New Zealand Forest Industry Submission to the Road User Charges Review Group November 2008

This Submission has been prepared by the NZ Forest Owners Association, on behalf of the New Zealand forest industry. The submission has been endorsed by the following other industry representative organisations:

- Wood Processors Association
- NZ Pine Manufacturers Association
- Eastland Wood Council

Representatives of the Log Transport Safety Council have also been involved in the development of the submission with particular regard to safety, productivity and efficiency matters.

The industry welcomes the opportunity to make submissions to the Review Group and requests that it also be heard in support of this written submission.

Introduction

The NZ Forest Owners' Association (NZFOA) is a voluntary organisation representing the interests of commercial forest growers, facilitating cooperation and coordination within the forest industry. NZFOA member companies collectively manage around 1.4 million ha of rural land, 80% of which is planted in plantation trees. Total harvest for the June 2008 year was just over 19 million m3, with the capability to increase to around 30 million m3 pa in the near future if market conditions and competitive domestic operating environment allow.

The Wood Processors Association represents companies involved in the primary processing of wood. Members include producers of lumber, engineered wood products and panels, pulp and paper and bioenergy. Member companies represent at least 85% of the wood processed in New Zealand.

The NZ Pine Manufacturers Association represents some 45 secondary wood processors and manufacturers, producing a range of solid wood interior and exterior building products. Collective exports amount to around $500 million per annum.

The Log Transport Safety Council is made up of representatives of forest owners and log truck operators and suppliers, RTF, research organisations and LTSA. Since 2001, the Council has lead a 75% reduction in log truck rollover crash rate, performing as well as the rest of the heavy vehicle fleet, despite generally more adverse operating conditions.

The Eastland Wood Council (EWC) is an incorporated society that represents all the main forest growing and wood processing companies in the Gisborne/East Coast region. The EWC fully supports the submission made by the New Zealand Forest Owners Association and have contributed to the preparation of that submission. The

EWC will also be lodging its own submission, with some additional points specific to its membership.

Key Facts:

- Forest products exports for the five years to June 2008 averaged NZ$ 3 billion, accounting for 10% of New Zealand's merchandise trade[1]. The Forestry contribution to GDP in this period was 3%[2] and is forecast to significantly increase its share over the next 15 years.

- Apart from general freight, the movement of logs, manufactured forest products and wood by-products is the largest road freight commodity group transported in New Zealand, with a total current volume of approximately 31 million tonnes and nearly 4 billion tonne.kms pa.

- The forest industry freight task is expected to double over the next 20 years[3].

- The industry currently pays about $60M pa in heavy vehicle road user charges for the cartage of logs and manufactured forest products[4].

- As a key primary industry, forestry's resources are primarily located in less accessible rural areas and are heavily dependant on rural roads and the secondary state highway network, with restricted opportunities to utilise rail or coastal shipping. An adequate road infrastructure, supported by an efficient and reasonable system of road use funding, is critical to the competitiveness of this sector.

- As further expanded in the following submission, the current structure of the road user charge schedule acts as a disincentive to increased transport productivity and fuel efficiency.

[1] MAF Statistical Release – Exports of Forestry Products
[2] NZFOA – Facts and Figures 2007/08.
[3] MOT, 2008. "National Freight Demand Study", 2008"
[4] Estimated from NZFOA 2007 "Submission to MOT/Transit Heavy Vehicle VDM Concessions Project" February 2007.

1. **Concerns with the current road user charges system:**

1.1 The current RUC system is costly to administer and enforce, and reportedly has high levels of evasion and avoidance. We are aware of analysis by the Road Transport Forum which places the cost of the above at around $0.20 for every $ collected for road wear[5].

1.2 The reference axle weights used in the current RUC schedules are not consistent with the design axle weights used in NZ and Australia for the design and construction of pavements[6].

1.3 The 4th power relationship used in the current RUC schedules to reflect the expected interaction between axle weight and road wear has been shown from accelerated testing work on NZ pavement to be too high[7] and correctly should be more like a factor of 2.

1.4 The combination of the existing reference weights and 4th power relationship used in the current RUC model promote the use of more axles than would otherwise be economically efficient and unnecessarily increases fuel consumption and reduces payload and productivity.

1.5 Current investigations and trials underway into the potential increase in heavy vehicle weights and dimensions in NZ, represent the largest available opportunity to improve road transport productivity and fuel efficiency, with their attendant environmental benefits.. Increasing allowable Gross Combination Weights (GCW) to 50 tonnes or greater on existing suitable infrastructure will reduce heavy road transport fossil fuel use by around 10%, increase productivity by 20% (ie shift more freight with less trucks on the road) and improve road safety. The current RUC 4th power relationship unnecessarily penalises increased GCW and encourages a higher trailer-to-truck weight ratio than is ideal for stability.

