

**Submission
by**

**THE
NEW ZEALAND
INITIATIVE**

to the Transport and Infrastructure Committee

on the

Land Transport (Revenue) Amendment Bill

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1. INTRODUCTION

- 1.1 The New Zealand Initiative welcomes the opportunity to submit on the Land Transport (Revenue) Amendment Bill.
- 1.2 The Initiative is a Wellington-based think tank supported primarily by major New Zealand businesses. In combination, our members employ more than 150,000 people. We undertake research that contributes to the development of sound public policies in New Zealand, and we advocate for the creation of a competitive, open, and dynamic economy, as well as a free, prosperous, fair, and cohesive society.
- 1.3 The Initiative's members span the breadth of the New Zealand economy; a well-functioning transport system is important to them. The views expressed in this submission are those of the authors rather than the New Zealand Initiative's members.
- 1.4 The Initiative has consistently supported economically efficient transport pricing, including road pricing and congestion charging. Efficient pricing is the most effective way to manage demand, allocate scarce road space, and fund infrastructure investment. Our 2024 report *Driving Change: How Road Pricing Can Improve Our Roads* set out a comprehensive vision for Smart Road User Charges that would modernise New Zealand's transport funding system.
- 1.5 We broadly support the Bill. It represents a pragmatic and incremental reform package that moves New Zealand's land transport revenue framework in a more economically coherent direction. In particular, the Bill strengthens user-pays principles, improves investment incentives, and modernises the road user charges system in preparation for a future transition away from fuel excise duty.
- 1.6 Importantly, this Bill should be read alongside the Land Transport Management (Time of Use Charging) Amendment Act 2025, which passed in November. Together, these two pieces of legislation form the core of New Zealand's emerging road pricing architecture. Our recommendations focus on ensuring they work together coherently.
- 1.7 That said, the Bill also reflects a cautious approach, especially on tolling. In several areas, it falls short of what the Tolling Regulatory Impact Statement (RIS) identifies as the preferred policy direction. We therefore support the Bill, subject to the recommendations outlined below.

2 OVERALL ASSESSMENT OF THE BILL

2.1 The Bill pursues two related objectives:

- Improving the flexibility and effectiveness of tolling as an infrastructure funding and investment tool; and
- Modernising the road user charges (RUC) system to enable digital delivery and future expansion to light vehicles.

2.2 We support these objectives. Our research and submissions have repeatedly argued that road use should be priced directly, rather than indirectly through blunt instruments such as fuel excise duty. Pricing should reflect scarcity and congestion, and revenue tools should support investment discipline rather than obscure it.

2.3 The Bill should be understood as an enabling framework rather than as a comprehensive reform of road pricing. On that basis, we consider it directionally sound.

2.4 The Minister of Transport has described the Bill as “the first step towards replacing petrol tax with RUC for light petrol vehicles”, with an assessment planned for 2027 before transitioning the remaining 3.5 million petrol vehicles. This aligns closely with the Initiative’s long-standing advocacy. New Zealand is on track to become the first nation to transition completely from motor fuel taxes to road user charges – an outcome we have long advocated for.

3. TOLLING REFORMS

Corridor-based tolling of existing roads

3.1 The Initiative supports the Bill’s move away from a narrow “new road only” tolling test towards a corridor-based approach.

3.2 The existing legislative framework has encouraged artificial project boundaries and suboptimal design choices, where tolling eligibility is driven by statutory definitions rather than by where users benefit. The Northern Gateway Toll Road illustrates this problem: a bypass delivering corridor-wide benefits could only be tolled on the newly constructed segment, creating a mismatch between who benefits and where tolling applies.

3.3 In transport networks, benefits are rarely confined to a single asset. New bypasses and motorway extensions relieve congestion on parallel routes, improve travel time reliability across wider networks and reduce accident risk beyond their immediate footprint. Allowing existing roads to be tolled where users benefit from new investment, therefore, better reflects economic reality.

3.4 The Bill retains a link between tolling and new investment, avoiding a shift toward general network tolling. However, there might be cases where it would be justifiable to toll both a new road and an existing road. For example, if a second Mount Victoria tunnel is constructed alongside the existing tunnel, users of both tunnels will benefit because congestion is reduced along the entire corridor.

Use of toll revenue within a scheme

3.5 The Initiative supports the Bill’s broader definition of permissible toll revenue use within a tolling scheme, including on existing roads and, in limited circumstances, on alternative routes.

3.6 From an economic perspective, what matters is the performance of the corridor and network, not the accounting treatment of individual assets. Maintaining adjacent sections of an existing state highway or upgrading interchanges may deliver greater congestion relief than marginal upgrades to the tolled asset alone.

3.7 Allowing toll revenue to fund maintenance and operation of alternative routes can improve system efficiency and mitigate perverse incentives, particularly where local authorities face funding constraints.

