



AUSTRALIA'S FUTURE TAX SYSTEM
- CONSULTATION PAPER -

AUSTRALIAN RAIL TRACK CORPORATION SUBMISSION
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KEY POINTS:

- **Australia's existing tax arrangements relating to transport need reform.**
- **Existing tax arrangements do not enable people to make economically efficient transport choices based on transparency.**
- **Reform should support efficient road and rail pricing and create a competitively neutral framework for modal competition.**
- **Mass-distance charging for heavy road vehicles should be introduced as soon as possible.**
- **Taxation arrangements should encourage the introduction of new, more environmentally efficient technology in rail.**
- **An offset for intermodal railways fuel should be provided, equivalent to that for heavy road vehicles.**
- **Accelerated taxation depreciation should be allowed for more efficient rolling stock and infrastructure.**

AUSTRALIAN RAIL TRACK CORPORATION

ARTC is a company under the Corporations Act whose shares are owned by the Commonwealth of Australia which is represented by the Minister for Infrastructure, Transport, Regional Development and Local Government, and the Minister for Finance and Deregulation.

ARTC commenced operations on 1 July 1998, and currently has responsibility for the management of over 10,000 route kilometres of standard gauge track in South Australia, Victoria, Western Australia and New South Wales. ARTC has a 60-year lease of the interstate and Hunter Valley rail networks in NSW, and the existing lease for the Victorian interstate network has recently been extended by an additional 45 years. ARTC also has an agreement with WestNet Rail to provide a one-stop shop for interstate network access from Kalgoorlie to Perth.

ARTC's corporate strategy is to:

- Provide seamless and efficient access to users of the interstate rail network;
- Pursue a growth strategy for interstate rail through improved efficiency and competitiveness;
- Improve interstate rail infrastructure through better asset management and coordination of capital investment;

- Encourage uniformity in access, technical, operating and safe working procedures; and
- Operate the business on commercially sound principles.

At current access pricing levels, utilisation of the interstate rail network does not generate sufficient revenue to recover full economic cost of long term asset sustainability (measured on an optimised replacement basis commonly recognised under economic regulation models). This largely results from the bulk of ARTC's revenue on the interstate rail network being derived from the intermodal freight transport market, where rail competes with other transport modes, particularly road freight transport. Rail is generally a price-taker in these markets, and therefore access pricing must remain low to keep rail competitive. The ACCC acknowledges this:

“...broader freight services, such as road and sea, affect the rail industry in a number of ways, including potentially providing competitive pressure that affects the service standards and prices rail needs to offer its customers.”¹

As such, any distortions in pricing of transport and infrastructure usage, impacts on rail and ARTC's profitability and sustainability.

ARTC aims to increase utilisation of its network by assisting to maintain and improve rail's competitive position in both national and regional logistics markets. Through targeted investment, pricing, network management, and applying low cost maintenance practices in order to improve rail's reliability, transit time and yield, ARTC has contributed to the increase in rail's share of the East-West intermodal land transport market to 80%. ARTC aims to maintain this position, and apply a similar strategy to obtain an improved rail transport outcome on the North-South (Melbourne-Sydney-Brisbane) interstate corridors.

INTRODUCTION

As it states in the consultation paper, the “...efficient movement of people and goods is an important contributor to productivity and well being.” In the face of climate change and carbon pollution reduction, it becomes critical that productivity and well being are maximised, with sustainability being built into Australia's transport systems. Any economic development must be implemented with sustainability in mind, and the taxation system will play a large part in facilitating the efficient use of transport modes and networks, and in accounting for externalities such as greenhouse gas emissions.

However, incongruity seems to exist in terms of certain Government policy objectives related to climate change, and the nature of Government taxes and regulations. Ultimately, these need to align in order to produce the most efficient outcomes for the transport sector in terms of influencing choice of transport modes. Unless current arrangements are rectified, decisions made on transport modes will be distorted and produce sub-optimal outcomes.

This submission addresses the three transport specific consultation questions (Q12.1-12.3) but the primary focus is on 12.3, which ARTC considers most significant. The right economic framework is required in order to encourage efficient behaviours in relation to the transport market, and the taxation system should support this.

¹ ACCC – Final Decision, Australian Rail Track Corporation, Access Undertaking – Interstate Rail Network, July 2008:12.

