

# How do you navigate the present while building for the future?



## The case for change: **Road Pricing Reform**

Anyone who drives on Australia's roads knows traffic jams are getting worse. But road congestion results in more than just delayed arrivals and frayed tempers. Dr Ken Henry, Chair of Australia's Future Tax System Review Panel and Treasury Secretary, has estimated road congestion wastes "around \$9 billion a year in avoidable congestion costs, increasing to around \$20 billion by 2020."

It's not just Dr Henry who recognises road congestion is a serious issue facing society. In his seminal 2008 review of Melbourne's future transport needs Infrastructure Australia Chairman Sir Rod Eddington said "increasing levels of demand for travel are already generating congestion on Melbourne's road network – and the problem will worsen as the city's population grows ... the failure to reduce congestion levels over the coming decades will have serious economic, social and environmental repercussions for Melbourne – and for Victoria."

Road congestion happens because unlike most aspects of the economy, road space is not rationed, which leads to significant inefficiencies. We can choose to drive on almost any road at any time, ostensibly for free. The cost of our presence on the road on other motorists is not taken into consideration. When roads are not busy, no additional costs are imposed on other motorists from each additional car that uses the road. But during the peak there are a range of extra costs for each addition: the surge in road usage makes it more congested for other motorists and delays their journey. Because there is no price signal to balance supply and demand during peak hours, demand overruns supply, leading to traffic jams.

One solution is congestion-targeted road pricing on roads that suffer heavy congestion during peak times. Whilst the 38cpl fuel excise provides a broad signal to moderate travel or to use more fuel efficient cars it does not provide a direct signal to efficiently allocate road capacity in peak hours. In Sydney, one form of congestion-targeted road pricing already exists on the Sydney Harbour Bridge and tunnel, where motorists pay a 33 per cent premium during peak times. The system has successfully reduced the amount of traffic on the bridge and in the tunnel during peak hours as a significant number of motorists have changed their driving practices to make journeys outside of peak times or have switched their route to other free roads.

The truth is that congestion pricing is extremely controversial. The idea attracts fierce opposition, with the prospect of an "extra tax" on motorists eliciting negative reactions. But a crucial argument is lost in the debate: the main beneficiaries would, in fact, be motorists themselves. The introduction of such a system on the wider road network would actually offer multiple benefits to drivers and the community, particularly if accompanied by public transport improvements and reductions in fuel duty and other motoring taxes.

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Motorists who could vary the time and direction of their journey to avoid congestion would benefit because they would pay less. Most studies have identified that some 20-30 per cent of car travel in the peak period could actually be undertaken at other times of the day. Motorists who put a high value on travelling at peak times would benefit because, in return for paying higher prices to travel, they enjoy a faster and more reliable trip. This is clearly shown in overseas initiatives to reduce traffic jams. Congestion charging pricing reduced car volumes by 30 per cent in London and by 10 to 15 per cent in Singapore.

Although a road congestion pricing system has a range of advantages over the existing system it's important to recognise a congestion based road price system would not result in equal benefits or cost neutrality for all. There will be motorists who need to travel in the peak who would face a significant extra cost and cannot change their time of travel. This is why there needs to be adequate compensation to counteract the negative effects of road pricing. Offsetting the cost of congestion based pricing via spending most of the funds raised on improved public transport, particularly in areas where service coverage is low, is critical to minimising the negative impact on some parts of the community, and therefore garnering community support for the change.

Certainly the introduction of congestion-targeted road pricing will be a test of political backbone. This is why there needs to be considerable public education about the benefits of road pricing: fewer traffic jams and a better public transport system being the main advantages.

Care needs to be taken to ensure the public does not view the introduction of road pricing as a revenue raising exercise for the government, or an exercise in increasing the government's ability to conduct 'big brother' style oversight. Motorists would need assurance that the scheme would not impinge on privacy. The system does not need a vehicle-based 'black box' to record where and when vehicles travel. Something akin to the current electronic toll tag system would suffice.

The introduction of congestion road pricing would need to substantially replace fuel excises, tolls and registration charges, with a transparent commitment by governments to revenue neutrality to allay public concerns. This would involve the cancellation of existing tolls and renegotiating with toll road operators to provide them an equivalent revenue stream to the status quo via an allocation of revenue raised from congestion pricing.

It's important to recognise there are no easy answers when it comes to managing traffic congestion. Governments could continue to build more expensive roads and tunnels and some of these road investments will remain essential. But road building takes many years and will mean higher taxes for all.

We could do nothing and continue to sit in increasingly worse traffic jams. Or we introduce a system of congestion-targeted road pricing which, coupled with a commitment to improved public transport infrastructure, a reduction in fuel levies and removal of existing tolls, can be introduced relatively quickly and would significantly reduce congestion on our roads during peak times.

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