

27 May 2011

The Hon. Craig Thompson MP - Committee Chairperson

House of Representatives – Economics Committee

Inquiry into the Taxation of Alternative Fuels

Via email: David.Monk.Reps@aph.gov.au

Submission from ACAPMA on the inquiry into the Taxation of Alternative Fuels Bill, including:

- Taxation of Alternative Fuels Legislation Amendment Bill 2011;
- Excise Tariff Amendment (Taxation of Alternative Fuels) Bill 2011;
- Customs Tariff Amendment (Taxation of Alternative Fuels) Bill 2011; and
- Energy Grants (Cleaner Fuels) Scheme Amendment Bill 2011.

The Australasian Convenience and Petroleum Marketers Association (ACAPMA) is a leading association and national peak body responsible for the development and growth of the petroleum distribution and petrol convenience retail industries. ACAPMA members include over 90% of the 120 businesses that operate in petroleum distribution and storage, while representing - through direct ownership, operation or supply - over 3000 service stations. ACAPMA's membership profile in the main is independent small-to-medium businesses operating in regional and rural Australia, as well as some of Australia's largest companies in our industries - 7Eleven, Neumann Petroleum, Caltex and BP.

ACAPMA believes that Government policy on alternative transport energy must be conducted at a national level. There should be acceptance that alternative transport energy includes a wide range of products and that selective taxation or mandating narrows our ability to investigate what is plentiful in Australia and best for motorists.

Nationally, while there is continued clouding of the true issues with talk of excise, no business will make the long-term investment decisions required to advance alternative transport energy. Conversely, state-based legislation, which is trying to fill the vacuum created by the lack of a national plan, offers no certainty to any operators either. Until a true policy debate occurs, uncertainty will adversely affect both the alternative fuels industry and marketers of conventional fuels.

In introducing the *Amendment Bill*, the government said that it aims to make the taxation of fuels more consistent and to ensure that economic efficiency is not damaged by competition between untaxed and (currently) taxed fuels. It also aims to provide certainty to industry and improve fuel security.



ACAPMA is not convinced that the *Amendment Bill* will achieve the stated objectives. For that reason, on behalf of our members, ACAPMA would like to highlight the major issues of concerns in the legislation to the downstream petroleum industry, current issues facing both operators and motorists and suggested alternatives for your review.

Major issues of concern with the proposed legislation:

- **Products are treated differently and the timeframes outlined are inconsistent.** For instance, there is a five-year phase in period for gaseous fuels (final rate from 1 July 2015) and nearly a ten-year period without excise for ethanol and biodiesel (until 30 June 2021). All products should be treated equally, with the same parameters, transition path, timetables and tax structures.
- **There is no connection between the proposed taxation timetable and the development of a comprehensive Transport Energy Plan.** Currently, a Transport Energy Plan does not exist. It is necessary, from both the manufacturers and retailer's point of view, to have a plan that provides a framework for improved decision-making. Any plan for transport energy must include environmental, social and economic benefits, as no clear initiatives are apparent to-date.
- **The proposed *Amendment Bill* will place a heavy administration burden on small-to-medium businesses that will be required to collect tax and remit to Government.** This will ultimately cost all businesses, restricting cash flow, while requiring additional working capital. Capital investment will also be required in order to operate i.e., to purchase computers systems or upgrade software to cater for calculating excise. In its submission, LPG Australia has cited that the cost of system upgrades would exceed \$1 million per marketer within the LPG sector aloneⁱ.
- **The proposed *Amendment Bill* does not address the current supply issues surrounding alternative fuels.** Supply issues have been highlighted as a key concern by the ACCC who have stated, "limited domestic ethanol production capacity and an effective excise treatment that favours domestic production over imports, there are concerns in the short to medium term regarding the supply and price of ethanol used for automotive fuel."ⁱⁱ
- **The timeframe for implementation is too narrow.** The proposed 1 December 2011 start date will not allow adequate time to implement changes and processes.
- **The excise on gaseous alternative fuels, coupled with implementation and administration costs will potentially increase the price at the pump.** This will act as a hindrance to the growth in volumes of gaseous alternative fuels. This at a time when Australia is looking to alternative fuels as a way of combating a carbon constrained future.

