HEAVY VEHICLE CHARGES CONSULTATION REPORT 2023-24 TO 2025-26

AUSTRALIAN TRUCKING ASSOCIATION SUBMISSION 20 FEBRUARY 2023

1. About the Australian Trucking Association

The Australian Trucking Association is a united voice for our members on trucking issues of national importance. Together, we represent the 59,000 businesses and 200,000 people who make up the Australian trucking industry.

2. Summary

In December 2022, Australia's transport ministers agreed to move to a three year pricing period for heavy vehicle charges[1] with the strong support of the ATA.[2]

The National Transport Commission followed up with a consultation report examining—

> Option 1: increasing the roads component of heavy vehicle registration charges and the road user charge on fuel by six per cent per year for three years from 2023-24 to 2025-26, or 19 per cent in total. The road user charge would increase from 27.2 cents per litre to 32.4 cents per litre.
>
> Option 2: increasing the roads component of heavy vehicle registration charges and the road user charge by 10 per cent per year for three years, or 33 per cent in total. The road user charge would increase from 27.2 cents per litre to 36.2 cents per litre. [3]

This submission argues that ministers should not accept either option (page 5). They should instead **freeze heavy vehicle charges in 2023-24 and increase them by 2.75 per cent in each of 2024-25 and 2025-26** (page 6).

The submission recommends the introduction of a **lower remote area road user charge** set at half the national road user charge rate (page 8). This would save remote area trucking operators an **extra 13.6 cents per litre.**

The submission makes **two implementation recommendations** (pages 8-9) and argues that **the new forward looking cost base should take effect from 2026-27** (page 10).

The decision about charges for 2023-24 to 2025-26 should be the last decision made under the PAYGO model.

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[1] Infrastructure and Transport Ministers' Meeting (ITMM). Communique. 9 December 2022.
[2] Australian Trucking Association (ATA). Heavy vehicle charges for 2023-24 and beyond. 12 October 2022.
[3] National Transport Commission (NTC). Heavy vehicle charges consultation report. December 2022. 5, 19.

We do not support either option put forward by the NTC

The ATA does not support either option put forward by the NTC, because—

- both options are based on the premise that the calculated revenue from heavy vehicle charges is well below the heavy vehicle cost base. But the cost base is no longer a meaningful measure of the efficient cost of providing the road infrastructure used by heavy vehicles

- the options do not take into account the ability of trucking businesses to pay, and pass on, large increases in the road user and registration charges

- the large increases proposed by the NTC would be especially problematic for trucking businesses serving remote communities. These businesses, and the communities they serve, have difficulty paying the existing high price of diesel and current taxes and charges. They cannot pay more.

The existing cost base is meaningless

There is extensive information available that shows the existing heavy vehicle cost base is meaningless.

It uses state governments' road expenditure figures without audit or appraisal, despite the industry's long held concerns.[4]

The spending included in the cost base is entirely driven by governments' budget decisions. There is no direct and systematic link to the needs of the industry[5] or broader transport policy priorities, such as increasing productivity.

Under the current system, new projects are prioritised over road maintenance spending. There is no funding certainty for road authorities to make optimal lifecycle decisions,[6] which will become more and more important as Australia's climate changes.

We acknowledge and appreciate the priority that many road managers have placed on repairing flood damaged roads, but Australia needs a systematic approach to building, maintaining and funding resilient infrastructure so there is less need for emergency measures.

The cost base includes stimulus expenditure designed to support economic growth in the face of challenging conditions.[7] No attempt has been made to separate out this expenditure, which is properly a cost that should be borne by the whole community.

The cost base is also inflated by poor project estimation and delivery.

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[4] NTC, Heavy vehicle charges determination: consultation regulation impact statement. June 2021, 32.
[5] Productivity Commission, Shifting the dial: 5 year productivity review. Inquiry report no 84, August 2017. 136.
[6] Deloitte Access Economics. Economic analysis of potential end-states for the heavy vehicle road reform. June 2017. vii.
[7] NTC, Options for setting heavy vehicle charges for 2023-24 and beyond. September 2022, 21.

