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Tom Leuner
Director, Grocery Inquiry
Grocery Prices Inquiry - Submissions
Australian Competition and Consumer Commission
GPO Box 520
MELBOURNE VIC 3001

By email: grocerypricesinquiry@accc.gov.au

Dear Mr Leuner

Submission to ACCC Grocery Prices Inquiry by National Transport Commission

Please find the attached National Transport Commission (NTC) submission to the Australian Competition and Consumer Commission's inquiry into the competitiveness of retail prices for standard groceries. Our submission is primarily directed towards factors influencing the pricing of inputs along the supply chain for standard grocery items.

Transport costs are a very small part of the costs of groceries purchased in Australian supermarkets. Transport costs also tend to be stable in comparison with other costs. Australian transport ministers recently endorsed new cost-recovery charges for heavy vehicles and our submission includes details of those charges' impact on grocery prices.

I would also like to extend an offer of any verbal briefing you may believe necessary to elaborate on the contents of the NTC's submission. In the first instance please contact Karen Dowling, Senior Policy Analyst on (03) 9236 5000 or kdowling@ntc.gov.au to arrange a briefing or discuss the submission.

Yours sincerely

Nick Dimopoulos
Chief Executive

SUBMISSION TO ACCC GROCERY INQUIRY BY NATIONAL TRANSPORT COMMISSION

1. The National Transport Commission

The National Transport Commission (NTC) is an independent statutory body created under the *National Transport Commission Act 2003* (Cth). Its mandate is to progress regulatory and operational reform for road, rail and inter-modal transport in order to deliver and sustain uniform or nationally consistent outcomes.

The NTC fulfils this role through the development of model legislation which governments implement.

Authority for legislative reforms is obtained through voting by the Australian Transport Council of Commonwealth, State and Territory Transport Ministers.

At its February 2008 meeting the Australian Transport Council endorsed the NTC's recommendations in regards to the establishment of a new heavy vehicle charging regime. The charges implement the Council of Australian Government's request to fully recover the cost of provision of the road network to the heavy vehicle industry.

2. Productivity Commission inquiry into road and rail pricing

The NTC's methodology for developing recommended heavy vehicle charges was broadly endorsed by the Productivity Commission in 2006. The Productivity Commission inquired into road and rail freight infrastructure pricing, observing the NTC's methodology was conservative and resulting in under-recovery.

Subsequent to the Productivity Commission inquiry the Australian Transport Council directed the National Transport Commission to begin work on a new heavy vehicle charges determination.

3. Heavy vehicle charges

The Australian Transport Council recently endorsed a new heavy vehicle charging regime commencing 1 July 2008. The new heavy vehicle charges ensure the costs of providing the road network to the heavy vehicle industry are fully recovered. The new charges remove cross-subsidies between vehicle classes and encourage efficiencies in the transport industry.

It is important to note the heavy vehicle charging regime recovers costs of past spending on roads. Government spending on roads and road usage by heavy vehicles are increasing. The previous regime of charges was no longer recovering heavy vehicle-allocated expenditure.

Higher charges recover the cost of a growing road building program, leading to less congestion, quicker trip times, improved road safety and reduced wear and tear on trucks. More efficient freight movements put long-term downward pressure on freight costs.

Currently there is no strong price signal, or economic incentive, for road owners to improve access for more productive trucks on suitable freight routes.

4. Transport costs as a factor in the grocery supply chain

Issues paper refs. question 1, question 36, section G - pages 22-3

Transport costs are a very small part of the costs of groceries purchased in Australian supermarkets.

The Bureau of Transport and Regional Economics has found that transport costs contribute just under 5 per cent to grocery retail prices in the major cities. In rural and remote areas transport contributes between 5.5 and 6 per cent to grocery prices.[1]

In developing the new heavy vehicle charges the National Transport Commission analysed the possible impact of the new charges on the price of consumer goods. The analysis in Table 1 below shows the total impact in every year over the three years that charges are phased in (i.e. it is not cumulative). It is useful to note that in urban areas the predominate vehicle used for distribution of groceries is the 6 axle articulated truck. In regional and remote areas, B-doubles and road trains are more prevalent.

Table 1. Impact of the 2007 Heavy Vehicle Charges Determination on grocery prices (c/$100)

Area	Vehicle Type	Year 1	Year 2	Year 3
Urban	2 axle rigid truck 4.5 to 7 tonnes (no trailer)	2	2	2
	3 axle rigid truck over 18 tonnes (no trailer)	1	1	1
	Heavy truck trailer over 42.5 tonnes	5	8	8
	6 axle articulated truck	2	3	3
	9 axle B-double	5	9	13
Rural/Remote	2 axle rigid truck 4.5 to 7 tonnes (no trailer)	3	3	3
	3 axle rigid truck over 18 tonnes (no trailer)	1	1	1
	Heavy truck trailer over 42.5 tonnes	7	10	10
	6 axle articulated truck	3	3	4
	9 axle B-double	6	11	17
	Double road train	6	6	7
	Triple road train	6	6	7

Note: annual cost changes are not cumulative
Source: 2007 Heavy Vehicle Charges Determination Regulatory Impact Statement

Further analysis of the regulatory impact statement figures shows the weighted average impact of the new heavy vehicle charges on $100 worth of groceries is 3.43 cents in year 1, 4.68 cents in year 2 and 6.11 cents in year three. The weighted averages have been prepared using the vehicle kilometers traveled for each vehicle type in urban and rural/remote areas.

