

3 June 2010



Senator Mathias Cormann
Chair
Senate Select Committee on Fuel and Energy

via  at fuelenergy.sen@aph.gov.au

Dear Senator,

**LPG AUSTRALIA RESPONSE
TO
SENATE SELECT COMMITTEE ON FUEL AND ENERGY
ON THE
IMPACT OF THE RECOMMENDATIONS OF THE HENRY TAX REVIEW**

- References:
- A. LPG Australia Submission to the Energy White Paper, dated June 2009
 - B. LPG Australia Submission to the Henry Tax Review, dated June 2009
 - C. LPG Australia 2008 and 2009 Supply and Demand Studies, dated April 2010
 - D. Government Press Release – Henry Tax Review - Announcement of Excise on Alternate Fuels, dated 12 May 2010
 - E. LPG Australia Media Release - Announcement of Excise on Alternate Fuels, dated 13 May 2010
 - F. The Senate Select Committee on Fuel and Energy - Australia's Future Tax System: Report to the Treasurer, dated 13 May 2010

Thank you for the opportunity for LPG Australia to respond to the questions raised by the Senate Select Committee Fuel and Energy at Reference F.

Preamble

LPG Australia acknowledges:

- a. The Government's Energy White Paper has not been finalised due to the suspension of the CPRS.
- b. The recent announcement by Government of the suspension of the ETS and related CPRS policy initiatives to at least 2012.

- c. Current legislation that prescribes the introduction of a fuel excise (tax) applies only to ethanol. At this time there is no legislation in place that imposes an excise on LPG.
- d. The *LPG Vehicle Rebate Scheme* was amended by the Government in 2009. The amendment reduced the Rebate level from \$2000.00 pa, at a rate \$250.00 pa, down to \$1000.00 over four years. New vehicles continue to be provided with the full \$2000.00 rebate for private motorists out to 2015.
- e. The recent announcement by Government, vide Reference D, in respect to the imposition of a fuel excise on LPG; to be introduced in 2011 at a rate 2.5 cpl pa reaching a maximum excise of 12.5 cpl in 2015.

As stated in the LPG Australia submissions to the Energy White Paper and the Henry Tax Review detailed at References A and B, LPG Australia's position is that:

“ ... the imposition of fuel excise on LPG and continued reduction of the *LPG Vehicle Rebate Scheme* will have a negative, immediate and sustained impact on; the private motorist, small businesses and their employees, the Australian vehicle manufacturing and transport industries and, most importantly, the Government's assurance and credibility with regard to Australia's energy security and the clean energy debate ...”

Preliminary Comment

In response to Reference F and the questions posed for consideration, specifically Question 5:

‘ ... do you have other issues you wish to raise with the Committee about the recommendations set out in the Henry Tax Review and/or Government's response to those recommendations ...’

and in the context of Australia's fuel and energy security statements outlined in Committee's Terms of Reference, LPG Australia offers the following response in relation to LPG:

- a. Need for a Consolidated Energy Policy. The four key policy areas that appear to underpin the Government's energy framework are; Energy Security, Energy Efficiency, Clean Energy Technologies, and Energy and Appliance Innovation.

The Minister's announcement at Reference D appears to have been developed in isolation from the above energy framework, and the related policy areas of energy, environment, innovation, climate change and alternate transport fuels.

LPG, as an indigenous, abundant, clean and economical alternative transport fuel directly supports the Government's energy framework.

Erosion of the value and benefits of LPG due to taxation will inhibit the move by Australian motorists or transport industries away from ULP or Diesel.

- b. There is a clear case for the need to establish a gaseous transport fuels policy as a road map for the future and to enable an appropriate excise arrangement to be established.
- c. Negative Public Reaction. The implementation of excise on LPG Autogas will attract significant public attention, particularly with many motorists having recently converted from petrol with bi-partisan Government support and encouragement. The likely outcome will be a perception, left in the public mind (details are never retained in perceptions), that Autogas prices will go up due to the Government's new tax.

The negative impact of the perception will far outweigh the actual cost impact on motorists and, most likely, significantly reduce further interest in LPG Autogas. The imposition of a fuel excise and continued reduction of the *LPG Vehicle Rebate Scheme* on the LPG industry will have the following impacts:

- 1) Will question the Government's support for Australia's energy security by increasing the Australian transport industry and private motorists' continued dependence on imported petroleum products.
- 2) Will question past investment by industry, and the LPG vehicle and equipment manufacturing industries, in the development of clean energy technologies and alternative fuels, thereby removing the incentive for continued investment in LPG infrastructure, distribution facilities and equipment manufacture.

