciano, Aurizon and ARTC

To

The Australian Government

In response to 'Re-think: Tax Discussion Paper'

June 2015

Joint Submission in response to the Australian Government's Re-think: Tax Discussion Paper

This joint submission is made on behalf of Asciano, Aurizon and the Australian Rail Track Corporation (ARTC). Details of the three companies are provided at Attachment A.

The companies welcome the opportunity to make a submission to the Australian Government in response to the Australian Government's Re-think: Tax Discussion Paper (the discussion paper).

Background: Discussion paper section 9.10

This submission addresses only section 9.10 of the discussion paper. (Note: each company may make a separate submission on other aspects and questions raised in the discussion paper).

Section 9.10 of the discussion paper states:

> "User charges can also be used instead of taxes to fund the provision of services. A user charge is not a tax. Instead, it is a fee for a good or service provided by government where the user receives a distinct benefit. To the extent that such charges are appropriate, they can lower the cost to society of providing services, give the community greater say over whether they wish to consume (and pay for) the services and more directly influence the standard of service provided. In this way, user charges can be a useful way to help balance supply and demand for publicly-provided services.
>
> Cost-reflective road pricing (or user charging) has been supported as a means to promote efficient investment in road transport, improve congestion and reduce vehicle costs. The Productivity Commission in its inquiry into Public Infrastructure recommended that the Australian Government actively encourage state and territory governments to undertake pilot studies of user charging for light vehicles. The Government supported this recommendation in principle as a long-term reform option. However, it also noted that user charging for roads was a complex issue and that matters like equity, as well as technological and privacy implications, would also need to be considered.
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> Most recently, the Competition Policy Review Draft Report recommended governments introduce cost-reflective road pricing and work across jurisdictions to reduce indirect charges and taxes on road users, as direct pricing is introduced (Draft Recommendation 3).[1]"

We note that Recommendation 3 was also included in the Competition Policy Review Final Report, and restated the policy reform outlined in the draft report in the following terms:

> "Governments should introduce cost-reflective road pricing with the aid of new technologies, with pricing subject to independent oversight and revenues used for road construction, maintenance and safety.
>
> To avoid imposing higher overall charges on road users, governments should take a cross-jurisdictional approach to road pricing. Indirect charges and taxes on road users should be reduced as direct pricing is introduced. Revenue implications for

[1] Australian Government, Re-think: Tax Discussion Paper, March 2015, p. 166.

different levels of government should be managed by adjusting Australian Government grants to the States and Territories"[2].

Response to section 9.10 of the Re-think: Tax Discussion Paper

The three companies strongly support the intent and direction of recommendation 3 of the Competition Policy Review Final Report (the final report), which is referred to in section 9.10 of the discussion paper. We particularly endorse the conclusion in the final report that "roads are the least reformed of all infrastructure sectors"[3].

Furthermore, we strongly support one of the reasons given in the final report as to why road infrastructure reform is necessary, namely that the absence of reform is resulting in "inefficient road investment and distorts choices between transport modes, particularly between road and rail freight"[4]. These conclusions are consistent with the findings and recommendations of separate reports that were published in 2014 by the Productivity Commission and the National Commission of Audit.

We submit that reform of freight transport requires a shift away from taxation, and the introduction, in its place, of direct user charging linked to infrastructure provision and infrastructure use, including efficient planning and service standards. Importantly, direct user charging of heavy vehicles would allow a market based approach to infrastructure use and provision because it would introduce a clear price signal.

The use of taxation (including fuel taxes) as a proxy for heavy vehicle charging has meant that road freight transport infrastructure is used without an effective price signal which in turn has resulted in the absence of incentives for the efficient provision of, and use of, road infrastructure. In turn, these inefficiencies distort and impede the productivity and efficiency of Australia's land freight network across both road, rail and intermodal terminal service provision.

However, while supporting the direction of what is outlined in the final report, we believe there are two issues with the proposed approach to reforming road infrastructure pricing that are included in both the discussion paper and the final report. It is our view that these two issues have the potential to delay the significant reform of road pricing and investment frameworks, which would in turn negate efforts to increase the efficiency of Australia's land transport network, including the efficiency of infrastructure provision.

We propose that these two issues should be addressed in the preparation of the Australian Government's Taxation Reform White Paper.

