Commission Meeting

20 November 2025

Melbourne

Agenda

s 22 (1)(a)(ii)

[redacted]

4. Inquiries, Commissioned work and PC initiated research

s 22 (1)(a)(ii)

[redacted]

4.5 Pillar 5 – Investing in cheaper, cleaner energy and the net zero transformation – *Martin Stokie & Barry Sterland (14.15-15.15)* [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

Inquiry / Commissioned advice

Agenda item 5.7

Impacts of a heavy vehicle productivity reform package

Specific actions agreed by Commission

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

Summary of discussion

Martin Stokie introduced this paper, noting that Barry Sterland has joined the team since this paper was finalised. Martin advised that the request for advice has five productivity enhancing reforms for us to consider. Martin summarised the five proposals for Commissioners.

Commissioners discussed: s 22 (1)(a)(ii) [redacted] relevance of road user charging to the proposals.

Key takeaways

- The Commission noted the paper and agreed the next steps as outlined
- The Commission asked the team to consider whether road user charging would fall within the scope of the paper

Overall position of Commission on project submission

The Commission:

Noted progress and agreed next steps as outlined

Inquiry / Commissioned advice

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

Matters for Commission consideration	• The Pillar 5 inquiry report about investing in cheaper, cleaner energy and the net zero transformation is included for endorsement by the Commission
Actions taken in response to previous CM	• Team updated recommendations and finished drafting the report
Recommended action for Commission	That the Commission: **Approves delivery to govt and/or publication of the report / paper**

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	Complete
Interim reports released	July – August 2025	Complete
Quantitative work	October 2025	Complete
Discuss final recs	6 November 2025	Complete
Discuss final report	20 November 2025	<We are here>

Final report to government	December 2025

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

Date submitted: 13 November 2025

1. Reducing the cost of meeting emissions targets

s 22 (1)(a)(ii)

Fill gaps and eliminate overlaps in transport

Filling the emissions policy gap for heavy road transport

s 22 (1)(a)(ii)

Our interim report identified five policy options to incentivise emissions reductions in heavy road transport:

4. including a carbon component in a future road user charging scheme

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

The options vary in how they would drive decarbonisation, with some more technology neutral than others, and they have different advantages and disadvantages, including in relation to implementation (table 1.2).

Options 1 through 4 have several commonalities. Each of these options:

- could allow surrender of ACCUs (or SMCs, under option 2) as a compliance pathway. Expanding demand in carbon markets would require phasing to avoid contributing to 'boom–bust' dynamics (EY 2025, p. 49)
- would require LCLF Guarantee of Origin (GO) certificates. The Australian Government has already indicated the GO Scheme will be expanded to LCLFs (DCCEEW 2025)
- would require modifying the Safeguard Mechanism to avoid double counting of emissions
- would introduce an operational incentive, but not a purchase incentive. Compared with the light vehicles segment, operational incentives may be more effective for heavy vehicles because heavy vehicle buyers are more sensitive to changes in ongoing use and ownership costs.

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Table 1.2 – Not all policies are created equal

Advantages and disadvantages of different emissions policies for heavy vehicles

Option 1: Include a carbon component in a future road user charging scheme
• This option would involve levying a charge on heavy vehicle operators to reflect their carbon emissions. • It will likely never be feasible to directly monitor individual vehicles' emissions or fuel use, so their emissions would need to be estimated based on distance travelled and a model-specific emissions factor. • Using LCLFs or purchasing ACCUs should in principle allow operators to reduce their liability, but to do this they would need to be able to surrender LCLF GO certificates or ACCUs as a compliance pathway. Options to comply via arrangements through retailers would be important to reduce the substantial administrative burden that could arise if this was the responsibility of thousands of operators. • This option would be contingent on the future development of a road user charging scheme.

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

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Phase out access to FTCs for on-road heavy vehicle use

There are multiple ways to increase the effective rate of fuel excise, but only one that would directly address the on-road heavy vehicles emissions policy gap with minimal overlap.

