NATROAD

NATIONAL ROAD TRANSPORT ASSOCIATION

Submission to the National Transport Commission

Heavy Vehicle Charges consultation report

February 2023

Executive Summary:

The road freight transport sector is under enormous cost pressure, especially in the light of escalating diesel prices and the impact of widespread flooding.

NatRoad remains wedded to its position that if governments are going to increase the road user charge (RUC) and registration charges, a small percentage increase should be adopted.

We believe this should remain in place until a revamped cost model is implemented.

NatRoad believes that it is futile to base increased RUC and registration charges on past State and Territory road expenditure which gives insufficient attention to needed road maintenance.

NatRoad agrees that a fixed percentage charge increase is better than reliance on outmoded economic modelling. Plans to increase heavy vehicle charges by 6 or 10 percent are inconsistent with industry's ability to pay (which is diminishing for a broad range of economic reasons, recently added to by the effect of widespread flooding.) If Transport Ministers insist that this is the required acceptable range then NatRoad seeks for the figure to be 6%, not higher and asks for a consideration of a zero increase in the first of the three years.

Introduction

1. The National Road Transport Association (NatRoad) is pleased to respond to the National Transport Commission's (NTC) consultation request. NTC is seeking feedback on a Consultation Paper entitled *Heavy vehicle charges consultation report*[1]. The NTC has published the Consultation Paper following the Infrastructure and Transport Ministers Meeting's (ITMM's) December 2022 proposal to increase heavy vehicle charges between 6 to 10 per cent each year between 2023–24 and 2025-26.[2]

2. NatRoad is Australia's largest national representative road freight transport operators' association. NatRoad represents road freight operators, from owner-drivers to large fleet operators, general freight, road trains, livestock, tippers, car carriers, as well as tankers and refrigerated freight operators.

Position: Zero then Small Percentage Increases

3. We note that in a number of prior submissions NatRoad recommended, on the basis of simplicity, that if governments were to increase the road user charge (RUC) and registration charges a small percentage increase or the rate of inflation, whichever is the lower, be adopted. This solution, we proposed, should be in place until a revamped cost model was implemented, likely as part of Heavy Vehicle Road Reform (HVRR).[3] For the reasons that follow, a zero increase is proposed for the first of the three years in question.

4. In the last twelve months in particular, high-cost pressures have left many NatRoad members unable to pass on the rapid increase in the costs of diesel[4]. This problem is often caused by the inadequacies of contractual provisions. Any changes to price are often regulated in contracts that are prepared by the customer. Customers having significant buying power and almost always have a standard form contract that they require transport providers to agree to. These contracts can be longstanding agreements, or the standard contract can form the basis for a 'Request for Quotation' or tender process. Unfortunately, NatRoad has been confronted with examples of contracts where members have no fuel levy or review process at all, with the operator simply expected to absorb the risk associated with fuel price changes. In addition, other contracts set out a process where a base fuel price is nominated, and the operator has a right to 'consult' about price changes where a significant increase to fuel prices occurs. These sorts of clauses, of course, do not guarantee any rate review.

5. The contractual terms discussed in the prior paragraph may be less damaging to members following the implementation of the new unfair contracts regime in November 2023.[5] However, that effect is yet to be experienced.

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[1] Heavy Vehicle Charges Consultation Paper - December 2022.pdf (ntc.gov.au)
[2] itmm-communique-9-december-2022.pdf (infrastructure.gov.au)
[3] Heavy Vehicle Road Reform | Department of Infrastructure, Transport, Regional Development, Communications and the Arts
[4] Discussed here: The price of diesel is increasing — and when it comes to the cost of living, that means more bad news for Australians - ABC News
[5] From 10 November 2023, the *Treasury Laws Amendment (More Competition, Better Prices) Act 2022* (Cth) will introduce amendments to the unfair contract terms regime in the Australian Consumer Law.

6. Further, the general inability of members, particularly smaller members, to pass on costs has led to an increase in insolvencies[6] or the sale of businesses in road transport, the latter factor one that has been reflected in NatRoad membership changes.

7. Cost pressures have also arisen because of the rapid escalation of other input costs and the effects of the extensive floods on road transport. The Reserve Bank[7] has said this abo*ut* the inflation outlook:

   Headline consumer price inflation is expected to peak around 8 per cent at the end of 2022, before starting to decline in early 2023; this compares with a forecast peak of 7¾ per cent in the August Statement. The upward revision to the near-term peak reflects stronger-than-expected pass-through of upstream cost pressures, as well as estimates of the impact on food prices of the recent flooding in the eastern states.[8]

8. The latter impact has now spread to Western Australia[9] with access of freight vehicles to the flood affected areas increasingly problematic. On both the west and east coasts, many road freight operators have lost money on contracts where they were still required to deliver goods but have had to divert from a profitable route to one that accommodates the flood damage but adds much more expense to the delivery task.

