SUBMISSION

TO

SENATE SELECT COMMITTEE ON FUEL AND ENERGY

Prepared By:

The Royal Automobile Club of Queensland Limited

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Authorised:

Gary Fites, RACQ General Manager External Relations

RACQ submission to the Senate Select Committee on Fuel and Energy

1 Introduction

The RACQ welcomes the opportunity to submit evidence to the Senate Select Committee on Fuel and Energy and address the Committee's expanded terms of reference.

The RACQ represents 1.2 million motoring members and seeks to maintain the viability of motor vehicle transport on their behalf. The Club recognises the adverse effect of rapidly escalating fuel prices on motorists, particularly those from low-income households, and believes it is important to ensure that fuel markets operate competitively and fuel pricing margins are not excessive. RACQ acknowledges the adverse effects of greenhouse gas emissions and the importance of reducing the environmental impact of cars. The Club, however, stresses that this needs to consider the important contribution of cars to the lifestyles of our families, the connectivity of our communities, and the vitality of our economy.

2 Scope of the RACQ submission

The RACQ emphasis for this submission will be on the price and availability of fuel; the environmental impact of cars; and the sustainability of motoring.

3 Senate Select Committee on Fuel and Energy Terms of Reference

Term of Reference
a. the impact of higher fuel and energy prices on:
i. families,
ii. small business,
iii. rural and regional Australia,
iv. grocery prices, and
v. key industries, including but not limited to tourism and transport.

The Queensland Fuel Subsidy Scheme was abolished on 1 July 2009, so the Queensland Government has effectively increased the price of petrol and diesel by 9.2 cents a litre. This is despite calls by the RACQ, major industry groups and the general public, for the fuel subsidy to remain. Prior to the state budget, some 140,000 Queenslanders registered their support on RACQ's *Fight the Fuel Tax* e-petition, making it the largest petition in Queensland history.

The abolition of this tax rebate will increase motoring costs, particularly for outer-urban, rural and regional motorists. This is an unfortunate outcome of State and Federal governments using motorists as an easy source of consolidated revenue while failing to invest in the infrastructure required for safe and efficient travel.

Rather than imposing higher fuel taxes on families and businesses, the RACQ considers there are fairer ways the Government could achieve lower fuel use and emissions. Options include: reducing congestion; providing incentives to purchase more fuel-efficient vehicles; and offering public education on how to drive fuel-efficiently.

The Federal Government should also return a greater portion of the $14 billion in fuel excise collected every year to fund roads and public transport. [1] This could reduce congestion and fuel use by funding infrastructure and forcing the reform of inefficient state taxes and charges.

Term of Reference
b. the role and activities of the Petrol Commissioner, including whether the Petrol Commissioner reduces the price of petroleum;

The RACQ displays fuel price information on our website for locations across Queensland, updated at least on a daily basis. The RACQ also engages in regular member correspondence and government liaison on fuel pricing matters, as well as providing public commentary via the media. In doing so, the RACQ seeks to ensure that fuel prices are fair and transparent within a reasonably competitive market environment, reflecting the local dynamics of supply and demand.

The ACCC Petrol Inquiry Report found that Western Australia's FuelWatch scheme enhanced information available to consumers and reduced consumer search costs, because prices remained stable for a 24-hour period. FuelWatch would have reduced the information imbalance between petrol retailers and consumers but this would not have been achieved at the lowest possible cost for taxpayers and motorists. Alternative mechanisms could also improve price transparency; however these have not been thoroughly investigated by the Government. Motoring organisations, for example, already provide fuel price information. This system could be enhanced to accommodate daily price fluctuations and provide real-time website and phone data.

A modified FuelWatch scheme - one which does not include the requirement for fixed daily prices - would be preferable and of greater benefit to motorists. Any new scheme should focus on price transparency by providing accurate real-time information to consumers through multiple channels.

The ACCC could also establish clear rules about the use of retail price boards and discount offers to reduce the potential for misleading conduct relating to types of fuels being offered and their prices. This issue is becoming more important due to the range of ethanol blends being marketed without broad public understanding of associated impacts and value for money.

[1] In 2007-08, revenue collected by the Federal Government from fuel excise is estimated to be $14.4 billion – yet expenditure on roads is estimated to be $3.4 billion. This expenditure is equivalent to revenue from only 9 cents per litre (cpl) of the 38.143cpl petroleum products excise (Australian Automobile Association, *On the Road to Greener Motoring – Fuel Tax Reform*), 2008

Term of Reference
c. the operation of the domestic energy markets, and petroleum, diesel and gas markets, including the fostering of maximum competition and provision of consumer information.

