A Member of The Linde Group

26 May 2011

The Committee Chairperson
House of Representatives – Economics Committee
Inquiry into the Taxation of Alternative Fuels

via email: *David.Monk.Reps@aph.gov.au*

BOC RESPONSE TO ALTERNATIVE FUELS EXCISE LEGISLATION & INQUIRY INTO THE TAXATION OF ALTERNATIVE FUELS BILLS

Introduction

Please accept this submission from Australia's leading producer of LNG for vehicle refuelling, that is BOC, to the members of this Economics Standing Committee who are reviewing the taxation of alternative fuels Bills.

BOC's main aim with this submission is to ensure the consumers of goods and fresh produce (delivered by LNG-powered heavy duty vehicles) are not inadvertently disadvantaged because of the passing of the Bills into legislation.

Furthermore, BOC is keen to support a thriving economy in regional Australia and we remain concerned about the unintended consequences of this legislation, if allowed to pass unamended or unopposed, causing long lasting and irrecoverable damage, not only for the Australian consumers including regional communities, but also disadvantaging all the stakeholders in the LNG supply chain including the producers, the distributors, the heavy duty transport OEMs, ultimately discouraging any future investment in LNG for domestic use in this country.

We commit this submission to your full consideration and we hope that the legislation, insofar as it relates to LNG, can be amended or decoupled from these particular Bills, thus allowing more time to reassess the policy settings in advance of subsequent Bills that would address LNG in particular.

Why LNG needs your Support?

The Bills in their current form will disadvantage a cleaner and greener LNG as an emergent transport fuel when compared with diesel and other alternate fuels. The likely consequence of this will be to curtail and cap an embryonic industry, one which has such enormous potential in supporting energy security in Australia, while genuinely improving Australia's carbon emissions and consequently the impact on the environment.

The advantages of LNG are clear:

- Indigenous Natural Gas resources are plentiful and provide a source of Energy Security for Australia
- LNG is cleaner – emitting 25% less green house gases than diesel
- LNG is a is underpinned by safe proven technology
- Engines fuelled with LNG are quieter – less engine knock than diesel engines

At this point in time, it makes <u>no sense to impose a higher tax</u> on LNG. Imposing a higher tax will remove the incentives for heavy transport users to opt for a locally sourced, significantly cleaner, more environmentally friendly, stably priced fuel, leaving them with a carbon-emissions intensive imported fuesl such as diesel.

We believe that most MPs support the beneficiation of indigenous Natural Gas into LNG, for domestic consumers, for the Australian economy (for regional communities) and for the environment. The LNG manufacturing bases and distribution points are located in regional Australia, creating jobs for regional Australians. It is an indigenous, plentiful alternative fuel that underpins Australia's energy security.

Recommendations

We recommend that the committee seek to:

<u>Option A: Make key amendments to LNG components of this legislation</u>

We ask that this committee recommend the following amendments be made to the Bill now before the House of Representatives, addressing the inconsistencies in the way that alternate fuels are treated.

I outline some of the hurdles that the stakeholders in this LNG industry face with the proposal and the inconsistency of excise tax on alternative fuels:

Hurdles:

- Heavy vehicle operators using diesel will have excise rebated down to the road user charge (ruc). Compared to other transport users, they pay an excise of 22.64 cents per litre.
- By contrast, LNG users will effectively pay excise equivalent to 19.1 cents per litre (26.14 cents per kg). This is 80% of the excise paid by diesel users as a road user charge, not 50% (as per the Joint press release by Minister Ferguson and Nick Sherry MP, dated 13 May 2010.)
- Additionally, for truck operators, switching to alternate fuels invariably requires their investment in engine conversions. In the case of LNG engines this investment would range from $70,000 to $150,000, a substantial cost to be recovered through subsequent fuel savings.

Inconsistencies:

- LNG has a higher upfront capital investment than for example ethanol production, yet producers and users of fuels such as ethanol and Biodiesel, are entitled to a full excise rebate for the next decade.
- Methanol which has similar limited market penetration and is used for recreational purposes is also exempt from excise until 2020.
- The proposed legislation offers no relief for LNG when used for non transport purposes. By contrast CNG used for non transport purposes is specifically exempt.
- There is no mechanism for fuel tax credits for LNG purchased as a mixed supply and used for non transport purposes.

