



GAS ENERGY AUSTRALIA SUBMISSION

FEDERAL TREASURY

1 June 2015

Tax Discussion Paper

March 2015



Gas Energy Australia Submission to the Federal Treasury

Tax Discussion Paper

1 June 2015

Mr Roger Brake

General Manager

Tax White Paper Task Force

The Treasury

Langton Crescent

PARKES ACT 2600

Email: bettertax@treasury.gov.au

Dear Mr Brake

Gas Energy Australia is pleased to make a submission responding to the Federal Government's Tax Discussion Paper.

Gas Energy Australia is making this submission to highlight that recent and likely future increases in the relative fuel tax burden on gaseous fuels compared to crude oil based fuels are increasingly breaching the Federal Government's policy to continue to apply energy content-based fuel excise to all transport fuels, with a 50 per cent discount for gaseous fuels.

This submission concludes that the timing of the imposition of excise on gaseous fuels and the lack of growth in gas powered vehicles in Australia since 2011 are related. It also concludes there exists considerable scope to improve the efficiency and effectiveness of the fuel tax system by streamlining current administrative arrangements.

Gas Energy Australia considers it imperative that the Tax Green Paper canvas options to address these issues if Australians are not to be denied the many benefits that would flow from greater use of gaseous fuels.

For your consideration.

Yours sincerely

A handwritten signature in black ink, appearing to read 'M Carmody', with a small flourish at the end.

Michael Carmody
Director and Chief Executive Officer

1. Gas Energy Australia – who we are

Gas Energy Australia is the national peak body which represents the bulk of the downstream gaseous fuels industry which covers Liquefied Petroleum Gas (LPG), Liquefied Natural Gas (LNG) and Compressed Natural Gas (CNG). The industry comprises major companies and small to medium businesses in the gaseous fuels supply chain; refiners, fuel marketers, equipment manufacturers, LPG vehicle converters, consultants and other providers of services to the industry.

2. Current tax burden on gaseous fuels

The Tax Discussion Paper notes that fuel taxes (i.e., excise and excise-equivalent customs duty) are an important source of revenue. Prior to 1 December 2011, gaseous fuels were not subject to fuel tax. Since then, a schedule of excise increases applying to LPG, LNG and CNG used as a road transport fuel has steadily increased the price of gaseous transport fuels relative to the price of petrol and diesel.

The Tax Discussion Paper further notes that alternative fuels (i.e. gaseous fuels along with domestically produced ethanol and biodiesel) are, or will be, taxed at a rate based on the energy content of these fuels in comparison to petrol and diesel, and then discounted by 50 per cent. It also states “This discount reflects the potential supplementary benefits provided by these fuels”. This position is consistent with that of the previous federal government, which when it introduced fuel excise on gaseous fuels, announced it would provide a 50 per cent discount “in recognition of the potential environmental, regional development and fuel security benefits of their use”¹.

The Federal Government’s Energy White Paper, released in April 2015, also states that the Government will continue to apply energy content-based fuel excise (and excise-equivalent customs duty rates) to all transport fuels, with a 50 per cent discount for gaseous fuels and biofuels.

In practice, the relative tax burden on different alternative fuels depends on the energy density of each fuel and what type of transport each typically powers.

As a result of the provision of Fuel Tax Credits (FTCs) to businesses that consume petrol or diesel for on-road activities using vehicles exceeding 4.5 tonnes, the tax burden on gaseous fuels relative to that on petrol or diesel is greatest for fuel used in these vehicles. The standard fuel excise rate paid by heavy vehicles is reduced by FTCs to derive a road user charge (RUC). Petrol or diesel used by heavy vehicles is also effectively not subject to the indexation of the rate of excise on road transport fuels that recommenced on 10 November 2014.

In Australia, the overwhelming majority of heavy vehicles are powered by diesel, some by petrol and a smaller number by CNG or LNG.

¹ Hansard record of taxation of alternative fuels bills second reading speech 20 June 2011.