ROAD PRICING

A key issue for ARTC is the continuing imbalance between heavy road vehicle charges and rail pricing frameworks. Heavy vehicles are currently undercharged for road usage in Australia and this must be corrected as a matter of urgency. Current road pricing based on averages and network wide aggregates is not reflective of true costs, especially in relation to heavy vehicles. It is widely recognised that certain heavy vehicles are causing significant road damage and maintenance expenses are under-recovered. Heavy vehicles are paying only marginal cost for using the road network and are making little contribution to shared infrastructure and other road-related costs, and they are not paying for costs related to externalities such as noise and pollution.

In general, there is a lack of linkage between heavy vehicle road charges and revenue raised, to specific road maintenance and investment. This linkage is much more transparent in the case of rail. While the under-charging of road transport continues, there will be more freight moved on road, and less on rail, which is safer and more environmentally efficient.

There needs to be competitively neutral pricing and a move toward full economic cost recovery for both road and rail. When road and rail are able to compete efficiently and effectively, on the same basis and terms, only then will this result in the most effective use of, and investment in, transport modes to produce a more efficient transport outcome for the economy.

Efficient pricing should be underpinned by access to infrastructure on competitively neutral terms. As a minimum, subsidy of modes should be on an equivalent basis (in terms of recovery of full economic cost). However, as an overarching objective, subsidies by taxpayers should be minimised. On this basis, the relative competitiveness of road and rail will drive efficient investment decisions in each mode.

ARTC fully supports the creation of a competitively neutral framework for modal competition. To this end, Mass-Distance charging for heavy road vehicles should be introduced and in such a way that reflects the true road user costs.

Mass-Distance Charging for Road

There is increasing interest in the potential for more direct pricing mechanisms such as technology based mass-distance charging as has been initiated internationally. ARTC believes that moves to implement mass-distance charging in other countries demonstrate that technology is available and is feasible. Whilst the Australian environment may be different to that of other countries, this should not represent a barrier to the available technology.

In ARTC's view, an efficient means to price the variable (or incremental) aspects associated with road use is to individually charge vehicles for use based on mass, distance and time-of-day. The time-of-day component is relevant particularly for the pressing issue of congestion in metropolitan areas. Failing to price on a time-of-day basis will lead to a sub-optimal economic outcome. Time-of-day pricing is also an important consideration for the overall design of a road-user pricing scheme.

ARTC recognises that the feasibility in terms of costs and benefits of a technological solution to implement mass-distance charging needs to be assessed. In this regard, it should be noted that the benefits of GPS tracking and vehicle weighing technology extend beyond the improvement of pricing and investment signals, and assisting in the delivery of competitive neutrality between modes. With regard to safety, authorities would be far better placed to ensure vehicle maintenance and operating standards are maintained if vehicle travel patterns could be monitored. Certain parts

of the existing road fleet have already invested in GPS tracking technology for fleet and supply chain management. This would suggest that, at least on a smaller scale, this adoption of this type of technology can be justified commercially, even in relation to benefits other than pricing and investment.

ARTC believes that there is some potential for the application of technology to deliver mass distance charging by the adoption of a suitable approach in a smaller scale in the first instance. It is generally accepted that the priority for mass distance charging (competitive neutrality) relates primarily to those areas where road and rail directly compete. Those markets where competition is strongest between road and rail are the longer distance interstate freight markets.

Mass measurement could be undertaken at certain key locations (with each end of any route being monitored as a minimum). Over time, as the markets and road users developed, additional technology could be installed incrementally to address more and more competitive markets. To deliver benefits other than competitive neutrality, program expansion to non-competitive elements of the fleet could be undertaken in the longer term.

ARTC recognises that there are likely to be a number of issues and constraints that would need to be addressed in assessing the feasibility and effectiveness of the proposed approach, even on a pilot basis. Nevertheless, application of the underlying principles warrants serious consideration as a short to medium term solution in ARTC's opinion.

Hypothecation of Fuel Excise

More broadly there is a need to create clarity over the linkages between the use of the road network, the price paid to use the road network, and the recurrent and capital costs of using the network.

