

Proactive Release

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Some information has been withheld on the basis that it would not, if requested under the Official Information Act 1982 (OIA), be released. Where that is the case, the relevant section of the OIA has been noted and no public interest has been identified that would outweigh the reasons for withholding it.

Listed below are the most commonly used grounds from the OIA.

<u>Section</u>	<u>Description of ground</u>
6(a)	as release would be likely to prejudice the security or defence of New Zealand or the international relations of the New Zealand Government
6(b)	as release would be likely to prejudice the entrusting of information to the Government of New Zealand on a basis of confidence by <ul style="list-style-type: none"> (i) the Government of any other country or any agency of such a Government; or (ii) any international organisation
6(c)	prejudice the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial
9(2)(a)	to protect the privacy of natural persons
9(2)(b)(ii)	to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information
9(2)(ba)(i)	to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public
9(2)(ba)(ii)	to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely otherwise to damage the public interest
9(2)(f)(ii)	to maintain the constitutional conventions for the time being which protect collective and individual ministerial responsibility
9(2)(f)(iv)	to maintain the constitutional conventions for the time being which protect the confidentiality of advice tendered by Ministers of the Crown and officials
9(2)(g)(i)	to maintain the effective conduct of public affairs through the free and frank expression of opinions by or between or to Ministers of the Crown or members of an organisation or officers and employees of any public service agency or organisation in the course of their duty
9(2)(h)	to maintain legal professional privilege
9(2)(i)	to enable a Minister of the Crown or any public service agency or organisation holding the information to carry out, without prejudice or disadvantage, commercial activities
9(2)(j)	to enable a Minister of the Crown or any public service agency or organisation holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations)

In confidence

Office of the Minister of Transport

Cabinet Economic Policy Committee

Transitioning to road user charges: initial decisions

Proposal

- 1 This paper seeks your agreement to the next steps to transition all vehicles to road user charges (RUC).

Relation to priorities

- 2 This paper supports our:
 - 2.1 quarter two 2025 Action Plan item to “take Cabinet decisions on the fleetwide transition to RUC”
 - 2.2 commitment in the ACT and National Party Coalition Agreement to “Work to replace fuel excise taxes with electronic road user charging for all vehicles, starting with electric vehicles”.

Executive Summary

- 3 Cabinet has agreed to transition all vehicles to RUC and invited me to report back with a plan for doing so. We successfully transitioned light electric vehicles onto RUC from April 2024 and I will soon seek Cabinet decisions to bring heavy electric vehicles onto RUC from 1 July 2027. The focus of this paper is the approach for bringing petrol vehicles into the RUC system.
- 4 I recommend we future-proof the existing system prior to transitioning the remaining vehicles to an improved, electronic and market-led RUC system.
- 5 I have considered what we could do to complete the transition in 2027. It would require moving to the existing largely manual, odometer-based RUC system, which would present high revenue risks. Taking extra time to modernise the system will remove barriers to competitive technological solutions in the RUC retail market and make it easier for users to comply. This will prepare the market to handle 3.5 million new vehicles.
- 6 Modernisation will include opening up the requirements for electronic road user charges (eRUC) systems so that a wider range of more cost-effective technological solutions are available to users, including the potential for in-vehicle technology. Legislative reforms will also lay the ground for a future road pricing system that enables more accurate and dynamic pricing.
- 7 This approach will ensure that when we transition the rest of the New Zealand vehicle fleet to RUC there is less reliance on the New Zealand Transport Agency’s (NZTA’s) largely manual odometer-based system. Adopting this system as part of the transition

