

# The road-funding debate moves into a higher gear

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## Introduction

Funding the roading infrastructure has been a contentious issue for many years with debate over who should pay for the nation's roads, which work takes priority and what are the appropriate methods for revenue collection.

The debate of transport infrastructure needs has gained momentum with the release of the Ministry of Transport "Land Transport Pricing Study" discussion papers. The first paper was released in July 1995 and further papers are expected to be available in November 1995. These discussion papers provide key inputs into the transport infrastructure funding debate and will force a "fronting up" to some fundamental issues.

These issues include:

- Is it appropriate to adopt economic accounting procedures for public roading?
- Should a capital charge, or rate of return, be applied to the investment in State Highways and local roads?
- Should the current mix of revenue collection systems be changed? Are they appropriate? And can they deliver the required future level of funding?
- What are the safety and environmental costs associated with the land transport infrastructure and how are they to be funded?
- What are the fair and equitable costs for commercial road users and private motorists to pay?
- Can a 'level playing field' be achieved for the various transport modes to ensure economic contestability?

Along with the increasing debate has been the development of much improved consultation between local authorities, the forest industry, Transit New Zealand (TNZ), Tranz Rail, and road user groups. A number of multi-party working groups have been established to evaluate the transport infrastructure requirements of particular regions or districts, and the benefits of satellite imagery to identify forests and evaluate likely rural infrastructure development requirements.

## Rating for Roads

The percentage of rates used for roading in many districts is over 40 per cent of the rating revenue collected. Local road users are, however, not always the same as local

ratepayers. For example, a forest owner pays rates, but a proportion of the forest produce may be transported on rail or on private forest roads.

Any attempt to match rates to road use would require a substantial degree of approximation. To implement a differential rate on forest owners would appear to be fraught with difficulty and open to serious challenge.

At a series of five one-day forestry seminars held last year, differential rating was not a favoured option for local road funding by most territorial local authorities who attended.

In a recent membership survey, Marlborough Forest Owners' Association (MFOA) members have shown strong opposition to any form of differential rating or forest transport levy. The survey was in response to Marlborough District Council's consideration of various options to fund rural roading development and maintenance.

Eighty-seven per cent of the MFOA membership (representing over 90 per cent of the production forest ownership in Marlborough) responded to the survey. Respondents were encouraged to provide comments on the options proposed, and provide any other suggestions. Comments showed that there was very strong feeling against the differential forestry rate suggestion and the log tonnage levy.

It is interesting to note, however, that most members were happy to pay a share of a non-targeted general rate on all landowners, or a fuel tax that applied to all road users if it could be shown that road users were not paying their fair share of roading infrastructure costs.

In February 1995, Federated Farmers transport spokesman Stuart Collie questioned why rates should be a mechanism for funding any form of roading. In economic terms he considered it was more equitable to raise the bulk of road-related costs from road users with a subsequent reduction in local authority rates.

He pointed out that rate payers and road users are not necessarily one and the same thing and that valuation of properties is not a very good gauge of the amount of road usage by landowners.

In my view, one of the main issues to be addressed by the Land Transport Pricing Study through the consultation

process is the use of rates for road funding. Arguments that challenge the use of general and especially differential rates for road funding appear to have more weight and logic than those arguments in support of rate funding for roads.

The level of general rate funding that can be justified for the public good may be the most important factor to determine.

## The Infrastructure Network

The Ministry of Transport's discussion document "Land Transport Strategies and Network Funding" July 1994 stressed the concept of a national infrastructure network. The report states:

*"There are many parts of the road system that could not survive solely on locally generated revenue, but which are nevertheless parts of the national network, and the national economy."*

*"In some ways, the rural road that provides the first stage of access for agriculture products or timber to an export port is as crucial a part of the network as the urban motorway."*

I believe this is a very important concept. New Zealand is a small country where primary and processed products are often moved across district boundaries, and the urban and rural economy is strongly linked. The four top commodity exports to June 1995 were dairy products (\$NZ2748 million), meat (\$NZ2664 million), forestry products (\$NZ2615 million) and wool (\$NZ1267 million). This represents 46 per cent of New Zealand's total exports. All these products need to be transported from rural New Zealand to processing plants and export ports.

I believe the concept of a national infrastructure network is extremely important, and it follows that in the interests of maintaining the total network, there will always be transfers of funding from one part of the network to another.

Implicit in the network concept is the inclusion of all transport networks, whether road, rail or maritime, and these have to be considered together.

This leads back to two of the critical issues.

