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MEMBER OF



Mr Michael Brennan
Chair, Productivity Commission
GPO Box 1428
Canberra City ACT 2601
Productivity.inquiry@pc.gov.au

23 March 2022

Dear Mr Brennan

Please find attached a submission from the Australian Automobile Association (AAA) on the Productivity Commission's Inquiry into Australia's productivity performance.

Australia's road transport system enables the movement of people and freight across the nation from remote and regional towns through to inner city areas. Collectively, their local economies and communities contribute to Australia's overall economic performance through industry, tourism and household spending.

The AAA believes that to enable this movement, a safe and sustainably funded road transport system is required, particularly in response to shifts towards low emission vehicles that will require new infrastructure and urgent reform of motoring taxes.

To avoid a future underfunded and outdated road transport system that inhibits economic productivity, the Australian Government must support a technology transition for light vehicles via an integrated plan that addresses several interrelated issues:

- Motoring taxation reform
- Fuel quality standards
- Noxious emissions and consumer information
- Electric vehicles, supporting infrastructure and grid readiness
- Energy security (including liquid fuel security)
- Greenhouse gas emissions.

Should you wish to further discuss this submission, my office can be contacted on 02 6247 7311.

Yours sincerely

Michael Bradley
Managing Director



AAA Submission to the Productivity Commission's Inquiry into Australia's productivity performance

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OVERVIEW

The Australian Automobile Association (AAA) welcomes the opportunity to provide comment on the Productivity Commission's Inquiry into Australia's productivity performance.

The AAA is the peak organisation for Australia's motoring clubs and their 8.7 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.

Australia's road transport network enables the movement of people and freight in approximately 20 million registered vehicles travelling a combined 238,499 million km.¹ This movement of people and freight covers access to remote and regional towns, suburbia and inner-city areas, each with their local economies and communities contributing to Australia's overall economic performance through industry, tourism and household spending.

Building, and maintaining a safe and efficient transport system to enable this movement of people and freight is central to Australia's economy. Sustainably funding this system is an essential element, as is eliminating the harm that occurs daily across the road network. Road trauma in Australia results in approximately 1,200 deaths, 40,000 serious injuries and an economic cost of \$30 billion per annum.²

The road transport system is heavily reliant on liquid fuels given the current dominance of petrol and diesel-powered vehicles in the market. The sale of these fuels will provide the Australian Government with a net revenue of \$13,440 million from fuel excise according to Forward Estimates for 2022-23.³ Vehicles with alternative powertrains, such as electric and hydrogen, do not currently contribute to this revenue stream for the Australian Government.

In addition to liquid fuels for transport, there is also an emerging need to provide the necessary energy supplies and infrastructure for ultra-low fuel consumption vehicles, including electric vehicles (EVs), as technology increasingly transitions away from internal combustion engines in the decade ahead. These infrastructure needs will require investment, at the same time as increasing numbers of EV sales accelerate the decline in fuel excise revenue. This adds weight to the importance of taking a holistic national approach to reforming motoring taxation.

¹ <https://www.abs.gov.au/statistics/industry/tourism-and-transport/survey-motor-vehicle-use-australia/latest-release> Data as of 30 June 2020, accessed 28 February 2022.

² <https://www.roadsafety.gov.au/sites/default/files/documents/National-Road-Safety-Strategy-2021-30.pdf> page 6, accessed 28 February 2022.

³ https://budget.gov.au/2021-22/content/bp1/download/bp1_bs5.pdf page 148 table 5.7, and https://budget.gov.au/2021-22/content/bp1/download/bp1_bs6.pdf table 6.12, accessed 28 February 2022.



With the above in mind, the AAA believes the Productivity Commission's inquiry should include in its final report the following transport-related recommendations:

- Reform motoring taxation, with a system that is technology neutral, nationally consistent and independent of energy sources, to build a sustainable revenue model to fund land transport infrastructure into the future
- The Australian Government re-invests 100% of fuel excise into land transport infrastructure to improve road safety outcomes and support economic growth by delivering a better transport network
- The Australian Government adopts a road safety leadership role and leverages Commonwealth land transport funding to incentivise improved road safety outcomes and reduce the cost of road trauma
- The Australian Government implements a real-world vehicle emissions test program to improve consumer information regarding vehicle fuel consumption and emissions performance, which will save motorists and businesses money, while also helping the environment
- The Australian Government supports a technology transition for light vehicles by developing an integrated plan that addresses each of the interrelated issues:
 - Motoring taxation
 - Fuel quality standards
 - Noxious emissions and consumer information
 - Electric vehicles, supporting infrastructure and grid readiness
 - Energy security (including liquid fuel security)
 - Greenhouse gas emissions.

