

Submission to the Productivity Commission Inquiry: Investing in cheaper, cleaner energy and net zero transformation

Executive summary

- The heavy vehicle road freight transport industry requires further consultation to ensure the complexity and detail is understood prior to bringing in any new frameworks, policy, or charges.
- SME's are currently being priced out of making the transition to net zero.
- We recommend appropriate incentives are provided to support the transition of the road freight industry to transform to net zero.
- Funding and policy frameworks must be supported by effective regulation that provides significant improvement to heavy vehicle access, regulatory reform, and harmonisation.
- Policy frameworks must provide guidance for business through industry-led but government supported provision of information and research.

NatRoad is pleased to provide the following submission in response to recommendations of the interim report of the inquiry by the Productivity Commission to identify and report on priority reforms in 'Investing in cheaper, cleaner energy and the net zero transformation'.

As Australia's largest association representing thousands of road freight transport businesses, NatRoad advances the interests and key issues for this \$96 billion industry and its members. Our board is made up of individuals who run transport businesses and have members from owner-drivers to road freight and large fleet operators, representing all aspects of the industry. Recognised as a leading voice for industry, we work with government, industry, members, and partners to improve the working environment for all road freight transport operators.

In our Stronger Economy, Lower Emissions policy paper issued in July 2024 we offered a clear set of recommendations and a policy transition pathway advocating that Governments should accelerate the four critical road freight low emission pathways – efficiency and optimisation, electrification, hydrogen, and low carbon liquid fuels. These pathways need a transition strategy with a clear and cost-effective policy framework to de-risk investment decisions for our industry. We need a fair go transition – one which protects jobs and working conditions, supports and protects small business, and ensures that regional communities are not left behind or saddled with higher costs.

This submission builds on those previous positions by responding to three of the Commission's draft recommendations that are most relevant to Australia's road freight transport industry:

Recommendations 1.2, 1.3 and 1.4.

We commend the Productivity Commission for undertaking this inquiry and would welcome any opportunity to discuss this submission with the Commissioners in further detail, or to clarify any of the points made.

Draft recommendation 1.2: The Safeguard Mechanism should cover more industrial facilities and carbon leakage provisions be improved.

NatRoad has no comment on reducing the Safeguard Mechanism threshold to cover more *industrial facilities*. However, we do not support lowering the Safeguard Mechanism threshold to cover more road freight transport fleets. As there is currently no differentiation in the type of business or sector to which the threshold applies, our position is;

(a) differential thresholds should be introduced (consistent with sector-specific carbon values in recommendation 1.4), OR

(b) the threshold should not be lowered as it will negatively impact road freight operators.

While it is true that fleets (facilities) emitting more than 25,000 tonnes of CO₂-e yearly are already required to measure their emissions under the National Greenhouse and Energy Reporting Scheme, expanding their compliance obligations to incorporate Safeguard Mechanism requirements will be a costly burden for this sector. Road transport is already one of the most highly regulated industries, with operators struggling with low profitability and rising costs. Adding yet more (and significantly more complex) compliance obligations may be insurmountable for many operators.

NGERS reporting is an accounting exercise whose costs are already borne by reporters, but compliance with Safeguard Mechanism regulations requires additional expertise to manage new carbon obligations, production metrics (tonne-kilometre reporting), and credit unit trading. This exposes fleets to increased risks and costs of external professional advisors, assurance auditors, and significant annual penalties for not achieving emission intensity reduction targets.

A critical part of the Safeguard Mechanism, a declining baseline averaging 4.9% each year, will be nearly impossible for operators to meet across their entire vehicle fleets. Few will ever likely generate Safeguard Mechanism Credits from over-achieving against their ever-reducing baseline, because their ability to decarbonise any vehicle application is closely tied to their customers' appetite to pay a 'green premium' for low emission transport services and access to public and private charging and refuelling facilities. The lack of a shared-use fast charging network for trucks limits the use cases for electric trucks and increases the burden for trucking operators wishing to deploy such vehicles. Similarly, the lack of hydrogen refuelling infrastructure will be a significant barrier for deploying both hydrogen fuel cell electric vehicles and hydrogen internal combustion engine vehicles.

Regarding the use of Australian Carbon Credit Units (ACCUs) for Safeguard Mechanism compliance, ACCUs are not an effective mechanism for trucks. That is, unless the Land & Sea Transport (LST) methodology is changed to enable higher financial value, upfront crediting, simplified administration, and a host of other improvements to incentivise its use by transport fleets, as NatRoad outlined in its submission (Attachment A) to the recent [LST Method 2015 Sunsetting review](#) by the Department of

Climate Change, Energy, the Environment and Water. Establishing an LST project to earn ACCUs can have administrative costs upwards of \$100,000 over a 7+ year project period – an administrative cost burden that no small or medium sized fleet can absorb.

