

4TH ANNUAL TOLL ROADS SUMMIT

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User perspectives and community attitudes to toll road development in Queensland

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Thank you for the opportunity to present the motorists' perspective on toll roads of behalf of the one million-plus Queenslanders who are members of the RACQ.

Your recognition that it is, ultimately, acceptance by motorists that determines the success of such ventures in both a financial and transport-planning sense is encouraging.

For I certainly didn't come here today to tell you how much Queensland motorists welcome the prospect of paying 24-hour tolls to get around this state, or this city.

I'm sure there is no shortage of research that can be produced to show respectable percentages of respondents who will 'tick the box' for tolls when presented with a 'no alternative' scenario.

But with the greatest respect, that really is little more than 'push polling'.

To touch upon another very topical issue, I suggest that it is analogous to asking a south-east Queenslander whether they would prefer recycled water or no water at all.

I won't venture any further into that argument other than to say that, in the case of water, there may be *no* alternatives to what some see as a less than palatable solution to our water crisis.

However, when it comes to the provision of roads, the RACQ firmly believes there are very *viable* alternatives to toll facilities, which provide not only benefits to motorists but also broader benefits to the community as a whole.

I'm sure you are all familiar with defeatist protestations from various quarters that tolls to pay for new road infrastructure should be employed only as a last resort.

What concerns us about that position is that accepting tolls as a "last resort" has all too often become an implicit licence to make it the "first option".

Both federal and state governments commonly plead a lack of money to provide all the new road infrastructure that past neglect and current economic growth now demands.

In fact, everyone here appreciates that lack of access to “ready cash” is not really an issue for the Commonwealth – or the Queensland Government. I will elaborate on this later.

With only about a sixth of the annual \$14 billion of federal fuel tax revenue being returned in the form of better, safer roads, it probably won't surprise you to find that the majority of motorists, when asked, expect a far better roads funding deal than that currently received from Canberra.

Governments respond that they have any number of competing demands for spending, which they then must prioritise.

We understand that... but, unfortunately, it *also* tells us how low a priority roads still have in the minds of government.

Governments at both state and federal levels have probably been able to get away with continuing under-investment in roads over several decades at least, because it's seen as just another whinge... an outpouring of dissatisfaction that is provoked only when some pesky motoring organisation actually asks motorists whether they're happy with the quality of the road network on which they do their driving.

But it would be foolish for politicians to think that this 'sleeping dog' of motorist (and voter) sentiment is not starting to wake up – and is ready to bite them.

Every working day in south-east Queensland, for example, motorists are facing increasing traffic congestion... and are increasingly, and more spontaneously, vocal about it... to us, the media and their local political representatives.

Also, there is also an increasing public awareness of the key role the design and condition of roads can play, for better or for worse, in relation to the safety of the people who use them.

The National Road Safety Plan for 2007 and 2008 reaffirms a central plank of its overarching strategy: that half of the targeted 40 percent reduction in road fatalities can be achieved through making the roads themselves safer.

With Queensland facing a major challenge in trying to reduce our annual road toll below the 300-plus of the past few years, road users are gaining – and expressing – a real appreciation of just how roads themselves can either contribute to, or aggravate the outcomes of, vehicle crashes.

As a matter of interest, research last year out of the University of Queensland, has estimated the annual economic cost of road crashes in today's values at \$18.5 billion nationally and \$3.9 billion in Queensland alone. That represents 2.3 and 2.8 percent of the national and state gross incomes respectively.

These – and other – economic arguments should be enough to carry the case for greater roads investment by governments.

But somewhat perversely in the case of the Pacific Highway, for example, it's the road safety argument that is turned back on motorists and the general community to advance the cause of tolling on our inter-city routes.

We're told that taking the toll approach will bring forward much needed improvement to this vital intra- and interstate link and, therefore, save lives sooner on what can fairly be described as a 'killer of a road'.

To the RACQ that is as good as saying that governments don't *really* regard the reduction of road trauma on that highway as a particularly high priority; but – if the community does – well, they can always pay the toll for a safer ride sooner.

To localise the issue a little further, a similar scenario looms in regard to the much vaunted – and much delayed – alternative to the current Toowoomba Range Crossing... and we'll just wait and see whether motorists will be expected to pay for the privilege of avoiding the horrors of the Cooroy-to-Curra stretch of the Bruce Highway, just north of Brisbane, once a route for its bypass is decided.

I now wish to put the spotlight on the road networks in our major urban areas – in our case, Queensland's 'great south-east' – and outline why we believe that tolling new roads is not the way to tackle effectively our increasingly pressing problem of traffic congestion.

