



A.C.N. 002 749 260
A.B.N. 85 002 749 260
Level 1, 10-18 Cliff Street
Milsons Point NSW 2061
SYDNEY AUSTRALIA
Tel: 61 2 9927 3205
Fax: 61 2 9955 4792
Email: warring.neilsen@elgas.com.au

2nd October 2003

The Secretary
Senate Economics Legislation Committee
Room SG.64
Parliament House
CANBERRA ACT 2600

Email: economics.sen@aph.gov.au

Dear Sir/Madam,

**Inquiry into the Energy Grants (Cleaner Fuels) Scheme Bill 2003 and the
Energy Grants (Cleaner Fuels) Scheme (Consequential Amendments) Bill
2003**

Elgas Ltd is Australia's largest distributor of LPG with extensive interest in its use as an automotive fuel as well as for the traditional domestic, commercial and industrial markets.

Elgas fully supports the submission that has been made by the Australian LPG industry association (ALPGA) to the Senate Economics Legislation Committee.

We wish to draw the Committee's attention to the direction of transport fuels policy and in particular, where the Government appears to be abandoning "Cleaner Alternative Fuels", such as LPG, while adopting a greater focus on traditional fuels. The emphasis is to rely upon imports to meet demand; in simple terms, the effect of this policy direction is "more diesel, less gaseous fuels".

Research has not been able to locate any Government policy statement on a direction for transport fuels policy that considers the appropriate mix of fuels for Australia. The recent announcement to impose an excise on automotive LPG, infers that the Government has taken the view that a clean gaseous fuel should exit the market and be replaced by diesel and petrol. The established distribution infrastructure for Autogas is presumably to therefore be abolished.

The ALPGA has put to the Government, the rationale for an appropriate role for Autogas in Australia's transport fuels mix. Its paper entitled "The Role of LPG (Autogas) in Transport Fuels Policy" is attached for the Committee's information.

The aforementioned paper concludes as follows:

"Policy must recognise that it influences, not dictates, market outcomes.

A policy directed to a single outcome is thus risky. In the continuing move towards cleaner transport, greater choice of beneficial fuels will provide greater certainty of environmental outcome.

Australia has invested in the infrastructure for a gaseous transport fuel – LPG. It may prove to be a bridging fuel to new technologies. It will make acceptance of future new technologies – fuel cells or hydrogen – more likely. It will provide a sound environmental outcome while new fuels are developed.

If the LPG Autogas market is allowed to collapse, Australia will put all its policy eggs into the diesel basket. Consumers may reject it. It is a great risk to urban air quality and increases our energy security risk.

'LPG Autogas is a low carbon, high hydrogen fuel delivering immediate environmental benefits and economic benefits to businesses and consumers. By providing more choice, it will increase the likelihood of Australia moving towards cleaner transport fuels.'

Elgas requests that the Committee consider the benefits of a diverse policy supporting clean fuels. Whilst we strongly support the move to improve the environmental performance of diesel (ULSD) and petrol (95 RON), we wish to remind the Committee that LPG significantly out-performs these fuels. A single strategy built around petrol and in particular diesel, suggests that a future of increasing diesel use in Australia's cities is a future of increasing reliance on imported fuels and will result in increasing health risks in urban air quality.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Jeff Neilsen', written in a cursive style.

**Warring Neilsen
Manager, Government Affairs**



Australian Liquefied Petroleum Gas Association Ltd

THE ROLE OF LPG (AUTOGAS) IN TRANSPORT FUELS POLICY

1. POLICY CONSIDERATIONS

The major considerations in transport fuels policy are:

- *Ensuring a secure and diverse fuel supply at globally competitive costs with reliable and safe distribution networks.*
- *Minimising the environmental impact of transport emissions – both greenhouse and air quality.*
- *The development of appropriate fuel and vehicle technologies.*
- *Ensuring that regulatory and taxation measures for fuel take account of the impact on business input costs, social welfare, economic development and the environment.*

2. TRENDS IN TRANSPORT FUELS

Australian fuels have been largely petrol for light vehicles and diesel for heavy vehicles. LPG has achieved a 10% share of light vehicle fuel, and CNG a small share of heavy vehicle fuel.

