

EXECUTIVE SUMMARY

RACQ is opposed to the sale of Queensland Motorways Ltd (QML).

Queensland's road infrastructure should be managed as a single public road network for the benefit of all. The major bypass of Brisbane should not be controlled by a private operator who is obliged to maximise returns to shareholders. We believe there is a sound economic argument to show that the state's road infrastructure should be managed as an integrated network.

The decision to offer QML under a franchise agreement effectively condemns Queensland motorists to the payment of tolls on key roads such as the Gateway Bridge and Logan Motorway for the next 50 years.

The road and public transport network throughout Queensland should be designed to provide the greatest economic or social welfare return. Toll roads prioritise financial returns over economic performance, so they reduce the benefits to society.

RACQ believes it is both more efficient and more equitable for road users and taxpayers that QML remains in public hands.

The Queensland Government's only rationale for this sale is to generate a once off cash injection and to get the QML debt off its books. This is in part because the Federal Government has failed to provide Commonwealth support for this important national highway link.

RACQ calls on the Queensland Government to not privatise QML and, instead, move towards the elimination of tolls on the Gateway Bridge and Logan Motorway as soon as practicable over time. The RACQ also calls on the Federal Government to fund the construction of the two key road upgrades, Gateway Upgrade North (GUN) and Gateway Upgrade South (GUS) as part of its commitment to a national highway network and to ensure an uninterrupted corridor between the Bruce Highway north and the Pacific Motorway south.



BACKGROUND

On 2 June 2009 the Queensland Government announced its intention to dispose of five assets from within its portfolio of public non-financial corporations.

The entities to be sold or leased comprise, in order, the following businesses:

Forestry Plantations Queensland (first half 2010);
Port of Brisbane Corporation (mid 2010);
Abbot Point Coal Terminal (Dec 2010);
QR National (coal haulage business) (end 2010) and
Queensland Motorways Ltd (mid 2011).¹

This paper presents a discussion of the issues surrounding the disposal of the tolling rights held by Queensland Motorways Ltd (QML), through a 50-year franchise arrangement.

The views are specific to the sale of Queensland Motorways Ltd and do reflect a wider commentary on the disposal of any or all of the other four assets.

The sale of QML is expected to go into market mid 2011.

QUEENSLAND MOTORWAYS LIMITED

Queensland Motorways Ltd is an unlisted public company incorporated in Queensland. At present, the Queensland government holds all shares in this company under a trust arrangement. The government appoints members of the board.

The corporate entity Queensland Motorways Ltd was formally established in 1995, although the company can trace its origins to 1980 and the establishment of the Gateway Bridge Company, which undertook the construction of the Gateway Bridge crossing of the Brisbane River between Eagle Farm and Murarrie.

Under the direction of the State Government the operations of the company have expanded to include a number of other road infrastructure projects in South-East Queensland, including:

- Gateway Extension Motorway
- Logan Motorway
- Port of Brisbane Motorway

¹ Media Release 8/12/2009 *New QR National to be one of Australia's biggest companies*. The Hon Anna Bligh, Premier and Minister for the Arts

Nb. The Government uses the terms "dispose" or "disposal" to refer to the commercial sale or lease of a particular business entity.



QML is also managing the construction of the Gateway Upgrade Project, a duplication of the existing Gateway Bridge crossing of the Brisbane River, along with an upgrade of the Gateway Motorway from Mt Gravatt Capalaba Rd in the south to Nudgee Rd in the north.

The organisation's principal source of income is the toll revenues levied on users of the Gateway Bridge and the Logan Motorway.

In 2009 the company introduced free-flow tolling throughout its network. The system employs a combination of electronic transponders and video imagery to electronically meter tolls on road users. The system is known as **go via** and is managed and operated by Queensland Motorways Ltd.

BACKGROUND TO THE DECISION

The State Government is proposing the sale or lease of five government businesses in order to address shortfalls in government revenue as a result of the Global Financial Crisis.

The sales are designed to yield a return of \$15 billion over the period of the disposal program.

The Government has committed to maintaining its \$18 billion public sector infrastructure program, including expenditures on roads and public transport, public housing, electricity, education and health.

