



Dissenting report

Introduction

As Opposition Members, we oppose the three bills that increase excise on the gaseous fuels: liquid petroleum gas (LPG); compressed natural gas; and liquid natural gas. These are the:

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

In our view, the taxes in these bills have been developed in haste in order to collect revenue, rather than being supported by coherent policy. Rather, past policy has encouraged consumers to take up LPG through conversion subsidies. Further, the bills will negative side effects such as adding to motorists' cost of living and increasing costs for the taxi industry and other forms of public transport such as busses. Taxi and bus customers will face higher charges as operators seek to recover increased costs flowing directly from these excise increases.

Additionally, we note that at a time when the Government is seeking to introduce a price on carbon which will increase the cost of living, these bills remove the incentive to choose fuels with a smaller environmental footprint such as LPG and alternative fuels.

We support the Energy Grants (Cleaner Fuels) Scheme Amendment Bill 2011 due to the potential for ethanol, biodiesel and renewable diesel to lead to improved environmental outcomes, greater regional development and fuel security.

Motoring costs for families

Fuel prices are important to working families because, as the NRMA advised the committee, 'because the motor vehicle occupies such a significant cost to the average family weekly budget'.¹ The NRMA confirmed that it receives a great deal of feedback from its membership about fuel prices:

We get asked a lot of questions like: 'Why has it gone up X cents?' The dollar has gone up and so has the price of crude. When crude comes down, they say, 'Well, we should see a four or five cent reduction at the bowser.' They say, 'Why aren't we seeing it?'² On a daily basis we would get SMSs, emails and letters about the price of fuel. When it came down to the \$1.20s and we saw less than \$1.20 there for a little period it was relatively quiet. The moment it starts to climb back up again and when it reached the \$1.40-odd that it did recently, there is an exponential increase in the communication with us as to the cost of fuel.³

The NRMA also stated in evidence that lower income earners are more sensitive to fuel costs because they live in outer suburbs and tend to drive longer.⁴

The liquid petroleum gas industry, represented by LPG Australia, confirmed that motoring costs are an important issue for families who have installed LPG units on their vehicles:

But for LPG ... it is an absolutely fundamental around the kitchen table with mum and dad and the family budget, asking: 'Can we afford to convert the vehicle? How long's it going to take us to get our money back? What is it going to save us each week driving from Campbelltown to the city?' It is that type of analysis ... that the folks out there will do. They will make that decision, but again it is having some confidence that having made that decision—the first words that come out at the town hall meetings that we run are: 'We're being duped. The government has encouraged us over the past four to five years to convert our vehicle across to LPG and now they're taxing the thing, they're capping the program and we don't know what they're going to do to alternate fuels and carbon tax. We've been duped.'⁵

1 Mr Alan Evans, *Committee Hansard*, 27 May 2011, Sydney, p. 11.

2 Mr Wal Setkiewicz, *Committee Hansard*, 27 May 2011, Sydney, p. 11.

3 Mr Alan Evans, *Committee Hansard*, Sydney, 27 May 2011, p. 16.

4 Mr Alan Evans, *Committee Hansard*, Sydney, 27 May 2011, p. 16.

5 Mr Mike Carmody, *Committee Hansard*, Sydney, 27 May 2011, p. 8.

We cannot support a tax that places a large burden on families, especially when they have been encouraged to convert to LPG. We believe that better underlying policy will produce a more equitable result for motorists, especially those that have recently converted to LPG.

The taxi industry and its customers

The taxi industry is heavily reliant on LPG. The Australian Taxi Industry Association stated that 90 per cent of cabs in Australia are converted to this fuel. The remaining 10 per cent that does not use LPG is in the Northern Territory and Northern Queensland, where it is not cheap. In these markets, hybrid vehicles are becoming popular and now comprise up to 40 per cent of the taxi fleet in some areas.⁶

The Association advised the committee that, if passed, the bills will increase taxi fares by three to five per cent. Therefore, for the average taxi fare of \$21, fares would increase by \$1. Taxi fares are set by state and territory governments and they would pass increased fuel costs through to fares as a matter of routine.⁷ This would then impose a significant burden on an important part of its clientele, namely people for whom taxis are the only form of available transport:

For the average business traveller, taxi fares are very cheap in Australia. They must be cheap if they are affordable by pensioners and people with a disability, who are paying at the same rate as people who are running multi-million-dollar, transnational businesses and have just jumped off a plane, from first class, and hopped into a cab. They must be incredibly cheap because the taxi fare is exactly the same for Mrs Smith, who is on a disability pension, to get from her Housing Commission home down to the shops and back.

From our point of view, we are not worried about the impact on taxi fares for our business customers. We are concerned that this is going to add to the cost of taxi fares for people who cannot easily afford them. A good proportion of our taxi customers budget down to the last 10c. For many of them, catching a cab is not a discretionary activity, it is a non-discretionary activity. They need to get down to the shops because if they do not then they do not eat or their family does not eat. If they do not get down to the shopping centre they cannot get to the doctors and seek early medical treatment, as opposed to late medical treatment. This is

6 Mr Blair Davies, *Committee Hansard*, Sydney, 27 May 2011, pp. 43-44.

7 Mr Blair Davies, *Committee Hansard*, Sydney, 27 May 2011, pp. 43, 45.

what we are talking about here, and our issue is that it seems completely unnecessary.⁸

The Association stressed that the industry itself would not be greatly affected by the increases because the price elasticity of demand for taxi travel is close to zero for fare increases up to five per cent.⁹

We cannot support a tax that places an additional burden on the taxi industry, especially when it would be passed on to a section of the community that is least able to afford it.