The RACQ believes it is important that fuel markets operate competitively and fuel price margins at the retail and wholesale levels are not excessive.

The RACQ is concerned about the level of consolidation in the wholesale and retail fuel sectors. There are only five major players (Caltex, Woolworths, Coles, BP and Mobil) in the retail fuel market. With the possible demise of Mobil as a retailer and the extensive co-branding and other linkages between Caltex and Woolworths, many would argue that there could soon be only three completely independent competitors remaining.

The concentration of market power within the oil majors is arguably more extensive than that achieved by Coles and Woolworths in the food retail industry because the oil majors also have extensive control over fuel wholesaling. The food retail industry requires the support of myriad food suppliers and wholesalers; with relatively low barriers to entry for new competitors. The oil refining or import industry has substantial capital, technological and environmental barriers to entry that limit the ability for new market entrants to gain a foothold.

Caltex may soon own, supply or directly influence almost 50 percent of service stations in Australia. Caltex, BP or Shell-affiliated or controlled service stations may soon account for 85 percent of the market. This level of dominance would be likely to bring on another round of consolidation within the remaining independent operators as they are increasingly left to the mercy of the vertically integrated majors.

The RACQ understands that the Mobil fuel purchase card may be phased out and that Caltex may gain access to the customer lists. The loss of this corporate fuel purchase card could disadvantage the remaining regional wholesale distributor network and 500 Mobil-branded service stations. They would be expected to lose market share to sites with loyalty schemes and specifically to Caltex, which could target the Mobil customers for transition to Caltex Starcards.

A diversity of ownership is critical to maintain competition in the retail fuel market. This would be facilitated by the introduction of a new player or the expansion of a smaller fuel chain if Mobil chooses to depart. The purchase of Mobil's retail assets by Caltex would further consolidate market power in what is already a "comfortable oligopoly" as described by ACCC.

Term of Reference
d. the impact of an emissions trading scheme on the fuel and energy industry, including but not limited to:
i. prices,
ii. employment in the fuel and energy industries, and any related adverse impacts on regional centres reliant on these industries,
iii. domestic energy supply, and
iv. future investment in fuel and energy infrastructure;

The RACQ recognises the need to reduce greenhouse emissions in all sectors, including transport. Carbon dioxide and other gases emitted from private motor vehicles contribute eight percent of Australia's greenhouse gas emissions.

Implementation of the Carbon Pollution Reduction Scheme (CPRS) will have little impact on fuel prices due to the decision to remove part of the fuel excise to compensate for the carbon price impost. This is supported by the RACQ, but the absence of a carbon price signal necessitates that other measures are implemented to encourage and assist drivers to reduce their emissions.

Motorists can help reduce greenhouse emissions through efforts to drive efficiently and reduce the frequency and length of trips. Governments and industry need to implement programs and incentives to ensure that more fuel-efficient vehicles are available and their purchase encouraged.

Research has shown that the stop-start traffic conditions associated with congestion increase fuel consumption and greenhouse gas emissions by around 30 percent.[2] Therefore government also needs to fund infrastructure and integrate transport and urban planning to minimise congestion.

The decision to replace part of the fuel excise with a carbon price also paves the way for a more transparent fuel taxation system. The Australian Automobile Association (AAA) and constituent motoring clubs (including the RACQ) have a long-held view that the Government should replace current federal and state motoring taxes with a more efficient and equitable system of road user charges.

RACQ is concerned that the proposed CPRS permit system could stifle investment in local refining and encourage domestic refiners to relocate offshore.

Within the CPRS, the Federal Government is proposing to give emissions from biofuels and biomass a 'zero rating'. Life-cycle emissions from the domestic production of biofuels would be incorporated into the pump price, while the combustion of these fuels is effectively exempted from the scheme. In the long term, this exclusion may result in biofuels becoming cheaper relative to other fuels, providing an incentive mechanism far preferable to mandates. In the short term, it is unclear what impact the fuel excise cuts will have on demand for biofuels.

