

## **In the slow lane for electric cars**

**Australia is a net fuel importer and no longer makes passenger cars. There is no reason for our tardiness in preparing for a driving revolution.**

*Paul Burke and Frank Jotzo*

Australia has many gas guzzlers on our roads, and we are well behind on uptake of electric vehicles. We are paying dearly in fuel bills. Emissions from the road transport sector have mostly been on the rise and now equal one-sixth of national greenhouse gas emissions. It's time for comprehensive road tax reform.

The average emissions intensity of new passenger and light commercial vehicles has been stuck at a high level for years. We are behind Europe, Japan and even the US and China. The average fuel efficiency of passenger cars in Australia is similar to that in Peru, Chile and Saudi Arabia.

Our poor performance is in part because we tend to drive large cars. But it is also that Australia has paid almost no policy attention.

We stand out from most developed countries in having no mandatory fuel efficiency or carbon dioxide emissions standards and we have relatively weak standards for air pollution from vehicles. We have set no national targets for a long-term transition to clean energy vehicles.

Eventually, the electric car will likely win the day. But uptake has been slow.

Electric vehicles including plug-in hybrids made up only 1 per cent of new vehicle sales in Australia last year, compared to 56 per cent in Norway, 5 per cent in China and 2 per cent in the US. Australia could be doing much better. Electric vehicles are a good complement to rooftop solar, for which we are a world leader.

Singling out electric vehicles with a new tax in the absence of broader reform will tend to dampen uptake when we instead need it to accelerate.

One reason we are behind is that Australia's fuel tax is low by developed country standards. Excise is levied at only 42 cents per litre. GST of 10 per cent is also applied. Per litre, most European countries pay double to triple the fuel tax we pay. The US pays less. Australia's fuel excise was re-indexed to inflation in 2014-15, but there has been no other change since. In real terms, tax per litre remains below the level in the mid-1990s.

### **Time for tax reform**

It is time for comprehensive car tax reform. Ideally, vehicle stamp duty would be abolished and registration fees reduced and levies would instead be placed on the external costs from road transport – congestion, emissions and other costs such as road wear.

South Australia and Victoria have recently announced systems of distance-based road user charges for electric vehicles. "Electric car taxes" of this kind are unknown elsewhere in the world. It would be better for distance-based road use charges to be applied to all vehicles, not just electric cars, and for the change to be part of a broader reform, under which stamp duty would be abolished. Singling out electric vehicles with a new tax in the absence of broader reform will tend to dampen uptake when we instead need it to accelerate. Most countries are encouraging EV adoption, not leaning against it.

A system of congestion pricing, with higher charges levied for peak-hour trips on the most congested roads, is also feasible. Such reform can help with traffic jams. This will become increasingly needed

because the rise of electric and autonomous vehicles will lower the marginal cost of driving. Similarly, there could be charges for driving a polluting car in built-up areas. Remaining registration fees could be levied based on emissions intensity, as is done in the ACT.

The argument is not for an increase in overall charges on road users. Instead, let's replace some existing charges with a more efficient approach. Reforms could be tailored so that regional areas are not disadvantaged. Congestion pricing would be relevant only for cities.

So why is Australia so slow in decarbonising our road fleet and reforming road pricing?

There is naturally a bias toward the status quo, and there usually is lobbying by established industries. But Australia is a net fuel importer and is no longer a car manufacturer, so reform should be feasible. Post-COVID economic sluggishness makes productivity-improving tax switches all the more needed.

The key constraint is perhaps, once again, politics. In one of the sillier moments of the 2019 election campaign, the Coalition accused Labor of plotting to destroy the weekend by pursuing a policy on electric vehicles. The key reforms will likely need to be left to the states.

Australia has a great opportunity to get better outcomes from our road transport sector. But for the moment, we are stuck in the slow lane.

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