



NATIONAL ROAD TRANSPORT ASSOCIATION

Submission to the NSW Review of Federal Financial Relations

Draft Report: Supporting the Road to Recovery

31 July 2020

Introduction

1. The National Road Transport Association (NatRoad) is pleased to make comments on the Draft Report of the NSW Review of Federal Financial Relations entitled *Supporting the Road to Recovery*¹ (Draft Report). The website for the review indicates that “Before the Panel delivers its Final Report to government, views on the draft recommendations are welcome.”²
2. NatRoad is Australia’s largest national representative road freight transport operators’ association. NatRoad represents road freight operators, from owner-drivers to large fleet operators, general freight, road trains, livestock, tippers, car carriers, as well as tankers and refrigerated freight operators.
3. Given NatRoad’s focus on the road transport system, this submission concentrates on three of the Review’s fifteen recommendations. Those recommendations are foundational to a transformation of road funding, especially how fuel tax will be sustainable with the growth of electric vehicles. In addition to dealing with those recommendations, we comment on the issue of stamp duty, as it is an impediment to the uptake of new heavy vehicles.
4. NatRoad’s perspective has been affected by the current pandemic. The pandemic has changed the face of the Australian economy. The pandemic has underlined the importance of efficient supply chains and the need to preference heavy vehicle movements. Yet, in the current environment the transportation task is under greater pressure. The pandemic has unique effects on each sector of transport. For example, feedback is that it will be a strong year for grain production. That industry’s supply chains often span across multiple States but don’t require the driver to physically exit the vehicle. In contrast, demand for fuel tankers has declined significantly as a result of reduction in car travel.
5. Responding to the dual economic and health crises caused by the COVID-19 pandemic places pressure on all road users in the short term. But, in the medium term structural challenges which existed before the pandemic will remain. In particular, congestion on networks that are already under strain will increase, particularly in urban areas where freight and passenger transport share the same road infrastructure. With the majority of economic activity now occurring in our major cities, urban freight will be as critical for our future growth as traditional long-distance freight, a trend accelerated by online ordering and other emerging technologies. These issues require a significant change in Government’s approach to planning, investment charging and funding.
6. The first priority of Australian governments must be to preference freight movements, recognising that it is an essential service, a matter that should be given some attention in the Draft Report, as we indicate below. Infrastructure Australia reports that transport networks

¹ <https://www.treasury.nsw.gov.au/sites/default/files/2020-06/FFR%20Review%20Draft%20Report%20.pdf>

² <https://www.treasury.nsw.gov.au/draft-report>

are vital to our collective economy and productivity, as well as the quality and cost of living that we experience as individuals.³ This proposition is underlined in the current crisis.

7. The mindset should be that freight vehicles are given dedicated travel lanes and expedited progress rather than being restricted as is the case with a number of freeways in Queensland, NSW and Victoria.
8. In addition, NatRoad is strongly opposed to governments forcing heavy vehicles to use tolled routes by not providing adequate non-tolled routes with access for similar classes of vehicles. This goes against the fair principle that, when roads are tolled, an alternative non-tolled route should always be available for road users, particularly heavy vehicles. In this context, the mandates relating to heavy vehicles' diversion into the tolled tunnel on the NorthConnex route in NSW should be reviewed with an alternative route for freight identified and protected. The issue of better NSW and federal policy on tolling cannot be ignored in the face of arguments about the need to reform road pricing, a matter we revisit below.

Reform of Stamp Duty

9. The Draft Report has as Recommendation 7 the following:

As a more equitable and efficient approach to taxation, the NSW Government should replace transfer duty with a broad-based land tax. The transition should be managed with the support of detailed distributional and financial modelling and public communication and consultation, so that the transition is fair, efficient and minimises the amount of revenue foregone.

10. NatRoad supports the reform of the stamp duty system. In particular, we support immediate removal of stamp duty from heavy vehicle registrations.⁴ NatRoad's policy relating to stamp duty is in part based on Grattan Institute research which shows that replacing taxes on insurance and motor vehicle registrations with a broad-based property tax could make Australians up to \$1.5 billion a year better off.⁵
11. In addition, we support the stance that, wherever possible, stamp duty should be abolished/phased out as it is an inefficient tax and is antiquated and out-of-step with a modern revenue system. This message has been underlined in all major taxation inquiries, including the Henry Tax Review referred to in the Draft Report. We agree with the Panel on the transitioning process from the current to a future system and that there should be substantial consultation on the broader abolition of stamp duty. But we urge the immediate abolition of stamp duty on heavy vehicle registrations, as the benefits to the NSW economy would far outweigh the costs.

