Review of National Competition Policy Reforms

Submission in response to the Productivity Commission's Discussion Draft by Pacific National Pty Limited
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1 Introduction

The Terms of Reference for the Productivity Commission's Review of National Competition Policy Reforms require the Commission to report on areas offering opportunities for significant gains to the Australian economy from removing impediments to efficiency and enhancing competition.

As recognised in the Productivity Commission's draft report, freight transport offers one of the most significant remaining reform opportunities. The majority of the intermodal rail freight task faces competition from road, yet the road sector is largely unreformed. Road is largely budget funded, managed by Government Departments and agencies, and not directly priced. There is scope for major efficiency gains in freight transport through ensuring that competition between rail and road is on a consistent basis. Our submissions of June and August 2004 set out the steps necessary to achieve competitive neutrality between road and rail.

The key to reform in the road sector is the introduction of mass-distance charging. The Productivity Commission's draft report states that:

> *"…it still seems likely that for a mix of technical and cost reasons, most of Australia's road network will remain unpriced for the foreseeable future".*

This conclusion is wrong. Simple mass-distance charging already exists in several countries; more sophisticated systems are being rolled out around the world; and Australia is already using vehicle management systems with many of the features required for mass-distance charging.

Pacific National regards it as essential that the Productivity Commission recognises the importance of road reform, underpinned by mass-distance charging, as the key means of delivering effective competition in freight transport. Section 2 of this submission sets out the case for road reform. It looks in turn at weaknesses in the current approach to road pricing; possible alternative approaches; and how a reform agenda could be developed and implemented. The Productivity Commission should set a target of a COAG meeting on road reform in mid-2005, with a view to the introduction of mass-distance charging within the next five years.

Until road reform is implemented, rail operators face competition from an infrastructure mode which is Government-funded and not directly priced. Appropriate steps need to be taken to limit the efficiency losses in the freight transport sector which arise from this misalignment. Section 3 sets out interim measures which are necessary until road reform is implemented.

2 Road reform

2.1 Weaknesses in the current structure

The present approach to road pricing is outdated. Road is not priced at point of use. Rather road users pay through fuel excise taxation and registration fees. This results in price signals whose structure is almost completely unrelated to costs. Even within that framework, heavy

freight is currently underpriced. The reliance on fuel excise taxes means that consumers respond – by reducing fuel consumption, not road use – creating a threat to the tax base and to the ability to implement essential reforms. A final and little mentioned point is that the current system of heavy road vehicle charging smooths total road costs across the entire national vehicle fleet—something that is explicitly prohibited in rail access pricing regimes because it means effectively that passenger cars pay for roads they do not use, while the use by heavy vehicles of certain roads is cross-subsidised. These weaknesses are described below.

2.1.1 Reliance on proxies

Road is not directly priced, other than a number of arterial roads in major cities. Instead, fuel excise taxation for road users is used as a proxy for a variable charge for road use. Registration fees are used as a fixed charge.

The fixed charge is treated as a residual. The NTC calculates the actual costs of road use by vehicle class. This calculation might lead to a conclusion that the costs attributable to a particular vehicle class are not fully recovered through the levy on fuel excise tax. However, it is not practicable to have varying levels of fuel excise tax by vehicle class. If the NTC analysis indicates costs which are not fully recovered through the levy, the revenue required to cover costs is raised through registration fees.

The bulk of road costs are collected from fuel excises. However, fuel consumption is not the same as road use, and fuel excises are a poor proxy for a road charge compared with some form of mass/distance charging. This causes several problems:

- *Blunt pricing:* Pricing cannot differentiate by time of day, location or other factors. The price signal is very averaged – all users in a vehicle class are charged for the share of the total cost of the road system which is allocated to that class;

- *Misleading variable price signals:* Variation in costs by vehicle class shows up in varying registration fees, rather than in a variable charge for road use. The price signal from fuel excises suggests a direct relationship between fuel consumption and road costs. However, the relationship is far from direct. Fuel efficiency increases with vehicle size. Engineering analysis suggests that the cost of maintenance increases with vehicle axle weights to the power four. Both suggest that there should be a dramatically higher variable price signal to heavy road freight, rather than a flat one. However, there is no way of giving more sophisticated price signals while relying on fuel excise taxes;

