



Infrastructure
New Zealand

Crombie Lockwood Tower
Level 16, 191 Queen Street
PO Box 7244
Victoria Street West
Auckland 1142
New Zealand

Phone: +64 9 377 5570
Email: office@infrastructure.org.nz

Submission to the Ministry of Transport on its discussion document *Driving Change: Reviewing the Road User Charges System*

20 April 2022

1. Introduction

- 1.1 Infrastructure New Zealand welcomes this opportunity to make a submission on the Ministry of Transport's consultation on possible changes to the Road User Charges (RUC).
- 1.2 This is Infrastructure New Zealand's submission on the discussion document titled *Driving Change: Reviewing the Road User Charges System*.
- 1.3 This submission focuses on the strategic and technical aspects of RUC and so does not focus on operational policy matters, e.g. requirements around displaying an RUC licence.
- 1.4 If you have questions or queries, please feel free to contact me – Claire Edmondson, Chief Executive – at claire.edmondson@infrastructure.org.nz.

About Infrastructure New Zealand

- 1.5 Infrastructure New Zealand is New Zealand's leading infrastructure member association and the leading advocate for New Zealand's infrastructure sector. We promote best practice in national infrastructure development through research, advocacy and public and private sector collaboration. Our members come from diverse sectors across New Zealand and include infrastructure service providers, investors and operators.

General comments

- 1.6 While this submission does not comment on aspects regarding operations, Infrastructure New Zealand supports changes that will make the RUC system more efficient, easier to administer and easier for motorists in terms of compliance.
- 1.7 This consultation provides an opportunity to pause and consider whether the approach to prioritising and allocating funds from the National Land Transport Fund (NLTF) to the National Land Transport Programme remains fit for purpose and demonstrates value for money. We will rely on other submitters to comment on the appropriateness of the Investment Prioritisation Method in terms of delivering the best value for money.
- 1.8 This consultation has come at a time of increased volatility in fuel prices, made worse by Russia's invasion of Ukraine. The seriousness of the issue has already resulted in a rare move from the Government to reduce the petrol excise duty by 25 cents per litre for the three months starting 15 March. The Government has also reduced the RUC by 36 percent across all legislated rates from late April till late July 2022, that is, for RUC purchased from late April. It is important to note that the reductions do not seek to

change behaviour (to increase motor vehicle use) but to provide some relief to motorists in light of highly volatile fuel prices and a cost-of-living crisis.

- 1.9 The RUC is a distance-based charge, that is, the higher the distance travelled, the more RUC that needs to be purchased. This may seem straightforward and reasonable at first, however, a distance-based charge assumes the choice to drive is relatively elastic. This is not the case in practice. Not all New Zealanders have access to adequate and rapid/frequent public transport and/or public transport infrastructure, e.g. at capacity park and ride facilities.
- 1.10 There is sufficient evidence showing that lower income households are often forced to live further away from city centres and/or where they work. For these households, a distance-based charge has even more financial implications given private vehicle use may have characteristics of inelastic demand, i.e. these households are unable to easily switch to another mode easily. Infrastructure New Zealand is disappointed the discussion document does not consider this equity issue.

2. Context

- 2.1 Infrastructure New Zealand's position is that all vehicles using roads should contribute towards their funding, maintenance, repairs and upgrade. This includes electric vehicles (EVs).
- 2.2 Infrastructure New Zealand submits that RUCs should be introduced on all powered (non-petrol) and unpowered vehicles, based primarily on weight. This will result in EVs contributing towards the land transport system, too, even though the amount contributed by an EV is likely to be a small amount.
- 2.3 We note that light EVs are currently exempt from paying RUC until 31 March 2024 and heavy EVs are exempt until the end of 2025. The recent fuel price volatility has seen a rapid increase in sales of hybrid and electric vehicles. Besides this fuel price volatility, the uptake of EVs is steadily increasing as more vehicle brands are offering EVs and as pricing becomes more competitive. EVs also provide significant cost savings in the long run. The market dynamics have changed so much that we are not convinced by the suggestion that the removal of subsidies – such as not charging RUC – would any longer have an impact on EV sales.
- 2.4 We do not believe there is a need for a slow phasing in of RUC for EVs either. A full, immediate introduction is appropriate, especially in light of other fiscal policy measures such as the Government's Clean Car Discount scheme.
- 2.5 Infrastructure New Zealand is nonetheless not opposed to the use of RUC exemptions to vehicles using newer low-carbon fuels such as hydrogen as a stop-gap measure given their purchasing and operating costs are currently likely to be much higher.

