



**AUSTRALIAN
AUTOMOBILE
ASSOCIATION**



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Energy White Paper Taskforce
Department of Industry
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Submission on the Issues Paper for the Energy White Paper

The Australian Automobile Association (AAA) is the peak organisation representing Australia's motoring clubs. The AAA's constituent clubs are the NRMA Motoring and Services, RACV, RACQ, RAC (WA), RAA (SA), RACT, AANT and the RACA. Combined, these clubs represent more than seven million Australian members, and advocate on behalf of all road users.

The AAA welcomes the opportunity to comment on the Issues Paper which will inform the preparation of the Energy White Paper. Within the Issues Paper the AAA will comment on the areas of direct relevance to motorists, including energy security; energy efficiency in the transport sector and; alternative transport fuels and vehicles.

The motoring clubs believe the Government's approach to energy policy should encourage affordability for motorists by ensuring a long-term reliable and secure supply of energy.

Australia is currently dependent on foreign oil and due to the recent decline in domestic refining capacity; imports of refined fuel are likely to increase. As a result motorists will be more exposed to supply interruptions which may lead to higher fuel prices. To counter these threats the energy white paper must support the development of an effective energy security strategy, fuel efficient practices and alternative energy sources.

Securing Australia's Liquid Fuels

Australia's transport systems rely heavily on oil and ensuring a reliable supply of fuel is an important issue for motorists. The nation has become increasingly dependent on imported refined fuel as stronger demand has coincided with declining domestic production due to a diminishing refining capacity most recently evidenced by planned closures of the Clyde and Kurnell refineries and the uncertainty generated by Shell's intention to sell its refinery in Geelong.



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The 2012 Energy White Paper (EWP) and the Issues Paper for the 2014 EWP do not envisage that Australia's dependence on imports is a threat to the country's energy security given the fact that liquid fuel is imported from "a diversity of suppliers under stable market arrangements". However, a 2013 report, Australia's Liquid Fuel Security, prepared for NRMA Motoring and Services has questioned this assumption.

The report maintains that Australia has low levels of consumption stockholdings of oil/liquid fuels; long supply chains; and that there has been a narrow assessment of fuel supply chain weaknesses. In short it outlines some of the potentially severe consequences which could occur if the assumptions contained in the vulnerability assessments made to date are incorrect.

Through the discussion paper the Government is seeking comment on the value of developing fuel reserves to meet Australia's international oil security obligations, and augment domestic security.

The AAA has previously sought action to ensure Australia meets its 90 day stockholding obligation as a member of the International Energy Agency (IEA). These commitments are made as a buffer to prevent sharp fuel price increases or rationing in response to short-term liquid fuel supply disruptions. Ninety days of IEA-defined stockholding does not translate into 90 days of consumption and it is questionable whether complying with the minimum IEA requirement would be sufficient in the event of a major disruption in the supply of fuel. This is concerning when, according to the Issues Paper, Australia may soon average below 60 days and 45 days by 2024.

The Issues Paper suggests that investing in reserve stocks of fuel to mitigate a sudden supply disruption would incur a cost to be met by 'either increased fuel prices or the diversion of public funds'. A severe disruption in the supply of fuel could have widespread negative consequences for the community as a whole. Ensuring a stable energy supply is a public good and the cost thereof should not fall on consumers, such as motorists who already pay their fair share in taxes. The AAA thus cautions against an approach which would result in motorists paying higher costs for fuel.

There are two clear opportunities for government to influence our capacity to meet this stockholding obligation. As major refiners seek to restructure their import and refining capacities, there is an opportunity for government to ensure an overall increase in the stockholding capacity at large urban terminals. The second opportunity arises as additional fuel and port infrastructure development occurs, which will allow the Government to seek additional port and terminal capacity to meet Australia's 90 day obligations.

If stockholdings are to be increased, stocks would need to be in crude oil to address the cost and shelf life of refined fuels. As such a local refining capability would be required. The Government needs to consider what level of local refining capacity will be needed in the long-term to counter possible supply interruptions.

