Australian Automobile Association

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Senate Standing Committees on Economics
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Dear Senators

Please find attached a submission from the Australian Automobile Association on the COAG Reform Fund Amendment (No Electric Vehicle Taxes) Bill 2020, which has been referred to the Senate Economics Legislation Committee for inquiry and report by 30 April 2021.

Should you wish to further discuss this matter, my office can be contacted on [redacted]

Yours sincerely

[redacted]

Michael Bradley
Managing Director [redacted]

Australian Automobile Association

AAA Response to the Senate Standing Committee on Economics
***COAG Reform Fund Amendment (No Electric Vehicle Taxes) Bill 2020* Inquiry**

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MEMBER OF

Introduction

The Australian Automobile Association (AAA) is the peak organisation for Australia's motoring clubs and their more than eight million members. The Association's constituent clubs are the NRMA, RACV, RACQ, RAA, RAC, RACT and the AANT. The AAA regularly commissions research and develops in-depth analysis of issues affecting transport systems, including affordability, road safety and fairness.

The AAA welcomes the opportunity to provide a submission to the Senate Economics Legislation Committee (the committee) to assist its deliberations on the COAG Reform Fund Amendment (No Electric Vehicle Taxes) Bill 2020 (the bill).

The bill seeks to amend the *COAG Reform Fund Act 2008* (Cth) (the Act) to place statutory limitations on state and territory's accessing grants via the COAG Reform Fund if they introduce a tax, charge or levy on electric vehicles (EVs). The Bill frames such taxes, charges or levies as both 'discriminatory taxes' and 'road blocks to the update of electric vehicles'.[1]

The bill is being considered by the committee at a time when:

- Australia lacks an overarching land transport strategy
- the current land transport funding model is inequitable and unsustainable
- vehicles currently outside the transport tax system, such as electric vehicles and other ultra-low fuel consumption vehicles (ULFCVs), are being brought to market in increasing volumes, and
- there are existing policy frameworks to account for fluctuations in state and territory revenue.

The need for an overarching land transport strategy

Australia needs a strategic review of our land transport system: its performance; how it will be funded into the future; and how it will support the transition to new and emerging technologies.

Australia's last Transport White Paper – the AusLink White Paper published in 2004 – has long since been out of date. Successive governments have overlooked the need for a coordinated approach that recognises and responds to the pace of change. Australia's population growth is among the highest in the OECD (a rate more than twice as high as the US and the UK),[2] and the past 15 years have seen unprecedented technological advancement and changing consumer preferences.

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[1] COAG Reform Fund Amendment (No Electric Vehicle Taxes) Bill 2020 Explanatory Memorandum.
[2] World Bank (2017). Population Growth (annual %). Accessed at https://data.worldbank.org/indicator/SP.POP.GROW.

A national transport strategy drafted three years before the iPhone's invention cannot help us face the challenges of today, let alone those coming over the horizon. Autonomous vehicles and ride-sharing apps were science fiction in 2004.

The pace of change will continue to accelerate, yet without an overarching national vision or blueprint in place, the integration of new technology into Australia's transport system risks failure.

Land transport funding model

Fuel excise and land transport funding

The Australian Government's largest source of transport-related revenue is fuel excise. However, technological change is magnifying its flaws and making it increasingly unsustainable.

The Government currently collects 42.7 cents in tax or "excise" on every litre of petrol and diesel sold at the pump in Australia, which is paid by operators of road vehicles when these are being driven on public roads. The 2020- 21 federal Budget projects that $49.36 billion in net fuel excise will be collected over the next four years.

The Government relies on this revenue to be able to fund land transport infrastructure. The October 2020 Budget papers show the proportion of net fuel excise being invested in land transport infrastructure, increasing from 82 per cent in 2020-21, to 98 per cent in 2021-22 and 100 per cent by 2022-23.

Despite growth in population, the vehicle fleet and total vehicle kilometres driven, revenue from fuel excise has been declining in real terms as newer, safer vehicles with reduced fuel consumption enter the fleet.

Revenue will further decline with the projected growth in battery electric and ULFCVs. These vehicles currently use the road network at no cost, as they are outside the fuel excise system.

Infrastructure Australia highlighted the challenges facing Australia with respect to declining fuel excise and the need to reform transport funding. While fuel excise was originally designed as a proxy consumption-based charge, the correlation between vehicle kilometres travelled and the demand for fuel no longer functions as it did, 'with fuel excise decreasing in real terms and kilometres travelled increasing over the past two decades.'[3] Infrastructure Australia notes this trend is likely to worsen as cars become increasingly fuel-efficient and electric vehicles make up a growing proportion of our fleet.

[3] https://www.infrastructureaustralia.gov.au/sites/default/files/2019-08/Australian%20Infrastructure%20Audit%202019.pdf

Research by ACIL Allen for the AAA[4] found that the states and territories are already carrying the burden of transport funding and dealing with:

- underfunding by the federal government
- falling road-use related revenues, and
- fluctuations in funding driven by the federal election cycle.