Table 1 below shows that at present, following the indexation increase in excise rates that occurred on 2 February 2015, the tax burdens on LNG and CNG used in heavy vehicle transport on an energy equivalent basis are 59.0 per cent and 64.5 per cent respectively of that applying to diesel used in the same transport. These estimated tax burdens contradict the Federal Government's policy, cited above, that it will continue to apply energy content-based fuel excise to all transport fuels, with a 50 per cent discount for gaseous fuels.

Table 1: Current heavy vehicle transport tax burden: LNG vs diesel vs CNG (a)

Key measures (since 2 February 2015)	Australian LNG	Imported Diesel	Australian CNG
Effective excise rate 21.3 cents/kg converted to cents/diesel litre equivalent (DLE)	15.42 cpl	0 cpl	16.86 cpl
Road User Charge (RUC) cpl	0 cpl	26.14 cpl	0 cpl
Total tax burden c/DLE	15.42 cpl	26.14 cpl	16.86 cpl
Per cent of total diesel tax burden	59.0%	100.0%	64.5%

Note: (a) Includes impact of RUC freeze, reintroduction of fuel excise indexation and repeal of carbon tax.

Sources: Australian Taxation Office, Excise and Fuel Tax Credit Rates; and CSIRO Road Transport Sector Modelling: Final Report prepared for the Federal Treasury in July 2011 (energy conversion factors).

In the case of light vehicles in Australia, the majority of passenger vehicles are powered by petrol while the majority of commercial vehicles are powered by diesel. LPG autogas is Australia's most significant alternative transport fuel accounting for a significant share of the light vehicle sector. LPG fuels almost 500,000 vehicles, the majority being owned by private motorists. It is the predominant fuel used by the taxi industry and is heavily used by fleet and trade vehicles, including light commercial vehicles. While not as well established as LPG, the use of CNG has the potential to expand in the light vehicle sector.



As a result of the schedule of excise increases applying to LPG and CNG used as a road transport fuel, the tax burden on these fuels has increased and their price relative to the price of petrol and diesel has risen. While the fuel tax discount for LPG and CNG currently does not fall short of the 50 per cent discount stipulated by the Government, at 43.3 per cent it does come close in the case of CNG relative to diesel in the light commercial sector.

3. Growing tax burden on gaseous fuels

Table 2 below shows that by late 2015, if the Government accepts the National Transport Commission's (NTC's) recommendation to increase the RUC by 0.6 per cent in 2015; and following a scheduled excise rate increase on 1 July 2015 and another indexation increase in excise rates on 1 August 2015, the tax burden on LNG and CNG used in heavy vehicle transport on an energy equivalent basis is forecast to increase to 73.9 per cent and 80.8 per cent respectively of that applying to diesel used the same way. These figures show the fuel tax discount for gaseous fuels falling well short of the 50 per cent discount stipulated by the Government.

Table 2: Forecast 2015 heavy vehicle transport tax burden: LNG vs diesel vs CNG (a)

Key measures (from 1 August 2015)	Australian LNG	Imported Diesel	Australian CNG
Effective excise rate 26.85 cents/kg converted to cents/diesel litre equivalent (DLE)	19.37 cpl	0 cpl	21.18 cpl
Road User Charge (RUC) cpl (+0.6%)	0 cpl	26.30 cpl	0 cpl
Total tax burden c/DLE	19.37 cpl	26.30 cpl	21.18 cpl
Per cent of total diesel tax burden	73.7%	100.0%	80.5%

Note: (a) Includes impact of reintroduction of fuel excise indexation.

Sources: National Transport Commission 2015 Heavy Vehicle Road User Charge Annual Adjustment Consultation Report; 2015-16 Federal Government Budget Economic Outlook; and CSIRO Road Transport Sector Modelling: Final Report prepared for the Federal Treasury in July 2011 (energy conversion factors).

On the other hand, if the Government decided to freeze the RUC, as it did in 2014, the relative tax burden on LNG and CNG used in heavy vehicle transport compared to that on diesel would increase further. This would result in the fuel tax discount for gaseous fuels falling further short of the 50 per cent discount. Moreover, this relative burden will continue to increase over time because excise is likely to increase at a faster rate than the RUC.² If these developments were to occur, it would compound the failure to date of the Government to honour its election commitment to work with industry to facilitate the development of logistics systems for LNG as a transport fuel, particularly in the Brisbane, Sydney and Melbourne transport corridors.

