NATIONAL TRANSPORT COMMISSION
2021-22 HEAVY VEHICLE CHARGES CONSULTATION REPORT

AUSTRALIAN TRUCKING ASSOCIATION SUBMISSION
12 MARCH 2021

1. About the Australian Trucking Association

The Australian Trucking Association and its member associations collectively represent 50,000 businesses and 200,000 people in the Australian trucking industry. Together, we are committed to safety, professionalism and viability.

2. Introduction and summary

The NTC released its 2021-22 heavy vehicle charges consultation report in January 2021.[1]

The report recommends that charges should increase 2.5 per cent,[2] which is consistent with the approach that ministers originally agreed to adopt for 2020-21 and 2021-22.[3] Charges were frozen in 2020-21 due to the pandemic.[4]

The report also seeks evidence about—

- the costs typically passed through to customers (and end consumers) and the costs absorbed by vehicle owners or operators
- whether the pump price of fuel is charged separately under typical hire and reward contracts (so that fuel price fluctuations do not impact profit margins)
- whether the answer depend on the size of the business and its bargaining power.[5]

This submission reviews the known issues with the PAYGO model and the reasons that ministers chose to adopt a 2.5 per cent increase for 2020-21 and 2021-22 (section 3). It then considers the appropriateness of those figures given the economic environment for trucking businesses (section 4) and their ability to pass on costs (sections 5-6).

The submission recommends (in section 7) that **heavy vehicle charges should increase 1.5 per cent in 2021-22**.

The submission concludes by considering other policy measures that could be adopted to make heavy vehicle charges fairer and more affordable (section 8).

The submission draws on a survey of 68 trucking businesses that the ATA conducted in February-March 2021. More background on the survey is in attachment A.

[1] NTC, Heavy vehicle charges consultation report 2021-22. January 2021.
[2] NTC, 2021, 18.
[3] Transport and Infrastructure Council, Communiqué. 22 November 2019. 5.
[4] Transport and Infrastructure Council, Communiqué. 6 May 2020.
[5] NTC, 2021, 3.

3. Known issues with the PAYGO model

The consultation report estimates that heavy vehicle charges would need to rise 13.4 per cent in 2021-22 to recover the amount spent on providing roads for heavy vehicles.[6]

This very large discrepancy between the heavy vehicle cost base and charging revenue highlights the serious and growing problems with the PAYGO model. These problems include—

- the lack of a structured, transparent process for consulting industry about the road infrastructure it needs. Charges under PAYGO are entirely driven by governments' spending priorities, even if those priorities are inconsistent with the industry's requirements

- the lack of information about the specific infrastructure projects that make up the stated increase in the heavy vehicle cost base, or any auditing of the cost of those projects and the suitability of the roads for truck access, inclusive of construction of truck rest areas

- the lack of predictability and stability in charges

- the lack of fixed determination periods, with the result that the charging methodology is only ever examined in a crisis

- the lack of an agreed mechanism for smoothing heavy vehicle charges through each determination period

In 2019, ministers recognised these ongoing problems with PAYGO when they decided not to implement its algorithmically generated results for 2020-21: an 11.4 per cent increase in charges.

Ministers instead directed the NTC to develop a fresh PAYGO determination.[7] In the interim, they decided to index charges by the forecast level of consumer price inflation – 2.5 per cent.[8]

4. The economic environment

The Australian economy is recovering from the sharp recession caused by the pandemic – but it is still recovering.

The transport, postal and warehousing sector's contribution to the economy declined 16.8 per cent through the year to the December quarter 2020, despite an end of year rally as rural operators transported the second largest grain crop on record. [9]

