

28 March 2011

RACQ'S POLICY POSITION ON A CARBON PRICE AND FUEL

Summary

The Australian Government intends to reduce carbon emissions, including through the implementation of a carbon price from July 2012.

There is a range of policy options the government could adopt to reduce motor vehicle emissions, including the pricing of carbon. Other initiatives range from the promotion of walking, cycling, public transport and efficient driving to new technology and policy options that address fuel, vehicles, congestion and taxation.

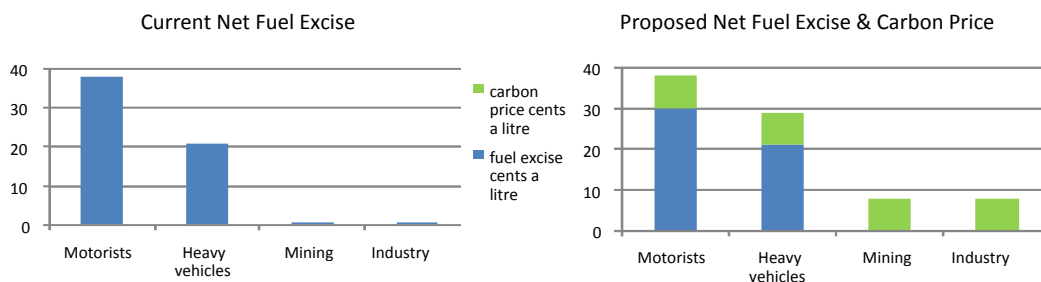
A carbon price on the transport sector will increase the price of fuel as the combustion of fuel in engines releases greenhouse gases to the atmosphere.

Higher fuel prices do little to reduce motor vehicle emissions. Demand for fuel among motorists is relatively inelastic so any increase in fuel price only leads to a small decrease in consumption.

The price of fuel is also impacted by other government taxes that need to be considered in the broader context of how to fund transport infrastructure and cater for externalities such as air pollution.

The RACQ accepts the need for widespread carbon pricing as a way to broadly focus business and consumer decisions on how to reduce greenhouse emissions. While acknowledging that transport fuels should be included, the RACQ seeks the adoption of a fuel excise offset to compensate motorists for the carbon price.

The carbon price, combined with a fuel excise offset, would recognise that there are fairer and more effective ways to reduce vehicle emissions. It would also generate revenue for government by reducing the fuel tax credits paid to heavy vehicles and industry, as shown below.





RACQ's position with respect to a carbon pricing mechanism is outlined in more detail below.

RACQ acknowledges that carbon should be priced

The RACQ recognises the adverse effect of vehicle greenhouse gas emissions and acknowledges high levels of concern among members. The 2007 National Survey of Motorists' Attitudes indicated that almost 80% of motorists were concerned about the effect of motor vehicles on the environment¹.

Carbon dioxide and other gases emitted from private motor vehicles contribute eight percent of Australia's greenhouse gas emissions, while trucks and other transport modes contribute an additional seven percent.

The RACQ accepts the need to price carbon as a way to broadly focus business and consumer decisions on how to reduce greenhouse emissions. In order to be efficient, a carbon pricing scheme should cover as many sectors of the economy as possible, to spread the burden of adjustment and include all the lower cost opportunities for mitigation.

Exempting specific industries from a carbon pricing regime would reduce the economic effectiveness of the scheme and limit the compensatory funds available to households.

This position is highlighted in the 2008 Australian Automobile Association (AAA) climate change statement, *On the Road to Greener Motoring*. The policy states that a carbon emission trading scheme should include all industry sectors and all automotive fuels, and documents key objectives to minimise greenhouse gas emissions.

While fuel should be included in a carbon-pricing scheme, the RACQ believes that motorists should receive a corresponding fuel excise offset.

