

# SUBMISSION to Senate Select Committee on Fuel & Energy 2009 Inquiry into Fuel & Energy

29 July 2009



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## 1 Summary

Providing an appropriate structural framework around fuel and energy is important for Australia and we appreciate the opportunity to provide comment for the committee's consideration. Fuel, energy and transport are fundamental to our lifestyle and the economy. Encouraging sound practices from consumers and providers is necessary.

However, robust regulatory platforms that work efficiently should not be dismantled. The current fuel excise collection mechanism is robust, simple and effective. It is not broken, but it can be, improved.

The challenges of alternative fuels and energy sources can be met by a transparent and fair way forward. The non-traditional sources have or can have a relative energy density calculated. This provides a way of considering these sources on their relative merits within the fuel excise framework and consumer market place. Diesel and liquid natural gas are likely to remain the dominant fuels in the heavy vehicle transport industry for some time. While the sources of these fuels may include some non traditional methods (for example, second generation bio-fuel, gas to liquid and coal to liquid) the basic fuels and engines designed for these fuels provide energy efficiencies in the trucking industry that are not currently available from other sources. If, for security of supply reasons, in Australia, there is a policy desire to support a particular fuel, that support should be scientifically justified and transparent in its application.

Road transport is a national industry that is critical to the economic wellbeing of Australia; moving in excess of 75 per cent of the national freight task. The efficient regulation of road transport is in the nation's interest. This includes fuel and energy related regulation. The wellbeing of our economy depends upon the efficient delivery of the growing freight task, modes such as road, rail and coastal shipping are companion service delivery mechanisms that need to operate efficiently and effectively. Government regulation should recognise that the amount of freight contested between road and rail is only 10 to 15 per cent of the total freight task. We therefore promote road and rail as complementary modes of freight transport and support cost effective productivity improvements to both modes. We make this observation as some parties attempt to direct modal share through policies and legislation that distort and introduce market inefficiencies; the policies and regulations around fuel and energy use are often included in the potential targets of influence.

High level strategic policy and investment decisions on road, rail and other modes should be based on transparent decision making and seek to ensure the best value for expenditure. It should promote efficient fuel and energy use by consumers and service providers. Choice of fuel should be based upon supply, demand and energy content attributes and not on any perceived need to, force modal choice.

As a national industry our preference is for simple, single point dealings, not multiple, overlapping or inconsistent points of contact for accounting and reporting. We believe taxing primary business inputs is poor and inefficient taxation. Businesses grow wealth for this nation and that benefits all. Almost all business depends upon trucks in some part of the business activity, therefore unnecessary or inflated taxation on trucking disadvantages all of the community.

This submission focuses on fuel excise and its role in the cost recovery for road use by heavy vehicles. In this submission, we propose a more efficient revenue collection mechanism that also accounts for alternative fuels. Coupled with this is a more transparent and incentive related road supply investment framework that seeks to positively influence fuel and energy use through market forces. We have termed this road use related mechanism Fuel Based Charging (FBC).

## 2 Recommendations

### *Recommendation 1*

**The current fuel excise collection mechanism is robust, simple and effective. It is not broken, but it can be improved. We believe there are opportunities to expand the portion of heavy vehicle revenue collected through the fuel excise mechanism to improve efficiency of revenue collections, improve signals to road users, and fairly incorporate alternative fuels.**

### *Recommendation 2*

**Improving Australia's energy security will necessarily include increased use of alternative fuels and energy sources. These forms of energy can be catered for in the fuel excise scheme in a transparent and fair way, ensuring that on-road users pay road users charges and are treated appropriately in the tax system. Establishing relativity ratings based upon energy density for these alternative forms of energy in comparison with traditional fuels will allow the fuel excise to be adjusted accordingly. This will minimise the distortions between fuels and allow the market to choose. To ensure Australia's energy security, this model can also be transparently adjusted to provide a direct price incentive for fuels providing better energy security.**