In doing so, let me preface my remarks by giving credit to Brisbane's Lord Mayor, Councillor Campbell Newman, for the courage he has demonstrated in taking on the Herculean task of trying to address this city's traffic woes – without the levels of financial support from federal and state government that we believe are necessary to make his objective of effectively managing the city's congestion a reality.

We understand, therefore, why Brisbane City Council has been "funnelled" into sponsoring a toll-tunnel network.

But understanding the Lord Mayor's dilemma does *not* assuage our fundamental concerns over an approach that attempts to toll our way out of traffic congestion problems.

Among these are our ongoing concerns over the equity aspects of toll arrangements – especially when it is often the less well-off, who typically have to travel further to their places of work, often have to drive across town, and have poor access to subsidised public transport services.

And we further question the equity and ethics of imposing tolls on drivers who reduce costs on others by staying off existing congested roads – tolls avoided by those who stay on existing busy roads, adding to congestion and thereby imposing costs on others.

But, in addition to the equity issue, there is the equally strong concern that tolling roads built to relieve traffic congestion is inherently *contrary* to that very objective.

In the case of arterial roads, our governments have been progressively moving away from the tradition of free access to taxpayer-funded facilities, but have done so in ways that will *not* effectively deal with traffic congestion and road damage.

They have opted for tolls on isolated segments of new road capacity, with existing free-access capacity remaining that way. Typically, tolls vary according to four very broad vehicle categories... but do not vary at all with traffic conditions or time of day.

There appear to be two main reasons for the trend to tolls.

One consideration is the Commonwealth's determination to shift greater responsibility for road funding to sub-national governments, and in particular, to minimise Commonwealth involvement in dealing with worsening traffic congestion in major urban areas. Obviously, the Federal Government does not want to give up more than the 15-16 per cent of the on-road fuel tax revenue it currently returns to state and local governments for roads. This has increased pressure on state and local governments to fund congestion-alleviating facilities.

From an economic policy perspective, this neglects the substantial adverse effect of congestion on the huge economic contribution Australia's major cities make to the national economy. It also highlights the worst aspects of what the economists identify as the severe vertical intergovernmental fiscal imbalance in the Australian federal system, which leaves those levels of government who are expected to build roads and other infrastructure without the access to the major taxing mechanisms that are currently in the Commonwealth's hands.

Another apparent reason for the shift to toll roads in metropolitan Brisbane is the Queensland Government's resolve to allocate government funds to public transport subsidies, rather than arterial road capacity, because of fears that more free-access roads will attract more cars.

The RACQ challenges this policy because economic modelling and overseas experience have shown that public transport subsidies are very ineffective and costly means of tackling traffic congestion. Also, public transport subsidies free up road space on existing roads, which can attract more cars... just like building more road capacity.

Our governments' main justification for putting toll roads in *private* hands is that this practice allows an optimal allocation of activities and associated risks between the public and private sectors in accordance with capacity to manage risks. They suggest this yields social gains.

Understandably, the PPP approach finds support from construction industry participants who hope to benefit from greater and earlier road construction and large public transport projects. Nor is it any surprise that financial engineers, advisers and financiers who stand to benefit from lucrative fees and capital returns have been strong supporters of private sector toll roads.

Meanwhile, motorists remain sceptical of arguments for tolls. An independent sample survey of RACQ members in late 2005 revealed that 58 per cent of respondents in Brisbane and 60 per cent elsewhere in the state opposed toll funding of new roads.

But motorists are not alone in their doubts. Economists with expertise in transport economics, public finance and risk management are highly critical of arguments for both government and private toll roads. Let's look at some of this criticism.

Economists have explained that the argument that tolls allow earlier provision of roads is misleading and naïve. Tolls simply make resources available for roads. But, resources could be made available in three alternative ways to bring forward economically justifiable road investments.

One option is to re-allocate expenditures from other government programs on the basis of comparative social cost/benefit analysis. Roads with high benefit/cost ratios would displace government activities with low benefit/cost ratios with a resulting improvement in resource allocation efficiency. An obvious starting point would be comparative analysis of by-pass roads and public transport subsidies, as those subsidies appear to have been based on ideology, rather than economic assessment.

A second option is increases in taxes and government charges to fund road investments. These would avoid the problem of tolls impeding the congestion-cutting purpose of roads. But, such increases could cause other adverse economic effects, unless tax and pricing regimes were designed or new systems chosen to improve efficiency of resource-use.

An option consistent with this proviso is network-wide, variable congestion pricing. This would provide resources for road network expansion in a way that improved the efficiency of resource use, by cutting wasteful time losses and fuel consumption, eliminating the induced demand problem associated with new free access road capacity and heavily subsidised public transport, and otherwise encouraging more efficient use of existing and future land transport networks.

In contrast, tolls discourage efficient use of resources, both at off-peak and peak times.