At the start of 2009 the major ratings agencies downgraded the state's credit rating to AA+ (Standard & Poors and Moodys). This was the first time the rating had fallen below the benchmark triple-A- rating. The ratings downgrade was attributed to the release of mid-year state budget estimates in 2008/09 forecasting a state budget deficit of \$1.9 billion and the state's ongoing commitment to maintaining infrastructure spending. The fall in ratings means the Government faces a higher interest bill on borrowings, with the Treasurer quoted as suggesting payments on total borrowings will increase by \$200 million this financial year.²

The asset sales have been proposed by the state to provide an injection of cash into the budget and to free the Government from further capital expenditures associated with these assets.

In December 2009 the Treasurer released the mid-year review. This review revised the budget deficit out further to \$2.3 billion with the forecasts of continuing deficits.³

WHAT HAS BEEN THE RESPONSE?

The response to the decision has been widely reported in the media and should continue to attract attention as the sales process continues.

² Australian Broadcasting Corporation. *Budget Deficit lowers Qld credit rating*
<http://www.abc.net.au/news/stories/2009/02/21/2497607.htm>

³ Queensland Treasury. Mid Year Economic Review <http://www.treasury.qld.gov.au/office/knowledge/docs/mid-year-review/index.shtml>



Galaxy polling published by *The Courier Mail* has shown public opinion **does not** favour the sales. Opposition to the sales has ranged from 84% in September 2009, some four months after the first announcement to 79% in December 2009.⁴

The union movement in Queensland has been among the harshest of critics, organising a significant public campaign, including the ongoing campaign website “Queensland Not For Sale” <qldnotforsale.org.au> and a number of radio and television advertisements promoting opposition to the sale.

In spite of union opposition, the Queensland State ALP Conference in June 2009 endorsed the asset sales program.

A number of academic and professional economists have also questioned the economic rationale of the sale, concerned that the Government is misrepresenting the financial costs and benefits in order to convince the public about the merits of the sale process.⁵

Business groups such as the Australian Industry Group, Infrastructure Partners Australia, the Property Council and the Tourism and Transport Forum are on record as supporting the assets sales program, urging the state to continue to pursue infrastructure investment.⁶

THE ECONOMICS OF THE ARGUMENT

*“I think all of the urban, privately owned toll roads are a disgrace to the State and economically unjustified...”*⁷

The merits of the Government’s proposal have come under increasing scrutiny from a wide cross section of the community.

While acknowledging the high level of public sentiment expressed against the assets sales program, the RACQ has sought to focus on the economic welfare arguments surrounding the QML sale. In this paper we examine whether the Government can justify transferring a brown-field, monopoly asset into the hands of private operators in order to secure an immediate cash injection to its budget.

As noted earlier, in return for a cash payment from the successful bidder, the Government is offering the franchise rights to levy the tolls on the QML road network.

Although the network is well established, and will be augmented with future assets including the Gateway Upgrade and the Port of Brisbane Link, the principal business risk associated with the operation is the continuous flow of toll revenues.

⁴ *Queensland anger over Anna Bligh's asset sale on wane.* Courier Mail 3 December 2009

⁵ See Web log. Prof John Quiggin <http://johnquiggin.com/index.php/archives/2009/11/24/economists-statement-on-queensland-asset-sales/>

⁶ Joint Communiqué Issued 19 November 2009. AIG, IPA, PCA and TTF

⁷ Former NSW Auditor General Tony Harris discusses privatisation in NSW. AM – ABC Radio Thursday, 28 December, 2006.



The RACQ believes the Government is in a better position than the private sector to manage the revenue risks associated with the QML infrastructure network. While a strong case can be mounted for private ownership and management of commercial assets, it should be acknowledged that QML (and its predecessor the Gateway Bridge Company) has operated effectively under government ownership for more than 20 years.

Further, a private sector owner, employing the blunt instrument of a road user charge (i.e., tolls) cannot recover the network externalities, such as congestion, pollution and crashes. This means that, in order to break even without government assistance, a private operator would charge a toll price that is too high, leading to traffic volumes that are too low relative to the economically efficient level. This is doubly punitive on motorists – as the users are levied a toll that is too high and non-users suffer the costs associated with additional congestion on the non-tolled surrounding roads. The outcome is a loss in efficiency across the entire road network.

As we have seen in recent examples in NSW, the privatisation of roads and tunnels within Sydney has been characterised by contractual provisions that bind governments into providing assistance to private operators when their projections are not met. This has included the closure of roads diverting traffic into the cross-city tunnel in order to achieve threshold traffic counts; the “Ensured Revenue Stream Agreement” in which the NSW Government committed top-up payments to the Sydney Harbour Tunnel operators; and the community “Cashback” scheme for all NSW motor vehicle users of the M4 and M5 motorways – who could claim a full rebate from the Government on their road toll.

