ROAD TRANSPORT FORUM NEW ZEALAND INC

ROAD TRANSPORT FORUM NEW ZEALAND'S SUBMISSION ON LAND TRANSPORT MANAGEMENT (REGIONAL FUEL TAX) AMENDMENT BILL

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Representation

Road Transport Forum New Zealand (The Forum) is made up of several trucking associations for which the Forum provides unified national representation. The Forum members include Road Transport Association New Zealand, National Road Carriers, and New Zealand Trucking Association. The affiliated membership of the Forum is some 3,000 individual road transport companies which operate 16-18,000 trucks involved in road freight transport as well as companies that provide services allied to road freight transport.

The Forum is the peak body and authoritative voice of New Zealand's road freight transport industry which employs 22,600 people (3.0% of the workforce), has a gross annual turnover of $6 billion and transports about 70% of New Zealand's land-based freight on a tonne/kilometre basis.

Initial comments on the Bill

The Road Transport Forum is opposed to this Bill and the concept of a regional fuel tax (RFT).

The explanatory notes and general policy statement at the beginning of this Bill alludes to a philosophical proposition that by imposing additional taxation on a regionally constrained population of road users including transport and freight providers (specifically liquid fuel consumers), expenditure of the revenue generated can then be used to support capital investment, debt recovery, and the operational costs for some undefined project or purpose that may or may not have any economic merit. The consequences of this Bill are simply a tax on consumers and economic productivity and efficiency, a point that was recognized when automotive diesel was subject to residual taxation due to the Marsden point refinery levy remaining in place after the refinery expenditure was fully recovered. Subsequently the Government of the day agreed in the early 1990s that there was little logic in continuing with a tax on diesel and subsequently removed it enabling diesel vehicles to be liable for only the GST on automotive diesel and the applicable Road User Charges (RUCs).

We note that the explanatory notes as well as the Bill's introductory clauses are silent on stating an express purpose statement for this new class of revenue generated entirely from road users. This is a disturbing oversight in our view.

The road freight sector cannot support the concept of taxing automotive diesel for commercial transport vehicles within a regionally constrained geographic network. The management aspects, fairness and enforcement complexity of the tax appear to be impractical and will not provide for an equitable and efficient scheme.

Instead of commenting on the Bill clause by clause, the Forum directly addresses our issues and concerns with it as they are fundamental to the RFT concept.

Effect of undefined purpose or scope

The Bill presents a model that by implication suggests equitable benefits from investment in transport projects through the funding application process. A RIS or similar document would be required before any project application would be funded by the RFT revenue.

In addition to the lack of stated purpose the scope of proposals to be considered appears unlimited. This is a disturbing oversight and the Bill should include a defined scope or range of projects and initiatives that could be justifiably considered within the RIS process. We appreciate these may be set out in the supporting regulations but since this is an enabling Bill it should give some general direction as to what is acceptable. This is even more important as the Bill provides for other regional councils other than Auckland to implement their own regional fuel tax regime in the future.

The Forum also suggests the RIS or proposed qualifying process should be required to take into account the full community impact of the revenue generation as well as an economic benefits profile for consideration by the "Joint Approving Ministers". The approach put forward is to help bring some objectivity to the project selection process.

The fairness and equity aspect

The folly of the RFT is that the benefits are unlikely to be equitable to vehicle users and owners (the end line RFT payers) and despite the quality of the project evaluation process the likely beneficiaries are going to be discrete population groups. The real difficulty is ensuring some measure of equitability toward those primarily funding the revenue stream.

The simple facts are a RFT cannot be fair and equitable and though the Bill attempts to ring-fence a region to reflect that the tax is localised to that region and can only be spent within that. By its very design the RFT introduces additional inequities and gross inefficiencies into the transport revenue stream.

The RFT tax base is broad and those least able to pay are going to be the worst impacted, not only due to the direct tax on the fuel they purchase (this group tends to have the least fuel-efficient vehicles and lives on the city fringes and therefore travel the longest distances to work, school and recreation) but by the consequential cost impacts on freighted and transported goods. These consumer products will suffer prices increases of an indeterminate value. Typically, food and processed food grade products go through many transport phases before they surface at the retailer. If each part of these production processes (apart from the out of region primary sourcing of the raw product) occurs in the Auckland regional area the cost impacts will be obvious.