From 2001 to 2015, governments spent $28 billion more on transport infrastructure projects than originally announced. The main cause of the cost overruns was found to be premature announcements ahead of proper planning and assessment.[8]

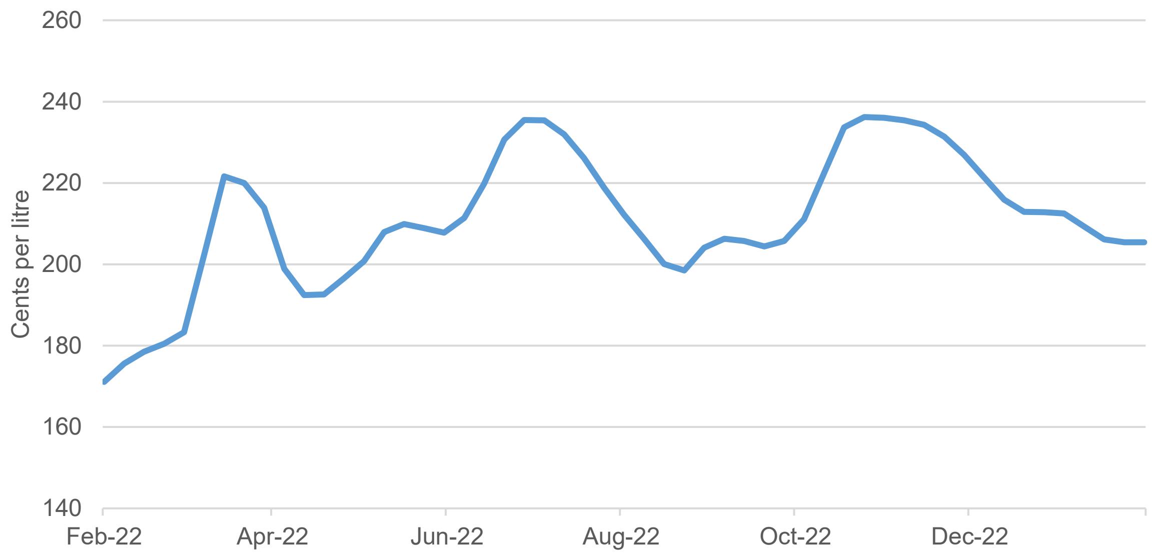
There is no case for increasing heavy vehicle charges dramatically in pursuit of a number that is, essentially, meaningless. Instead, governments should focus on expediting the move to the new charging system (pages 9-10).

Trucking businesses cannot afford to pay large charge increases

Trucking is an industry of small businesses. In June 2022, almost 58,000 of the industry's 59,100 businesses had fewer than twenty employees. 31,600 trucking businesses had no employees at all.[9]

Trucking businesses continue to face extremely high fuel costs. As figure 1 shows, the national average weekly retail diesel price was 205.4 cents per litre in the week ending 5 February 2023. Although the national average price in February was lower than its peak in the week ending 30 October 2022, it was still markedly higher than the diesel price a year earlier.

Figure 1: National average weekly retail diesel price (inc GST)



Source: AIP

The industry works on tight margins. Previous research by ANZ put the industry's median profit margin at just over two per cent, with the bottom quartile of the industry either experiencing negative, flat, or very tight profit margins.[10]

[8] Terrell, M. Cost overruns in transport infrastructure. Grattan Institute, October 2016. 3.
[9] ABS, Counts of Australian businesses, including entries and exits, June 2022, data cube 2. Accessed 8 February 2023.
[10] ANZ Bank, Research provided to ATA, 2017 and 2018.

Trucking businesses have a limited ability to pass on increases in charges. ATA survey research shows that—

- only 34 per cent of trucking businesses can pass on increased fuel costs (including as a result of changes in fuel tax credits)
- businesses that can raise their charges are rarely able to increase them by more than CPI. [11]

Businesses serving remote communities cannot afford their charges now

Businesses serving remote communities cannot afford the fuel prices and charges that they pay now. They do not receive value for the charges they pay, for the quality of roads in remote Australia is extremely poor. Figure 2, which shows the road to Nhulunbuy, is an example.

Figure 2: Serving the Nhulunbuy community on the Central Arnhem Road

Source: NTRTA

The poor quality of remote roads leads to higher maintenance costs for trucking businesses, which pushes up the cost of freight even more. Businesses quoting on remote contracts commonly multiply their usual maintenance and tyre costs by 2.5 to get a workable estimate.

Transport operators in the Northern Territory report that repairs, maintenance and damage bills have doubled due to extreme corrugated road conditions. On the Tanami Road, operators struggle to keep equipment roadworthy and compliant. Operators increasingly report that repairs and damage bills are making the freight task unviable. [12]

[11] ATA, 2021-22 heavy vehicle charges consultation report. Submission to the NTC, March 2021. 4-5.
[12] Information provided by the NT Road Transport Association.