9. Also in the context of the recent floods, the system that is in operation means that government decisions give new projects priority over road maintenance spending. In particular Infrastructure Australia has noted that the national road maintenance funding backlog was estimated to have increased from $1.96 billion to $2.2 billion between 2016 to 2018.[10]

10. There is no funding certainty for road authorities to make optimal lifecycle decisions. The recent floods have led to a noticeable decrease in road quality with urgent repairs still underway and a "pot hole" crisis around Australia.[11] The impact of weather events is expected to increase due to climate change; the funding system does not prioritise road maintenance appropriately. In any event the costs of repair and replacement of roads post natural disasters should be a whole-of-community cost.

11. This widespread flooding can be added to the list of reasons that the NTC has set out as a basis for the fact that heavy vehicle charges have not increased in line with the modelled cost base:

    There have been several reasons why charges have not been set to fully recover the heavy vehicle cost base in recent years, including: ▪ recognition that a number of heavy vehicle operators find it difficult to pass on increases in heavy vehicle charges to their customers ▪

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[6] How to interpret ASIC insolvency statistics | ASIC Series 2.0 statistics table 2.2 show a figure of 268 insolvencies for 2021-22 in respect of Transport and warehousing with a figure of 204 to December 2022 in the 2022-23 year to date.

[7] Economic Outlook | Statement on Monetary Policy – November 2022 | RBA

[8] Ibid

[9] The flood crisis in WA and the NT shows Australia's neglected remote road network is at breaking point. What can be done to fix it? (msn.com)

[10] P 60 2022 Regional Strengths and Infrastructure Gaps: Overview | Infrastructure Australia

[11] https://www.theguardian.com/australia-news/2022/nov/28/potholes-warped-rail-lines-and-washed-away-roads-flood-hit-regions-face-infrastructure-crisis

consideration of adverse economic conditions including fires and drought ▪ the impact of the COVID-19 pandemic on the economy.[12]

12. The fact that a number of heavy vehicle operators find it difficult to pass on increases in heavy vehicle charges remains a major NatRoad concern. Hence NatRoad retains its view that small annual percentage increases should be imposed because of members' operating environment where cost pressures have become more intense. We submit that, at the least, a zero increase in the first of the three-year period followed by an increase at the lowest range proposed should be implemented.

13. Because of the current state of the industry, nothing has changed NatRoad's view that small percentage increases should remain the basis of increases to heavy vehicle charges, if any, following a zero rise in 2023-24. This position also aligns with NatRoad's earlier position that a new costing model is needed to underpin the HVRR process. In the meantime, a zero or a small, fixed price increase, particularly in the first year of the three-year period, is a better outcome than reliance on PAYGO or alternative models to set so-called recovery amounts.[13] The rationale for this statement has been comprehensively communicated to the NTC in many prior NatRoad submissions. The model against which the so-called "gap" discussion in the Consultation Paper occurs does not identify costs that should be borne by the whole community (such as flood related construction) and the costs to be borne by the heavy vehicle industry. As well, the current model is fundamentally flawed.[14] What is needed is a reformed road user charging system that affects all road users, not just heavy vehicles. [15]

Issues of "cost recovery"

14. In outlining the NatRoad position, as above, we are aware that the direction from Transport Ministers is that consultation should focus on an increase in a range between 6 and 10 per cent per annum. Obviously from the prior discussion, the lowest level increase possible is sought by NatRoad.

15. The NTC says that:

    The increases of between 6 and 10 per cent per annum would be significantly less than the amount of around 38 per cent estimated as necessary to fully recover the heavy vehicle share of recent road construction and maintenance costs in 2023–24.[16]

16. As indicated in paragraph 13 above, we do not support such a comparison because the model from which it is derived is fundamentally flawed.

17. Part of the rationale for small, fixed percentage increases is to provide a small cost increase in times where the industry has suffered a large number of negative impacts, some of which were outlined earlier in this submission, but which have been traversed in prior NatRoad submissions. Industry profit margins are below 2.5%.[17] This is another reason to favour a

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[12] Above note 1 at p16
[13] A position outlined in detail in this submission to the NTC: https://www.ntc.gov.au/submission_data/1125
[14] As outlined in the submission referenced in note 13.
[15] This has become urgent in part based on electric vehicle market growth: Road User Charging for Electric Vehicles - Infrastructure Partnerships Australia
[16] Above note 1 p18
[17] IBIS World *Road Freight Transport in Australia* Feb 2021 p13

zero increase in the first year. Thereafter the lowest possible cost increase should be imposed.

Conclusion

18. NatRoad continues to support the position that a zero increase in the first year should be considered. As the system moves towards HVRR and the work undertaken in that area provides an appropriate, forward looking cost base for heavy vehicle charges, the most appropriate way of increasing heavy vehicle charges over the next three years is through the addition of the lowest possible cost burden. NatRoad members are strongly of the view that the construction of roads is a community benefit and therefore the whole community should pay for this service.

19. Whilst the CPI was at very high levels in 2022 (9.2% for the transport component in the September 2022 quarter) an alternative to utilising a range of 6-10% could be implemented. In other words, NatRoad suggests that as an adjunct to the feedback already contained in this submission, Ministers could indicate that the relevant fixed percentage rate chosen would apply or CPI, whichever is the lesser. This proposal is proffered because in NatRoad members' experience customers are less reluctant to accept a CPI increase than a general market increase.