Firstly, we believe the priority should be to focus on introducing reforms to road pricing for heavy vehicles and the associated arrangements for investing in road infrastructure where there is competition between road and rail freight; i.e. on national highways and arterial roads.

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[2] The Australian Government Competition Policy Review, Final Report, March 2015, p. 38.
[3] Ibid. p. 38.
[4] Ibid. p. 38.

Since heavy vehicles use the road network purely for commercial gain, giving the highest priority to introducing heavy vehicle charging and investment reforms would avoid the social equity issues associated with applying road pricing to light vehicles being used for private purposes.

A focus on heavy vehicles that transport freight also aligns with the finding of the final report that "a lack of proper road pricing leads to inefficient road investment and distorts choices, particularly between road and rail freight"[5]. The distortion of choices between freight transport modes has a significant negative impact on efficiency.

Another reason for taking this approach is that detailed policy and technical work has been, and continues to be, undertaken by government departments and agencies on the development of potential direct user charging and investment reforms specific to heavy vehicles, including the potential use of trials and demonstration projects.

We note that the Productivity Commission inquiry into Public Infrastructure, which is referred to in section 9.10 of the discussion paper, also stated with respect to heavy vehicles that:

> "The greatest progress has been made with charging heavy vehicles, but even there the issue is not addressed effectively, and further reform has been under development[6]."

In the context of introducing pricing and investment reforms only for heavy vehicles, the Productivity Commission stated:

> "The Commission remains of the view that a shift to more direct charging in the longer term has the potential to make the community better off[7]."

Furthermore, the Commission recommended (recommendation 4.1) the trials of heavy vehicle charging and investment reform should be developed.

Therefore, we submit that the implementation of the recommendations of the Competition Policy Review and the Productivity Commission as they relate to heavy vehicles and to land freight transport should be given the highest priority by governments. In other words, the reforms should be specifically focused on heavy vehicle road pricing reform, linked to the reform of freight related road infrastructure investment.

Secondly, we submit it would be inappropriate to apply a principle of revenue neutrality to the introduction of pricing reforms for heavy vehicles as has been proposed by the Competition Policy Review[8]. The principle of revenue neutrality includes an implicit assumption that the revenues currently received for road access from heavy vehicles cover

[5] Ibid. p. 38
[6] Productivity Commission, Inquiry into Public Infrastructure, Final Report Volume I, July 2014, p. 145.
[7] Ibid. p. 149
[8] The Australian Government Competition Policy Review, Final Report, March 2015, p. 8.

the relevant costs of road infrastructure and that there is no cross-subsidy benefitting heavy vehicles. Reform of heavy vehicle pricing should be based on economic principles of cost reflective pricing and should not be constrained by a potentially inconsistent requirement of revenue neutrality.

Importantly, we endorse the recommendation to replace existing heavy vehicle charges, which comprise fuel excise and registration charges, with direct user charging.

However, attaching a principle of revenue neutrality to this reform would impede the objective of introducing price signals that reflect the full cost of access to, and the use of, road infrastructure attributable to heavy vehicles, and which would provide necessary incentives to drive productivity and efficiency improvements.

Imposing revenue neutrality would also constrain the ability of road agencies to propose improvements to infrastructure that would deliver productivity benefits to heavy vehicle operators but would require a corresponding increase in future revenue to fund the infrastructure.

Proposals to improve infrastructure would be constrained because, under reformed road pricing arrangements, road agencies would be expected to have the opportunity to recover that part of the additional investment in infrastructure that is attributable to heavy vehicle operators through the price that is charged for access and use of the infrastructure.

The reform of road pricing for heavy vehicles requires that clear price signals be introduced. We strongly support the introduction of direct user charges for heavy vehicles operating on national highways and arterial roads based on established pricing principles without the constraint of revenue neutrality linked to current charging arrangements.

Direct user charges should be introduced by way of mass-distance-location (MDL) charging, and use technology to facilitate the preparation for direct charging, its introduction and its ongoing administration. We understand that the technology to enable direct user charging, including in-vehicle technology, is currently available.

We also support the specific proposal in the Competition Policy Review and the Productivity Commission Inquiry into Public Infrastructure that the Australian Government and State and Territory Governments develop pilots and trials of the proposed reforms[9]. This proposal is strongly supported on the basis that the trials should only involve heavy vehicles.

We submit that the development and implementation of trials should be a high priority for governments over the next six to twelve months. Furthermore, such trials should be developed to ensure a consistent approach to heavy vehicle road pricing reform being adopted across all states.

