

## Fuel Is A Staple, Not A Sin

15 May 2012

Yes, the fuel excise is an old, creaky tax but it's not the only transport tax that needs reform. Making private vehicle travel a miserable experience will not win votes - or fix the problem, writes Ian McAuley

In the period of pre-Budget speculation there was an expectation that mining companies would lose their exemption from diesel fuel excise. The Greens, in particular, were keen to see the exemption abolished and were understandably disappointed when the Government left it untouched.

But perhaps it would be better for the Greens and others to seek more fundamental reforms of fuel taxes, which carry more than just this one distortion.

Transport fuels, including diesel, gasoline and ethanol, attract an excise of 38.143 cents a litre, a rate which has remained unchanged since the Howard government abolished indexation in 2001, and which raises just under \$15 billion a year in public revenue.

It would raise more but for an exemption for non-road use of these same fuels, an exemption estimated to cost \$7 billion a year in forgone revenue. About 40 per cent of the exemption is claimed by the mining industry, 30 per cent by agriculture, and the balance by other industries such as fishing and rail transport. In view of the expected expansion of the mining industry, Treasury expects this cost to rise strongly over the next few years.

The Greens' case for abolishing the exemption for mining is understandable. The miners got off lightly when the Henry Review proposals for a 40 per cent super profits tax was watered down to the much more limited Resource Rent Tax, and because of the contribution of these fuels to greenhouse gas emissions such an exemption does not align with the carbon pricing policy.

But to the extent that off-road fuel use does not contribute to road wear, traffic congestion or local pollution (almost all such use is remote from population centres), there is a case for at least some exemption from excise duty applying to any industries using these fuels for purposes other than road transport.

The Greens implicitly acknowledged this when they argued that farming should continue to be eligible for exemption — an argument with clear political logic but which is hard to defend in terms of policy consistency.

Excise itself is a messy legacy of Federation, when the Commonwealth's taxing powers were mainly limited to customs duty. Excise was used to raise a few "internal" taxes, which were focused on some "luxury" or "immoral" items of domestic consumption, cigarettes and alcohol in particular, and on gasoline which was used by the small number of indolent rich who could afford automobiles. (In economic terms such taxes are called "sumptuary" taxes; in everyday language they are called "sintax".) Also, 100 years ago, broad taxes such as today's GST would have been much harder to collect.

Tax reform is difficult in a climate of stridently aggressive politics. When Labor was in Opposition it almost brought down the Howard government with its scaremongering about the GST, and it is now suffering the same scaremongering from the Coalition in relation to the carbon tax and mining taxes.

The Greens, however, have the benefit of being able to stand aside a little from these fights, and may be in a position to push for a fundamental review of taxes on transport fuels — something more comprehensive than simply picking out the miners' exemption. Although transport contributes only 13 per cent of Australia's greenhouse gas emissions, it is a source more amenable to change than others. Cars and trucks have a much shorter economic life than power stations, our vehicles are fuel inefficient on average, and our urban dwellers could be much better served by public transport.

The Henry Review recommended comprehensive road user charging, a system which could cover a number of costs. It would obviously cover road construction and maintenance, greenhouse gas emissions and local pollutants (noise and particulate emissions). If set high enough it would help eliminate congestion and would support investment in cycling and public transport. Such a cross-subsidy is easily justified, because every person who uses some mode other than road contributes to the convenience of road users.

The technology for such a system is not far off. Even now many vehicles are fitted with electronic tags for toll roads, but our road tolls are very inequitable and distortionary. They encourage "rat running" on to untolled roads, contributing to congestion and pollution. Tolls do not vary with congestion, and they do not vary with

time of day — the shift worker who must get to town at 2am pays the same toll as the 9-5 commuter who could have used public transport. But GPS systems, applying to all road use, could distribute the costs much more fairly and efficiently than tolls.

State and federal governments have been unenthusiastic about restoring fuel indexation and even more reluctant to plan for comprehensive road user charging. But there are ways it may be possible to get a degree of support.

First, is to dispel the notion that Australia is a vast country where we must drive long distances. In reality, Australians live a very urbanised lifestyle. Most of us cling to a narrow coastal strip that stretches from Cairns to Port Lincoln, with a couple of "islands" thrown in — Tasmania and Southwest Western Australia. Our human geography is more like that of Japan, Sweden or Norway than the USA, which is more evenly distributed over a large land mass.

Second, a well designed system of road user charging could actually see a reduction in transport costs in rural, remote and outback Australia. Road use in these areas does not contribute to congestion or local pollution. While road construction costs in the bush are high, the principle that funding of state and national highways is a collective responsibility rather than a local one is well established. The greatest costs would fall on urban peak time CBD commuters.

Third, as pointed out in the Henry Review, we presently have an inequitable balance between charging for vehicle use and for vehicle ownership. In a country with high motor vehicle ownership, registration and compulsory insurance fees, which bear no relationship to distance driven, are close to a poll tax — one of the most regressive taxes. Road user fees should relate to use, not ownership. Similarly if the revenue from stamp duties could be absorbed into user fees, the burden of changing to more fuel-efficient new or used vehicles would be lessened.

Fourth, and most important politically, the environmental movement must shake off its "anti-road" image. For many years the urban transport choice has been presented as "roads versus public transport". The reality is that our cities have poor roads and poor public transport (and even worse provision for cycling). Roads don't just carry commuters going to CBD office jobs. They carry freight, tradespeople travelling with their equipment, people with complex travel patterns, and workers working odd hours.

If, by constructing metro systems, we succeed in getting higher urban consolidation, we will need better roads to support freight and trade tasks in these regions, and to segregate motor vehicle traffic from pedestrians and cyclists (while ensuring that commuters, students and shoppers are served with public transport). European pedestrian and cycle friendly cities provide illustrative models: a quick examination on Google Maps of cities like Zurich and Utrecht reveals that these cities are served by well designed limited-access ring roads connected to long-distance highways.

Even though the Greens themselves have not been part of the strident "anti-road" movement, they suffer from the association people make with such movements. A few years ago, for example, a spokesperson for a lobby opposing a freeway near Brisbane cited "personal mobility" as being inimical to social control. That sort of association doesn't go down very well with the tradesperson living in the outer suburbs or with the carer regularly driving an elderly relative to a clinic.

Fifth, and associated with the above point, respect must be shown for people's lifestyle choices. Many Australians are opting for a medium or high density and largely car-free lifestyle, but many others seek a suburban lifestyle, and some may even get their thrills from doing up an old Falcon GTHO. When they do adopt such a lifestyle, they should have the means to keep their carbon footprint as low as possible.

A policy approach of forcing people onto public transport by making private vehicle travel more miserable will meet with political resistance. An approach of making public transport more attractive will work far better. Public transport, in common with so many government services like health and education, suffers when it is seen as welfare for the poor rather than a shared asset.

It doesn't have to be this way. Nor should we sentence those who are not fortunate enough to have jobs suited to public transport to waste their lives and burn precious fossil fuel in traffic jams.