



SUBMISSION TO THE FEDERAL GOVERNMENT'S COMPETITION POLICY REVIEW

November 2014

About the Transport Reform Network

The Transport Reform Network (TRN) is a partnership of organisations and individuals that first came together in 2011 to discuss the state of transport funding and financing in Australia.

The TRN's mission is to seek a better way of planning, managing, funding and financing land transport in Australia to ensure it delivers optimum and sustainable economic, social and environmental outcomes for all Australians.

The current state of play is characterised by:

- the **limitations of government to fund essential new land transport** infrastructure, coupled with the scarcity of private financing options
- the **unfunded backlog of critical maintenance** and renewal work in our existing transport infrastructure networks
- **a lack of long-term planning**, which in turn impacts on funding and delivery of transport infrastructure
- confusing and **inequitable pricing signals** across different networks and modes
- divided and, at times, **illogical levels of responsibility and decision-making** across government
- a continuing **disconnect between land-use planning and transport infrastructure delivery**
- the **growing cost and impact of urban congestion** (in terms of productivity, health, lifestyle)
- **poor environmental outcomes**
- the impact of under-investment in infrastructure on **transport safety outcomes**
- an **inability to meet the growing freight task** across Australia.

The TRN believes these problems will not be resolved by fiddling about the edges. Rather, the existing financing and funding model needs to be dissected, each element examined and tested under the microscope, and from this starting point a new model built that better serves the national interest as we move through the 21st century.

Get onboard.

TRN is an industry policy group managed under the auspices of Roads Australia – ACN 004 302 836 ABN 34 834 376 172

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In broad terms, the TRN's objectives are to:

- provide a platform for an informed public debate on transport financing and funding
- seek a comprehensive review of transport funding and pricing arrangements in Australia
- work with all stakeholders to achieve the goal of a transparent, fair, efficient, integrated network for all modes: public transport, private vehicles, freight, cycling and pedestrian.

A list of TRN members is attached to this submission, along with the TRN Issues Paper, *Running on Empty*.

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Introduction

The TRN welcomes the Competition Policy Review's draft report and fully supports the recommendations/observations in relation to transport and national road reform.

Indeed, the TRN has sought such a Review as one of its stated objectives. We hope this Review, along with other key reports from the Productivity Commission Inquiry into Public Infrastructure and the Commission of Audit will be a genuine catalyst for change – including road user-charging models – and provide governments with a strong case to adopt these new models, with the aim of delivering more efficient, effective transport options for all Australians.

We are under no illusions as to the difficulty of this task, particularly in convincing Australians that the time has come to re-think the way we pay for our transport choices and that roads are utilities and should be treated as such. However, we believe it is time to make those calls, and we think the community will be willing to listen if they can be clearly shown the broader benefits.

Indeed, recent international studies have shown that the public will accept charging for infrastructure and services if they know where their money is being spent.¹

Unless governments (and oppositions) are prepared to be honest with the community, we will simply consign ourselves to more of the same – worsening congestion, a continuing brake on productivity and a lower standard of living.

We're not paying our way

The price we 'pay' to access transport infrastructure and services has evolved haphazardly over a long period of time.

To a large degree it is a legacy of the complicated layering of government responsibilities. Revenues, expenditures and pricing are the shared responsibility of a variety of agencies at national, state and local government levels.

The end result is that there is little consistency and transparency in transport pricing across Australia today.

Moreover, we are not paying our way.

In NSW, for example, the Government estimates that it recovers less than 70 per cent of its expenditure on roads and related services from users (via road user charges, motor vehicle taxation and tolls on state-owned motorways).²

And on a national level, the Commonwealth-levied fuel excise has returned only about half the revenue to national road projects since 2008-09.³

¹ Department of Transport, UK. British Social Attitudes survey 2011: public attitudes towards transport, Feb 2012. (p 72. Travel behaviour)

² NSW Transport Master Plan, 2012, Chapter 10, p. 366.

³ NRMA.

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Governments have insufficient funding resources to maintain and renew our existing transport infrastructure, let alone invest in essential new infrastructure. They are not prepared to borrow to build, nor are they amenable to increasing taxes.

This situation means we need the involvement of the private sector in financing and delivering our new infrastructure requirements, to be ultimately paid for by users.

But are we willing to pay?

Whether we walk, cycle, drive, catch a train or ride a bus, we use some form of transport infrastructure – be it the footpath or road under our feet, or the tracks on which our trains and trams run.

