Commission Meeting

3 July 2025

Canberra — 9.00am – 4.00pm

Agenda

s 22 (1)(a)(ii)

[redacted]

4. General updates

4.1 Significant activities: Chair and Commissioners *(9.15-9.30)* [o]

s 22 (1)(a)(ii) [redacted] [o]

5. Inquiries, Commissioned work and PC initiated research

5.1 Inquiry/commissioned work progress report discussions

s 22 (1)(a)(ii) [redacted]

5.1.3 Pillar 5 - Investing in cheaper, cleaner energy and the net zero transformation – *Barry Sterland & Martin Stokie (11.30-12.30)*

s 22 (1)(a)(ii)

s 22 (1)(a)(ii) [redacted]

5.1.5 National Competition Policy – Interim Report
– *Alex Robson & Catherine de Fontenay* (13.30-14.15) [p]

s 22 (1)(a)(ii) [redacted]

[redacted]

[o] oral
[p] papers provided
^ circulated separately
* Paper to be circulated at meeting
** Paper available on request
# paper expected

Commission Meeting Minutes

DRAFT

Minutes of the meeting of the Productivity Commission

Thursday 6 June 2025, Melbourne

Commissioners:	Catherine de Fontenay
Danielle Wood	Angela Jackson
Alex Robson	Stephen King (online)
Julie Abramson (online)	Alison Roberts
Selwyn Button	Barry Sterland (online)
Joanne Chong	Martin Stokie
Staff:	
Lisa Studdert	Liz Callaghan
Rosalyn Bell	s 22 [redacted]
Anna Heaney	s 22 [redacted]
Jane Holmes	

Apologies: Nil

Acknowledgement of Country

Danielle Wood opened the meeting by acknowledging the Traditional Custodians of the lands on which the meeting took place and paid respects to Elders past and present.

s 22 (1)(a)(ii) [redacted]

4. General

4.1 Significant activities: Chair and Commissioners

s 22 (1)(a)(ii) [redacted]

s 22 (1)(a)(ii)

[redacted]

Danielle Wood reported that Treasury is considering road user charging policy and it is something the PC may work on.

s 22 (1)(a)(ii)

[redacted]

Inquiry / Commissioned advice

Agenda item 5.1.3

NCP 2025

Specific actions agreed by Commission

Action proposed for Commission consideration (copied from project submission key issues)	Action agreed	Comments/variations
Note progress and early bottom lines.	*Note and agree to the issue/action*	

Summary of discussion

s 22 (1)(a)(ii) [redacted]

Note: Commissioners met again on 18 June and agreed to include road user charging in the NCP study. The intent will be that the NCP study will flag this in the interim report and then consult and take this as far as possible for the final report. Where the work can be further developed after the October 2025 completion of the NCP study, the work will be taken on in the Pillar inquiries.

s 22 (1)(a)(ii) [redacted]

Inquiry / Commissioned advice

Agenda item 5.1.5.5

Pillar 5 – Investing in cheaper, cleaner energy and the net zero transformation

Specific actions agreed by Commission

Action proposed for Commission consideration (copied from project submission key issues)	Action agreed	Comments/variations
Provide feedback on draft recommendations	Note and agree to the issue/action	

Summary of discussion

Martin Stokie introduced the paper and noted the focus on three areas – mitigation, approvals and adaptation. Specifically, he mentioned: carbon pricing and lowering emissions, including for sectors like transport that are not fully covered; s 22 (1)(a)(ii) [redacted]

Carbon pricing

Commissioners discussed: s 22 (1)(a)(ii) [redacted] pricing for transport – both heavy and light vehicles; .

Approvals

s 22 (1)(a)(ii) [redacted]

Adaptation

Commissioners discussed: availability and useability of information to guide adaptation.