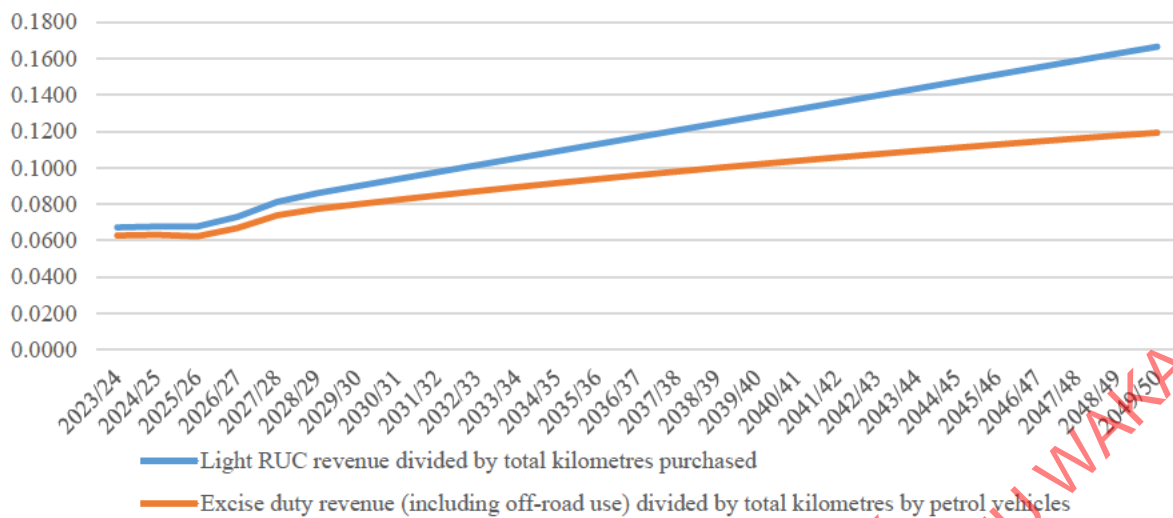
would embed NZTA's position as the dominant retailer and be subject to existing system inefficiencies.

- 8 I will report back in August 2025 with policy decisions s 9(2)(h)

Universal road user charging enables more accurate pricing...

- 9 New Zealand's roading system is primarily 'user pays' via distance-based charging, collected either through fuel excise duty (for petrol vehicles) or RUC (for heavy vehicles and all other vehicle types).
- 10 However, excise duty is an increasingly inaccurate and unfair way to charge people for their road use. Differences in the fuel efficiency of vehicles means:
- 10.1 some petrol vehicle users pay several times what others do for the same amount of road use. For example, the user of a 2000 Toyota Estima people mover with fuel economy of 12 litres per 100 kilometres could pay four times the excise duty of the user of a 2020 Toyota Yaris with fuel economy of 3 litres per 100 kilometres, despite both having the same impact on the road network.
 - 10.2 the impact of excise duty is especially regressive for families that require larger vehicles but cannot afford more fuel efficient petrol or hybrid vehicles, or electric vehicles.
 - 10.3 drivers of less efficient vehicles are effectively subsidising those driving more efficient ones, undermining the 'user pays' principle and contributing to unfairness.
- 11 The transition to RUC is a step towards:
- 11.1 users paying more fairly, based on their actual use of the roads
 - 11.2 a revenue source that is not eroded by ongoing fuel efficiency improvements, which, as set out in the graph overleaf, reduces the amount that petrol vehicle users pay per kilometre over time by 1% per year.

Graph 1: Revenue per kilometre for excise duty vs road user charges (\$)



- 12 To maintain revenue levels, the alternative to applying RUC to all vehicles would be regular increases in excise duty to reflect fuel economy improvements. A one-off increase of about 12 cents per litre (in addition to the current planned increases¹) would bring the average excise duty per kilometre in line with RUC (and raise about \$300 million per year). Ongoing annual increases in excise duty of 1% (about 1 cent per litre) would prevent future erosion. However, this would further increase the gap between how much the users of efficient and non-efficient petrol vehicles pay for their use of roads.
- 13 In June 2024 Cabinet invited the Minister of Transport to report back on a plan for transitioning all vehicles to RUC, and whether a staged approach is desirable (CAB-24-MIN-0248). Cabinet noted that a transition date had yet to be confirmed but noted it could be as early as 1 April 2027.
- 14 The transition of petrol vehicles to RUC will not raise additional revenue but will ensure a more accurate and transparent form of road pricing than excise duty.