² The National Transport Commission: *Heavy Vehicle Charges Determination – Regulation Impact Statement* February 2014, indicates that growth of the indicators used to determine the RUC in line with historical averages suggest RUC increases of 1.7% per annum. This is lower than the 2015-16 Federal Government Budget Economic Outlook forecast of 2.5% long term annual growth in the CPI which is used to index fuel excise.

... the fuel tax discount for LNG and CNG used in heavy vehicle transport currently falls short of the Government's stipulated 50 per cent discount, is likely to fall much shorter by late 2015 and will fall further short overtime

Table 3 below shows that by late 2015, following the scheduled excise rate increase and the indexation increase mentioned above, the tax burden on LPG and CNG used in light commercial vehicle transport on an energy equivalent basis is forecast to increase to 47.6 per cent and 53.2 per cent respectively of that applying to diesel used the same way. As a result, while LPG just scrapes in the Government's 50 per cent discount, CNG falls short.

Table 3: Forecast 2015 light commercial vehicle transport tax burden: LPG vs diesel vs CNG (a)

Key measures (from 1 August 2015)	Australian LPG	Imported Diesel	Australian CNG
Excise rate cents per litre/kg	12.96 cpl	39.83 cpl	26.75 c/kg
Effective excise rate converted to cents/diesel litre equivalent (DLE)	18.97 cpl	39.83 cpl	21.18 cpl
Total tax burden c/DLE	18.97 cpl	39.83 cpl	21.18 cpl
Per cent of total diesel tax burden	47.6%	100.0%	53.2%

Note: (a) Includes impact of reintroduction of fuel excise indexation.

Sources: 2015-16 Federal Government Budget Economic Outlook; and CSIRO Road Transport Sector Modelling: Final Report prepared for the Federal Treasury in July 2011 (energy conversion factors).

The energy equivalent tax burden on LPG used in light passenger vehicles compared to that on petrol is also likely to stay within the Government's 50 per cent discount. However, petrol and diesel are not the only fuels LPG and CNG are competing with in the light vehicle sector. The take-up of electric light vehicles is expected to increase over the coming years and these vehicles pay no fuel tax.

In the short-term, the Government needs to ensure the fuel tax system does not favour one low emission technology over another. In the longer-term, Australian governments will need to examine the feasibility of the type of mass–distance–location pricing reform favoured by the Henry Tax Review that takes into account environmental and other impacts if the revenue currently generated by fuel taxes is to be maintained as well as increasing economic efficiency and productivity in a sustainable manner.

4. Taxing the economic advantage of gaseous fuels

The economic advantage of using gaseous fuels to power vehicles instead of diesel or petrol is influenced by factors such as the relative costs of buying, fuelling and servicing the vehicles as well as relative tax burdens.

Case Study 1 below of an LNG powered B-double truck operating in regional Victoria shows that at present 45 per cent of the economic benefit of using LNG instead of diesel has been eroded since excise was imposed on gaseous fuels in late 2011.

And by late 2015, if the Government accepts the NTC's recommendation to increase the RUC by 0.6 per cent in 2015; and following a scheduled excise rate increase on 1 July 2015 and another indexation increase in excise rates on 1 August 2015, this economic benefit will have been eroded by 57 per cent.

Case Study 1: LNG powered B-double trucks in regional Victoria

The 2011 *Green Truck Partnership* trial in Victoria estimated the economic advantage of an LNG powered B-double truck using Westport high pressure direct injection (HPDI) over diesel to be 22.81 cents/km.

The subsequent imposition of excise on transport LNG has imposed a cost of 10.28 cents/km and reduced this advantage to 12.53 cents/km as at 2 February 2015.

From 1 August 2015, the cost of excise will increase to 12.91 cents/km if the Government accepts the NTC's recommendation to increase the RUC by 0.6% and the advantage will be further reduced to 9.90 cents/km.

