AUSTRALIAN AUTOMOBILE ASSOCIATION

Senate Standing Committees on Economics
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27 June 2014

Submission: Inquiry into Fuel Indexation (Road Funding) Bill 2014 and 3 related Bills.

I am writing on behalf of the Australian Automobile Association (AAA) in relation to the Committees' current inquiry in relation to the abovementioned package of Bills, which seek to reintroduce indexation of fuel excise and establish a special account to ensure that the net additional revenue generated by this measure is used for road funding.

The Australian Automobile Association (AAA) is the peak organisation representing Australia's motoring clubs. The AAA's constituent clubs are the NRMA Motoring and Services, RACV, RACQ, RAC (WA), RAA (SA), RACT, AANT and the RACA. Combined, these clubs represent more than seven million members, and advocate on behalf of all road users.

In the days leading up to this year's Federal Budget, the AAA expressed significant concern about the prospect of the reintroduction of fuel excise indexation. In particular, the AAA expressed concern that Australian motorists are already paying too much tax and do not see a fair return through stronger investment in roads and other land transport infrastructure.

The AAA remains concerned that the proposed reintroduction of indexation has not been put forward as part of a considered and more comprehensive plan for tax reform and infrastructure funding, but is an ad hoc measure that will impose higher costs on many Australians.

Indeed as the accompanying Explanatory Memorandum states "the price impact of any increase in fuel excise and excise equivalent customs duty will fall most heavily on households and owners of light commercial vehicles used on-road". To this end the AAA, is concerned that the highest cost increases will also be borne by those living in outer metropolitan areas and rural and regional areas who must travel longer distances and who are often reliant on a private car for the majority of their transport requirements.

90th ANNIVERSARY

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The AAA has been consulted on the development of legislation for the establishment of a special account to ensure that the net additional revenue from the reintroduction of fuel excise indexation is used for road infrastructure funding. The approach proposed in the Bills still falls well short of the model preferred by the AAA and its constituent clubs.

Our key concern is that motorists have no guarantee, beyond the current forward estimates, that the amount credited to the special account will not be offset by diverting an increased proportion of the existing base of fuel excise revenue to other purposes.

The AAA is strongly of the view that a guaranteed minimum 50 per cent share of fuel excise revenue, net of fuel tax credits, should be set aside for road funding.

The AAA urges Senators to reflect on these issues and to consider how we can best secure a fairer outcome for motorists as taxpayers, as these Bills are debated over coming weeks.

I trust that the attached submission is of assistance to the Committee in its deliberations on these Bills. Should the Committee choose to conduct any public hearings, the AAA would welcome the chance to attend.

Yours sincerely

ANDREW McKELLAR
Chief Executive

APPENDIX: SUBMISSION

Impact on Consumers

The impact of the reintroduction of fuel excise indexation will disproportionately impact those who need their vehicle to access employment and essential services. Research indicates that the people who use their cars most frequently are in the outer metropolitan areas and rural and regional areas where there are lower incomes, less jobs, and little or no access to public transport. The AAA is concerned that individuals in these areas will bear the highest cost increases of indexation changes.

Table 1, below, provides an indicative analysis of the additional costs faced by Australian motorists as a result of the reintroduction of indexation. Based on the Treasury's annual Consumer Price Index (CPI) forecast, a consumer refuelling a vehicle with a 60 litre tank would pay an additional 82 cents in taxes per tank for the first year, increasing to an additional $2.75 in 2017-18. Refuelling that vehicle once a week would result in the consumer paying an additional $42.54 annually for the first year, increasing to $142.91 per year by 2017-18.

However, the average Australian travels closer to 15,000 kilometres per year. A consumer travelling this distance each year in a vehicle with a fuel consumption of approximately 10L/100km will pay $20.45 in additional tax for the first year, increasing to an extra $68.71 by 2017-18.

Table 1: Consumer Impacts - Fuel Excise Indexation

Year	Excise Rate (cents per litre)	Excise Increase (cents per litre)	Change in GST (cents per litre)	Total Tax Change (cents per litre)	Increased Tax per 60L tank ($)	Annual Increase: 60L per week ($)	Annual Increase: 15,000km a year at 10L/100km ($)
2013-14	38.14	0.00					
2014-15	39.38	1.24	0.12	1.36	0.82	42.54	20.45
2015-16	40.27	2.13	0.21	2.34	1.40	72.95	35.07
2016-17	41.27	3.13	0.31	3.45	2.07	107.50	51.68
2017-18	42.30	4.16	0.42	4.58	2.75	142.91	68.71

Fuel Tax Credits

The Federal Government provides generous subsidies across a range of industries and fuel uses via the Fuel Tax Credit Scheme. The scheme allows eligible businesses engaging in off-road activities to receive an effective rebate on their fuel excise expenditure. This implies a link between fuel excise revenue and road funding, when there is in fact no clear link. In 2012-13, total Fuel Tax Credits cost the Federal Government in excess of $5.4 billion, with the mining industry claiming over $2.1 billion from 8,045 claims. The reintroduction of indexation to fuel excise would increase the effective subsidy to those claiming under the Fuel Tax Credit Scheme, which will see households pay more while business faces no extra charge.