The CPRS and the current commonwealth taxation review provide a platform on which to restructure motoring taxes into a fairer and more efficient system. Such a system would see:

- revenue being returned to motorists through greater provision of infrastructure;
- some fixed taxes replaced with variable user-pays charges; and
- a full cost approach used to incorporate externalities.

This type of reform could also support the development of biofuels, without the need for inefficient government mandates that increase consumer costs while reducing choice.

[2] RACQ, *The Effects of Traffic Congestion on Fuel Consumption and Vehicle Emissions*, 2008, http://www.racq.com.au/__data/assets/pdf_file/0006/9663/Traffic_Congestion_Fuel_and_Emissions_Test_Fact_Sheet.pdf

Term of Reference
e. the existing set of federal and state government regulatory powers as they relate to fuel and energy products.

No specific comments.

Term of Reference
f. Taxation arrangements on fuel and energy products including:
i. Commonwealth excise,
ii. the goods and services tax, and
iii. new state and federal taxes.

The RACQ recognises that mobility is not free, and a system of taxes and charges is necessary to provide and regulate transport infrastructure. Australia's road network yields enormous economic and social benefits. However, against these benefits must be set a range of infrastructure and environmental costs, many of which are borne indiscriminately by motorists, regardless of where or how frequently they drive. These costs are associated with the emission of air pollutants and greenhouse gases, traffic noise, accidents, congestion and road wear.

A more efficient road pricing policy would apply market-based principles to road use and provide economic incentives to accurately value and manage motoring activities.

At present the 38.143 cents a litre federal fuel excise raises around $14 billion from motorists each year and only a third of this is returned to fund road infrastructure. At the same time, private motorists are being overcharged in comparison to other fuel users. While heavy vehicles receive a rebate that reduces their fuel excise to 21 cents a litre and miners and farmers claim fuel tax credits up to the full excise amount, private motorists receive none of this price relief.

The decision to replace part of the fuel excise with a carbon price is a step toward a more efficient and transparent system of hypothecating fuel excise revenues to remediate externalities and fund improved infrastructure, or replacing the entire fuel excise mechanism with road user charges.

If the fuel excise revenue were returned to state governments, a range of less efficient fixed charges could be reduced or eliminated and the infrastructure construction and maintenance task could be better planned and resourced. State governments currently have limited capacity under commonwealth-state fiscal arrangements to raise any new taxes, despite having increased service demands. This results in deteriorating infrastructure standards, reliance on inefficient fixed charges, and a politicising of infrastructure funding decisions.

There is a need to reconsider the mix of fixed and variable motoring taxes. A significant opportunity exists to improve efficiency, equity, safety and environmental outcomes by:

- removing the stamp duty on vehicle purchases;
- removing the luxury car tax;
- correcting the fringe benefits tax statutory formula;
- adopting a nationally consistent methodology for vehicle registration charges;
- incentivising the purchase of more fuel efficient passenger motor vehicles; and
- giving motorists the option to convert some existing fixed charges such as registration and insurance to distance-based variable charges (also known as pay-as-you-drive or per-kilometre pricing).

Substantial efficiency benefits are available as federal and state motoring-related taxes raise more than $21 billion each year and transport is the third largest expenditure item for most households.[3]

Vehicle Stamp Duty

Each state levies stamp duty on the purchase and transfer of motor vehicles. This is a particularly inefficient and inequitable tax. The RACQ recommends the removal of motor vehicle stamp duty.

Vehicle stamp duty is applied to the GST-inclusive price of a car, with each state using a different method to calculate the stamp duty payable. Queensland stamp duty rates are:

- 2% for hybrid vehicles;
- 3% for 4 cylinder vehicles;
- 3½% for 6 cylinders; and
- 4% for 8 or more cylinder vehicles.

Stamp duty involves large compliance costs and is a tax inconsistently levied on a narrow base. This results in a net loss of economic value and adds to the 'efficiency cost' of taxation.[4] For example, stamp duty is applied to cars and property, but not to the purchase of computers or washing machines.

The removal of stamp duty on motor vehicles would reduce purchase prices and the disincentive to turn over vehicles. This would lead to a safer, more fuel-efficient vehicle fleet. It would also remove the suggestion of double taxation, as stamp duty is applied to the GST inclusive price of cars.