1. REFORM MOTORING TAXATION TO ENSURE SUSTAINABLE FUNDING FOR THE LAND TRANSPORT NETWORK

Australian motorists pay fuel excise of 44.2⁴ cents per litre and the Australian Government collects more than \$13 billion per year in net revenue from fuel excise. Reduced fuel consumption of newer vehicles and a shift to alternative energy sources including electricity is reducing the revenue available for re-investment in the land transport network.

Electric vehicles are not subject to a usage-based tax. As the take-up of electric vehicles accelerates, the revenue problem will become more urgent and acute.

The Productivity Commission's last 5 year productivity review report – *Shifting the Dial* - noted "(i)t is projected that road-related revenues will fall in real terms relative to demand for road services....In particular, fuel tax revenues have declined and are projected to continue to fall in real terms..."⁵

The Report recommended "hypothecating road-related fees and charges to roads expenditure so that charges paid by drivers for using roads are linked to spending on roads."⁶

⁴ Subject to indexation in February and August each year

⁵ Productivity Commission (3 August 2017) *Inquiry Report No. 84 Shifting the Dial: 5 year productivity review*, page 138.

⁶ Productivity Commission (3 August 2017) *Inquiry Report No. 84 Shifting the Dial: 5 year productivity review*, page 141.

Five years on and while some states have implemented a road user charge for zero and low emission vehicles (or have committed to doing so in the future),⁷ Australia is yet to implement a nation-wide reform of this nature.

The AAA wants the Australian Government to lead the reform of motoring taxation and build a sustainable revenue model to fund land transport infrastructure into the future. This model needs to be nationally consistent, technology-neutral and independent of the energy sources used in the transport fleet. The AAA advocates the introduction of a distance-based charge to replace fuel excise, and ultimately to apply to all light vehicles. The first step in this reform is to bring into the road use tax system those vehicles that are currently outside this system, and then subsequently apply tax reform across the wider light vehicle fleet.

The immediate focus is on bringing ultra-low fuel consumption vehicles (ULFCVs)⁸ into Australia's road user charging system by introducing a framework that applies a distance-based charge, but at an initial rate that does not disincentivise the uptake of such vehicles. It is important to do this while ULFCVs remain a small minority of the vehicle fleet, as applying a new tax to a larger cohort will be much more politically challenging.

Revenue from the road user charge should be hypothecated directly to a land transport infrastructure fund.

The reform of motoring taxes should also take the opportunity to streamline and simplify the system, abolishing myriad separate, inefficient taxes such as the luxury car tax, import tariffs, vehicle registration and motor vehicle stamp duty. These multiple taxes create administrative cost burdens that can be replaced with a single tax to be collected more efficiently.

Collecting sufficient revenue whilst addressing equity and social justice issues and considerations of the sectors of the community that are least able to pay, as well as the holistic impact of road use and managing demand are all important considerations for motoring taxation reform.

The AAA understands that a rigorous cost-benefit analysis of the social, economic, and environmental impacts of any potential road user charge will need to be undertaken before implementing changes.

2. LAND TRANSPORT INFRASTRUCTURE INVESTMENT

Building and maintaining a safe and efficient transport system will continue to be central to Australia's economic performance. Motorists continue to pay their own way with Australians to contribute on average \$1,028 per household in fuel excise over the 2021-22 financial year.⁹

⁷ Victoria has implemented a road-user charge for Victorian registered zero and low emission vehicles. New South Wales and South Australia has committed to implementing a similar road-user charge in the future.

⁸ Ultra-low fuel consumption vehicles are those that have a manufacturer-rated 'combined' consumption of excisable liquid fuel of less than 2 litres per 100 km. This definition is technology-agnostic.

⁹ Vehicle ownership cost calculations by the AAA, 2021.

The Commission's *Shifting the Dial* Report noted "(t)he indirect nature of raising revenue for roads means that there is no guarantee that investments are being made in areas that will provide the greatest value to road users. This is compounded by incomplete data, particularly at the Local Government level."¹⁰

These issues around investment and allocation of transport infrastructure remain today and must be addressed if Australia is to improve the productivity of our transport system.