In addressing these inconsistencies we are asking that

- At the outset, a deferment of the start date of the Alternative Fuel Excise to 1 July 2012, at which time the interaction between the excise and any carbon tax will be fully known.

- The introduction of an administrative mechanism that will provide LNG heavy vehicle users with an excise rate that is equivalent to 50% of the Road User Charge payable by heavy vehicle diesel users. This may be by way of subsidy to LNG producers similar to the subsidy offered to ethanol producers and biodiesel producers;

- A phased implementation of the excise for LNG over a 10-year period or until LNG achieves a measurable share of the transport fuels market;

- Legislated amendments to specifically make non transport use of LNG exempt from excise;

If addressing these inconsistencies is not possible in the time allowed then

Option B: Decouple non-ethanol components, including LNG, from this legislation

We understand and are sympathetic to the concerns of the ethanol industry whose fate rests with the passage of this Bill prior to July 01.

In effect however, this has set an unrealistic time line for a complete and thorough understanding of the treatment and impact upon other 'alternate fuels'. In the Bill as proposed we believe ethanol has been treated generously compared to other alternative fuels such as LNG. The passing of this Bill in its current form will disadvantage LNG.

The tax, if passed into legislation, is not due for collection until December 2011. Therefore, there is no reason to rush through the debate on the LNG component of this legislation

Decoupling the legislation will allow this committee and all MPs and then the Senators to have the appropriate time to consider all the facts and unintended consequences that will impact the end users of LNG if this Bill is allowed to proceed unamended.

If amending the bill to address the inconsistencies is not possible and if decoupling all the non ethanol elements from these current bills were not possible, then we would urge all MPs to reject this legislation, Option C..

Option C: Reject this legislation as it now stands

In short, if the needs of the environment, the consumer and the LNG stakeholders cannot be addressed through an amendment of a decoupling of non ethanol, then this Bill , (as it stands) must be rejected.

We urge this committee to recommend against these Bills that imposes a tax on an indigenous, green gaseous fuel for the heavy transport industry, one that cuts harmful carbon emissions by up to 25% compared to diesel.

We call on MPs reject this Bill that effectively makes consumers in general and the LNG stakeholders in particular, become the unintended victims of a rushed and ill considered policy setting, developed in the absence of an 'alternative gaseous transport fuel policy' and in the absence of a fully formulated carbon tax regime.

Transport operators who have converted vehicles to LNG have done so at a cost of up to $150,000 per vehicle. These are businesses that converted to the greener, cleaner alternative gaseous fuel in the belief that the Government would support their choice and not punish them for making the change to a greener alternative fuel.

BOC has invested heavily in LNG production and distribution in Australia. BOC has committed over $300M to LNG production and a network of fleet-fuelling facilities for the heavy vehicle market. We are providing LNG plants and supporting infrastructure in Westbury - Tasmania, in Dandenong - Victoria and in Chinchilla - Queensland.

This means many jobs – direct and indirect - in these centres and beyond.

Further, this tax is only likely to raise $1million for the Government but it has the power to overwhelm and possibly destroy a potentially immense manufacturing base in key regional areas.

Conclusion

Taxation proposed in the Taxation of Alternate Fuels Bills contains inconsistencies that will clearly stunt the development of environmentally friendly alternate fuels in Australia.

The pressure to process these Bills into legislation is being driven by the dynamics of just one of the suite of alternate fuels that potentially make up the suite of cleaner greener alternate fuels for Australian consumers.

The Bills have been formed in the absence of an 'alternative gaseous transport fuel policy' and in the absence of a fully formulated carbon tax regime. Policy setting in the absence of these frameworks is at risk of delivering suboptimal outcomes that fail to meet the fundamental purpose of one, providing Australia with lower carbon emitting fuels and two, enhancing Energy Security for Australia.

