

Submission to: Treasury

Title: 2014-15 Pre-budget Submission

Date: 31 January 2014



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1. Introduction

The Australian Government has asked for submissions on priorities for the 2014-15 Budget.

The Government has identified it will be seeking to repair the Commonwealth's budget position. It will help define how the Commonwealth can live within its means, pay down debt and aim to build sustainable budget surpluses of at least 1 per cent of GDP by 2023-24.

The heavy vehicle industry is a key contributor to the national economy. While the industry has sought to increase its productivity via the uptake of high productivity vehicles, inefficient road networks, asset protection by road agencies and declining road quality have blocked further productivity gains that can be made. The price of goods domestically and for export reflect the cost of transport and any increased inefficient expenses will cost the competitiveness of the trucking industry and the Australian economy.

The ATA has provided strategic and practical policy advice to the Government and Government organisations in order for them to better understand the industry and to increase the productivity of the industry to meet the growing freight task, which is set to double by 2030 and triple by 2050.

The Coalition proposed a range of pre-election actions it was set to take if it came to form Government. The industry supports many of the Coalition's policies and urges it to take action to improve the productivity of our roads provision and to the burden of red tape.

2. Australian Trucking Association

The ATA is the peak body that represents the trucking industry. Its members include state and sector-based trucking associations, some of the nation's largest transport companies, and businesses with leading expertise in truck technology.

3. Recommendations

ATA recommendation - Building roads for productivity

The Government should require road standards on the National Land Transport Network that enable the use of high productivity vehicles in order to increase the freight industry's productivity and lead to reduced freight and infrastructure costs, and increasing the attractiveness of Australian exports.

ATA recommendation - Rest areas

The Government's funding agreements with the states and territories should require them to build rest areas in line with the national guidelines on federally funded roads as they are constructed.

ATA recommendation - Bridges renewal program

The Government should announce in the Budget that the bridges to renewal program will:

- fund projects on key last mile connections where a bridge renewal, or bridge renewals packaged with other works, would increase freight productivity.
- not fund routine or catch up maintenance. State governments and local councils have other sources of maintenance funding, including, for local councils, the Roads to Recovery program and financial assistance grants.
- select projects based on merit. Proponents should be required to submit a productivity case for each project, including the classes of freight vehicles (such as HML vehicles, B-doubles, road trains, or longer multi-combinations) that would be able to use each route once the upgrade work was complete. The productivity cases should be made public.
- require funding conditions that all bridges to be built in accordance with the AS5100 SM1600 loading standards, in order to future proof the network.
- require proponents to approve each upgraded route for the classes of freight vehicles specified in its productivity case. Renewing a bridge will not, by itself, increase productivity. Once the work is done, the asset owner will need to issue the necessary approvals to allow the vehicles specified in the productivity case to use it.
- should make sure that in its audit program DIRD check funding conditions have been met. A previous audit of the Roads to Recovery program showed that:
 - the quality of the work undertaken by councils varied considerably, and in some cases the work had to be redone; and
 - compliance with the funding conditions was problematic.¹

ATA Recommendation - Roads to Recovery and Black Spot funding

The Government should continue to fund the Roads to Recovery program and the Black Spot program.

ATA recommendation - Database of coronial recommendations about road safety

The Government should provide the ATSB with an extra \$4.3 million over four years to establish a national database of coronial recommendations about road safety and a national database of serious heavy vehicle accidents.

¹ Australian National Audit Office (ANAO), *Management of the AusLink Roads to Recovery Program*, Canberra, 2010, pp 120, 121-124, 125-142.

ATA recommendation – Fuel tax credits

The Government should retain the fuel tax credit scheme in the 2013-2014 Budget.

ATA recommendation – NTC 2014 Heavy Vehicle Charges Determination

The Government should implement option A in the 2014-15 Budget and option B in subsequent budgets, which would see the fuel tax credit rate for trucking operators set at 13.043 cents per litre in 2014-2015.

ATA recommendation – Heavy Vehicle Charges and Investment reform

The Government should disband the HVCI work as the outcome of their recommendations will increase the cost of transporting freight, increase costs in rural Australia, add extra administration costs to trucking businesses and not provide improvements in road provision.