[3] Australian Treasury, *Architecture of Australia's tax and transfer system,* 2008 p12 & 287; www.taxreview.treasury.gov.au/content/downloads/report/Architecture_of_Australias_Tax_and_Transfer_System_Revised.pdf;
ABS, 2006, Cat. No. 6530.0 Household Expenditure Survey, Summary of Results; ABS, 2006, 4102.0 – Australian Social Trends

[4] A net loss of economic value often occurs when taxes are implemented. If the tax affects relative prices and affects individuals' incentives and encourages a shift to different activities or goods, this is referred to as the 'efficiency cost' of taxation. Efficiency costs associated with tax will be lower where revenue is raised across a broad base, and conversely higher where revenue is raised across a narrow base.
Australian Treasury, *Architecture of Australia's tax and transfer system,* 2008 pp174-175;

Luxury Car Tax

The luxury car tax (LCT) of 33 percent, levied on most cars priced above $57,123, should be removed.[5] It is a particularly inefficient tax with many economic and equity arguments that support its removal:

- The LCT is levied on a narrow base;[6]
- Since LCT is not levied on other items such as watches, jewellery, boats or aircraft, it contravenes the fundamental efficiency principle that taxes should be neutral in their effect and applied to comparable assets equally;
- The GST was intended to remove anomalies under the old tax system, where some luxury items were taxed at a higher rate of sales tax; and
- The tax also has no real environmental benefit and cannot be supported on these grounds.

Fringe Benefits Tax

The statutory formula for calculating Fringe Benefits Tax (FBT) on vehicles should be reformed to remove incentives for additional travel.

FBT is levied on vehicles provided by an employer for an employee's private use, including those used by an employee under a novated lease arrangement. The statutory formula used to levy FBT is on a sliding scale, which decreases as the distances travelled increase:

Total annual kilometres	Statutory percentage
Less than 15,000	26%
15,000 to 24,999	20%
25,000 to 40,000	11%
More than 40,000	7%

This tax regime provides a direct incentive for additional travel that costs the Federal Government $1.5 billion annually in tax concessions.[7]

RACQ member surveying in 2008 revealed 51 percent supporting a fixed FBT percentage compared with only 19 percent opposed. The RACQ supports a single fixed statutory percentage to replace the existing arrangements in order to remove the incentive to drive further.

Vehicle Registration Charges

State governments impose annual registration charges for all vehicles using public roads.

Registration taxes are levied in different ways across the states and revenue is used to maintain the road network. In Queensland, South Australia and Tasmania charges

[5] There are exceptions for agriculture, tourism and fuel-efficient cars using 7L/100km or less Australian Treasury, *Architecture of Australia's tax and transfer system,* 2008 p12;
[6] A general economic principle is that taxes levied across a broad base have fewer negative economic impacts or efficiency costs than taxes levied across a narrow base.
[7] Sydney Morning Herald; 30 January 2008, http://www.smh.com.au/news/environment/abolish-company-car-subsidy-say-greens/2008/01/29/1201369135260.html

increase with the number of vehicle cylinders, with registration for a four-cylinder vehicle ranging from around $125 in South Australia to $308 in Queensland. In Victoria, registration is a flat fee of $178 while, in the remaining states, charges vary according to vehicle weight or engine capacity.

Registration imposed on passenger vehicles should be calculated using a nationally consistent methodology. Unlike heavy vehicle registration charges (which are consistent across Australia), the difference in rates, bases and administration for passenger vehicles makes this charge both inefficient and inequitable.

Incentivising the purchase of more fuel efficient vehicles

The RACQ supports initiatives that reduce motoring costs and increase consumer demand for low CO_2 emission vehicles, such as rebates for purchase of fuel-efficient vehicles.

Studies have shown that motorists are not entirely rational in their economic decisions.[8] However, even a rational consumer does not always have a financial incentive to invest in a fuel-efficient, low-emission car. There is a trade-off between the capital cost of a vehicle and its operating cost. If consumers base their decisions on financial parameters, there is often no incentive for them to purchase the lowest-emission vehicle. The Green Vehicle Guide website provided by the Federal Government lists the top ten 'best performers' and 'best sellers' for small, medium and large cars. The 10th best performer in the large car category is the only car from all of the categories to also appear in the top 10 sellers. This is a clear indication of the need to provide financial incentives, such as rebates, for low-emission cars.

International data suggests rebates influence both demand and supply side decisions and can effectively increase fleet penetration of fuel-efficient vehicles. Rebates for fuel-efficient vehicle purchases increase pressure on manufacturers to improve their vehicles and result in a more efficient new and used car fleet. The rebates also provide a direct signal by government of the importance of fuel-efficiency as a purchase criteria.

