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AUSTRALASIAN RAILWAY ASSOCIATION SUBMISSION

To

Senate Standing Committees on Economics

On

Inquiry into Fuel Indexation (Road Funding)

Bill 2014

A decorative graphic at the bottom of the page. It consists of several overlapping, stepped lines in shades of blue and green, creating a sense of movement and depth. The lines start from the left and extend towards the right, with some lines curving upwards and others downwards, forming a series of connected steps or a stylized landscape.

THE ARA

The Australasian Railway Association (ARA) is a not-for-profit member-based association that represents rail throughout Australia, New Zealand and Indonesia. Our members include rail operators, track owners and managers, manufacturers, construction companies and other firms contributing to the rail sector. We contribute to the development of industry and government policies in an effort to ensure Australia's passenger and freight transport systems are well represented and will continue to provide improved services for Australia's growing population.

The ARA thanks the Senate Standing Committee on Economics for the opportunity to provide this submission to the Inquiry into the *Fuel Indexation (Road Funding) Bill 2014*. For further information regarding this submission, please contact Rhianne Jory, Associate Director Environmental and Regulation

RAIL - FACTS AND FIGURES

- The Australian Passenger rail sector currently provides 784.2 million journeys around Australia each year, more than seven times the journeys made ten years ago. That is more than 15 million journeys each week or 2 million journeys each day.
- Freight rail currently carries 929 million tonnes of freight annually. That is an increase of more than 61.5 per cent since 2003. More than half of the freight moved by rail is iron ore, followed by coal (one third) sugar, bauxite, and construction products. General containerised freight grew by almost 15 per cent over the same period to over 21 million tonnes.
- Rail produces 40 percent less emissions than road transport. In one year, the average passenger train reduces the same amount of emissions equivalent to planting 320 hectares of trees. Equally, a freight travelling between Melbourne and Brisbane reduces carbon emissions on par with a household of 3 people going without electricity for 46 years.

- Rail is the safest form of land transport. It is eight times safer than road travel.
- Rail has the outstanding ability to reduce inner city road congestion. The average passenger train can take 525 cars off the road. This is 3.2 million vehicle kilometres annually or 1000 trips from Sydney to Perth. The average freight train takes 110 trucks off the road. This reduces truck movements by around 49.7 million truck kilometres a year or 3100 times the distance from Sydney to New York.
- Every passenger journey made by rail instead of road saves \$8.50 in congestion, safety and carbon pollution costs. In Sydney, for example, if 30 per cent of people changed their travel to rail, \$1 billion a year could be saved. Similar results can be achieved for freight. If rail was to achieve 40 per cent share of Australia's east coast North-South Corridor, the savings would reach around \$250 million a year.

BACKGROUND

This submission expresses the Association's views on the Government's proposal to implement biannual indexation of the fuel excise.

In May 2014, the Federal Government announced that it would reintroduce the biannual indexation of fuel excise to changes in the consumer price index (CPI). The Government has stated that this exercise will provide funding for additional productivity-enhancing road infrastructure projects. The indexation will apply to the general rate of excise (and customs duty) which is now at 38.143 cents per litre (cpl). In 2014-15, indexation will add about one cpl to this rate. The main fuels affected are petrol and diesel. The indexation will commence in August 2014. It is envisaged that the revenue over the forward estimates from this exercise will be around \$4.15 billion. However, this will be offset, in part, by rebates paid under the Fuel Tax Credits Scheme (FTCS). Once the FTCS rebates are paid, the Government has forecast revenue of approximately \$2.2 billion over the forward estimates.

The ARA is supportive of the biannual indexation of fuel excise on the proviso that rail rebates are increased in line with the rise in fuel excise. Furthermore, the \$2.2 billion revenue from the indexation must be hypothecated back to both roads and

rail infrastructure. This injection of funding for rail as well as roads will allow Australia to build vital infrastructure for the future.

Arguments supporting the ARA policy position are provided below.

