



Australian Government

Department of Infrastructure and Regional Development

Land Transport Market Reform



Nicole Spencer, General Manager

Timely to have a conversation about the way we fund and pay for roads – land transport market reform

COAG decision in December 2015 to:

- Accelerate heavy vehicle road reform;
- Identify next steps to transition to independent price regulation of heavy vehicle charges by 2017-18; and
- Investigate the high level costs, benefits and options to extend direct user charging to all vehicles.

Recommendation of multiple reports and inquiries:

- Henry Tax Review 2010;
- Productivity Commission Inquiry into Public Infrastructure 2014;
- Harper Competition Policy Review 2015; and
- Infrastructure Australia 15 Year Plan 2016.

Advocated by numerous stakeholders:

- “state-based registration and federal-based fuel excise charges are replaced by a charging system based on mass, distance and location, a system that reflects actual use of the road network” – *Premier of South Australia, the Hon Jay Wetherill MP*
- “Simultaneous action is required on both demand and supply sides of the land transport infrastructure services “gap”, consistent with the accepted need to improve the efficiency of usage of infrastructure, as well as to invest in new physical infrastructure.” – *Australian Automobile Association/ACIL Allen*

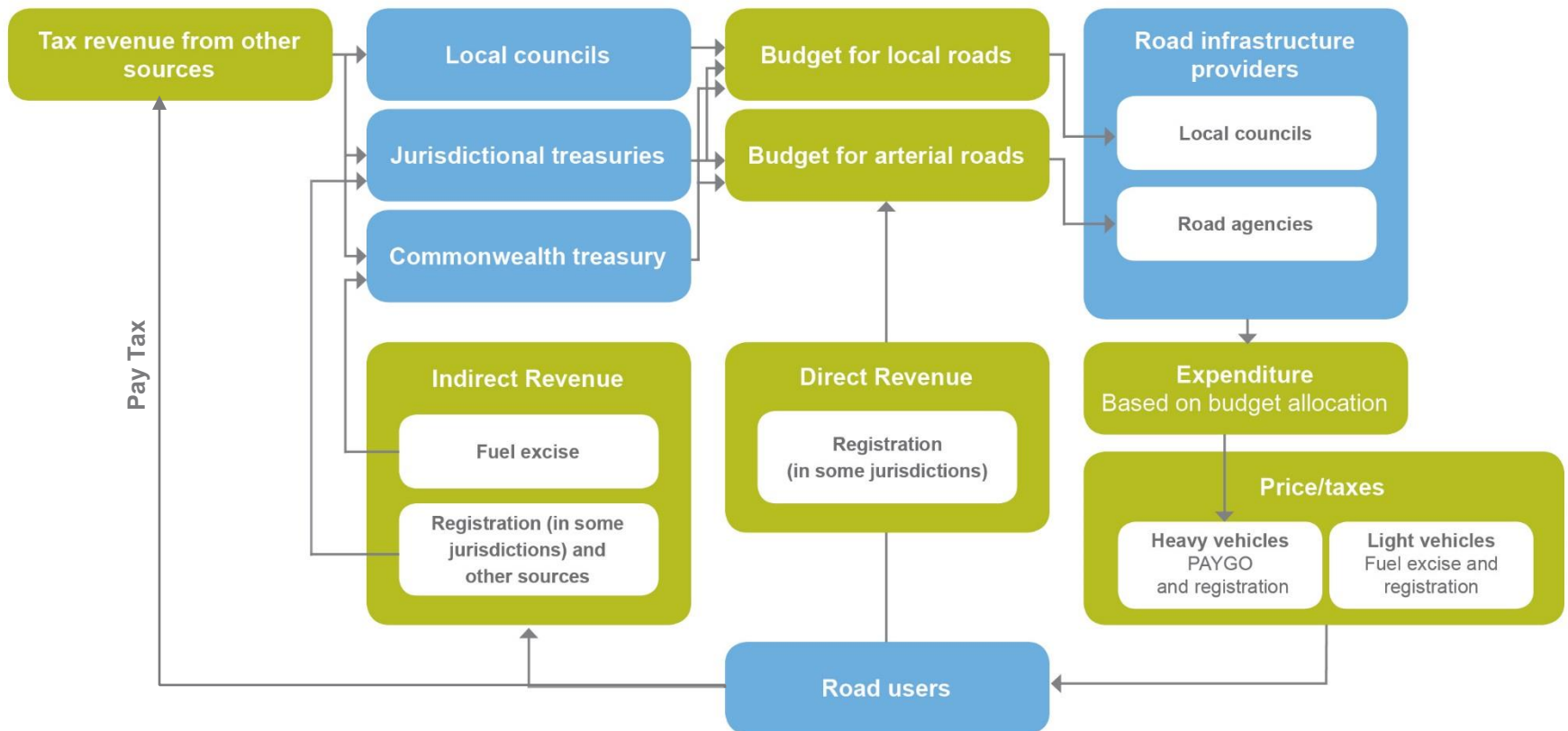
Specific pressures to reform current heavy vehicle charging system