The current Clean Energy Legislation (Carbon Tax Repeal) Bill 2013 will seek to repeal the carbon pricing mechanism and provide a greater subsidy under the Fuel Tax Credit Scheme. Fuel tax credits will be restored to what they would have been had carbon pricing not been implemented. For example, currently a mining business conducting off-road business activities and using petrol is eligible for a fuel tax credit of 32.347 cpl. If the repeal of the carbon tax is successful, that business will be eligible for a rebate of the full amount of full excise – 38.413 cpl (increasing with indexation).

Link to Road Funding

The current approach of funding for roads and other land transport infrastructure in Australia is broken and major reforms are needed to tackle the national infrastructure shortage. While motorists make a significant contribution to the Government's revenue base, only a portion of this flows back into public spending on transport infrastructure.

The Bills propose that the additional amount of fuel excise raised by the re-indexation should be hypothecated for road transport. While the AAA welcomes this step of providing motorists with some element of a direct link, the current proposed approach still falls well short of the model preferred by the AAA and its constituent clubs.

Research conducted by the AAA in 2012 found that around 90 per cent of Australian motorists believed that most of the fuel excise revenue raised should be spent on major land transport projects.

Our key concern from the Federal Government's proposal is that motorists have no guarantee, beyond the current forward estimates, that the amount credited to the special account will not be offset by diverting an increased proportion of the existing base of fuel excise revenue to other purposes.

The AAA is strongly of the view that a guaranteed minimum 50 per cent share of fuel excise revenue, net of fuel tax credits, should be set aside for road funding.

Table 2 outlines the revenue expected to be raised by fuel excise over the near term, including the net excise revenue which accounts for payments made to the Fuel Tax Credit Scheme. The table shows a comparison of the proposed hypothecated expenditure model suggested by the Government, compared with the 50 per cent net funding model for hypothecation. Funds from the Government's proposed special account are only due to be spent on roads from 1 July 2015. The Government's proposed model does little to provide a meaningful base for expenditure on roads.

Table 2: Fuel Excise Revenue and Road Funding

Financial Year	Total Excise Revenue ($m)	Net Excise Revenue (i.e. less Fuel Tax Credits) ($m)	50% Net Fuel Excise ($m)	Government's Proposed Funding model ($m)	Budget Expenditure on Roads ($m)
2014-15	15,200	8,930.0	4,465.0		4,805
2015-16	15,760	8,938.0	4,469.0	168	7,270
2016-17	16,470	9,259.0	4,629.5	380	8,998
2017-18	17,340	9,725.0	4,862.5	680	5,773
2018-19	17,774	9,968.1	4,984.1	990	
2019-20	18,218	10,217.3	5,108.7	1,377	
2020-21	18,673	10,472.8	5,236.4	1,615	

Chart 1 compares the budgeted amount for road funding over the forward estimates to the funds proposed for the special account and the level of funding proposed under a guarantee that 50 per cent of net fuel excise revenue will be spent on roads. The model proposed by the AAA, while below the current level of expenditure, will grow in line with excise revenue and provide a meaningful guarantee that the Federal Government will maintain an adequate level of funding on roads into the future.

