NATROAD

NATIONAL ROAD TRANSPORT ASSOCIATION

Submission to the 2023 NSW Independent Toll Review

28 July 2023

Executive Summary

Sydney's motorway tolling system is broken. The pricing approach has lost sight of achieving outcomes for public benefit.

The pricing of toll roads has shifted significantly to now being set with a three times multiplier on most toll roads.[1]

There is no transparent link with cost recovery, with the heavy vehicle toll multiplier set well above the cost of road damage.

There is no priority placed on transport planning outcomes and creating liveable urban communities by seeking to incentivise goods movement on motorways.

There is no understanding of commercial realities – higher tolls on trucks are justified by claims of the higher value of time savings, which do not stack up to scrutiny.

Despite the lessons of the pandemic and related supply chain crisis, there is no recognition that trucking is an essential industry.

Piling on costs to a small business industry, private toll road operators (with government agreement) are directly contributing to making a difficult business environment even worse, with impacts on the viability and safety of small business operators.

The new NSW Government should act to restore the public benefit from the operation of private toll roads.

NatRoad recommendations for the NSW Government:

1. **Set a truck toll multiplier cap of two times the light vehicle toll and move all new tolling concessions and variations to this pricing principle.**
2. **For existing toll road concessions, the Government should expand their election commitment to reduce the multiplier to two times on the M5 East and M8 to other parts of the tolling network.**
3. **Introduce a lower variable truck toll rate to incentivise off-peak journeys.**
4. **Introduce discounts for multiple truck toll journeys.**
5. **Rule out the introduction of a four or five times truck toll multiplier.**
6. **Exempt zero emission heavy vehicles from the truck toll multiplier and implement a 1.5 times multiplier for Euro VI heavy vehicles, incentivising a low and zero emission future.**
7. **Consult on regulatory options for requiring the customers of road freight operators to pay for tolls, when incurred, in addition to the cost of the freight transport service.**
8. **Establish an independent regulator to assess and approve new and varied tolling concessions and their pricing arrangements for road users.**

[1] This was a policy decision of the former NSW Government. Prior to 2011, the M7 opened with no truck toll multiplier, and the Cross City Tunnel and Lane Cove Tunnel opened with a two times multiplier. See RTA, 2010, Post Implementation Review: M7 Motorway, Cross City Tunnel and Lane Cove Tunnel, p12, p17, & p23.

1. About NatRoad

The National Road Transport Association (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, express, car carriers, as well as tankers and refrigerated operators.

NatRoad has provided extensive advocacy on the need for tolling reform, including—

- Submissions to the NSW Legislative Council inquiry into road tolling regimes on 21 May 2021 and 17 June 2021.
- In partnership with the Victorian Transport Association and the Queensland Trucking Association, commissioning the Australian Economic Advocacy Solutions 2019 report on the commercial attractiveness of using toll roads for the Australian Road Transport Industry.
- As a member of the Australian Trucking Association (ATA), supporting the ATA submissions on independent regulation of infrastructure (2019) and the acquisition of Westconnex (2018).

2. Public purpose of the motorway network and tolling system

Roads – and in particular motorways – are economic infrastructure.

For passenger vehicles (including public transport services), they provide improved connectivity for access to jobs, services and community.

For freight and commercial vehicles, motorways enable the economy to function by improving connectivity for goods, exports, and service vehicles.

Transport infrastructure is a vital component of cities and creating liveable urban environments. The transport system, including how we plan, utilise and price it, is an integral component of creating a liveable and productive global city.

The purpose of motorways is not to drive increasing private profit or be a never-ending financing mechanism. The purpose of the motorway network must remain public, and it must remain focused on improving connectivity and the movement of goods and services. This focus on connectivity is not just about where the infrastructure is built – but it must also include user pricing to ensure the infrastructure provides efficient freight movements.

Under the current approach to user pricing, heavy vehicle tolls and setting the truck toll multiplier has no basis on cost recovery, and results in serious negative impacts on the ability of the motorway network to play its public role in creating a liveable, productive and global Sydney.

Our suburbs and urban communities should be focused on liveability – which should include access to goods vehicles, but incentivising through traffic heavy vehicles onto motorways and off suburban streets where those options exist.