LNG will have less advantage in regions with higher gas prices than regional Victoria.



Case Study 2 below of an CNG powered concrete truck operating in Sydney shows that the current 182 per cent loss of economic benefit from using CNG instead of diesel since late 2011 is sufficient to turn an economic advantage into a disadvantage.

By late 2015, this economic benefit could fall by 229 per cent, further increasing the disadvantage of using CNG instead of diesel.

Both case studies show that while a number of other factors can influence the economic advantage of using LNG or CNG to power heavy vehicles compared to diesel, changes in the relative tax burden can make a big difference to the commerciality of these alternative fuels.

Case Study 2: CNG powered concrete trucks in Sydney

The 2011 *Green Truck Partnership* trial in Sydney, NSW, estimated the economic advantage of an CNG powered spark ignition (SI) concrete truck over diesel to be 7.32 cents/km.

The subsequent impositions of excise on transport CNG has imposed a cost of 13.3 cents/km and turned this advantage into a disadvantage of 5.98 cents/km as at 2 February 2015.

From 1 August 2015, the cost of excise will increase to 16.70 cents/km if the Government accepts the NTC's recommendation to increase the RUC by 0.6% and this disadvantage will further increase to 9.38 cents/km.

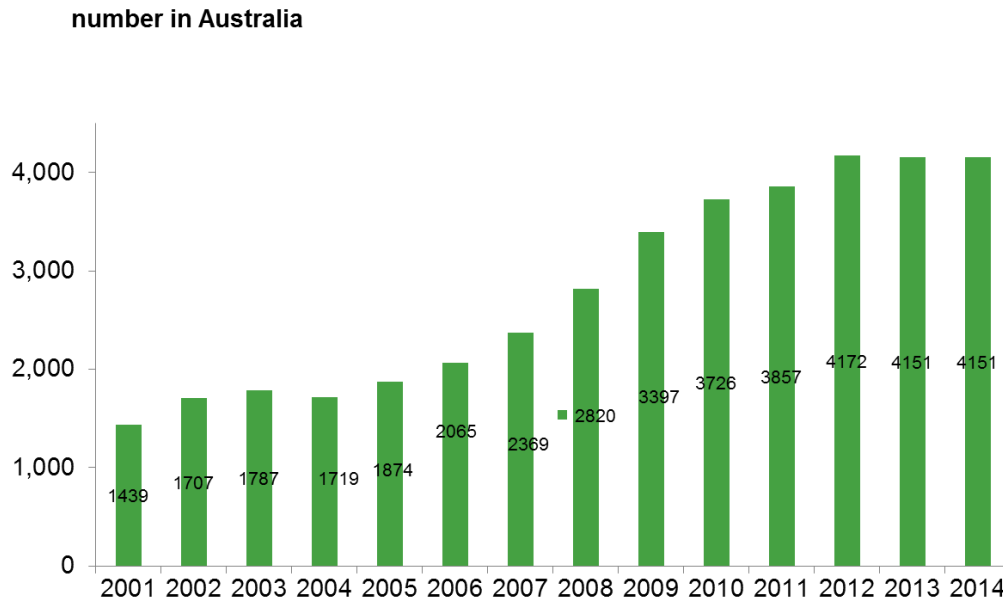
CNG will have more disadvantage in regions with higher gas prices than Sydney.

... higher relative fuel taxes can make a big difference to the commerciality of gas powered vehicles....

5. Impact on Australia's gas powered vehicle fleet

Figure 1 below shows the number of CNG powered buses in Australia had been steadily growing until just after excise was first imposed on gaseous fuels in December 2011.