- Increasing fuel excise rates would not impact on-road heavy vehicle users. FTCs are calculated by subtracting the heavy vehicle road user charge (RUC) from the rate of fuel excise: an increase in the rate of excise is 'cancelled out' by a parallel increase in the value of heavy vehicle operators' FTCs. Increasing fuel excise rates would, however, directly impact other buyers of fuel, including light vehicle owners.
- Introducing a carbon charge on fuels using the current fuel excise system would not discriminate between on-road heavy vehicle operators and other users of diesel, including light vehicles. (This option is discussed further below in the context of road user charging reforms.)
- A number of submissions supported the Climate Energy Finance proposal to cap FTC claims at $50 million per annum per consolidated corporate entity as a means of supporting emissions reduction (2025). This would impact the biggest claimants of FTCs, many of whom are likely already subject to the Safeguard Mechanism, but create no new emissions-reduction incentive for most on-road heavy vehicles.

Phasing out access to FTCs for on-road heavy vehicle users would directly target the identified emissions policy gap. This change would be relatively simple administratively because the fuel excise system already treats on-road heavy vehicles in a bespoke way through the heavy vehicle RUC.

Our interim report noted that the heavy vehicle RUC provides an 'incidental, limited incentive' to reduce emissions (PC 2025, p. 23). The incentive is incidental, in that the heavy vehicle RUC, along with registration fees, is intended to ensure heavy vehicle users are charged for the construction and maintenance costs created by their road use, not to incentivise emissions reduction (NTC 2022, p. 8). The incentive is limited in that it is too low. Heavy vehicles operating on public roads cause damage to roads and the environment – they currently only face a price for the former.

Implementation, phasing and complementary policy

Currently, the excise rate on diesel is 51.6c/litre and the heavy vehicle RUC is 32.4c/litre, so on-road heavy vehicle users can claim FTCs worth 19.2c/litre, and they end up effectively paying a reduced rate of fuel excise, 32.4c/litre, equal to the heavy vehicle RUC.

A simple way to provide a decarbonisation incentive would be to also subtract a carbon component based on the emissions intensity of diesel and a target-consistent carbon value (TCCV, recommendation 1.4), and this would be delivered via reductions in the value of partial FTCs.

A TCCV of $65/t[9] and an emissions intensity of 0.00268 tonnes/litre would produce a carbon component of 17.4c/litre, reducing the value of on-road heavy vehicle users' FTCs to 3c/litre. They would then face an effective fuel excise rate of 49.8c/litre, almost equal to the headline rate paid by other road users.

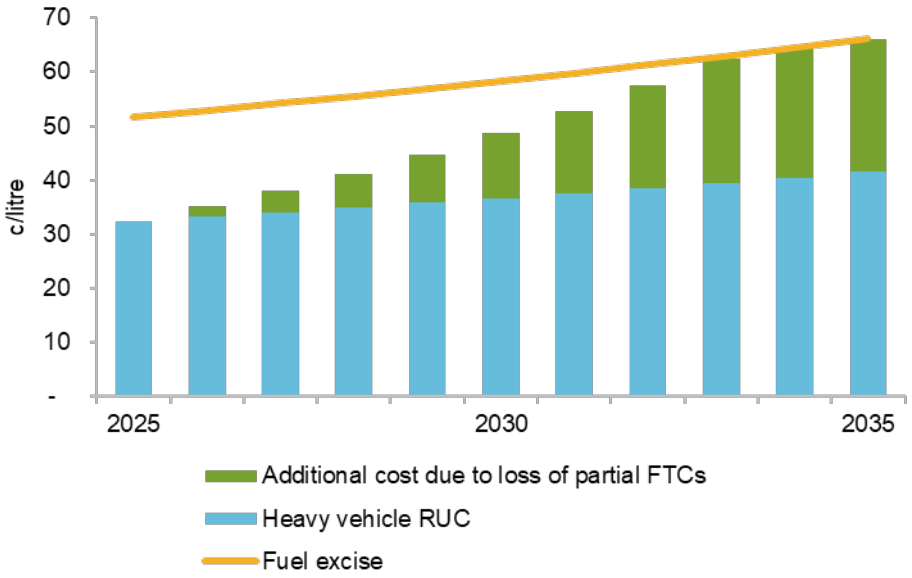
Reducing the value of on-road heavy vehicle users' FTCs would be a substantial change and should be phased in over a number of years. Figure 1.1 shows what a 10-year phase-in might look like, assuming the TCCVs used grow at a similar rate to marginal abatement incentives in Treasury modelling undertaken to

