



AAA POLICY POSITION ON TRANSPORT MARKET REFORM



Australian
Automobile
Association

July 2017





Table of contents

Section One	Overview	4
Section Two	What key factors indicate the need for reform?	5
Section Three	AAA policy principles supporting transport market reform	6
Section Four	What are the alternatives to the current fuel excise system?	7
Section Five	How would the new system allow for congestion management?	8
Section Six	Why does the AAA support road user charging?	9
Section Seven	What could the next steps look like for the AAA and member clubs?	10
Footnotes		11

Section One

Overview

Road user charging reform has been discussed in Australia over the decades, but to date, the discussion has been ad hoc and devoid of a strong motivation. The landscape is now changing with several government inquiries recommending further investigation of costs, benefits and options. The Australian Automobile Association (AAA) has been an active member in the debate over the last 50 years with a report dating back to 1962 stating:

*"If an equitable system of special user taxes could be devised and applied correctly in this country, so that road users began to experience direct benefit for their contributions, then the way would be clear to achieve the overall efficiency in road transport, so necessary, to present and future development."*¹

In recent history, the AAA and member clubs have contributed to the debate through the 2013 discussion paper: Road Pricing and Transport Infrastructure Funding. The discussion paper, much like this policy position paper, did not seek to endorse a particular model, rather seek to instigate genuine reform. Many of the recommendations presented in the 2013 discussion paper are incorporated into this policy position paper.

Transport market reform will require considerable support from both policy makers and the broader Australian community. The community will need to fully understand how the current revenue/funding system works and the failings of the system. For example, drivers of older, less efficient vehicles are currently paying a higher per kilometer charge than those who can afford new efficient vehicles. Momentum towards reform must also be marshalled and sustained with a thorough analysis of how any new charging framework would impact on Australian households. This may need to be supported through trials of different models to inform the national debate.

The AAA welcomed the Australian Government's commitment of November 2016 to establish and fund a study, chaired by an eminent Australian, to investigate the potential impacts of road user charging reform on road users. This paper sets out the policy principles by which the AAA and its member clubs will assess any reform proposals put forward by stakeholders, commentators and/or government as part of the proposed government study.



Section Two

What key factors indicate the need for reform?

Revenues are inadequate and declining due to improvements in fuel efficiency and a critical point will be reached

Fuel excise has declined from its peak in 2004-05 and has stabilised in recent years, while road usage has increased at around 1.5% per annum.² The CSIRO find that re-indexation of excise and growth in transport demand is only strong enough to offset increasing fuel efficiency and take up of alternative fueled vehicles up until the 2020s, after which further growth is curtailed or reversed.³ This was also confirmed by the Review of Australia's Future Taxation System (Henry Review) which found that the current system is unsustainable because it offers diminishing revenues to Government.

The current charging regime is inefficient and unfair making it difficult for consumers to transparently see how much they pay for roads while also penalising certain motorists

In a recent survey conducted by the AAA less than a third of those surveyed were aware that they paid fuel excise, while an overwhelming majority of around 85% thought that most of fuel excise (i.e. between 50 to 100%) should be spent on major road and transport projects. In addition, Transurban found that motorists who drive the same distances can pay almost twice as much in fuel tax if they drive an older vehicle.⁴

There are projected declines in funding for land transport system maintenance, improvements and construction

Land transport infrastructure spending is projected to peak at \$8.2 billion in 2017-18 before declining over the forward estimates to \$4.2 billion in 2020-21.⁵ Even if the Australian Government invested all of its surplus road-related revenue into land transport over the next five years it would be barely enough to roll out ten of 82 unfunded projects listed on Infrastructure Australia's Infrastructure Priority List.⁶

Uptake of alternative fuels and electric vehicles is expected to erode the revenue base further

Around the world Governments have announced strong commitments to phase out fossil fueled cars, with Norway reaching 22 percent market share for electric new car sales.⁷ Australia has not experienced significant uptake of alternative fueled vehicles to date, with only 219 electric vehicles sold during 2016 (excluding Tesla sales) or around 0.02 percent of total sales.⁸ However, according to the CSIRO, by 2035 the uptake of alternative fueled vehicles is expected to increase with a potential negative impact on fuel excise of around 22 percent, by 2050 this could increase to 45 per cent.⁹