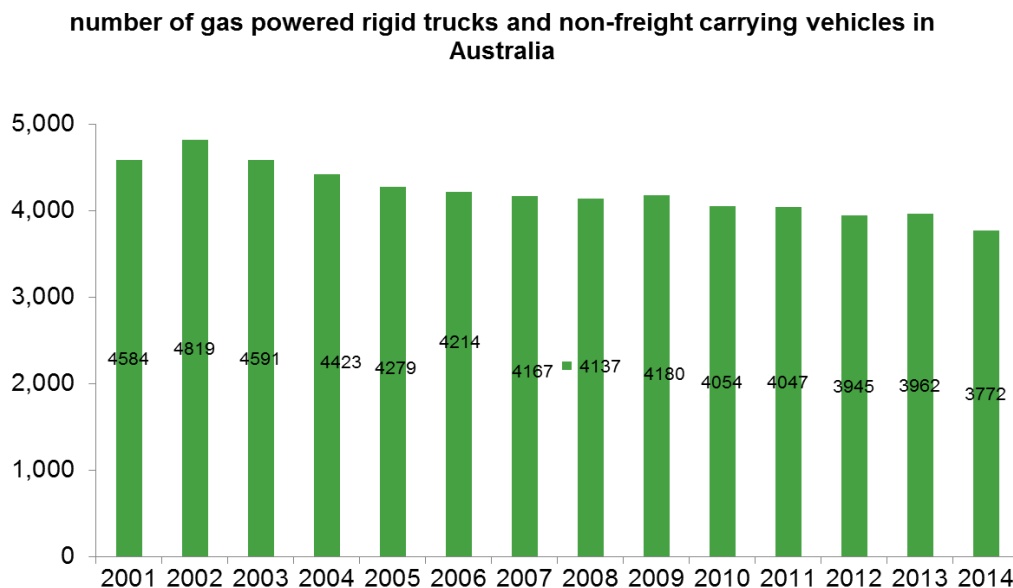
Figure 1: CNG buses



Source: ABS Motor Vehicle Census 9309.0

Figure 2 below shows the number of CNG powered rigid trucks and non-freight carrying vehicles in Australia has declined slightly since 2011.

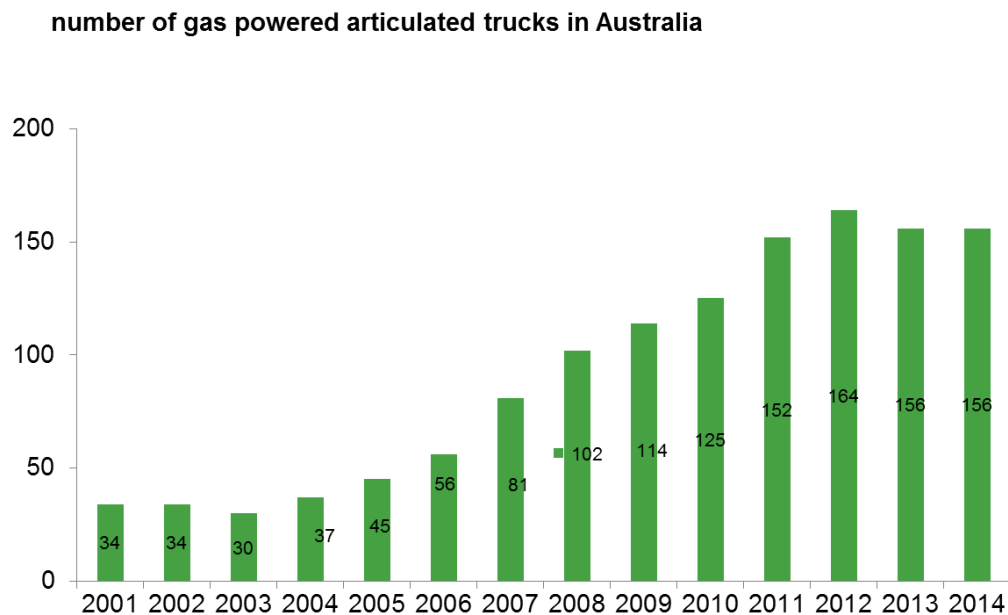
Figure 2: CNG trucks



Source: ABS Motor Vehicle Census 9309.0

Figure 3 below shows the number of LNG powered articulated trucks in Australia had been steadily growing until just after excise was imposed on gaseous fuels.