The current system has significant issues

- Complicated and far from transparent
- Inequitable
- Unsustainable – with existing revenues such as fuel excise declining
- Inefficient
- Lack of price signal – so maintenance and investment decisions are not responsive to demand

Current model is complicated and far from transparent

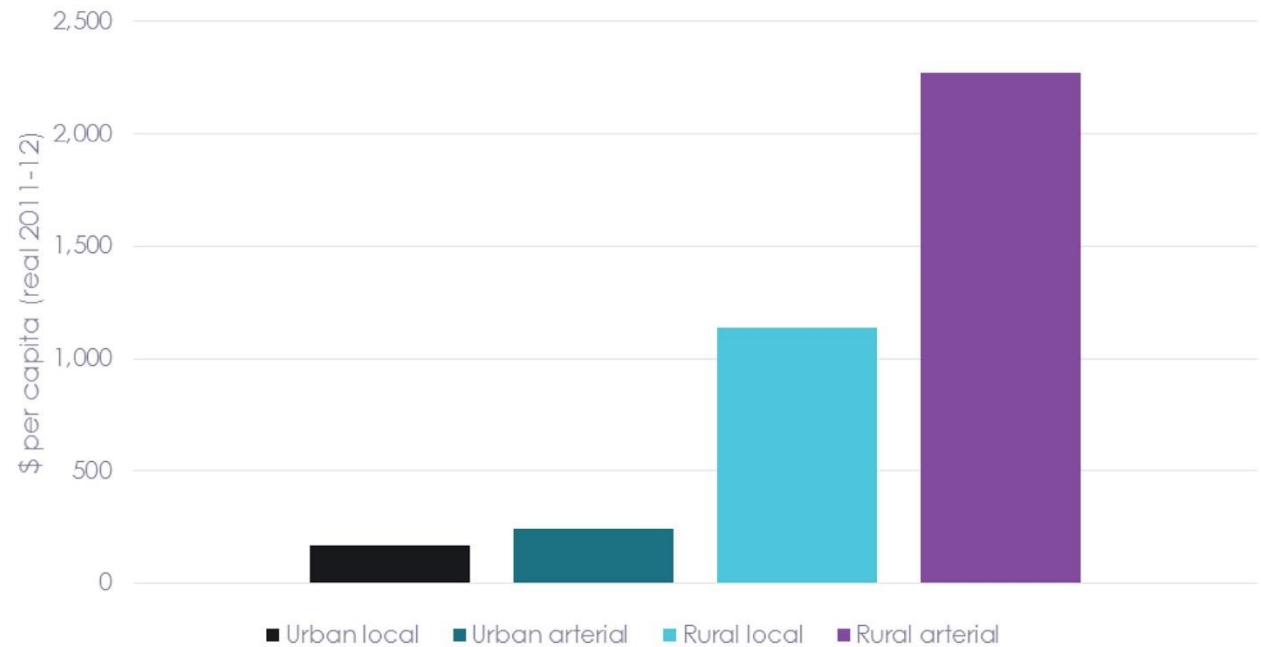
Road revenue, funding and investment flows in Australia



Current model is inequitable

- **Electric vehicles pay no fuel excise**
- **Modern vehicles effectively pay less than older, less fuel – efficient vehicles**

Own-source funding per capita is higher in rural areas

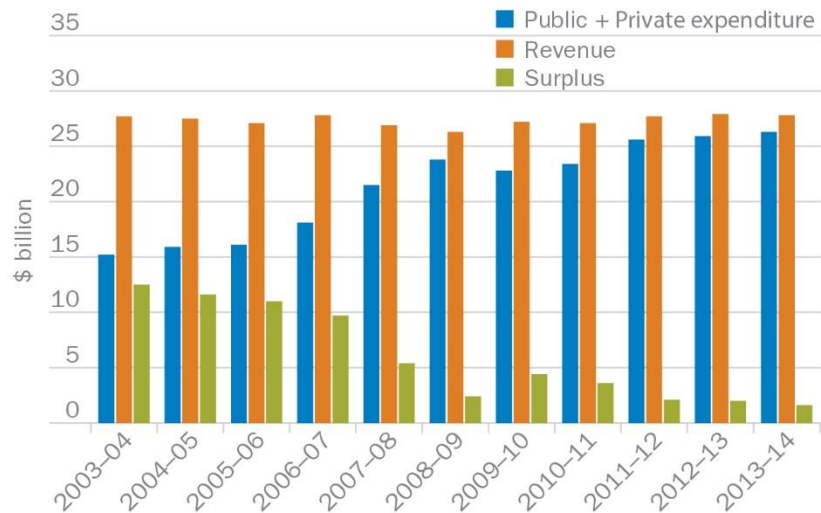


Own-source revenue by road type/area per capita (2008–09 to 2012–13).

