

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates

23 – 24 February 2011

Question: AET 76

Topic: Tax on LPG

Senator Bushby asked:

1. Why has the Government decided it is in the taxpayers' interest to commit hundreds of millions of dollars in incentives to encourage motorists to switch to the green transition fuel of LPG but now want to hurt those same motorists with a tax?
2. A new survey of Tasmanian voters show overwhelming opposition to the tax by LPG users. Tasmania – as will anyone living in regional or remote Australia - will be particularly hurt by the tax as the cost of transport and the lack of scale of economies make the cost of LPG already higher than it is on the mainland. Isn't it the case that consumer groups (RACT) and other sector leaders are telling you that any attempt to push the price higher will cripple that industry and deny all motorists any access to LPG?
3. LPG emits up to 13% less harmful carbon emissions than a car run on petrol or diesel. How is taxing a sector that is working to meet the Government's own climate change targets likely to impact on Australia's carbon emissions?
4. Why would the Government impose a tax when it hasn't completed its own policy on alternative fuels? Surely that policy should dictate whether a tax would be justified?

Answer: Question 1

Implementation of alternative fuels taxation is longstanding policy of governments in Australia. It was announced by Treasurer Costello in the 2003-04 Budget on 13 May 2003 with a scheduled start date of 1 July 2008. In 2004, the start date was changed to July 2011 by the then government.

Since then, governments have supported the development of the alternative fuels industry (including LPG), but always within a context that recognised that ultimately alternative fuels must compete on their commercial merits.

In December 2003, the then Prime Minister Howard announced an overhaul of the fuel excise system, reiterating commitment to energy content based fuel taxation with a 50 per cent discount for the alternative fuels. As well, he announced

... additional assistance for the LPG sector to assist its transition into the excise net. A \$1,000 subsidy will be made available from 1 July 2008 – the point at which the excise first applies to LPG at 2.4 cpl – to consumers who purchase a dedicated or dual fuel LPG vehicle that is delivered new. The subsidy will be available for three years.

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This underlines a clear link between support for LPG vehicle conversions and LPG transition into the excise system.

In June 2004, the former government released its energy White Paper *Securing Australia's Energy Future*, again noting that although alternative fuels would continue to receive support, they would be brought into the fuel excise system.

Subsequently, in August 2006 in a Ministerial statement on 'Energy Initiatives', the then Prime Minister stated that

... the government has decided to bring forward the previously announced rebate for the purchase of new LPG vehicles for private use ...

This referred to the December 2003 Prime Ministerial announcement of an overhaul of the fuel excise system where the statements supporting alternative fuels and introduction of fuel excise were linked.

In October 2010 the Assistant Treasurer published a discussion paper titled *Implementation of alternative fuels taxation*, which stated that the Government intended to

... phase in the new fuel tax arrangements while providing support to the alternative fuels industry in recognition of the potential environmental, fuel security and regional development benefits that these industries can generate.

Successive governments have linked support for the alternative fuel industries with the necessity of bringing them into the fuel tax system. This is not a recent policy decision.

Answer: Question 2

The Government is very conscious of the impact of its policies on regional and remote communities in Australia. Work undertaken by the ACCC, however, shows that in mid-2010 Australia had the lowest automotive LPG prices in the OECD. (Source: ACCC *Monitoring of the Australian petroleum industry – Report of the ACCC into the prices, costs and profits of unleaded petrol in Australia, December 2010*. P. 139) The extent to which the application of fuel tax will be reflected in LPG retail prices will depend on the level of competition in the industry, which determines the seller's ability to absorb or pass on the tax.

At current (end-March 2011) fuel prices in Hobart (149.9 cents per litre (cpl) for petrol and 80.4 cpl for LPG), applying the eventual full fuel tax rate of 12.5 cpl increase immediately (for comparison purposes) and making allowance for the lower energy content of LPG, there is still a competitive advantage of almost 30 cpl for LPG over petrol. Since over the long term, oil prices and LPG prices move in the same direction, LPG's price advantage over petrol is likely to continue in the future.

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The proposed excise on LPG will be phased in over a 5 year period from 2.5 cents per litre gradually increasing to 12.5 cents per litre from 1 July 2015. This gradual phase in of excise is designed to ensure that the impact on LPG users is not abrupt and that they can adjust to the tax changes over time.

Answer: Question 3

The Government agrees that fuels that have less harmful carbon emissions than vehicles running on petrol or diesel should be encouraged.

The question states that LPG is 13% cleaner than automotive petrol or diesel, however, when fully phased in the fuel tax changes will see LPG paying 50% less excise than regular petrol on an energy equivalent basis. The Government has also provided substantial grants for the purchase of LPG-fuelled vehicles and conversion of standard vehicles to run on LPG.

The subsidies for LPG conversion and purchase have long been seen by successive governments as part of an integrated package of measures that combined fuel tax concessions with participation in the fuel tax system.

Answer: Question 4

The Government is working towards finalising its comprehensive policy on alternative fuels. The Energy White Paper will deliver a clear and robust whole-of-government policy framework to provide certainty for investors as well as reliability and security for the Australian community.

Focusing specifically on tax policy, fuel taxes represent a way of making the price of fuels better reflect the costs and benefits involved with their use. Alternative fuels provide additional benefits compared with use of petrol and diesel, and these take the form of potentially improved Australian fuel security by reducing dependence on imports, potentially reduced environmental costs, and potential regional development benefits. However, use of any transport fuel still results in costs – the costs of road damage and congestion and environmental impacts. Imposing taxes on alternative fuels recognises these costs but taxing them more lightly than regular petrol and diesel also recognises the benefits that their use generates.