ATA recommendation - Establish a Joint taskforce to review regulation

The Government should leverage its investment in abatement through the Emissions Reduction Fund by convening a government-industry taskforce to review the vehicle standards and regulations that prevent the trucking industry from increasing its energy efficiency further.

ATA recommendation - Funding for research into renewable fuels

The Government should contribute an additional \$5 million per year for five years to support the further development of synthesising macro algae into synthetic crude oil.

4. The role of the heavy vehicle industry

The heavy vehicle industry is a significant contributor to economic activity, generating direct as well as flow on activity through its support to a diverse range of industries and supply chains. The road transport industry added over \$18 billion to the Australian economy in FY2012 or 1.4 per cent of Gross Domestic Product.²

Road is the dominant mode of transport for freight in Australia. Road freight transported more than 70 per cent of the 2,930 million tonnes of Australian domestic freight in FY2010.³

Trucks tend to carry non-bulk freight such as consumer goods, over short distances and rail excels at transporting bulk materials over a large distance. Road freight transport often complements rail and coastal shipping by providing the local pickup and delivery services to and from rail terminals and ports in domestic and international freight journeys.⁴

While the heavy vehicle industry is a significant contributor to the national economy, the industry is mainly populated with small businesses, with 72 per cent of operators owning 1 truck and only 1 per cent of operators owning more than 10 trucks.⁵ This industry composition should be taken into consideration when the government considers implementing changes that will affect the trucking industry.

Unnecessary costs and unjustified restrictions on productivity of trucking simply burdens the economy and constrains growth.

² Page 12 A future strategy for road supply and charging in Australia, PricewaterhouseCoopers 2013

³ Page 10 A future strategy for road supply and charging in Australia, PricewaterhouseCoopers 2013

⁴ Page 11 A future strategy for road supply and charging in Australia, PricewaterhouseCoopers 2013

⁵ Page 18 A future strategy for road supply and charging in Australia, PricewaterhouseCoopers 2013

5. Key issues for the industry in the 2013-2014 Budget

5.1. Infrastructure

In the election campaign, the Government announced \$11.3 billion in road projects over the next four years.⁶

5.1.1 Building roads for productivity

One of the key objectives of the Government's infrastructure program is to reverse the decline in Australia's productivity.⁷ Building new roads has the potential to do this, but the new roads need to reduce the time it takes to undertake freight journeys and enable the industry to use vehicles that can carry heavier loads.

The trucking industry's experience between 1971 and 2007 is illustrative. During this period, the industry's productivity increased six-fold. The productivity increase occurred because the average distance travelled by articulated trucks increased by almost 90 per cent and the average load they carried doubled.⁸

To reap the productivity gains available from using high productivity vehicles, PricewaterhouseCoopers has recommended that governments should set target engineering and access standards for each tier of the road freight network.⁹ The effect of the increased productivity would mean reduced freight costs and reduced road wear due to less vehicles being needed to complete the freight task.

Having an efficient infrastructure network for freight is also essential for competitive exports and there is much that can be done to improve the productivity of the road network in Australia.

ATA recommendation - Building roads for productivity

The Government should require road standards on the National Land Transport Network that enable the use of high productivity vehicles in order to increase the freight industry's productivity and lead to reduced freight and infrastructure costs, and increasing the attractiveness of Australian exports.

5.1.2 Rest areas

The 2008 review of truck rest areas found that none of Australia's major highways fully met the national guidelines, which require a major rest area every 100 kilometres, a minor rest area every 50 kilometres, and a small truck parking bay every 30 kilometres.¹⁰

Since then, the Heavy Vehicle Safety and Productivity Program (HVSPP) has funded the construction or upgrade of 95 rest areas, with another 92 to be funded in its third funding round. The ATA welcomes the Coalitions commitment to continue to fund the HVSPP.

The rest areas funded under HVSPP are relatively costly, because they are built as additions to existing roads. In addition to the rest areas funded by HVSPP, it would be efficient, and in the long run less expensive, to build rest areas as roads are constructed or upgraded.