Source: HoustonKemp Economists 2016: Funding and Financing Options for Roads in Regional and Remote Australia (unpublished)

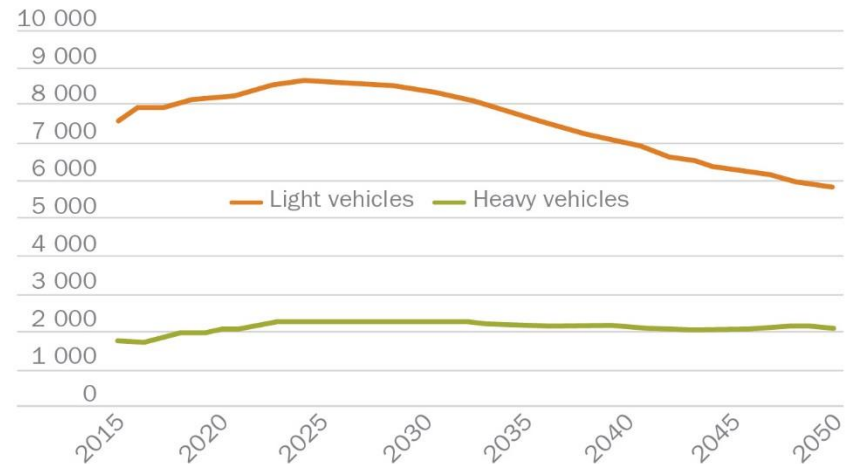
Current model is unsustainable

Net road related revenue, 2003–04 to 2013–14



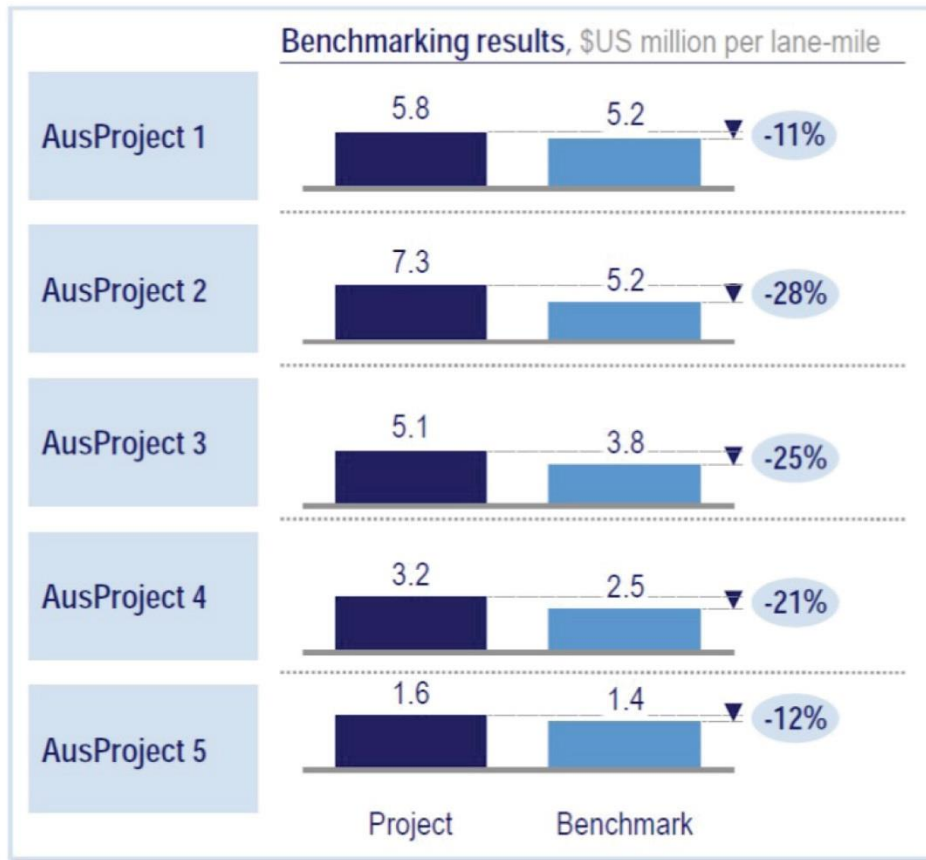
Recent estimates suggest that by 2030 Australian states and territories could face a combined budget deficit of \$50 billion, based on current expenditure trends. – Sydney Morning Herald (2015)

Fuel excise forecast (\$m) – Light vs Heavy



Once driverless cars become mainstream, revenue sources from driving-related violations will decrease greatly [with significant impacts for local government budgets]. – Brookings Institution (2015)

Current model is inefficient



Benchmarking against peer sets of US projects, suggests opportunities may exist for up to ~10-30% improvement in road project costs

Source: McKinsey 2016: BITRE road construction benchmarking (unpublished)

Consumers have benefited from analogous reforms in the airports sector...

