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Mr James Hill
Chair, Road User Charges Review
c/- Ministry of Transport
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Email: rucreview@transport.govt.nz

Dear Mr Hill

BUSINESS NZ SUBMISSION TO THE ROAD USER CHARGES REVIEW

Business NZ welcomes the opportunity to make a submission to the Road User Charges Review.

Business New Zealand is New Zealand's largest business advocacy organisation.

Through its four founding member organisations – EMA Northern, EMA Central, Canterbury Employers' Chamber of Commerce and the Otago-Southland Employers' Association – and 70 affiliated trade and industry associations, we represent the views of more than 76,000 employers and businesses of all sizes, reflecting the make-up of the New Zealand business landscape.

It almost goes without saying that transport is critically important to the New Zealand economy. Business NZ therefore welcomed the government's decision to establish a Review into Road User Charges (RUC) to look into the model for allocating the costs of maintaining roads and building new ones.

Business NZ is a member of the Local Government Forum, a grouping of business organisations interested in promoting greater efficiency in local government. The Forum put in its own submission and Business NZ endorses the points made in that submission, particularly the emphasis on the desirability of moving towards electronic pricing over the medium term.

Notwithstanding the above, there are a number of weaknesses associated with the current Cost Allocation Model (CAM) which need to be addressed if confidence in RUC and in road charging generally is to be maintained.

RUCs are set as national average prices. As a result, there may be no causal link between roading expenditure and the particular vehicles being charged. For example:

(a) vehicles are charged exactly the same rate irrespective of where they are operating, therefore charges do not necessarily reflect economies of scale in roading expenditure;

(b) the same charges apply irrespective of roading source materials used or regional weather characteristics, both of which impact on road wear expenditures;

(c) costs are allocated on the basis of national average vehicle use statistics irrespective of whether those fleet characteristics gave rise to the actual expenditures; and

(d) vehicle load performance and therefore road use costs are considered to be directly related to licensed weight irrespective of the actual operations being carried out and whether there are backhaul opportunities or not.

In addition, the road transport industry claims that the costs of compliance, administration, enforcement and evasion are significant. Business NZ submits that it is very important for the Review to carefully consider these costs and to compare the costs of RUC with those of alternative charging regimes e.g. diesel taxes combined with escalating license fees to take account of vehicle weight.

A diesel tax can act as proxy for road use but only to a limited extent as it would not take account of a vehicle's fuel efficiency, while an escalating scale of licence fees would take account of vehicle weight but not take account of road use. On the other hand, provided license fees were for relatively short periods (say, monthly), this may overcome concern from some sectors that license fees wouldn't adequately take account of seasonal or infrequent use. This would need to be thoroughly investigated before contemplating such a move.

Diesel is also an important input for some of Business NZ's member companies and many are heavy users of diesel in their own right for both on and off-road purposes. Claiming fuel rebates for off road activities could impose considerable costs on some businesses, particularly if a business had both significant on-road and off-road fuel costs which needed to be reconciled.

Ideally, road pricing should reflect time-of-day, route-specific expenditures, weather conditions and accurate vehicle operating characteristics for each journey. Such pricing would deliver significant efficiency gains and would also be more equitable. In the meantime, it is really a question of modifying RUC to take account of industry concerns, or moving towards a totally new system of funding roads such as diesel taxes, in combination with licensing fees to take account of vehicle weights.

The case for reviewing the regime must rest on whether the policy is achieving its efficiency objectives and that the economic benefits outweigh the relative deadweight costs of the current regime compared to any alternative.

Yours sincerely

John Pask
Economist