1.6 The requirement for heavy vehicle operators to prepurchase RUC on forecast weights and kms, unnecessarily adds to the administration, cashflow and compliance burden of the RUC system. The current RUC legislation carries a highly punitive regime for exceedence of licences purchased. The combination of complexity, forward prediction of requirements, and harsh treatment of what can often be the result of innocent business variability, add up to a stressful mix for both operators and compliance officials. If the evasion claims are correct, this is a particularly ineffective mix of cause and sanction.

1.7 Despite the science underlying the RUC system which is intended to accurately represent road use and cost, the reality is that there is a huge

[5] Road Transport Forum. Unpublished report.
[6] TERNZ Covec, 2008. "Heavy Vehicle Road User Charges Investigation". Report prepared for the Ministry of Transport.
[7] TERNZ Covec, 2008.

amount of cross-subsidisation between roads of different standard, location, use, climatic effects, etc, which appear to swamp the underlying logic. There is a well researched view that the current system does not achieve its primary objective of achieving efficient outcomes in truck configurations and loading.[8]

1.8 New Zealand's system and application of RUC's, being unique in the world in which we trade and purchase transport equipment, requires significant "one-off" specification of heavy trucks, particularly twin-steer, 4-axle truck units. Our global truck suppliers experience ongoing rationalisation and standardisation and are increasingly either reluctant to provide one-off's for NZ, or charge accordingly. Resale values are also affected by removing the option to re-export used vehicles

2. Improving the current system

Most of the opportunities for improvement arise from correction or mitigation of the concerns outlined in section 1. They are as follows:

2.1 Rigorously examining the current administration process and implementating improvement and cost reduction measures wherever possible, including:

2.1.1 Shifting of light diesel vehicles from RUC to an annual licence fee component or similar, which will remove up to two thirds of current RUC km's purchased and the accompanying administration;

2.2 Replacing the current RUC reference axle weights with the AustRoads design axle weights.

2.3 Reducing the 4^{th} power to a factor of 2, to better represent the general weight/road wear relationship for typical NZ pavements.

2.4 Allowing post-purchase of RUC's for qualified users, based on actual weights and kms travelled.

2.5 Providing fair and reasonable notice of intended changes to RUC charges, which will allow for transparency in rationale for changes, and allow operators to adjust or provide for business impacts, review of client rate schedules etc, where possible.

2.6 Adopting a less punitive, but still effective, regime for encouraging compliance.

[8] McKenzie-Podmore, 2008. "Efficiency and Equity Issues in the Funding of Roading Expenditures". Report prepared for the Local Government Association and Road Transport Forum.

3 Practical alternatives to the current system.

3.1 Combinations of weight- or use-related annual fees and fuel taxes have been used satisfactorily in most other developed countries in the world for many years.

3.2 While fuel taxes have their own particular problems with respect to off-road use rebates, etc, as will be discussed further in section 4, the fact that regional fuel taxes have now been introduced by Auckland Regional Council and in all likelihood will be taken up by other regions, means that operators will be faced with the administrative burden of handling a fuel tax system anyway. The operators certainly don't want to be saddled with administering two systems.

4 Relative merits/demerits of alternatives

4.1 The forest industry is a very substantial user of fuel in off-road and off-highway operations. More than half of the approximately 200 million litres of diesel fuel used in the industry each year is consumed in:

- 4.1.1 Off-road harvesting, loading and log handling machinery;
- 4.1.2 Off-road forest management and tending, road construction and maintenance operations
- 4.1.3 Transport on private forest road networks or egress to public roads.
- 4.1.4 Mill materials handling equipment, eg forklifts, log handling, etc.
- 4.1.5 Export port operations.

4.2 The approx $120M pa worth of diesel purchased for off-road or off-highway use will need exemption from the road-related diesel tax, and/or a simple cost- and cashflow-efficient system for rebates.

4.3 While fuel use and cost is a poor surrogate for relative road wear, there is a general relationship between the two, which may be more aligned with climate change objectives / fuel efficiency and truck configuration efficiency, than the current RUC system.

4.4 The annual fee component of a fuel tax system, being unique to a vehicle, allows for the application of engine rating rebates for reduced emissions, for example based on the "Euro V" or similar rating. This has the advantage of incentivising emission reductions as well as fuel efficiency.

5 Transition Issues

5.1 A change to fuel tax-based road charges will immediately put the significant number of truck units fitted with additional axles to suit current RUC's (estimated by RTF at around 10,000 units), at an economic disadvantage under current VDM rules. In the case of the forest industry, we estimate that approx 70% of the total logging fleet of 1400 units are 8-axle. The twin-steer trucks units are specified solely to suit RUC's, as in general they have less effective off-highway traction and handling, and have tare weight and fuel efficiency negatives compared with single steer 3-axle trucks.

5.2 If any change to fuel tax based road charges was implemented along with a general increase in GCW to 50 tonnes or more, those 8-axle units with sufficient rating would again find an economic advantage.

6 Contacts

John Galbraith
Forestry Consultant
07 312 4112
027 4458 839
john.galbraith@xtra.co.nz

Glen Mackie
Senior Policy Analyst
NZFOA
04 473 4769
027 445 0116
glen.mackie@nzfoa.org.nz