Impacts of a carbon price on fuel

Australia is a car-dependant nation and will remain so for the foreseeable future, regardless of any decisions on carbon pricing. Car trips make up more than 75% of all passenger travel. It is important to reduce the environmental impact of cars, however, this must be achieved without significantly harming the social and economic contribution of mobility to society.

¹ Australian Automobile Association *National Survey of Motorists' Attitudes 2007*



A carbon price on fuel could increase societal inequity and burden low income households. These families often reside in outer urban and regional locations that have limited public transport options and few local facilities within walking and cycling distance. They are consequently more reliant on their vehicles.

Higher fuel prices do little to change total emission levels. Demand for fuel among motorists is relatively inelastic and, therefore, any increase in fuel price only leads to a small decrease in consumption.² A realistic short term maximum carbon price of \$40 / tonne CO₂ equates to about 10 cents a litre for petrol and 12 cents a litre for diesel. This amount is substantially less than fuel price rises in recent years, which have seen only minor decreases in consumption.

Rather than simply imposing higher fuel prices on households, the RACQ considers there are fairer and more effective ways the Australian Government could achieve lower fuel use and emissions.

Compensate motorists with a fuel excise offset

A fuel excise offset for motorists should accompany the introduction of a carbon price. This offset would reduce the current 38.143 cent a litre fuel excise by an equivalent amount to the initial carbon price. This would prevent an initial price shock on motorists while facilitating a change to federal taxation arrangements to divert fuel excise revenue to carbon emission reduction programs.

This excise offset policy is equivalent to the policy outlined in the previous Carbon Pollution Reduction Scheme (CPRS) proposal. Under a CPRS, the Government proposed to offset the additional cost on fuels arising from a carbon price, through reductions to the fuel excise.

This fuel excise offset would offer relief to motorists who cannot access walking, cycling or public transport alternatives and are dependent on driving. These motorists are already suffering from high petrol prices, including the recent price-spikes attributable to the political unrest in the Middle East and northern Africa.

A fuel excise offset for motorists would rebalance the current fuel excise disparity between industry sectors. As shown in Table 1, a substantial amount of fuel excise revenue is returned to industry sectors through a system of fuel tax credits. A fuel excise offset would reduce the total revenue generated by fuel excise but it would also reduce the fuel subsidies paid to industry sectors.

² In the short term, car fuel use in Australia declines about 1.5 per cent for every 10 per cent increase in petrol price. This rises to between 4 and 7 per cent decline in the longer term.

Department of Infrastructure, Transport, Regional Development and Local government, *How do fuel use and emissions respond to price changes? – BITRE Briefing 1*, 2008, p2



Table 1: 2008-09 Fuel excise revenue and Fuel tax credits

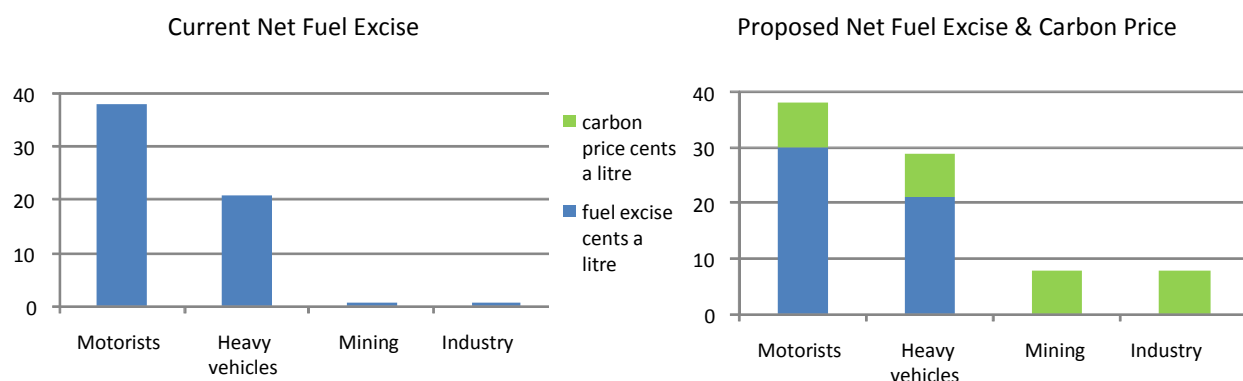
Fuel excise	Excise duty 2008-09 (\$m)	Totals (\$m)
Petrol	6,610	
Diesel	6,660	
Total fuel excise		13,270
Fuel tax credits	Fuel tax credits 2008-09 (\$m)	Totals (\$m)
Agriculture, forestry and fishing	630	
Mining	1,749	
Transport, postal and warehousing	1,170	
Other industry	1,516	
Total fuel tax credits		5,065
Net fuel excise duty		8,205