³ Infrastructure Australia, June 2019, *An Assessment of Australia's Future Infrastructure Needs: The Australian Infrastructure Audit 2019*, 260

⁴ S261 Duties Act, 1997 (NSW)

⁵ Research referred to at above note 1 p42

12. Stamp duty acts as a direct tax on the uptake of newer, safer and more environmentally friendly vehicles. The negative role of stamp duty is currently recognised in the NSW exemption for registration of new heavy trailers.⁶ The negative role of stamp duty is acknowledged in the Draft Report where it is said in respect of light vehicles:

(S)tamp duties discourage owners from changing and upgrading vehicles. The average Australian car is 10 years old compared to an eight-year average seen in Western European countries. This means that Australians are not readily benefiting from the technological, efficiency, or safety benefits of new cars.⁷

13. Similarly, the average age of the Australian heavy vehicle fleet has been reported by the Australian Bureau of Statistics as approximately 14 years⁸ based on the registration of heavy vehicles.
14. Adding another 3% to the cost of newer and safer vehicles through stamp duty at the time of registration can significantly harm the cash flow of heavy vehicle operators. Most operators are small businesses who work relentlessly to keep both capital and operating costs down. Getting rid of stamp duty would benefit thousands of small businesses, a useful stimulus to assist with viability in the face of the pandemic.
15. When providing a draft of this submission to members, there were views expressed that stamp duty should be abolished and not replaced with another tax. Instead, post-pandemic government expenditure should be reviewed.

Charging regime for electric vehicles

16. Recommendation 13 in the Draft Report is as follows:

The NSW Government should work with the Board of Treasurers and state transport departments to design a nationally compatible and fair road user charging scheme for electric vehicles.

17. We note that electric vehicles are defined as “all light vehicles powered by an electric motor where the electricity is sourced from a battery (charged via plug-in to an external source) or hydrogen fuel cell.”⁹
18. We agree that, at present, the discussion and policy outcome should be confined to light vehicles. The technology in this area is accelerating at a much greater rate for light vehicles than for heavy vehicles. Part of the issue is that for electric heavy vehicles to be a realistic technology there is the need for the establishment of a network of charging facilities both

⁶ s270C Duties Act, 1997 (NSW)

⁷ Above note 1 at p 87

⁸ Australian Bureau of Statistics, Motor Vehicle Census, Australia, 31 Jan 2016,

⁹ Above note 1 p82 footnote 70

privately and publicly. In the USA, a recent survey found that 92 percent of survey respondents said their facility is not "very well equipped" to accommodate commercial charging needs.¹⁰ We believe that this percentage would also be high in Australia. In contrast, most light vehicles will simply be able to be charged at home, most likely overnight.

19. Despite reservations about this aspect of heavy vehicle technology, there is some speculation that this form of heavy vehicle will begin to displace diesel vehicles well ahead of their replacement by hydrogen fuel cell powered vehicles.¹¹ The timing for introduction is therefore forecast as being ahead of hydrogen based technology but still to be limited in take up for heavy vehicles until post 2030 at the earliest. There is unlikely to be private sector interest in accelerating this uptake unless cost effective alternatives to diesel vehicles are demonstrated. It is also likely that hybrid vehicles will slowly replace current diesel/petrol engines so one view proffered by members is that a tax based on power source would not be feasible.
20. In other communications with government, NatRoad has **recommended** a comprehensive re-assessment of the fuel tax system particularly in responding to the National Transport Commission (NTC) in relation to proposals to increase heavy vehicle charges. As we noted in communications to the NTC, the Commonwealth Parliamentary Budget Office report *Trends affecting the sustainability of Commonwealth taxes*¹² examines the sustainability of fuel tax.
21. The issues encompassed in the following extract from that report show that there are several factors which point to the need to re-frame this tax regime as soon as possible, noting the relevance to these findings concerning electric vehicles in the current context:

Continued improvements in the fuel efficiency of the passenger motor vehicle fleet in Australia are likely to contribute to a further slowing of the growth in total fuel consumption, further constraining growth in fuel excise. The uptake of electric vehicles could further accelerate the rising fuel efficiency of the passenger motor vehicle fleet in Australia. Electric vehicles are only a small proportion of the market and are therefore having little effect on fuel excise receipts at the present time. However, under the Australian Energy Market Operator's neutral scenario for electricity consumption, electric vehicles are projected to represent around 19 percent of the light vehicle fleet in Australia by 2036–37 (AEMO 2018). The impact on fuel consumption of an increasing uptake of electric vehicles would further erode the fuel excise base.¹³

¹⁰ <https://www.greenbiz.com/article/8-electric-truck-and-van-companies-watch-2020>