...but transitioning the petrol fleet is a large and complex undertaking

- 15 The transition is complex because:
- 15.1 3.5 million vehicle owners will need to actively adopt a new way of paying for road use (rather than paying automatically via fuel excise)
- 15.2 while functional, the RUC system is prescriptive and manual for users, which undermines the quality of service and competitive technological solutions² that can be provided to customers (refer Box A)

¹ Cabinet agreed to increase excise duty (and the equivalent in RUC) by 12 cents per litre in January 2027; 6 cents per litre in January 2028; and 4 cents per litre annually from January 2029 [CAB-24-MIN-0057 refers]

² Options include:

- App-based solutions: Using smartphone GPS and sensors.
- Built-in telematics: Leveraging data directly from modern vehicles.

- 15.3 administering RUC is significantly more expensive than administering excise duty or other taxes, costing about 3% of revenue to collect RUC compared to 0.04% for excise duty, and 0.45% for Inland Revenue's tax revenue. This means it costs around 4 cents to collect \$100 of revenue from fuel excise duty and \$3.00 to collect \$100 of revenue from RUC.
- 15.4 the scale of the RUC retail market will be large, with over \$4 billion in annual revenue. NZTA is currently the main retailer and regulator, creating a single point of failure with monopoly characteristics. Government agencies are generally not well placed to be effective customer-facing retailers, and do not face the right incentives to improve customer service, increase efficiency, and innovate.

Box A: Current policy settings in the Road User Charges Act 2012 (the Act)

Lack of flexibility: The Act, while an improvement on its 1977 predecessor, was not designed primarily for *universal* application or *dynamic multi-factor pricing*. The Act only enables charging based on distance and weight, not finer-grained prices based on impact (e.g. congestion, time of use, location). Its structure makes implementing tools like congestion pricing and tolling difficult without significant amendment or a separate legislative framework.

Barriers to new technologies: While the Act allows *electronic systems*, its focus on 'distance recorders', 'electronic system providers' and licence display are outdated and are barriers to innovation. It doesn't create a truly *neutral* environment that actively encourages diverse solutions (smartphones, manufacturer telematics) and risks becoming a barrier as technology outpaces its 2012 assumptions.

Administrative burden: The pre-purchase, display, and refund mechanisms within the Act, particularly for paper-based users, carry administrative costs for both users and NZTA.

I have considered different pathways for transitioning the remaining fleet to RUC...

- 16 There are three broad pathways to bring the remaining fleet into the RUC system:

16.1 Pathway 1: *Transitioning the fleet to RUC as soon as possible*

A rapid transition to RUC (as soon as 2027) allows limited time for system improvements. This approach initially relies on the existing, largely manual RUC system, requiring active compliance from users that may result in lost revenue until further system changes are implemented. A modernised system that makes it easier for users to comply will increase revenue, but this is a

- Plug-in devices: Simple 'on board units' offering basic functionality.
- Third-party providers: Services that collect data (with user consent) and handle reporting.
- Manual options (potentially): For those unable/unwilling to use digital tech, though likely more cumbersome.

large and complex undertaking that will take many years (prior to and following the 2027 transition).

16.2 Pathway 2: Future-proofing the system, then transitioning remaining vehicles to an improved, market-led RUC system at a later date

Under this pathway, we would progress system improvements over 2025–2027. This would modernise the RUC system and enable the establishment of a retail market to provide cost-effective electronic RUC solutions to customers that makes it easier for users to comply. This relies on the emergence of a competitive RUC retail market, and while the Ministry of Transport is aware of interest from several companies, if the market does not develop, the transition could be delayed.