3. Use of RUC

- 3.1 The revenue collected from RUC is currently dedicated to the NLTF. The NLTF in turn funds the building, maintenance and operation of our land transport system, which includes public transport, road safety, and walking and cycling infrastructure.
- 3.2 We submit that RUC should continue to be collected and used for this purpose only. We do not believe RUC is the appropriate mechanism to be accounting for externalities. We accordingly do not support using RUC to charge motorists for externalities such as air or water pollution or accidents.
- 3.3 The consultation document states that *“managing externalities through pricing could be a fairer way to allocate costs and benefits of transport options and it could be used to influence travel or purchasing decisions”*. This comment is likely to generate significant debate. Firstly, negative environmental externalities are already being managed through pricing via the Emissions Trading Scheme component which is applied to all fuels. Similarly, road accidents are already being addressed by the Accident Compensation Corporation scheme. We are therefore concerned the discussion document is considering adding further externality charges to the RUC. We are also concerned that the discussion document ignores the potential ‘double-dipping’ and ‘over-recovery’ that is likely to occur.
- 3.4 Secondly, the statement is likely to generate a submission point from other submitters that positive externalities should also then be rewarded, e.g. freight trucks directly contributing to economic growth and the gross domestic product. And, at the same time, other submitters may state that cyclists should then pay their fair share as well.
- 3.5 The discussion document suggests that managing negative environmental externalities through pricing could change behaviour. We are not convinced the introduction of a further externality charge would necessarily change behaviour, especially where that charge is “priced” into the RUC. The Emissions Trading Scheme component/levy has been “priced” into fuel prices and has not necessarily changed behaviour. Any further added cost would simply become a revenue generating scheme. The Auckland Regional Fuel Tax is another example where the extra fuel tax has been absorbed by motorists as part of the fuel price and has not necessarily changed behaviour. While this regional fuel tax was not geared to change behaviour, the fact remains that managing externalities through pricing that is lumped onto the RUC is highly unlikely to change behaviour.
- 3.6 It is for this primary reason that Infrastructure New Zealand does not support the consideration of including congestion charging (presumably as a surrogate of a congestion charge) into RUC either. Further, we are disappointed the discussion document appears to have little to no regard for the extensive work that has already been undertaken regarding the case for introducing congestion charging/road pricing in Auckland through *The Congestion Question* project, which the Ministry of Transport and Waka Kotahi NZ Transport Agency have both been involved in. The discussion document also falls short of taking into consideration the Transport and Infrastructure

Select Committee inquiry on congestion pricing in Auckland which, amongst others, recommended that the Government progress legislation to enable New Zealand cities to use congestion pricing as a tool in transport planning.

- 3.7 Infrastructure New Zealand submits that changes to the RUC system must:
- take into account other related work programmes
 - ensure that 'double-dipping' or 'over-recovery' is avoided.

4. Conclusion

- 4.1 Infrastructure New Zealand thanks the Ministry of Transport for the opportunity to submit on its discussion document.
- 4.2 The discussion document notes that should Ministers decide to make changes following this consultation process, there will likely be several packages of amendments to the RUC system (regulations and changes to the Road User Charges Act 2012). We look forward to continuing to engage with the Ministry on changes to the RUC system.



Claire Edmondson
Chief Executive
Infrastructure New Zealand