- *Perverse incentives:* The calculation of road costs for heavy vehicles allows for their greater fuel efficiency. However, it is still based on assumptions on average operational parameters – kms operated per year, and gtks – and this creates perverse incentives. Using fuel excise as the variable 'charge' (instead of mass distance charging), means lightly laden heavy vehicles pay more per gtk but cause less damage while heavily laden heavy vehicles pay less per gtk and cause more damage.

We discuss below changes that are required to ensure that charges to heavy freight more accurately reflect their costs. These changes should be made as an interim measure. However, the long term intention should be to introduce road user charging. The

difficulties outlined above are inherent in the use of fuel excise as a proxy, but could all be overcome by the introduction of road user charging.

2.1.2 Calculation of Costs by Vehicle Class

As discussed above, the NTC calculate the costs per vehicle class. Where these costs are above those raised through the fuel excise tax (given assumptions on vehicle operations) the remainder is covered through registration fees. In summary:

- *Capital costs*: the regulatory constraint for rail includes deprecation and a return on assets. Road charges are set to fully recover current road expenditure. As a result both include capital costs, but on a different basis. The approach to road pricing is likely to be more volatile since capital expenditure is fully expensed, rather than recovered over the life of the asset. It may also under- or over-recover long term costs, depending on whether the current road expenditure program is below or above the long term average. As road expenditure has been low as a share of GDP in recent years, it is likely that the current capital charge levied on road users is below the amount that which would be determined by applying a social discount rate to the accumulated road capital stock;

- *Operating costs*: the regulatory constraint on rail access charges also includes operating and maintenance costs. Road charges distinguish between:
    - Separable costs: these are the maintenance costs attributable to each vehicle class. They amount to around 30% of total costs; and
    - Non-separable costs: these are the common costs, accounting for around 70% of the total. They are recovered from all users, on the basis of total kilometers by vehicle class.

There are significant concerns arising from the way that costs are calculated for road freight operators:

- *Capital costs:* Road charges could under- or over-recover capital costs. This is to some extent offset by an annual adjustment factor;

- *Variable costs:* the allocation of separable costs reflects an assumed strong relationship between axle weight and road damage. However, there are arguments that this understates the cost impacts of heavy vehicles. The cost attribution parameter template used by NRTC has been derived from estimates from Austroads and research from ARRB Transport Research. Other models for allocating costs, consistent with those used in many other countries, would mean that:
    - A greater share of total costs would be treated as separable rather than common costs; and
    - Separable costs for heavier vehicles could rise by moving from the 'equity' based allocation system to the more representative 'engineering' or 'econometric' approaches. Our submission of 30 August 2004 sets out the anlaysis underpinning this conclusion.

  In particular, given that engineering studies suggest that maintenance impacts of heavy vehicles rise with the fourth power of load per axle (so that costs rise

extremely rapidly with per axle weight), the share of the heaviest vehicles in total maintenance costs ought to be very high;

