NATROAD

NATIONAL ROAD TRANSPORT ASSOCIATION

Submission to The Treasury

2024-25 Pre-Budget submission

25 January 2024

1. Executive Summary

Australia's road freight transport industry is enduring the most difficult economic and regulatory operating environment in living memory.

Road freight transport is a small business industry working on tight margins and with limited economic bargaining power to pass on cost increases.

Rising costs, a significant red tape burden, natural disasters and supply chain challenges, workforce shortages and the impending challenge and cost of decarbonisation and deploying new technologies present a significant challenge to road freight, Australia's supply chains and keeping our economy moving.

The 2024 Budget should take a targeted approach to addressing these challenges by:

- Establishing a $3.5 billion Clean Transport Fund to bring forward the road freight decarbonisation transition and recognise the importance of cost-effective decarbonisation options to achieving real reductions in transport emissions and building a secure economic future.
- Place downwards pressure on future increases to the road user and registration charges by implementing an infrastructure budget and heavy vehicle cost base cap.
- Deliver more effective infrastructure funding, better road network outcomes, and achieve more bang for buck for taxpayers by establishing the National Service Level Standards Framework by 2025.
- Deliver practical action to reduce red tape by investing in better heavy vehicle road access, including scaling up implementation of the national automated access system, rolling out rapid economic appraisals for opening up as-of-right access and extending the Strategic Local Government Asset Assessment Project to improve access decision making.

2. About NatRoad

The National Road Transport Association (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, express, car carriers, as well as tankers and refrigerated operators.

3. Economic context

Australia's road freight sector is a significant economic sector, with demand for road freight transport services being a leading measure of economic growth.[1] The industry has just over 50,000 businesses and employs approximately 208,000 people.[2]

The current economic and regulatory operating environment is the most difficult for our sector in living memory. Putting aside the well-publicised collapse of Scott's Refrigerated, the exit from the industry of smaller, less well-documented operators continues, unabated and relatively unnoticed.

Off the back of the pandemic, operators are struggling with persistently high fuel prices; inflation; unfairly high motorway tolls; the impact of natural disasters; a disrupted global supply chain and a chronic shortage of drivers and mechanics. Government decisions, such as increases to the road user charge and registration, only makes this environment more difficult.

NatRoad commissioned economic research illustrates the impact of increasing costs. HoustonKemp has estimated the costs of operating a nine-axle B-double travelling 250,000 kilometres per year has increased by more than 20 percent over a six-year period. This cost increase was driven by higher diesel prices, higher than usual increases in labour, maintenance, and tyres, and increasing interest rates leading to higher vehicle costs.[3]

Additionally, a NatRoad commissioned survey of road freight operators showed that increases in costs (for fuel, vehicles, and maintenance), compliance with regulations, and the difficulty to pass through costs to customers were the top pain points for businesses.[4]

Other research has shown that increases to industry revenue is being squeezed by higher costs, with profit margins declining by 1.8 percent over the last five years to now be just 2.3 percent, and industry profit declining by 7.4 percent.[5] Wafer thin industry profit margins hide that for many businesses, profit margins are non-existent or going backwards.

4. Establishing a Clean Transport Fund

The NatRoad industry whitepaper on road freight decarbonisation, building on international research by the International Road Transport Union (IRU), shows that the main enablers for reducing road freight carbon emissions will be improving the energy efficiency of the existing fleet and deploying alternative fuels and energy.[6]

An independent report by Mov3ment has shown that whilst alternative fuels and energy hold the greatest emission reduction potential over the longer term, these solutions also come with the highest cost premium.[7]

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[1] IBISWorld. March 2023. Road Freight Transport in Australia. 7.
[2] IBISWorld. 2023. 7.
[3] HoustonKemp. March 2023. Macro trends for road freight operators in Australia.
[4] HoustonKemp. 2023.
[5] IBISWorld. 2023. 7.
[6] NatRoad. 2023. Australian road freight transport decarbonisation: Industry white paper. 4.
[7] Mov3ment. September 2023. The Road to Zero: Decarbonising Australian Trucking. 10.

Against the economic backdrop of rising costs and low profit margins, and with a rising freight task, the potential for road freight emission reductions will be limited unless there is policy reform and the introduction of financial incentives at scale.