Economic theory suggests risks should be allocated to the party best able to manage them. Further, all parties should be made fully aware of the risks they are taking and have the best capability to cope with any risk eventuating.

In the case of QML, the key risk to revenues is road and public transport investment and urban planning decisions.

Urban planning within the Brisbane and SEQ road network influences the maintenance of current and projected traffic volumes. Factors such as land planning, alternative road networks, public transport upgrades and other macro influences can, over the time period suggested (50 years), have a considerable influence on traffic volumes.

A private operator has no direct control over these processes. Yet, with privatisation they are expected to take on the management of these long-term risks to their revenue base.

In economics this is described as allocative inefficiency, and it is clear when applying these risk allocations to toll road privatisations that these risks ought to be allocated to government.⁸ This is more fully discussed in the paper prepared for the RACQ by

⁸ Prof R Guest. “*The Privatisation of Queensland Motorways An Economic Briefing Paper*” RACQ 2010.



Prof. Ross Guest, “*The Privatisation of Queensland Motorways: An Economic Briefing Paper*” available on our website.

Experience suggests a private operator will be motivated to seek a “contractual safety net” to mitigate against virtually any and all planning changes by the state which potentially disrupt traffic flows. At a minimum, they will lobby against changes which negatively impact on their traffic flow. This is clearly not in the interests of the motorists who are not users of the toll road and will lead to long-term planning inefficiencies. In Sydney, when road closures were reversed due to public pressure, the privatisation model supporting the Cross City Tunnel fell apart and the company went into bankruptcy.

This “rent-seeking” behaviour is wasteful and will often offset the benefits of privatisation because it reduces the incentive of private operators to deliver efficiency gains when they can rely instead on the safety-net of the public purse.

In arguing that allocative efficiencies favour the retention of QML, RACQ acknowledges that a case for privatisation might well be made on the grounds of productive efficiency. This is often the favoured position of the private sector, which argues that businesses are best managed by private operators (who possess the required management skills) to run the business at a lower cost than the public sector. While the economic literature provides some evidence of this, it is curious that the Government has not advanced this argument, preferring instead to rest its case on fiscal benefits of privatisation. At a recent forum the Treasurer was criticised by supporters of privatisation for failing to release a more detailed financial analysis of the assets listed for sale. This included (but was not limited to) the detailed scoping studies prepared by Treasury on each of the businesses listed for sale.⁹

With the major upgrade of the QML road assets largely complete, and new technology for electronic tolling already operational, it is difficult to believe that a private sector operator could achieve any substantial productive efficiency within the business to justify its transfer out of public ownership.

Traffic volumes will tend towards being too low on a private toll road because the operators cannot account for network externalities, such as the benefit that motorists who pay the toll confer on other road users through helping relieve congestion on the surrounding network.

The private operator has no way of charging drivers on the external network. Instead they must set the toll based on what they believe drivers are willing to pay for the private benefit. This leads to higher pricing for tolls and traffic volumes that are too low for economic (and network) efficiency. This pressure is already evident in government promises to limit toll increases post any privatisation to CPI-only increases.

⁹ Council of Economic Development Australia (CEDA) Qld Branch. “Privatisation of Public Assets. The Debate QLD has to have”. Public Luncheon. Hilton Hotel, Brisbane 3 February 2010.



Network externalities are further evidence of the allocative inefficiency and continue to point to the need for QML to remain in public ownership.

It demonstrates one of the key frailties of privatising the road network. Too many of these projects rely on the government of the day being forced to offer compromises (e.g., limits on tolls, distance-based tolling, user rebates, traffic diversions, planning concessions) in order to present an appealing product to the private sector investors. These compromises generally either hurt the motorist or, at best, represent some further impost on taxpayers.

RACQ concludes that the sale of QML is not in the interests of its members.

PRIVATE MONOPOLY INTEREST

"Running a business like Telstra is extraordinarily different to running a coal transport company," she told the ABC.

"Telstra provides a service into every household and every home and the bargaining power of a pensioner up against Telstra is a very different thing than the bargaining power of a Rio Tinto or a BHP with a transport company to get their coal to market." ¹⁰

Queensland Premier, Anna Bligh's defence (above) of her decision to sell Queensland Rail is ironic because this monopoly power is just the type of activity that motorists might expect to face every time they cross the Gateway Bridge under a privatised Queensland Motorways.