[1] Bureau of Transport and Regional Economics (2000), *Transport Costs in Regional City-Country Price Differentials*, Canberra, unpublished; quoted on p65 of NTC RIS volume 1

5. Barriers to lower transport costs

Issues paper ref. section H - page 24

The National Transport Commission has observed a number of barriers to lower transport costs. These barriers often exist in other legislation frameworks such as land use planning and municipal local laws. The imposition by municipal councils of nighttime curfews on some roads flow through the entire distribution chain and consequences include congestion. Inconsistent regulation across state and municipal boundaries also imposes additional cost.

The new heavy vehicle charges allow access for more productive vehicles on the road. Addressing cost recovery through the new charges is the first step in a broader Council of Australian Governments (COAG) reform program which seeks to improve the efficiency and productivity of the road network. Productivity gains from the road asset – required by the transport industry to support a competitive economy – are needed now.

6. More information

Details of the new heavy vehicle charges can be found on the National Transport Commission's website: http://www.ntc.gov.au. A fact sheet is also attached for information.

FEBRUARY 2008

A quick guide to heavy vehicle charges

COAG agree on heavy vehicle charge principles (April 2007)

Why are heavy vehicle charges going up?

Since heavy vehicle charges were last reviewed in 2000, road expenditure across all levels of government has increased by 33%. Heavy vehicles' share of total road spending ($11.67 billion) is $1.95 billion a year. This is paid through registration fees and a net fuel charge.

Currently, heavy vehicles – particularly bigger trucks, like B-doubles – underpay their cost of using the roads by $168 million. For cost recovery, big trucks face registration fee increases phased-in over three years. Registration charges for smaller vehicles will decrease.

The fuel (road user) charge will increase by 1.367 cents to 21 cents per litre.

Who says charges should be reviewed?

The National Transport Commission (NTC) was directed by the Australian Transport Council (ATC) to update heavy vehicle charges after the Productivity Commission's *Road & Rail Freight Infrastructure Pricing Inquiry* (2007) concluded:

"Substantial increases in road investment in the past couple of years make it likely that heavy vehicle charges would have to rise to maintain cost recovery."

In April 2007, the Council of Australia Governments' (COAG) endorsed the charges review as the first 'building block' of broader road pricing reform.

What is COAG's pricing reform agenda?

COAG's reform program will improve the link between road use and funding. This will be done in stages over seven years; including incremental charges for heavier (more productive) loads.

Better pricing signals will encourage use of the right truck on the right road at the right price; and investment on the right roads in the right place at the right time.

Why are large increases proposed for B-doubles?

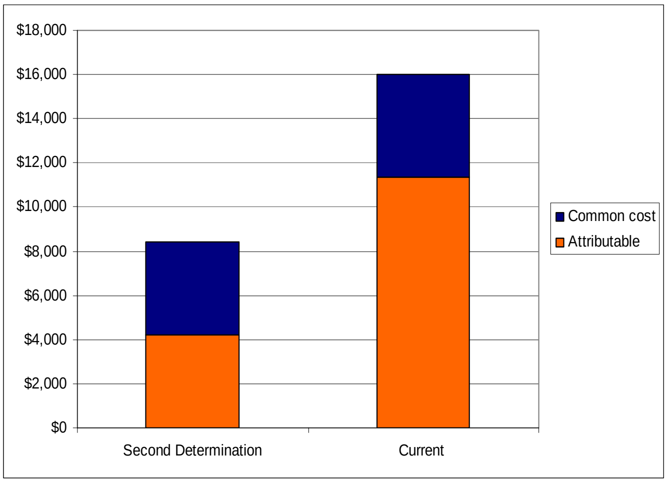
Bigger trucks are cross-subsidised by smaller trucks. COAG's pricing principles require those cross-subsidies to be removed.

B-doubles have benefited significantly from higher road spending; particularly improved access around ports, urban arterials, grain silos, sale yards etc. The number of B-doubles has increased by 267% to 9,564 vehicles since 2000.

Governments have little incentive to further extend the B-double network if they don't pay their way. The Business Council of Australia's *Infrastructure Roadmap for Reform* (September 2007) recently concluded:

"We need to ensure that high productivity (that is, larger and longer travelling) trucks are charged appropriately. Not only will this help road/rail neutrality, it will facilitate having B Doubles and B Triples on our roads." **(BCA 2007)**

B-doubles under-recover their marginal cost of road use by $16,000 (based on the current fuel charge)



How will higher charges put downward pressure on freight costs?

Higher charges fund the growing road building program, leading to less congestion, quicker trip times, improved road safety and reduced wear and tear on trucks. More efficient freight movements will put downward pressure on freight costs.

A failure to ensure cost recovery for bigger trucks is blocking nationally agreed productivity reforms. Higher productivity trucks can reduce freight costs by 30%.