Commercial truck transport

The collateral inflationary impacts have been ignored by the RIS but there is little doubt the cost of consumer goods will increase. It is also likely that production costs will increase, resulting in the vulnerability of some employment opportunities. The economic impacts have the potential to spread beyond the Auckland region because with no defined RFT border administrative difficulties faced by truck operators determining what fuel and travel distance is liable for tax and what isn’t becomes a freight administrators nightmare.

The implications for placing the tax on diesel fuel have not been thought through and seems to reflect an assumption that commercial operators will be willing payers. Trucks already pay substantial RUCs into the NLTF and the simplicity of the post 2012 RUC scheme has proven successful despite the new coarser model of 2012 being difficult to come to terms with initially. So now having accepted a more efficient RUC model, Auckland domiciled transport operators and out of region operators are presented with the complexities of administering a localised RFT.

What might appear as a simple everyone pays single fuel purchase RFT for car owners presents to transport operators a significantly complex set of circumstances. Purchasing fuel for a commuter car driven within the RFT region is an entirely different proposition to operating a fleet of trucks with 400/500 litre fuel tanks that travel outside and within the RFT region on a daily basis. Reconciling the RFT liability across those vehicles will be expensive and time consuming and the costs will inevitably have to pass through to the end consumer.

Are there revenue target risks?

The RIS highlights some vulnerabilities to the tax collected.

Price spreading is an obvious problem and as the RIS states could have a negative impact on market competition and the retail fuel sector. NZ has held to an unregulated fuel retail market for some years and any attempt by central government to hinder this to shore up the purity of the RFT would be viewed as some poor man's form of market control and market manipulation.

Transport operators will make every effort to reduce the tax liability for their clients and their own business needs and the trucking industry is internationally recognised for the inventive approaches it employs to minimize external cost impacts. This doesn't mean that by minimising the RFT impact they will not pass on the actual costs. Profit margins are so tight that to stay competitive the inter-regional transport companies will adopt out-of-region fuelling practices that reduce the payment of the RFT wherever possible. Given the size of fuel tanks and the regularity with which heavy duty vehicles refuel the revenue impact could be reasonably significant.

Section 65N

This section provides specific functions for the Transport Agency to act as an RFT administrator for fuel user refunds and rebates, and as principle enforcement agent. The Forum is far from convinced the Agency has the resources for this role. The RUC and fuel excise duty compliance section appears to be under resourced at present and it is inevitable that the end user demands for RFT recoveries, administration and auditing of exempt users will increase exponentially after the RFT comes into force.

Section 65O

Section 65O presents various scenarios covering the liability to pay the RFT though these are largely from a fuel distributor perspective. Some clauses such as 65O (1)(ii)(B) are purely speculative but place an obligation on the fuel distributor to know if the end user is going to be using the fuel in an enterprise within the RFT region. That particular scenario assumes the distributor knows the mind of the end user of the fuel. The balance of 65O (2) and (3) includes other exemption scenarios.

Section 65O through the use of scenarios and examples just confirms the complexity of what the Land Transport Management (Regional Fuel Tax) Amendment Bill is all about. That is, attempting to implement an altruistically pure tax concept that has the potential to flounder due to it administrative complexity at all levels.

Is there a better way?

There is no denying Auckland has some serious infrastructure and traffic management problems that need to be resolved. The do nothing cost impacts to business and Auckland economy are well documented. To achieve progress Auckland needs additional funding over and above the normal funding assistance rates (FAR) distribution and this could be generated from a small nationally spread addition to fuel excise duty that is targeted for distribution through an amended financial assistance rate process to regions but based on a population basis as first order of need. An algorithm could be employed to aid the distribution model and help achieve the required support for specified approved projects.

There is no ideal model for large capital works in a particular region and there will always be the assertion that Auckland gets funding that is generated from outside that particular region no matter what the revenue approach.

Conclusion

It appears there are two approaches available to the Government given the speed by which they wish to have the RFT in place. A very simple nationally derived revenue model that retains the status quo framework of RUC and fuel excise duty together with their existing administrative and compliance frameworks. This could be coupled with an amended FAR system that retains the present integrity of the funding and distribution process. Alternatively, there is the proposed RFT model with all its anomalies, complexity, inequities and questionable revenue generation.

The Forum would like to put on record our support for the concept of a variable congestion charging scheme on a number of key, congested routes within Auckland. We believe this is a far more efficient, fair and equitable form of revenue gathering, which also could be designed to address demand management objectives. There is broad political support for such a scheme and there is no doubt it would prove easier to administer, comply with and eliminate the loopholes and work-arounds so apparent with the RFT.

Finally, the Forum requests to appear before the Committee to further discuss the significant issues raised in this submission.