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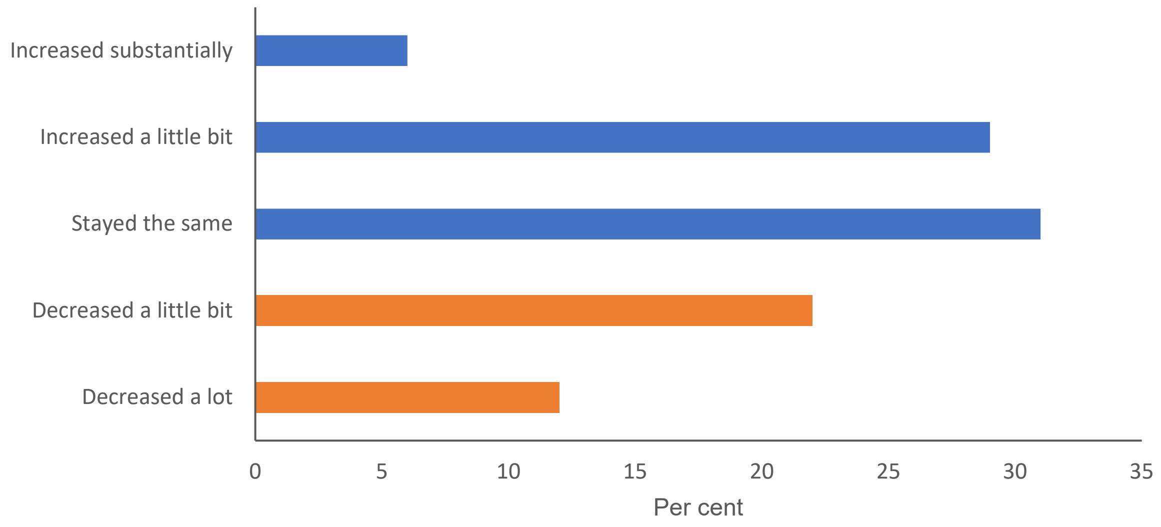
[6] NTC, 2021, 17.
[7] Transport and Infrastructure Council, 2019, 5.
[8] For the then CPI forecast, see Australian Government, Budget 2019-20: budget strategy and outlook. Budget paper No 1. 2-5.
[9] ABS, Australian national accounts: national income, expenditure and product. December 2020.

ABS data shows that—

- 19 per cent of businesses in the transport, postal and warehousing sector were still significantly impacted by reduced demand for their services in February 2021
- 26 per cent were significantly impacted by reduced cash flow.[10]

The ATA's own charges survey shows the continuing impact of the pandemic. As figure 1 shows, 34 per cent of the trucking businesses we surveyed reported that their business activity was still down compared to the period immediately before the 2019-20 bushfires and the pandemic.

Figure 1: Change in business activity since before the bushfires and the pandemic



The consumer price inflation forecast is particularly relevant to this submission.

The consumer price index fell 0.3 per cent in 2019-20. Treasury forecasts that consumer price inflation will increase 2¼ per cent through the year to the June quarter 2021, and then 1½ per cent through the year to the June quarter 2022. Underlying measures of inflation are expected to remain at near record lows.[11]

As figure 2 shows, the NTC's recommended charge increase, 2.5 per cent, is well above the CPI forecast.

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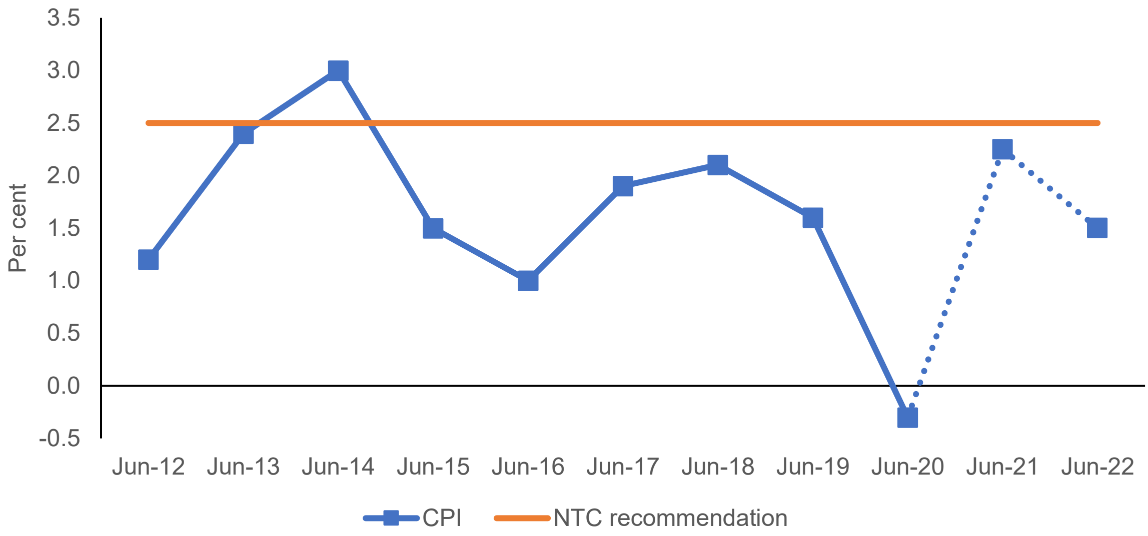
[10] ABS, Business conditions and sentiments, February 2021. Table 7.
[11] Australian Government, Mid-year economic and fiscal outlook 2020-21, December 2020. 26.