Improving the land transport system relates not just to road transport, but to all components of the system including public and active transport. These modes are integral elements of a safe, efficient, sustainable and integrated transport system and will continue to play an important role in Australia's future productivity.

Investment of 100% of net fuel excise into land transport infrastructure

Australian motorists pay fuel excise of 44.2 cents per litre¹¹ and the Australian Government collects more than \$13 billion per year in net revenue from fuel excise from motorists, heavy and commercial vehicles. Fuels used for purposes other than road transport, such as mining and agriculture, are not subject to fuel excise.

As fuel excise is a "user pays" system, or a road user charge, the AAA wants 100% of excise revenue from road transport re-invested into Australia's land transport network. In the 2021-22 federal budget, over the forward estimates, 93 per cent of net fuel excise will be spent on land transport infrastructure.¹² Land transport is an essential enabler of Australia's economic growth and pandemic recovery, and this level of investment needs to be increased and maintained at 100% of net fuel excise.

Keep safety at the heart of transport infrastructure

While we have seen important announcements regarding safety-specific infrastructure funds, it remains vital that the Commonwealth insists on safety benefits being a key criterion in the selection of all infrastructure projects for investment.

Enhanced transparency of road project proposals - which demonstrate safety benefits that have been quantified by agreed objective standards – will save lives.

3. ROAD SAFETY LEADERSHIP

In line with recommendations of several recent inquiries and reviews, the AAA wants the Commonwealth to urgently define its road safety leadership role.

Road crashes kill approximately 1,200 and seriously injure 40,000 people every year and are estimated to cost the Australian economy \$30 billion per annum.¹³ These deaths and injuries are preventable and more needs to be done to keep Australians safe on our roads.

¹⁰ Productivity Commission (3 August 2017) *Inquiry Report No. 84 Shifting the Dial: 5 year productivity review*, page 134 [Inquiry Report - Shifting the Dial: 5 year productivity review - Productivity Review \(pc.gov.au\)](#)

¹¹ Subject to indexation in February and August each year

¹² https://budget.gov.au/2021-22/content/bp1/download/bp1_bs5.pdf page 148 table 5.7, and https://budget.gov.au/2021-22/content/bp1/download/bp1_bs6.pdf table 6.12, Statements 5 and 6, calculated from Budget information, accessed 28 February 2022.

¹³ National Road Safety Strategy 2021-2030, <https://www.roadsafety.gov.au/sites/default/files/documents/National-Road-Safety-Strategy-2021-30.pdf>, page 6, accessed 4 March 2022

Many of the actions in road safety are the responsibility of state and territory authorities. This includes vehicle registration and roadworthiness, driver licensing, road rules and enforcement, road maintenance, emergency services, hospitals, and treatment of crash victims.

The AAA believes the Commonwealth urgently needs to build transparency and accountability into Australia's road safety management system. It is not credible that in 2022, COVID data is published daily regarding infection numbers, vaccination rates, and the gender, age, and location of hospitalisations, yet data failings prevent us from knowing how many Australians are injured in car crashes each year. Improved and more timely information on road trauma would allow more effective outcomes from the investments in interventions.

The 2021 Budget papers showed the Commonwealth will allocate \$38 billion to state governments for road infrastructure over the coming four years.¹⁴

The AAA wants this considerable funding leveraged to incentivise jurisdictions to harmonise and share road safety data reporting, which is critical to assessing progress, and improving practices.

The Commonwealth should adopt a leadership role, setting clear targets, assigning responsibilities, measuring results, and reporting on progress at a national level. This helps monitor delivery of actions by state and territory authorities, as well as report on the effectiveness of the actions and identify road safety gaps in need of targeted action in a timely manner.

Link Commonwealth land transport infrastructure funding to the provision of road safety data by state and territory authorities

In the 2020-21 federal budget announced in October 2020, the Government established the \$2 billion Road Safety Program that required states and territories to provide road safety data as a key condition of funding. The Road Safety Program was subsequently increased to \$3 billion.¹⁵

This model of funding signifies a major step forward for road safety in Australia and establishes a significant new role for the Commonwealth in road safety data collection and reporting. It has the potential to deliver a clearer understanding of the risk profile of our land transport network in its entirety. Consistent data reporting will also enable the Commonwealth to hold all jurisdictions to account for road trauma reduction targets, facilitating a clear leadership role in road safety for the Commonwealth.

To enhance safety and reduce the impact of road trauma on the health budget, the principles of the Road Safety Program should be extended to all federally funded land transport infrastructure programs.