Rebates are preferable to a 'feebate' system, where purchasers of high-emission cars would be charged extra to provide the revenue for the rebates. Rebates for low-emission vehicles are widely used internationally and are relatively simple to administer. In contrast, the complexity of design required to ensure a 'feebate' system does not unduly penalise larger families would introduce inefficiencies and add to the cost of the scheme.

Converting fixed charges to variable distance-based charges

The conversion of many fixed motoring taxes to variable, distance-based charges would provide the following benefits:

- Greater alignment of motoring taxes to market-based charges with improved efficiency;
- Improved equity for the low-distance drivers such as pensioners;
- Increased pricing options for motorists;
- More efficient use of the road network and a reduction in vehicle kilometres driven;
- Reduced motoring emissions, congestion and accident risk; and
- Increased vehicle affordability.

[8] Kurani, K.S. and Turrentine, T.S., *Car Buyers and Fuel Economy*?, 2006, Energy Policy, Vol 35 (2), pp 1213-1223.

However, the RACQ recognises that even with a reduction of fixed motoring taxes, the implementation of distance-based driving charges could disadvantage some motorists. These would include people who drive large distances and have little access to public transport alternatives because they live in rural areas and outer suburbs.

Therefore, the RACQ recommends that consideration be given to a system of optional distance-based charges for motorists to replace fixed registration charges. This system would provide net consumer benefits, since motorists would only choose distance-based registration charges if they believed they would be better off as a result.

Term of Reference
g. the role of alternative sources of energy to coal and alternative fuels to petroleum and diesel, including but not limited to: LPG, LNG, CNG, gas to liquids, coal to liquids, electricity and bio-fuels such as, but not limited to, ethanol;

Biofuels

The RACQ is supportive of further development of the biofuel and alternative fuel industries to provide a greater range of safe, reliable and efficient energy sources for transport. The RACQ position on biofuels also protects the interests of motorists by:

- ensuring the availability of quality fuels suitable for existing vehicles;
- requiring clear labelling of biofuel outlets;
- supporting research into technologies that provide clear environmental benefits; and
- preventing additional cost to motorists.

At a time of significant concern around the world about climate change and oil supplies, biofuels hold promise as clean burning, renewable sources of energy. The prospect of improving energy security and reducing vehicle emissions while assisting rural industries has led governments to introduce subsidies or regulations to expand the biofuels industry.

The RACQ looks forward to the commercialisation of second and third generation biofuels that do not compete with food products and can be produced sustainably and with reduced greenhouse emissions. However, the RACQ is opposed to the mandating of ethanol or other biofuel content in fuel.

Mandates are likely to increase motoring costs, particularly for motorists driving older vehicles that currently use regular unleaded petrol (ULP) but are not suitable for ethanol blends such as E10 (10% ethanol). These price-sensitive motorists could be forced to buy premium fuels at a substantial additional cost as fuel retailers respond to mandates by gradually replacing ULP with E10.

The RACQ understands that there is currently insufficient domestic production of ethanol to meet the volumes required under the proposed Queensland and New South Wales mandates, due to be implemented in less than 18 months. This raises concerns that ethanol will not be competitively priced and will lead to increases in E10 prices as well as flow-on increases in ULP prices as retailers attempt to increase E10 market share. First

generation feedstock for ethanol also requires significant energy and chemical inputs as well as large areas of productive agricultural land. There does not appear to be any tangible benefit to justify the substantial environmental and economic risks of mandates.

The RACQ encourages the continuation of Federal Government support to the domestic biofuel industry through fuel excise exemptions or rebates. This provides greater confidence to the biofuel industry of returns on their investment despite the volatility of oil prices. State governments could support this arrangement by offering further assistance to domestic biofuel producers if and when oil prices drop below a set figure, thus providing some form of guaranteed minimum price.

Other alternative fuels

The RACQ supports the existing Federal Government rebates for LPG vehicles.

The RACQ believes a broader rebate system could encourage the introduction or expansion of other alternative fuel technologies and fuel-efficient vehicles. This could support electric and hybrid vehicles, CNG-fuelled vehicles and conventional vehicles that are very fuel-efficient by reducing the upfront cost burden for early adopters.