Key takeaways

- s 22 (1)(a)(ii) [redacted]
- On road user charging, the Commission asked the team to:
  - consider making the recommendation on road user charging consistent with the recommendation on consistent emissions reduction signals (e.g. by itemising the carbon value of transport emissions for light vehicles)
  - consider the impact on heavy vehicles/freight, particularly where alternative forms of transport don't exist
  - consult with the relevant Treasury team.
- s 22 (1)(a)(ii) [redacted]

Inquiry / Commissioned advice

Pillar 5 – Investing in cheaper, cleaner energy and the net zero transformation

Matters for Commission consideration (e.g. background, significant scope changes; project engagement plans; decisions on analytical approach, findings, or recommendations etc.)	• Review our draft recommendations and the narrative presented in the interim report.
Actions taken in response to previous CM (if applicable)	• NA
Recommended action for Commission	That the Commission: **Approves the interim report and draft recommendations**

Project timeline	Key dates	Status
Discuss policy proposal longlist	January 2025	Complete
Discuss policy proposal shortlist	February 2025	Complete
Detailed progress reports	May 2025	Complete
Draft recommendations	June 2025	Complete
Discuss interim reports	July 2025	<We are here>
Interim reports released	July – August 2025	
Discuss final recs and report	November 2025	
Final report to government	December 2025	

Provided by: Martin Stokie, Barry Sterland, Lou Will and P5 team

Date submitted: 26 June 2025

Executive summary

s 22 (1)(a)(ii)

[redacted]

Draft recommendations

» s 22 (1)(a)(ii) [redacted]

[redacted]

» [redacted]

[redacted]

s 22 (1)(a)(ii)

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

1. Reduce the cost of meeting carbon targets

s 22 (1)(a)(ii)

- [redacted]
- [redacted]
  - [redacted]
  - [redacted]
  - [redacted]
- [redacted]
  - [redacted]
  - [redacted]
  - [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted]

s 22 (1)(a)(ii)

[redacted]



[redacted]

The current Road User Charge provides an incidental, but limited incentive

Heavy vehicles that use public roads also pay fuel excise, but at a partial rate of 32.4 cents per litre. This partial rate is called the Road User Charge (RUC) and is intended as one means for heavy vehicle users to pay for construction and maintenance costs for the roads they use (the other being registration fees).[7]

Because the RUC is administered through the excise system, it provides somewhat of an incentive to reduce emissions. Heavy vehicle owners can currently avoid the RUC or pay less of it by switching to electric vehicles or by using more fuel-efficient vehicles.

However, the RUC is not a suitable emissions-reduction incentive for heavy vehicles. If it ever *were* to succeed in significantly reducing emissions, it would fail in its intended purpose of recovering road damage costs. For example, if many businesses switched to electric vehicles, emissions would be lower, but a large share of heavy vehicle owners would no longer be paying for their road use. Governments' aim should be for heavy vehicle users to pay both the costs of their emissions *and* the road damage they cause.

[redacted]

Also, in its current form the RUC creates no incentive in support of one potential option to reduce emissions: renewable diesel. Though not yet widely used, renewable diesel shows promise as a way of reducing emissions from long-haul freight. Several inquiry participants pointed to it as one of a group of low-carbon liquid fuels (LCLFs) that will be key to decarbonising transport in the long term (CITE). However, although it produces negligible emissions, renewable diesel is taxed at the same rate as normal diesel.

Figure 1.2 summarises the main emissions-reduction policies that apply in the transport sector.

Figure 1.2 – Emissions-reduction incentives in the transport sector and their issues

Vehicle type	Policies/incentives to reduce emissions	Issues
 **Passenger vehicles**	• New Vehicle Efficiency Standard (NVES) • Electric vehicle subsidies • Fuel excise incidentally creates an incentive to abate	• NVES and EV subsidies are duplicative – both promote the purchase of low-emissions vehicles
 **Light commercial vehicles**	• NVES • Fuel excise (except for off road drivers of LCVs)	• NVES and EV subsidies are duplicative – both promote the purchase of low-emissions vehicles
 **Trucks**	• Road User Charge (RUC), incidentally creates an incentive to abate	• Sector not covered by Safeguard Mechanism • RUC would fail in its intended purpose if it reduced emissions • RUC does not encourage LCLFs
 **Planes**	• Safeguard Mechanism	• Safeguard Mechanism does not cover the whole sector (with the current coverage threshold in place)
 **Trains**	• Safeguard Mechanism	• Safeguard Mechanism does not cover the whole sector (with the current coverage threshold in place)

Improve emissions-reduction incentives in transport

s 22 (1)(a)(ii)

[redacted]

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

One option would be to include a carbon component in any changes to road user charging in the future.