In addition to securing stockholdings there are a number of actions the government needs to undertake to address fuel security. Action to diversify the sources of fuel used by Australia's transport systems will be crucial in securing the nation's fuel supplies. Furthermore, the vulnerabilities to our supply chain elements, such as shipping, ports, refineries and domestic distribution should be properly analysed and understood. Future assessments of Australia's liquid fuel vulnerabilities should include a broader range of scenarios and threats.

Energy Efficiency in the Transport Sector

The Issues Paper has sought input into measures to increase energy use efficiency in the transport sector. Motorists stand to benefit from more efficient use of energy as it has the potential to deliver cost savings, provide environmental benefits and make more effective use of the nation's finite energy supplies.

Behavioural changes implemented by motorists can improve energy efficiency, particularly through such options as the adoption of fuel efficient driving or eco-driving initiatives. A 2012 research study by the RACQ, found an average of five per cent reduction in emissions for drivers who complete eco-driving training. This type of training can inform and support drivers to reduce fuel consumption by changing the way they drive. Improving driver behaviour through education campaigns is a cost-effective method of making motoring more sustainable in the short-term.

Reducing congestion is another part of the solution to improving energy efficiency. Research has shown that the stop-start traffic conditions associated with congestion increase fuel consumption by around 30 percent. Therefore Government initiatives and funding of infrastructure to reduce congestion can assist to improve fuel efficiency. Governments should also adopt traffic management practices which encourage a consistent flow of traffic, resulting in the reduction of congestion from stopping and starting. Intelligent Transport Systems (ITS), network design and urban planning all play an important role in overall energy efficiency and should be considered by the EWP. Increasing patronage levels on public transport should also form part of the nation's energy strategy. Furthermore, encouraging sustainable transport options, such as car sharing, carpooling, walking and cycling should also form part of the solution to improving energy efficiency.

Existing regulations such as fuel quality standards and fuel economy disclosure have assisted motorists to improve fuel efficiency. Pursuing fuel quality standards which enable new vehicle technologies to perform more efficiently remain part of the solution. There are additional legislative options for policy makers to consider which will improve the energy efficiency of motoring.

For example, in recent years there have been calls to introduce CO₂ emissions standards for new light vehicles. The AAA has offered support for such a standard provided it will yield net benefits to Australian motorists. Reduced motor vehicle CO₂ emissions should benefit motorists in terms of reduced fuel consumption. However, these benefits should not be nullified by excessive increases in new vehicle prices, reduced choice of vehicle models, or reduced vehicle safety.

Alternative Fuels

According to the survey of motor vehicle use, in 2012 of the total fuel consumed by motor vehicles, 95 per cent was petrol and diesel with the remaining five per cent classified as alternative transport fuels, such as gaseous fuels and biofuels. The Strategic Framework for Alternative Transport Fuels (SFATS) examined the outlook for alternative transport fuels in Australia and barriers to their uptake. The SFATS outlines the potential uptake of alternative transport fuels, noting that by 2030 it could make up between 23 and 46 per cent of Australian transport fuels. This means that over the next 15 or so years, there could be a significant transition to the use of alternative fuels by Australian motorists.

Under existing tax arrangements, alternative fuels, such as bio fuels and gaseous fuels, are either excise free or incur excise at concessional rates. The AAA supports measures to encourage stronger development of alternative fuels in Australia through incentives, including excise concessions such as those that are currently applied.

Australia has large natural gas reserves which could provide a long-term alternative to conventional transport fuels, without the need to rely on foreign markets for supply. The SFATS notes that gaseous fuels can potentially deliver greenhouse gas emission reductions compared to conventional petrol and diesel products, with the level of benefits dependent on the gas type, fuel quality, engine technology and driver behaviour.

The Issues Paper has requested feedback on any barriers to increased uptake of LPG in private vehicles. According to the 2013 motor vehicle census, less than three percent of Australia's registered vehicles run on fuel other than petrol or diesel. While vehicles running on LPG systems have benefitted from incentives and fuel excise concessions, widespread uptake of this technology has not occurred. Some of the common barriers associated with LPG vehicles are well documented. Consumers are put off by the upfront cost of conversions; the fact that not many new LPG vehicles are sold in Australia; and LPG is not as widely available as petrol and diesel.

