Fact Sheet

COAG ruling removes heavy vehicle cross-subsidies

A COAG-endorsed charges determination process will ensure heavy vehicle classes pay their share of increased road spending on better and safer roads

Heavy vehicles charges for cost recovery

The draft 2007 Charges Determination requires heavy vehicles to pay $1.83 billion towards total road spending costs of $11.04 billion. The National Transport Commission (NTC) was directed by the Australian Transport Council (ATC) to review heavy vehicle charges because:

- road spending by all levels of governments has increased by 29% since 2000 and current budget commitments suggest this trend will continue;
- the annual adjustment of heavy vehicle costs only applies to around 30% of the revenue base; and
- B-doubles and road trains do not recover their marginal (attributable) cost of road use. B-double use and access to the road network has increased significantly in recent years.

COAG and ATC directions

Informed by the Productivity Commission's *Road & Rail Freight Infrastructure Pricing Inquiry*, the Council of Australian Governments (COAG) and ATC set the framework and principles for the 2007 Heavy Vehicle Charges Determination.

COAG and ATC directed that the new determination should remove cross-subsidisation *between* vehicle classes. This has resulted in a re-balancing of heavy vehicle charges, with some registration costs falling and others increasing.

Cost recovery of heavy vehicles is the 'building block' to broader pricing and productivity reform, including incremental mass-distance-location charges. See Fact Sheet '*Why are heavy vehicle charges being reviewed?'*

PAYGO model endorsed

The Productivity Commission Inquiry (2007) independently audited and endorsed the methodology used to calculate heavy vehicle charges; noting that it is "conservative" in nature (i.e. resulting in lower charges).

Proposed changes to the way road costs are allocated to heavy vehicles have further reduced heavy vehicles' share of total road costs from 21% to 17%. This includes averaging road spending over a longer 7 year period to reduce 'price shocks' caused by spending peaks (Table 1).

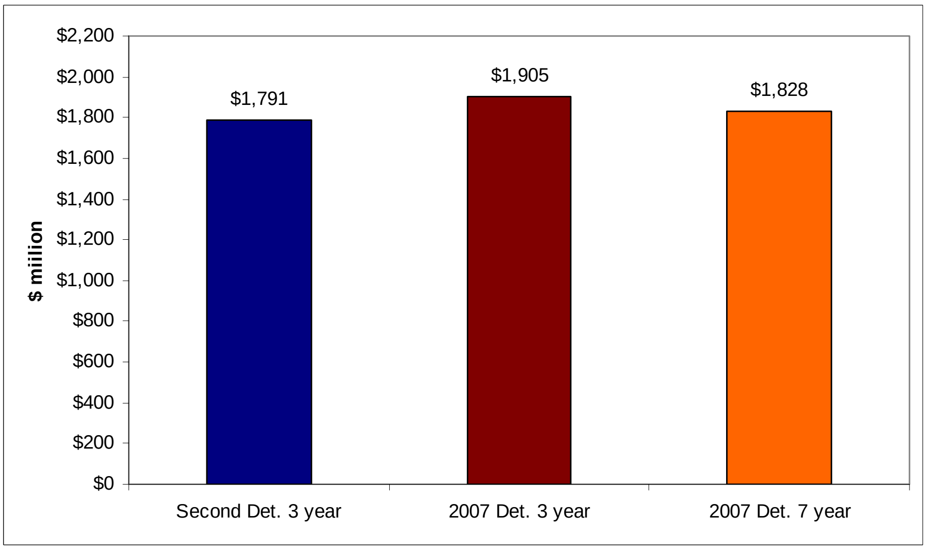


Table 1: Road cost based averaged over longer period (left)

Fact Sheet

Registration charges rebalanced

Registration fees for more than 38% of heavy vehicles will reduce (including 48,000 six-axle semi-trailer workhorses).

As required by COAG, B-doubles, road trains and heavy truck-trailers face registration fee increases of more than 7% phased over 3 years to remove existing vehicle cross-subsidies. For example, a 9-axle B-double faces a $7,045 registration fee increase phased-in over three years.