### *Recommendation 3*

**The efficient regulation of road transport is in the nation's interest. This includes fuel and energy related regulation that promotes efficient fuel and energy use by consumers and service providers. The policies and regulations around fuel and energy should not be used to direct modal share as it would cause distortions and introduce market inefficiencies that adversely affects business and community.**

### *Recommendation 4*

**As a national industry our preference is for simple, single point dealings, not multiple, overlapping or inconsistent points of contact for accounting and reporting. For example, the upstream acquittal of carbon impacts by fuel suppliers, rather than down stream accounting by individual users.**

### *Recommendation 5*

**Currently there are few infrastructure supply side incentives to facilitate safe and efficient provision and maintenance of roads. We propose a more efficient revenue collection mechanism for cost recovery of road use. Coupled with this is a more transparent and incentive related road supply investment framework that seeks to positively influence fuel and energy use through market forces. We have termed this road use related mechanism "Fuel Based Charges" (FBC)**

## 3 Introduction

Over the coming decades Australia is facing growth in freight demand and supply constraints that have the potential, if not appropriately addressed, to impose a devastating restriction on the nation's prospects for continued growth and rising prosperity. Moving freight requires fuel and energy to be available; sustainability requires these resources to be used in an efficient way.

While our submission will focus on road transport related reforms, we also advocate that rail transport reform is needed to attend to current mode weaknesses and promote strong future advancement of the transport mode. However, such improvements must not come at the cost of other industries otherwise the supply chain, and the nation, will suffer.

Separate reform in both modes is required, to individually optimise productivity to the benefit of the supply chain in aggregate. The amount of contested freight between road and rail is only a small portion of the national freight task. Different freight requirements will lead to the most adequate and efficient choices, if market distortions are minimised. Charging and pricing are sensitive issues, but need to be adequately addressed for both transport modes to maximise efficiency for Australian industries, return on government expenditure and environmental outcomes. Cost efficiency principles, as well as transparent charging schemes, are key to improvement in this area. For road transport the fuel excise collection system provides a simple robust tool that works and can be improved to provide enhanced outcomes.

## 4 Australian Trucking Association

The ATA was originally established in 1989 as the Road Transport Forum and is the peak national body uniting and representing the interests of the Australian trucking industry.

Membership of the ATA's General Council comprises the peak state and sector based trucking associations, the Transport Workers' Union, some of the nation's largest transport enterprises and representatives of small fleet owners and owner drivers.

## 5 Justification

### *Recommendation 1*

**The current fuel excise collection mechanism is robust, simple and effective. It is not broken, but it can be improved. We believe there are opportunities to expand the portion of heavy vehicle revenue collected through the fuel excise mechanism to improve efficiency of revenue collections, improve signals to road users, and fairly incorporate alternative fuels.**

The fuel excise system has served us all well. It is simple, robust and difficult to circumvent. It has low administrative costs, which is efficient.

On the other hand, high administration costs are deadweight costs and inefficient. Revenue collection systems with high deadweight costs falsely inflate transport costs and dampen productivity, thereby reducing Australia's international trade competitiveness. We note the proposal for mass, distance and location pricing suggests complex administrative systems and high technological adoption costs. These are deadweight costs, which will make the system inefficient and unviable.

Fuel excise is a variable charge based upon consumption, which is, of course, directly related to use. It provides price signals to the marketplace that promote efficient fuel use. The industry has worked successfully with the rebate processes to account for business inputs, while ensuring valid cost recovery charges like the heavy vehicle road user charge are paid. The system has worked with the variables needed for bio-diesel, and operators who need to distinguish between on and off road use within fleets.

The industry believes the fuel excise and rebates systems are capable of extension to address a broader range of alternative fuels, by drawing up energy density tables allowing for a fair and transparent equivalent fuel excise amount to be determined. Alternative fuels capable of being

used in heavy motor vehicles can be related back to the known energy density of our existing primary fuels. There are no realistic systems for powering heavy good vehicles from stored electricity sourced from mains supply. If such systems were to come to market, differential pricing in the electrical tariffs system would appear to be to offer an equitable solution.