⁶ Hockey, J and A Robb, *Final update on Coalition election policy commitments*, Media release, 5 September 2013.

⁷ Liberal and National parties, *The Coalition's policy to deliver the infrastructure for the 21st century*, September 2013. p3.

⁸ Bureau of Infrastructure, Transport and Regional Economics, *Truck productivity: sources, trends and future prospects*. Report 123. BITRE, Canberra, 2011. p xv.

⁹ PricewaterhouseCoopers, *A future strategy for road supply and charging in Australia*. Report prepared for the Australian Trucking Association, March 2013, pp31-32.

¹⁰ Austroads, *Audit of rest areas against national guidelines*, Technical report AP-T95/08. Austroads, Sydney, 2008. pp49-53.

ATA recommendation - Rest areas

The Government's funding agreements with the states and territories should require them to build rest areas in line with the national guidelines on federally funded roads as they are constructed.

5.1.3 Bridges renewal program

In the election campaign, the Government announced it would invest \$300 million to upgrade the nation's deteriorating bridges, with the funding to be matched by state, territory and local governments. The plan is intended to make the roads safer and make the freight system more reliable and efficient.

The interstate freight on the road system is forecast to double between 2005 and 2030, as Australia's population and economy grow.

To cope with this freight growth, Australia needs to enable the trucking industry to increase its productivity, including by using more vehicles operating under higher mass limits and more high productivity vehicles like B-doubles, B-triples and super B-doubles. On many routes, old bridges limit the industry's ability to upgrade to these vehicles.

ATA recommendation - Bridges renewal program

The Government should announce in the Budget that the bridges to renewal program will:

- fund projects on key last mile connections where a bridge renewal, or bridge renewals packaged with other works, would increase freight productivity.
- not fund routine or catch up maintenance. State governments and local councils have other sources of maintenance funding, including, for local councils, the Roads to Recovery program and financial assistance grants.
- select projects based on merit. Proponents should be required to submit a productivity case for each project, including the classes of freight vehicles (such as HML vehicles, B-doubles, road trains or longer multi-combinations) that would be able to use each route once the upgrade work was complete. The productivity cases should be made public.
- require funding conditions that all bridges to be built in accordance with the AS5100 SM1600 loading standards, in order to future proof the network.
- require proponents to approve each upgraded route for the classes of freight vehicles specified in its productivity case. Renewing a bridge will not, by itself, increase productivity. Once the work is done, the asset owner will need to issue the necessary approvals to allow the vehicles specified in the productivity case to use it.
- should make sure that in its audit program DIRD check funding conditions have been met. A previous audit of the Roads to Recovery program showed that:
 - the quality of the work undertaken by councils varied considerably, and in some cases the work had to be redone; and
 - compliance with the funding conditions was problematic.¹¹

¹¹ Australian National Audit Office (ANAO), *Management of the AusLink Roads to Recovery Program*, Canberra, 2010, pp 120, 121-124, 125-142.

5.2. Improving road safety

Improving the safety of Australia roads and those who share the road is paramount for the ATA. The ATA is devoted to lowering the road toll and the Government's commitment to improving the safety of the roads is welcomed.

5.2.1 Roads to Recovery and Black Spot funding

The Government stated they would continue to the Roads to Recovery program and look to expand it once the Budget is back in strong surplus. Along with the continuation of this program the Government will fund the Black Spot program, providing \$60 million a year to address road sites that are high risk areas for serious crashes.

ATA Recommendation - Roads to Recovery and Black Spot funding

The Government should continue to fund the Roads to Recovery program and the Black Spot program.

5.2.2 Establish a national public database of coronial recommendations about road safety

The Government needs to establish a national public database of coronial recommendations about road safety and accident occurrences, together with responses and updates about the recommendations that have not been followed up. The database would need to be accessible to everyone: safety investigators, the industry, the public and the media. This new system would not require governments and the industry to follow every coroner's recommendation, but it would make sure these recommendations were seriously considered.

The most appropriate body to run this database, along with a database of serious heavy vehicle accidents would be the Australian Transport Safety Bureau (ATSB) who investigate marine, rail and air accidents. The ATSB has the expertise and infrastructure to run these two databases to maximum effect and at minimum cost.