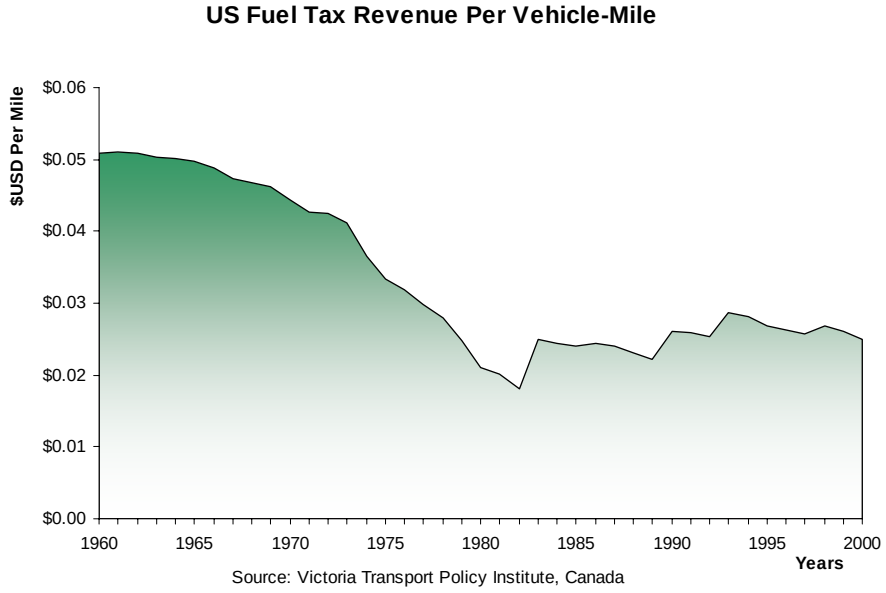
- *Common costs* account for a large share of total road charges. Allocating these costs on the basis of total kilometers driven (rather than gross mass vehicle kilometers or passenger car equivalent kilometers) means that they are heavily borne by car users. Most economic research suggests that road systems are characterised by constant returns to scale (though there are scale economies to road surfacing). As a result, pricing at short run marginal cost should allow total costs to be covered. However, even if this was not the case, it is not clear that the current approach to recovering common costs is optimal. A more appropriate way of allocating these costs, to minimize welfare loss, would be in line with elasticity of demand, with inelastic users paying a higher share than elastic users.

- *Externalities:* Road use has significant external costs, related to congestion, accidents and environmental costs of different kinds. It has at times been argued that there fuel excise includes an (implicit) allowance for externalities. This is questionable, as the fuel tax as such does little to address the main externalities road use creates. In any event, fuel tax no longer exceeds the level of costs allocated, so there is plainly no allowance for externalities in current road charging.

The Commission should argue for an increased allocation of separable costs to heavier vehicles, and for the allocation of any shortfall in recovery of common costs on the basis of implied elasticities of demand.

2.1.3 The disappearing tax base

Fuel use is a proxy for road use. Taxing fuel has led to a reduction in fuel use that does not correspond to a proportionate reduction in road use. Studies show a decline in fuel tax revenue per vehicle mile of road use in the US over the past 4 decades (figure 1).



Vehicles have steadily become more fuel efficient in recent decades. Advances in hybrid electric/petrol technologies mean these efficiencies will improve significantly in coming years.

This illustrates that fuel taxation has a substantial impact on fuel efficiency, rather than on use of roads – a result that emerges clearly from econometric analysis of the impact of fuel taxes.[1] Many might regard that as benign, given the possible external costs associated with fuel use; in practice, however, fuel taxation does little to actually reduce those external costs, as it has little impact on congestion, accident rates and pollution. At the same time, induced substitution to more fuel-efficient vehicles has harmful implications for implementing road reform. Those who have made private investments to evade fuel tax – through shifting to ever more fuel-efficient vehicles, including in the future hybrid fuel/electric vehicles – could regard a move away from fuel taxation to road user charges as effectively expropriating some of the investment they had been induced to make. This is especially likely to be the case if consumers engage substantial outlays to purchase electric or hybrid fuel source vehicles. As a result, it is important to implement road reform before there are significant changes in the vehicle fleet.

2.1.4 Geographical averaging of road costs

The rail access regimes across Australia consistently ensure that trains do not pay for the costs of railway lines they do not use. There is no geographical averaging of railway infrastructure costs. The consequence of this principle is that the most lucrative rail freight, export coal in Queensland and NSW, and export grain in Western Australia cannot be asked to pay more than the stand alone cost of the infrastructure that it specifically requires. There is no corresponding constraint on road user charges. The current system for heavy vehicle charges explicitly involves averaging of road infrastructure costs within each state, and to a large extent between states. As a result there is no way of knowing whether any individual road is over or under-recovering its infrastructure costs. It is very likely, however, that urban commuter roads, which host the highest concentrations of passenger cars, have the highest rates of cost over-recovery (including revenue from petrol excise as well as heavy vehicle user charges)[2]. By the same token it is entirely possible (but difficult to establish given the lack of road-specific usage information) that the main interstate highways, on which heavy vehicles are relatively more prevalent, under-recover their infrastructure costs.