As users, we pay to access transport infrastructure and services – either directly through tolls and fares or indirectly via taxes (or both). Yet more often than not, what we ‘pay’ has little correlation to the true cost of providing and maintaining the infrastructure and/or transport services we use.

Most of us have no idea what that true cost is. If we did, how would it inform our choices about what mode of transport we used, and when we used it?

Increasingly, road agencies and private road operators around Australia are thinking beyond their assets and are transforming into customer service organisations. A culture of responding to the ‘road user customer’ and improving the ‘road user journey experience’ has begun.

And as this customer culture takes hold, it creates a greater opportunity for both asset owners and users to re-evaluate the value proposition – and assign a more realistic price to it. Roads Australia’s Network Reliability Chapter recently completed the attached report on *Building the Case for Customers* – a snapshot of customer focussed strategies of road agencies across Australia.

Paying to improve customer service has worked exceptionally well in the provision of greenfield motorways (i.e. Westlink, M7, EastLink etc) where there is no viable free alternative; moderately well in brownfield motorways (i.e. Lane Cove Tunnel, AirportLink) and where there is a viable free alternative; and internationally in terms of congestion taxing (i.e. London).

It’s been shown that when the community better understands the true cost of travel, there is a willingness to pay to improve the customer experience on the road network. However, there must be a perceived value attached to any increase or change in cost.

In a recent National Transport Commission survey, incentive-related rather than punitive (such as cheaper public transport during off-peak times) options appealed most to users of transport infrastructure.

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In the United States, innovative concepts like Transurban's 495 express 'hot' lane has increased predictability and reliability of travel times for road users. After six weeks of its introduction to road users, 75 per cent of 'hot' lane customers said they would continue to pay a premium to use it.

This demonstrates clearly that if road users are given a guaranteed journey time, customers will pay.

Roads as a utility

The TRN believes our fundamental thinking about roads needs to change. Roads are a utility – not unlike water and electricity – and we should charge accordingly.

A more direct, user-pays approach would ensure that all of us pay a fair price for our use of the system.

A number of different models exist. These include network-based time-of-day and/or distance-based charging, cordon charges, and privately-operated toll roads. The technology exists to support each of these models.

The advantage of all these approaches is that they create an opportunity to influence how we use the network, including the time of day we travel and our choice of mode (private vehicle or public transport).

The TRN does not advocate any model over another. Rather, we believe all options should be on the table for discussion and examination.

The Oregon experience: a new approach to road funding

In July 2013, the US State of Oregon passed road usage charging legislation that has been hailed as a game changer.

The legislation creates a voluntary program involving 5,000 vehicles whose owners will opt to pay a mileage-based road usage fee of 1.5 cents per mile. In return, they will not have to pay State fuel tax at the bowser and can apply for refunds for miles driven on private property.

The scheme is to be fully implemented by July 2015. The legislation directs the Oregon Department of Transportation to establish suitable methods for participants to report their vehicle miles travelled. The revenues raised by the scheme will be directed into the State Highway Fund to pay for road maintenance and construction.

It's expected that several other US states will follow in Oregon's footsteps.

Increasingly, road usage charging is being seen as an answer to the underfunding of roads in the United States as revenues from fuel taxes - the traditional source of road funding - fail to keep pace with road spending requirements.

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Addressing privacy in Oregon's Road Usage Charging (RUC) scheme

In its Draft Report, the Productivity Commission referred to the Oregon scheme, case-studied in the TRN's submission to the Inquiry, as an example of a user-charging model currently in roll out.

The Oregon mileage collection system was legislated in 2013 and will be rolled out to 5,000 volunteer motorists before July 1 2015. These motorists will pay 1.5 cents per mile travelled, and in return receive a gas tax refund from the State Department of Transport (ODOT).

The scheme is the culmination of two pilot studies - the first conducted in 2007 and the second in 2012 - both of which focused on the practicalities and technologies to track vehicle mileage, as well as addressing privacy considerations.

The scheme now being adopted in Oregon has a number of significant privacy checks.

Firstly, the legislation mandates that volunteers should have the choice of at least one mileage collection system that does not use vehicle location technology.

In the 2012 pilot, for example, participants had the option of using a mileage reporting device that did not measure vehicle location, but rather used information from the vehicle electronics to measure and wirelessly report distance travelled and fuel consumed. Another available option was to pay a monthly flat rate with no requirement to report mileage.

Although the specific mileage reporting and payment options for the new scheme are yet to be announced, Oregon's guiding philosophy right from the start of its RUC journey has been to allow participants to choose the method of reporting from a range of technological and non-technological solutions.

