20 April 2009

Mr Glen McCrea
Manager, Indirect Tax Unit
Indirect Tax Division
The Treasury
Langton Crescent
PARKES ACT 2600

Dear Mr McCrea

Re – exposure draft legislation for the Carbon Pollution Reduction Scheme (CPRS) Fuel Tax Adjustment Arrangements.

Caltex Australia Limited welcomes the opportunity to comment on the draft legislation to implement the Carbon Pollution Reduction Scheme (CPRS) Fuel Tax Adjustment Arrangements. Because Caltex must purchase permits for its customers’ emissions as well as its own emissions, it will be Australia’s largest single purchaser of emission permits so has a vital interest in the effectiveness of the CPRS.

Caltex has made a detailed submission to the Senate Select Committee on Climate Policy outlining concerns with regard to the effectiveness of the CPRS in reducing GHG emissions in the transport sector (summarised below). The submission recommends that the CPRS be amended to remove private motorists and other small consumers from the CPRS and to address the issue of emission reduction through complementary measures.

Should the Government accept this recommendation then the excise offset regime outlined in the exposure draft CPRS Fuel Tax Adjustment Arrangements Bill 2009 will only apply to vehicles and equipment eligible for a full tax credit, or alternatively only to emissions above CPRS threshold*. 

1. Background

Caltex is the largest refiner and marketer of petroleum products in Australia with operations in all states and territories. Caltex has achieved the leading market share for supply of transport fuels and is the number one convenience store operator through its national retail network. It has an estimated market share of more than 30 per cent of the major transport fuels sold nationally.

Caltex accounts for around 35 per cent of the nation’s oil refining capacity. It owns and operates two of Australia’s seven oil refineries — at Kurnell in Sydney and Lytton in Brisbane. Between them the Caltex refineries have the capacity to process 244,000 barrels (about 39 million litres) of crude oil per day.

Caltex produces mostly high-value transport fuels which contribute to the growth of the economy and provide significant employment. The two refineries directly employ 874 Caltex employees and around 550 contractor employees. For major maintenance and other projects the numbers can escalate to an extra 1,200 workers bringing the total number of workers to about 2,600.

Caltex refineries will spend an average of $100 million per year over the next three years on capital expenditure and approximately $60 million per year on the major maintenance projects that are required regularly in all oil refineries.

2. Effectiveness of the existing CPRS proposal to reduce GHG in the transport sector

The exposure draft Carbon Pollution Reduction Scheme Bill 2009 requires liquid fuel suppliers to purchase permits for their customers’ greenhouse gas emissions then pass on the cost at the pump.
Under the CPRS, the Government will cut fuel taxes to offset the carbon price impact on fuel prices for many users. The Government will assess the adequacy of this measure and adjust the excise reduction accordingly over the first three years. After July 2013, the Government will make a final assessment and, if needed, a final fuel tax cut will take effect from 1 August 2013. This final tax cut will be made permanent.

All petroleum products supplied from Australian terminals, whether sourced from imports or local refineries, will be subject to a carbon permit liability. The point of carbon liability will be aligned with the point of excise liability. The CPRS proposes that suppliers from terminals will have an “upstream point of obligation” i.e. will be required to purchase permits for customers’ emissions, which they will then recover by increasing the prices charged to customers. This CPRS design feature will make Caltex the largest single purchaser of permits in Australia at over 40 million tonnes pa or about 12% of the permits available at auction from the Australian Government. These permits will cost about $0.9 to $1.6 billion pa based on the CPRS-5 and price cap carbon price scenarios.

The inclusion of liquid fuels in the CPRS, in particular fuels used in transport, is questionable on the grounds of environmental effectiveness. The elasticity of petrol demand with respect to price is low, about -0.15 in the short run and about -0.4 in the long run. In other words, a 1% increase in price would reduce petrol demand 0.15% to 0.4%. In addition, petrol prices are high due to world oil prices and Australian taxes so the effect of a carbon cost is very small. Caltex calculates that a carbon cost of A$40/tonne of carbon dioxide would increase prices only 10 cents per litre (cpl) and reduce demand by 3.2% in the long run, far short of the massive reductions required by 2050. On these grounds alone, the inclusion of transport in the CPRS is of marginal effectiveness and complementary measures will be required to achieve large emission reductions.