The United States has demonstrated that financial incentives can bring forward the point of cost parity for electric and zero emission trucks. It has been estimated that the incentives available under the Inflation Reduction Act has brought forward electric truck cost parity. For urban use cases, the IRA brought forward parity to 2023 (from 2026) and for regional use cases parity was also brought forward to 2023 (from 2028). Long haul parity is estimated to have been brought forward to 2027 (from 2037).[8] It should be noted that these assessments likely do not apply in every transport use case.

It should also be noted that cost parity does not imply technological capability, and for some use cases electric trucks do not yet represent a workable solution and hydrogen models are still in development. In Australia, some trucks operate at much higher mass and longer range than most electric trucks can currently perform. That said, the majority of our truck fleet is urban based and operating on shorter daily ranges, and **we should enable the solutions we have now for the parts of the heavy vehicle fleet that it is a viable solution.**

The Grattan Institute calculated the public benefits from the uptake of zero emission trucks to be approximately $4.2 billion, including avoided health costs, avoided CO2 emissions and reduced noise. However, these benefits would require $9.6 billion in costs to business, including infrastructure, vehicles and a time and weight penalty.[9]

NatRoad is seeking a hand up, not a handout. Considering the scale of the public benefits from adopting zero emission vehicles, and that this benefit is reliant on the investment decisions of businesses operating on tight margins with escalating costs, it is critical that public funds are made available to make this transition possible on a timeline consistent with Australia's emission reduction targets.

Failure by government to implement financial incentives at scale will delay road freight decarbonisation and set up the industry for a more turbulent transition in later years (delayed policy reform will result in higher annual emission reductions being required to achieve Australia's emission reduction targets).

The Australian Government should establish a Clean Transport Fund with an initial $3 billion additional investment across the budget forward estimates, for a total $3.5 billion commitment. The Clean Transport Fund would include:

- New $2 billion for low emissions freight financing, similar in structure to the investments made by the Clean Energy Finance Corporation (CEFC).
- New $1 billion for zero emission vehicle incentives.

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[8] RMI. August 2022. The Inflation Reduction Act will help electrify heavy-duty trucking.

[9] Grattan Institute, 2022, The Grattan truck plan. The modelling also includes $15.7 billion in benefits for business, but $12.5 billion is the result of avoided fuel costs. The model assumes all zero emission trucks will be electric, overstating this benefit and failing to account for the higher fuel costs of both green hydrogen and renewable diesel. This also means that the benefits cannot be assumed to apply across the industry equally, and longer distance and heavier transport operators are unlikely to receive the full scale of projected savings. It should also be noted that as Grattan utilise current carbon offset prices, it is possible that the carbon savings will be greater over time.

- The existing $500 million Driving the Nation Fund, which focuses on light vehicles and a small number of heavy vehicle projects.

This investment may not be sufficient in the long term however it represents a reasonable and proportionate initial investment to drive down emissions and accelerate the market take-up of low emissions solutions.

CEFC financial support has proven to be a successful market-focused mechanism for mobilising private sector investment, attracting $2.82 in private sector capital for every $1.00 invested by the CEFC. An investment commitment of $12.7 billion has enabled a total transaction value of $48.8 billion.[10] Additionally since its inception approximately $3.3 billion of capital has been returned or repaid to the CEFC making it available to be reinvested.[11]

The low emissions freight financing should be designed to enable investments in projects to drive down road freight emissions in a cost-effective manner.

At $2 billion in initial funding, it would represent about half of the projected public benefits from reducing carbon emissions created by road freight transport.

The low emissions freight financing would seek to mobilise private capital towards achieving public benefits and it would utilise a model ultimately seeking repayment of the public investment. It would represent a hand up, not a handout.

A $1 billion zero emission vehicle incentive could then provide a temporary return of the increased taxation on heavy vehicles back to the industry to accelerate the cost-effectiveness of zero emission trucks. It would provide a simpler support mechanism easily accessible by smaller fleets and targeted to the cost premium of zero emission vehicles and infrastructure.