Queensland Motorways Ltd holds a monopoly over pricing and managing the Gateway and Logan Motorways. Under government ownership this is not such a bad thing as the infrastructure, even with tolls, can still be managed with an eye towards the public good.

When the business is transferred to private shareholders the dynamics change.

The company is obliged to maximise shareholder interests, which will include a profit maximisation strategy. The State Government is so conscious of this risk it is including a specific and explicit condition aimed at preventing the buyer from increasing tolls above the CPI for the term of the franchise. As noted earlier in the discussion it is difficult to believe that any private sector operator could achieve major productive efficiencies given the level of development that has already occurred. The risk for motorists and the wider community is that efficiency gains are pursued via cost cutting in areas such as road maintenance, noise barriers, landscaping and off-road cycle paths.

As has often been highlighted, the public are growing sceptical of the benefits of privatising public monopolies. The sale of Telstra remains a case in point. The

¹⁰ Business Spectator "Albanese concerned over QR Plan". Source AAP.



influx of inflated management salaries, poor customer service outcomes, monopoly pricing and the corporatisation of key public infrastructure assets have all attracted disquiet from the public.

When one looks at the portfolio of assets being offered by Queensland, most of the businesses are monopoly holdings. Most also trade exclusively with other large corporate interests in areas such as rail freight, bulk shipping and to a lesser extent forestry products. These businesses are well resourced and capable, even in a monopoly environment, to negotiate on factors such as price, service, logistics and other terms of trade.

The clear exception is Queensland Motorways, which makes its profits from the tolls collected from millions of trips taken by motorists along their infrastructure network. These motorists have little by way of bargaining power – forced to be monopoly price takers.

It was notable that, in announcing the sale, the Premier excluded from the QR offering the passenger rail service, which will be retained in state ownership.

The Government rightly chose to maximise public interest by quarantining QR passenger services from the asset sale – recognising that the business earned revenues providing a monopoly public transport service to millions of Queenslanders, much in the same way as its QML counterpart.

The Government should have a similar regard to the public interest of motorists by retaining QML under state ownership. Especially in the light of the recent announcement of 30% toll increases from 1 July 2010, the implementation of a CPI price cap is an unconvincing attempt at appeasing motorists and the wider public.

CONGESTION PRICING VS TOLLS

RACQ is conscious of the debate surrounding congestion pricing, particularly the growing expectation that congestion pricing will form part of the Henry Commonwealth Tax review to be released later this year.

For several years the RACQ has supported an investigation of congestion charging for an inner city area within Brisbane.¹¹

We believe that the adoption of an effective congestion-pricing scheme provides a better and more efficient means for road-user charging. Properly implemented, the scheme should ultimately reflect the impact that each vehicle has on other road users.

Road tolling is counter to this position. Discrete sections of road are excised from the network. Private operators are then free to levy a toll based on their particular business model (e.g., cost recovery model, profit target) with little regard for network externalities.

¹¹ RACQ *Submission to the Australia's Future Tax System* October 2008



While the QML road network is well outside the CBD, RACQ believes that the sale serves to further wed Brisbane to the concept of tolling, hindering a more holistic investigation into congestion charging.

Further, we are concerned that, should a congestion charge be implemented along with the anticipated changes to traffic, we could see a private monopoly operator either secure windfall revenue gains due to unanticipated traffic gains or, conversely, seek compensation if congestion charging causes a disruption to traffic flows.

In either case, RACQ believes the community is better served if the Government remains the owner of QML and is left to manage the risks rather than a private operator.

Over time that risk management framework should include the removal of the tolls on the Gateway Bridge and the Logan Motorway as part of a wider program to manage congestion in SEQ by the elimination of disincentives to using these key infrastructure assets.

MAJOR NETWORK UPGRADES – GATEWAY UPGRADE NORTH/GATEWAY UPGRADE SOUTH

While the RACQ has commended the commitment by QML and the Queensland Government to pursue a number of major infrastructure upgrades, including the duplication of the Gateway Bridge and the electronic tolling system, there remain major network upgrades still to be progressed.

The Gateway Upgrade North (GUN) and the Gateway Upgrade South (GUS) represent a combined infrastructure cost of \$2.9 billion. These projects are identified by the State Government as key infrastructure projects with Infrastructure Australia and within the South East Queensland Infrastructure Plan and Program (SEQIPP).