Current issues facing motorists and independent operators in the downstream petroleum industry:

- **Supply of alternative fuels does not support distribution and retail development.** Currently, ethanol production cannot meet market demand, which is reflected in higher wholesale prices being paid to Australia's three ethanol producers. ACAPMA Member, Neumann Petroleum, highlighted this in their submission when they stated, "Manildra cannot supply our current requirements and has not done so since June 2010."ⁱⁱⁱ To support their business in New South Wales, Neumann Petroleum is in fact road-freighting ethanol from Dalby (west of Brisbane) to Sydney. ACAPMA estimates this adds 2.6 to 3cpl to the eventual price paid by retailers; this is either absorbed by the business or passed onto motorists.

- **Small-to-medium independent businesses will lose their competitive advantage, as any price increase will make the alternative fuels option less attractive for motorists.** Businesses, especially independents, have engaged in the marketing of alternative fuels. In many cases, they chose to do so as a way of creating a competitive advantage, in an effort to break the hold major oil companies have on the industry.
- **An increase in price means there will be no price attractiveness for motorists when comparing alternative fuels to traditional fuels.** The lower energy potential of E10 causes an increase in fuel consumption of 2.8%^{iv} over regular unleaded (RULP). Therefore, at last financial year's average board price of 124.2cpl^v for RULP, E10 needed to be 3.5cpl cheaper than RULP for motorists to achieve the same value for money. The ACCC found the average differential to be only 2.6cpl^{vi}.
- **Local communities will suffer from less philanthropic support.** Petroleum distributors and petrol convenience retailers, especially small-to-medium independents, pride themselves on their ability to be involved in and financially supporting their communities. Implementation of legislation and the cost of compliance will mean less time and money to assist in community causes, especially in regional areas.

ACAPMA's suggested alternatives to the proposed legislation:

- **In the future, motorists' decisions to purchase transport energy will be influenced overall by economics, efficiency and emissions (The Three E's).** These factors need to be addressed clearly and concisely so consumers can make an informed choice when purchasing and are not persuaded because of one factor alone. The proposed *Amendment Bill* only looks at one of The Three E's, economics, however all of these need to be addressed simultaneously, otherwise the other two (efficiency and emissions) will fall away.
- **ACAPMA believes Australia requires a Transport Energy Plan based on The Three E's.** This should start with the phasing out of fuel tax, as recommended in the 'Henry Tax Review'^{vii}, and the phasing in of road user charges based on mass, time, location and distance. This empowers the motorist with the decision of when and where taxation is paid.
- **Directives, similar to those used by the European Union, should address the factors of efficiency and emissions.** A timetabled framework of directives would incentivise original engine manufacturers and transport energy suppliers to work together on the most positive solutions. Similar to the work Holden and Caltex have done in the development of the E85 Commodore.
- **Timetabled implementation of a Transport Energy Plan needs to have incentives for businesses, as there is currently no attraction or benefit for them to invest in alternative fuels.** Tax incentives are required to support small-to-medium businesses in developing the distribution and retail infrastructure required to deliver consistently to motorists, especially in regional areas.

The draft *Amendment Bill* is limited in its vision. ACAPMA perceives that it considers taxation as the only form of policy, reducing the desire of industry and motorists to participate in the development of the alternatives. No one wins from increased taxation; Government loses favour, while business and consumers pay more for products. Also, as Governments' persist to use the label alternative fuels, rather than transport energy, we continue to limit the horizons. This proposed *Amendment Bill* already is unsuccessful in its purpose, as it does not recognise electricity, an energy that is used by vehicles on

Australian roads today. ACAPMA recognises that if this policy fails to address today's reality, it definitely does not plan for future transport energies. That is why ACAPMA calls for the development of a comprehensive Transport Energy Plan.

For more information or to discuss further, please contact ACAPMA's General Manager Nic Moulis via email: nicm@acapma.com.au or phone: 1300 160 270.

ⁱ LPG Australia Submission on Implementation of Alternative Fuels Taxation Policy, 15 November 2010, page 9.

ⁱⁱ ACCC, Monitoring of the Australian petroleum industry, December 2010, page 75.

ⁱⁱⁱ Neumann Petroleum Pty. Ltd, letter to The General Manager Indirect Tax Division, 8th November 2010.

^{iv} Australian Government Biofuels Taskforce, Report of the Biofuels Taskforce to the Prime Minister, August 2005, page 32.

^v ACCC, Monitoring of the Australian petroleum industry, December 2010, Chart 13.

^{vi} ACCC, Monitoring of the Australian petroleum industry, December 2010, page 87.

^{vii} Australia's Future Tax System: Final Report, Part 1 - Overview, Chapter 12: List of recommendations, No: 65