3.8 However, we note that the Bill’s expanded definition of permissible revenue use creates some risk of “revenue creep” – where tolls originally justified by specific investment benefits gradually fund broader transport activities. We address this concern in our recommendations on revenue discipline, which are outlined below.

Alternative route requirement

3.9 The Initiative notes that the RIS identified the rigid alternative route requirement as a material constraint on efficient tolling. The RIS’s preferred option was to convert this requirement into a Ministerial consideration rather than a hard rule. The Bill does not adopt this approach.

3.10 Instead, it retains the alternative route requirement but introduces powers to restrict certain classes of heavy vehicles from using alternative routes.

3.11 This is only a partial response to the underlying problem. In geographically constrained corridors – such as coastal settlements, river gorges, and limited harbour crossings – there may be no realistic untolled alternative that does not impose substantial detours, safety risks, or environmental costs.

3.12 In such cases, a strict alternative route requirement can prevent tolling even where users receive substantial benefits and demand management is warranted. It is unlikely that many new roads could support themselves through tolling revenue if the alternative route requirement continues.

3.13 We recommend that the select committee consider whether the Bill should go further and treat the alternative route requirement as a consideration rather than an absolute barrier, consistent with the RIS preferred option. If this approach raises concerns about safeguards, the committee could require enhanced transparency and consultation requirements for schemes without free alternatives, rather than prohibiting them outright.

Toll price setting and indexation

3.14 We support the explicit requirement to consider revenue potential, user benefits and network effects when setting toll prices. These are the correct factors from an economic efficiency perspective.

3.15 Failure to adjust tolls over time has eroded their real value, weakened revenue sufficiency and reduced investor confidence. Tolls on existing New Zealand toll roads have often remained unchanged for extended periods, meaning their real value has declined materially since introduction.

3.16 This undermines both revenue sufficiency and the economic signal tolls are intended to provide.

3.17 However, we are not convinced about the Bill's provision for CPI indexation for tolls. The CPI is unlikely to accurately reflect the actual cost changes of running a toll road, making it a blunt instrument. Instead, the toll rate should be determined each year so that the collected tolls are adequate to cover maintenance, interest on the loan that financed the project (or depreciation into a sinking fund for replacement), and a return for investors.

Private investment and concessions

3.18 The Initiative supports the Bill's clarifications and extensions relating to toll road concessions and private investment.

3.19 Private capital can play a constructive role in transport infrastructure where risk allocation, pricing discipline and transparency are well designed.

3.20 Clarifying that investors may earn a commercial return and that concession proceeds may be applied to new road projects reduces uncertainty and improves the investability of toll roads, while maintaining public oversight. We note that the Crown should also seek a commercial return on its investments.

Toll liability and enforcement

3.21 The shift to registered-person-only liability is sensible and overdue.

3.22 The existing driver-first liability model has proven costly to enforce, particularly for rental vehicles and overseas drivers. Shifting liability to the registered person

aligns toll enforcement with other transport charging systems and materially reduces administrative and collection costs.

4. ROAD USER CHARGES REFORM

- 4.1 The Initiative strongly supports the modernisation of the road user charges system.
- 4.2 The RIS on RUC retail market reforms identifies three problems with the current system that would prevent a successful transition of petrol vehicles to RUC:
 - Current legislation makes eRUC unaffordable for light vehicle owners by requiring expensive, heavy-vehicle-specification hardware;
 - NZTA's dual role as regulator and retailer creates barriers to third-party innovation; and
 - The RUC system cannot efficiently accommodate modern road pricing approaches.
- 4.3 The Bill addresses each of these problems. Removing physical licence display requirements, enabling outcome-based electronic distance recording, and creating a regulated RUC provider model are necessary steps toward a future-proof system.
- 4.4 The Bill's separation of NZTA's regulatory role from its retail role, allowing third-party providers to compete on a level playing field, is particularly welcome. The RIS notes that potential market entrants identified NZTA's dual role as a barrier to entry and a perceived conflict of interest. Clarifying these roles in legislation should provide confidence that applications will be handled fairly and equitably.
- 4.5 We support the shift from prescriptive hardware requirements to outcome-based standards focused on "accurate and verifiable distance measurement". This enables the use of in-built vehicle technology and cheaper alternatives, opening the market to innovation while maintaining revenue integrity.
- 4.6 Importantly, the Bill does not mandate the immediate inclusion of light vehicles in RUC. The RIS makes clear that the transition is staged. These reforms enable the market first, with fleet-wide transition occurring "only once the market is confirmed to be ready and performing well, offering competitive and cost-effective solutions for motorists".
- 4.7 This staged approach is prudent. However, we encourage the select committee to seek clarity on what criteria will determine market "readiness" and what safeguards exist if the market does not develop as hoped.