A search for revenue unsupported by policy

A common statement to the committee during the inquiry was that there has been no underlying policy to support these tax increases. Organisations who provided this feedback included Smorgon Fuels, the Energy Networks Association, LPG Australia, and the NRMA.¹⁰ Developing a coherent policy for a tax is important because it provides a rationale for designing the tax that everyone has the chance to relate to.

LPG Australia described the development of the tax in detail:

The only time this thing raised its head was in May last year in the Henry tax review, when we picked up that there was an inkling that there would be something with respect to excise on alternative fuels. There it was on page 400, subparagraph (b) and subparagraph (d). There it was standing. Then, of course, in the ongoing dialogue all the way up to October, before Treasury actually released their draft view of the excise, there was no consultation with industry whatsoever – nothing. On the release of that document from Treasury, industry had nine working days to provide a submission. It was an incredibly difficult exercise. Treasury made no secret of the fact that they had one single remit: get the money.

Of course, the first observation we made was that there is no policy. How do we debate in a policy vacuum? What do we go forward with? So we were forced, in a sense, to work with Treasury to try and sort out what was then, as I explained, an unworkable tax compliance model to get something that would

8 Mr Blair Davies, *Committee Hansard*, Sydney, 27 May 2011, p. 44.

9 Mr Blair Davies, *Committee Hansard*, Sydney, 27 May 2011, p. 47.

10 Ms Melissa Cheesman, *Committee Hansard*, Canberra, 23 May 2011, p. 4, Mr Dale Weber, *Committee Hansard*, Canberra, 23 May 2011, p. 22, Mr Mike Carmody, *Committee Hansard*, 27 May 2011, p. 4, Mr Alan Evans, *Committee Hansard*, Sydney, 23 May 2011, p. 11.

relieve the pressure on the traditional users of LPG so that they were not filling out a BAS form every month but, in the next breath, then to try to work with Minister Ferguson and Minister Carr and say, 'For heaven's sake, we need policy in this space.' Neither camp, of course, would connect those dots.¹¹

We cannot support a tax that has been developed under such circumstances. Although an announcement was made about fuel taxation in 2003, the limited action taken on it meant that its status was largely historical. In particular, the government of the day shortly thereafter encouraged the take up of environmentally friendlier fuels with a smaller carbon footprint by introducing a subsidy for LPG conversions. LPG Australia advised the committee:

When you say that this has crept up on us, certainly back in 2003 we had these arguments. But Gill noticed that not long after all that debate occurred, the Howard government then moved forward to put in place the LPG vehicle scheme to encourage the take-up of LPG. It understood that the original concept of taxing LPG was probably the wrong way to go. The whole situation for that – and when you look at the idea of policy eight years ago and to transfer that across into today in 2011 – you have to ask yourself are we still have some world, and the answer is no, we are not. It is a totally different world.¹²

The tax in the three bills we oppose need to be dealt with as a component of a comprehensive energy tax framework. All parties would be better off if further action in this area was delayed until appropriate policy was developed.

Conclusion

We oppose the three bills that impose tax on LPG, compressed natural gas and liquid natural gas. LPG is already contributing to Australia's fuel security with six per cent of the transport fuels market¹³ and the remaining two fuels have considerable potential to do so in future. Further, the proposed taxes will increase the cost of living and have an adverse, unnecessary effect on the taxi industry and its customers. Finally, there is no adequate policy to support these taxes and consumers have in the past been encouraged to take up LPG through conversion subsidies.

11 Mr Mike Carmody, *Committee Hansard*, Sydney, 27 May 2011, p. 9.

12 Mr Warring Neilsen, *Committee Hansard*, Sydney, 27 May 2011, p. 8.

13 Mr Phil Bignell, Treasury, *Committee Hansard*, Canberra, 23 May 2011, p. 12.

However, we acknowledge the arguments for the energy grants bill because the fuels involved have the potential to lead to improved environmental outcomes, greater regional development and fuel security. This approach was supported by a large number of witnesses in evidence.¹⁴

Recommendation One

There be development of a comprehensive energy tax framework.

Recommendation Two

The House of Representatives pass the Energy Grants (Cleaner Fuels) Scheme Amendment Bill 2011 in as a matter of urgency and oppose the remaining bills to the extent that they do not support the passage of the energy grants bill.

Mr Steven Ciobo MP
Deputy Chair

Ms Kelly O'Dwyer MP

Mr Scott Buchholz MP

14 For example, Mr Colin Isaac, BOC, *Committee Hansard*, Sydney, 27 May 2011, p. 32, Mr Nic Moulis, Australian Convenience and Petroleum Marketers Association, *Committee Hansard*, Sydney, 27 May 2011, p. 49, Mr Mike Carmody, LPG Australia, *Committee Hansard*, Sydney, 27 May 2011, p. 5.