Figure 2: Actual and forecast consumer price inflation, 2012-2022



Source: ABS/Treasury. CPI figures are through the year to the June quarter.

5. Passing on cost increases

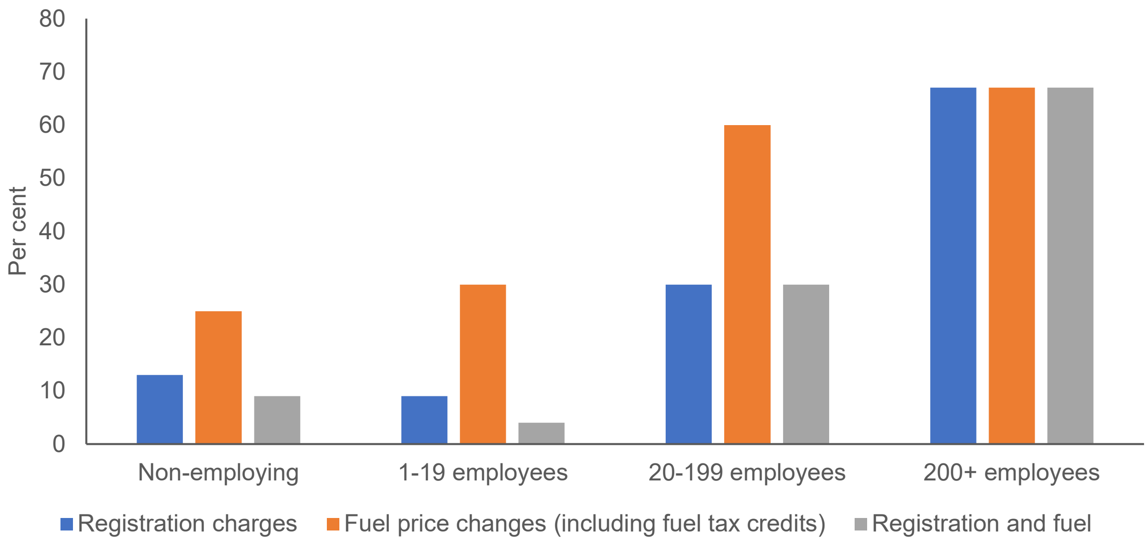
The ATA and its members have long pointed out that trucking businesses have difficulty passing on increases in their costs.

In our truck charges survey, we asked participants about their ability to pass on registration charges and changes in the fuel price (including changes in fuel tax credits). Overall—

- 16 per cent of the businesses we surveyed could pass on registration changes
- 34 per cent could pass on fuel price changes and
- 13 per cent were able to pass on both registration and fuel price changes.

Figure 3 breaks down the survey results according to the size of the participating businesses.

Figure 3: Ability of trucking businesses to pass on cost increases by size



In the qualitative section of the survey, small trucking businesses shared their difficulties with passing on costs—

> “It's near impossible for me to pass on costs, as I don't set the rates as a subcontractor. It’s either take what's offered or go without.”
>
> [General freight business, non-employing]

> “Being a very small family business, increasing our costs to customers increases our chances of losing those customers indefinitely to bigger companies who have the ability to undercut our prices.”
>
> [Refrigerated freight business, 1-19 employees]

Larger businesses told us they had more ability to pass on costs, but that the market was still very difficult—

> “If we are lucky we can review our rates on an annual basis to cover CPI increases.”
>
> [General freight business, 20-199 employees]