THE IMPACTS

What is the cost impact on truck operators?

Independent studies of livestock, linehaul, mining and bulk haulage operations show overall truck operating costs increase by up to 1.9%. B-double operating costs go up by between 2.3 and 3.9% (average 2.8%).

Genuine cost increases, however, should be passed onto freight users and ultimately consumers.

Does this mean consumer goods prices will go up?

The impact on a $100 grocery bill ranges from 3 cents using semi-trailers to 13 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 17 cents.

RESPONDING TO INDUSTRY VIEWS

A number of issues were raised in 22 written submissions and at public forums held around Australia following the release of the draft Regulatory Impact Statement in July 2007. As a result of consultation, a number of changes were recommended to ATC.

More flexible multi-combination charges

Different charges for prime-movers used in multi-combinations can limit fleet flexibility. For example, a livestock transporter may want to use the same prime-mover for road train and B-double work; depending on road access to feedlots, abattoirs and sale yards.

NTC has shifted the emphasis of registration charges from the prime-mover to trailer axles. This ensures a fair outcome for modular *high productivity vehicles* such as B-triples and quad axle group combinations.

Increases phased-in over time

A three year phase-in period is recommended to assist the industry in negotiating cost increases. Following consultation, greater weighting was placed on the later years to allow the industry more time to adjust.

Using the latest road expenditure data

The latest road expenditure data has been included, which allows the increases to be phased-in and provides greater industry cost certainty. As a result, there will be no annual adjustment on 1 July, 2008 (the agreed implementation date for the revised charges).

Continued cost recovery

Heavy vehicle charges do not keep pace with increasing road expenditure because only one-third of the revenue base – registration fees – is adjusted each year. COAG directed that charges should ensure ongoing cost recovery. NTC has recommended the annual adjustment also applies to the fuel charge. An annual review will assess whether a new Determination is required.

A framework for enforcement

ATC charging principles allow for the recovery of costs associated with *infrastructure use*. NTC recommended the inclusion of some enforcement costs ($65 million).

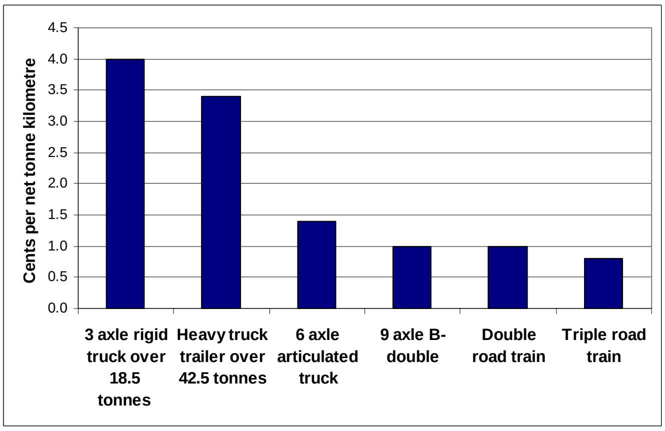
NTC agreed with industry views that a more holistic approach to enforcement is required. Work is underway on a proposal for a national framework to collate and share information and intelligence data.

Fact Sheet

Will truck operators switch to running semi-trailers instead of B-doubles?

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

Road use charges by net tonne-kilometre



Is the NTC calculation accurate?

The Productivity Commission independently audited and endorsed NTC's charges methodology noting that it is "conservative" by international standards (i.e. resulting in lower charges).

What is the voting process?

Ministers vote on a schedule of recommended charges for truck and bus vehicle types. A simple majority is needed to approve the updated charges.

Is there a deadline?

COAG required the completion of the Charges Determination by the end of 2007. A deadline for implementation by governments was set for July 2008.

The NTC's recommended heavy vehicle charges for selected vehicles (nominal)

	Current 07/08	3 year phase in			
		Prime mover	Year 1 total	Year 2 total	Year 3 total
Fuel charge (cents)	**19.633**		**21.0**	**21.0**	**21.0**
Registration charges ($ per vehicle)					
2 axle rigid truck, 4.5 - 7 tonnes	355	380	380	380	380
3 axle rigid truck over 18.5 tonnes, no trailer	946	859	859	859	859
4 axle rigid truck over 25t no trailer		859	859	859	859
Heavy truck/trailer over 42.5 tonnes [1]	5,737	5,161	6,491	7,158	7,158
6 axle articulated truck	5,084	3,930	5,070	5,145	5,220
B-double 9 axle	8,041	7,050	9,330	11,835	14,340
Double road train	8,751	7,050	10,090	10,240	10,390
Triple road train	10,526	7,050	11,990	12,215	12,440
2 axle bus over 10 tonnes	592	380	380	380	380
Annual under-recovery ($m)	168		**83**	**39**	**0**
Trailer charge per axle			**Year 1**	**Year 2**	**Year 3**
Standard trailer axle charge	355		380	380	380
Semi trailer tr-axle	355		380	405	430
B-double lead trailer – tandem axle	355		380	1,140	1,900
B-double lead trailer – tri axle	355		380	1,190	2,000
Road train dolly trailer	355		380	380	380

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