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Mr Justin Di Lollo
Manager Campaign Policy

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PROPOSED EXCISE ON LPG AUTOGAS

.... WHY THE GOVERNMENT SHOULD DELAY THE INTRODUCTION OF LPG EXCISE

Reference: A. LPG Australia Briefing Paper to the Government dated 27 June 2010

Dear Sir,

Based on a recent independent survey of motorists and small business, the majority of LPG Australia members believe there is a strong public policy justification for a five year delay to the introduction of the Government's LPG excise (proposed phase-in from July 2011) for a relatively modest cost in revenue foregone.

Furthermore, it is inconsistent to introduce an excise on LPG while the process of dealing with emission trading and role of gaseous fuels is not resolved.

Equally, there is a significant political opportunity for the Government to address a serious 'cost of living' issue whose negative impact will be felt particularly by families and small businesses in outer metropolitan and regional electorates.

The survey report is attached at Enclosure 1.

The survey provides clear evidence that the new tax will directly and negatively impact on 700,000 motorists and 3500 small businesses throughout Australia. In addition, the increased cost of LPG will flow through as increased operating costs to the national vehicle fleets and taxi industries, limit the ongoing investment in green vehicle technology by Australia's vehicle and equipment manufacturers, and severely impact on the LPG industry which has invested \$3.5B in infrastructure and employs over 10,000 Australians.

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The cost to the environment is equally concerning. The increased cost of the fuel will result in fewer vehicles converting to LPG, with motorists electing to remain with petrol and diesel. This will increase pollutants in the atmosphere leading to increased longer-term costs associated with carbon reduction. There are over 13.2 million petrol vehicles with approximately 20% being older than 15 years. Conversion of these vehicles under the existing LPG vehicle scheme could deliver reductions in greenhouse gas emissions of approximately 16 million tonnes.

An overview of the impact of the LPG excise and rationale for the Government to delay its implementation is provided at Enclosure 2.

To minimise the negative impact of a LPG excise on motorists, small business and the LPG industry, and to provide time for the government to establish a gaseous fuels policy, the Government must consider delaying the introduction of a LPG excise for five years.

For your consideration.

Yours sincerely

A handwritten signature in black ink, appearing to read 'M. Carmody', with a horizontal line underneath.

Michael Carmody
Chief Executive Officer

- Enclosures: 1. Independent Survey – *Adept Research* dated July 2010
2. LPG Australia Briefing Paper to the Government dated 27 June 2010.

LPG AUSTRALIA BRIEFING PAPER

PROPOSED EXCISE ON LPG AUTOGAS WHY THE GOVERNMENT SHOULD DELAY THE LPG EXCISE TAX

Proposal

Based on a recent independent survey of motorists and small business, the majority of LPG Australia members believe there is a strong public policy justification for a five year delay of the introduction of the Government's LPG excise (proposed phase-in from July 2011) for a relatively modest cost in revenue foregone.

Furthermore, it is inconsistent to introduce an excise on LPG while the process of dealing with emission trading and role of gaseous fuels is not resolved.

Equally, there is a significant political opportunity for the Government to address a 'cost of living' issue whose negative impact will be felt particularly by families and small businesses in outer metropolitan and regional electorates.

Who Relies on LPG/Autogas?

There are approximately **700,000 cars on Australian roads which use LPG.**

Over 60% of motorists who have taken up LPG conversion grants over the last four years live in outer metropolitan and regional/rural communities. The Government's last review of the LPG Vehicle Rebate Scheme identified that motorists tend to come from families with home mortgages and below-average disposable income.

Australia's small business sector is also a major user of LPG-fuelled vehicles.

The Government was a strong supporter of the benefits of LPG for Australia's motorists. The highly successful LPG Conversion Rebate Scheme has prompted over a quarter of a million conversions since

2006. Undoubtedly, motorists who have converted have done so on the basis of an equation where they believe an up-front investment will see a 'payback' over time from lower ongoing fuel costs.

The Government's recent announcement completely undermines this equation and **represents a breach of trust with a large number of families** in outer suburban and regional areas. It will also lead to a further increase in the cost of living for these communities and goes against the Rudd Government's 2007 election commitment to place significant downward pressure on such costs.