The *Green Car Innovation Fund* provides an opportunity for projects that will enhance the research, development and commercialisation of Australian technologies that significantly reduce greenhouse fuel consumption or emissions. This can ensure that Australian manufacturers also benefit from purchase rebates or other government incentives.

The RACQ is aware of other alternative fuel technologies, such as coal to gas and gas to liquids, currently under development in Queensland. The underground conversion of coal to synthetic gases and the production of liquid fuels from methane or synthetic gases have the potential to provide commercial quantities of domestic fuel with beneficial impacts for energy security and trade balances. When combined with carbon capture and storage technology, these fuels would have similar environmental outcomes to conventional oil. They would also assist in exploring long-term pathways toward de-carbonisation of the transport sector through the use of electricity or hydrogen.

Term of Reference
h. domestic energy supply and the domestic oil/gas exploration and refinement industry, with particular reference to:
i. the impact of Commonwealth, state and local government regulations on these industries,
ii. increasing domestic oil/gas exploration and refinement activities, with a view to reducing Australia's reliance on imported oil,
iii. other tax incentives, and
iv. securing Australia's future domestic energy supply.

No specific comments.

Term of Reference
i. the impact of higher petroleum, diesel and gas prices on public transport systems, including the adequacy of public transport infrastructure and record of public transport investment by state governments.

Australia is a car dependent nation and will remain so into the foreseeable future. Car trips make up over 75 percent of all passenger travel and trends suggest that this will continue.

In the past four years there has been strong patronage growth on public transport in south-east Queensland, with bus and rail usage increasing by 41 percent and 28 percent respectively due to improved services, higher fuel prices and investment in the network. However, the mode share of public transport remains relatively low. The public transport share of all trips in Brisbane is about eight percent, and even under an optimistic growth scenario, this share will reach only 13 percent by 2026.[9] These numbers support the Council of Australian Governments (COAG) *Review of Urban Congestion* findings that, while public transport enhancements can increase public transport patronage and partially combat worsening congestion, the effects of public transport initiatives alone are generally small. Their impact is greatest when part of an integrated package of pricing and land use policies.[10]

While public transport use in Australian cities is low relative to car use, for particular purposes such as journeys to work in CBD locations, it often provides a viable alternative to the car and can partially alleviate congestion. This warrants continued investment in public transport where it has the potential to deliver social and economic benefits.

RACQ supports the provision of quality public transport but is concerned that public transport subsidies primarily benefit those who are fortunate enough to live in inner and middle-ring Brisbane suburbs that have convenient public transport. Under the public transport subsidy program, taxpayers fund 75 percent of the cost of public transport fares.[11] This substantial budget outlay is of little benefit to the vast majority of rural and outer-suburban families who must rely on their cars for travel and access to goods and services.

The Federal Government collects most of the government revenue from the transport sector but contributes relatively little to road and public transport costs. If a greater portion of the fuel excise revenue was returned to states as an infrastructure fund, it could reduce congestion and fuel use as well as improve public transport.

Term of Reference
j. any related matters.

Traffic congestion and public transport capacity constraints constitute a major portion of the negative transport impacts of a system that either has not kept up with population and

[9] *Brisbane City Council Transport Plan for Brisbane 2008 – 2026*, 2008 p5 & 10.
[10] Council of Australian Governments, *Review of Urban Congestion Trends, Impacts and Solutions,* 2006 p10-11.
[11] Transport Minister Rachel Nolan has reportedly said that "for every dollar that a customer pays in fares, the state government pays three" Courier Mail, 9 June 2009: *Runaway train bill*

economic growth, or has misjudged the travel preferences of the community. The avoidable national costs of traffic congestion in Australian capital cities are expected to double by 2020. In Brisbane, where growth will be faster than any other capital city, annual costs are expected to increase from $1.2 billion to $3 billion.[12]

Increasing congestion means higher social costs of pollution, delays, trip-time variability, and fuel costs. On-road tests carried out by RACQ show that driving in stop-start congested traffic increases fuel consumption and greenhouse gas emissions by around 30 percent.[13] This aligns with BITRE estimates that nearly 40 percent of the fuel used by road vehicles in Australian cities is the result of interruptions to the traffic flow.[14]

A major impact of the lack of federal funding for urban transport infrastructure has been the gradual introduction of toll roads into the faster growing capital cities. The RACQ is concerned about the inefficiency of placing tolls on our newest and best urban roads and thereby diverting potential users back onto the surrounding congested road network. By discouraging the use of new, high quality infrastructure, tolls increase fuel consumption and greenhouse emissions as price-sensitive drivers detour on to congested roads.