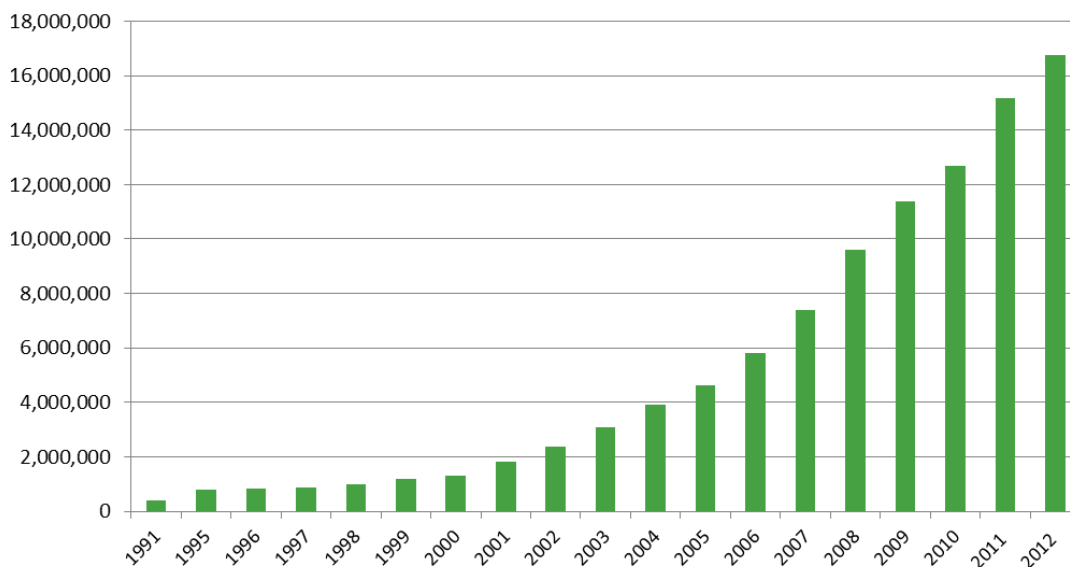
Figure 3: LNG trucks



Source: ABS Motor Vehicle Census 9309.0

Figure 4 below shows that, in contrast to the situation in Australia, the global number of natural gas powered vehicles has continued to grow strongly since 2011.

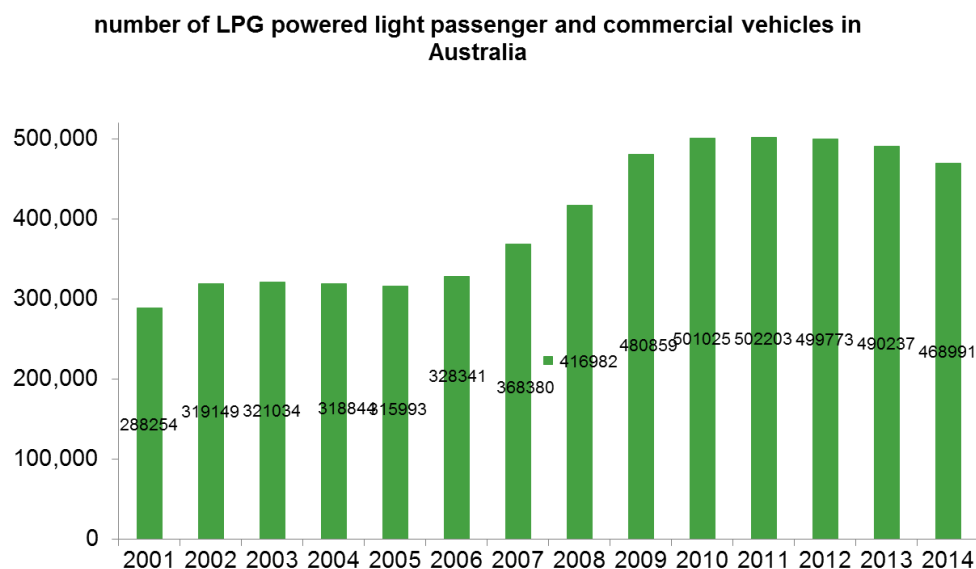
Figure 4: Global number of natural gas powered vehicles



Source: NGV Global 2013

Figure 5 below shows the number of LPG powered vehicles in Australia had been steadily growing until excise was imposed on gaseous fuels.