SUPPORT FOR THE BIENNIAL INDEXATION OF FUEL EXCISE

In the early 1900's, the Australian Federal Government introduced a petrol and diesel excise to fund the construction and maintenance of roads but in 1959 the road hypothecation was removed and over the years the revenue raised through the fuel tax has been directed to general government revenue^[x]. In 2001, the automatic indexation for inflation was ceased to counter the impact of the goods and services tax (GST), effectively stalling the tax at 38.5 cents per litre. As a result, income from the petrol excise has plateaued at around \$17 billion per annum. In 2012, the lost CPI increases (which would equate to an additional 12 cents per litre today) was estimated to have cost the Government \$5 billion in lost revenue^[xi]. Australia now faces the issue whereby the revenue generated through the fuel excise decreases each year in real terms. This results in a smaller pool of funds for infrastructure each year as the CPI increases.

As recommended in the ARA's recent report, *Innovative Funding and Financing Mechanisms for Public Transport*; "Re-introducing CPI increases and hypothecating Australia's fuel tax for public transport and road investment would re-allow revenue from Australia's fuel tax to increase with GDP, increasing the funding pool and providing a reliable source of revenue for transport investment". Although this would still leave the revenue slightly behind where it could have been had CPI increases not been removed, it would stop the income from the Fuel Tax decreasing each year and would re-allow the revenue from Australia's fuel tax to grow with CPI. This would give Australian government's a greater ability to grow Australian infrastructure and reduce the current infrastructure deficit evident in the Australian economy.

The ARA believes that the biannual indexation of fuel excise is a positive way forward to raise revenue to build infrastructure of the future. However, this must be done in a way that promotes competitive neutrality between all modes of transport and does not create distortions within the transport market.

International Experience

In 1919 the State of Oregon introduced the first State-based fuel tax in the United States (US). Almost a century on and 9.2 per cent of transit funds in the US are generated through State gas taxes. Canada also uses gas taxes as a revenue source for public transport. In 2010, a 15 cent per litre fuel tax was dedicated to transit in Metro Vancouver. In the same year, two cents per litre of Ontario's provincial gas tax was devoted to public transit, whilst Calgary and Edmonton allocated 5 cents of the State-based gas tax collected in each city for road and transit funding^[i].

United States

To build its interstate highway system, the United States Highway Trust Fund was established in 1956 and primarily funded through the introduction of a national gas tax. In 1982, the Surface Transportation Assistance Act was passed, establishing the Mass Transit Account and allocating 1 cent of a 5 cent per gallon gas tax increase to public transport^[ii]. In 1993, the Federal Government stopped CPI increases to the gas taxes and they have remained at the following allocations since:

- Federal gas tax: 18.4¢ per gallon (constant since 1993)
 - 15.44¢ to Highway Trust Fund
 - 2.86¢ to Mass Transit Account
- Federal diesel tax: 24.4¢ per gallon (constant since 1993)
 - 21.44¢ to Highway Trust Fund
 - 2.86¢ to Mass Transit Account

Halting CPI gas tax increases in 1993 stalled growth in the revenue for The Highway Trust Fund and Mass Transit Account, meaning the Highway Trust Fund fluctuates between \$33 and \$35 billion per year and the Mass Transit Account receives revenue of approximately

\$5 billion (including interest)^[iii]. In 2008 the Highway Trust Fund hit a \$41 billion shortfall that was boosted by Treasury through general funds^[iv]. The Congressional Budget Office has since reported that the Highway Trust Fund and its subaccount, the Mass Transit Account, are both unsustainable. A 2003 status report identified that with current CPI projections, the Highway Trust Fund will raise insufficient funds again in 2015 and by 2023 cumulative shortfalls will leave the Highway Trust Fund about \$92 billion short and the Mass Transit Account about \$34 billion short^[v].