Market risk

- 4.8 The success of the market-led approach depends critically on barriers to entry. The RIS identifies that NZTA's dual role, prescriptive hardware requirements and complex approval processes have historically discouraged private sector investment. The Bill addresses these barriers by clarifying NZTA's regulatory and retail roles, shifting to outcome-based technology standards and establishing that approval criteria will be set transparently in regulations.
- 4.9 These are sensible steps, though their effectiveness remains uncertain. The RIS acknowledges that "a competitive market fails to emerge" is a key risk and notes that a second round of market engagement is planned to assess whether further structural separation is needed. NZTA's retention of its own collection system provides a partial backstop if the private market underperforms. However, the quality of competition will ultimately depend on whether the regulatory framework delivers genuinely open access – not just in principle, but in practice. The select committee should scrutinise the proposed approval criteria to ensure they do not inadvertently recreate the barriers they are meant to remove.

Privacy considerations

- 4.10 The Bill's enabling of electronic distance recorders and third-party RUC providers necessarily involves collecting and transmitting travel data. The RIS notes that existing privacy protections in the RUC Act – including restrictions on "RUC information", separation from telematics data and limits on data sharing – "may require review to accommodate options/changes".
- 4.11 In our submission on the Land Transport Management (Time of Use Charging) Amendment Bill, we recommended strengthening privacy protections and drew on Singapore's experience with robust data protection frameworks. The same principles apply here.
- 4.12 The regulatory framework for approved RUC providers should include clear requirements for data minimisation, purpose limitation and security standards. We encourage the select committee to satisfy itself that the Bill's regulatory framework adequately addresses these concerns.
- 4.13 That said, less private options that might be of value to users (e.g., trip logs, expense tracking, route optimisation, integration with other apps) should not be ruled out. The key is user choice: privacy-protective options as the default, with informed consent for richer data collection.

5. INTEGRATION WITH THE TIME OF USE CHARGING ACT 2025

5.1 The Land Transport Management (Time of Use Charging) Amendment Act 2025, passed in November, enables local authorities to establish congestion charging schemes in partnership with NZTA. Cabinet papers underlying that Act explicitly contemplated integration with RUC reform:

“We also need local time of use charges that can transition smoothly into any national variable charging we introduce through the RUC system.”

5.2 The same papers indicated that NZTA would lead the development of “a single technological system to enable time of use charging which can be utilised across New Zealand”.

5.3 The RIS on RUC retail market reforms identifies fragmentation as a core problem. It states that “the RUC system’s current structure inefficiently hinders its evolution towards modern road pricing and integrated charge collection, often necessitating separate and complex schemes for new charges like tolls or congestion pricing rather than using the existing RUC system”.

5.4 Technical Proposal E in the RIS – enabling the RUC system to collect other charges (tolls, time-of-use) alongside RUC – directly addresses this problem. The RIS notes this would “lessen the need to build entirely new payment systems for such charges”.

5.5 The current Bill advances this vision by modernising RUC and creating a third-party provider framework. However, the two Acts operate in parallel rather than through an explicit integration mechanism.

5.6 The Time of Use Charging Act creates scheme boards with regional revenue hypothecation and local authority partnerships. This Bill creates a separate RUC provider framework with national scope. There is no explicit legislative provision requiring:

- Technology standards to be compatible across both systems;
- Interoperability requirements for providers serving both markets;
- A single user interface or payment platform; or
- A timeline or trigger for merging the charging frameworks.

5.7 The RIS acknowledges that enabling the RUC system to collect other charges “would require more than just amending the RUC Act” – other laws assigning collection responsibilities to specific entities would also need amendment “to clarify the roles and legal responsibilities of the RUC Collector versus other agencies, ensuring there are no legislative inconsistencies”.

5.8 The policy intent for integration is clear. The legislative architecture to deliver it is less so.

5.9 The risk is that New Zealand ends up with multiple parallel pricing systems – tolls, time-of-use charges, and RUC – each with different technology platforms, payment systems and administrative frameworks. This would impose unnecessary compliance costs on users and providers, and represents exactly the kind of fragmented system both the Bill and the RIS identify as problematic.

5.10 We recommend that the select committee:

- Seek assurance from officials that the RUC provider framework will produce technology standards compatible with time-of-use charging systems and that third-party payment providers can integrate both systems into their single application;
- Confirm that the Bill (together with the tolling amendments) enables tolls to be collected through the same RUC provider infrastructure, as contemplated by the RIS;
- Consider whether the Bill should include a statutory requirement for NZTA to ensure interoperability between RUC providers and time-of-use charging infrastructure; and
- Request that the government publish a roadmap showing how tolling, time-of-use charging and RUC will integrate into a coherent national road pricing framework.