Secondly, the scheme has strict privacy collection parameters in place.

Disclosure of any personally identifiable information is restricted, and location and daily metered use information is required to be destroyed after 30 days. There are strict penalties for breaches of these privacy restrictions.

The Oregon experience over two pilot studies and the subsequent new scheme demonstrates that non-GPS based vehicle mileage monitoring is a viable option in an RUC scheme.

The TRN believes that an Australian pilot study or studies should have similar technology options and privacy protections in place.

Based on the Oregon experience, privacy should not be used as an excuse to dismiss out of hand RUC in an Australian context.

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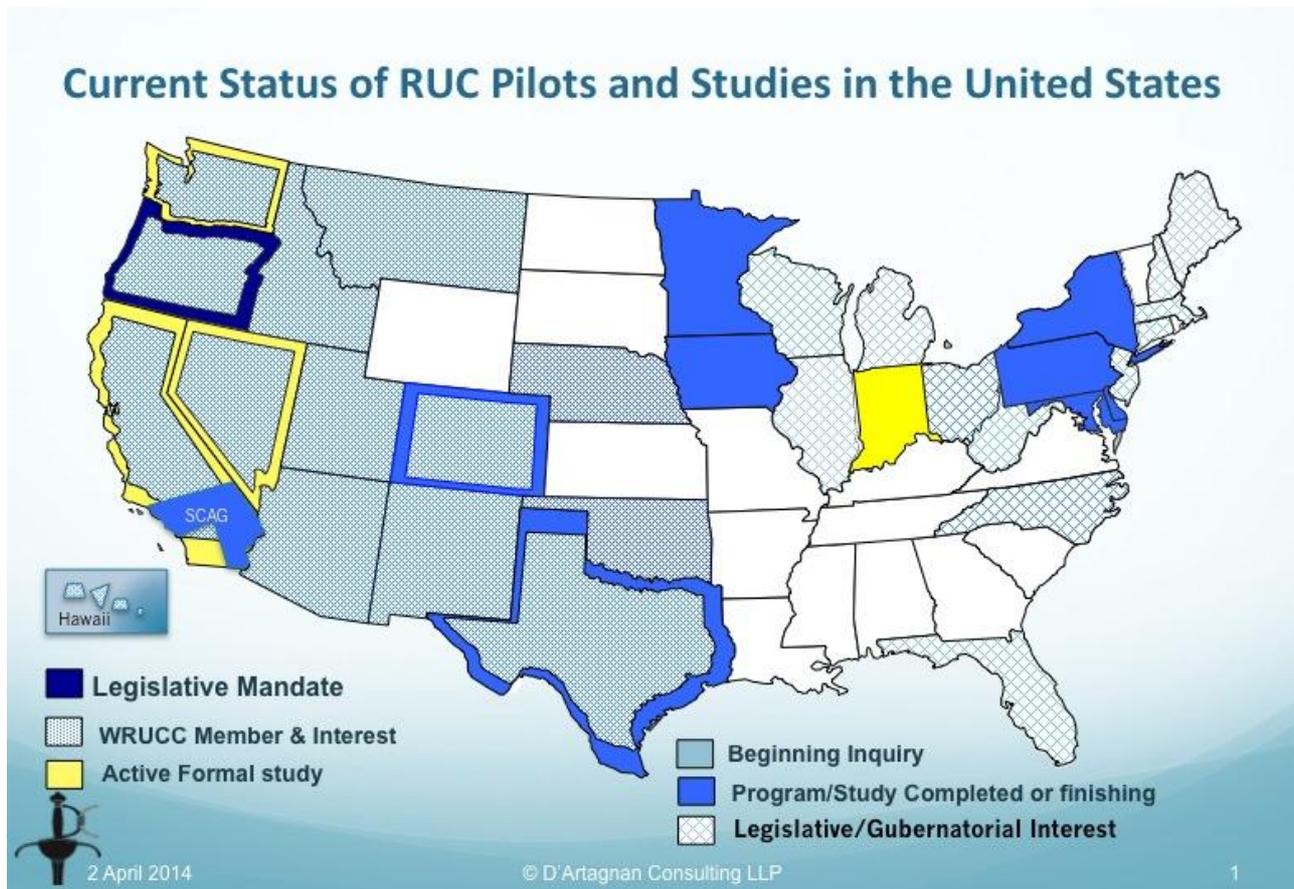


Towards RUC: the experience elsewhere in the US

The groundswell of support for RUC is growing across the United States (see Figure 1).

Significantly, it is being led by government departments and legislators.