Once the system is ready, we would transition the remaining fleet. This pathway also retains flexibility for future decisions on the extent to which NZTA's retail function is retained or whether all users should move to market-led electronic solutions.

16.3 Pathway 3: Transitioning the fleet to RUC as it naturally turns over

The remaining vehicle fleet will gradually move to RUC over time as electric vehicles make up a greater proportion of the fleet. Under this pathway, we could let this natural transition occur, whilst simultaneously enabling a competitive market for technological RUC solutions, and mandate full transition when we are satisfied the system is prepared. The key issue with this approach is that it would not see all vehicles move to RUC for many years, if not decades.

...and I propose we focus on future proofing the system (Pathway 2)...

- 17 I am seeking Cabinet's agreement to Pathway 2, focusing first on modernising the RUC legislative framework.
- 18 I consider this approach will be the most effective to deliver a customer-focused, future-proofed and market-led system, whilst taking decisive steps towards the fleetwide transition. Such a system will also deliver better outcomes on revenue protection.
- 19 In August 2025, I will seek Cabinet policy decisions to remove, through legislation, the most acute barriers to competition and efficiency in the existing RUC retail market. The changes are to:
 - 19.1 **remove the need to carry and display labels** — prescriptive legislative requirements mean users need either a label or a screen capable of displaying a label, which is a barrier to innovative RUC retail offerings
 - 19.2 **modernise electronic device requirements** — existing legislative requirements, regulations, and an NZTA-issued Code of Practice are barriers to the use of competitive technological solutions, resulting in high-cost

devices and preventing market participants utilising more efficient solutions (such as use of in-vehicle telematics)

- 19.3 **ensure appropriate RUC retail market settings** — a competitive playing field will mean providers can compete fairly and offer flexibility in the way they sell RUC (for example, as part of other packages, or utility-style bundling)
- 19.4 **broaden the potential for alternative payment schemes** — enabling the market to offer account management solutions to road users rather than all RUC purchases being facilitated through NZTA could allow users more choice.
- 20 In addition to modernising the legislation to better enable eRUC services I have asked officials to look at whether changes to vehicle standards regulations could support the use of built-in vehicle telematics for this purpose. This technology is typically installed, but in some cases not enabled, in most new vehicles imported to New Zealand since 2018. Changes could involve requiring importers to ensure that vehicles with technology capable of being used for RUC distance recording have it enabled in New Zealand.
- 21 My August update will also provide Cabinet with an update on progress, associated operational improvements and the plan for the transition itself.

...rather than simply expanding the existing inefficient system

- 22 I have considered whether the transition could take place by 2027 (Pathway 1 above). While possible, this would require adopting NZTA's largely manual system and potentially embed NZTA's role as a dominant retailer, crowding out private providers. This poses several efficiency risks that will affect revenue and may compromise the transition.
- 23 It is more important to preserve revenue and improve the customer experience than to immediately switch away from fuel excise duty, I recommend taking the time to get this right to ensure a smooth transition for 3.5 million vehicles, and additional revenue certainty. Other advantages of future-proofing are that:
 - 23.1 **it enables more accurate and dynamic road pricing** based on factors such as distance, time, location, vehicle class and weight. The current system is premised on weight and distance, limiting the accuracy of pricing and its expansion to other charges (such as tolling and time of use).
 - 23.2 **it lowers delivery risk**, because the existing system for managing RUC is outdated and costly to administer. Transferring 3.5 million users to it at pace poses delivery risks and risks locking us into a largely manual system with a monopoly government provider.
 - 23.3 **it supports customer service** by enabling market-led solutions with incentives for providers to deliver services to customers innovatively and efficiently. If we move too quickly, we will be reliant on NZTA to be the dominant retailer, which will crowd out private providers.