¹¹ <https://thedriven.io/2020/04/29/why-electric-trucks-not-hydrogen-will-corner-semi-market-and-replace-diesel/>

¹²

https://www.apf.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/Publications/Research_reports/Trends_affecting_the_sustainability_of_Commonwealth_taxes

¹³ Id at p 10

22. The need to move to an altogether new form of road charging is clear. Singling out electric vehicles, however, ignores the role that different fuel inputs may play in the future vehicle mix and carries old thinking based on one fuel, one vehicle into an uncertain future. In this context, we note the comment in the Draft Report that research indicates that upfront prices are more important than operating costs when making choices in “the vehicle market”¹⁴ which we take to mean the light vehicle market.
23. We note the discussion in the Draft Report concerning the introduction of a separate distance-based charge which for light vehicles (but especially electric vehicles) is envisaged to be imposed by State governments and to operate for some time in parallel with the fuel excise regime.¹⁵ When a draft of this submission was sent to members for comment, one view expressed was that: “Continuing the current flawed system with a ‘bolt on’ fix-it is failing totally to either understand or address the current issues.” NatRoad supports comprehensive reform of road charging before electric vehicles are subject to a separate charging regime.
24. We note the Draft Report’s statement that:
- A road user fee framework for electric vehicles as a first step, on a smaller scale, will prepare the way for a longer term transition to a state-based road user charging scheme where all vehicles pay for road use based on the costs they impose.*¹⁶
25. This observation leads into the next recommendation.

Cost-Reflective Road Pricing

26. Recommendation 14 in the Draft Report is as follows:

*Once distance-based charging for electric vehicles has been successfully implemented, the NSW Government should work with the Board of Treasurers to extend the scheme by replacing vehicle registration, licencing, stamp duties on motor vehicles and motor vehicle insurance with a distance-based charging scheme that better reflects the costs to society of road use, including pollution and congestion. Revenue should be hypothecated to expenditure on roads and transport infrastructure.*¹⁷

27. The substance of this recommendation is being pursued by Australian governments in respect of heavy vehicles through the Heavy Vehicle Road Reform (HVRR) process.¹⁸ NatRoad, with some qualifiers, supports HVRR. This reform must also occur contemporaneously with a review of infrastructure funding with the aim of de-politicising

¹⁴ Above note 1 p 85

¹⁵ Id at p89

¹⁶ Id p87

¹⁷ Above note 1 at p89

¹⁸ <https://www.infrastructure.gov.au/roads/heavy/>

decisions about road construction. The goal should be to have all road users contribute their fare share to the construction and maintenance of roads.

28. The HVRR reforms present an opportunity to address the weak links between what heavy vehicle users pay and the services they receive. Additionally, through hypothecation, the reforms have the capacity to improve budget predictability for road building (an aim reflected in the recommendations made in the Draft Report) and maintenance, improving service outcomes for heavy vehicle road users. It has become evident from recent Government discussions that in parallel with the HVRR the supply side reforms should include light vehicles. This is because they use the same networks and, in essence, are currently subject to similar charging for road use through fuel taxes. Road user charging developed in isolation from light vehicles makes no sense.
29. To be effective and free of political interference, the process of better regulation of road pricing for heavy vehicles must be guided by an independent regulator. The extent to which heavy vehicle road infrastructure may be converted into a utility like electricity or water supply must be explored having regard to the full range of costs imposed on the heavy vehicle industry, overseen by an independent price regulator.
30. The independent regulator must primarily oversee an independent pricing system which would need to have at least the following two characteristics:
 - a. Governments would agree on the pricing rules to be used and the overall approach for the regulator to follow.
 - b. Once the rules were established, the regulator would make and apply its pricing decisions. Its decisions would not be subject to ministerial approval or parliamentary disallowance.
31. The independent price regulator must, vitally, set service levels for the road network. Pricing without appropriate service levels is meaningless. Service levels should be designed to facilitate high productivity vehicle access, future vehicle automation and facilities for heavy vehicles such as rest stops which are currently manifestly inadequate for facilitating the road transport task.¹⁹ Road expenditure should be sufficient to maintain pre-determined service levels and should be part of detailed asset management plans that cater for heavy vehicle freight movements.
32. The independent price regulator should also regulate and monitor toll fees and landside port charges, given the current lack of transparency and fairness in setting tolls and landside port charges for heavy vehicles and a national lack of uniformity and policy principles associated with the application of toll charges and landside port fees where these charges are currently levied. These charges are a growing cost of business for the freight industry and, as mentioned in paragraph 8, the principles on which they are introduced are unfair and

¹⁹ See <https://www.fullyloaded.com.au/industry-news/1905/ata-in-rest-area-urgency-election-plea> by way of example

discriminate against heavy vehicles. Ultimately these charges result in higher costs for Austrian industry and consumers.

