



12 November 2010

Ms Brenda Berkeley
General Manager – Indirect Tax Division
The Treasury
Langton Crescent
PARKES ACT 2600

Via email: ExciseConsultation@treasury.gov.au

Dear Ms Berkeley,

TIC Submission on Implementation of Alternative Fuels Taxation Policy

The Truck Industry Council (TIC) is the peak industry body representing all manufacturers and distributors of heavy commercial vehicles (that is, with Gross Vehicle Mass above 3,500 kg) in Australia. TIC welcomes the opportunity to comment on the “Implementation of alternative fuels taxation policy” Discussion Paper of October 2010.

Comment from TIC covers three areas:

1. Australia’s Energy Security;
2. Equitable application and scheduling of excise; and,
3. Unit of measure (and excise application) for Liquefied Natural Gas.

1. Australia’s Energy Security

Almost all (~98%) of Australia’s heavy commercial vehicles use petroleum-based distillate (diesel) as their sole energy source. It is the most efficient energy carrier by volume of the mainstream fuels, and when combined with modern compression ignition internal combustion engine technology, is economical to use. However, Australia currently imports around a quarter of the diesel fuel that it uses, and this figure is predicted to reach more than 80% by 2020.¹

TIC members consider that a selection of alternative fuels and technologies have merit, and that all must be encouraged to play their part in reducing Australia’s dependence on imported diesel; there is no “silver bullet” to the energy security problem. Each of the alternatives requires development of technology and infrastructure which will not occur without economic incentives to commercial vehicle users, thereby encouraging these users to adopt those

¹ Source: ABARE 2008

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alternative fuels and technologies. TIC considers that the adoption of alternative fuels, whether gaseous, synthetic or biofuels, is in its embryonic stage. The government policy schedule for the introduction of excise in 2003-4 considered a faster adoption rate for the listed alternative fuels than that which has occurred in the six to seven years hence.

Some TIC members have already introduced factory fitted CNG, diesel-electric hybrid and LNG fuelled trucks to the Australian market. Others are developing new models, and researching biodiesel, ethanol and synthetic diesel for use in this market. None of these is likely to be adopted in significant volumes without practical incentives applying. Arguably, the application of a fuel excise at this embryonic stage of the development of alternative fuels technology will be seen by many end users as a disincentive.

Therefore, the adoption of fuel excise, particularly an escalating scale over the next five years, will require an even greater level of purchase subsidies or incentives to encourage the end user to make the investment in alternative fuel technologies.

TIC considers that incentives to stimulate adoption of alternative fuels is essential for Australia's Energy Security, and if these incentives are implemented, would then have a diminished effect as the fuel excise is applied. The two policies would negate each other to some extent. This potential conflict between policies must be addressed.

2. Equitable application and scheduling of excise.

TIC supports the principle of applying excise based on energy content. It has been stated above that there is no single alternative fuel that will replace imported diesel fuel to the levels required to secure Australia's energy needs. For example, ethanol, CNG, LNG and biodiesel are all produced within Australia in commercial quantities. Therefore, Government and industry needs to be supporting all development efforts that show promising results in transport with equal vigour. It appears anti-competitive behaviour to offer a 10-year implementation schedule to one fuel, and a 5-year implementation schedule to the others. This would have the undesired effect of distorting development towards those with favourable excise treatment, and give a competitive advantage to developers of engines using one fuel compared with the others.

3. Unit of measure (and excise application) for Liquefied Natural Gas.

The principle of applying excise according to the fuel's energy content is considered fair and equitable. However, the Treasury proposal currently suggests that excise for Liquefied Natural Gas (LNG) should be applied by volume dispensed or sold for transport use. TIC is aware that all existing LNG transactions for use in transport are billed by mass (either in kg or tonne). This is because the volume of LNG varies quite significantly as the fuel temperature changes. Therefore, the energy content by volume is variable with temperature. By contrast, the energy content for a kilogram of natural gas is the same at various temperatures and states. For this reason, the NMI requires that all public or multi-user dispenser sites for both LNG and CNG use a mass unit (usually kg) for the Unit of Sale. While this is a recent development, the

implementation of an excise should take this important point into consideration, to avoid complex calculations being required at point of sale.

Summary and Conclusion

TIC, as the heavy vehicle manufacturers' representative, believes that some aspects of the proposed alternative fuels excise policy require further development. Specifically:

- Government should consider Australia's Energy Security policy, especially as it relates to transport fuels, before applying the alternative fuels excise as proposed, in the timing proposed. Any incentive program designed to encourage the adoption of alternative fuelled vehicles could be partially negated by the excise implementation without a holistic policy approach
- The proposal to introduce ethanol excise over 10 years and the other fuels' excise over 5 years could have unintended consequences, and looks like the policy is "picking a winner". TIC considers that if an excise is to be introduced, it should be over the 10 years period for all of the fuels under discussion, given the embryonic stage of the alternative fuels industry.
- The unit of measure (and therefore rate of excise) for LNG in particular should be applied by mass unit or energy unit, rather than by volume as proposed. The same argument could be applied to CNG excise, given the recent decision by the NMI.

TIC is willing to participate in any working group for further development of alternative fuels policy, as the final outcome will have a direct effect on the type of alternative fuel and energy sources that TIC member companies will build in, and import to, Australia.

Please contact TIC's Chief Technical Officer, Simon Humphries, on 0427 554 775 or shumphries@truck-industry-council.org for questions about this response.

Yours faithfully,

(Hard copy signed)

Anthony J. McMullan
Chief Executive Officer