The fuel excise and rebate system could readily be adjusted to provide for two levels of heavy vehicle road user charge - rigid vehicles and articulated vehicles. This would allow a simple transition to an enhanced road use charging mechanism that has an increased proportion of the charges as variable, rather than the bluntness of fixed charges by vehicle class. Variable charges relating to use provides more direct signals to users about behaviour. This also facilitates better cost transfer to clients, thereby providing accurate signals to freight transport users in an efficient way.

### *Recommendation 2*

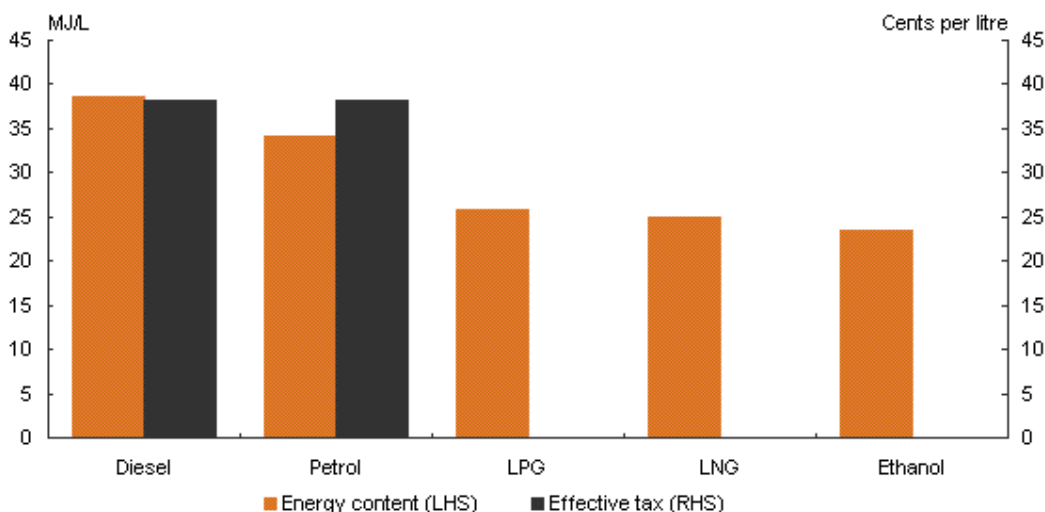
**Improving Australia's energy security will necessarily include increased use of alternative fuels and energy sources. These forms of energy can be catered for in the fuel excise scheme in a transparent and fair way, ensuring that on-road users pay road users charges and are treated appropriately in the tax system. Establishing relativity ratings based upon energy density for these forms of alternative energy in comparison with traditional fuels will allow the fuel excise to be adjusted accordingly. This will minimise the distortions between fuels and allow the market to choose. To ensure Australia's energy security, this model can also be transparently adjusted to provide a direct price incentive for fuels providing better energy security.**

Currently in Australia, diesel fuel is the primary fuel in transport, mining and agriculture. The next most viable replacement fuel for diesel is generally accepted as being natural gas; in particular liquid natural gas (LNG). Using this fuel allows truck payloads to be at a similar level to diesel powered trucks, as LNG on-truck storage has a suitable mass density. It also allows high internal combustion chamber compression ratios to be maintained in the engines using this fuel, thereby providing a similar outcome to the inherent high internal efficiency of diesel engines. Such efficiencies are helpful in on road tasks, especially where long distance transport chains are involved, as is common in Australia. The modern diesel engine is far removed from the historic reputation of being smoky and dirty engines. Diesels, because of their internal efficiency are good energy converters and they are now clean.

Diesel fuel can come from traditional sources or alternative sources such as bio sources. Bio sources have their own challenges and unless significant breakthroughs occur in second generation bio fuel production, such as using non food chain bio feed products and alternative production methods, the substitution rate for bio diesel over diesel is likely to remain small. Gas to liquid and coal to liquid also offer potential sources of diesel or LNG like fuels. Liquid Petroleum Gas (LPG) will be used in some short haul applications as will compressed natural gas (CNG). All of these fuels can be compared by looking a relative energy density, in other words, the quantity of energy by volume (or mass), and having this compared to the traditional diesel fuel.