Preliminary planning has been progressed on both projects with both the State and Federal Governments contributing a total of \$20 million towards a variety of assessments including public consultation.

Further funding towards planning has been ear-marked by the Federal Government within the Nation Building Program (formerly Auslink 2), including \$125m towards GUN and \$70m towards GUS – but the substantive capital commitments required for construction are still outstanding.¹²

Queensland's Treasurer, Andrew Fraser, confirmed that recent toll increases would fund an initial stage of the GUS project, upgrading the only remaining four-lane

¹² Dept of Infrastructure and Planning *Queensland Input for the COAG National Infrastructure Audit Part B – Project List Table*
31 October 2008



section of the Gateway Motorway to six lanes, for a total cost of \$240 million as well as the extension of the Port of Brisbane Motorway at a cost of \$320 million.¹³

Transferring the assets to a private sector owner makes the likelihood of federal support even more remote and will increase the pressure on the private sector owner to increase tolls as one of the only means available to fund borrowings associated with the major infrastructure costs.

In the view of RACQ, the lack of progress for the GUS and GUN projects is in large part due to the failure of the Federal Government to provide adequate funding to the state for major infrastructure spending. This in turn has forced the state to consider asset sales as a preferred means for funding budget commitments.

The RACQ reiterates its call on the Federal Government to provide the funding required for the GUS and GUN projects as a condition of the road remaining in state control. The Federal Government commitment should be part of its ongoing investment in the national highway network.

RACQ'S POSITION ON THE SALE OF QUEENSLAND MOTORWAYS

The RACQ is opposed to the decision by the Queensland Government to offer Queensland Motorways Ltd for sale.

The road and public transport network throughout Queensland has traditionally been designed on the basis of which projects provide the greatest economic or social welfare return, rather than the financial benefit to shareholders. We believe the transfer of this business to private sector interests will result in increasing pressures on the effective management of the SEQ roads, as well as the risk of cost-cutting in the maintenance of the QML network as the private owner seeks to maximise profits. The decision condemns Queensland motorists to the payment of tolls on key roads such as the Gateway Bridge and Logan Motorway for the next 50 years.

We believe the continued use of tolls promotes poor decision-making on the part of motorists, as they are forced – unfairly given the public infrastructure – to weigh up cost aversion against the benefits of efficient transport options. This is perhaps most acutely illustrated by the opening in Brisbane of the CLEM7 road tunnel, the purpose of which is to reduce inner-city congestion through the development of a north south city by-pass. Motorists on this new ('congestion busting') infrastructure are expected to pay a toll; while those who traverse through the CBD travel toll free.

Queensland is in a difficult financial position, forecasting a continued level state debt that far exceeds every other state and territory in Australia. RACQ calls on the Federal Government to intervene in this situation to assist the state in its

¹³ Treasurer and Minister for Employment and Economic Development The Hon Andrew Fraser Half a billion dollars worth of road upgrades on their way 18/03/2010



infrastructure spending program through a commitment to fund the Gateway Upgrade North and Gateway Upgrade South road projects, currently estimated at \$2.9 billion.

Finally, the emergence of a more holistic debate over road-user charging, including the potential for congestion charging currently being flagged by the Commonwealth Treasury Secretary, Dr Ken Henry, is welcomed by the RACQ. Any long term franchise for the QML tolling rights threatens to excise a major component of the SEQ road network (i.e., Gateway and Logan Motorway) from effective discussion regarding road-user charging as the asset will be subject to a separate contractual agreement.

CONCLUSION

While mindful of changing methods for the delivery of major infrastructure projects, the RACQ remains opposed to the imposition of tolls on motorists.

The sale of QML will effectively commit motorists to the ongoing toll on the Gateway and Logan Motorways for a period of at least 50 years. The Government's commitment to limit increases in the tolls to CPI is hardly convincing for motorists and less so because it is unwilling to state publicly at what level the base tolls will be set or if there will be any changes to the mechanism, such as distance based tolling – made all the more easier by the introduction of an electronic system.

For these reasons and those outlined earlier in the paper the RACQ reiterates its opposition to the sale of Queensland Motorways Limited and calls, instead, for the Government's commitment to the elimination of tolls on the Gateway Bridge and Logan Motorway as soon as practicable over time.

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Copies of this paper and the supporting report, *The Privatisation of Queensland Motorways An Economic Briefing Paper* can be downloaded from <racq.com.au> follow the links to "Lobbying for Road Users".