Sources: Budget Strategy and Outlook 2009-10 Budget Paper no. 1
ATO Taxation Statistics 2007-08 <http://www.ato.gov.au/corporate/>

Motorists pay the entire fuel excise of 38.143 cents a litre. As shown in Figure 1, heavy vehicles receive a rebate that reduces their fuel excise to 21 cents a litre. Miners and farmers claim fuel tax credits up to the full excise amount. Motorists receive none of this fuel price relief.

A carbon price, combined with a fuel excise offset, would generate additional revenue for government through reduced industry subsidies. It would add an incentive for industry to reduce fuel use and emissions. It would also reduce the inequity of taxing motorists at much higher rates than other fuel consumers.

Figure 1 Net fuel excise and carbon price – current and proposed





Fairer and more effective ways to reduce fuel consumption and vehicle emissions

The RACQ proposes the following initiatives, in addition to a carbon price and fuel excise offset, for government, industry and motorists to reduce fuel consumption and greenhouse emissions:

1. Promote efficient driving

The RACQ is implementing an EcoDrive pilot program with Queensland Government funding support. EcoDrive informs and supports drivers to reduce fuel consumption and carbon emissions by changing the way they drive. The pilot program is expected to establish EcoDrive as a cost-effective means of reducing vehicle emissions.

2. Promote walking, cycling and public transport

A number of TravelSmart and other programs have been successfully implemented in Australia to encourage people to walk, cycle and take public transport. These programs should be expanded to increase the use of alternative modes where this is a realistic option.

3. Reduce traffic congestion

RACQ field tests in Brisbane demonstrated that the stop-start traffic conditions associated with congestion increase fuel consumption by around 30 percent.³ Government funding of Intelligent Transport Systems, roads and public transport infrastructure are thus required to reduce congestion and emissions.

4. Improve new vehicle fuel efficiency

Vehicle fuel efficiency targets would improve the availability of low emission vehicles. Incentives or rebates, including reductions in registration and stamp duties, would promote the purchase of more fuel efficient cars and reduce greenhouse emissions. Measures to improve the affordability of fuel efficient vehicles would ultimately also benefit lower income households, by ensuring greater and earlier supply of fuel efficient vehicles into the second-hand car market.

5. Change Fringe Benefits Tax laws

The existing Fringe Benefits Tax laws for motor vehicles should be reviewed as they include an incentive to drive greater distances. New arrangements could reduce greenhouse emissions by removing this incentive to travel further.

³ RACQ, *The Effects of Traffic Congestion on Fuel Consumption and Vehicle Emissions*, 2008, <http://www.racq.com.au>



6. Support alternative fuel production

The Australian Government plans to increase fuel excise for alternative fuels but has not detailed any means to support the domestic production of fuels such as ethanol and biodiesel. The RACQ supports greater investment in sustainable fuel production in order to reduce greenhouse emissions and improve energy security.

7. Regulate the disposal of end-of-life vehicles

The production and disposal of vehicles and vehicle components generates pollution and greenhouse emissions. Regulations should be introduced to maximise the benefits from recycling of vehicle components and manage the environmental impacts of waste products such as batteries, fluids, refrigerant gases, tyres and vehicle bodies.