At present, the main source of cost recovery for the use of the road system is through fuel excise. This is levied as a tax and paid into consolidated revenue. As such it is plainly a tax, though in terms of its objectives it is really a road use charge, and in the case of heavy vehicles is explicitly stated to be a road use charge.

The road sector requires fundamental reform to place it in a commercial framework, and central to this reform is the introduction of true road-use pricing. This means that the revenue collected through excise needs to become an explicit road-use charge, and by extension the revenue so collected needs to be hypothecated to the road network.

Ultimately it should cease to be a tax issue at all, though Government may choose to continue to levy an excise on fuel either as an environmental tax, or as a mechanism for general revenue collection.

Recommendation:

A competitively neutral framework for modal competition needs to be created to produce the most transport efficient and economically efficient outcomes. In pursuit of this, Mass-Distance charging for heavy road vehicles should be introduced and in such a way that reflects the true road user costs. More generally there is a need to shift from a system where recovery of the cost of the road system is treated as a tax issue to one where the road network is placed into a commercial framework and its costs are recovered as a road use charge.

CARBON POLLUTION REDUCTION SCHEME (CPRS)

ARTC is fully supportive of the introduction of a CPRS and supports the decision to include the transport sector. Transport is one of the fastest growing sources of emissions, mainly due to the growth in road transport. When tackling emissions from the transport sector, it is important that the Government take a holistic view and look at encouraging the most carbon efficient transport modes, particularly when the Australian road freight task is forecast to more than double between 2000 and 2020.

For a CPRS to be successful and truly efficient, outcomes should be essentially market driven, with intervention and compensation being minimal to enable this. If left to free market outcomes, a CPRS would have positive impacts on modal choice and for the environment

Rail is around four times as energy efficient as road for freight transport. The decision to provide a cent for cent tax cut for fuel for heavy vehicle road users seems incongruent with the objectives of the CPRS. This will in effect be compensating a high emissions transport mode and putting more carbon friendly transport modes at a competitive disadvantage. Rail and other transport modes will be impacted in terms of their cost competitiveness with road, and road will no longer be paying for its use of the infrastructure as it says it is, nor paying for its environmental impact.

This carbon cost offset is set to apply for road for a period of one year after which it will be reviewed, providing no certainty of what the future arrangements will be, and it has been said that the offset for the introductory phase will remain permanently. Reducing the cost impost for one transport mode and not for others will produce distorted CPRS outcomes and result in the uncompensated modes being at a competitive disadvantage.

Recommendation:

Any policy framework to address greenhouse gas emissions from transport needs to acknowledge the important role of rail transport and facilitate modal shift to more environmentally efficient outcomes. The CPRS should not create a situation where rail's price competitiveness against road is worsened for the transitional period or beyond, and ARTC argues strongly for either no assistance being provided to heavy on-road transport vehicle users, or if provided, an equivalent offset be given for fuel for rail and other transport modes.

For rail, this offset could be administered simply through the current fuel tax credit system, with the resulting additional CPRS fuel cost being rebated in addition to the current tax credit amount.

ACCELERATED DEPRECIATION

The Australian rail fleet with respect to locomotives and wagons is aged, with an estimated average life of between 25-30 years. Efficiency gains in locomotives and rolling stock will be an important means of reducing the growth in greenhouse gas emissions. This is just as important as gaining efficiencies in road vehicles if the lowest possible freight transport emissions outcome is the overall objective. There are new technologies being developed elsewhere in the world but unless there is the incentive and ability to invest in it, Australia will miss out on the benefits this technology will be able to provide.

Rail rolling stock has a significantly longer economic life than that of road vehicles and therefore changes to 'greener' technology will take longer to realise in the rail sector. On top of this, there is low return on the high cost of new assets.

With distorted infrastructure pricing, rail freight will be unlikely to provide the return on assets and investment into the future, and therefore there will be no business case or incentive for operators to invest in new fleet technology. This issue could be managed by allowing accelerated depreciation for locomotives, rolling stock, and also rail infrastructure investment.

Recommendation:

Taxation arrangements that facilitate the introduction of new technology which is more environmentally efficient is required. Accelerated taxation depreciation should be introduced in order to increase investment in more greenhouse friendly locomotives and wagons, and infrastructure more generally within the rail industry.

For further information please contact:

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