The ATA considers that the ATSB should be tasked in the longer term with conducting no blame investigations of serious heavy vehicle accidents where safety lessons can be learned.

ATA recommendation - Database of coronial recommendations about road safety

The Government should provide the ATSB with an extra \$4.3 million over four years to establish a national database of coronial recommendations about road safety and a national database of serious heavy vehicle accidents.

5.3. Heavy vehicle road charges

5.3.1 Fuel Tax Credits

The heavy vehicle industry pays fuel excise of 38.143 cents per litre in line with all other road users. The industry is eligible to claim the *fuel tax credit* which is covered under the *Fuel Tax Act 2006* designated to allow businesses to recover excise paid on diesel and petrol that has been consumed for the purposes of carrying out the activities of the business.

The fuel tax credit supports Australian trucking companies and as the Fuel Tax Act recognises, the fuel is used for the purposes of carrying out business activities. The credit provided is no different to the GST exemption for business purchases/inputs that other businesses are eligible for. Without the fuel tax credit the industry would be paying the full price for a business input and would pass on the cost the community leading to an increase in the price of freighted goods.

ATA recommendation – Fuel tax credits

The Government should retain the fuel tax credit scheme in the 2013-2014 Budget.

5.3.2 The NTC 2014 Heavy Vehicle Charges Determination

The heavy vehicle charges model (PayGo) has been overcharging the industry since 2007, due to the fact the 7 year averaging model uses the most up-to-date expenditure figures to be recovered, but uses a midpoint lagged heavy vehicle population. The result of this means the model underestimates the true heavy vehicle population and heavy vehicle charges are higher than they should be.

The ATA has calculated over-recovery for 2013-14 by comparing the PayGo cost base to be recovered in 2013-14 (\$2.9 billion) with the estimated revenue taken in the 2013-14 period using actual heavy vehicle registration figures provided by states and territories from December 2011. Estimated revenue is calculated using 2013-14 heavy vehicle charges and the road user charge (RUC) for 2013-14. In this calculation industry is projected to pay \$3.7 billion, meaning an over-recovery of over \$800 million.¹²

The NTC draft RIS presents 3 options:

- A: Updates all the technical changes the NTC are recommending, including up to date expenditure and heavy vehicle population figures. The RUC and registration charge will keep the current split of 64% RUC and 36% registration.
- B: Updates all the technical changes the NTC are recommending, including up to date expenditure and heavy vehicle population figures. The RUC and registration charge component shares change, with 70% RUC and 30% registration.
- C: Updates all the technical changes the NTC are recommending, including up to date expenditure and heavy vehicle population figures. The RUC and registration charge component shares change, with 77% RUC and 23% registration.

The ATA supports a higher proportion of truck charges being recovered through the RUC. Increasing the variable charge reduces the cash constraint that a large fixed registration charge presents. It also promotes paying for use, as fuel burn is a proxy for mass, distance and road condition. Fuel consumption increases with increased combination mass and distance travelled. Increasing the proportion of charges made by fuel also advances the energy efficiency agenda of the Government, as operators become more conscious of fuel usage. Operators have also stressed that a larger portion of charges being recovered through the use related RUC, rather than through a fixed registration charge, makes it easier to recover their costs.

The NTC have provided a proposal for a three year transition to option A due to concerns some states and territories have over the need to revise revenue predictions. The NTC have estimated there will be \$200 million over-recovered from the trucking industry if option A is not adopted in 2014, due to not updating the technical inputs to the model. The ATA finds the three year staged implementation unacceptable because there are no technical reasons not to move to option A, inputs simply need to be updated. While \$200 million shared between all states and the commonwealth is a relatively small dip in revenue it would be a large inefficient tax that the industry should not be paying for.

The ATA provided three recommendations to the NTC:

- The ATA recommends all the NTC proposed technical updates to the PayGo model, except the NHVR funding allocation methodology, be implemented by 1 July 2014, given industry feedback on the assumptions behind the proposed weightings of the allocation.
- The ATA rejects the NTC proposal for a three year staged implementation to option A, given the \$200 million over-recovery it will cause.