3. The current truck toll multiplier has no justification

Sydney's toll road prices are not a result of a competitive market. They are regulated by government through the establishment and setting of terms in toll road concessions, and toll roads are essentially a monopoly infrastructure. There is only one major private toll road operator in Sydney, and for heavy vehicles, bans on alternate routes often compel them to use toll roads.

The justification for the current heavy vehicle toll multiplier has repeatedly been shown to not exist—

- In 2015, the Victorian Auditor-General reported that agencies were unable to justify the substance of the arguments for tolling goods vehicles as the preferred funding approach, and that there was no objective assessment of alternative funding approaches. Due to the repeated arguments in favour of the multiplier being national consistency – findings in other jurisdictions that there is no justification for the multiplier are relevant to decision making in NSW.[2]
- In 2017, the then NSW parliamentary inquiry into road tolling recommended that the NSW Government should identify and publish the evidence supporting the decision to charge heavy vehicles three times the rate of light vehicles.[3]
- In 2018 and 2019, the Australian Trucking Association with the support of their members (including NatRoad) published evidence that the truck toll multiplier far exceeded the level required to account for road damage from heavy vehicles.[4]
- In 2019, NatRoad, the Victorian Transport Association (VTA) and the Queensland Trucking Association (QTA) commissioned a report on toll roads which showed a complete lack of net operational savings for trucking businesses in using a range of toll roads at different times of day.[5]
- In 2022, the NSW parliamentary inquiry into road tolling recommended that toll pricing should be realigned to incentivise trucks off suburban streets, including the potential option of extending toll relief schemes to the road freight industry. The committee noted that where trucks are forced to use toll roads as a result of regulation that it is "inequitable to charge them three times as much as cars."[6]

The justification which is often put forward in favour of the three times truck toll multiplier includes—

- national consistency
- higher road damage costs
- due to higher operating costs for heavy vehicles, the value of time savings is greater
- road space requirements for heavy vehicles.

These arguments have been shown to lack evidence.

In particular, previous analysis of the marginal cost of road wear from a fully laden six axle truck shows that less than 20 per cent of the increased truck toll multiplier is needed to recover road

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[2] Victorian Auditor-General, August 2015, Applying the High Value High Risk Process to Unsolicited Proposals, pp xxii, xiii, 15, 38.
[3] NSW Legislative Council, October 2017, Road tolling in New South Wales, p xi.
[4] ATA, November 2019, 2019 Australian Infrastructure Audit submission, p5.
[5] AEAS, December 2019, The commercial attractiveness of using toll roads for the Australian Road Transport Industry, p5.
[6] Legislative Council, August 2022, Road Tolling Regimes, Portfolio Committee No. 6, Report 16, p75

damage costs.[7] On top of this, a significant proportion of the truck fleet operates below mass limits[8] so cost recovery based on trucks being fully laden will result in over collection of revenue.

Based on these cost assessments, even setting the truck toll multiplier at two times the light vehicle toll would continue to comfortably exceed the marginal cost of road wear. Whilst light vehicle tolls are often set high enough to recover heavy vehicle road wear costs without any multiplier, a 1.5 times multiplier would recover the light vehicle toll rate (including infrastructure financing), heavy vehicle road wear damage, and additional revenue.

Replacing the misguided three times multiplier policy with a maximum two times multiplier may need to be implemented progressively. NatRoad strongly welcomes the new NSW Government's election commitment for reducing the multiplier to two times on the M5 East and the M8 for 10 trips a week for two years as a strong step in the right direction.

Moving forward, the principle of the two times multiplier should be embedded in the NSW Government pricing principles for toll roads and apply to all new toll road concessions or variations. For existing toll road concessions, the NSW Government should prioritise extending toll relief schemes across the network similar to the M5 East/M8 truck toll relief commitment (including relaxing the cap on the number of trips).

Expanding this toll relief should also include incentivising off-peak travel with lower tolls, and discounts for multiple journeys. Both measures would address public policy outcomes, including incentivising movements outside of peak times and shifting freight tasks with multiple trip movements onto the most efficient roads in the network and off suburban streets.

4. Commercial reality of heavy vehicle tolls

There is a misguided assumption at the heart of the justification given for higher heavy tolls – that the higher tolls are covered by the commercial value of using the roads and that these costs can be passed onto customers of road freight.

This rationale shows a complete misunderstanding of the commercial reality of operating trucking businesses.