Section Three

AAA policy principles supporting transport market reform

1. Transport market reform must be preceded by **comprehensive project selection** and **institutional reform** which would be accompanied by **fuel excise hypothecation** and the establishment of a **long-term funding structure**.
2. A road user charge must include **100 per cent hypothecation** to land transport infrastructure as a means to achieving sustained public support. International experience suggests that there is a fundamental linkage between public support for reform and the investment of revenues.¹⁰
3. The AAA is urging the Australian Government to commence the **proposed road user charging study**, noting that funding was provided to Infrastructure Australia to support 'a study into the potential benefits and impacts of road reform' in the 2017-18 Budget. The study should consider all potential revenue alternatives with the primary objective of addressing the problems with the current revenue model.
4. **Fairness** is a critical component of this reform. The AAA supports efforts to **allow for appropriate offsets** for users that have little public transport alternatives (regional and rural users) and have lower capacities to pay (i.e. ensuring access to concessions) as well as a full consideration of how the reform would impact on different households.
5. The AAA supports transport market reform only **where charges replace current government fees and charges (i.e. the model needs to be revenue-neutral)**. At a minimum, a road user charge should replace the current federal fuel excise. Consideration should also be given to replacing existing state and territory fees and charges as part of the reform. Congestion based charges should be included in the modelling of options to determine the most appropriate outcomes for each jurisdiction. These would be expected to be implemented by state, territory or local governments on an 'opt in' basis responding directly to local transport conditions.
6. The AAA supports the consideration of a **Community Service Obligation** in regional and rural areas in recognition of the inability of direct user charges being able to fully fund some sections of the road network, i.e. requiring ongoing government funding.
7. The AAA acknowledges that **transport market reform is a long term objective** and supports Infrastructure Australia's assessment of a 10 to 15-year timeframe for implementation.¹¹ In the interim, incremental steps to reform could be implemented such as institutional and governance reform, heavy vehicle charging or the establishment of state and federal land transport funds.
8. Technology that supports any charging framework should be flexible enough to be delivered using a **variety of different approaches, collect relevant data to support infrastructure investment and allow for the market to determine the best solution/s**. Users should also be able to choose the technology platform that best suits their needs.



Section Four

What are the alternatives to the current fuel excise system?

- The Federal Government needs to set clear objectives before a system of road user charging is pursued. The fundamental objective needs to be a scheme that is designed to create a sustainable, long term funding stream that grows with demand and is flexible enough to incorporate localised congestion management options in the future.
- Alternatives to the current system will need to be analysed to ensure that the right model is selected and to ensure the Australian community accepts the final policy position. Other potential options for funding land transport infrastructure include: increasing vehicle license fees, increasing the fuel excise, increasing sales taxes, tolling more highways, or shifting money away from other priorities like education or health care.
- In the US State of Oregon, 28 potential revenue sources were considered by a dedicated taskforce over a number of years before a mileage-based fee was recommended for further consideration.¹²



Section Five

How would the new system allow for congestion management?

Congestion based models should be considered as part of an overall road user charging regime, subject to state, territory or local governments implementing and managing such a framework depending on localised transport needs

- Solutions to congestion management would need to be considered and implemented at a local level and respond to local transport conditions i.e. geography/road networks of individual cities. For example, in the AAA discussion paper Road Pricing and Transport Infrastructure Funding it was assumed that Australia's three major capital cities, Sydney, Melbourne and Brisbane, would be the only cities subject to a potential congestion charge.¹³
- The AAA discussion paper Road Pricing and Transport Infrastructure Funding also noted that 'options involving use of discreet pricing mechanisms as instruments to manage demand (e.g. time of day changes) could be introduced as a longer term reform to complement more fundamental forms of direct charging'¹⁴.
- The technology platform that is eventually selected should be flexible enough to incorporate congestion based charging, if required, as state and territory transport authorities identify the need for such a charging framework.



Section Six

Why does the AAA support road user charging?

Fairness

A new model would not discriminate between a) fuel efficient new cars and older cars with dated technology b) rural and regional road users and city drivers who face different cost factors for the use of land transport and c) drivers that use alternative fuel sources which will be an increasing problem for the current model into the future.