If the same discipline that is applied to rail access charges were to be applied to road infrastructure cost recovery, the apparent fiscal attractiveness of investments in the interstate highway system might well disappear. That discipline cannot practically be applied until a system of road-specific mass-distance charging can be put in place.

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1 Parry, Ian, and Kenneth A. Small, "Does Britain or The United States Have the Right Gasoline Tax?" American Economic Review (forthcoming).

2 That said, while the aggregate revenue recovered from these uses may exceed the total resource costs they cause, it is likely that urban commuter use imposes high congestion costs at peak times. Current road charges do not efficiently signal these congestion costs.

2.2 Alternative approaches to road pricing[3]

The key element in introducing commercial structures into the road sector – and so enabling consistency between road and rail – is the introduction of direct road user charging in place of fuel taxation[4]. For the reasons given above, road users should at least be charged both on the distance that they travel, and on weight, through some form of mass-distance charging.[5]

In its draft report, the Productivity Commission stated:

> *"Road pricing is still in the developmental phase. Although technological change is rapidly extending the possibilities of what is 'priceable', with various experiments overseas in small area congestion and wide are pricing, it still seems likely that for a mix of technical and cost reasons, most of Australia's road network will remain unpriced for the foreseeable future."*[6]

This is an unnecessarily conservative view. It would mean that effective road reform was postponed indefinitely, despite its urgency. However, simple mass distance charging already exists in several countries; more sophisticated systems are being rolled out around the world; and Australia is already trialling related vehicle management systems with many of the features required for mass-distance charging.

New Zealand has had a crude mass-distance charging system for over 15 years. The system is based on licences, differentiated by vehicle type and weight, which are sold in 1,000 km units. This is combined with a hubometer which provides a reliable and accurate record of distance traveled. Switzerland has operated mass distance charging since 2001. This is based on short range microwave beacons to activate and deactivate on-board units, and tachograph data stored on a smartcard. Neither of these systems should be adopted by Australia. The New Zealand system has a relatively high manual element, driving up its costs, and the Swiss system relies on technology which would be expensive in Australia. However, both demonstrate that the policy objective can be met.

More sophisticated systems are being developed around the world:

- Germany is planning to introduce a distance-based vehicle charging system. The system, being developed by DaimlerChrysler and Deutsche Telekom had major problems on its initial trial, causing substantial disputes over lost revenue, but is now scheduled for roll-out in May 2005;

- The UK is in the early stages of a mass-distance charge to apply to all vehicles over 3.5 tonnes, and to all roads. It is expected that it may differentiate by road type, and by time of day. The charge will be offset by a reduction in the fuel excise duty. Current estimates for the roll-out of the system are 2006. While technology risk will

[3] This section and the succeeding section draw on valuable insights provided by Glen Davis, General Manager, Melbourne City Link, VicRoads. However this should not be taken to imply that Mr Davis or his organisation endorse the points made here.

[4] This is not to suggest that fuel taxes would be entirely eliminated. The fuel tax may be desirable as a general means of raising revenues.

[5] An ideal road pricing scheme would also take account of the nature of the roads being travelled and of congestion and other externalities on those roads.

[6] Productivity Commission: Review of NCP Reforms, Draft Report, p.184

to some extent be transferred to suppliers, it is most likely that the system will utilize an on-board unit, GPS and GSM mobile telephony technology.

The increasing use of GPS technology for road user charging means that Australia will face no cost disadvantages from its relatively large distances and low densities. These technologies are already being used in Australia, for example to monitor the use of Tasmanian rural roads by logging trucks. The Intelligent Access Program, under the aegis of the Australian Transport Council, is also taking forward a voluntary system for the remote monitoring of freight vehicles, using satellite based telematic services, to ensure they are complying with agreed conditions of operation.