In research commissioned by NatRoad, VTA and the QTA it was found that—

> Based on this analysis there is little business case for toll road usage by a transport operator in many instances. For those assets that there is a business case, often the class of truck's usage in that area would be impractical. One of the issues that is likely to exacerbate toll road usage for road transport operators are heavy vehicle restrictions on neighbouring free network routes. This aspect coupled with the net operating expense effectively makes the toll road usage a tax payable to the toll road operator for the road transport operator. That is, it is a cost or expense that cannot be avoided.[9]

It is worth noting this 'tax' is payable to private company profits, not public revenue. Additionally, it is payable by a small business dominated industry to a very large, global, corporate entity.

[7] ATA, 2019, p5.
[8] National Transport Commission, February 2017, Increasing heavy vehicle volumetric load capacity without increasing mass limits discussion paper, p7.
[9] AEAS, 2019, pp5-6.

The AEAS research also found that—

> At present tolls are determined by commercial/funding factors for the toll road operator, and not network efficiency criteria. Accordingly the intended benefits of the toll roads – that is, the time savings and usage are not being achieved. Given the relationship that exists between price and average daily usage if Government wishes to increase toll road usage by road transport operators then the price of the toll road should be reduced.[10]

AEAS found that time savings and vehicle operating cost savings are regarded as insufficient to cover the high toll price, which impedes the efficient movement of freight and misses an opportunity to reduce congestion on alternative routes.[11]

In addition to the insufficient business case of using overpriced toll roads, road freight transport operators are also unable to simply pass on increased costs.

The NatRoad submissions to the 2021 inquiry on road tolling put forward the difficulty that our members face when trying to pass on costs, including take it or leave it contracts and the difficult commercial reality of trying to negotiate higher transport prices.[12]

Industry research has shown that businesses that can raise their prices are rarely able to increase them by more than CPI.[13] But this has to include increases to wages, the road user charge and registration charges, road tolls, port access charges, vehicle costs (including maintenance and new equipment), work, health and safety (including costs relating to the pandemic), and other business costs.

5. Proposed four and five times truck toll multipliers

The summary of work completed prior to the election of the Minns Government that was published with the 2023 review contained a heavy vehicle pricing proposal which would worsen public outcomes, by penalising vehicles which move freight in fewer individual truck trips.

The NSW Government should rule out implementing four and five times truck toll multipliers, which would increase truck tolls by up to 67 per cent.

The option considered by the former government would see a new four times multiplier for 19 metre combinations and a new five times multiplier for combinations greater than 19 metres.[14] Considering the three times multiplier already far exceeds the marginal cost of road wear – the four and five times multipliers would significantly widen the gap even further.

This revenue raising measure ignores the benefits of moving freight with fewer individual truck trips. When moving 1,000 tonnes of freight, a 12.5 metre long truck (the maximum length that would continue under the existing three times multiplier if this proposal proceeded) requires 77 individual trips to get the freight task done. A 19 metre semi-trailer can move the same freight task in 42 individual trips, whilst a 26 metre B-double can get it done in 26 trips. This reduction in truck trips

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[10] AEAS, 2019, p6.
[11] AEAS, 2019, p7.
[12] NatRoad, May 2021, Inquiry into road tolling regimes submission, pp8-9.
[13] ATA, February 2023, Heavy vehicle charges consultation report submission, p4.
[14] NSW Treasury, June 2023, Toll review: Summary of work completed prior to election of the Minns Labor Government, pp28-29.

reduces fuel use, reduces emissions, reduces road pavement damage and also reduces the amount of road space required by heavy vehicles to move the freight task.[15]

This proposal would also produce drastically higher tolls for no extra value compared to the existing pricing system. For a typical 26 metre B-double, the proposal would increase tolls by 67 per cent and for a typical 19 metre general access semi-trailer, tolls would escalate by 33 per cent. In return for these higher prices, trucking operators would receive no additional value or savings compared to what they get today.

Table 1: Example of projected increases to truck tolls under higher multipliers

Toll road	Existing truck toll (full length – 3 times multiplier)	4 times multiplier (19 metres)	5 times multiplier (greater than 19 metres)	Maximum increase per trip
M7	$28.53	$38.04	$47.55	+$19.02
M5 South West	$16.46	$21.96	$27.45	+$10.99
NorthConnex	$28.06	$37.40	$46.75	+$18.69

6. Toll pricing for public benefit – new lower tolls to reduce emissions

Reducing both noxious and carbon emissions from road freight transport is dependent on the investment decisions of trucking operators. The introduction of new, lower tolls for low and zero emission vehicles would accelerate the uptake of these vehicles by improving their total cost of ownership. This would accelerate public outcomes for both improving urban air quality (noxious emissions) and achieving net zero carbon emissions.