Removing the investment incentive will further impact on Australia's energy security in a number of key areas:

- a) Manufacturing. The move by GM Holden and Ford Australia to produce a dedicated LPG vehicle using the latest equipment and technology, and the investment response from the Australian equipment manufacturing industry, must be considered.

LPG Australia is concerned that the success of this commitment will rely on the business case underpinning the vehicle fleet market. The vehicle and equipment manufacturers require time to finalise their technology and infrastructure development and rollout to the market.

Government leadership is required to encourage Australian 'green' vehicle products.

- b) Reduced Choice and Demand. The LPG Australia 2008 and 2009 Supply and Demand Studies, (Reference C), demonstrate a slight decline in demand for LPG Autogas reflecting the change in vehicle composition, increased use of imported diesel and reduced number of Autogas vehicles in vehicle fleets. There has been a significant lack of choice for fleet owners with only one vehicle manufacturer providing a dedicated LPG vehicle.
- c) Small Business and Employment. The most significant driver for the uptake of LPG is both the rising cost of ULP and the differential between ULP and LPG

Autogas. LPG Australia has witnessed, over the past year, a very stable pricing of ULP with the 60 cpl differential being maintained. However, the uptake of the rebate by the private motorist has dropped significantly from 70,000 in 2009 to a projected figure of 44,000 for 2010, or from 8,000 per month to 2500 per month. The impact on the LPG industry, small business and employment in the sector, is significant. This downturn is an illustration of the importance to the autogas industry of the public's perceptions of relative fuel prices.

- 3) Promotes a lack of confidence, by the Australian community, in the Government's assurance of seeking to embrace alternative fuels and, in particular, the increasing focus on gaseous fuels and related technologies, to reduce our impact on the environment.
- 4) Reduces the differential between the price of LPG and ULP thereby removing the incentive for industry and the private motorist to embrace LPG as alternative, clean and economic fuel.
- 5) Severely and negatively impacts on 3,300 Australian small businesses and ~20,000 employees who are engaged in the LPG vehicle equipment supply and conversion industry.
- 6) Undermines the *LPG Vehicle Rebate Scheme* as a significant policy initiative which has provided motorists with access to a lower-cost fuel and supported the expansion of the Industry to meet this demand. Noting that consumers, who have access the Rebate have contributed in most cases, dollar for dollar, will see the value of their investment rapidly diminish.

The *LPG Australia 2009 Industry Report Card*, highlighting the national profile and achievements of the LPG Industry over the past 12 months, is enclosed for reference.

The Response is offered on behalf of the majority of members of LPG Australia, the national peak body representing the Australian LPG industry.

Conclusion

LPG, as an indigenous, abundant, clean and economical alternative transport fuel directly supports the Government's energy framework.

The imposition of fuel excise on LPG and continued reduction of the *LPG Vehicle Rebate Scheme* will have a negative, immediate and sustained impact on; the private motorist, small businesses and their employees, the Australian vehicle manufacturing and transport industries and, most importantly, the Government's assurance and credibility with regard to Australia's energy security and the clean energy debate.

The suspension of the Energy White Paper, ETS and CPRS policy initiatives, will allow time for further consultation on the matter of alternate fuels.

The LPG Industry, vehicle and equipment manufacturers, and the private motorist, require time to finalise their technology and infrastructure development and rollout to the market, and enable recovery of the respective investments.

Recommendation

It is recommended that Government's Alternative Fuels Policy:

- a. Remains cognisant of the suspension of the Energy White Paper, ETS and CPRS, thereby allowing for time for further consultation;
- b. Recognises the need for a Gaseous Transport Fuels Policy;
- c. Minimises the negative impact of an LPG fuel excise on Australia's vehicle manufacturers, fleet and transport industries, small business and the private motorist, and supports LPG Australia's stated position for a delay in the introduction of a fuel excise on LPG for five years; and
- d. Supports the reinstalment of the *LPG Vehicles Rebate Scheme* for LPG vehicle retrofit and conversions at the initial rebate of \$2000.00 for five years.

LPG Australia appreciates the complexity of the above consideration and understands the relationship with Treasury in terms of revenue generation.

LPG Australia welcomes the opportunity to work with the Government on establishing a Gaseous Transport Fuels Policy that will deliver in the national interest; energy security, a cleaner environment, and economic benefit to Australian industry, small business and the private motorist.

For your consideration.

Michael Carmody
Chief Executive Officer

Distribution: Senate Select Committee on Fuel and Energy
LPG Australia Board of Directors
LPG Australia Council
LPG Australia Secretariat

Enclosure: 1. LPG Australia 2009 Industry Report Card