33. NatRoad **recommends** that the Draft Report contain consideration of toll charges as an integral element of consideration of road funding. As is plain for earlier comments, NatRoad is opposed to governments forcing heavy vehicles to use tolled routes. This goes against a principle of road tolling that an alternative non-tolled route should always be available for road users. Forcing operators to use tolled roads adds unacceptably to costs and creates unfairness for consumers in adding unnecessarily to the cost of freight. This unfairness will be manifest when NorthConnex begins operations.²⁰

34. The regulator must be empowered to solve the following issues with toll roads that **we ask the Panel to address**:

- the lack of transparency and fairness in setting toll fees for heavy vehicles;
- the lack of competition in private toll road operation;
- heavy vehicle operators paying for road network improvements through increases in tolls without experiencing the promised efficiencies, and
- governments forcing heavy vehicles to use tolled roads by banning them from alternative routes, as with the NorthConnex issue.

35. The Draft Report contains some assumptions about heavy vehicle wear on roads. These effects are exaggerated in the toll multipliers currently in place, adding to this list of problems and the unfairness already in evidence. Work by the Australian Trucking Association on this question is illustrative of this problem:

For a fully laden 6 axle articulated heavy vehicle, the estimated maximum marginal cost would be \$0.16 per kilometre for an urban toll road. Using the M7 as an example, the maximum capped truck toll is \$24.72 for a continuous 20km or greater trip, three times the maximum car toll of \$8.24. Of the extra \$16.48 that is collected, just \$3.20 represents road damage costs over 20km, under 20 per cent of the increased toll rate. Similarly, calculations about the road wear damage appear based on heavy vehicles carrying their maximum allowable weight. For heavy vehicles which are not carrying their maximum allowable weight, and other types of heavy vehicles, the actual cost would be lower.²¹

Congestion Reduction

36. Recommendation 15 is as follows:

²⁰ <https://www.natroad.com.au/news/northconnex-operating-model-needs-change>

²¹ Australian Trucking Association submission on the 2019 Infrastructure Australia Audit

<http://www.truck.net.au/sites/default/files/submissions/20191115ATAsubmissionAustInfrastructureAudit.pdf>

The New South Wales Government should commence a trial for a congestion cordon around the Sydney CBD to better understand how Sydney drivers respond to time-based road pricing.

37. Australian cities are key centres of demand, supply and processing of freight, but are bottlenecks that suffer from congestion, feature land-use planning that does not consider freight and impose red tape on freight operations.²² Any process or trial that is instituted to combat congestion should preference freight, with operations often occurring outside peak times, and discourage light vehicle use, especially during peak times. At the least, the charge must be the same for heavy vehicles as for light vehicles, noting that London and Stockholm adopt this policy. As we have indicated earlier in paragraph 7 of this submission, the time is ripe for preferencing the freight task.
38. In any system which seeks to reduce congestion, the current pandemic has underlined that governments should not impose unnecessary curfews and regulatory restrictions on heavy vehicle movements, which may result in increased heavy vehicle traffic over longer, less direct routes. These restrictions are often an attempt to mitigate community concerns around the presence of heavy vehicles, which result from failing to integrate land use planning and heavy vehicle access, a matter that road pricing for congestion must take into account.
39. NatRoad would like to see an efficient freight supply chain which is able to operate 24 hours, 7 days a week on an appropriately identified and maintained network. Requiring heavy vehicles to travel only during daylight hours or in certain specified time periods over less-than-optimal routes impedes productivity, increases operating costs and adds to road congestion, particularly along major routes to key ports or airports that are shared with light vehicles.
40. We reinforce, and ask that the Draft Report be strengthened in this regard, that urban congestion is largely the result of light vehicle movements. Plans to deal with congestion should assist the movement of freight whilst discouraging commuter traffic. Governments will need to implement solutions involving land use planning, transport planning, public transport investments and road infrastructure upgrades.
41. The Draft Report could also mention that part of the inflexibility associated with road use and freight deliveries arises from the workplace relations system which is locked into a “normalised” use of roads and start and finish times for workers. The pandemic has meant the governments are looking at introducing greater flexibility into the workplace relations system, a course of action NatRoad supports.

Conclusion

²² Above note 3 at p322

42. The pandemic has highlighted the need to introduce policies that preference the freight task. That will involve a change of perspective in relation to a number of current government policies, some of which we have emphasised in this submission.