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# **FCAI Response to draft NSW Review of Federal Financial Relations**

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## **About the FCAI**

The Federal Chamber of Automotive Industries (FCAI) is the peak industry organisation representing the importers of passenger vehicles, light commercial vehicles, and motorcycles in Australia. The FCAI welcomes the opportunity to make this submission to the New South Wales Review of Federal Financial Relations.

FCAI member organisations are at the cutting edge of innovation, according to Boston Consulting Group 2019 Most Innovative Companies Report<sup>1</sup>, six vehicle manufacturers are in the Top Fifty most innovative companies. Vehicle manufacturers are expending extraordinary amounts of money on research and development to commercialise and introduce the latest technologies with advances that will bring quantum changes to the way in which new vehicles will interact with the environment providing innovative mobility solutions whilst enhancing safety for all.

With 68 brands offering 380 models, sold, and serviced by almost 4000 dealers, Australia's automotive sector is a large employer and contributor to our economy, lifestyle, and communities big and small.

The reach of the automotive sector is significant: vehicle importation, distribution, retailing, servicing, logistics/transport, and engineering. Support comes from hundreds of supplier companies, employing thousands of Australians.

The Members' Page<sup>2</sup> has a full list of our member companies

FCAI members are responsible for the introduction of a range of advanced technologies addressing several societal issues such as:

- Road Safety for drivers, passengers, and vulnerable road users through advanced passive and active safety systems.
- Climate Change through the introduction of advanced powertrain solutions.
- Access improvements through vehicle connectivity and increasing automation.
- Improved health outcomes through overall noxious emission reductions.

Whilst the review covers several aspects concerning funding arrangements across the federation, FCAI's submission will purely address the issues raised in Section 8, A crossroads for road funding.

### **A Crossroads for Road Funding**

The FCAI agrees that the automotive industry is rapidly changing with numerous new automotive technologies considerably changing the automotive landscape.

Australia is and will continue to progressively decarbonise and become connected particularly in the private transport sector which is expected to occur according to the following automotive trends:

1. Connected vehicles with advanced safety features enabling vehicles to communicate with other vehicles, infrastructure as well as the Internet of Things (IoT).
2. Progressively we expect vehicle automation to enhance ride sharing and Mobility as a Service (MaaS) solutions leading to less vehicle trips.
3. Vehicle subscription services challenging ownership models resulting in reduced vehicle use and probably more vehicle "fit for use" trips.
4. Powertrain electrification in its various forms, reducing vehicles impact on the environment.

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<sup>1</sup> <https://www.bcg.com/en-au/publications/2019/most-innovative-companies-innovation.aspx>

<sup>2</sup> <https://www.fcai.com.au/about/members>

### **Current Taxation Arrangements**

Fuel excise is the primary source of ongoing federal revenue from motor vehicles, whilst in absolute terms fuel excise is continuing to rise, the fuel excise raised from each vehicle on the roads is a diminishing source (per vehicle basis) of Federal Government revenue as Australians choose more fuel-efficient low emission and zero emission vehicles, this tendency is expected to accelerate as these newer vehicles replace older less fuel efficient vehicles that are retired from service.

Federally there are a range of other taxation measures such as:

- Import duties
- Luxury Car Tax

States and Territories additionally derive significant automotive related taxation through a number of measures such as:

- Stamp Duty
- Vehicle Registration
- Drivers Licence Fees
- Compulsory Third-Party Insurance

### **Fuel Excise**

Fuel excise is the one tax that does to some degree directly relate to distance travelled, and the amount of congestion on the roads, however the increasing overall fuel efficiency of the new vehicle fleet does mean that less revenue is generated per kilometre travelled. Globally there is a trend to electrification of the light vehicle fleet as manufacturers strive to introduce increasingly fuel efficient models to meet challenging global emission and fuel economy standards. This trend is having a ripple effect in the Australian market with increasing numbers of Hybrid Electric Vehicles (HV), Plug in Hybrid Electric Vehicles (PHEV) and Battery Electric Vehicles (BEV) sold, each of these considerably reducing or eliminating their use of petroleum fossil fuels.

FCAI recently announced a voluntary [CO2 reporting system](#) where brands target long term reductions in CO2 output that support the Australian government's commitment to the Paris 2030 target. This voluntary target is expected to substantially reduce CO2 in the longer term to assist Australia to meet the Paris 2030 target with a consequent reduction in fuel used and therefore excise contribution.

New technology developments that allow increasing levels of automation will enable more convenient ride-sharing – these have the potential to improve overall network efficiency, as well as individuals' mobility. With this greater access, the marginal cost of trips for many people may reduce and in doing so, may induce higher average demand (Schaller 2017)<sup>3</sup>.

Aside from fuel excise, the above charges largely do not discriminate between vehicle types (excluding some Heavy Vehicle charges), are not reflective of actual road usage and nor do they provide any influence to user behaviour in terms of road selection, distance travelled, masses transported or time of use relative to the demand for the road space.