In Melbourne, traffic on the Eastlink Motorway fell by 50 percent when tolls were imposed after the first month of free travel.[15] Similar dramatic reductions in traffic occurred on the Sydney toll roads when tolls were imposed or increased.[16] This is clear evidence that many urban toll roads are not effective in reducing congestion compared with the provision of free roads supported through other revenue streams.

The objective of tolls is to provide a financial return to an infrastructure owner. The extent of financial return is dependent on how many drivers utilise the asset, and this is based largely on the level of service of alternative routes. The asset owner therefore has a strong incentive to ensure other routes remain congested. Because toll roads prioritise financial returns over economic performance, they reduce overall benefits to society. Regrettably, toll roads are the primary method the Queensland Government has chosen to finance large urban road projects in south-east Queensland in recent years due to the lack of Federal Government funding.

Unlike toll roads, congestion or cordon charging has been shown to effectively reduce congestion in inner city areas. This pricing system can focus variable charges where congestion is worst and encourage the efficient use of existing road capacity. The RACQ supports the consideration of inner city congestion charging as a more equitable alternative to toll roads. Such a scheme should include bypass opportunities and public transport improvements to ensure that consumers have reasonable alternatives to paying the charge.

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[12] Council of Australian Governments, *Review of Urban Congestion Trends, Impacts and Solutions,* 2006 p5.
[13] RACQ, *The Effects of Traffic Congestion on Fuel Consumption and Vehicle Emissions*, 2008, http://www.racq.com.au/__data/assets/pdf_file/0006/9663/Traffic_Congestion_Fuel_and_Emissions_Test_Fact_Sheet.pdf.
[14] Bureau of Infrastructure, Transport and Regional Economics, *Urban Congestion – The Implications for Greenhouse Gas Emissions, Information Sheet 16,* http://www.bitre.gov.au/publications/98/Files/is16.pdf
[15] The Australian Financial Review, *Toll roads pay the way,* 11 August 2008, p7.
[16] Phillips, G., *Analysis of Sydney Public-Private Partnership Road Tunnels*, Paper for ASOR National conference 3-5 December 2007.

The COAG *Review of Urban Congestion* observed that direct pricing measures focused primarily on congestion reduction "stand out as the most effective option for alleviating congestion and improving the efficiency and productivity of the transport network (at least when delivered as part of a total policy package of complementary measures)."[17] The *Review* explained that such pricing would reduce congestion by redistributing demand between travel times, routes, and modes.

Congestion pricing and the provision of road and public transport infrastructure are effective complementary measures to reduce congestion. Congestion charges trigger a cycle of higher public transport use and demand for better services, greater coverage and improved economic performance of public transport. The revenue from congestion pricing can in turn be used to meet this demand and fund more transport infrastructure.

Congestion pricing receives community support when consumers are given sufficient alternatives to avoid the congestion charge and are understanding of the benefits through reduced congestion. To achieve this, an inner city congestion charge would need accompanying measures that improve the frequency and reliability of public transport, and the provision of free bypass or ring roads.

Inner city congestion or cordon charging could provide the revenue stream needed to avoid the imposition of tolls on future infrastructure projects.

In recent years a number of cities have implemented various forms of congestion pricing, including London, Singapore and Stockholm. Traffic volumes, travel times and carbon emissions have been reduced and replaced by increased walking, cycling and public transport usage within the charging zones.

Inner city congestion or cordon charges are potential best practice initiatives that provide a revenue stream for further transport improvements while enhancing public transport and reducing congestion. This is currently the best available tool for state governments to implement in order to reduce the demand for fuel in our capital cities.

4 Conclusion

The Federal Government collects around $14 billion each year in fuel excise and returns only a third of this to fund roads and public transport. If a greater portion was returned to states as an infrastructure fund, it could reduce congestion and fuel use, thus delivering energy security and climate change benefits as well as improved road safety and economic performance.

The return of fuel excise revenue to state governments could be dependent on reform and reduction of inefficient state taxes and charges, thus further reducing fuel use while improving economic outcomes.

[17] Council of Australian Governments, *Review of Urban Congestion Trends, Impacts and Solutions,* 2006 p12.