Typically, the purpose of tolls on new facilities is to cover or contribute to the costs of provision, including a target rate of return on investment. Tolls are usually *not* designed with efficient resource use in mind.

At off-peak times, when the social cost of an additional car using a link is zero, a toll will induce some drivers to choose a less convenient alternative. The efficiency of use of the road system is thereby reduced. The higher is the toll, the *greater* is the resulting welfare loss to the community.

A toll on a new road encourages drivers to stay on existing unpriced, congested roads. The toll undermines the congestion-alleviating potential of the new road, and the efficiency of use of new and existing roads. The higher the toll, the smaller the benefit to the community overall.

New segments of toll-road in major urban areas are typically aimed at making available a priced *premium* service as an alternative to competing congested roads on the unpriced network, while covering full costs, including a target rate of return on capital. As prominent transport economists have explained, a fundamental flaw in this approach to road provision and pricing is that it won't even get *close* to optimal congestion alleviation.

For tolled roads or lanes to be attractive to potential users, a significant speed difference must be maintained between priced and free substitutes. This means the free roads or lanes must remain congested. It is only such congestion that creates a market for a priced option.

It is not just the RACQ, but prominent transport researchers internationally, who believe that toll road projects can “work” or cover their full costs only if governments *fail* to make significant progress towards reducing congestion on the network overall.

Those international experts include Kenneth Small, Erik Verhoef, Jan Rouwendal and Ian Parry, who have demonstrated that tolling of selected individual roads would yield no more than 24 per cent of the net community benefits of network wide congestion-pricing – even working on the assumption that the tolls are set to alleviate congestion rather to recover costs or maximise profits.

While recognising the economic efficiency of private provision of the vast bulk of goods and services in our economy, the RACQ retains concerns over the application of this model to road services. Prime among these concerns are inappropriate allocation of risk bearing, and conflict between the congestion-alleviation goal of governments and the profit maximising objective of private operators.

It is unnecessary in this forum to dwell upon what some see as a textbook example of the downside of such toll arrangements, as has unfolded in Sydney over the past year or so.

Suffice to say that, ultimately, governments retain the responsibility of protecting and advancing the public interest in these matters, and the political risk of not doing so. They have to bear the political odium of tolls and activities designed to protect private operators, as the New South Wales Government learned to its chagrin recently. Also, governments bear risks of network disruption and political criticism if a private operator fails. Finally, they bear the high risk that promises of congestion relief via private sector toll roads *won't* be realised.

The RACQ believes that agreements with private sector road operators run the risk of impeding transition to economically efficient congestion charges and infrastructure provision in various ways, such as specification of long-term tolling rights and systems and restriction of government anti-congestion activities.

Some of you may be surprised to hear a motorists' organisation daring to even suggest congestion pricing. We recognise that to canvass their consideration comes at the risk of criticism from some politicians, who claim such charges would be ‘anti-motorist’ – while *they* charge full-steam ahead with traditional toll facilities that will extract cash

from motorists' e-Tag accounts regardless of time of day – or any meaningful impact on congestion within the road network.

However, two-thirds of RACQ members polled on the issue supported congestion pricing – on the basis of fuel tax offsets – as a congestion management instrument as part of an overall package, inclusive of *toll-free* bypass routes and public transport improvements.

Probably few of those motorists we polled had ever heard of Nobel Laureate in economics, William Vickrey, who argued more than 50 years ago that applying tolls to roads built to alleviate congestion, while allowing free access to congested roads, was an “outstanding absurdity” of public policy. But they join many highly respected economists, engineers and urban planners who have subsequently endorsed Vickrey's prescription.

But let's now move to a more contemporary luminary on these matters – Sir Rod Eddington, who last December published his extensive and much anticipated report for the British Government on *Transport's Role in Sustaining the UK's Productivity and Competitiveness*.

In the report, the former British Airways CEO and now adviser on business issues to the ALP clearly identified traffic congestion as the single biggest issue to be tackled in the transport sphere.

While the Eddington report stated that “road pricing has the potential to deliver substantial benefits for road users, for the environment, for the economy and taxpayers”, Sir Rod put it even more succinctly in a press conference, describing it as an “economic no-brainer”.

Here in Australia, a recent Commonwealth Treasury paper on *Australia's Infrastructure Policy* and the *COAG National Reform Agenda* was completely devoid of reference to tolls. Instead, it made a case for congestion pricing.

Noting that vehicle owners currently paid for their overall road use through fuel taxes and registration fees, the paper's authors argued that these charges were *not* appropriate for tackling Australia's urban congestion challenges.

Ladies and gentlemen, thank you for your attention this afternoon. I'm sure the relative merits of toll roads and congestion pricing are going to be increasingly debated as our cities face increasing traffic challenges, and the RACQ looks forward to being an active and constructive contributor to that debate.