High fuel prices and charges are a major contributor to the high cost of food in remote communities, where the cost of freight can be as high as 20.4 per cent of sales.[13]

In its submission to the House of Representatives Indigenous Affairs Committee inquiry into food pricing and food security in remote Indigenous communities, the Northern Territory Council of Social Service (NTCOSS) noted that—

> A healthy food basket purchased from an NT Remote Store will require 34 per cent of the household income for a family of six (more than double the national household average of disposable income required for food and non-alcoholic beverage expenditure (13.9 per cent). In some remote communities, a healthy diet cost more than half the disposable income of a family on income support.[14]

The ATC/SCOTI principles require these social equity issues to be considered

The ATC/SCOTI guiding principles for national heavy vehicle road user prices require the goal of fully recovering allocated infrastructure costs to be balanced against administrative simplicity, efficiency and equity (for example, the impact on regional and remote communities/access).[15]

It would not be equitable to increase heavy vehicle charges by either six per cent or 10 per cent per year for the next three years. Many trucking businesses would have difficulty paying the charge increases; the increases would impact unfairly on remote Australia.

Recommendation 1

Governments should not agree to either the six per cent or the 10 per cent per year options examined in the consultation report.

The ATA's alternative approach

Setting charges for 2023-24

The continued high price of fuel is just one of the increased costs that trucking businesses have been expected to absorb, which also include the cost of inconsistent and poorly communicated state border closures, COVID-19 measures, purchasing COVID-19 related PPE and increased AdBlue costs.

The ATA's October 2022 charges submission sets out the impact of the previous government's six month fuel tax cut. From 1 April to 18 August 2022, some 2,000 heavy

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[13] House of Representatives Standing Committee on Indigenous Affairs, Report on food pricing and food security in remote Indigenous communities. November 2020. 21.
[14] Northern Territory Council of Social Service, NTCOSS submission to the inquiry into food pricing and food security in remote Indigenous communities. July 2020. 5.
[15] Cited in NTC, December 2022. 10.

on-road transport operators had to negotiate payment arrangements with the ATO because of this budget decision.[16]

In view of the high costs faced by trucking businesses and the lingering effects of the fuel tax cut, the ATA considers that charges should not increase in 2023-24.

Setting charges for 2024-25 and 2025-26

Page 4 of this submission points out that trucking businesses who can raise their charges are only rarely able to increase them by more than CPI.

The RBA's monetary policy target is to achieve an inflation rate of 2-3 per cent, on average, over time.[17]

It would seem reasonable, then, for governments to set the charge increases for 2024-25 and 2025-26 to 2.75 per cent, close to the top of this range.

Recommendation 2

Governments should adopt the following trajectory for heavy vehicle charges—

2023-24	**0 per cent**
2024-25	**2.75 per cent**
2025-26	**2.75 per cent**

A lower RUC for remote Australia

The modified trajectory set out in recommendation 2 would be a fairer charging solution for hard-pressed trucking businesses on narrow margins. It would not, however, be sufficient to address the social equity issues faced by remote operators and communities.

Accordingly, the ATA proposes that the *Fuel Tax Act* be amended to establish a remote area road user charge, which would be set legislatively at 50 per cent of the national road user charge.

Table 1 sets out the impact of the remote area road user charge proposal on the fuel tax credits received by businesses that operate trucks on public roads. **The proposal would save remote area trucking operators an extra 13.6 cents per litre on the cost of fuel.**

[16] ATA, October 2022. [24]-[25].
[17] Reserve Bank of Australia. Inflation target. Accessed 9 February 2023.

Table 1: Proposed road user charge and fuel tax credit rates, February 2023

Zone	Road user charge (cents per litre)	Fuel tax credits (cents per litre)
National	27.2	20.5
Remote	13.6	34.1

Eligibility for the remote area road user charge would be aligned to eligibility for the Services Australia remote area allowance, as illustrated in figure 3.

Figure 3: Proposed remote area road user charge zone[18]

Source: Productivity Commission

The cost of discounting the road user charge in remote areas should not be recovered from other heavy vehicle users through the PAYGO model. It should be treated in the same way as state government registration charge concessions. The cost of these concessions is borne by the governments that offer them.[19]

There is no constitutional impediment to setting the road user charge at different levels in different regions of Australia, despite s 51(ii) of the *Constitution*.[20] The road user charge is not a tax; it is a reduction in the fuel tax credits that businesses receive.[21]

The former Diesel and Alternative Fuel Grants and Energy Grants (Credits) schemes also worked on a zonal basis, at least for vehicles weighing more than 4.5 tonnes but less than

[18] Based on Productivity Commission, Remote area tax concessions and payments. Study report, figure 6.1, February 2020. 212.
[19] ATA, Heavy vehicle charges determination consultation RIS. Submission to the NTC, August 2021. 19.
[20] Section 51(ii) empowers the Commonwealth Parliament to make laws with respect to taxation, but so as not to discriminate between states or parts of states.
[21] *Fuel Tax Act 2006* (Cth) s 43-10(3).