6. Use of variable fuel surcharges

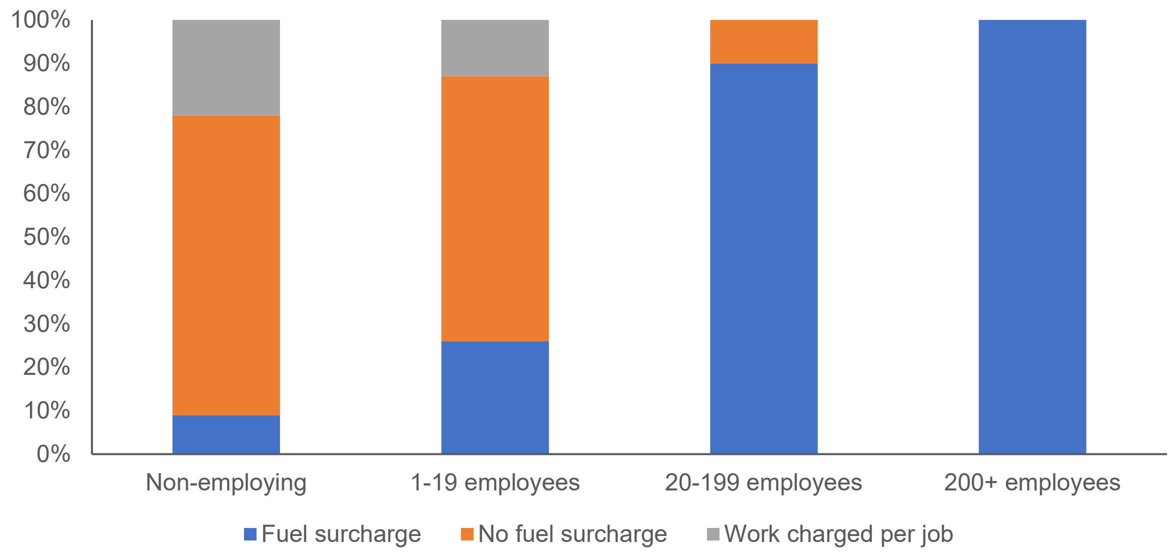
In its consultation report, the NTC asked if the pump price of fuel was charged separately under typical hire and reward contracts, so that fuel price fluctuations do not impact profit margins.

In our survey, we asked participants if they used variable fuel surcharges. In total—

- 31 per cent of the businesses we surveyed used fuel surcharges
- 54 per cent did not use surcharges
- 15 per cent were able to quote individually for each job and could adjust their rates accordingly.

Figure 3 breaks down the survey results according to business size. Not unexpectedly, the use of fuel surcharges is strongly correlated with the size and bargaining power of the business.

Figure 4: Use of fuel surcharges by business size



Our survey participants shared their thoughts about the advantages and disadvantages of fuel surcharges—

> "[Fuel surcharges are] never easy to implement and then to increase causes further problems (decreases never cause us an issue)."
>
> [General freight/heavy equipment/construction business, 1-19 employees]

> "Large clients will drop rates when fuel prices drop but say they cannot afford to lift rates when fuel rises. They basically have you over a barrel."
>
> [Bulk tipper business, 1-19 employees]

> "Variable fuel surcharges do something to address fuel price fluctuations but increasingly customers wish to nominate their own fuel surcharge calculation which rarely achieves timely or adequate recovery."
>
> [General/refrigerated freight business, 20-199 employees]

In the context of this consultation, **it is important to emphasise that the fuel surcharge formulas in some trucking industry contracts do not take changes to the road user charge into account.** The trucking business bears the risk of any changes to the road user charge and cannot pass it on.

It should be noted that other fuel surcharge calculators – such as the calculator that ATA member association NatRoad makes available to its members – do take changes to the road user charge into account.

7. Recommended approach

In November 2019, ministers made the pragmatic decision to maintain the value of heavy vehicle charges in real terms, rather than accepting the output of a charging model with known issues.

The policy logic for this decision is still sound. The new PAYGO determination that ministers commissioned is not yet complete. The known issues with the model remain.

What has changed since 2019 are the economic outlook and the outlook for trucking businesses and their customers.

The headline CPI forecast for 2021-22 is 1½ per cent, not 2½ per cent. Measures of underlying inflation are also low.

Meanwhile, trucking businesses and their customers are still suffering significant impacts due to the pandemic. Trucking businesses continue to have difficulty passing on charge increases.

Accordingly, **the ATA recommends that heavy vehicle charges increase in line with the current CPI forecast, 1.5 per cent, in 2021-22**, not on the basis of a forecast from before the pandemic.

Table 1 summarises the impact of this proposed increase.

It should be noted that the total registration charges in the table comprise a road component (which is affected by the charge increase) and a smaller, cost-recovered regulatory component. As a result, the apparent increase in total charges is lower than 2.5 percent (for the NTC proposal) or 1.5 per cent (for the ATA proposal).

