Outlook

FW: Papers for 31 July Competition Review Expert Panel meeting [SEC=OFFICIAL]

From Danielle Wood s 22 @pc.gov.au>
Date Thu 2025-07-31 10:47
To Alex Robson s 22 @pc.gov.au>; Catherine de Fontenay s 22 @pc.gov.au>; Martin Stokie s 22 @pc.gov.au>; Beniamin Mitra-Kahn s 22 @pc.gov.au>; s 22 @pc.gov.au>; s 22 @pc.gov.au>
Cc s 22 @pc.gov.au>

1 attachment (389 KB)
TSY - July 2025 -Road User Charging.pdf;

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Hi NCP team

Treasury may have already shared this but if not, I think this is a really good explanation of their early thinking (and some open questions) on Road User Charging.

Dani

Danielle Wood | Chair | s 22

s 22

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Sent: Monday, 28 July 2025 10:47 AM
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Good morning

Please see additional paper (Road User Charging) for Thursday`s panel meeting.

Kind regards

s 47F

s 47F **Executive Officer to the Competition and Consumer Policy Division**

Competition Taskforce Division

s 47F

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The Treasury acknowledges the traditional owners of country throughout Australia, and their continuing connection to land, water and community. We pay our respects to them and their cultures and to elders both past and present.

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Sent: Saturday, 26 July 2025 10:31 AM
To: s 47F
(Australian National University - s 47F
Wood, Danielle (Productivity Commission - Unclassified DLM)
s 22 @pc.gov.au>
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Competition Review Expert Advisory Panel Meeting

31 July 2025

Overview

- Treasury is examining potential options for implementing a road user charge (RUC).
- To progress this work, Treasury is seeking views from the Expert Panel on key policy considerations.

ITEM 4 For discussion on 31 July 2025

Road User Charging

Background

- Road user charging (RUC) provides a generational opportunity to simultaneously boost the efficiency of the road network, increase government revenues and improve environmental outcomes.
  - The uptake of low and zero emissions vehicles has created impetus for reform, presenting governments an opportunity to more efficiently charge motorists according to the cost of their road use.
- Currently, most road-related taxes and charges are set independently of the actual costs of road use. As such, there is no efficient price signal for road users to make decisions about where, when and how they travel. There is also no built-in feedback loop between the use of roads and their maintenance and expansion.
- The lack of a price signal also means heavy zero-emissions vehicles (HZEVs) are not liable for the full cost of their travel. Instead, road managers prohibit these vehicles from certain roads, inhibiting their uptake and slowing the transition to net zero.
- s 47C, s 47E(d) [redacted]

Questions

- Treasury invites views on the policy design of a RUC throughout Attachment A.

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- s 47C, s 47E(d) [redacted]

Next Steps

- s 47C, s 47E(d) [redacted]

[redacted]

Attachments

A. s 47C, s 47E(d) [redacted]

[redacted]

C. International Examples – Table – Overview of RUC systems in other jurisdictions

s 47C, s 47E(d) [redacted]

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s 47C, s 47E(d)

[redacted]

[1] See breakdown of NTC's heavy vehicle registration categories at www.ntc.gov.au/laws-and-regulations/registration-charges-heavy-vehicles

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s 47C, s 47E(d)				

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Literature on SRMC vs LRAC (and other pricing models).

- In 1938, Harold Hotelling proposed marginal cost pricing with a focus on monopolies which have high fixed costs and low marginal costs, such as road infrastructure.[2]
  - Hotelling appealed to the basic economic intuition that efficiency requires marginal cost pricing because it fulfills the condition that social welfare will be greatest when marginal benefits (as captured in the price consumers are willing to pay) are equated to marginal costs.
  - Hotelling argues for government subsidisation of fixed costs to enable marginal cost pricing. To fund these subsidies, he recommended a fixed levy on individuals (a lump sum tax) rather than excise taxes which can distort decision making.

[2] See Harold Hotelling's 'The General Welfare in Relation to Problems of Taxation and of Railway and Utility Rates' (1938) at www.jstor.org/stable/1907054

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- In 'The Marginal Cost Controversy' (1946), Ronald Coase challenged Hotelling's advocacy for marginal cost pricing in industries with high fixed costs[3]. Coase raised three objections:
  - If prices are set at marginal costs while fixed costs are subsidised, then neither consumers or producers take into account the full cost of infrastructure when deciding to use, or to invest into, the road network. That is, optimal pricing needs to account for all opportunity costs (including the resources that are spent on fixed costs).
  - It becomes impossible to know whether users actually value infrastructure if they never face the full cost.
  - If everyone pays the same price for roads, then there will be a redistribution of wealth from urban users of road infrastructure (who would otherwise have benefitted from low fixed costs per user) toward rural users of road infrastructure (who under other arrangements would have paid higher fixed costs per user).
- In 2007, the Productivity Commission released an inquiry report on road and rail freight infrastructure pricing, including listing various pricing options.[4] In addition to SRMC and average cost approaches, the PC also listed other options such as:
  - Long run marginal cost, where users pay for their incremental fixed and variable costs.
  - Ramsey pricing for common costs, where the increment above marginal cost is set in inverse proportion to the price responsiveness of groups of consumers.
  - Multi-part pricing, where fixed costs are recouped through access fees.

s 47C, s 47E(d) [redacted]

s 47C, s 47E(d) [redacted]

[3] See Ronald Coase's 'The Marginal Cost Controversy' (1946) at www.jstor.org/stable/2549764

[4] See the Productivity Commissions' 'Road and Rail Freight Infrastructure Pricing' (2007) at www.pc.gov.au/inquiries/completed/road-rail-freight/report/freight.pdf

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Attachment C: International comparisons

Jurisdiction	Who Pays	Rate Structure	Launch Date	Notes
New Zealand	Diesel, EV (light + PHEV) weighing <3.5 tonne.	NZ$76/1,000 km (EV), NZ$53 (PHEV)	1 Apr 2024	Petrol & heavy EVs already in; petrol may join 2027. Prepaid permits are purchased in 1000km increments and displayed on the windscreen. Funding is directed into the National Land Transport Fund.
California	Voluntary Pilot	~2.8¢/mile flat or vehicle-specific rate. Paid monthly.	The Pilot ran from Aug 2024–Jan 2025. Final report due to the California Legislature by December 2026.	During the Pilot period, participants paid road charges on the miles driven each month and were reimbursed for their gas taxes. The options to report the miles driven each month were: • Plug-in Device: Inserted into the vehicle. • In-built vehicle Telematics: • Odometer Entry: A photograph of the odometer submitted each month.
Hawaii (HiRUC)	Light EVs	Users will have the option to pay US$8/1,000 miles (capped at $50) or a $50 flat fee. By 2028 the flat fee will be removed.	EVs 1 July 2025 All light vehicles by 2033.	Odometer readings verified annually at a safety inspection.

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