In the 2023 productivity inquiry, the PC recommended that governments introduce a new and more comprehensive system of road user charging to include:

- a basic charge for all road users based on how many kilometres they travel
- damage premiums for users of heavy vehicles
- congestion charges for road users on crowded roads (PC 2023a).

The PC also recommended that governments set out 'the appropriate transition pathway away from fuel excise' (PC 2023a).

In addition to the above components, the Australian Government could also ensure that any future road user charging scheme includes a carbon charge . On top other charges, road users would pay for every unit of

CO_2-e they emit, giving them an incentive to switch to lower-emissions vehicles or fuels This would result in emissions-reduction incentives applying to almost the entire transport sector.

One inquiry participant – the Climateworks Centre (qr. XX, p. Y) – argued for a carbon charge in a reformed road user charging system.

> A transformative step towards a more sustainable transport system would be the introduction of road pricing that internalises key externalities, such as greenhouse gas emissions and congestion … A key part of the design to achieve this might be consideration of emissions-based charging for vehicles.

s 22 (1)(a)(ii)

[redacted]

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

At least in the short term, another option could be to simply increase the rate of fuel excise paid by heavy vehicles.

This would be implemented by reducing the fuel tax credit rate. Currently, businesses that use heavy vehicles pay the full excise rate when they buy fuel and have some or all of it refunded through fuel tax credits.

- Businesses that use public roads receive a partial refund, the remainder being the RUC.
- Businesses that do not use public roads receive a full refund and thus pay no excise.

To increase the rate of excise paid by heavy vehicles, the Australian Government would need to reduce these refunds. This could be phased in over several years and thereby allow time for businesses to adopt fuel sources that don't attract a higher road use charge or more efficient vehicles or modes.

Removing fuel tax credits for heavy vehicles on public roads would mean that the excise they pay in effect has two components: the RUC and a charge for emissions. The latter would be the difference between the full rate and the RUC: 18.2 cents per litre (table 1.4). Avoiding the emissions charge would deliver a benefit of $68 per tonne of avoided CO_2.[8]

Table 1.4 – Fuel excise components if heavy on-road vehicles paid the full rate[a,b]

	Rationale	Per-litre excise rate
Road User Charge	Charging heavy vehicles for the damage they cause to public roads	32.4 cents
Charge for emissions	Charging heavy vehicles for their emissions	18.2 cents

a. Note label. **b.** Note label.

Source: Author (year); Author (year, year).

Refunds could also be reduced for off-public-road vehicles. They would still receive a partial refund and should be set in line with the ambition to encourage more efficient fuel and vehicle use.

An issue with this option is that it would not provide an incentive for heavy vehicle owners to switch to renewable diesel. As noted above renewable diesel is subject to the same excise rate as regular diesel. In theory renewable diesel could receive an excise discount, but in practice this is unlikely to be possible. Because renewable diesel is chemically equivalent to regular diesel, it is difficult to differentiate between the two for the purpose of administering fuel excise.

s 22 (1)(a)(ii)

[redacted]

[8] This was calculated by taking the diesel emissions factor – 2.7 kilograms of CO_2 per litre of fuel burned – and applying it to the excise rate. This notwithstanding, the fuel excise is best not considered an effective carbon tax, because renewable diesel, a zero-emissions fuel, is taxed at the same rate as regular diesel.

Inquiry / Commissioned advice

NCP 2025 - Interim Report

Matters for Commission consideration (e.g. background, significant scope changes; project engagement plans; decisions on analytical approach, findings, or recommendations etc.)	This paper provides the NCP short report.
Actions taken in response to previous CM (if applicable)	N/A
Recommended action for Commission	That the Commission: **Approves delivery to govt and/or publication of the report / paper**

Project timeline	**Key dates**	**Status**
Project start	March 2025	
EBLs	June 2025	
Interim to CM	July 2025	<We are here>
Interim to Govt	31 July 2025	
Final report	31 October 2025	

Provided by: Alex Robson, Catherine de Fontenay, Ben Mitra-Kahn and the team.