I propose we establish clear principles to guide this work

- 24 To guide officials in their work to transition to RUC, I propose Cabinet directs that they follow these principles to set clear expectations for these system reforms:
- 24.1 **End user focus:** changes to the RUC system should consider end user satisfaction, including aspects such as cost, privacy and ease of use. New Zealanders must see value from this change, and the transition should be as low-cost and simple as possible.
 - 24.2 **Revenue protection:** changes should aim to minimise revenue leakage and provide effective sanctions against evasion. Fuel excise duty, whilst a blunt revenue tool, is near-universal, and payment cannot be avoided. The fairness and accuracy of RUC offers huge benefits for the transport revenue system; however, the system must be designed to mitigate the risk from a tool more susceptible to non-payment.
 - 24.3 **Future proofing:** regulatory settings should have the flexibility to enable integrated road pricing in the future, including time and location. A more comprehensive road pricing system offers the potential for a transport revenue system that more closely covers its costs. Any solutions to better enable eRUC should be developed with full road pricing in mind.
 - 24.4 **Market-led solutions:** the system settings should enable retail service providers to compete and innovate.
 - 24.5 **Rapid results:** improvements should be expedited, aiming to take clear and rapid steps towards fleetwide RUC. The ambition of a transition to a universal RUC regime should be balanced with the achievability of its implementation. A rushed transition risks poor end-user outcomes, and revenue leakage.

Next steps

- 25 I will report back to Cabinet with next steps for the RUC system:
- 25.1 **July 2025:** seeking decisions regarding the exemption from RUC for heavy electric vehicles. This exemption is currently due to expire at the end of this year, but further work is required with the sector to ensure a smooth transition.
 - 25.2 **August 2025:** seeking policy decisions to remove barriers to competition and efficiency in the existing RUC retail market. s 9(2)(h)
[REDACTED]
[REDACTED] I will also report back on progress and a plan for the transition itself.
 - 25.3 s 9(2)(f)(iv)
[REDACTED]

Cost-of-living Implications

26 Nil at this time.

Financial Implications

27 Nil at this time.

Legislative Implications

28 s 9(2)(h)

29 Further legislative bids will be developed at the appropriate time.

Impact Analysis

Regulatory Impact Statement

30 Not required.

Climate Implications of Policy Assessment

31 Not required.

Population Implications

32 Nil at this time.

Human Rights

33 Nil at this time.

Use of external resources

34 The Ministry of Transport makes prudent use of external resources to fill unforeseen short-term gaps in staffing to ensure ministerial priorities proceed without disruption. As a result, I am advised one contractor made a minor contribution to work on this paper.

Consultation

35 NZTA, Treasury, Infrastructure Commission, Inland Revenue, Customs, Ministry of Business, Innovation and Employment (Energy and ACC), Justice, Ministry for Social Development, and the Office of the Privacy Commissioner, were consulted on this paper. The Department of the Prime Minister and Cabinet was informed.

Communications

- 36 I will liaise with the Office of the Prime Minister on any announcements arising from this paper.

Proactive Release

- 37 This paper will be proactively released subject to redactions as appropriate under the Official Information Act 1982 once final decisions have been made on this work.

Recommendations

The Minister of Transport recommends that the Committee:

- 1 **note** that Cabinet agreed to transition all vehicles onto road user charges (RUC) and invited the Minister of Transport to report back with an implementation plan
- 2 **note** that we have successfully transitioned light electric vehicles onto RUC and I will seek Cabinet approval in July 2025 to extend the end of the RUC exemption for heavy electric vehicles
- 3 **agree** to future-proof the system, and to then transition remaining vehicles to an improved, market-led RUC system (Pathway 2)
- 4 **agree** to focus on modernising the RUC legislative framework to:
 - 4.1 remove barriers to new technologies
 - 4.2 allow private RUC retail service providers to compete fairly and enable market-led improvement in customer services
 - 4.3 enable more accurate road pricing, including variation by time and location, in the future
- 5 **agree** to establish the following principles to guide officials in their work to transition to RUC:
 - 5.1 end user focus
 - 5.2 revenue protection
 - 5.3 future-proofing
 - 5.4 market-led solutions
 - 5.5 rapid results
- 6 **agree** to enable the use of in-built vehicle technology for electronic road user charging solutions and explore options for change to vehicle entry standards that will support the availability of this technology

- 7 **invite** the Minister of Transport to seek Cabinet policy decisions by August 2025, for **s 9(2)(h)** to remove the most acute barriers to competition and efficiency in the existing RUC retail market
- 8 **note** the August 2025 paper will include an update on progress and associated operational improvements, and a plan for the transition itself.