The AAA wants the Australian Government to commit to annually increasing the proportion of land transport funding allocated to state governments with road safety reporting conditions attached.

¹⁴ https://budget.gov.au/2021-22/content/bp1/download/bp1_bs6.pdf_page_186, table 6.15, accessed 1 March 2022.

¹⁵ <https://www.officeofroadsafety.gov.au/programs>, accessed 1 March 2022.

4. REAL-WORLD EMISSIONS TESTING

Australian motorists and fleet managers need more accurate information regarding vehicle emissions and fuel consumption.

The limitations of laboratory testing for vehicle emissions and fuel consumption are well-known and were exemplified by the Volkswagen scandal of 2015. This has been further demonstrated more recently by the ruling from the Supreme Court of Victoria against Mitsubishi, which upheld the finding that the figures published on a Mitsubishi Triton's government-mandated laboratory-based fuel consumption label were "misleading and deceptive".¹⁶

Emissions policy and a CO2 standard must be supported by a real-world vehicle emissions test program in Australia to provide independent information to consumers and ensure benefits in the lab translate into benefits in the real world. The benefits of a real-world vehicle emissions test program are not contingent on the adoption of noxious emissions or CO2 standards.

The AAA wants the Government to fund the operation of an independent real-world vehicle emission test program at the rate of \$3.5M per annum. This would not need to be a regulatory system underpinned by legislation. The testing should be based on the existing real driving emissions test procedure in international noxious emissions regulation.

Measuring the emissions performance and fuel consumption of new vehicles in real-world conditions and publishing the results will enable private and fleet vehicle buyers to make vehicle purchasing decisions based on more realistic and reliable information.

Over time, as manufacturers respond, such a program can reduce the divergence between laboratory and real-world performance and inform future emissions policy development based on real-world data.

To illustrate the potential cost savings to fleets by having access to more accurate fuel consumption data when selecting vehicles, a pilot test of 30 vehicles commissioned by the AAA in 2017 found in real-world testing "on average, the cars (*excluding plugin hybrids) we tested in the real world used 23% more fuel than in their lab tests. The vehicle which produced the worst result was 59% above the lab test. Only three cars used the same amount of fuel on the road as they did in the lab."¹⁷

Further, the testing found the discrepancy between official laboratory fuel consumption results and those under real-world test conditions was greater in those vehicles meeting the most recent Euro 6 emissions requirements compared to those with Euro 4 or 5 compliance.¹⁸

Vehicle buyers motivated by reduced fuel consumption and fuel costs, or by reducing emissions, would be able to get better information than that currently provided by mandatory laboratory testing.

¹⁶ <http://www.austlii.edu.au/cgi-bin/viewdoc/au/cases/vic/VCAT/2019/772.html> and <https://hwlebsworth.com.au/wp-content/uploads/2021/05/Mitsubishi-Motors-Australia-Ltd-v-Begovic-2021-VSC-252-2.pdf> accessed 1 March 2022.

¹⁷ <https://www.aaa.asn.au/get-involved/realworld/> accessed 2 March 2022.

¹⁸ <https://www.aaa.asn.au/wp-content/uploads/2018/03/Real-World-Driving-Emissions-Test-Summary-Report.pdf> page 9.

5. TECHNOLOGY TRANSITION

The AAA calls on the Australian Government to develop an integrated plan for technology transition for light vehicles that deals with inter-related issues:

- Motoring taxation
- Fuel quality standards
- Noxious emissions and consumer information
- Electric vehicles, supporting infrastructure and grid readiness
- Energy security (including liquid fuel security)
- Greenhouse gas emissions.

Australia's light vehicle fleet is undergoing a technology transition to alternative energy sources and to ultra-low fuel consumption vehicles that reduce transport emissions. This transition needs to be supported and managed to ensure it is successful, sustainable, and delivered at least cost to consumers. Inaction or actions that do not consider inter-related issues risk delivering poor outcomes for Australians.

Introduce an economy-wide emissions trading scheme

The AAA has since 2007 supported the introduction of an economy-wide emissions trading scheme as the most economically efficient mechanism to reduce greenhouse gas emissions. The AAA has advocated that this policy response will allow the market to determine which sectors of the economy are best able to make emissions reductions and at least cost.

Adopt a technology-neutral approach to vehicle technology transition

For the transport sector, the AAA advocates a technology-neutral, market-based approach (see below section discussing CO2 standards) to vehicle technology transition that provides flexibility for vehicle manufacturers and choice for consumers.

