

Committee Secretary
 House Standing Committee on Economics
 House of Representatives
 PO Box 6021
 Parliament House
 CANBERRA ACT 2600

Dear Committee Secretary

COMMITTEE INQUIRY INTO THE TAXATION OF ALTERNATIVE FUELS BILLS

I am writing in response to the Committee's invitation for interested organisations to make submissions to the Committee's Inquiry into the package of Bills related to the Taxation of Alternative Fuels.

AIP was established in 1976 as a non-profit making industry association. AIP's mission is to promote and assist in the development of a sustainable, internationally competitive petroleum products industry, operating efficiently, economically and safely, and in harmony with the environment and community standards. AIP's four core member companies are BP Australia Pty Ltd, Caltex Australia Ltd, Mobil Oil Australia Pty Ltd and The Shell Company of Australia Ltd.

ROLE OF AIP MEMBER COMPANIES IN THE TRANSPORT FUELS MARKET

AIP member companies play a significant role in the fuel supply chain.

- In relation to **conventional petroleum fuels**, AIP member companies operate all petroleum refineries in Australia and supply around 90% of the transport fuel market with bulk/wholesale petroleum fuels.
- In relation to **gaseous fuels**, AIP member companies are the major suppliers of bulk LPG to the domestic market, representing around 2/3 of the market.
- In relation to **biofuels**, AIP member companies are the largest suppliers of ethanol blended fuels and blended biodiesel to the Australian market.

AIP member companies are also:

- very significant excise/duty collectors for the Government – totalling around \$15 billion in 2009; and
- have total assets valued at over \$16 billion dollars, and typically invest around \$1 billion each year to keep fuel reliably supplied to the Australian market.

Given this background, AIP member companies have a very strong interest in any changes to fuel taxation, including alternative fuels tax. This is because fuel tax changes have direct financial and business implications for AIP member companies and also have an impact on their excise and customs obligations in the future (and on the resulting investment needed in systems and controls to fully comply with these obligations).

AIP FUEL TAX PRINCIPLES

From a tax policy perspective, AIP supports a tax system for road transport fuels that:

- is efficient (causes minimum distortions), equitable (fair) and simple (easily understood);
- is practical/workable and minimises compliance and administration costs for business and government;
- supports clarity, consistency and stability in policy settings relevant to the transport fuels industry.

2.

AIP supports the principle that all fuel used for road transport use - including liquid fuels (conventional fuels and biofuels) and gaseous fuels (LPG, LNG and CNG) - should be taxed on a comprehensive and neutral basis, to ensure the most efficient and robust tax system for road transport fuels.

- AIP supports all road transport fuels being brought within the fuel excise system so that all fuels (equitably) will need to comply with relevant fuel quality and environmental performance standards.
- AIP supports energy content as an appropriate and neutral basis for taxing all transport fuels.
- AIP supports relief from the burden of excise being provided for 'business inputs' to production.

AIP notes that the Government has decided to extend the transition period to this policy framework for renewable fuels. AIP strongly believes that this assistance measure for these industries must be regularly reviewed to ensure that the objectives of establishing sustainable and reliable renewable fuels industries is being achieved and that these industries will be capable of moving to an appropriate neutral position in the fuel taxation system.

AIP'S VIEW: THE CURRENT PACKAGE OF BILLS

(1) AIP strongly supports the following provisions in the Bills:

- all current transport fuels – including conventional petroleum fuels, biofuels and gaseous fuels – being brought into the excise system from 1 December 2011;
 - This meets one of AIP's key policy principles and will help ensure that all transport fuels meet the Government's compliance obligations underpinning the integrity of the fuel excise system, and also comply with relevant fuel quality and environmental performance standards.
- the maintenance of the start date of 1 December 2011 for commencing fuel excise for untaxed fuels;
- current licensing rules being applied to gaseous fuels, alongside the transitional arrangements whereby licenses will be able to be applied for by 31 January 2012 (which should assist gaseous fuels suppliers to comply with their excise and customs obligations);
- the clarification of the fuel tax credit arrangements applying to alternative fuels, particularly in relation to blended fuel products including biofuels;
- the clarification of the excise treatment of fuel used in an internal manufacturing process (ie. non-transport use); and
- the robust and market relevant definition of LPG in the Excise Tariff Amendment Bill.

(2) AIP is not opposed to the excise start date and transitional arrangements applying to gaseous (alternative) fuels, but strongly recommends no further delays or extensions.

