Powering Regional Australia

Fuel tax credits

APRIL 2016

Major Australian industries that rely on off-road diesel

$124b
Construction

$109b
Mining

$43b
Tourism

$35b
Oil and gas

$33b
Agriculture

$20b
Forest and wood products

$9b
Maritime

$2b
Fishing

What are fuel tax credits?

Fuel excise was introduced in Australia in the 1920s for the specific purpose of road construction and maintenance.

Rebates for fuel excise are a long-standing feature of Australia's tax system, existing in various forms for diesel since excise was extended to diesel in 1957.

In 1982 the Diesel Fuel Rebate Scheme (DFRS) was introduced, which enabled eligible users to claim back excise through the completion and submission of relevant forms to government.

The DFRS was limited to primary producers, miners, users of diesel for heating, lighting, hot water, air-conditioning and cooking for domestic purposes and for diesel fuel used at hospitals and aged care homes.

From 1 July 2000 the DFRS was extended to rail and marine transport. Rebate rates, which had varied according to use, were made equal for all eligible activities.

The fuel tax credit system was introduced in 2006. It is a simple mechanism. Excise is paid at the pump and refunded through Business Activity Statements.

Imposing a tax on fuel – a vital input for many businesses – would add to business costs and create economic distortions.

Fuel tax credits are available to all businesses, in all parts of Australia.

It is a long-standing policy principle that governments do not tax business inputs. Imposing a tax on fuel – a vital input for many businesses – would add to business costs and create job uncertainty.

The Fuel Tax Credit Coalition:

Australian Forest Products Association (afpa) · appec · National Irrigators' Council · Commonwealth Fisheries Association · Maritime Industry Australia Limited · National Farmers' Federation · Ricegrowers' Association of Australia Inc · Minerals Council of Australia · NSIA · AgForce · Canegrowers · Tourism Tropical North Queensland · vtic Victoria Tourism Industry Council

Why are there fuel tax credits?

The purpose of the fuel tax credits scheme is to remove the effect of fuel tax on business inputs; the same tax policy principle that underpins the GST.

Fuel tax credits also recognise that excise is an implicit road-user charge originally introduced to fund public roads. Farmers operate vehicles and machinery on farms not public roads. Miners fund and build private roads.

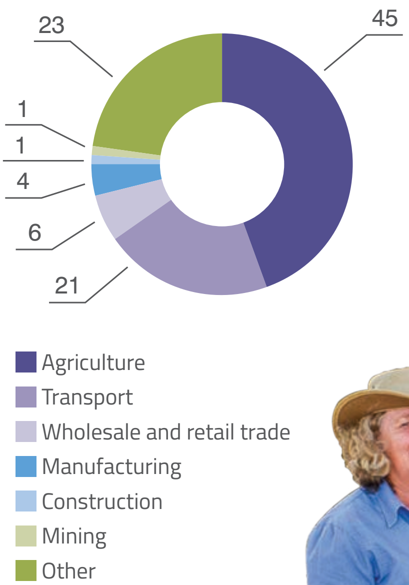
Fuel tax credits further recognise that excise should not apply to the use of fuel in electricity generation because excise is targeted at transport use of fuels - not electricity generation, heating or other applications.

Fuel tax credits are claimed by a range of industries and by households. They are vital to the competitiveness of industries operating in regional Australia.

Large export earning industries such as mining, agriculture, fishing, forestry and tourism rely on diesel to operate heavy machinery off-road and to operate in remote areas off the electricity grid.

Any changes to existing fuel tax credit arrangements would amount to a new tax on regional and rural Australia and would hit industries and jobs in Northern Australia particularly hard.

Number of claims by industry (%)



Case study 1

Agriculture relies on on-farm diesel use

Hayden Cudmore, Griffith NSW

Farming is in Hayden Cudmore's blood.

The third generation on his family's irrigated farm outside Griffith, Hayden started as his parents' employee in 1983.

In 1994, Hayden bought into the family business and now farms 800 ha with wife Veronica and his three children.

'We use a large amount of diesel in our business,' Hayden says. 'Preparation of land for farming, harvesting crops and simply driving the ute around the farm to check on stock.

'There's not a single day I don't use diesel on-farm in some way.'

Diesel pumps underwrite a back-up system for annual crops, such as rice.

'Linked to the dam, they can pump water to crops if and when they need it,' he says.

'We might spend around $80,000 a year on diesel. It's a significant business input.'

He recently invested in a diesel pump to help mitigate high electricity prices. The certainty around the fuel tax credits scheme underpins that investment.

'Farmers can't control commodity prices. We compete in a global market. Any measures to keep costs down are important to our bottom line.'

'Australians are the most efficient rice growers in the world. But we operate on the slimmest of margins.

