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Impacts of heavy vehicle reform - submission

Increasing uptake of heavy electric vehicles is important to reduce emissions from transport and heavy industry. Obvious ways to assist with this uptake are to abolish the Fuel Tax Credit Scheme that incentivises diesel use and rapidly expand electric bus fleets.

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INTRODUCTION

The Australia Institute welcomes the opportunity to make a submission to the Productivity Commission's study into *Impacts of heavy vehicle reform*. According to the call for submissions document, this study will contribute to "increasing transport productivity for all heavy vehicles…and support the uptake of heavy zero emissions vehicles."[1]

Despite this laudable goal, the Commission appears determined to ignore two elephants in the heavy vehicle policy room. The first is the Fuel Tax Credit Scheme (FTCS), Australia's largest fossil fuel subsidy,[2] one that Productivity Commission Chair Danielle Wood once urged the Federal Government to "embrace" if it "is serious about

[1] Productivity Commission (2025) *Impacts of heavy vehicle reform: Call for submissions*, https://www.pc.gov.au/inquiries-and-research/heavy-vehicle-reform/

[2] Campbell et al (2024) *Australia's Fuel Tax Credits and the debate over fossil fuel subsidies*, https://australiainstitute.org.au/report/australias-fuel-tax-credits-and-the-debate-over-fossil-fuel-subsidies/

budget repair."[3] The FTCS is possibly the biggest barrier to the uptake of zero emissions heavy vehicles in Australia, yet it is not mentioned in the call for submissions document.

The second is buses, a word that appears just once in the call for submissions document. While buses may be fewer in number than other kinds of heavy vehicles, they are particularly important for two reasons. First, their inner-city and school transport roles mean that their emissions have considerable health impacts. Second, Australia's bus fleets are largely either owned by governments or operate on government contracts. This means that governments can direct the rapid uptake of electric buses in ways that they cannot do for heavy vehicles in other industries.

Fuel tax credits slow uptake of heavy EVs

A key barrier to uptake of heavy electric vehicles (EVs) is Australia's Fuel Tax Credit Scheme (FTCS). This scheme refunds the excise that applies to diesel to heavy vehicle users, either in part (on road) or in full (offroad, particularly for mining). The Scheme reduces government revenue by over $10 billion per year, making it one of the largest cost items in the Federal Budget.[4] It costs more than either the operation of the army or the air force.

The disincentive that the FTCS creates for zero emissions heavy vehicles is obvious. It makes diesel cheaper for heavy vehicles, undermining the economic case for switching to zero emissions vehicles. This is acknowledged by mining companies such as Fortescue:

> As currently designed, the Diesel Fuel Tax Credit (DFTC) is a disincentive for investment in decarbonisation of diesel-using assets such as heavy mobile equipment (which account for more than 50 per cent of some miners' scope 1 emissions). Furthermore, it significantly reduces the effectiveness of decarbonisation incentives provided by the Safeguard Mechanism. In short, current policy settings favour burning diesel (and producing emissions) over decarbonizing diesel assets.[5]

[3] Wood, et al (2023) *Back in black? A menu of measures to repair the budget*, https://grattan.edu.au/report/back-in-black-a-menu-of-measures-to-repair-the-budget/

[4] Australian Government (2025) *Budget 2025-26, Budget Paper No. 1*, https://budget.gov.au/content/bp1/index.htm

[5] Fortescue (2025) *Incentivising Diesel Decarbonisation*, https://content.fortescue.com/fortescue17114-fortescueeb60-productionbbdb-

Fortescue's report also recognises that "[u]sing cheap diesel dramatically impacts the internal rate of return (IRR) on any investment in decarbonisation."

Incidentally, Australia's fuel excise is low by international standards. According to a report from the Parliamentary Budget Office, "Australia has the 12th lowest level of fuel tax out of 44 countries for fuel used on road and is ninth lowest for fuel used for non-road purposes".[6]

Eliminating the FTCS, or reducing its generosity to specific industries, would save billions each year that could be invested in zero-emissions vehicle infrastructure or in directly expanding state government electric bus fleets.

While the focus of the Productivity Commission's current inquiry appears to be on-road trucks and freight transport, there is likely to be a strong link between on-road and off-road heavy electric vehicles. All such vehicles are likely to share related battery technology, charging infrastructure and servicing/technical skills. Increasing the demand for zero emissions heavy vehicles either on-road or off-road will help to develop the required ecosystem of skills and technology needed for the transition to zero emissions vehicles and equipment.

In the words of Commissioner Barry Sterland, "You would have to think about the interaction [of on-road heavy vehicles] with offroad use."[7] Yet the Commission refuses to do exactly this thinking.