6. TOWARD A COHERENT ROAD PRICING FRAMEWORK

The destination: Smart Road User Charges

6.1 The Bill is broadly consistent with the Initiative’s long-standing advocacy for direct pricing of road use, clearer links between what users pay and what infrastructure delivers and pricing mechanisms that support demand management.

6.2 The Initiative’s 2024 report *Driving Change* proposed Smart Road User Charges as the destination: a system where all vehicles pay based on how much they use the roads, when and where they drive, and what type of vehicle they are. This would replace fuel excise duty over a five-year transition, creating a pure user-pays model with charges based on mileage, time of use, location and vehicle type.

6.3 The Bill takes important steps in this direction. The RIS explicitly identifies future-proofing as an objective, noting that “the RUC system could, for example, collect time of use charges or road tolls, thereby lessening the need to build entirely new payment systems for such charges.” Technical Proposal E would even enable RUC rates themselves to vary based on time and location – though the RIS notes this is a longer-term possibility requiring further work.

6.4 We therefore view the Bill as a foundation rather than an endpoint. Its success should be judged by whether it makes future reforms easier rather than harder.

Revenue discipline and public trust

- 6.5 Maintaining simplicity, transparency and public trust will be critical. Pricing mechanisms perceived as revenue grabs rather than congestion management or investment tools risk political backlash and policy reversal.
- 6.6 In the Initiative's submission on the Time of Use Charging Bill, we recommended a "congestion dividend" approach – returning a portion of collected congestion-charge revenues directly to road users through reduced registration fees, fuel tax rebates or direct payments. This would make the scheme's purpose unmistakable: not to raise revenue, but to allocate scarce road space efficiently.
- 6.7 The same principle applies to tolling reform. While the Bill appropriately requires toll revenue to be applied to transport purposes, there is value in going further. Explicit commitments to revenue neutrality – offsetting new tolls with reductions in other transport charges where possible – would strengthen public acceptance and reinforce the efficiency rationale.

Pricing and capacity must work together

- 6.8 The government is investing heavily in new road capacity through the Roads of National Significance programme. Building and pricing need not be mutually exclusive – indeed, they should work in tandem.
- 6.9 Congestion charging reveals information about driver demand for increased road capacity. Investment in increased capacity, whether extra lanes or new roads, should follow from and be informed by those demand signals. And maintained congestion charging can help ensure best use of the new infrastructure.
- 6.10 The tolling reforms in this Bill provide tools to address this. The select committee should encourage the government to ensure that demand management and capacity expansion work together, not at cross-purposes.

Equity considerations

- 6.11 Expanding tolling, especially to existing roads and corridors, and expanding RUC across the vehicle fleet will impact different people in different ways. Consistent with our submission on the Time of Use Charging Bill, we do not recommend exemptions to address equity concerns, as they would undermine the scheme's effectiveness. However, targeted measures, such as direct rebates and improved public transport alternatives, can address equity concerns without compromising pricing signals.

7. RECOMMENDATIONS

7.1 The New Zealand Initiative recommends that the select committee:

- **Support the Bill** as a sensible and incremental improvement to New Zealand's land transport revenue framework.
- Consider softening the alternative route requirement by converting it from a hard rule into a Ministerial consideration, consistent with the RIS preferred option. If this raises safeguard concerns, require enhanced transparency and consultation for schemes without free alternatives rather than prohibiting them.
- Instead of regular CPI adjustment, updated toll rates should be reviewed periodically so that the collected tolls are adequate to cover maintenance, interest on the loan that financed the project (or depreciation into a sinking fund for replacement), and a return for investors.
- Ensure integration with the Time of Use Charging Act 2025 by:
 - Seeking assurance that RUC provider technology standards will be compatible with time-of-use charging systems;
 - Confirming the Bill enables tolls to be collected through RUC provider infrastructure as contemplated by the RIS;
 - Considering statutory interoperability requirements; and
 - Requesting a published roadmap for integrating tolling, time-of-use charging and RUC.
- Clarify market readiness criteria by asking officials what specific criteria will determine when the RUC provider market is “ready” for fleet-wide transition, and what intervention mechanisms exist if a competitive market fails to emerge.
- Strengthen revenue discipline by encouraging explicit commitments to revenue neutrality where practicable, reinforcing that pricing reforms are about efficiency rather than revenue maximisation.
- Ensure adequate privacy protections in the regulatory framework for electronic distance recorders and third-party RUC providers, including data minimisation and purpose limitation requirements, balanced with opt-in for more detailed information.
- Treat the Bill as a foundation and signal that future work will be needed to integrate tolling, congestion charging and RUC into a coherent national road pricing framework, with Smart Road User Charges as the ultimate destination.

ENDS