In short, the Government's proposed introduction of a LPG excise is a broken promise to motorists which will unfairly hit families in outer suburban and regional areas at a time of unprecedented rises in their general cost of living.

The 'Kitchen Table' Economics of LPG

LPG has a strong appeal to motorists/businesses who have long distances to travel and for whom fuel costs are a significant component of the household/business budget.

For families, the key factor motivating conversion to LPG is fuel pricing and the impact on their household budget – for families with long distances to travel; the saving from LPG is up to \$150/month.

For small businesses and fleet buyers, the motivating factors are ongoing cost savings, resale values of vehicles and environmental benefits. LPG is the lifeblood of Australia's taxi industry.

Analysis by Deloitte in 2009 showed that the LPG conversion market is highly sensitive to the price differential between unleaded petrol (ULP) and LPG. This relates to both the absolute price differential between the two fuels and volatility in the price of ULP at a particular point in time. Data from 2006 to 2010 shows that a fuel price differential of less than 70 cents/litre leads to a slump in LPG conversions.

The Government's new tax will substantially reduce this fuel price differential over coming years and, depending on annual kilometres travelled, result in a doubling of the 'payback' time period. It will also negatively influence motorists' perceptions of the potential for household budget savings.

A study by Adept Research in July 2010 shows that:

- Of motorists currently committed to converting to LPG, 21% now say they will not go ahead and 35% will now review their decision; and
- For those motorists just considering a conversion, 10% will now not proceed any further and 48% will review their decision

Public Policy Rationale for LPG

The Government had a strong record of supporting LPG as a transport fuel for the following key reasons:

- Energy security. Australia is self-sufficient in terms of LPG (in fact, exports 40% of annual production).

- Importance to regional and rural communities. The overall LPG sector comprises fuel for both transport as well as for 'stationary' uses, due to its portability. This means **LPG is a critical fuel source in regional Australia** for households, light industry, agriculture and mining.
- Low cost option for longer-distance motorists. For families in outer metropolitan and regional areas, as well as small businesses, who need to drive longer distances fuel is a centrally important expenditure item. LPG is the low-cost answer.
- Environmental benefit. LPG offers the most immediate and cost-effective lower greenhouse gas and particulate emissions alternative. Continued research and development in LPG technology is steadily increasing this benefit.

In a 2003 study on LPG, Access Economics concluded that the benefits of the industry to the economy offset most of the excise revenue foregone, that greenhouse benefits compensate for favourable tax treatment, and that the imposition of excise would impose substantial transitional costs on industry and private motorists.

The Government's proposed new tax on LPG was announced with **no consultation or warning**, and the projected revenue return does not account for the likely economic detriment from a scaled-back industry and reduced capital investment and research and development activity.

Industry Context

LPG is a substantial Australian industry in its own right.

- \$3 billion has been invested over recent years principally in the critical infrastructure and distribution network that enables LPG to be widely available to motorists and other consumers. Critically, the economics of the industry depend on the ongoing success of both the transport and stationary usages of LPG as a single integrated supply chain.
- Over **10,000 Australians are employed directly in the LPG sector** – comprising oil and gas producers, refiners, importers, marketers, distributors and retailers.
- SMEs comprise the bulk of the sector – including 2,500 registered installer business, 15 kit suppliers, 50 component suppliers and manufacturers, and 3,300 service stations dispensing LPG.
- Substantial ongoing investment in innovation is being undertaken at all levels of the LPG industry value chain to improve fuel performance and environmental benefits. This investment in innovation also includes those being undertaken by Australia's motor vehicle manufacturers – Ford, Toyota and Holden. Overall planned LPG research and development projects are estimated at over \$70 million.

Position

- **The Government's proposal to introduce excise on LPG will only serve to increase the cost of living for Australian families**, particularly in outer metropolitan and regional electorates.

- The LPG industry was strongly supported by the previous Rudd Government, and the result of this support was lower fuel costs for many Australians.
- The cost to the budget in reversing this decision is greatly outweighed by the community benefit – which will mostly be accrued in outer metropolitan and regional electorates.
- The LPG industry in Australia is a large employer, which invests strongly in research and development – greatly benefiting the Australia automotive industry in its quest to develop increasingly more efficient vehicles.

Michael Carmody
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21 July 2010