Chart 1: Budgeted v Guaranteed Minimum Road Funding

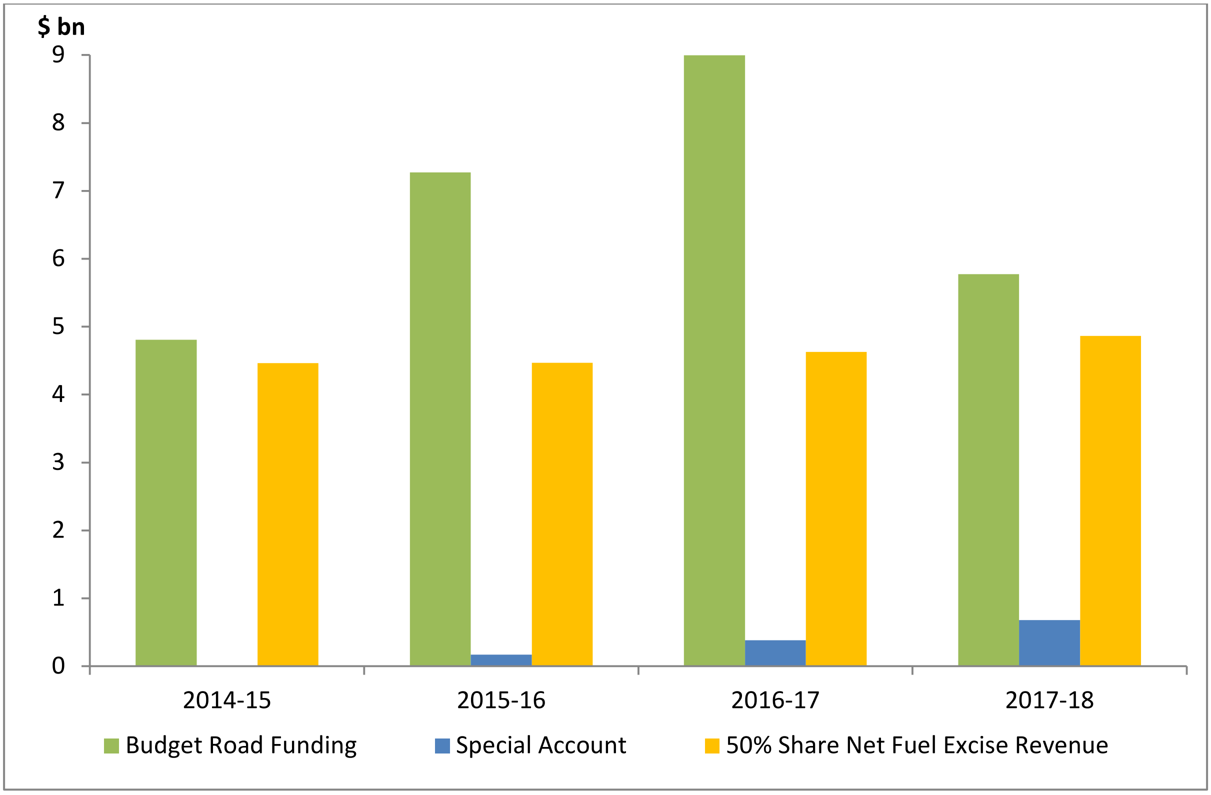
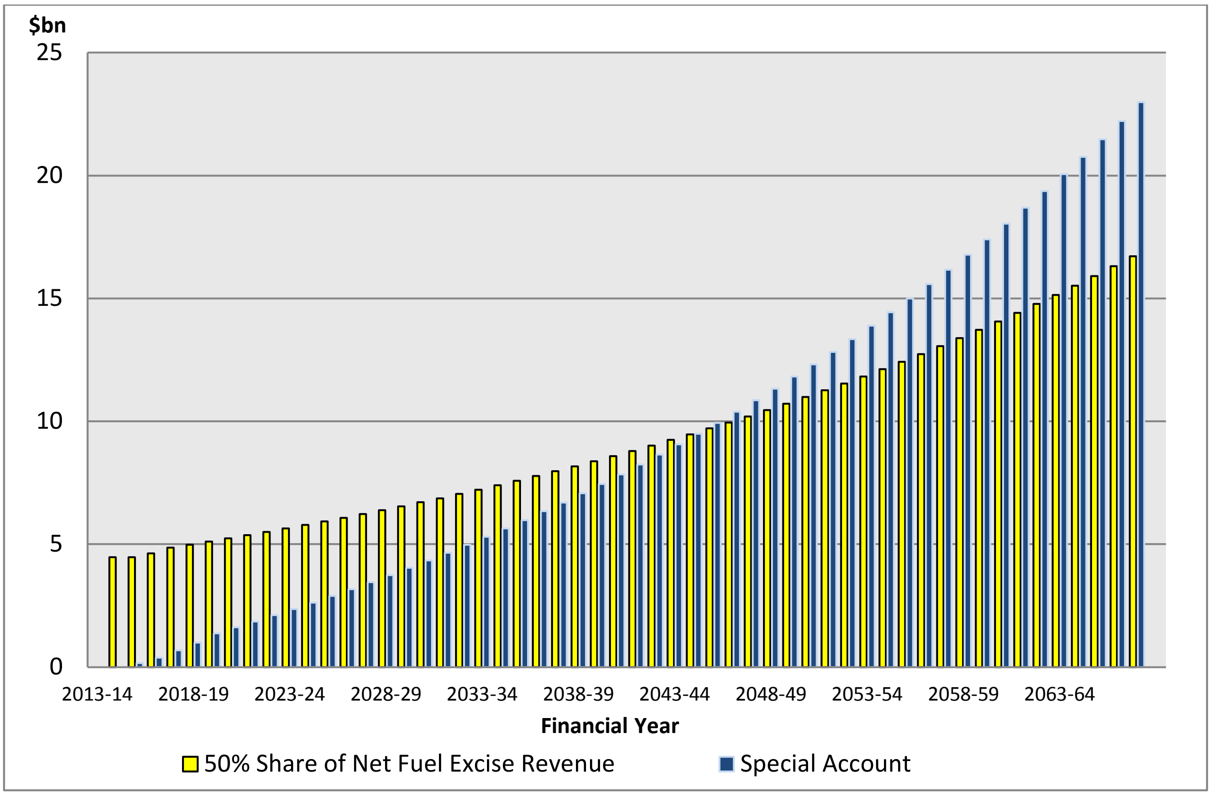