It is highly desirable for Australia to learn from and where appropriate adopt the systems for road user charging that are increasingly being adopted around the world. We discuss below how the Productivity Commission could assist this process.

2.3 Developing a reform agenda

The key to road reform is pricing. As earlier sections demonstrate there are significant inherent weaknesses in the use of fuel excise taxes as a proxy for road pricing. Technologies which directly price roads have been in existence for many years, and more sophisticated systems are being developed and rolled out in other OECD countries. The Commission therefore needs to set out how road reform can be implemented in Australia.

This requires three steps. The first is a clear policy intent. The second is an analysis of the issues which will need to be addressed in developing and implementing road reform in a Federal system. The third is a COAG conference to develop a consensus and political commitment. We consider each in turn below.

Road differs from many other sectors – and in particular the 'softer' sectors of health and education – in one important respect. While there is substantial controversy and uncertainty about the best way of securing greater efficiency in health and education, it is clear what solution should be adopted to implement road reform. The complexities lie in the implementation rather than the policy direction. The Commission should establish a clear policy intent, by advocating in the strongest possible terms early moves to reform road pricing and place it on an economically more rational basis.

Implementing road reform within a Federal system will need to address the following issues:

- *Taxation:* the fuel excise tax raises very substantial tax revenue for the Commonwealth. Road user charges would be State revenue. Inter-jurisdictional agreement will be required for the change in the treatment of a large amount of revenue;

- *Specification:* road user charging will allow much finer pricing signals, including time-of-day pricing, congestion charging, cordon pricing and so on. This will allow a massive change in the ability to use price signals to address policy objectives. However, the nature of those objectives and their implications for system design will require inter-jurisdictional agreement; and

- *Impact on road users*: the adoption of road user charging will affect road users in many different ways. Consideration will be needed at all levels of Government on how to ensure acceptable impacts, and the phasing in of any changed price signals.

Given these impacts, a "road map" for implementing reform needs to be developed.

Reforms of this magnitude require high-level political support and commitment. The Productivity Commission is particularly well placed to articulate the case for reform, and to identify the steps necessary to achieve consensus and commitment. The Productivity Commission should set a target of a COAG meeting on road reform in mid-2005, as the first step in that process.

3 Rail Reform

Until road reform is implemented, rail's main competitor will be publicly financed, in public ownership, and not directly priced. This creates an extremely poor competitive environment, leading to efficiency losses. This section sets out some practical steps that could be taken to offset those inefficiencies, before road reform is introduced.

3.1 Implementing AusLink

In the long term, the implementation of road reform would enable both road and rail investments to be undertaken on a commercial basis, with investment secured against future revenues. However, for the reasons outlined in section 2.3, this reform is likely to take some time. As an interim measure, steps need to be taken to ensure efficient investment in both the rail and road sectors.

Road investment depends very largely on budget funding. If these funds are allocated on the basis of social cost-benefit analysis, while rail investments are based on financial returns, this would lead to poor transport outcomes. For so long as there continues to be public funding of land transport infrastructure, efficiency requires that public funds be allocated consistently between all transport modes. Our analysis here focuses on the allocation between road and rail. However, we recognize that the same point could be applied to the allocation between a broader set of transport modes.

The AusLink White Paper makes a useful start on improving the allocation of public funds for transport infrastructure. However, there are a number of practical steps which could be undertaken to achieve the intent of the AusLink White Paper more effectively. These are outlined below.

The three key improvements outlined in the AusLink White Paper are the definition of a national transport network; the development of strategies based on transport corridors; and the allocation of public funds neutrally between transport modes, on the basis of those strategies.

The national network covers important road and rail infrastructure networks, and their intermodal connections. It focuses on infrastructure which is of critical importance to economic growth, development and connectivity. This single concept replaces separate consideration of the national highway system, roads of national importance and the interstate rail network. As a result, it allows an integrated approach to key transport infrastructure.