Diesel crosses into the light vehicle segment in the light commercial and 4WD sectors and in recent years has achieved a significant penetration.

Driven by European trends, Australia has committed to a move to ultra low sulphur diesel (ULSD). This will benefit principally the heavy vehicle sector. However, there is a view that the European trend towards light diesel engines will gradually follow in Australia.

Changes to petrol quality – particularly higher octane – will deliver better energy efficiency and lower emissions when combined with improved Euro 3 and Euro 4 standard engine technology.

The light vehicle sector will thus see competition between petrol, diesel and LPG fuels being decided by vehicle offerings and fuel costs.

Looking ahead, new developments are in hybrid vehicles, electric vehicles (possibly), fuel cells and in the longer term hydrogen fuels.

The role of ethanol and biodiesel is as fuel feedstocks/extenders and will not influence the broader outcome as they are blended into existing fuels.

Gaseous fuels, LPG, LNG and CNG, will remain leading full alternative fuels during the next decade at least.

3. ENERGY SECURITY

Australia's policy as a free trading nation is fully supported by the LPG industry. We export large quantities of LPG, but also manage local logistics costs by importing. The net position is large exports and will remain so. The infrastructure is in place to be fully self-sufficient if an energy crisis occurs.

For all nations, energy security is part of national security. Reliance on fuel imports may be economically sound, but it is not sound from the national security viewpoint.

Australia's increasing reliance on imported crude oil and finished petroleum products is an issue for national security. Autogas reduces this reliance.

Other nations accept significant costs to ensure energy security, while remaining free-traders. America, Japan and Korea invest Government funds in strategic energy storage and stocks.

The US Strategic Petroleum Reserve has a capacity of 700 million barrels – worth \$US17.5 billion (at \$US25/bbl) for stock alone. The investment in storage facilities and operating costs is enormous.

Japan also holds strategic stocks. Its Government has this year commenced construction of two additional LPG storage facilities (combined storage capacity 850,000 tonnes) at an approximate cost of \$US 1.3 billion.

Australia to date has chosen to avoid these costs. Its security risk is increasing each year as local oil production declines. Refinery closure adds to the risk. Australia will at some time have to face this security issue.

Ensuring the viability of the Autogas market reduces Australia's energy security risk and will reduce the quantity of Government investment required if a strategic energy policy is adopted.

4. ENSURING POLICY EFFECTIVENESS

The recent policy announcement on excise applied a single principle to a mix of fuels. ALPGA understands that Government is also looking to have policy consistency for potential new fuels such as GTL liquids.

Policy is effective only if it works in the market. The route-to market for gaseous alternative fuels – LPG, CNG, LNG - is totally different from that for ethanol, biodiesel, GTLs etc. The latter are fuel extenders/substitutes, delivered to the vehicle mixed with petrol or diesel and requiring no change to the vehicle.

Gaseous alternative fuels require separate supply and distribution infrastructure, dispensing systems and vehicle technology. Customer perceptions are very different.

Application of a single policy principle to these fundamentally different segments is likely to lead to a policy which fails in the market.

5. ENVIRONMENTAL COMPETITION AMONG FUELS

While environmental claims for different fuels are subject to debate, LPG's benefits are soundly established. A summary is:

- *LPG is a low carbon – high hydrogen fuel with intrinsic environmental advantages.*
- *The "ULSD" push is based on its energy efficiency delivering lower greenhouse emissions than petrol.*

However, on a full life cycle basis, LPG offers lower greenhouse emissions than ULSD.

Diesel has a significant air quality disadvantage in delivering higher NOX and particulate emissions than petrol and LPG. Diesel particulate emissions are 500 times those from LPG – particulates are now acknowledged as a serious health problem. Further, the long life of heavy diesel engines means that the benefits of ULSD will appear over a very long – 20 year – time frame.