As a result of the increase in the road user charge, and the corresponding decrease in fuel tax credits, the heavy vehicle sector will contribute an additional $1.1 billion in revenue to the Australian Government over the budget forward estimates.[12] This is not the full level of revenue, just the increase above and beyond what trucking operators are already paying.

At the same time as it is collecting an additional $1.1 billion in heavy vehicle taxes the Australian Government has also decided to reduce its funding ratio for national and freight routes in regional areas, which are key priorities for freight. The system is clearly broken, making the temporary redirection of the additional revenue a reasonable contribution to the cost of reducing emissions.

In proposing these changes, NatRoad is seeking a hand up, not a handout. Our Clean Transport Fund proposal seeks a temporary and partial return of higher taxes back to the industry, and a fund based on the level of public benefit to be gained with capital repaid over time.

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[10] CEFC, figures up to 30 June 2023.
[11] CEFC, 2022, Budget signals major funding boost for CEFC as part of Rewiring the Nation program.
[12] Australian Government, Budget 2023-24, Budget Paper No. 2: Budget Measures, p175

5. Road reform

The provision of our road network is an issue of equity.

> In the nation of the Fair Go, Australians pride themselves on the idea that anyone in this country has a fair chance to be whatever they want to be.
>
> Australians expect fair access to schools and hospitals so that all children, rich or poor, will have an opportunity to be their best and make their best contribution to society.
>
> But in the 21st century, there's another impediment to equity that looms as a threat to equity in this country – distance.
>
> - Anthony Albanese.[13]

The tyranny of distance is one of the great challenges to the Australian sense of the Fair Go. As the now Prime Minister has argued, this extends to the accessibility of jobs and transport links across our cities.

It also applies to access to goods and markets, across our cities and regions.

Australia's road network should be funded on the basis of achieving system-wide outcomes of improving safety, productivity, sustainability and connectivity.

Placing downwards pressure on the heavy vehicle road user charge

The existing heavy vehicle road user charging system is broken. Increases in heavy vehicle charges are driven by increases in infrastructure funding, with no regard for the effectiveness of that funding, the ability of industry to pay, or ensuring that heavy vehicle priorities are being funded and that the outcome results in less red tape for access decisions.

Too much infrastructure spending all at once also increases the costs of construction, through competition for workers and materials. Higher infrastructure costs may be good for construction companies but result in fewer actual road upgrades and higher costs for road users.

NatRoad welcomes the Governments attempt to repair the infrastructure pipeline and the recognition that there is an effective natural limit to the annual infrastructure spend.

This intent should be backed with policy reform – by implementing an infrastructure funding and heavy vehicle cost base cap. The cap should be based on a level of budget funding, rising with inflation. Governments, including the states and territories, could maximise the effectiveness of infrastructure funding by improving the selection and delivery of projects, instead of over-committing the infrastructure pipeline and leaving road users on the hook for the resulting cost blow outs. The cap should include mechanisms for additional funding (with additional revenue outside of the heavy vehicle road user charge) and reviews of the cap, to ensure that inadequate road quality and service outcomes are not baked into the system.

[13] Albanese, A. 2018. Tyranny of distance threatens the fair go. https://thefifthestate.com.au/columns/spinifex/tyranny-of-distance-threatens-the-fair-go/

More roads funding bang for taxpayers' buck

Another key reform to improve the effectiveness of infrastructure funding would be to **implement the National Service Level Standards Framework, by no later than 2025.**

The NSLSF would provide service metrics for the road network, better identifying gaps in the quality of the network. Infrastructure funding should than be prioritised to fixing these service gaps with a strong focus on providing improved maintenance funding.

At a minimum, the NSLSF should be implemented for the National Land Transport Network by 2025.

Reducing road access approval red tape

Heavy vehicle road access approvals are buried in significant red tape. The review of the Heavy Vehicle National Law has become never-ending and an end in itself, with on the ground improvements for operators remaining unrealised.

However, the Government has identified non-legislative reforms which could achieve significant outcomes. This will require a focused effort on delivering and scaling up these reforms, including:

- Scaling up and accelerating the introduction of the national automated access system.
- Deploying rapid economic appraisals of routes to be opened up for as-of-right access, which should initially be focused on the National Land Transport Network.
- Extending funding for the NHVR's Strategic Local Government Asset Assessment Project.