Impact on the fuel charge

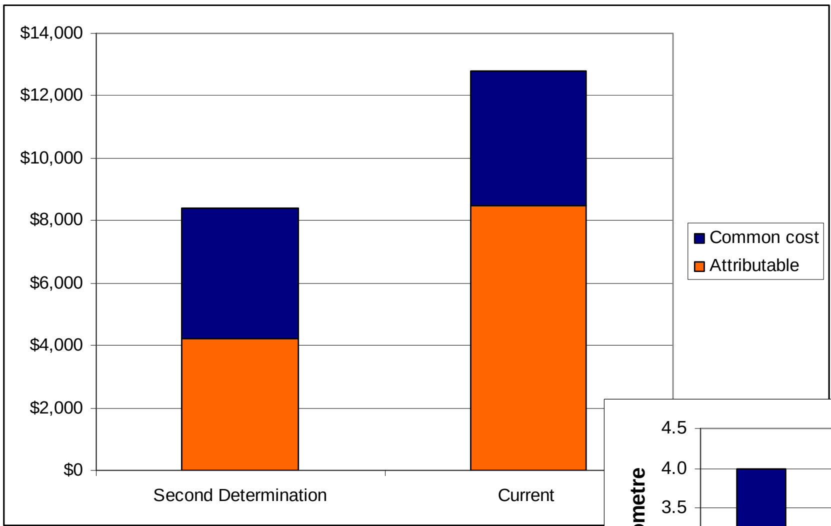
A proposed fuel charge increase of 1.367 cents per litre will increase average heavy vehicle fuel costs by 1.3%. The industry has experience in managing fuel price volatility, including a 37% increase between mid-2004 and 2007 (TransEco).

Why were B-doubles subsidised?

In 2000, when B-doubles were a new class of vehicle, their charges were 'capped' to prevent substitution by less safe road trains. This policy has prevented B-doubles from recovering their costs.

B-doubles are increasingly used on urban arterial roads and into ports. It is now clear that B-doubles and road trains operate on distinct networks. Vehicle substitution is, therefore, no longer a significant risk. See Fact Sheet: '*Road spending for safety and productivity'.*

Table 2: B-double under-recovery per vehicle (based on the current fuel charge)



Road train charges 'de-coupled'

Double and triple road train prime-movers are currently charged the same weighted average fee so trailer sets can be easily substituted. This means double road trains cross-subsidise triple road trains.

COAG and ATC directions require road train classes to at least recover their marginal (attributable) cost of road use.

Operating cost increases

B-double truck operating costs would increase by between 2.5 and 4.2% (average 3.2%) under the proposal. Independent impact analyses of livestock, linehaul, mining and bulk haulage case studies found overall truck operating costs would increase by up to 2.2%.

Industry's ability to pass on costs

For economic efficiency, the cost of road use should be reflected in the cost of products and services. Genuine cost increases should, therefore, be passed onto freight users and ultimately consumers.

Some larger hire and reward operators have contractual arrangements in place; particularly for fuel cost increases. Generally, smaller transport operators have less negotiating power and administrative resources to pass on cost increases.