Draft recommendation 1.3: Introduce an emissions-reduction incentive for heavy vehicles and phase-out policy overlaps for light vehicles.

NatRoad agrees heavy vehicles require emissions reduction incentives but disagrees with the Commission's implied use of a single mechanism in its use of the word "an".

The concept of a technology-neutral incentive is fine in principle. But this approach only works in a properly functioning, economically rational market, which is not always the case in the heavy vehicle freight sector. Policy and incentives need to target specific barriers and market failures, of which there are several that are slowing decarbonisation of heavy vehicles. Further, the ways in which new clean technology costs impact fleet operators vary widely between technologies, operator types and sizes, and locations¹. This mix of factors requires a targeted suite of policies and incentives, rather than a utopian single instrument.

Limitations of single-incentive approaches include:

- the current ARENA-type grants do not cover the majority of the road freight market because every project requires something different/innovative and the administration and application costs are prohibitive for all but the largest operators
- an ACCU-style carbon price is not effective in transport for the many reasons described in our DCCEE submission on the Land and Sea Transport Method, noted earlier
- voucher schemes like those used in the USA to offset a higher purchase price of a zero-emission electric or hydrogen truck do not cover one of the most important decarbonisation pathways of all (energy efficiency).

The Commission's interim report outlines five options for a new emissions-reduction policy for heavy vehicles, which we address individually as follows.

Option 1: Include a carbon component in a future road user charging scheme?

We disagree that including a carbon component in a road user charging scheme will give fleets an incentive to switch to lower-emissions vehicles. It is simply another cost that smaller fleets will not have the ability to fund as the incentives to purchase a more carbon efficient vehicle are not in place. Road pricing and infrastructure reform are critical for road-related revenue to fund a safe road network. There is currently no link between Road User Charges and infrastructure reform for the heavy vehicle industry.

¹ For example: Renewable diesel is constrained due to higher energy unit price (\$/L) which is an operating cost (opex); battery-electric and hydrogen vehicles are mainly constrained by 2-4x higher upfront purchase price (capex); all zero emission alternatives require increased network investment to improve access to charging and refuelling infrastructure; while efficiency technologies suffer less from cost barriers but instead lack of availability and low industry awareness.

Incentives for cleaner heavy vehicles could still be incorporated into a fair road pricing system, such as phasing out stamp duty on new purchases of cleaner heavy vehicles, lowering tolls for Euro VI and low emission heavy vehicles, and abolishing tolls for electric and zero emission vehicles.

Option 2: Apply the Safeguard Mechanism to fuel wholesalers?

Applying the Safeguard Mechanism to fuel wholesalers is preferable to direct application to fleet operators, however it requires a pass-through mechanism from fleets to customers. Otherwise, it will only increase fuel costs for small fleets with little market power for cost recovery, as learned over a decade ago when carbon pricing was applied to transport fuels under the Clean Energy Act 2011 (Cth), which contributed to political change and its eventual repeal.

Option 3: Increase the rate of fuel excise paid by users of heavy vehicles?

We do not support removing fuel tax credits for heavy vehicles to increase the rate of fuel excise paid, unless it is part of broader national reform of road user charging to build a fair and sustainable system for funding the safety and maintenance of the road network.

Option 4: A targeted policy for low-carbon liquid fuels?

NatRoad supports targeted policies to increase supply and lower prices of low-carbon liquid fuels. The Australian Government should implement an Australian low carbon fuel standard based on verified carbon intensity, with stable, predictable, and achievable targets and reduction trajectories. As outlined in our submission on low carbon liquid fuels (Attachment B). For example, blending certified renewable diesel into the national diesel supply at low rates of 5% or 10% could achieve similar reductions in emissions (5-10%) across the sector without imposing high fleet costs to switch engine technology, without the need for additional distribution and refuelling infrastructure (e.g. charging), and at a much faster rate than waiting for similar penetration of zero emission technologies into the fleet (though these should also be supported – see below).

Option 5: A targeted policy for low-emissions vehicles?

The creation of emissions intensity standards for heavy vehicles is complex and costly. The simplicity of recently establishing a standard for light vehicles in Australia is not a good example for their application to heavy vehicles. Any path to such standards for trucks will be much longer, more complex, and more costly. Overseas approaches for heavy vehicles required long phase-in periods of at least 5-10 years.

In other words, while potentially effective, this will be a long-term measure, requiring a suite of other interim measures in the meantime. We recommend the government consult with NatRoad and other industry associations on the cost-effectiveness of establishing such standards.