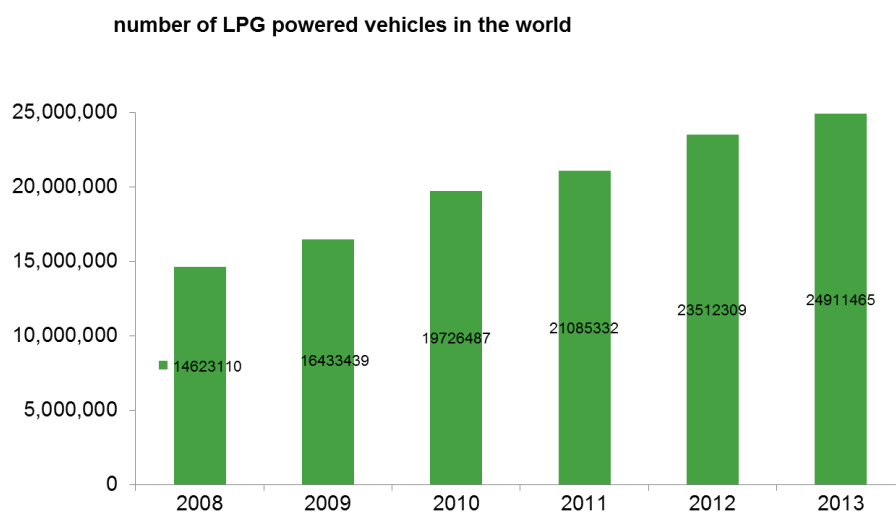
Figure 5: LPG light vehicles



Source: ABS Motor Vehicle Census 9309.0

Figure 6 below shows that, in contrast to the situation in Australia, the global number of LPG powered vehicles has continued to grow strongly since 2011.

Figure 6: Global number of LPG powered vehicles



Source: Argus Media and World LP Gas Association 2014 Statistical Review of Global LP Gas.

As discussed above, a number of factors can influence the take-up of gas powered vehicles. But, given both their take-up is not on the decline globally and the extent to which their economic advantage can be eroded by higher fuel taxes, it is difficult not to conclude that the timing of the imposition of such taxes on gaseous fuels in Australia and the lack of growth here since 2011 - are related.

In contrast, a number of overseas countries provide tax relief such as accelerated depreciation or immediate write-off of upfront purchase or conversion costs associated with gas powered vehicles'

... the lack of growth in gas powered vehicles in Australia since the imposition of fuel taxes in 2011 has not been seen globally

6. Cutting tax red tape

Gas Energy Australia strongly supports the Government's wide-ranging efforts to cut unnecessary red tape that imposes costs on taxpayers, businesses and consumers. And while Gas Energy Australia acknowledges that collecting tax will always entail administrative and compliance costs, it considers every effort should be made to minimise these costs.

Consequently, Gas Energy Australia welcomes the opportunity industry is being given to participate in the Australian Taxation Office's (ATO's) current review of the FTC system, including excise payment arrangements. Gas Energy Australia is particularly pleased the ATO is seeking feedback on the possibility of providing administrative 'safe harbours' in an effort to reduce compliance and administrative costs. For example, less stringent document retention requirements could apply in situations where suppliers are remitting a similar amount or proportion of excisable fuel excise as in previous years or a small amount of such fuel.

In addition, Gas Energy Australia urges the Government to consider the findings of the broader *2012 Review of the Legal and Administrative Framework for Excise Equivalent Goods* conducted by the Treasury and the ATO, in consultation with industry. The Review's goal was to improve the efficiency and effectiveness of the excise equivalent goods framework, in particular by streamlining administrative arrangements and reducing costs to business.

Gas Energy Australia strongly supports streamlining current customs duty and excise administrative arrangements.