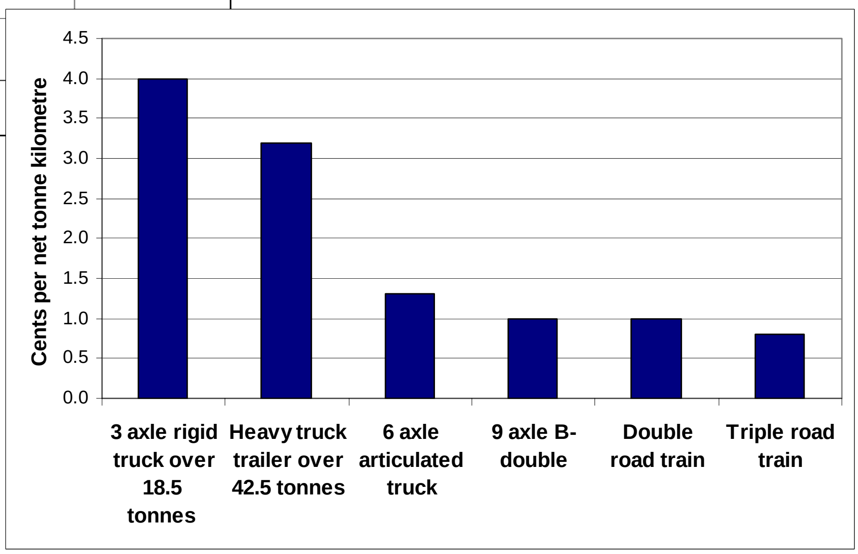
Fleet buying decisions

Because heavy vehicle charges are a relatively small component of overall vehicle operating costs, there will be little distortion of fleet buying decisions.

An NTC survey of transport operators in 2005 found B-double operating costs would need to increase by 15 to 25% for them to consider moving back to semi-trailers.

Once fully implemented, road use charges per net tonne kilometre for B-doubles and road trains remain lower than articulated and rigid trucks (see below).

Table 3: Road use charges by net tonne-kilometre



Fact Sheet

Impact on production costs

Heavy vehicle road use charges are a relatively small proportion of overall road freight costs. On average road freight costs represent 1.8% of business costs, rising to 3.2% for exports.

Industries producing bulk products (13%), minerals (8%), meat (7%) and wood products (11%) have the highest share of road transport costs.

Primary producers are able to access State-based registration fee concessions of 40-50%. This reflects the comparatively low kilometres of these vehicles.

Consumer cost impacts

Road freight costs contribute to 5% of grocery retail prices, rising to 5.5-6% in regional areas. The impact on a $100 grocery bill ranges from 2 cents using semi-trailers to 15 cents using B-doubles – adding 0.5 cents to a $3 carton of milk.

For stores in rural/remote Australia serviced entirely by B-doubles, the impact on a $100 grocery bill is 19 cents – adding 0.6 cents to a $3 carton of milk.

Public consultation

Public consultation will particularly focus on areas where COAG and the ATC provided no clear direction. This includes:

- the extent of enforcement costs included in the cost base;
- should vehicle classes recover their attributable (marginal) or full cost of road use;
- phase-in options to assist truck operators in passing-on cost increases;
- annual adjustment options to maintain cost recovery by vehicle class (a COAG direction); and
- common-sense charges to improve road access for high productivity vehicles.

The NTC's preferred option includes partial enforcement costs, attributable cost recovery of B-doubles and road trains and an extended three year phase-in of cost increases.

How you can get involved?

Formal public consultation on the options presented in the draft Regulatory Impact Statement close on the 17th August 2007. Interested parties should respond in writing by 20 July 2007 to participate in series of focus groups.

Submissions and focus group transcripts will be published on the NTC website. Briefings for key stakeholders are also available.

Where to from here?

The NTC has been asked to report back on the public consultation process to the next ATC meeting planned in November 2007. ATC has stated this determination will be implemented on 1 July 2008 (as required by COAG).

Fact Sheet

Proposed registration and fuel charges from 1 July 2008 (selected vehicles)

	Current	Preferred option		
		Year 1	**Year 2**	**Year 3**
Fuel charge	19.633	21.0	21.0	21.0
Registration charges ($ per vehicle)				
Trailer charge per axle	343	365	365	365
2 axle rigid truck, 4.5 - 7 tonnes	343	365	365	365
3 axle rigid truck over 18.5 tonnes, no trailer	914	808	808	808
4 axle rigid truck over 25t, no trailer	2,285	808	808	808
Heavy truck/trailer over 42.5 tonnes	**5,543**	**6,696**	**7,234**	**7,234**
6 axle articulated truck	4,912	4,817	4,817	4,817
B-doubles	**7,769**	**11,388**	**13,101**	**14,814**
Double road train	8,455	9,205	9,205	9,205
Triple road train	**10,170**	**13,456**	**14,926**	**16,396**
2 axle bus over 10 tonnes	572	365	365	365
Under-recovery ($m)	**132**	**30**	**14**	**0**