- AIP notes the Bills propose 'automatic remissions' under regulation be available for prescribed classes of gaseous fuels (ie. no duty will be payable for LPG, LNG or CNG used in a range of non-transport uses) and propose other 'intended use' provisions for LPG used in non-transport applications.
 - While this approach to gaseous fuels will create additional compliance complexities and potential risks for the industry, we note the Bills are seeking to reduce potential risks by including (i) a notification regime and penalties for use of untaxed fuel in transport uses; and (ii) provisions dealing with the tax treatment of gaseous fuels in 'mixed-use' applications and situations. The currently low uptake of CNG and LNG in the transport fuels market also mitigates this risk for now.
 - AIP emphasises the need for ongoing strict controls over remissions, as well as a robust compliance program, to ensure that potential Government revenue leakage and any industry compliance problems are minimised.

(3) AIP has concerns related to the Excise Treatment for Biofuels ('Renewable Fuels').

Assistance Review

AIP acknowledges the Government has decided there is a case for financial assistance for 'renewable fuels', in order to overcome barriers to development, and to help address other legitimate development objectives. However, AIP believes that such government assistance: (i) should be transparent; (ii) should be regularly reviewed to ensure the objectives of assistance are still relevant; and (iii) should allow for a clear transition period prior to an appropriate expiry date.

AIP therefore supports the Government's commitment to conduct a review of the taxation arrangements for 'renewable fuels'. However, we consider that a review after 10 years will not provide taxpayers with confidence that the significant forgone Government revenue is delivering the objectives of assistance - primarily the establishment of a commercially viable, sustainable and growing biofuels share of the transport fuels market. AIP recommends ongoing monitoring and general 'progress reporting' every 3 years on the industry's development towards a sustainable and reliable renewable fuels industry.

Imported Ethanol

AIP notes that the Government has now committed "*following consultations with cross-bench colleagues*" to ethanol, biodiesel and methanol (so called 'renewable fuels') being excise free for a period of 10 years. We note that this commitment does not apply to imported ethanol, as imported ethanol will continue to pay the full rate of excise of 38.143 cents per litre with no entitlement to an excise offset for this period.

This decision means that it is unlikely that fuel grade ethanol will be able to be viably and commercially imported into Australia for the next 10 years, in the same way it hasn't been viable to date.

AIP does not support this approach to imported ethanol as it is likely to undermine the reliable and economic supply of ethanol blended fuel to the Australia retail fuel market, and also because the long term growth in the uptake of biofuels in the Australian transport fuel sector will be limited to the growth potential of 'domestic' ethanol production.

- The reliable supply of conventional liquid fuels (petrol, diesel and jet fuel) to the Australian market has been underpinned by a diversity of supply options for petroleum products (from domestic refiners and imports), and ready access to the global market for petroleum products in the event that domestic production is either disrupted or insufficient to meet Australian demand.
- In recent times Australian fuel suppliers (including AIP member companies and independents) have encountered significant problems in sourcing reliable and quality supplies of ethanol from domestic producers.
 - This has been due to natural disasters in Australia affecting ethanol feedstocks, plant reliability issues, and also due to the closure of ethanol plants for financial reasons (despite the current 'excise-free' regime).
 - Commercial access to imported ethanol during these times would have filled the void left by domestic producers. Instead some suppliers of ethanol blended fuel to the retail market have been forced to withdraw this fuel from their product offerings to consumers.

LEGISLATIVE TIMEFRAME

AIP member companies expect to meet the timetable announced by the Government for a commencement of new excise and customs duty arrangements to apply to gaseous fuels from 1 December 2011 and to implement the other changes which will take affect from 1 July 2011.

However, to meet the announced start date, AIP member companies require:

- **timely Parliamentary passage of the package of Bills**

While preparations are already underway in AIP member companies to achieve the announced start date, AIP member companies typically will not 'implement' or execute the compliance and accounting systems changes until the legislation is passed. This will require sufficient lead time to implement changes after passage of legislation and regulations.

- **early release of the draft regulations which will give effect to the legislation.**

This will ensure that: (i) the relevant regulations align with the legislation and achieve the Government's policy objectives; (ii) the regulations are robust and workable from an AIP member company perspective and do not create unintended consequences and additional (unmanageable) compliance and administration costs for AIP member companies.

Thank you for the opportunity to provide our views to the Committee through this AIP Submission. AIP is happy for our submission to be made publicly available on the Committee's website.

Yours sincerely

Dr John Tilley
Executive Director

20 May 2011