Transparency

The current funding model is not transparent and many road users a) don't know they're paying a tax and b) can't see the link between what they pay and better land transport. Road authorities also don't have a clear incentive to supply services to the users that generate revenue. This disconnect between road-related revenue and expenditure explains much of the inefficiency in road provision.¹⁵

Sustainable

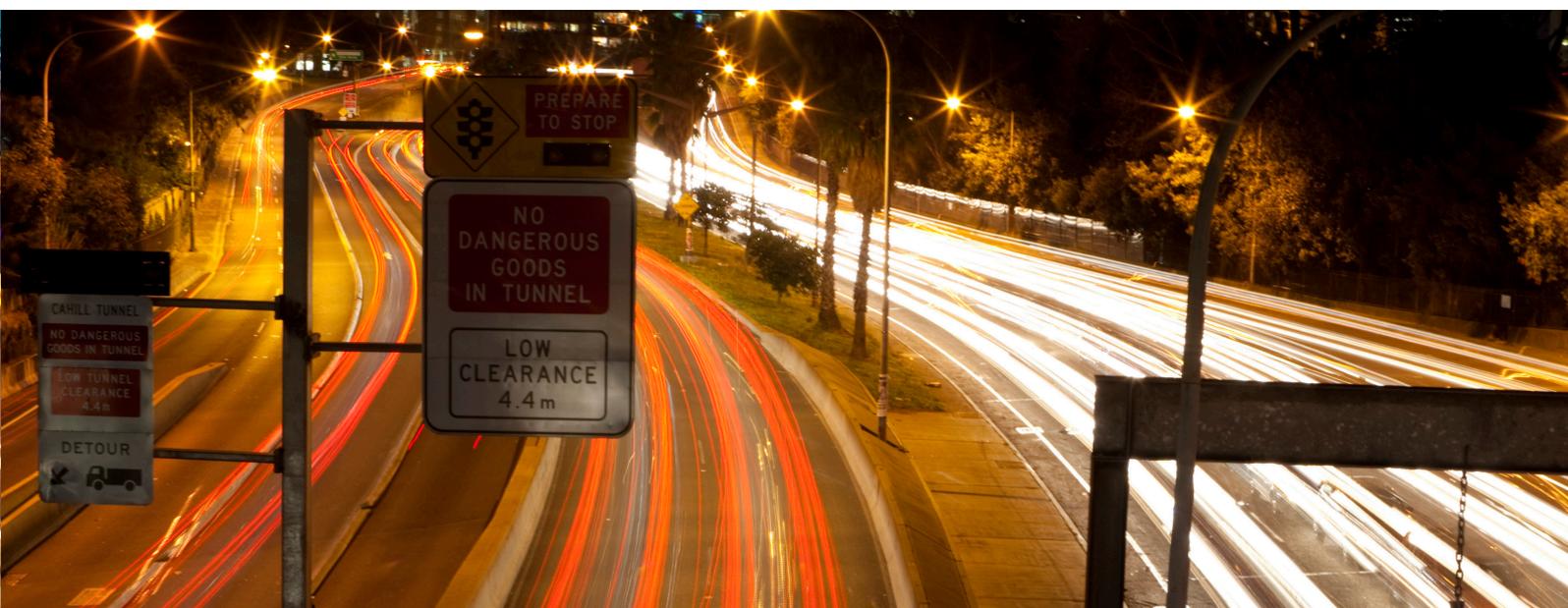
The current fuel excise model has been lagging well behind growth in road use and the cost of roads. Since 2000-01, net revenue from fuel excise has fallen by about 30 per cent in real terms, while road use has grown by about 25 per cent and the cost of construction has increased by 40 per cent.¹⁶ Net revenue is predicted to reduce further as credits and grants increase and the fuel efficiency of new vehicles improves.

Efficient

The absence of price signals and the existence of high fixed costs for licensing and registration mean users have limited information and incentives to use the network efficiently, while providers have poor information on which to base investment decisions. Users are also incentivised to 'buy more to save more' due to the marginal cost of usage diminishing with every additional kilometre travelled.

Reduced Emissions

As electric vehicles become more prominent and fuel efficiency improves, the incentive that the fuel excise provides consumers today to purchase fuel efficient cars will be increasingly eroded over time. A road user charge could provide governments with other option to incentivise uptake (i.e. discounts on road user charges) of certain technology types into the future.