Accordingly, when looking to cost effectively collect the road user charge, the simple and robust fuel excise scheme is very attractive. For both purposes all of these alternative fuels can be catered for to provide transparency and accountability, using simple relative data. For example:

Table 1 - Energy Content Diesel Petrol LPG LNG and Ethanol



Source: Australia's Future Tax System (2008)  
 Originally: ABARE (2008) and Australian Treasury (2008)  
 Australian Bureau of Agricultural and Resource Economics 2008, Energy in Australia 2008, Canberra.  
 Australian Treasury 2008, Architecture of Australia's Tax and Transfer System, Australian Treasury, Canberra.

Australia has large resources of natural gas, and due to capital investment, an increasing ability to draw transport fuel from these resources. In particular, Australia's natural gas can be utilised to provide LNG, CNG and LPG. From an energy security view point, there appears to be merit in providing at least some advantage to using these fuels, and to promote the capital investment in supply and distribution infrastructure. Again, our model allows for these matters to be addressed, as the Government wishes, using the fuel excise system.

One of the challenges with stronger linkages between charges to use is that rural, remote and other transport dependent communities may be disadvantaged. If this was deemed to be a significant problem it could be addressed with different policy tools, or accounted for in the fuel excise model with a differential rebate rate.

*Recommendation 3*

**The efficient regulation of road transport is in the nation's interest. This includes fuel and energy related regulation that promotes efficient fuel and energy use by consumers and service providers. The policies and regulations around fuel and energy should not be used to direct modal share as it would cause distortions and introduce market inefficiencies that adversely affects business and community.**

The Council of Australian Governments (COAG) recently supported a move to national regulations and a single national regulator for road transport, recognising the importance of efficient regulation for road transport. This model will include a centralised national registration system of heavy vehicles. This provides many opportunities for the future. The ATA strongly supports these initiatives. The ATA also supports the development of an efficient rail system as road and rail are companion modes, not competitive modes. Modal choice is not just about pricing, but also about service, timeliness, flexibility and reliability. What is needed is the right model for each mode to promote efficiency within each mode. We therefore do not accept that road transport should face distortions in market or charging systems in order to support a particular mode. Likewise we do not accept the need to achieve impossible levels of precision in tracking mass, distance, and location

of trucks, as it is neither necessary nor efficient. The current level of knowledge about the road network does not allow anyone to relate road use to actual wear in any particular location.

In the proposals for mass, distance and location pricing the supply side disconnect is not addressed at all. The primary problem remains that there is no mechanism that provides incentive to road asset managers to allow the road network to be used to its true capacity. In fact the incentive is to protect the asset, as almost all funding comes from budget bidding processes, not tied transparent mechanisms. Local Government especially have a difficult time in maintaining a regular stream of funds for maintenance. The 'PayGo' cost recovery model provides a mechanism for looking at recent road expenditure and determining a fair share of that amount which should be allocated to trucks. Our alternative FBC model provides the most efficient collection mechanism to allow the determined amount to be recovered. It also minimises distortions by relating use to charge amount.

#### *Recommendation 4*

**As a national industry our preference is for simple, single point dealings, not multiple, overlapping or inconsistent points of contact for accounting and reporting. For example, the upstream acquittal of carbon impacts by fuel suppliers, rather than down stream accounting by individual users.**

Trucking is a national industry that must operate efficiently and effectively. A centralised national registration system provides opportunities to pay a common base line charge for all heavy vehicles in effect, a national road access charge. This will represent a cost recovery charge for all trucks and trailers. This charge can be set to recover the trucking industries share of 'common costs'. Common costs are costs that relate to all motor vehicles users, not just trucks. These costs are largely fixed so a fixed charge is appropriate and it should be similar to that imposed on light motor vehicles. In our view these charges largely relate to general access vehicles. General access heavy vehicles are those that enjoy access to the whole road system. Larger trucks such as B-doubles and road trains have limited access to the network. However, we believe that paying a baseline fixed charge remains fair, as it is simple and it offsets the administration costs in managing restricted networks.

