

## Attachment III

### **Question 1 - What are the advantages and disadvantages of using RUC to recover more than the direct costs of building, operating, and maintaining the land transport system?**

- a. There are no advantages to using RUC to recover more than the direct cost of building and maintaining the land transport system.
- b. RUC is an easily understood method of providing funds for the NLTP to be used to fund the maintenance of the network that heavy vehicles cause damage to.
- c. RUC requires some refining to account for all the diesel-powered light vehicles that are now caught in the system. However, RUC is still the best way of capturing these vehicles.

As a single source, single use tax system hypothecated to the NLTP RUC must be left to fill this function until such time as a fully reviewed NLTP funding system that takes account of the new fuel types and much heavier electric vehicles (electric buses for example) is developed that may take its place.

There are only disadvantages to watering down an already accepted process for recovering heavy vehicle costs that damage our transport network. The current RUC system can easily accommodate new fuel types if required.

### **Question 2 - If RUC should not be used for recovering more than road costs, what alternative approach might be appropriate for recovering those other costs?**

- a. Externalities such as emissions and climate change are already considered to some degree in setting the tax on each fuel type. Continuing this approach for emissions is an appropriate method of gaining revenue that is to be used for expenditure outside the NLTP.
- b. The whole transport funding issue needs to be reviewed taking a holistic approach to covering any additional areas such as externalities. However, the basic fundamental of RUC and Fuel excise tax being collected and hypothecated to the NLTP for maintenance of the transport network must be a fundamental unpinning principle of any new system.

***Road transport causes a range of positive and negative impacts, and these are referred to as externalities.***

*These externalities can include environmental damage such as air or water pollution, noise pollution, road damage, accidents, or other harms such as congestion. Other than road damage, these externalities are not explicitly considered when setting RUC, or FED rates for petrol vehicles*

*We want to look at whether we should be able to consider some of these other costs when setting RUC; especially those associated with greenhouse gas emissions. At the same time, we need to ensure that we continue to raise sufficient revenue for the transport system to operate in a way that achieves our other transport outcomes.*

*The transport sector is responsible for over 21 percent of New Zealand's gross domestic greenhouse gas emissions and road transport is the fastest-growing domestic source of greenhouse gas emissions. Around two-thirds of our transport emissions come from cars, SUVs, utes and vans. Heavy road vehicles are responsible for around a quarter of transport greenhouse gas emissions, even though they are only responsible for six percent of the total annual vehicle kilometres travelled (VKT) on our roads*

*Decarbonising land transport is going to be challenging and a comprehensive set of measures will be needed to achieve the reductions recommended by the Climate Change Commission. We are going to*

*need a wide range of incentives (and potentially disincentives) to move away from fossil fuels. The RUC system could provide the Government with greater flexibility to manage the economic and equity impacts of its greenhouse gas reduction commitments, while continuing to raise enough revenue to maintain the road transport network*

*Pricing externalities can recover these other costs – fully or partially – by passing them on to those who created the costs. 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.*

### **USING THE RUC ACT TO DO MORE THAN RECOVER ROAD COSTS**

*Using RUC to charge motorists for externalities other than road damage would be a significant shift in taxation policy generally and RUC policy specifically.*

*It would also raise questions about how to address equity between motorists paying RUC and those paying FED as it would not be as easy to apply similar distance-based charges to petrol vehicles. We would need to decide if any charges for externalities were in addition to the current charges, or if they were only used to create discounts (such as the current EV RUC exemptions)*

*Alternatively, we would change the way we calculate RUC to include new elements, such as contribution to air pollution, in the calculations. This might shift costs between users but not change the total raised overall.*

*We would also need to consider if the revenue from a component of RUC associated with externalities would be 'land transport revenue'. Would it be part of the National Land Transport Fund (NLTF), spent on the transport system directly, or should it be allocated to a fund that addressed the externality? For example, a charge for noise pollution could be used to fund local councils to install sound insulation in affected houses near local roads*

### **Question 3 - What advantages and disadvantages are there to considering externalities when setting RUC rates?**

- a. There are no advantages to using RUC to recover more than the direct cost of building and maintaining the land transport system.
- b. RUC is an easily understood method of providing funds for the NLTP to be used to fund the maintenance of the network that heavy vehicles cause damage to.
- c. RUC requires some refining to account for all the diesel-powered light vehicles that are now caught in the system. However, RUC is still the best way of capturing these vehicles.
- d. The emissions trading scheme is the model for considering emissions and their effect on climate change. Emissions come from vehicle fuels so the greater use the greater emissions produced. Therefore, tax on emission source is the appropriate way of considering these externalities. The funds are not linked to the NLTP and can be used to offset or subsidise low emission vehicles into the fleet. Such vehicles would still pay their RUC to cover the costs of damage to the network.
- e. Until the whole Transport Funding system is reviewed, and a holistic approach taken to revenue gathering to meet the maintenance requirements of our transport network then changes such as proposed are only going to lead to further inequities and potential perverse outcomes. Taxing fuel source will not lead to that and will allow the government to use the funds collected for climate change and emission reduction programmes.