The approach to planning public expenditure within the national network will shift from modally based transport planning and investment to an 'integrated corridor' approach. The paper states:

> *"The Government will therefore initiate development of long-term investment strategies for each corridor in the National Network. These corridor strategies will change the current approach which is based on developing separate transport modes."*[7]

Finally, once strategic priorities have been identified, public funding will be allocated to best meet these priorities, irrespective of mode:

> *"The existing approach of separate funding arrangements for different programmes, such as the National Highway System, Roads of National Importance and rail, will be replaced with a single cross-modal funding approach for all land transport proposals."*[8]

This is an improved basis for the allocation of public funds to road and rail investment. However, the intentions are not yet matched by delivery. Rather than articulating a set of corridor transport strategies, and the role of different modes in meeting them, the AusLink white paper moves straight to a list of capital allocations by project.

One example is the Sydney - Brisbane corridor. The AusLink paper sets out some very major expenditure: for example, $480M of new funds for the Pacific Highway, matched by at least this level of funds from the Government of NSW, and an additional $450M provided to ARTC to improve the Sydney – Brisbane rail link. There are also examples of not allocating funds. For example, the White Paper states that the strategic priority for the Melbourne – Brisbane corridor is to develop it as a viable inland, multi-modal corridor, but allocates no explicit expenditure for this purpose.

This means that the sensible improvements outlined in the AusLink White Paper have not yet been matched by reality. The PC could improve efficient outcomes in land transport by advocating the following steps:

- A more rapid development of corridor strategies;
- Output based funding;
- Competitive tendering, where appropriate; and
- Processes for negotiated projects which are neutral between the public and private sectors.

The AusLink White Paper allocates $7.7 billion to the national network. It does not yet have corridor strategies as a basis for that allocation. The intention is to develop corridor strategies for Melbourne – Brisbane (including related corridors) over the next five years, and to initiate work on all corridor strategies within the next five years.

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[7] AusLink White Paper, page 22
[8] AusLink White Paper, page 25

Until the strategies are developed the basis for the allocation of this $7.7 billion of expenditure will remain a mix of historic projects, political priorities, and economic and financial analysis on a project by project basis. The costs of the strategies themselves will be fully recovered from even a minor improvement in the allocation of $7.7 billion of funds. The PC should advocate a much more rapid timetable for their development.

Even before the finalisation of the corridor strategies, it should be possible to develop outputs and use them as the basis for funding. Clear specification of the desired outputs will – for some outputs at least - allow competition in their provision. Experience in all other major infrastructure projects has been that competition, and private sector innovation, can yield significant efficiency gains.

Efficient use of funds also requires that the Commonwealth does not distinguish between public and private access providers. In the rail sector, significant elements of the national network are in private ownership. However, the AusLink White Paper sets out the allocation of $1.3 billion from Government sources to a Government-owned rail company, ARTC, but provides no public funds for private rail companies.

The national rail network exists under a variety of arrangements for parties who own the track, lease the track, and are operators of services. The allocation of funds should not be determined by these ownership and operational structures. The Commonwealth should develop delivery mechanisms which can apply to all the rail providers, not simply to Government-owned companies.

In many cases, the Commonwealth will need to negotiate with incumbent owners or lessors of the below rail networks about the costs of implementing a project on their network. To ensure neutrality between Government-owned and private rail companies, the Commonwealth will need to develop a model for allocating funds to private companies. That needs to be acceptable to the companies concerned, given the disruption to their business from implementing Government projects. It also needs to reassure the Government on value for money and probity concerns. A possible approach may be the use of 'alliance' contracts with the following features:

- For larger projects, significant resources would be devoted to agreeing scope, design, and cost estimates;

- Project costs would be reimbursed on an open-book basis, providing reassurance that the costs are reasonable;

- The owner/lessor of the below rail network would receive a payment to cover its corporate overheads, and allow it a level of profit on the project consistent with comparable projects;

- The owner/lessor would share risk with the Government on actual project outcomes (cost, time etc.), and establish appropriate management structures to reflect this shared risk; and

- The risk to the owner/lessor would be capped, and perhaps limited to the loss of overhead and profit margin.