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<sup>3</sup> <http://www.schallerconsult.com/rideservices/unsustainable.htm#overv>

### **Distance based charging for Electric Vehicles**

FCAI considers that the recommendation to implement distance based charging purely on electric vehicles is somewhat simplistic. Automotive manufacturers worldwide are introducing a swathe of technologies to reduce the CO2 emissions and each of these will have an effect of reducing fuel use and consequently fuel excise receipts as they reduce the fuel used per kilometre travelled:

1. Increasingly fuel-efficient Petrol / Diesel vehicles reducing fuel use in the order of 10-20%.
2. Hybrid electric vehicles (HV) reducing fuel use typically 35-50%
3. Plug In Hybrid Electric Vehicles (PHEV) reducing fuel use usually around 70-80% .
4. Increasing numbers of Battery Electric Vehicle (BEV) with no excisable fuel use.

Therefore it would be quite inappropriate to single out Battery Electric Vehicles on their own as an area to address for diminishing excise contribution on a per kilometre basis.

Additionally, whilst it is true that Electric Vehicles do not pay for fuel excise, in most jurisdictions the considerable upfront cost of battery electric vehicles typically with a premium of at least \$10-\$12k over a comparably specified small vehicle (typically around \$25k on a small SUV) fitted with an Internal Combustion Engine (ICE) means that they currently contribute substantially to State and Territory based stamp duties and in many cases contribute to Luxury Car Tax. Whilst some commentators spruce price parity by 2025, most well researched analysis such as that undertaken by Massachusetts Institute of Technology<sup>4</sup> indicates that whilst manufacturing costs are expected to fall, the world demand for traction batteries will create upward pressure on the ethical supply of raw materials which are already in limited supply, notwithstanding the production capabilities worldwide. This analysis suggests that by 2030, lithium ion battery pricing will reach around US\$124/KWh, price parity is estimated to be reached at around US\$100/KWh. Battery price projections beyond 2030 are highly uncertain and are likely to be disrupted by the development and commercialization of new battery chemistries.

Recently Austroads<sup>5</sup> released their [2030 report](#) which researched and analyzed the likely uptake of BEV products in the Australian market, under a medium scenario without Government market intervention, they forecast a fleet penetration of 7% or equivalent to 1,285,000 vehicles, a relatively small segment of Australia's vehicle fleet which is currently around 19.8 million<sup>6</sup> vehicles.

This low uptake of Electric Vehicles can according to FCAI be attributed to:

- High initial purchase cost compared to Internal Combustion Engine powered vehicles.
- Lack of Government policy and incentivisation settings, unlike international high uptake markets.
- Lack of infrastructure to support EV purchasers and alleviate range capability.
- Limited government fleet purchasing for vehicles with electrified powertrains.

FCAI recommends that there is a significant opportunity to consider a wholesale review of automotive taxation that considers broad based road user charging that addresses the fundamental issues of moving to a user based taxation model that considers:

- The costs incurred would be proportional to the use, type of use and time of use.
- Considers how to support and encourage CO2 reduction and measures to address.
- Congestion issues in the cities and surrounding areas.

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<sup>4</sup> MIT Energy Initiative. 2019. Insights into Future Mobility. Cambridge, MA: MIT Energy Initiative. <http://energy.mit.edu/insightsintofuturemobility>

<sup>5</sup> <https://austroads.com.au/drivers-and-vehicles/future-vehicles-and-technology>

<sup>6</sup> ABS Vehicle Census 9309.0

- Broad based tax reform involving all Federal and State based automotive taxing and stamp duty regimes.

Such a broad based road user charging system would potentially have the benefit of reducing substantial State and Territory based bureaucracies that are replicated across jurisdictions with the added advantage of eliminating red tape and cost for all Australians. At the same time such a system would efficiently provide an increasing revenue source for all governments.

New vehicles are expected to become increasingly connected providing the perfect opportunity to re-imagine the way that automotive taxation is undertaken whilst at the same time increasing vehicle safety.

### **Summary**

Highlighting electric vehicles singularly for the introduction of a road user charging system is inappropriate given the large swathe of technologies that are being introduced by vehicle manufacturers which makes such a proposal somewhat discriminatory.

Battery Electric vehicles are expensive initially providing in general terms, stamp duty benefits to most States and Territories.

Electrification of the light vehicle fleet in Australia is proceeding slowly in comparison to other countries where a range of policies and incentives have stimulated the market to greater adoption. Simply adding another charge without considering the broader implications, opportunities and potential benefits from wholesale reform notwithstanding the challenges posed would clearly be an opportunity lost. Such an approach is also at odds with other developed economies that largely seek to incentivise the introduction of low and zero emission vehicles, not penalise.

Road user charging does need to be considered, and it should include wholesale reform inclusive of the abolition of the myriad of Federal, State and Territory taxation with the introduction of taxation that conforms to the fundamentals of good tax design such as certainty, equity, simplicity and efficiency. Additionally it needs to consider the substantial net benefits of administration reform with the associated cost reductions.

There are numerous benefits – including environmental and health benefits – that can be gained from electrified powertrain technologies, well beyond financial benefits that ought to be considered and evaluated.

FCAI remains prepared to further discuss this issue on request.

Best Regards

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