Can a 'level playing field' be achieved for the various transport modes to ensure economic contestability? And, is it appro-

priate to adopt economic accounting procedures for public roading? I will leave the answers to these questions to the economists. It would, however, appear that the objective of a level playing field is required for the development of a transport infrastructure framework, and economic accounting procedures are necessary to judge economic contestability.

### **A Challenge for the Forest Industry**

The Land Transport Pricing Study is a very detailed and complex investigation which aims to establish a comprehensive pricing policy for land transport systems in New Zealand. It attempts to build a framework within which all measurable costs of the roading system and the appropriate form and level of changes to recover those costs, can be determined.

It is an opportunity to develop a funding framework on a national basis, which is efficient and equitable to the users of all transport modes, in line with the Government's philosophy of open competition.

I believe the consultation provides an opportunity for the forest industry to have constructive input into the future direction and development of transport infrastructure funding. In the past the forest industry has stated that they are happy to pay their share of infrastructure development and maintenance costs, but will resist being singled out with transport levies and differential rating.

The forest industry now has the challenge to assist in developing a framework and funding mechanisms which are fair and equitable between all users of the transport infrastructure.

The Land Transport Pricing Study discussion papers are available from:

Land Transport Pricing Study,  
Ministry of Transport,  
P.O. Box 3175,  
Wellington.

Written submissions on the papers close February 29, 1996.

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# **Kaingaroa for sale? Off on the road to hell at last?**

**Peter Farley**  
**Director, Brent, Wheeler & Co**  
**P.O. Box 10-307, Wellington**

Remember the old saying about the road to hell being paved with good intentions? To me that aphorism encapsulates the old Forest Service. A lot of very good people, a lot of very good intentions and a performance that was a financial and economic disaster!

The first round of competitive sales of management and cutting rights to state forests has produced a substantial ongoing financial return to Government. This return was far in excess of anything that a zillion years of Forest Service management would have produced. Remember the East Coast project that was going to produce about a 4% real rate of return. This was much less than Treasury's desired 10% but it was going to provide other marvellous things such as soil conservation and regional development. At last count it had produced limited soil conservation, limited regional benefits and a negative rate of return of the order of 50%.

The new investors in forestry have, unsurprisingly, acted rationally to maximise the return on their investment. They have managed their forests diligently, replanted after harvesting with quality stock, accelerated log exports when prices boomed, trained staff, invested in new processing capacity and technology, developed new markets and supplied those markets. They organised and financed all this without a central planner or a planning study in sight. How lucky they were that the "very well-intentioned" Forest Service and Ministry of Works were no longer around. Had they survived, the country would have been subject to tirades to the effect that proceeding without such planning is fraught with financial and social perils, if not totally impossible.

One unintended effect of all this new investment and related activity has been to establish in New Zealand, for the first time, a real market in plantation forests. Not some theoretical construct of an economist or forestry consultant, but a real market, where people risk their own money and evaluate their own opportunities for making alternative investments. The result has been the same as in all the other privatisations of state sector activities: costs have been driven down while quality and value have been driven up. At the same time, local and regional infra-

structure and businesses have been underpinned by a sustainable, competitive private-sector forest industry.

### **The Best Possible Use for Kaingaroa**

The uncommitted Kaingaroa resource represents a great opportunity to establish the best possible use of this high-quality material. What is that best possible use?

Well, to decide this, one could gather all the available experts and commission reports and studies and seminars and consultations on all the technical, research, financial, economic, social, environmental, cultural and other aspects of this optimisation problem. This would be hugely entertaining and rewarding for all hands, except the Minister of Finance. New Zealand has repeatedly experienced the futility of this approach in activities as diverse as, for example, agriculture, irrigation, electricity and banking. It is devoutly to be hoped that the lesson of this futility has finally sunk into the collective national cranium.

The alternative is to offer the resource in a competitive sales process with no strings attached. The bidders will have no axe to grind (so to speak) on political agendas or the causes of special interest groups. Their individual objectives will be to work out what the long-term financial value of the resource is to them. Their bids for the resource will be somewhere between what they consider to be its value to them and what they think someone else will bid for it. The more strong bidders there are for the resource, the more likely it is that everyone will bid their full value.

Provided the resource is advertised internationally, the outcome of this market process will be that the forest (or at least the management and cutting rights) will be sold to the bidder who values it more highly than anyone else in the world. There will then be no doubt that this buyer will make the best use of the resource. This is likely to be high value-added processing near to the forest. But, irrespective of what the buyer does, and that is entirely their own business, the irrefutable fact is that it will be the most valuable use of the resource. After all, if someone had a higher value use, then they would have bid a higher price.

If someone subsequently discovers a higher value use, then they will offer the