1980s–1990s

Monopoly



- Government owned monopoly
- Expensive airfares
- High market access barriers
- Cost prohibitive regional airfares
- Not competitive on service
- Opaque price setting disconnected from service

Market Reform

Competition



- Market driven safety and emissions improvements
- Private investment displaces need for public investment
- Carrier services reflect negotiated outcome
- Responsible to market and changes in demand
- Service culture leads to innovative customer services
- Market stability (long term leases)
- Complaints mechanisms with industry ombudsman

...and in the telecoms sector

1970s–1980s

Monopoly



- Poor customer service
- Expensive local calls
- STD and international calls
- No user choice
- No pressure to innovate

Market Reform

Competition



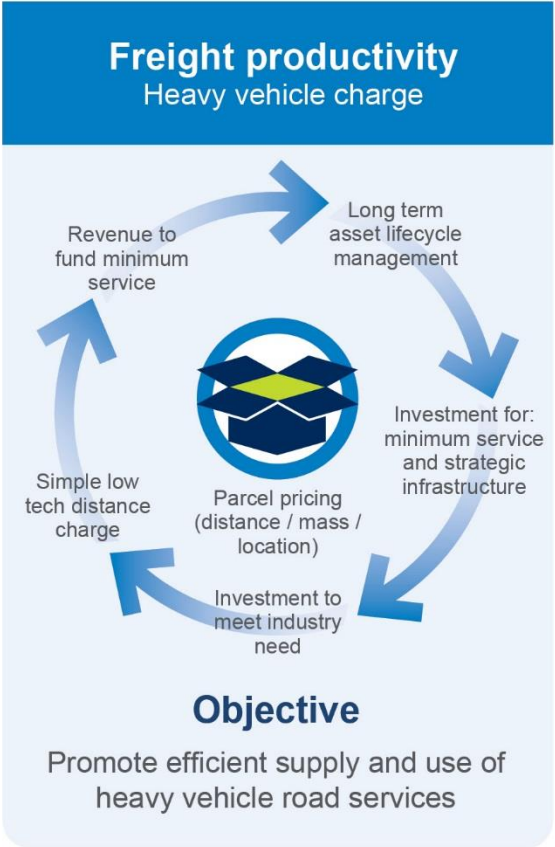
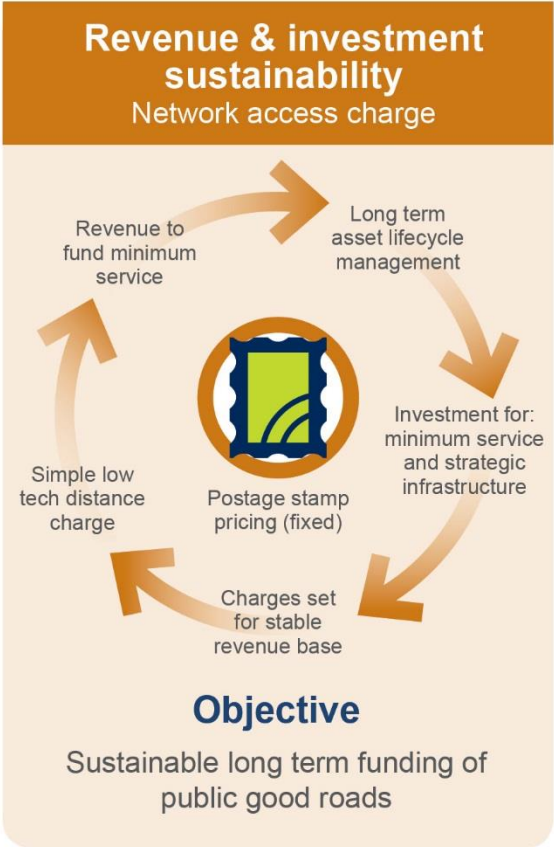
Market opened to full competition in 1997:

- technology and service innovation;
- user choice;
- competitive pricing.

Many issues to be satisfied before moving to such a system

- What might a market for road services look like?
- What would the transition process be?
- Who are the winners and losers? What are the impacts on country people? Outer suburban residents? People who drive long distances? Or short distances?
- What would be the respective roles of Federal and State and Territory Governments?

What might a market for road services look like?



What are some of the building blocks to get there?