#### *Recommendation 5*

**Currently there are few infrastructure supply side incentives to facilitate safe and efficient provision and maintenance of roads. We propose a more efficient revenue collection mechanism for cost recovery of road use. Coupled with this is a more transparent and incentive related road supply investment framework that seeks to positively influence fuel and energy use through market forces. We have termed this road use related mechanism "Fuel Based Charges" (FBC)**

The Australian Government's Nation Building program provides a high level planning framework for infrastructure investment decisions, and some support for rectification of high profile 'blackspots'. However, it does not provide a funding stream for routine maintenance associated with truck use, or any funding incentives for asset managers to upgrade roads to allow enhanced heavy vehicle access. This is especially critical for local government, who operate the lowest grade roads and do not receive guaranteed direct road funding. First and last mile access restrictions for trucks on local government roads currently result in large inefficiencies, as no access for 250 metre of council road for larger trucks can require a trip of several thousand kilometres to be done by two or more smaller vehicles. Currently, road asset managers largely need to bid for monies in an environments where non-road related matters may assume higher priority.



The ATA FBC model:

- ❖ takes the 'PayGo' model for determining the quantum to be recovered from trucks
- ❖ applies a simple, robust, cost effective recovery tool using a use-related charge based in the fuel excise system and a base line fixed charge, and
- ❖ distributes the resulting revenue to road asset managers through a transparent and logical disbursement system, which provides incentives and accurate signals to drive the road supply providers.
  - The rule for distribution supports efficient network use and promotes access for safer higher productivity vehicles, while ensuring efficiency of government spending.

Our submission to the Taxation Review will provide further details of the ATA FBC model, and details how all road asset managers would receive a stream of funds for maintaining roads focused on those utilised by trucks. Further, the ATA model specifically provides a truck network development fund for upgrading and expanding truck related access. Access limitations are currently stalling productivity and safety gains that could be realised from the existing freight transport fleet, thereby preventing the community's transport tasks from being conducted in the safest and most efficient way. The ATA supports using modular combinations based upon using existing vehicles to maximise flexibility, and thereby efficiency. The combinations also provide safety benefits due to inherent roll stability enhancements and reduced exposure risks for, the same task, as less trucks will be used.

A copy of the ATA model will be provide to the committee during its Canberra hearings in order to give the committee the opportunity to ask the ATA questions.

## 6 Other Matters

Governments have various Austroads working groups developing future charging mechanisms. We are aware that some of these are conducting research to develop cost relationships for road wear. Industry requests to be involved in this work have been ignored. We are aware that one of these groups attempted to put forward a policy that limited any new innovative combination vehicles to axle loading limits less than the average of existing loadings. This policy would result immediate inefficiencies for any new combinations, but also in declining industry efficiency overtime.

Secondly, we are aware of a briefing to Treasury about future charging options that include cost curves being based upon a report that was quoted, in good faith, by the presenter. Inquiries by the ATA to the relevant Austroads working group chair revealed the report to be an un-published working draft. The ATA's request for a copy of the draft report was denied. The report suggested major fundamental changes to the way road wear should be costed and adopted impact formulas which escalate costs on a exponential we believe cannot be justified. The ATA has seen a hard copy of the draft report and there were no markings to suggest the report was a draft or work in progress.

These two incidents, and the "behind closed doors" activities of the Austroads working groups recommending changes to road transport charging mechanisms, not only gives us concern but requires us to record with this committee and others our concern about the potential quality due to the lack of consultation and absence of peer review. We are very concerned that such untested research may be used to influence such important government policy.

Please note the National Transport Commission is not cast with the same shadow as Austroads.