The Congressional Budget Office has calculated that if CPI increases had been maintained, the gas taxes would be 29 cents per gallon of fuel and 39 cents per gallon of diesel^[vi]. Stalling the federal fuel tax prices in 1993 has effectively meant the US Highway Trust Fund generates only 62 per cent of what it raised 20 years ago^[vii]. Estimates by the Joint Committee on Taxation found that a 1 cent rise on the gas tax would generate an additional \$1.5 billion per year but due to the size of the shortfall, to avoid reducing infrastructure investments or increasing revenue through other means, a 10 cent per gallon increase would actually be required^[viii].

RAIL REBATES MUST INCREASE IN LINE WITH THE INCREASED EXCISE

The ARA encourages the Government to increase rail rebates in line with the increase in excise.

It is unclear in the current Government process whether there will be a change to the fuel rebates scheme in line with the indexation. The ARA is aware that the current rebates framework will undergo its scheduled changes beginning 1 July 2014 however the ARA is uncertain whether there will be another change to match rail rebates with the increased fuel excise after 1 August 2014.

At present, according to the Australian Taxation Office, the rebate received on fuel by rail operators will decrease around 1 per cent on 1 July 2014. The decrease in rebate and the passing of this legislative package will mean that Australian rail will essentially pay an even

larger proportion of tax through diesel. **The ARA believes that this is not the right outcome for the Government and the community.** Rail, as the more environmentally friendly form of land transport should be promoted and supported by the Federal Government, not penalised through the increase in diesel prices. **The ARA will not support the Government's proposal for biannual indexation if the rail rebates do not increase in line with the fuel excise.**

HYPOTHECATION OF REVENUE TO ROAD AND RAIL

According to the Explanatory Memorandum for the Excise Tariff Amendment (Fuel Indexation) Bill 2014, the Fuel Indexation (Road Funding) Special Account Bill 2014 allows the government to establish a special account to ensure that the net additional revenue from the reintroduction of fuel indexation is used specifically for road infrastructure funding. The ARA disagrees with this particular amendment and argues that the additional revenue should also be invested in rail infrastructure and public transport.

What the Government has failed to recognise when making this decision is the fact that it is not only road users that will be paying the increased excise. Part of the revenue will be paid by the rail and public transport sector. **Essentially, under the current proposal, the Government is taxing rail to fund road infrastructure. This is a scheme the Australian Rail industry will not support.**

The ARA believes that the Government's intention to hypothecate the revenue from the indexation back to roads reflects an overall policy of the Federal Government which favours road transport, despite the evident economic, social and environmental benefits of rail.

The industry believes that a positive way forward would be for the revenue to be used, in part, to fund future rail infrastructure projects such as the Inland Rail project and public transport projects that will improve service quality and infrastructure.

CONCLUSION

The ARA supports the proposal by the Federal Government to reintroduce biannual indexation of fuel excise but only if the following changes are made:

1. The current rail rebates are increased in line with the CPI increases
2. Part of the additional revenue generated through the biannual CPI increases are invested in rail and public transport infrastructure, not solely dedicated to roads.

^[x] http://fueltaxinquiry.treasury.gov.au/content/backgnd/002.asp#P21_1956, sourced 15.08.13

^[xi] <http://blogs.crikey.com.au/theurbanist/2012/03/15/what-did-abolition-of-petrol-excise-indexation-cost-us/>, sourced 15.08.13

^[i] Metro Vancouver, 15 cents per litre fuel tax was dedicated to transit, sourced 14.08.13

^[ii] American Public Transportation Association, *Primer on Transit Funding: The Moving Ahead for Progress in the 21st Century Act and Other Related Laws*, FY 2013 through FY 2014

^[iii] Congressional Budget Office, *Statement for the Record: Status of the Highway Trust*, April 2013

^[iv] Congressional Budget Office, *Statement for the Record: Status of the Highway Trust*, April 2013

^[v] Congressional Budget Office, *Statement for the Record: Status of the Highway Trust*, April 2013

^[vi] Congressional Budget Office, *Statement for the Record: Status of the Highway Trust*, April 2013

^[vii] Congressional Budget Office, *Statement for the Record: Status of the Highway Trust*, April 2013

^[viii] Congressional Budget Office, *Statement for the Record: Status of the Highway Trust*, April 2013