An inequitable and discriminatory tax

Irrespective of the emerging technological shifts in light vehicles, fuel excise is an inequitable tax. It means drivers of different cars pay different amounts to use the same length of road. People on lower incomes often have a heavier burden because they tend to own older, thirstier vehicles. They are also likely to live in outer suburbs or regional locations and have fewer public transport options.

The bill frames proposed state-based taxes, charges and levies on EVs as 'discriminatory'.[5] However, the existing land transport funding model is already "discriminatory" by focussing only on those vehicles using excisable fuel. Bringing all vehicles into the tax system simply begins to level the playing field.

As the number of vehicles outside the current tax system grows, and consumers become used to the reduced costs, it will be increasingly difficult to bring them within a tax framework. An expectation that a road funding contribution is required from all road vehicles should be built sooner, rather than later.

Distance-based road user charging

The AAA supports the introduction of a national distance-based road user charging scheme for all light vehicles. Ideally, revenue from the scheme should be collected at a federal level to offset declining revenue from fuel excise.

The AAA supports a national road user charge that is:

- introduced in a staged approach, first capturing only ULFCVs (battery electric, hydrogen fuel cell, and some plug-in hybrid) vehicles
- introduced as soon as possible, while numbers of affected vehicles remain low
- applied only to new vehicles from the time of implementation to avoid the application of a new tax to existing fleet
- applied initially at a discounted rate so not to disincentivise EV/ULFCV uptake, and
- introduced alongside fuel excise, which will continue to apply to petrol/diesel vehicles.

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[4] ACIL Allen (2016). *Land Transport Funding: Transitioning to a better model*.
[5] COAG Reform Fund Amendment (No Electric Vehicle Taxes) Bill 2020 Explanatory Memorandum.

A distance-based road user charge system where drivers are taxed based on the kilometres they drive is seen as a fair and sustainable model. Introducing a staged approach of reform, that brings vehicles which are virtually exempt from fuel excise, such as battery electric and ultra-low fuel consumption vehicles, into the funding system as a first step ensures all motorists contribute to the cost of roads and establishes a framework for transition.

It is important that the uptake of battery electric vehicles and other ULFCVs is not disincentivised. To ensure uptake is not affected, the road user charge should initially be applied to these vehicles at a discounted rate. Such a discount should remain in place until an agreed threshold is reached, such as when a certain share of new vehicle sales is reached. Any residual level of disincentive to the uptake of ULFCVs can be offset via incentives such as discounts in registration or stamp duty and the AAA supports such an approach.

It will be a difficult task transitioning the entire light fleet away from fuel excise to a road user charging system. As a first step to comprehensive tax reform, all light vehicles should be subject to either the fuel excise system or a per-kilometre road user charge - but not both.

State-based road user charging for electric vehicles

In the absence of decisive federal leadership, some state governments have announced their intention to bring EVs and other ULFCVs into their respective tax systems from 2021.

State-based road user charging undermines the federal government's role in funding transport-related activities. It also undermines the federal government's revenue base for land transport funding into the future.

Separate state-based and inconsistent tax systems risk policy failure. Different policy objectives, rushed implementation, dispersed governance arrangements, inadequate collaboration and the vagaries of different political cycles could result in confusion and unfairness.

Rather than seek to "punish" those states considering introducing a distance-based road user charge for ULFCVs by erecting statutory barriers to accessing grants via the COAG Reform Fund, the federal government can show decisive leadership by:

- working with states and territories to deliver a nationally consistent, distance-based road user charging system for ULFCVs that does not disincentivise their uptake
- removing Luxury Car Tax and tariffs on all ULFCVs to reduce upfront costs
- introducing specific Fringe Benefits Tax treatment for ULFCVs to reduce costs
- working with states and territories to develop a nationally consistent approach to reducing (or applying short term exemptions to) existing state-based taxes and charges for ULFCVs. (Reducing or removing these costs will lower both ownership and running costs.)
- pursuing interoperability initiatives with EV recharging stations, such as setting recharging plug standards, ensuring open access to all recharging infrastructure, and single identification/payment methods (This will ensure recharging compatibility across all EVs and maximise the availability of recharging stations.)

- working with states and territories to streamline building approvals for EV recharging infrastructure to ensure easy installation of home recharging infrastructure in apartments and in rental homes, as well as recharging infrastructure in car parks and other public locations
- establishing an intergovernmental working group to develop a national plan for the roll-out of recharging infrastructure and work with energy suppliers to support a coordinated roll-out and manage network capacity issues
- providing low interest loans for EV home chargers, potentially through existing sources such as the Clean Energy Finance Corporation, to assist in reducing upfront costs
- supporting enabling works and/or provision of low interest loans for installation of highway and destination EV recharging infrastructure to support private investment in recharging stations, and
- developing education campaigns about ULFCVs and information about EV recharging infrastructure availability, as consumers informed about EVs are more likely to purchase one.

Uptake of electric vehicles in Australia

The bill frames state-based taxes, charges and levies as 'road blocks to the uptake of electric vehicles'.[6]

It is important for the committee to consider the vehicle fleet and the projected uptake of ULFCVs in Australia as it deliberates over the bill.

