BOC
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Senator Mathias Cormann
Chair
Senate Select Committee on Fuel and Energy
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Senator Cormann

<u>Australia's future tax system : Report to the Treasurer (the 'Henry Tax Review')</u>

LPG Australia has kindly copied me your letter of 13 May regarding the above. BOC welcomes the opportunity to submit its views to the Committee.

BOC will focus its submission on the proposed introduction of excise on alternative fuels. In particular, we address the impact on LNG as a fuel for heavy vehicles. Through our affiliate company, Elgas, we are also an investor in LPG as an automotive fuel. We support the submission of LPG Australia on LPG.

The proposed excise may affect an embryonic alternative fuels industry and in particular LNG for heavy road transport refuelling. Today there are approximately 200 LNG fuelled heavy vehicles currently running in Australia, a small and evolving number within a market of 80,000 diesel fuelled vehicles.* This demonstrates a significant opportunity for the Australia government to ensure this strategic investment, which exploits the extensive gas reserves in Australia to provide an alternative fuel to diesel is given the recognition and support to deliver a cleaner, greener and locally sourced fuel for Road Transport.

BOC has recently committed $200 million to LNG production and a network of fleet-fuelling facilities for the heavy vehicle market. To provide this network, BOC is providing LNG micro plants and infrastructure in Westbury, Tasmania as well as Chinchilla, QLD. In the last instance, QGC will exclusively supply BOC with up to 30 petajoules of coal seam gas over 15 years.

From July 2011, QGC will supply gas to BOC putting the companies on track to become the first in the world to produce liquefied natural gas (LNG) from coal seam gas, through safe and proven liquefaction technology. The LNG micro plant, planned to be built near QGC's gas fields in the Surat Basin, will produce 50 tonnes of LNG a day – equivalent to 70,000 litres of diesel – for heavy transport and industry.

** Source: ABS Motor Vehicle Census 2009*

The application of excise to LNG will significantly change the relative economics of LNG compared to diesel for heavy vehicles. The recent media statement from Nick Sherry and Martin Ferguson (13 May) claiming 50 per cent discount for alternative fuels is misleading. There is already an excise rebate for diesel and the proposed tax on LNG will in fact negate the price incentive for heavy vehicle fleet owners to switch from diesel to LNG. By 2015, LNG will incur an excise of 12.5 cents per litre which, on an equivalent basis, is the same excise as applied to Diesel

BOC has also recently invested in extending its LNG facilities in Dandenong, Victoria. At the recent BOC announcement of this investment, Minister Ferguson said that LNG was coming of age as a transport fuel. "This is more than just a new business opportunity – it's a new industry. LNG is really the first alternative to diesel for the heavy transport sector." He also said it was one way Australia could improve its energy security, with the nation's crude oil and petrol deficit expected to grow from a current $16 billion to $30bn in 2015.

While the Government continues to acknowledge the role LNG plays in ensuring Australia's energy security, some of the benefits to local industry in developing this alternative fuel are offset by the proposed Alternative Fuel tax. What this fledgling industry needs is greater support from Government to grow the industry that will ultimately support Energy Security in Australia.

BOC understands that the final excise rates to apply to fuels will be determined next year and welcomes further consultation with the Federal Government on the proposed implementation of the Henry Review as well as the Alternative Fuel Tax policy.

Thank you again for the opportunity to allow BOC to comment on Australia's future tax system.

Kind regards,

Colin Isaac
Managing Director