Contracts with similar features are being used elsewhere in the rail sector: for example, the Sydenham and Craigieburn electrification projects in Victoria. They would enable projects in the national network to be implemented without regard to public or private ownership. However, they would require the Government to accept some cost risk, rather than defining its contribution in the budget. They would also require a capacity for commercial implementation. Where appropriate, the Commonwealth might want to draw on institutional capacity at State Government level to assist with implementation.

Conclusion: the Productivity Commission should recommend the rapid development of corridor strategies as the basis for allocation of public funds in the land transport sector; clear specification of outputs; competition for large scale projects; and the development of commercial models for project implementation which are neutral between public and private ownership.

3.2 Capping below rail returns

In the current policy setting, where the non-bulk interstate railway systems of Australia struggle to compete with road except on the very longest hauls, the overall profit margin for infrastructure and above-rail operations is insufficient to provide a commercial rate of return on all the rail system assets when these are valued on a replacement cost basis.

Until the policy setting can be changed, there will be an ongoing tension between infrastructure providers and train operators over the division of a pie that is simply not large enough to go around.

The impressive growth that has been observed in the past decade in intermodal rail traffic on the Melbourne – Perth corridor can be attributed primarily to the efforts of the above-rail operators NRC (now Pacific National), SCT, and Toll Rail. NRC invested substantially in a new, reliable locomotive fleet, new low tare 'skel' container wagons, terminals and IT systems. It is the quality of service improvements brought about by these operators and their above-rail investments more than any initiative of the infrastructure providers (ARTC and WestNet Rail) that has brought about this growth in rail's modal share.

Pacific National is facing a similar situation today. It will need to commit substantial capital to rollingstock and terminal investment to cope with future growth. The problem is that the current structure of rail access pricing acts as a significant disincentive to this investment. Intermodal access prices have been deliberately set below the WACC/DORC ceiling because of the strength of competition from road. As above rail operators make further investments and growth occurs, track providers enjoy the benefits of increased utilisation at constant prices, while also having the option of increasing access prices to capture a greater share of the overall returns. Essentially, track providers can lift access prices to a maximum of double their current level to take the incremental profits achieved by improved above rail service or increased above rail investment.

There are two possible partial solutions to this problem. The first would be to place some administrative or regulatory cap on the returns that could be achieved by an infrastructure provider. This cap could perhaps be implemented by permitting returns only on infrastructure investments of a short life or made after a specified date (say the date that ARTC took over the network it now operates).

This approach would allow the incentives for the most growth-oriented above-rail investments to more closely resemble the incentives that would exist within a vertically

integrated railway. Under this approach, above-rail operators could be more confident that their own investments in service quality and modal growth would not be exploited or held up by the infrastructure owners.

The second partial solution to the problem is to modify the price cap formula to take explicit account of traffic growth. There are many possible implementations of such a concept, but the underlying idea is that access prices should be reduced as traffic grows. This price reduction should be done in such a way as to give both train operators and infrastructure providers a worthwhile and predictable return from growth, but to prevent the infrastructure provider from capturing all of that return or opportunistically increasing its share of that return at its own discretion.

One example of such a sharing approach is given in the box below:

Access prices could be modified annually by the following escalation formula is :-

Previous year's prices multiplied by 1 + (CPI minus (½ of GTK growth))

The term "GTK" refers to gross tonne kilometres, a typical measure of rail freight volumes. The GTK growth would be calculated on a region by region basis, would be growth in GTK's for all operators and exclude highly volatile types of freight, such as grain GTK's.

Conclusion

Pacific National regards it as essential that the Productivity Commission recognises the importance of road reform, underpinned by mass-distance charging, as the key means of delivering effective competition in freight transport. We recommend that the Productivity Commission sets a target of a COAG meeting on road reform in mid-2005, with a view to the introduction of mass-distance charging within the next five years. We also recommend that the Productivity Commission proposes that appropriate steps are taken to limit the efficiency loss in freight transport until road reform is addressed.