### **Question 4 - If externalities were to be considered, what criteria could be used to determine what externalities should be taken into account in setting RUC rates?**

- a. Emissions from transport contribute to climate change so taking emissions into account will automatically be taking climate change into account. The current method of taking emissions into account is a suitable and easily administered method that allows the collected funds to be directed to climate related reductions.
- b. Until the whole Transport Funding system is reviewed, and a holistic approach taken to revenue gathering to meet the maintenance requirements of our transport network then changes such as proposed are only going to lead to further inequities and potential perverse outcomes. Taxing fuel source will not lead to that and will allow the government to use the funds collected for climate change and emission reduction programmes.

**Question 5 - If externalities were to be considered, how should these costs be set?**

- a) Based on the emissions produced by the various emission producing fuels. Fuel tax would be the method of collection either through tax at pump or from wholesaler.
- b) Until the whole Transport Funding system is reviewed, and a holistic approach taken to revenue gathering to meet the maintenance requirements of our transport network then changes such as proposed are only going to lead to further inequities and potential perverse outcomes. Taxing fuel source will not lead to that and will allow the government to use the funds collected for climate change and emission reduction programmes.

**Question 6- Would charges for externalities be in addition to the current form of RUC, and potentially used to address the externalities directly, or be a core part of total land transport revenue?**

- a) The need to be collected outside of the RUC system and not become part of the core transport funding system.
- b) Until the whole Transport Funding system is reviewed, and a holistic approach taken to revenue gathering to meet the maintenance requirements of our transport network then changes such as proposed are only going to lead to further inequities and potential perverse outcomes. Taxing fuel source will not lead to that and will allow the government to use the funds collected for climate change and emission reduction programmes.

**Question 7 - How would vehicles not paying RUC be affected?**

- a) All vehicles should be paying either RUC or tax to contribute to the NLTF for funding the maintenance of our transport network. Collection of a tax outside of the RUC system would allow the funds to be used to subsidise low emission vehicles or other mechanisms to reduce the transport emission outputs.
- b) Until the whole Transport Funding system is reviewed, and a holistic approach taken to revenue gathering to meet the maintenance requirements of our transport network then changes such as proposed are only going to lead to further inequities and potential perverse outcomes. Taxing fuel source will not lead to that and will allow the government to use the funds collected for climate change and emission reduction programmes.

***One of the key recommendations from the Climate Change Commission was for Government to encourage the production and use of low greenhouse gas-emissions fuels.***

*One of the main reasons to allow climate policy or greenhouse gas emissions to be considered when setting RUC rates is that vehicles powered by low-carbon fuels are currently more expensive than their fossil fuel counterparts. They either require the use of fuels that are more expensive to*

*purchase, such as biofuels, or require the purchase of new and more expensive vehicles, as in the case of EVs. In the case of hydrogen, both the vehicles and the fuel are significantly more expensive than diesel or electric alternatives. These costs are expected to reduce as global production increases and technology matures, but at this stage that timing is very uncertain.*

*Providing an exemption or reduced rate of RUC could help support and promote the uptake of new fuels. This assistance would be most relevant while the transition to low-carbon fuels, and to lower cost technologies, is occurring. This assistance would most likely be through exempting vehicles subject to RUC (as happens with EVs), or through charging a lower RUC rate than equivalent petrol or diesel vehicles, to offset higher operating costs. RUC exemptions or reduced rates would most likely need to be temporary, as with the current EV RUC exemption, in order to minimise any long-term risk to the funding of the land transport system at a time when there are significant demands for investment.*

### ***There are risks with changing the purpose of RUC***

*Providing reduced costs for operators of vehicles using low-carbon fuels may be supported, especially by those receiving the benefit. However, we do not have good information on how important the existing RUC exemptions have been in promoting EV uptake, or what effect exemptions or discounts would have for supporting the uptake of other low-carbon fuels. This would need to be better understood before further exemptions could be proposed and this is why we are seeking feedback on this issue. There may also be other opportunities where it would be more efficient or effective to spend NLTF revenue (that is, revenue from RUC and FED) directly to reduce carbon emissions rather than forego RUC revenue. Potentially a RUC exemption could also be treated as an expense under the NLTF and subject to the same processes for approval as other funding decisions, through the Government Policy Statement on land transport.<sup>13</sup> This would ensure that the impacts of any exemptions on transport revenue were fully considered.*

*RUC exemptions and reduced RUC rates risk undermining the key principle of the RUC system, that vehicle owners should pay for the use of roads including pavement damage. They would also reduce the incentive to choose vehicle combinations that minimise damage to the road network.*

*Some in the transport sector may not support using RUC to provide discounts or exemptions because it would undermine the principles of the RUC system, that vehicle owners should pay for their use of the roads. Wider use of discounts or exemptions could also lead to a decline in funds available for building and maintaining transport infrastructure and the likelihood of additional increased costs for other road users to offset the expected revenue loss.*