The AAA strongly believes Australia needs a whole-of-government approach with an integrated package of policy measures that addresses all the various inter-related issues relating to reducing vehicle emissions, including diversification of energy sources, energy security, fuel quality, tax revenue impacts, and noxious emissions.

Introduce a CO2 Standard, improved fuel quality standards and Euro 6 noxious emissions standards

New vehicle models with improved fuel consumption, lower tailpipe emissions, and those utilising alternative energy sources are not currently being prioritised for the Australian market.

A CO2 standard designed for the Australian market, along with improved fuel quality standards to facilitate the introduction of the current international noxious emission regulation (Euro 6), would provide an incentive for vehicle manufacturers to offer models with the latest engine technologies that are more fuel efficient and produce less tailpipe emissions.

The AAA wants the Australian Government to introduce a CO2 standard for new light vehicles that achieves genuine environmental benefits while recognising Australian motorists' unique needs and preferences. This standard must be implemented as part of a package of measures also addressing noxious emissions (Euro 6 standards), fuel quality and improved consumer information through independent real-world emissions testing.

Australia's CO2 standard must be:

- Designed specifically for the Australian light vehicle fleet
- Introduced at the earliest opportunity with targets specified over a timeframe and in a manner that avoids restriction of vehicle choice and disproportionate costs to consumers
- Flexible, with options available to manufacturers in achieving targets
- Reviewed during its operation to ensure chosen targets remain appropriate.

Australia's new light vehicle importers have introduced a voluntary CO2 standard for Australian new light vehicles which is coordinated by the Federal Chamber of Automotive Industries (FCAI). This industry-initiated voluntary standard and knowledge gained from international experience should be the starting point for the Government in developing a mandatory CO2 standard designed for the Australian market.

Support and manage the take-up of electric vehicles

Electric vehicles will be an important part of vehicle technology transition, and government must support and manage their take-up. This includes through the provision of recharging infrastructure.

Infrastructure is a key enabler for new vehicle technologies and the AAA advocates for a holistic approach to ensure Australia's successful transition to new technology and greener mobility.

For electric vehicle recharging infrastructure, this requires national coordination and management of infrastructure rollout and electricity grid readiness to deliver an integrated network of recharging solutions. This must provide consumers with confidence that reliable recharging options are available to them.

The AAA wants the Australian Government to:

- pursue interoperability initiatives with EV recharging stations, encouraging convergence of recharging plug standards, ensuring open access to all recharging infrastructure, and single identification/payment methods (to ensure recharging compatibility across all EVs and maximise the availability of recharging stations)
- establish an intergovernmental working group to develop a national plan for the rollout of recharging infrastructure and work with energy suppliers to support a coordinated roll-out of infrastructure in locations where it is needed, and manage network capacity issues
- support consumers to adopt technology that will ease congestion on the electricity grid by offering financial incentives or subsidies for technologies that offer network benefits, such as smart EV recharging
- work with states and territories to streamline building approvals for EV recharging infrastructure to ensure easy installation of home recharging in apartments and in rental homes, as well as in car parks and other public locations
- support 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
- offer financial support for operators to overcome technical and commercial barriers facing EV recharging infrastructure, such as co-investment in network augmentation and other grid-readiness upgrades.

Deliver Energy Security as part of a package of technology transition measures that minimises cost to consumers

Essential services, such as the supply of food, medicines, emergency services, medical treatment, and defence, depend on transport to be able to deliver their benefits to the Australian community. The risk of disruption or interruption to the supply of energy sources required to maintain the delivery of these services needs to be appropriately managed.

There are several energy security policy options available for the land transport sector including greater domestic self-sufficiency for the production of liquid fuels, increased stockholding of fuels/energy, diversification of energy sources, alternative fuels and reducing fuel/energy consumption of vehicles. Each of these has an associated cost and offers different benefits and risks.

The AAA wants the Government to develop an energy security plan that considers all the available policy options and optimises each to maximise energy security benefits as part of a package of technology transition measures that minimises costs to consumers. This includes introducing a CO2 standard for new light vehicles as part of this plan.

In addition to offering environmental benefits, a CO2 standard designed for the Australian market (as outlined above) offers benefits to energy security by reducing fuel consumption of new vehicles, as well as encouraging diversification of energy sources in new vehicles. A CO2 standard for new vehicles will help reduce our dependence on imported liquid fuels.