Table 1: Comparative impact of the NTC and ATA charging recommendations, 2021-22

	Total registration charges (incl regulatory component)		
	2020-21 ($)	NTC proposal ($)	ATA proposal ($)
2 axle rigid truck, GVM up to 12t	607	617	613
3 axle rigid truck, GVM>16.5t	1,142	1,162	1,154
3 axle truck and 3 axle dog >42.5t GVM	11,444	11,713	11,605
6 axle articulated truck	6,225	6,369	6,312
9 axle B-double	14,759	15,102	14,965
A-triple	16,584	16,969	16,815
Road user charge (cents/litre)	25.8	26.4	26.2

Source: based on NTC, 2021, 22 (appendix A).

8. Other opportunities to make charges fairer and more affordable

The ATA has previously argued for measures to make charges fairer and more affordable, and to improve the cashflow of trucking businesses, including—

- a ban on payment times longer than 30 days[12]
- the extension of price regulation to heavy vehicle tolls and port access charges[13]
- enabling truck owners to pay registration charges by monthly direct debit.[14]

In addition, ATA members in some states have raised serious concerns about the misuse of primary producer registration concessions.

[12] Evidence to Senate Education and Employment Legislation Committee, Parliament of Australia, Canberra, 7 July 2020, 20. (Bill McKinley, Chief of Staff). Link
[13] ATA, Independent price regulation of heavy vehicle charges. July 2017. 11.
[14] ATA, Heavy vehicle charges—options for improving the accuracy and stability of the PAYGO heavy vehicle charges methodology. July 2016. 17.

2021 TRUCK CHARGES SURVEY

Survey method

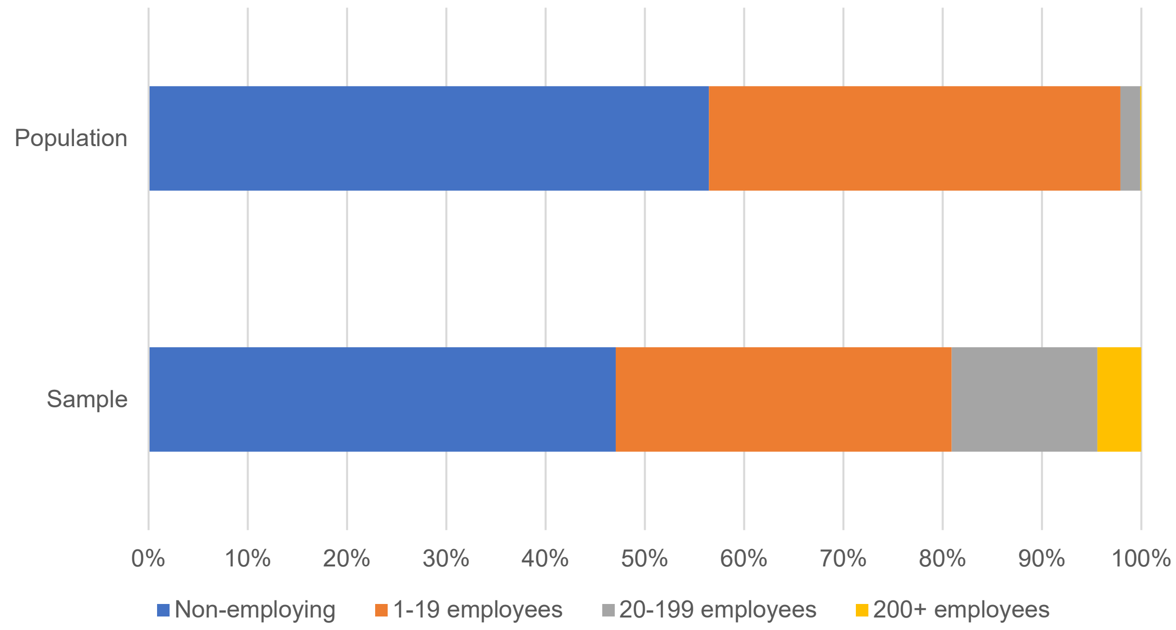
The ATA ran its 2021 truck charges survey from 5 February to 9 March 2021. The survey was constructed in SurveyMonkey (www.surveymonkey.com) and promoted through the ATA's own communication channels and paid advertising on Facebook. The ATA supplemented the online collection of survey responses with telephone calls to owner drivers.

Characteristics of the sampled businesses

In total, 68 trucking businesses participated in the survey. The size of these businesses was an important consideration, so we disaggregated the sample according to the employment size categories used by the ABS.

This approach enabled us to compare our sample to the total population of road freight transport businesses. Figure A1 shows the results.

Figure A1: ATA sample and overall population of road freight businesses compared



Sources: ATA survey and ABS cat 8165.0, ANZSIC 4610, June 2020.