Furthermore, the scheme which provides rebates for new car purchases with LPG systems and conversion of used vehicles to LPG, is due to finish on 30 June 2014. In addition, excise on LPG is increasing and will rise to 12.5 cents per litre by 2015. The loss of these incentives will undoubtedly inform consumer purchasing decisions.

Although LPG is considered to be cheaper than mainstream fuels, in the long-term it has been prone to sharp price increases in recent times which may have undermined its reputation as a cheaper source of fuel. While the majority of Australia's LPG is sourced locally, the price of the fuel is still determined by global market conditions and significant price rises have occurred in recent times. For example, LPG reached a record high around Australia in December 2013, as the regional benchmark commodity price rose 33 per cent due to increased demand associated with winter in the northern hemisphere. In addition, prices of LPG in regional areas are significantly higher than in cities.

The AAA suggests that further consideration and evaluation of the treatment of gaseous fuels must be considered in order to facilitate a greater uptake of these fuel types to reduce the reliance on petrol and diesel and promote more environmentally sustainable motoring. The Government should reconsider whether the rebates which encourage motorists to adopt LPG technology should cease to exist on 30 June 2014 as planned.

Australia should explore and trial the use of CNG in passenger cars and LNG in heavy vehicles to increase our utilisation of domestic energy sources. Similarly, pilot plants utilising Gas-to-Liquids technology to convert gaseous fuels to a petrol or diesel equivalent would reduce our reliance on imported fuels.

Electric Vehicles

While electric vehicles (EVs) may be an effective counter to oil dependency, the broader environmental advantages of EVs relies on their construction methods and battery production and disposal, and the emissions created by the sources of electricity generation they use.

EV's constitute a negligible proportion of Australia's vehicle fleet. Since EVs started selling in Australia in 2010, just over 700 have been purchased as of December 2013. The Issues Paper has asked for comment on any barriers to the increased uptake of EVs. The primary barrier to an increased uptake of EVs is high upfront costs of the vehicle relative to regular vehicles. For example, the manufacturer's recommended drive away price for Australia's bestselling EV, the Nissan Leaf, starts from \$39,999. In essence, smaller cars with range constraints are priced at the same level as larger vehicles with no range constraints.

In countries such as Japan and the United States, policymakers have addressed the high up-front costs by offering incentives for consumers to purchase EVs. In Australia, electric vehicles sold in the ACT and Victoria qualify for discounts in registration fees. Other than that there is no national significant incentive scheme encouraging the uptake of electric vehicle technology.

EVs also suffer from poor access with only a limited number of models available for purchase in Australia. In addition, dealerships do not have them consistently and readily available in the showrooms.

Another barrier for the uptake of electric vehicles is range anxiety. The Nissan Leaf has an approximate range of 150km and while most daily car journeys will fall within this range, it limits the consumer's ability to make longer journeys conveniently.

Various initiatives may encourage a greater uptake of EVs in the short-term such as purchase rebates, providing incentives to encourage motorists to charge their EVs during off-peak electricity periods, minimising the initial impact on energy grids and spreading market demand for energy across the day.

In order for EVs to gain sufficient uptake in the market, there needs to be charging infrastructure that supports mainstream use of them. Discussions between market participants across the supply chain need to take place in order to ensure the development of infrastructure is suitable to the needs of motorists and to facilitate planning to avoid any negative impact on peak demand, should there be large scale uptake of EVs.

While increased uptake of EVs will undoubtedly improve the transport sectors high amount of energy use, other types of low emission and efficient vehicles also have a contribution to make. Consumers should continue to be made aware of a vehicles energy use through such tools as fuel economy disclosures and the Green Vehicle Guide.

I urge you to consider the issues canvassed in this submission and look forward to the opportunity to advance the interests of Australian motorists through continued active engagement in the process of developing the Energy White Paper.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Andrew McKellar', written in a cursive style.

ANDREW MCKELLAR
Chief Executive