¹² See the ATA submission to the NTC 2014 Heavy Vehicle Charges Determination, January 2014 for more detail.

- The ATA recommends option A be implemented by 1 July 2014, moving to Option B on 1 July 2015 given government timeframes for implementing the road user charge revenue redistribution necessary with option B.

While removing the \$200 million over-recovery from industry will have an impact on projected government revenue, it needs to balance against the fact that it will result in lower freight movement costs and this will have flow on effect to the price of consumer goods. Adopting option A in 2014 will also increase the competitiveness of Australia's exports.

ATA recommendation – NTC 2014 Heavy Vehicle Charges Determination

The Government should implement option A in the 2014-15 Budget and option B in subsequent budgets, which would see the fuel tax credit rate for trucking operators set at 13.043 cents per litre in 2014-15.

5.3.3 Heavy Vehicle Charges and Investment reform

While the NTC is examining the current charges model, the Heavy Vehicle Charges and Investment (HVCI) reform project is trying to determine the future of heavy vehicle charges and road provision.

HVCI have a fixation with mass distance location (MDL) pricing via regulatory telematics monitoring. Industry has serious concerns over the HVCI justification of this view that this is best way forward. There are serious doubts about the practicality behind having every truck in Australia monitored. For instance, there are concerns about transmitting GPS data to monitoring services in Australia, short of providing more mobile phone and other infrastructure there will be drop outs in reporting.

The cost to the industry has also been poorly assessed by HVCI. Operators would have to pay for the installation, upkeep and wear the business cost of downtime during recalibration. Indicative costs from HVCI state the annual cost of the system to operators will be \$180. This figure has no basis in reality.

While HVCI have been keen to publish the net benefits being \$22 billion over 20 years, the net present value of doing pricing reform along will cost -\$1.4 billion over 20 years. The industry fears that the supply side reforms HVCI are discussing will not eventuate and the industry will be saddled with an expensive and inefficient tax collection system.

It must also be remembered that if MDL pricing is implemented, operators will still have to purchase fuel and claim a full fuel tax credit; this will have significant effects on cash flow for operators. Operators will have two charging systems; two sets of administrative burdens; two sets of compliance burdens. HVCI have not considered this at all.

HVCI's proposal would greatly increase the cost of transporting freight in rural and regional areas, because roads in these areas are built to a lighter standard than major highways. To meet the cost of road wear, charges for local roads in rural areas would need to be 25 times higher than the charges for freeways.¹³

The Australian Government has a commitment to reducing red tape. It should deliver on its commitment by halting work on the HVCI proposal. The ATA recommends the Government view the PwC work: *A future Strategy for Road Supply and Charging in Australia*, for a better idea of what the priorities for reform should be.

PwC provided a clear transition pathway to improve heavy vehicle charges and supply side provision.

¹³ Page V - National Transport Commission Modelling the Marginal Cost of Road Wear Research Paper May 2011

Short-term recommendations included:

- Defining a three tier freight network, which would target investment, reporting and funding on the basis of the level of service provided.
- Reporting, benchmarking and reviewing road costs from states, territories and local government road owners on each tier of the network. Comparing these costs to established benchmarks and the associated level of access with the investment would improve the accountability of road agency spending
- A transparent formula for allocating funding to road suppliers. Allocating recovered funds should reflect heavy vehicle share of road costs, heavy vehicle use and access upgrades required for the three tiers. Existing and emerging data can support this allocation. The formula would also include mechanism to fund low-volume roads through community service obligations.
- Improving cost reflectivity of road charges, such as increasing the data accuracy inputs and auditing road agency heavy vehicle expenditure inputs.

PwC also provided medium and long-term recommendations that should only be implemented when the short-term recommendations are delivered and working:

- Reporting, benchmarking and review of efficient costs. Independent benchmarking of efficient road investment and maintenance costs should be tied to funding allocations for road agencies.
- Potentially establishing a national road fund. This would assess available freight demand data and submissions from government and the freight industry to develop forward looking investment and maintenance plans for each tier of the network.
- Further improving the cost reflectivity of road charges in the medium term, a majority fuel based charge should be adopted, reducing the role of registration charges.
- Continuing with a fuel and registration-based charge until a strong business case for variable charging emerges. A strong business case needs to be presented for a move to variable charging. This move will be costly and carries high risks of inefficiency in revenue collection.