The omission of this obvious point continues the Productivity Commission's unusual defence of the FTCS fossil fuel subsidy. The Commission even refuses to use the word 'subsidy' in relation to the FTCS, unlike researchers at the OECD, International Energy Agency, Grattan Institute and other research organisations.[8]

While opposed to support most industries, the Commission is happy to see Australia's mining industry supported by this multi-billion imposition on the public. While once of the view that the FTCS had "no good rationale", Productivity Commission Chair

8be5/media/project/fortescueportal/shared/documents/publications/reports/incentivising-diesel-decarbonisation-250902.pdf

[6] Parliamentary Budget Office (2022) *Fuel taxation in Australia*, https://www.pbo.gov.au/about-budgets/budget-insights/budget-explainers/fuel-taxation-australia

[7] Hansard (2025) Senate Economics Legislation Committee Estimates Friday, 10 October 2025, https://parlinfo.aph.gov.au/parlInfo/download/committees/estimate/29003/toc_pdf/Economics%20Legislation%20Committee_2025_10_10.pdf;fileType=application%2Fpdf#search=%22committees/estimate/29003/0000%22

[8] Campbell et al (2024) *Australia's Fuel Tax Credits and the debate over fossil fuel subsidies*, https://australiainstitute.org.au/report/australias-fuel-tax-credits-and-the-debate-over-fossil-fuel-subsidies/

Danielle Wood now "distances herself" from her earlier opinions based on the research the oversaw at the Grattan Institute.[9] Her claim that she is "not able to give an opinion" and the Commission's claim to Senator Barbara Pocock that "government guidelines" mean "it would not be appropriate for the chair of the Productivity Commission to provide an opinion on a matter of policy" undermine the entire reason the Productivity Commission exists – to advise on policy.[10] They are also contradicted by other official advisory bodies – Climate Change Authority Chair Matt Kean has no hesitation in calling the FTCS "insane" and calling for its reform.[11]

Electric buses

Direct investment in electric buses is the other easily available lever for governments to boost the fleet of zero emission heavy vehicles. State and territory governments have a direct and clear role in the purchase and management of bus fleets, as most of Australia's buses are either publicly owned or funded through government contracts. Yet the number of electric buses in Australia remains small, as of late 2022, merely 0.2% of Australia's registered buses were electric.[12]

Through direct government investment, this fleet could be expanded quickly. Indeed, the federal government could redirect savings from FTCS reform into investments in electric bus fleets for state and territory governments.

More zero emissions busses would not only reduce carbon emissions by buses, but would facilitate the uptake of other zero emission heavy vehicles by assisting with the rollout of related infrastructure and demand for relevant skills. Beyond these benefits, there would be a range of other benefits to public health and economic productivity, Australia Institute (2023) research found:

- Reduced noise pollution: electric buses are up to 20 dB(A) quieter than diesel buses.

[9] McGrath-Cohen (2025) *Danielle Wood distances herself from past comments on fuel tax credit*, https://www.afr.com/politics/federal/australian-news-live-israel-says-gaza-ceasefire-now-in-effect-activists-return-to-australia-after-flotilla-arrests-20251010-p5n1hw?post=p59dj7

[10] Hansard (2025) Senate Economics Legislation Committee Estimates Friday, 10 October 2025, https://parlinfo.aph.gov.au/parlInfo/download/committees/estimate/29003/toc_pdf/Economics%20Legislation%20Committee_2025_10_10.pdf;fileType=application%2Fpdf#search=%22committees/estimate/29003/0000%22

[11] Cropp (2025) *Labor's climate chief takes aim at 'insane' diesel subsidy*, https://www.afr.com/policy/energy-and-climate/labor-s-climate-chief-takes-aim-at-insane-diesel-subsidy-20251022-p5n4e3

[12] Denniss, Quicke and Parrott (2023) Stuck in the slow lane: Electrification of buses in Australia, https://australiainstitute.org.au/report/stuck-in-the-slow-lane/

- Better air quality: buses make up just 0.5% of Australia's registered vehicles, but account for up to 6% of key air pollutants and produce roughly 1.4m tonnes of CO2 equivalent pollution each year—equivalent to the ACT's total annual emissions. Electric buses emit no CO2 or other pollutants while operating, thus removing a significant source of air pollution.
- Reduced road congestion: as electric buses are popular with passengers, they are likely to increase public transport use and reduce private car use.
- Reduced fuel and maintenance costs: while initial purchase costs are higher for electric buses than diesel buses, the reduced fuel, maintenance, and pollution costs have seen multiple studies conclude that there is a strong economic case for their uptake.[13]

CONCLUSION

Decarbonising heavy vehicles is essential for reducing emissions in the problematic transport and heavy industry sectors. The current study is an opportunity to recommend big, simple reforms that would really make a difference to the uptake of heavy electric vehicles.

But this would involve recommendations that powerful interests in mining, transport and other industries would not like. The Productivity Commission has a poor record in speaking truth to power, a key reason for its declining influence and the regular calls for its abolition.[14]

[13] Denniss, Quicke and Parrott (2023) *Stuck in the slow lane: Electrification of buses in Australia*

[14] See Denniss (2023) *High time Jim Chalmers aimed reform agenda at institutions like Productivity Commission*, https://australiainstitute.org.au/post/high-time-jim-chalmers-aimed-reform-agenda-at-institutions-like-productivity-commission/