An increasing diesel presence in Australia's urban areas would undoubtedly be a retrograde step. Equally, increasing diesel use will place greater pressure on maritime environmental management. Diesel production requires heavy oil crudes. Heavy crude is declining most in local supply. Diesel or heavy crude imports will increase maritime transport of fuel on Australia's coast.

For all fuels, advances in fuel specification must be matched by developments in engine technology to deliver environmental outcomes. LPG engine technology development has lagged behind that of petrol and diesel in recent years and the new round of investment in it now under way thus has the potential to make the improvements which have been realised in the mainstream fuels – its advantages should thus grow. The "MVEC" process is still evaluating the viability of investment in refining and engine technology to Euro 4/5, and it may be that petrol & diesel are seen to be at the end of their environmental improvement path. LPG, however, will deliver further improvements with investment.

For all fuels, business and consumer preferences and economics will determine the transport fleet mix. Neither LPG nor diesel will replace petrol unless "the market" is convinced of the benefits.

6. LPG'S BENEFITS FOR FUEL USERS

LPG allows businesses and Government to invest in a clean fuel vehicle, contribute to community environmental objectives, and benefit by lower overall vehicle costs. For large corporates, Government and NGOs it contributes to meeting greenhouse objectives encouraged by Government programmes and community responsibilities. For small business, tool of trade vehicles for delivery and trades reduce operating costs. This benefit flows to the economy through lower business input costs.

The private sector plays an essential part in the LPG market. It buys ex-fleet vehicles and obtains lower motoring costs. LPG users are largely from lower socio-economic sectors who are thus able to afford a clean-fuel vehicle and better manage family costs. Long distance commuters from city fringes are a significant LPG sector. This flows to the economy by freeing private income for expenditure on goods & services.

Without the private sector purchasing second hand vehicles, the fleet market's vehicle residual values would fall to the point of destroying the economics of investment in LPG vehicles. The two sectors are inter-dependent.

7. LPG'S CONTRIBUTION TO POLICY OBJECTIVES

"Ensuring a secure and diverse fuel supply at globally competitive costs with reliable and safe distribution networks":

- *LPG cost is based on the global market and closely related to oil costs. It will thus maintain a competitive cost against other petroleum fuels. It adds to fuel diversity. Its distribution network is established and comprehensive.*
- *As part of a diverse fuel market, LPG increases Australia's energy security.*

"Minimising the environmental impact of transport emissions – both greenhouse and air quality":

- *LPG provides better air quality than diesel and lower greenhouse impact than petrol.*

"The development of appropriate fuel and vehicle technologies":

- ***A clear future for Autogas will allow vehicle manufacturers to continue investment in Autogas technology.***

"Ensuring that regulatory and taxation measures for fuel take account of the impact on business input costs, social welfare, economic development and the environment":

- *Access Economics has demonstrated that excise relief for LPG is tax effective and that the economic benefits to the economy are substantial.*
- *It reduces business input costs and motoring costs for private consumers.*

8. THE FUTURE ROLE OF LPG AS A TRANSPORT FUEL

Policy must recognise that it influences, not dictates, market outcomes.

A policy directed to a single outcome is thus risky. In the continuing move towards cleaner transport, greater choice of beneficial fuels will provide greater certainty of environmental outcome.

Australia has invested in the infrastructure for a gaseous transport fuel – LPG. It may prove to be a bridging fuel to new technologies. It will make acceptance of future new technologies – fuel cells or hydrogen – more likely. It will provide a sound environmental outcome while new fuels are developed.

If the LPG Autogas market is allowed to collapse, Australia will put all its policy eggs into the diesel basket. Consumers may reject it. It is a great risk to urban air quality and increases our energy security risk.

“LPG Autogas is a low carbon, high hydrogen fuel delivering immediate environmental benefits and economic benefits to businesses and consumers. By providing more choice, it will increase the likelihood of Australia moving towards cleaner transport fuels.”