PwC recommend variable charging be implemented only if the government can demonstrate the detailed data collected through variable charging can, and will, be used to improve road investment decision-making, in such a way that the added cost, time and complexity is warranted.

ATA recommendation – Heavy Vehicle Charges and Investment reform

The Government should disband the HVCI work as the outcome of their recommendations will increase the cost of transporting freight, increase costs in rural Australia, add extra administration costs to trucking businesses and not provide improvements in road provision.

5.4. Achieving productivity gains and reducing red tape

While funding certainty of road projects is important it needs to go hand in hand with reform of government agencies and practices in order to stop the barriers and burdens to improving productivity in the heavy vehicle industry.

5.4.1 Changes to Infrastructure Australia

The ATA is involved in many different forums dealing with infrastructure issues, however Infrastructure Australia's (IA) presence at these forums has been lacking and IA stakeholder consultation on crucial issues, for example B-triple trials on the Hume, has been very poor.

The Government have stated Infrastructure Australia (IA) will continue. However, they are recommending restructuring of IA scope, transparency and accountability of the organisation, which is welcomed.

The aim of the changes is to create incentive for deeper engagement by investors and infrastructure sector. The changes recommended for IA are needed in order for IA to provide more strategic advice on infrastructure projects.

5.4.2 Establish a joint taskforce to review regulation

Along with the changes to IA and RIS requirements the government should establish a joint taskforce with industry to reviews regulations that prevent the industry from increasing its productivity.

The trucking industry is limited in its ability to reduce greenhouse gas emissions by a series of regulatory and market barriers. For example:

- fitting aerodynamic fairings to the rear of trailers could achieve a 6 to 9 per cent improvement in fuel consumption. These fairings cannot be used in Australia because of the rear overhang and overall length limits on trucks.
- replacing the double tyres used on trucks and trailers with single ultrawide tyres could deliver a 4 to 8 per cent improvement in fuel consumption. Under the national mass limits, however, vehicles with single ultrawide tyres cannot carry as much mass as vehicles with double tyres. As a result, they are not used.
- the best way trucking businesses can reduce their fuel consumption is to use high productivity vehicles like B-triples or super B-doubles on appropriate routes. By using B-triples instead of semitrailers, an operator could reduce its fuel consumption and greenhouse gas emissions by 31 per cent. But progress on allowing the industry to use these safe and efficient vehicles has been slow.
- the takeup of alternative fuels in the trucking industry has been very limited. The availability of gaseous fuel is constrained by the supply infrastructure. In addition, because it can require larger fuel tanks, its rollout is constrained by truck mass and dimension limits.
- the use of biodiesel blends is constrained by availability, taxation and engine warranty issues. Biodiesel blends are not readily available in many areas. B20 (a standard blend containing 20 per cent biodiesel) can only be sold with a special approval under section 13 of the *Fuel Quality Standards Act*. For operators, using blends with more than 20 per cent biodiesel raises fuel tax issues. Engine manufacturers are generally reluctant to approve the use of blends with biodiesel concentrations of more than 5-7 per cent. The use of blends with a concentration of biodiesel higher than this level is especially problematic for advanced engines that comply with the Euro 6 emission standard.

As a result, it seems likely that the widespread use of biofuels will be delayed until third generation fuels that are indistinguishable from diesel are available.

ATA recommendation - Establish a Joint taskforce to review regulation

The Government should leverage its investment in abatement through the Emissions Reduction Fund by convening a government-industry taskforce to review the vehicle standards and regulations that prevent the trucking industry from increasing its energy efficiency further.

5.4.3 Funding for research into renewable fuels

As mentioned above, the industry has little access to alternative fuels and increased government funding to research renewable fuels could present not only a less carbon intensive fuel but reduced transport costs and increase Australia's competitiveness.

ATA recommendation - Funding for research into renewable fuels

The Government should contribute an additional \$5 million per year for five years to support the further development of synthesising macro algae into synthetic crude oil.