Date submitted: 25 June 2025

NCP 2025 – progress update and short report

- s 22 (1)(a)(ii) [redacted]
- [redacted]
- [redacted]
- We plan to do more work on road user charging for the final report.
- s 22 (1)(a)(ii) [redacted]

NCP 2025

Key points

- s 22 (1)(a)(ii) [redacted]
- [redacted]
- [redacted]
  - [redacted]
- [redacted]
  - [redacted]
- [redacted]
  - [redacted]
- **Other reforms to promote competition were canvassed in the 2024 National Competition Policy Study.**
  - High value reforms included: occupational licensing reforms to lower restrictions (being considered in Pillar 2); public procurement reform; data sharing; and road user charging (which the PC is considering further, following the Treasurer's public expression of interest in the reform).

s 22 (1)(a)(ii) [redacted]

[redacted]

s 22 (1)(a)(ii) [redacted]

Headline modelling results

s 22 (1)(a)(ii) [redacted]

During the course of the study, the Treasurer publicly indicated an interest in road user charging. The PC intends to further investigate this and is seeking more information to provide recommendations in the final report.

In the final report we intend to model the distributional impacts of the reforms using a Computable General Equilibrium model, as was done in the 2024 NCP report (PC 2024). This will involve using either the PC National model (PC 2024b) or the PC Regional model (PC 2024c) where inter-state friction is relevant for the analysis.

s 22 (1)(a)(ii) [redacted]

s 22 (1)(a)(ii)

[redacted]

s 22 (1)(a)(ii) The third is road user charging, which the Treasurer raised as an area of interest in June 2025 (box 2) (Chalmers 2025).

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Box 2 – Road user charging reform

In principle, user charges (prices) based on the efficient cost of provision should be used to fund road infrastructure. By giving drivers a clear signal about the cost of infrastructure, they would have an incentive to use it more efficiently. Moreover, there will be a signal to infrastructure providers where changes in road capacity are warranted. For these reasons, the PC has recommended road user charging (and wider road infrastructure reform) many times in the past.

There has been added impetus for reform related to the growth in use of electric vehicles.

The Commonwealth, state, territory and local governments spent around $39 billion in 2022-23 on the maintenance, upgrade and expansion of Australia's road network. Funding for road infrastructure through road taxes (broadly defined) is collected by all levels of government and totalled around $31 billion in the same year. Over the past couple of decades, public investment in road infrastructure has averaged around 30% of fuel taxes collected.

Fuel excise applies to all petrol and diesel vehicles as a charge of 50.8 cents per litre - it does not differentiate between these types of vehicles. There are various Commonwealth taxes and a different system of vehicle registration and transfer duty in each state and territory. Owners of fully electric vehicles do not pay fuel excise, and in some states, registration charges for these vehicles are reduced.

A road user charge is also levied on heavy vehicles on public roads on a per litre of diesel used basis. There are also registration charges that depend on truck type, number of axles and type of trailer. The government provides a tax credit on the fuel excise to some industries – such as mining and agriculture – where they do not use public roads.

Some states have attempted to overcome the weaknesses in the system of road funding by introducing distance-based charges for zero and low emissions vehicles (ZLEVs), but Victoria's was struck down by the High Court in 2023 as unconstitutional.

The decision of the High Court rules out state-based distance road user charges and means governments need to consider a national approach to road funding. This opens the opportunity to design a system that is less fragmented and better reflects the costs of providing and using road infrastructure.

Next steps

This is the interim report for this study, with a final report to be delivered to the Treasurer at end October 2025. The PC will continue to refine its measures for the potential impact of each reform, including road user charging, and produce modelled results. The goal is to provide advice on a preferred pathway to implement the reforms and an assessment of the economic and revenue impacts

We welcome feedback on our information requests and will continue to consult and engage on the issues, method and approach to the national competition policy reform program.