NatRoad recommends that Euro VI heavy vehicles should have a toll multiplier of 1.5 times the light vehicle toll. This would provide an incentive for cleaner freight transport in urban areas whilst still recovering road wear costs on top of the light vehicle toll and improve the business case for investment in the cleanest diesel heavy vehicles.

Additionally, NatRoad recommends that zero emission vehicles should be exempt from the heavy vehicle multiplier. Zero emission vehicles have clear public benefits for urban freight transport – reducing both noxious and carbon emissions, whilst also reducing engine noise. The early use case application for battery electric trucks is in urban environments. However, these vehicles often require a significant upfront capital cost for both the vehicle and charging infrastructure. Removing the truck toll multiplier is a practical and significant measure that the NSW Government can implement to improve the business case for electric and zero emission trucks and accelerate the shift to net zero emissions.

[15] ATA, March 2018, Truck Impact Chart (Second Edition), p26

7. Mandatory payment of truck tolls for transport customers

Under existing NSW regulations, customers utilising a taxi service which travels on a toll road pay the toll in addition to the taxi fare, if the toll is incurred during the hiring.

This important principle acknowledges the commercial reality of hire and reward transport services – toll fares cannot be absorbed by the transport service provider.

The NSW Government should consult on regulatory options for extending this principle to hire and reward road freight operators – so that where a toll is incurred during the transport service is applied to the customer, in addition to the freight transport service fee.

8. Over charging heavy vehicles risks undermining public policy goals for the transport network

The pricing principles adopted for NSW toll roads – in particular under the former NSW Government – essentially shifts the financing burden for new motorways onto heavy vehicles. This risks increasing congestion (which is primarily a result of light vehicle traffic movements) by under-pricing light vehicle movements compared to the cost of new motorway construction.

The approach of building new motorways increasingly financed by heavy vehicle tolls, together with toll relief schemes which have traditionally only focused on light vehicles, essentially reduces the cost of driving for light vehicles on this expanded network.

Before considering a potential Sydney CBD congestion charge zone as raised in the discussion paper, the NSW Government should first end the practice of subsidising light vehicle movements with heavy vehicle tolls and reduce the heavy vehicle toll multiplier to a cap of two times the light vehicle toll.

9. Independent regulation

NatRoad has repeatedly advocated for independent regulation of infrastructure user charges, including both for the broader road network (through an independent regulator established through Heavy Vehicle Road Reform) and in the interim, by expanding the role of the NSW Independent Pricing and Regulatory Tribunal (IPART).[16]

There is a strong financial motivator for governments to focus infrastructure privatisation arrangements on maximising the sale value of the asset, or reducing the upfront capital investment in new assets such as motorways. This argument has been picked up by both the ACCC and the ATA, and it means that post-privatisation arrangements (such as user pricing) receive less consideration and their impact on competition and public policy outcomes.[17]

This creates a strong public policy reason for independent oversight of toll road concessions and pricing.

[16] NatRoad, 2021, pp9-10.
[17] ATA, 2019, p8.

10. Recommendations

NatRoad recommends that the NSW Government should:

1. Set a truck toll multiplier cap of two times the light vehicle toll and move all new tolling concessions and variations to this pricing principle.
2. For existing toll road concessions, the Government should expand their election commitment to reduce the multiplier to two times on the M5 East and M8 to other parts of the tolling network.
3. Introduce a lower variable truck toll rate to incentivise off-peak journeys.
4. Introduce discounts for multiple truck toll journeys.
5. Rule out the introduction of a four or five times truck toll multiplier
6. Exempt zero emission heavy vehicles from the truck toll multiplier and implement a 1.5 times multiplier for Euro VI heavy vehicles, incentivising a low and zero emission future.
7. Consult on regulatory options for requiring the customers of road freight operators to pay for tolls, when incurred, in addition to the cost of the freight transport service.
8. Establish an independent regulator to assess and approve new and varied tolling concessions and their pricing arrangements for road users.