Figure 1.



Source: D'Artagnan Consulting LLP

One of the most important developments is the formation of the Western Road Usage Charge Consortium (WRUCC), a voluntary coalition of state departments of transportation and specified others committed to collaborative research and development around the concept of RUC.

There are currently 12 western US states - including California - enrolled and actively participating in the WRUCC, sharing information and working shoulder-to-shoulder to push for fundamental reform of road funding.

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Indeed, California has well and truly commenced the journey towards the implementation of RUC. The Southern California Association of Governments is one of those leading the charge. Its 2012 Regional Transportation Plan recommended the long-term transition to mileage-based user fees to replace gas taxes by 2025.

California is the most populous state in the Union, home to 38 million Americans, and needs an estimated \$2.8 billion a year just to keep pace with its existing road maintenance. It is currently spending about \$685 million a year.

Another of the WRUCC members, Washington State, undertook a feasibility study in 2012 and is now working towards introducing legislation for a pilot of transition scheme in the 2015 legislative session.

Washington State has so far looked at three charging models:

- **Time Permit** - a flat fee to drive a vehicle an unlimited number of miles for a given period of time (e.g. a month or a year);
- **Odometer Charge** - a per-mile charge measured by odometer readings; and
- **Automated Distance Charge** - a per-mile charge measured by in-vehicle technology that can distinguish between in-state and out-of-state travel with periodic billing.

While the state government acknowledges that these RUC systems will cost more to collect than the gas tax, it also says they will produce greater and more stable net revenue over 25 years.

Meanwhile in Indiana, legislation has just been signed into law to conduct a study into alternative funding mechanisms, including options based on vehicle gross weight and mileage.

And in North Carolina, the State's Board of Transport is currently considering a report that recommends an RUC pilot study.

Sentiment on RUC is clearly shifting in the United States as governments grapple with falling gas tax revenues and a growing backlog of road maintenance and renewal works. These same governments are leading the community in exploring alternative funding sources like RUC.

The role of road pricing – funding an integrated transport system

A new approach to road access pricing also creates the opportunity to establish a sustainable revenue source for the funding of transport infrastructure and services.

Currently our road and rail infrastructure is underfunded. We are not spending enough on maintenance and renewal of existing infrastructure, nor are we investing adequately in new infrastructure to fill the missing links.

The TRN believes we need to adopt a more holistic attitude to transport pricing. For example, if paying a slightly higher access charge to use the road network meant increased funding for public transport and new infrastructure, hence less congestion on the network – wouldn't all transport users be better off?

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All transport users should have a choice – this means that the revenue collected from a road user-charge, must be invested back in to road and public transport infrastructure. Customers will accept a charge if they can see the investment. Choice and access are extremely important to the success of a new tax regime.

The TRN fully supports the IPA/AAA paper: *Road Pricing and Transport Infrastructure Funding – reform pathways for Australia* released in early 2014. There are many options that could be considered, however, the most important point in the document is that current taxes (registration, fuel etc.) need to be phased out as a new regime is phased in.

The challenge of road pricing reform

Instituting fundamental reform to road access pricing poses a number of difficult questions.

Can states reform road access pricing in their jurisdictions in the context of the current federal taxation and funding regime? Will motorists accept a ‘new’ charge while they are still paying Commonwealth fuel excise? What about state registration charges?

How do we address issues of equity and fairness? How do we compensate those disadvantaged by distance, low income and/or lack of alternatives?

How is revenue spent? Roads? Public transport? Both? If so, in what proportions?

How do we convince the community of the need for change?

A way forward

The TRN believes the problem is too big for one jurisdiction to tackle in isolation. Certainly, we would applaud a jurisdiction that introduced some type of pilot scheme or pilot project(s), but ultimately to effect real, long-term change the issues need to be addressed nationally – moreso because of the current complicated funding and revenue raising inter-relationships that exist across the three tiers of government.

Ideally, we need a nationally consistent approach that ensures fairness for all Australians.

It would require enormous political courage for any one jurisdiction to tread the reform path alone. That is why we need a bipartisan, national approach. We will not all agree on the solution or solutions, at least not initially – but we must agree to consider all the options.

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A positive outcome from this Review

The TRN believes this Review builds on recent inquiries and audits and provides a unique and timely opportunity to chart a new course for the way we finance and pay for our public infrastructure, particularly in the transport space.

We hope the information and understanding garnered at this Review will be applied to a national solution; and that the Commonwealth will commence discussions with the states and local government, as well as industry and the community, on a reform process and timetable to implement these options.

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