- Gas Energy Australia supports streamlining goods movement licences issued under the current customs duty and excise administrative arrangements.
 - At present, no customs duty is payable (or customs duty is acquitted in full) when gaseous fuels are moved from a site covered by a warehouse licence to one covered by a manufacturer licence. Excise duty is payable when gaseous fuel leaves the excise manufacturing site and enters into home consumption. The current customs and excise administrative arrangements require a number of forms to be completed to accommodate such movements.

- An option to simplify the current administrative process would be to merge the customs warehouse licence and excise manufacturing licence into one licence and do away with the current multiple forms.
- Gas Energy Australia also supports bringing customs license and renewal fees into line with those applying to excise licences (where there are no fees payable), noting that both are administered by the ATO.
- Gas Energy Australia also supports bringing the customs license renewal period (one year) into line with that applying to excise licences (three years).

Gas Energy Australia also requests that the Government consider ways to make the refund/drawback/remission provisions that apply under the current excise and customs less restrictive.

- These arrangements impose higher compliance costs on taxpayers than other tax regimes which deal with refunds in other ways (eg, allowing a net amount to be remitted rather than paying the gross amount and seeking a refund separately).
- This is of particular concern given the small amount of duties derived from gaseous fuels compared to traditionally dutiable products.

... considerable scope exists to improve the efficiency and effectiveness of the fuel tax system by streamlining current administrative arrangements

7. Benefits of gas powered vehicles to Australia

Compared to imported diesel or petrol, vehicles powered by Australian LPG, LNG or CNG offer the following national interest and community benefits.

- lower fuel costs;
- reduced climate changing carbon emissions – up to 23 per cent;
- greatly reduced air pollutants harmful to human health, especially particulates and nitrous oxides;
- lower noise levels;
- increased energy security for Australia;
- greater Australian 'value add' via the use of a locally produced and processed fuel; and
- reduced imports of crude and refined oil.

In November 2014, Gas Energy Australia commenced a campaign to seek community and industry feedback on two draft consultation papers it commissioned on the downstream LNG and CNG industries as part of the Association's *2030 Vision for Cleaner, Cheaper Australian Fuels*. The papers explore the current use of natural gas as a fuel in Australia, the barriers to its uptake, the potential for its increased use and the associated benefits. The draft consultation papers are available [here](#).

8. Conclusion

Recent and likely future increases in the relative fuel tax burdens on gaseous fuels compared to crude oil based fuels are increasingly breaching the Federal Government's policy to continue to apply energy content-based fuel excise to all transport fuels, with a 50 per cent discount for gaseous fuels. Implementation of the NTC's recommended 0.6 per cent increase in the RUC in 2015 would not be of sufficient magnitude to offset the effect of ongoing gaseous transport fuel excise increases and the reintroduction of fuel excise indexation, and therefore reverse the current trend. A smaller increase in the RUC would worsen the breach of the Federal Government's 50 per cent discount policy.

While a number of factors influence the economic advantage of using gaseous fuels compared to diesel or petrol, higher relative fuel taxes can significantly reduce the commerciality of gas powered vehicles. Given this and the fact that gas powered vehicles are not on the decline globally, it is difficult not to conclude that the timing of the imposition of excise on gaseous fuels in Australia and the lack of growth here since 2011 are related.

There exists considerable scope to improve the efficiency and effectiveness of the fuel tax system by streamlining current administrative arrangements which would reduce costs to businesses and ultimately consumers.

In the absence of action to reduce the current tax and red tape burden on the gaseous fuels sector, Australians will be denied the many benefits that would flow from greater use of these fuels.

9. Recommendation

Gas Energy Australia recommends that the Tax White Paper Task Force advise the Government that the forthcoming Tax Green Paper should canvas options to:

- reduce the relative fuel tax burden on gaseous fuels, at the very least to meet the Government's policy commitment to apply energy content-based fuel excise to all transport fuels, with a 50 per cent discount for gaseous fuels;
- ensure the fuel tax system does not favour one low emission technology over another bearing in mind electric vehicles pay no fuel tax;
- impose mass–distance–location pricing that takes into account environmental and other impacts; and
- streamline current fuel tax administrative arrangements.



**Cleaner, Cheaper,
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