20 tonnes. Many operators of these vehicles were not able to claim grants for journeys within metropolitan areas.[22]

Recommendation 3

The *Fuel Tax Act* should be amended to establish a remote area road user charge set at 50 per cent of the national road user charge rate.

Implementation issues

Locking the decision into the charging regulations and determinations

One of the goals of moving to a fixed three year pricing period is to provide industry with certainty about future heavy vehicle charges.

To achieve this goal, it is not sufficient for ministers to make a policy decision about future charge rates. The regulations and determinations that set the charges should be amended to include the rates for each year in the pricing period.

Recommendation 4

The NTC should amend the Heavy Vehicle Charges Model Law to specify the roads component of registration charges for 2023-24, 2024-25 and 2025-26.

The state level regulations implementing the Heavy Vehicle Charges Model Law should be amended accordingly.

The 2023 road user charge determination should set the road user charge rates for 2023-24, 2024-25 and 2025-26.

Removing the automatic adjustment of registration charges

Section 5 of the Heavy Vehicle Charges Model Law sets out a formula for determining registration charges if ministers cannot agree on an alternative decision.

The consultation report notes that the registration charges in the model law would increase 40.4 per cent in 2023-24 if the formula was triggered.[23]

The model law only has effect to the extent it is implemented by the states. As a result, the adjustment provision would, if triggered, create large interstate differences in heavy vehicle registration charges.

[22] *Diesel and Alternative Fuel Grants Act 1999* (Cth) s 10; *Energy Grants (Credits) Scheme Act 2003* (Cth) s 43. Both schemes exempted primary production related journeys from the metropolitan area restriction.
[23] NTC, December 2022, 5.

The adjustment provision is also inconsistent with the goal of setting charges with a fixed trajectory over a multi-year pricing period.

Recommendation 5

Section 5 should be removed from the Heavy Vehicle Charges Model Law.

Any state level regulatory provisions that implement s 5 of the model law should be repealed.

Priorities for the future

The ATA supports the broad intent and four pillars of Heavy Vehicle Road Reform, comprising—

- setting national service level standards for roads
- assessable expenditure planning and determining what costs are recoverable from heavy vehicles
- independent setting of heavy vehicle charges
- dedicated road funding, with revenue from road user charges to be returned to road infrastructure.[24]

However, governments have failed to back these reforms with a commitment to delivery. Failing to implement reforms has led to many of the issues with the current charging system.

Governments should expedite the delivery of Heavy Vehicle Road Reform to bring the new system into force from 2026-27. Governments should—

- implement service level standards on the national land transport network as a condition of Commonwealth funding. The standards should include truck rest areas, access, road safety and a requirement for ongoing road maintenance. At present, roads such as Great Eastern Highway in Western Australia are not being maintained to a safe standard, because the work is not keeping pace with the freight task required to meet mining and agricultural activities

- develop capital and operational expenditure plans for 2026-27 to 2028-29 for approval by an independent body

- introduce a national road user charging scheme for electric heavy vehicles, given the issues with inconsistent state-level schemes[25]

- as recommended by Farrier Swier, set the opening regulatory asset base to produce an initial annual revenue requirement consistent with heavy vehicle charge levels in

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[24] Department of Infrastructure, Transport, Regional Development and Communications. Heavy Vehicle Road Reform Consultation Paper. September 2020. 5.
[25] See ATA, 'Proposed submissions of the Australian Trucking Association', Submission in *Vanderstock & Anor v. The State of Victoria*, M61/2021, 4 October 2022, [33]-[40].

2025-26.[26] Charges would transition over time as the arbitrarily valued assets in the opening RAB were depreciated out and replaced by new, valued assets.

Recommendation 6

Governments should expedite Heavy Vehicle Road Reform to ensure that service level standards and the economic regulation of the new forward looking cost base can start in 2026-27.

The opening regulatory asset base should be set pragmatically to be consistent with 2025-26 heavy vehicle charge levels.

[26] Farrier Swire Consulting, Financial policy elements of developing a forward-looking cost base for heavy vehicle charging. Report prepared for the Department of Infrastructure and Regional Development, 2017. 63.