Government projections estimate that EVs will make up 26 per cent of new car sales by 2030.[7] Globally, vehicle manufacturers have stated that EVs will be brought to market in increasing numbers. Most manufacturers have announced plans and set production targets to transition to EVs:[8]

- **BMW**: 15-25 per cent of the BMW Group sales in 2025 and 13 new EV models by 2023.
- **Daimler**: 0.1 million sales in 2020, 10 new EV models by 2022 and 25 per cent of group sales in 2025. More than 50 per cent of sales will be Petrol Hybrid Electric Vehicles (PHEV) and Battery Electric Vehicles (BEV) by 2030.
- **Ford**: 40 new EV models by 2022 (16 BEV models, 24 PHEV models).
- **General Motors**: 22 EV models by 2023; more than one million EV sales annually around 2025.
- **Honda**: Two thirds of annual global sales to be electrified in 2030. In Europe, 100 per cent of sales to be electrified by 2022.
- **Hyundai-Kia**: 29 EV models by 2025 (23 BEV models, 6 PHEV models). 560,000 BEV and 110,000 FCEV sales annually by 2025.

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[6] COAG Reform Fund Amendment (No Electric Vehicle Taxes) Bill 2020 Explanatory Memorandum.
[7] Australian Government, Australia's emissions projections 2020, December 2020.
[8] International Energy Agency (IEA), *Global EV Outlook,* 2020.

- **Toyota**: 10 new BEV models by the early 2020s and more than 1 million BEV and FCEV sales annually by 2030.
- **Volkswagen**: 1.5 million EVs to be produced annually in 2025. Almost 70 new electric models by 2028, and 22 million electric vehicles to be built by the VW group between 2020-2029.
- **Volvo**: 50 per cent of group's sales to be fully electric by 2025. Every new Volvo car launched from 2019 will be offered with an electric motor.
- **Jaguar**: Jaguar has announced it will only build electric vehicles by 2025.[9]

In parallel, governments are announcing plans to phase out sales of new petrol and diesel vehicles. The sale of new petrol and diesel cars will be banned in Great Britain by 2030 and General Motors will stop selling petrol and diesel cars in the US by 2035.[10]

Even without government incentives, electric vehicles are being and will continue to be brought into the Australian market. This has a direct impact on the federal government's revenue base.

Existing policy frameworks

The bill seeks to disincentivise states and territories from bringing EVs into the tax system by reducing grants they would otherwise receive from the COAG Reform Fund. It is important for the committee to consider, as it deliberates over the bill, the broad implications of and complexity associated with this approach.

The *COAG Reform Fund Act 2008* (Cth) recognised that Australia is characterised by significant vertical fiscal imbalance – the imbalance between the expenditure responsibilities of each tier of government and the own-source revenue available to that tier. The federal government raises around 75 per cent of all government revenues but is only responsible for around 60 per cent of all government outlays. This means states are heavily reliant on federal government grants for revenue.[11] The COAG Reform Fund is expected to disburse $19.04 billion to the states and territories in 2020-21.[12]

The reform also recognised the principle of horizontal fiscal equalisation – the principle that seeks to ensure that each state and territory has the financial capacity to provide services at national average levels and at average levels of efficiency. This is operationalised through GST disbursements to the states and territories.

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[9] The West Australian, *Jaguar to become electric-only brand by 2025. https://thewest.com.au/lifestyle/motoring/jaguar-to-become-electric-only-by-2025-ng-b881798510z*
[10] General Motors, the largest U.S automaker, plans to be carbon neutral by 2040, General Motors, January 2021; 'The ten point plan for a green industrial revolution', UK Government, November 2020.
[11] Department of the Parliamentary Library, *Federal–State Financial Relations: The Deakin Prophecy*, Research Paper No. 17 1999–2001.
[12] Australian Government Budget Papers, October 2020.

There are existing mechanisms to account for differing revenues collected between states and territories. The bill risks duplicating such mechanisms, which could add a layer of unnecessary duplication and the attendant increase in administrative burden and costs.

Way forward

As noted above, the bill seeks to amend the *COAG Reform Fund Act 2008* (Cth) to place statutory limitations on the states and territories accessing grants via the COAG Reform Fund if they introduce a tax, charge or levy on EVs.

For the reasons set out above, the AAA suggests the committee should not be making policy decisions of this magnitude until the Parliament has had a comprehensive debate about, and has a clear understanding of, land transport funding reform including:

- a pathway for structural reform of the nation's transport taxation and funding arrangements
- the medium- and long-term implications of the declining revenue base from fuel excise
- how to introduce a fair and equitable distance-based road user charging system that does not disincentivise the uptake of ULFCVs, and
- how revenue and expenditure from the introduction of state-based road user charges on ULFCVs will be treated as part of existing arrangements.

A piecemeal approach such as that proposed in the bill will exacerbate rather than address the underlying issues that flow from an unfair, inequitable and flawed land transport funding model.