18 February, 2011

Ms Brenda Berkeley
General Manager – Indirect Tax Division
The Treasury
Langton Crescent
PARKES ACT 2600

Via email: ExciseConsultation@treasury.gov.au

Dear Ms Berkeley,

TIC 2nd Submission on Implementation of Alternative Fuels Taxation Policy

The Truck Industry Council (TIC) is the peak industry body representing all manufacturers and distributors of heavy commercial vehicles (that is, with Gross Vehicle Mass above 3,500 kg) in Australia. TIC previously commented on the "Implementation of alternative fuels taxation policy" Discussion Paper of October 2010.

This comment, dated 12 November, 2010 covered three areas:

1. Australia's Energy Security;
2. Equitable application and scheduling of excise; and,
3. Unit of measure (and excise application) for Liquefied Natural Gas (LNG).

This second submission follows the round of consultation meetings held recently, and specifically the briefing held in Canberra on Thursday, 10 Feb 2011. As a result of that briefing and discussion, TIC wishes to further address the following areas of concern:

1. Distortions to markets caused by Excise Introduction Schedule;
2. Point of collection of the excise;
3. Unit of Measure for Excise application - LNG and CNG; and,
4. The relationship between Road User Charge, Excise and Fuel Tax Credit for alternative fuels.

The Energy Security argument is well documented in TIC's earlier and other submissions, and will not be repeated here.

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1. Excise Introduction Schedule.

The stated reason for applying an excise to alternative fuels is to “remove distortions” in the market. While TIC acknowledges this reason, the proposed ten year implementation schedule for one fuel (ethanol) compared with a five year schedule for the remaining fuels is confusing. This discrepancy will actually **introduce** a “distortion” in the market that the excise policy was intended to remove.

Accordingly, TIC strongly recommends that the excise implementation schedule should be consistent for ALL of the fuels under consideration, and not changed in response to localised lobbying efforts.

The argument that favourable treatment towards ethanol is a Regional Development priority can equally be applied towards LNG, CNG and Biodiesel. Each of these alternative fuels (as used in Australia) is 100% locally produced (like ethanol), and with encouragement would provide significant investment and employment opportunities in many regional areas, through plant construction and operations.

2. Point of Excise Collection.

This issue is one that will be strongly argued by the fuel suppliers, however TIC is sympathetic to the practicalities of excise collection. Simply stated, any proposal that seeks to collect excise at a point upstream of the retail site or dispensing point will introduce unnecessary complexity to the excise collection process.

TIC supports the notion that all retail level fuel users would pay the excise. Then, Alternative Fuel users who are entitled to claim a credit or exemption could easily do so through their BAS, just as they do with the diesel they use for off road applications, or freight purposes attracting a tax credit.

3. Unit of measure (and excise application) for LNG and CNG.

TIC and other submissions to Treasury argued that Excise for both LNG and CNG should be applied according to mass (in kg) and not volume. This matches the unit of sale, which is mostly per kg. While the exposure draft legislation retains a rate according to volume, TIC understands that it will be modified to show mass units. The problem appears to be the volume : mass conversion rate which the industry and government can accept.

The following facts need to be considered:

- The energy content per kg of LNG from any specific production plant does not change significantly over time; however,
- When comparing different locations (production plants), the energy content per kg of LNG can vary by as much as 10%.
- The energy content per kg of CNG depends upon the gas field from which it is sourced, and can vary by about 10% between sources.

- Fuel Excise rates are generally based on energy content, then converted to the unit of sale.

By contrast to this 10% energy content variation between natural gas sources, diesel fuel varies in energy content within a much tighter range of around 3%.

Therefore, an "accepted" average energy content per unit of sale has been applied for diesel nationally. If a median (or mean) conversion rate of CNG or LNG per unit of sale was selected, it would potentially provide a significant commercial advantage to the providers of high energy content gas, while disadvantaging producers of lower energy content fuel.

TIC accepts that Treasury will likely need to decide between two options:

A. Apply a national average energy rate to arrive at an excise per kg for both LNG and CNG; OR
B. Determine the accepted energy content for a unit of sale in each location, and apply local excise rates accordingly.

Option A will provide some commercial advantages and disadvantages in some areas, but is relatively simple to administer. Option B is very fair, but will become difficult to administer, as several different excise rates per kg would apply for both LNG and CNG nationally.

4. The relationship between Road User Charge, Excise and Fuel Tax Credit for Heavy Vehicles.

Alternative Fuel excise rates established (but not implemented) several years ago were said to be "discounted 50%" to reflect the greenhouse gas and air quality benefits of these fuels.
TIC agrees that if an excise must be applied on emerging alternative fuels at this time, then this discount rate must also apply in practice.

Unfortunately, for users of heavy vehicles over 4,500 kg Gross Vehicle Mass, the proposed rate means that these truck operators will not benefit from a discount.

Diesel Fuel Excise: 38.143 c / L

LNG Proposed Excise: 12.5 c / L *(although will be converted to a rate per kg).*

Energy conversion rate between Diesel and LNG is 1.8 (through practical experience with over 200 trucks in service). Therefore, "effective" excise for LNG is 12.5 c / L x 1.8 = 22.5 c / L (for comparative purposes vs diesel).

For the diesel fuel, the truck operator is entitled to a Fuel Tax Credit less the NTC-determined RUC, which is currently only 22.6 c / L. Therefore, the Net Effective Excise payable for diesel is 22.6 c / L.

For the LNG truck user, however, no tax credit will apply until the effective cap of the RUC is reached.

The net result is the diesel user pays 22.6 c / L, and the LNG user pays 22.5 c / L for the same amount of energy. The intended 50% discount rate is almost completed eroded by the RUC / Tax credit mechanism.

TIC requests that the intended discount of 50% be retained on a net basis for heavy on-road vehicle users. The simplest way to achieve this would be to allow a further 50% excise discount to be claimed for eligible heavy vehicle users (over 4,500 kg GVM) on their BAS.

Summary

TIC, as the heavy vehicle manufacturers' representative, believes that some key aspects of the proposed alternative fuels excise require very considered thought before being presented to Parliament.

- The schedule of 10 years implementation for ethanol and 5 years for other fuels creates distortions in the market that cannot be justified on regional development (or any other) grounds. The same implementation period needs to apply for all.
- The point of excise charging and collection needs to be at retail / dispensing level, in keeping with arrangements that already exist with petroleum-based fuels.
- The final conversion rate for establishing an excise rate by unit of mass (kg) for both LNG and CNG is a difficult matter that will require close consultation with the key suppliers of those fuels. There are two alternative paths available.
- The excise on alternative fuels for heavy on-road vehicles needs to be discounted by a further 50%, otherwise the intended discount will be completely eroded. The consequences of failing to address this issue would be dire for alternative fuel vehicle adoption rates.

Please contact TIC's Chief Technical Officer, Simon Humphries, on 0427 554 775 or shumphries@truck-industry-council.org for any further details regarding this submission.

Yours faithfully,

(Hard copy signed)

Anthony J. McMullan
Chief Executive Officer