
The Parliament of the Commonwealth of Australia

Advisory Report on the Taxation of Alternative Fuels Bills 2011

House of Representatives Standing Committee on Economics

May 2011
Canberra

© Commonwealth of Australia 2011

ISBN 978-0-642-79468-0 (Printed version)

ISBN 978-0-642-79469-7 (HTML version)



Chair's foreword

This document is the committee's report into four Government bills that affect the tax treatment of alternative fuels. Three of the bills apply an excise on liquid petroleum gas, compressed natural gas and liquid natural gas. The fuels were not previously subject to excise, which will now be applied at 50 per cent of that applied to petrol. The fourth bill continues a grant scheme for the next 10 years where the amount of the grant offsets the amount of excise levied on biofuels such as ethanol and biodiesel.

The committee supports the bills. They implement a similar taxation policy that was announced in 2003 by the previous Treasurer, the Hon Peter Costello MP. They also reduce inconsistencies in the tax treatment of fuels, which are expected to reduce economic distortions in the fuels market and potentially lead to greater economic efficiency. Another important benefit from the bills is increased certainty for the biofuels industry. The committee received evidence that this sector has been deferring investment due to tax uncertainty and the 10 year period in the bills should create a positive climate for investment in this sector. Given that the current grant scheme for biofuels is scheduled to finish on 30 June, the bills should be passed as a matter of urgency.

The report contains two additional recommendations. The first requests Treasury to commence consultations for a method to apply equivalent tax treatment for the power in electric vehicles. This source of energy is outside the scope of the bills, but the technology in this field is moving so quickly that it would be timely to start work now. The second applies to the possibility that grain prices faced by other parts of the economy, such as feedlots, might be affected by greater demand for ethanol, some of which is produced by grain. It is difficult to determine whether this will occur and the report recommends that government agencies monitor this situation going forward.

The committee greatly appreciates the cooperation and advice of the companies and organisations that participated in the inquiry, especially those who travelled

to attend the hearing in Sydney. I also thank my colleagues on the committee for their contribution to the report.

Craig Thomson MP
Chair

Contents

Chair's foreword	iii
Membership of the Committee	vii
Terms of reference	viii
Recommendations	ix

THE REPORT

1 Analysis of the bills	1
Background	1
Purpose and overview of the bills	1
Policy history	2
Drivers for reform	3
Treasury consultation	4
Types of alternative fuels and their tax treatment.....	4
LPG.....	6
LNG.....	7
CNG	8
Biodiesel	9
Renewable diesel.....	10
Ethanol.....	10
Committee objectives and scope	11
Conduct of the Inquiry	11

Analysis of the bills	12
Electric vehicles	12
Food for fuel.....	13
Increased consistency and reductions in distortions	14
Certainty for industry	15
Industry assistance	16
Conclusions about the bills	17

DISSENTING REPORT

Dissenting report.....	19
Introduction	19
Motoring costs for families	20
The taxi industry and its customers.....	21
A search for revenue unsupported by policy	22
Conclusion	23
Recommendation One	24
Recommendation Two	24

APPENDICES

Appendix A – Submissions	25
Appendix B – Witnesses.....	27
Appendix C – Exhibits	29



Membership of the Committee

Chair Mr Craig Thomson MP

Deputy Chair Mr Steven Ciobo MP

Members Mr Scott Buchholz MP
Mr Stephen Jones MP
Dr Andrew Leigh MP
Ms Kelly O'Dwyer MP
Ms Julie Owens MP

Committee Secretariat

Secretary Mr Stephen Boyd

Inquiry Secretary Mr David Monk

Research Officer Dr Phillip Hilton

Administrative Officer Ms Natasha Petrovic



Terms of reference

On 12 May 2011 the Selection Committee asked the Committee to inquire into and report on the:

- 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.

Under Standing Order 222(e), the House is taken to have adopted the Selection Committee's reports when they are presented.



Recommendations

1 Analysis of the bills

Recommendation 1

Treasury and other relevant agencies commence consultations with industry with a view to developing an excise-equivalent tax for the electricity used by electric vehicles in the medium term.

Recommendation 2

The Treasury and other relevant Commonwealth agencies monitor the relationship between fuel and grain prices. Where subsidised domestic ethanol production is beginning to have a significant adverse effect on competitors for grain, these agencies are to conduct consultations with the industries to minimise market distortions.

Recommendation 3

The House of Representatives pass the bills as a matter of urgency.