We urge the committee to recommend that changes be made to the Bills to address these issues raised or at minimum dismiss, then decouple the Bills so that the specific requirements of Ethanol can be met by the required date in July while the other alternate fuels can be assessed and understood for subsequent processing in a managed and coordinated way, thus delivering and optimal and desired outcome for Australian consumers and the stakeholders of the supply chain of other alternate fuel options.

If you require further information, please do not hesitate to contact me at colin.isaac@boc.com or phone 02 8874 4700.

I look forward to your considerations and deliberations of this important matter.

Yours faithfully

Colin Isaac
Managing Director
BOC

About LNG in Australia

Australia is almost entirely dependent on oil – increasingly on imported oil- for its transport fuel reflecting decades of inaction by Governments and the private sector to develop alternative and perhaps renewable fuels.

Approximately 50% of diesel is imported and projected to increase. This is being exacerbated by the recent announcement by Shell that it will close its Clyde refinery in Sydney. It is reducing domestically refined oil by 75,000 barrels day. This means Australia now needs to import an additional 75,000 barrels a day to meet current demand.

While LNG has a lower energy contents than diesel, (on a volume basis) its environmental performance in terms of exhaust emissions and the availability of abundant natural gas reserves in Australia makes it a potentially viable alternative fuel.

Alternative fuels apart from ethanol and LPG currently represent an insignificant portion of the domestic auto fuels market.

Australia is faced with a significant increase in demand for oil over the next 20 years in a global and national environment of declining production. By contrast Australia is Australia is a major exporter of liquefied natural gas (LNG), with considerable potential for further development of its abundant resources of natural gas and coal-seam methane (CSM) to produce LNG for domestic consumption.

In general we are able to offer price and supply certainty to transport operators as LNG prices are set based on long term gas contracts that provide supply and price certainty. This compares favourably with oil-based products that can face wide fluctuations due to oil price volatility and exchange rate movements

A vibrant domestic LNG transport fuels industry can provide the following community benefits

- Balance of Trade benefits through reduced oil importation
- Fuel security
- Reductions in transport greenhouse gas emissions and related environmental benefits
- Price stability

Existing LNG production capacity is well in excess of demand for transport LNG and plans are in place to expand capacity further.

LNG transport fuels are part of an embryonic LNG industry that has been largely funded by the private sector investment notwithstanding major market imperfections including

- Lack of clear Government policy for alternative fuel vehicles in the heavy transport area.
- Substantial engine conversion costs
- Lack of public infrastructure such as refuelling stations
- Lack of suitable LNG vehicles or local vehicle suppliers
- Lack of public information and awareness of LNG as an alternative fuel

Accordingly as an embryonic industry the LNG transport sector needs support across a range of areas to achieve critical mass. These include

- Government Articulation of a comprehensive alternative fuels policy
- Better LNG vehicles
- Better fuelling infrastructure
- R&D support to optimise vehicle performance
- Better integration between vehicle suppliers and transport operators
- Better information on vehicle performance
- Better integration of the various players in the LNG industry to provide comprehensive transport solutions
- Relief from the proposed alternative fuels excise.

These are the long haul companies that have – at great cost to themselves and their customers opted to convert their diesel vehicles to the cleaner, greener LNG. This has provided a positive environmental and economic benefit to their end customers and the community at large.

It is the consumer of the transported goods who will be made the carry the burden if this legislation is allowed to be passed unamended. As the owners of the heavy transport vehicles are forced to pass on the increased costs of doing business.
LNG has the potential to support the Government on its climate change objectives. LNG reduces the emissions of harmful carbon by up to quarter. No other alternative fuel can make such a significant difference to the environment.

We estimate that less than 10% of existing LNG capacity is currently used to service Australia's domestic transport market.

The key reason is that we believe all MPs wish to do the right thing by LNG end users (this is the consumer who buys their fresh produce, such as milk, delivered by a LNG-powered heavy use vehicle). However, we believe they cannot whilst they are being forced to make a determination that is tied to such a tight deadline of July 1 before the cost of ethanol escalates.