For direct subsidies, any potential grant/voucher/subsidy/incentive needs to be conceived as an emissions incentive, not one just for electric and hydrogen trucks. Emissions reductions from features that improve fuel efficiency can be applied across the entire diesel fleet (99.9% of all trucks on the road). Improving energy productivity through efficiency and optimisation is a key component for reducing both costs and emissions in all areas of road freight transport.

This could start with something as simple as a green star rating for trucks (noting the Commission has recommended ratings as effective tools for other sectors in its Interim report). NatRoad understands a Smart Truck Rating was an action in the former National Freight and Supply Chain Strategy and in the current NSW Towards Net Zero Freight Policy, and that one is currently under trial.

NatRoad previously recommended a suite of incentive measures to address these various challenges, and we would welcome the opportunity to discuss these in more detail with the Commission or the government. This should include a significant focus on information sharing to expand awareness and education in the sector, which has not been included as part of the Commission recommendations.

In our Stronger Economy, Lower Emissions policy paper (Attachment c) we set out a clear policy transition pathway:

- A \$3 billion Clean Transport Fund
- A low and zero emission heavy vehicle recharging and refuelling strategy
- Industry-led but government supported provision of information and research
- Significant improvement to heavy vehicle access
- Regulatory reform and harmonisation
- Road reform, including phasing out stamp duty, implementing road standards, and road pricing reform
- Design and implementation a low carbon fuel standard
- Design and implementation of a Supply Chain Scope 3 emissions reduction target for major transport customers, backed with an obligation for emissions reduction to be contracted in a fair and financially sustainable manner.

The Clean Transport Fund should include four components:

- \$1 billion in road freight decarbonisation financing for vehicles and infrastructure
- \$1 billion in low emission vehicle incentives, with priority for SME operators
- \$500 million for investment in low/zero emissions heavy vehicle recharging and refuelling
- \$500 million to boost efficiency.

This integrated approach will accelerate the options most likely to make a material contribution to reducing carbon emissions, give trucking operators more choice, bring forward the point of cost parity being reached, and enable the market to deliver low carbon solutions.

1.4 Apply frameworks to achieve emissions targets at least cost and improve transparency.

We agree that policy cost-effectiveness must be consistent with an efficient pathway to reduce emissions. National target-consistent carbon values to use as agreed common benchmarks are important and need to be based on evidence. Right now, however, there is not enough data to use as benchmarks for road freight. NatRoad and our members could be part of developing these benchmarks to support broader improvement in emissions measures based on evidence, but government needs to recognise that data has value and that operators should be rewarded or incentivised for sharing theirs.

Transport is not like industrial processes which involve steady-state conditions where savings are more predictable and reliable. The quantum of carbon savings from a fleet can vary widely from emission reduction opportunities across vehicle types, applications, duty cycles, and operating environments. Even with similar opportunities in different fleets, results can vary widely. A carbon price benchmark needs to accommodate this variability in either a range of values or more granular segmentation.

We do not support the integration of ACCUs into every national emissions-reduction policy for heavy vehicles. As described in greater detail in our LST method review submission (Attachment A), the financial value of an ACCU is grossly inadequate. At a current market value around \$35/tCO₂e, the ACCU price is exponentially lower than the equivalent funding provided by ARENA for electric truck projects, which ranges between \$700 - \$1,000 per tonne CO₂e. The submission describes various other constraints preventing small fleet participation, and we also note that the method has already sunsetted, so transport fleets currently have no way of generating ACCUs.

To achieve net zero at the lowest possible cost, measures to aid the transition in road freight must address energy efficiency, which is the least cost path to reducing GHG emissions, especially in the near-term. Funding for improving efficiency via NatRoad's suggested Clean Transport Fund would provide support for advancing demonstration, commercialisation, information programs, and incentives to increase High Productivity Freight Vehicles, digitisation and optimisation, efficient vehicles and tyres, and driver training to manage fuel consumption to subsequently reduce emissions and help operators save money and become more resilient.

Funding and policy frameworks must be supported by effective regulation that provides significant improvement to heavy vehicle access, regulatory reform, and harmonisation, including increasing axle weight limits for electric trucks (aligned nationwide), increasing as-of-right gazetted approval, and implementing an automated access approval system.

Policy frameworks must also provide guidance for business through industry-led, but government supported, provision of information and research. NatRoad has already developed a set of resources (Get Fleet Fit and Driving Decarbonisation programs²) but much more needs to be done. We support the establishment of a new forum for building collaboration with industry and government for the decarbonisation of Australian road freight. This forum would promote collaboration, share knowledge, build the evidence base for decisions, and build broad support for policy reforms.

Importantly, policy frameworks must provide a workforce skills transition strategy. Alternative fuels, energy, and drivetrains will require the right standards, and a workforce with the right skills and training.

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² Get Fleet Fit educational resources www.natroad.com.au/decarbonisation/