Section Six

What could the next steps look like for the AAA and member clubs?

1. **Continue to advocate** for the commencement of the Government's study into the potential impacts of road user charging reform on road users in the context of the current fragmented, underfunded road network.
2. **Help educate** the nation by raising the profile of the current fuel excise system¹⁷, the unsustainable nature of current revenue streams, the growing inequality of the current system and the need to fund the infrastructure needed for the 21st century.
3. **Increase transparency by advocating for fuel excise to be outlined on receipts.** For motorists to see the fairness of a basic per kilometre fee, they must first understand the inherent inequities of the current fuel excise arrangements.
4. **Advocate for hypothecated, ring fenced land transport funds** so the link between taxes paid and road funding is transparent at both the state/territory and federal level. Road user charges will be paid into such accounts in the future.
5. Encourage constituent clubs to lobby their respective state and territory governments **to integrate state and territory fees and charges into the national model and collect consistent and detailed data** to inform decisions on, and design of, any future road pricing mechanisms, especially data on travel patterns of regional and remote Australians.
6. Establish a **formal partnership** between Australia's governments, motoring clubs and broader industry stakeholders to increase the public's awareness and understanding of the flaws and challenges posed by the existing system of road regulation.
7. **Support trials of road pricing** (i.e. heavy vehicles) in parallel with the proposed government study; allowing these trials to inform and shape the process and final report.



Footnotes

- ¹ Report on Road Use and Road Financing in Australia, 1962; UNSW; commissioned by AAA Pg. 69
- ² CSIRO Projecting future road transport revenues 2015-2050, Graham and Reedman, May 2015
- ³ CSIRO Projecting future road transport revenues 2015-2050, Graham and Reedman, May 2015
- ⁴ Changed conditions ahead: Melbourne road usage study October 2016; Transurban
- ⁵ 2017-18 Budget Paper 1 accessed at: <http://www.budget.gov.au/2017-18/content/bp1/download/bp1.pdf>
- ⁶ ACIL Allen report: Land Transport Funding: Transitioning to a Better Model accessed at: <http://www.aaa.asn.au/storage/1-acil-allen-land-transport-funding-transitioning-to-a-better-model.pdf>
- ⁷ The International Council on Clean Transportation <http://www.theicct.org/blogs/staff/world-turns-to-EVs> and <http://www.theicct.org/comparison-ev-policies-europe-2016> and <http://www.theicct.org/blogs/staff/2015-global-electric-vehicle-trends>
- ⁸ VFACTS National Report, Federal Chamber of Automotive Industries
- ⁹ CSIRO Projecting future road transport revenues 2015-2050, Graham and Reedman, May 2015
- ¹⁰ Road Pricing and Transport Infrastructure Funding: Reform Pathways for Australia; 2013; Deloitte pg. 65
- ¹¹ The Swiss Case study shows that political support for reform took some 17 years to mature.
- ¹² Oregon's Mileage Fee Concept and Road User Fee Pilot Program Final Report accessed at: https://www.oregon.gov/ODOT/HWY/RUFPP/docs/RUFPP_finalreport.pdf
- ¹³ Road Pricing and Transport Infrastructure Funding: Reform Pathways for Australia; 2013; Deloitte pg. 49
- ¹⁴ Road Pricing and Transport Infrastructure Funding: Reform Pathways for Australia; 2013; Deloitte pg. 62
- ¹⁵ Productivity Commission - Public Infrastructure Inquiry Report - Volume 1
- ¹⁶ Productivity Commission - Public Infrastructure Inquiry Report - Volume 1
- ¹⁷ Only two thirds of those surveyed are aware of excise, and less than a third are aware of the amount the Government takes. An overwhelming majority of around 85% of those surveyed believe that most of fuel excise (i.e. between 50 to 100%) should be spent on major road and transport projects. Almost 80% of our members are concerned that fuel excise is too high.

Mailing Address:
GPO Box 1555
Canberra ACT 2601

P 02 6247 7311
T @aaacomms
W www.aaa.asn.au

Address:
103 Northbourne Ave
Canberra ACT 2601