[9] Ibid. p. 216.

Additional considerations aimed at improving the efficiency of freight transport

We further propose that the Government's response reflect the following additional considerations and principles.

Road transport reforms should have the objective of improving the productivity and the overall efficiency of land freight infrastructure by focussing on Australia's major freight routes.

In order to achieve the policy objective of increased efficiency from land transport infrastructure, and to achieve this through competitively neutral price regulation while recognising the complexities of applying cost reflective pricing on lower volumes roads and to light commercial vehicles, heavy vehicle charging and investment reforms should:

- Be restricted to national highways and the arterial road network; and

- Only apply to heavy vehicles that weigh 4.5 tonnes or more.

Furthermore, pricing reform for heavy vehicles should be based on the following principles:

- Pricing should reflect the full cost of access to, and the use of, the relevant infrastructure by heavy vehicles, including return on and of capital.

- Revenue arising from heavy vehicle charges should be returned directly to the road owner (that is the relevant road agency).

- Pricing reform should be accompanied by, and linked to, infrastructure investment reform. Realising the full potential for productivity benefits from pricing reform will require improvements to infrastructure planning and delivery by state and Commonwealth agencies. These improvements should include an increase in meaningful consultation, principally between state road agencies and freight operators.

- Road pricing determinations should be overseen by an independent economic regulator using pricing and regulatory approaches that are already used in the economic regulation of other utilities and infrastructure in Australia (including rail infrastructure).

  Consistent with these proposed arrangements, prices should be determined by a building block model, incorporating a properly constructed regulatory asset base. This approach is widely used in Australia and is generally recognised as providing a reasonable and transparent framework for determining infrastructure access prices.

We note that the communique released following the Transport and Infrastructure Council (the Council) meeting on 22 May 2015 stated that Ministers had noted progress with the initial measures agreed to in 2014 and being implemented in order to prepare for the future introduction of heavy vehicle charging and investment reforms.

These initial measures include the development of a forward four year investment plan and the publication of asset service standards on key freight routes, and therefore relate specifically to investment reform. There do not appear to be any significant reform initiatives in the area of heavy vehicle pricing reform that are being progressed under the oversight of the Council at this time.

Given the findings and recommendation 3 of the Competition Policy Review, including the finding that a lack of proper pricing for road infrastructure is distorting choices between road and rail freight and resulting in inefficient investment in infrastructure, there is a need for both heavy vehicle pricing and investment reforms to be progressed far more rapidly.

We recommend that the Australian Government reinforce the importance of making progress with pricing reform.

We further propose that the Transport and Infrastructure Council be requested to oversee the rapid development and implementation of demonstration projects (alternatively described as trials) of both pricing reform based on direct user charging, and investment reform, on key freight corridors. These reforms should be a key priority for the Council.

We also recommend that the Australian Government request the Transport and Infrastructure Council to report annually on its progress with demonstration projects of heavy vehicle direct charging and investment reform to the Council of Australian Governments (COAG), with a report on the proposed reform program to be provided to COAG in the last half of this year.

We recognise that following the development and commencement of demonstration projects, the regulatory framework supporting heavy vehicle charging and investment reforms may need to be reviewed to consider potential transitional arrangements in relation to, for example, the relevant access pricing regulator.

Overall, the three companies strongly support the intent and direction of cost-reflective user charging for road infrastructure recommended in the Competition Policy Review, but believe that the implementation of road pricing reform should focus on heavy vehicles transporting freight on national highways and arterial roads as a priority, and should not be constrained by a requirement for revenue neutrality linked to current charges.

Attachment A

The companies making this Submission

Asciano

Australia's only combined rail freight and port operator, Asciano brings together Pacific National's rail operations and Patrick's ports and stevedoring businesses.

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Aurizon

Aurizon has rail and road-based freight and infrastructure operations across Australia. Aurizon operates rail freight services from Cairns through to Perth, and also manages and operates the Central Queensland Coal Network made up of approximately 2,670km of heavy haul rail infrastructure.

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Australian Rail Track Corporation (ARTC)

The ARTC currently has responsibility for the management of over 8,500 route kilometres of standard gauge interstate track in South Australia, Victoria, Western Australia, Queensland and New South Wales. ARTC also manages the Hunter Valley coal rail network, and other regional rail links, in New South Wales.

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