Authorised for lodgement

Hon Chris Bishop

Minister of Transport

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THE MINISTRY OF TRANSPORT TE MANATU WAKA



Cabinet Expenditure and Regulatory Review Committee

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Transitioning to Road User Charges: Initial Decisions

Portfolio **Transport**

On 24 June 2025, the Cabinet Expenditure and Regulatory Review Committee:

- 1 **noted** that in July 2024, the Cabinet Business Committee:
 - 1.1 agreed to transition all light vehicles from fuel excise to the road user charges (RUC) system;
 - 1.2 noted that 1 April 2027 is the target transition date for initiating the transition to RUC;
 - 1.3 invited the Minister of Transport to report back with an update, including seeking decisions on a transition plan for the fleetwide transition to RUC and potentially a staged approach;

[CBC-24-MIN-0063]
- 2 **noted** that light electric vehicles have been successfully transitioned onto the RUC system, and that the Minister of Transport intends to seek Cabinet approval in July 2025 to extend the end of the RUC exemption for heavy electric vehicles;
- 3 **agreed** to future-proof the system, and to then transition remaining vehicles to an improved, market-led RUC system (Pathway 2, as discussed in the paper under EXP-25-SUB-0053);
- 4 **agreed** to focus on modernising the RUC legislative framework to:
 - 4.1 remove barriers to new technologies;
 - 4.2 allow private RUC retail service providers to compete fairly and enable market-led improvement in customer services;
 - 4.3 enable more accurate road pricing, including variation by time and location, in the future;
- 5 **agreed** to establish the following principles to guide officials in their work to transition to RUC:
 - 5.1 end user focus;

- 5.2 revenue protection;
- 5.3 future-proofing;
- 5.4 market-led solutions;
- 5.5 rapid results;
- 6 **agreed** to enable the use of in-built vehicle technology for electronic RUC solutions and explore options for change to vehicle entry standards that will support the availability of this technology;
- 7 **invited** the Minister of Transport to seek Cabinet policy decisions by August 2025, **s 9(2)(h)** to remove the most acute barriers to competition and efficiency in the existing RUC retail market;
- 8 **noted** that the August 2025 report referred to in paragraph 7 above will include an update on progress and associated operational improvements, and a plan for the transition itself.

Sam Moffett
Committee Secretary

Present:

Hon David Seymour (Chair)
Rt Hon Winston Peters
Hon Nicola Willis
Hon Chris Bishop
Hon Simeon Brown
Hon Paul Goldsmith
Hon Judith Collins KC
Hon Mark Mitchell
Hon Simon Watts
Hon Brooke van Velden
Hon Nicole McKee
Hon Shane Jones
Hon Casey Costello
Hon Andrew Hoggard

Officials present from:

Office of the Chair
Office of Hon Chris Bishop
Office of Hon Judith Collins KC
Officials Committee for EXP



Cabinet

Minute of Decision

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Report of the Cabinet Expenditure and Regulatory Review Committee: Period Ended 27 June 2025

On 30 June 2025, Cabinet made the following decisions on the work of the Cabinet Expenditure and Regulatory Review Committee for the period ended 27 June 2025:

Out of Scope

EXP-25-MIN-0053

**Transitioning to Road User Charges:
Initial Decisions**
Portfolio: Transport

CONFIRMED

Out of Scope

McKee)

Rachel Hayward
Secretary of the Cabinet

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