Chart 2, over page, illustrates the projected growth in minimum road funding under the proposed special account and compares this with the AAA's proposed alternative, based on a 50% share of net fuel excise revenue.

In the near term, the guaranteed level of funding under the Government's proposed model is inadequate and is only a fraction of the current levels of road funding.

In the longer term, there is a concern about the sustainability of the special account as it attracts an increasing proportion of the total fuel excise revenue. In particular, given that it is specified that funds allocated from the special account must be paid to the states and territories through the COAG Reform Fund there is a question as to whether in the longer term this will result in increasing pressure to displace other mechanisms for Federal Government funding of roads, principally, the Infrastructure Investment Program, which itself is made up of a number of smaller programs each providing targeted funding for particular projects, including the Investment Road and Rail program, Roads to Recovery program, the Black Spot program and the Bridges Renewal Program.

Chart 2: Projected Minimum Road Funding



Historical Analysis

Table 3, over page, provides a historical analysis of fuel excise revenue compared with Federal Government expenditure on roads back to 1998-99. Over this period the Federal Government has raised revenue of $127.2 billion but has expended only $52.7 billion on roads. The AAA maintains that this is a poor return to motorists – with just 41.4 per cent of fuel excise taxation revenue being reinvested in the crucial transport infrastructure used by over 70 per cent of the population.

Had the model proposed by the AAA been in place – that a minimum 50 per cent of net fuel excise revenue be set aside for road funding – an additional $10.8 billion would have been invested over this period. This would have been sufficient to more rapidly progress urgently needed projects, such as completion of the duplication of the Pacific Highway, or significant upgrading of the Bruce Highway.

Table 3: Historical Analysis – Shortfall in Actual Road Funding

Financial Year	Net Petroleum Products Excise ($m)	Road Expenditure ($m)	Expenditure/ Revenue (%)	AAA Model (Minimum 50% Net Excise) ($m)	Difference (AAA Model v Actual Expenditure) ($m)
1998–99	8,475.8	2,861.5	33.8%	4,237.9	1,376.4
1999–00	8,680.3	2,744.5	31.6%	4,340.2	1,595.7
2000-01	8,816.4	2,321.4	26.3%	4,408.2	2,086.8
2001-02	9,156.3	2,803.4	30.6%	4,578.2	1,774.8
2002-03	9,581.7	2,535.5	26.5%	4,790.9	2,255.4
2003-04	9,650.1	2,528.9	26.2%	4,825.1	2,296.2
2004-05	9,770.9	2,790.5	28.6%	4,885.5	2,095.0
2005-06	9,518.7	5,414.4	56.9%	4,759.4	-655.0
2006-07	9,299.8	3,407.7	36.6%	4,649.9	1,242.2
2007-08	9,142.7	3,104.6	34.0%	4,571.4	1,466.8
2008-09	8,689.6	5,599.5	64.4%	4,344.8	-1,254.7
2009-10	8,802.9	5,669.3	64.4%	4,401.5	-1,267.9
2010-11	8,581.5	3,676.2	42.8%	4,290.8	614.6
2011-12	9,037.1	7,261.4	80.4%	4,518.6	-2,742.9
Total	**127,203.8**	**52,718.8**	**41.4%**	**63,601.9**	**10,883.1**