The situation with the CPRS is actually far worse in terms of emission outcomes because of the introduction of excise reductions for various classes of petroleum product consumers. The CPRS will actually increase emissions from petrol for several years because the excise reduction is greater than the carbon price for the first three years and several years beyond that time. In fact, under the CPRS-5 price scenario there will be no overall (i.e. cumulative) reduction in emissions from petrol in the first 10 years of the CPRS. At the same time, petrol suppliers will have purchased $15 billion in permits and charged these back to customers - financial churn for no environmental benefit.

In relation to diesel, the situation is not as bad. There would be no impact on emissions from private motorists and light commercial users for the first three years of the CPRS and reduced emissions after that time. While it is difficult to calculate the emissions impact, an indicative calculation assuming diesel has half the price elasticity of petrol suggests the excise reduction would stifle emission savings from diesel, leading to only a 1% cumulative reduction by 2020 compared to a 9% cumulative reduction without the excise offset.

3. Motorists and certain other fuel users should be excluded from CPRS

The excise reduction means that certain consumers - primarily private motorists and commercial users not eligible for a fuel tax credit - have been effectively removed from the CPRS for many years. Caltex therefore proposes the CPRS be amended to remove private motorists and other small consumers from the CPRS and to address the issue of emission reduction from these consumers through complementary measures.

There are various legislative options to achieve this but Caltex advocates either: liability for emissions for permits to apply only to emissions above the CPRS liability thresholds e.g. 25,000 tpa for a facility; or liability to apply to all consumers receiving a fuel tax credit, which in practice would include all emitters above the CPRS threshold as well as smaller but still significant business emitters. In the former case, the liability would be to surrender permits, as for emissions from other sources. In the later case, the fuel tax credit would be reduced by an amount calculated from historical carbon prices, in exactly the same way as proposed under the CPRS. These options retain large emitters from petrol product consumers within the CPRS and are administratively simple and consistent with current CPRS design.

4. Carbon Pollution Reduction Scheme (CPRS Fuel Credits) Bill 2009

4.1 CPRS fuel credit for automotive liquid petroleum gas (Part 1-2, Division 6, Section 6-25)

As reflected in the Australian Liquefied Petroleum Gas Association’s (LPGA) submission on the Carbon Pollution Reduction Scheme Green Paper, Caltex did not fully concur with the positions put forward. In particular, Caltex could not support the position that the marketer of liquid petroleum gas...
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(LPG) be the liable entity under CPRS for upstream emissions associated with its customers’ use of LPG and therefore also be responsible for claiming the proposed CPRS carbon cost adjustment on LPG directed to use in transport only. Caltex’s position is that the “liquid petroleum gas marketer” cannot know whether the LPG it sold was actually used in a vehicle travelling on the road and therefore eligible for the carbon cost credit. However the “liquid petroleum gas marketer” can confirm if the LPG sold met specifications suitable for use in a vehicle travelling on a road. Therefore we support the current drafting of the bill in relation to the entitlement for a CPRS fuel credit for automotive liquid petroleum gas which is dependent on supply of liquid petroleum gas (LPG) that is suitable for use in a vehicle travelling on a road rather than requiring the LPG to have been actually used in a vehicle travelling on the road.

4.2 No CPRS fuel credit for fuel to be used in motor vehicles that do not meet environmental criteria (Part 1-2, Division 6, Section 6-45)

Similar to the comments made above the “liquid petroleum gas marketer” cannot know whether a vehicle meets the environmental criteria so we support the current drafting of the Bill which excludes section 6-25 from this Section outlining criteria for disentitlement rules.

5. Unintended consequences of the interaction of the CPRS legislation and other Acts.

The interaction between the proposed CPRS legislation, the Excise Tariff Act 1921 and the Fuel Tax Act 2006 will undoubtedly result in some unintended consequences. Sufficient administrative flexibility should be built into the Act, at least as a transitional measure, to ensure that such unintended matters are promptly addressed at minimum cost to industry and the various regulatory bodies.

Yours sincerely

SIGNED

Frank Topham
Manager Government Affairs & Media