*As well as offering a tool to support new technologies through RUC exemptions or discounted rates, there is a strong correlation between transport emissions and the distance or vehicle kilometres travelled (VKT), when vehicles are fuelled by fossil fuels. As a distance-based charge, RUC is a direct way to influence distance travelled and it would be possible to set RUC rates to also reflect greenhouse gas emissions of the fuels being used. However, these are already addressed through the ETS which is included in the price of all transport fuels so accounting for them in RUC rates would duplicate costs.*

*Using RUC to provide support separately from the ETS may also cause issues where vehicles can use more than one fuel, and these fuels would have different greenhouse gas emissions which may be subject to different incentives. For example, some hydrogen fuel cell electric vehicles can also recharge their batteries directly from an electrical source, which makes them an electric vehicle under our current law. Should these types of vehicles be considered hydrogen or electric vehicles?*

*RUC exemptions come at a cost in terms of reduced revenue for the NLTF. Any revenue not collected (foregone), that is not offset by increased costs imposed on other RUC vehicles, will increase the*

*pressure on the NLTF. The foregone revenue will need to be balanced against the Government's existing GPS investment priorities that may need to be deferred or delayed as a result of the reduced revenue. We are interested in your views as to whether it would be more efficient or effective to spend NLTF revenue directly to reduce carbon emissions, rather than forego RUC revenue.*

**Question 8 - What are the advantages and disadvantages involved in changing the purpose of the RUC Act so that climate policy generally, or greenhouse gas emissions specifically, can be considered when setting RUC rates?**

- a) There are no advantages to changing the purpose of the RUC Act so that climate policy generally or greenhouse gas emissions specifically can be considered when setting RUC rates.
- b) RUC is an easily understood method of providing funds for the NLTP to be used to fund the maintenance of the network that heavy vehicles cause damage to.
- c) RUC requires some refining to account for all the diesel-powered light vehicles that are now caught in the system. However, RUC is still the best way of capturing these vehicles.
- d) The emissions trading scheme is the model for considering emissions and their effect on climate change. Emissions come from vehicle fuels so the greater use the greater emissions produced. Therefore, tax on emission source is the appropriate way of considering these externalities. The funds are not linked to the NLTP and can be used to offset or subsidise low emission vehicles into the fleet. Such vehicles would still pay their RUC to cover the costs of damage to the network.
- e) Until the whole Transport Funding system is reviewed, and a holistic approach taken to revenue gathering to meet the maintenance requirements of our transport network then changes such as proposed are only going to lead to further inequities and potential perverse outcomes. Taxing fuel source will not lead to that and will allow the government to use the funds collected for climate change and emission reduction programmes.

**Question 9 - What advantages and disadvantages would there be if there was an explicit requirement to consider RUC exemptions as part of the development of the Government Policy Statement on land transport?**

- a) Consideration of RUC exemptions should not be part of the GPS as RUC is required from all network users to maintain the network through the NLTF.
- b) The GPS could be used to indicate subsidies available for low emission vehicles or to assist in providing low emission alternatives to the motor car particularly in larger cities where options are available. The funding coming from emission producing vehicles through a fuel tax system.
- c) Until the whole Transport Funding system is reviewed, and a holistic approach taken to revenue gathering to meet the maintenance requirements of our transport network then changes such as proposed are only going to lead to further inequities and potential perverse outcomes. Taxing fuel source will not lead to that and will allow the government to use the funds collected for climate change and emission reduction programmes.

**Question 10 - What are the advantages and disadvantages of enabling consideration of greenhouse gas emissions when setting RUC rates?**

- a) Refer to question 8 and 9.

**Question 11 - How should the RUC rates be set for vehicles that could use more than one fuel and these fuels had different greenhouse gas emissions?**

- a) This does not need to be a consideration if the tax is on fuels used and not on RUC. Keep RUC on all vehicles for the maintenance of the network and let a system outside of the NLTF take care of the rest.
- b) Until the whole Transport Funding system is reviewed, and a holistic approach taken to revenue gathering to meet the maintenance requirements of our transport network then changes such as proposed are only going to lead to further inequities and potential perverse outcomes. Taxing fuel source will not lead to that and will allow the government to use the funds collected for climate change and emission reduction programmes.

**Question 12 - What advantages and disadvantages are involved in using NLTF revenue to reduce carbon emissions rather than foregoing RUC revenue?**

- a) RUC is required from all vehicles through the NLTF to maintain the network and allow mobility using the most appropriate vehicles. Foregoing RUC to reduce emissions will only put additional pressure on an already overloaded NLTF.
- b) Tax on fuel used outside the NLTF system is the best way of targeting high emission vehicles and providing funds to assist in mode choice efforts and lower emission vehicles.
- c) Until the whole Transport Funding system is reviewed, and a holistic approach taken to revenue gathering to meet the maintenance requirements of our transport network then changes such as proposed are only going to lead to further inequities and potential perverse outcomes. Taxing fuel source will not lead to that and will allow the government to use the funds collected for climate change and emission reduction programmes.

***Including fuel type, origin, and blend in RUC rates***

Questions 1 to 12 generally apply to funding and where the funding is applied in the NLTP.

Questions 13 to 89 are less relevant to the RTC and apply more to the industry and specific users.