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support the *Net Zero Plan* (2025, p. 17). Under this scenario, on-road heavy vehicle users would end up paying the full rate of fuel excise by 2034.[10]

Figure 1.1 – Under our proposal, on-road heavy vehicles would end up paying the full value of fuel excise

Stylised projection of the policy signal facing on-road heavy vehicle users if access to partial FTCs is wound back



The figure is based on the following assumptions: TCCV starts at $65/t CO_2-e in 2025 and grows at 5%, heavy vehicle RUC starts at 32.4c/litre and grows at 2.5%, fuel excise starts at 51.6c/litre and grows at 2.5%. The additional cost due to loss of partial FTCs in each year is calculated by multiplying the emissions intensity of diesel (0.00268t/CO_2-e) by the relevant year's TCCV and a phase-in factor. The phase-in factor goes up by 10 percentage points each year, starting at zero (that is, the change phases in over 10 years under these settings).

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

[10] Unless heavy vehicle users want to claim FTCs for powering auxiliary equipment, they would no longer need to make FTC claims at all, reducing administrative burden.

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

Future reforms to road user charging should keep emissions reduction in mind

Removing access to FTCs for on-road heavy vehicle use would create a stronger emissions-reduction incentive than the status quo but it is also limited. The emissions-reduction incentive would never be greater than the difference between fuel excise and the heavy vehicle RUC. But it is entirely possible that the sum of the heavy vehicle RUC and a TCCV applied to diesel will eventually be greater than fuel excise.[11]

Nevertheless, reducing access to on-road heavy vehicles' access to FTCs would be an administratively straightforward and technology neutral way to directly target a large source of emissions.

If road user charging is reformed, however, this would be an opportunity to introduce more enduring and broad-based emissions-reduction incentives for all vehicles.

Momentum has been building to reform road user charging, for both heavy and light vehicles. The National Heavy Vehicle Charging Pilot completed phase 3 trials in 2024 (DITRDCSA 2025). And Treasurers have agreed to 'A statement to guide further work on a road user charge for electric vehicles' (link), with much of the public discussion focusing on light vehicles (would like this more tied to announcements, and a source). As this work progresses, governments should ensure road users face an emissions-reduction incentive that reflects the emissions associated with using fossil fuels.

It would be possible to include a carbon component in a road user charge, and this is one of the options we have considered for creating an emissions-reduction signal for heavy vehicles. However, recapping table 1.1, including a carbon component in a road user charge would face implementation challenges associated with measuring or imputing the amount and emissions intensity of fuel used by different vehicles.

Alternatively, the fuel excise system could be reformed to target emissions. It can fairly be said that 'The current tangle of fuel excise, fuel tax credits and the virtual road user charge for heavy vehicles comes from a century of patch-ups' (Willox 2025). Excise rates are not currently based on different fuels' emissions intensities, and the system's credits and remissions are similarly unrelated to the emissions impact of fuel use. But with a separate, dedicated road user charging system in place, fuel excise settings could be simplified and adjusted to create a broad and consistent emissions-reduction signal.

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

[11] For example, using the values underpinning figure 1.1 but increasing the TCCV growth rate from 5% to 6.5% (which approximates the growth rate in the marginal abatement incentive referenced in Treasury's modelling to support the *Net Zero Plan*), the sum of the heavy vehicle RUC and the carbon component would exceed fuel excise by 2034.

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