'Getting rid of fuel tax credits would increase our costs, further undermine our competitive capacity, impact on our ability to continue employing staff and basically make it difficult to stay farming.'

David and Lyn Slade
Kendenup, WA

The Slades' 5,700 ha Glenridge Park uses about 100,000 litres of diesel each year.

The farming family has built around 25 kms of on-farm laneways to maximise production and productivity.

Fuel tax credits recognise that a business that builds, uses and maintains its own roads should not be liable to pay the excise.

Fuel tax credits are not a subsidy

Treasury has categorically rejected the view that the fuel tax credit scheme amounts to a 'subsidy'.

In its 2011 submission to the G20 Energy Experts Group, Treasury stated:

> ***'Fuel tax credits are not a subsidy for fuel use, but a mechanism to reduce or remove the incidence of excise or duty levied on the fuel used by business off road or in heavy on-road vehicles.'***

A senior Treasury official told a Senate hearing in June 2014:

> ***'... the principal rationale behind the fuel tax credit system ... was to ensure that a number of industries that used fuel off road were not subject to double tax.'***

Further, the fuel tax credit scheme is not classified as industry assistance by the Productivity Commission. In the *Trade and Assistance Review 2013-14*, the Productivity Commission concluded:

> ***'The estimated effective rate of assistance from tariff and budgetary assistance for mining is negligible.'***

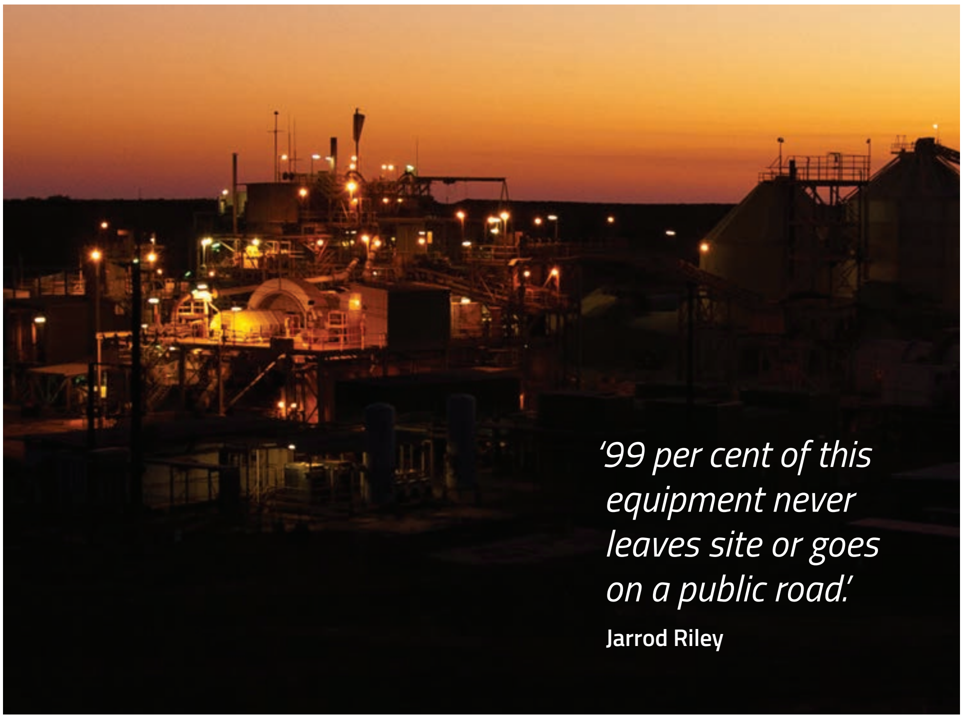
A research note from the Parliamentary Library also directly stated that fuel tax credits are not a subsidy:

> ***'...the rebate for excise paid on fuel that eligible businesses use as inputs is not a subsidy to fuel use. Rather, the rebate is designed to relieve businesses of input taxes that can reduce output and living standards.'***

Case study 2

Diesel makes remote worksites viable

Newmont Asia Pacific, Tanami Desert, Northern Territory



Newmont's Tanami gold operation is one of Australia's most remote mine sites located in the Tanami Desert in the Northern Territory.

Its nearest neighbour is the remote Aboriginal community of Yuendumu, some 270 kms away.

The mine is situated on Aboriginal freehold land owned by the Warlpiri people and managed on their behalf by the Central Desert Aboriginal Lands Trust. Due to its remoteness, the workforce of approximately 750 personnel is all fly-in, fly-out.

'Power costs equate to approximately a quarter of the fixed running costs of the operation,' Jarrod Riley, Manager Sustainability and External Relations - Tanami Operations says.

In 2014 Newmont Tanami produced over 167,000 MWh, which consumed more than 41 million litres of diesel.

Almost 13 million litres of diesel was used operating equipment, including 22 underground dump trucks, six underground boggers (loaders), four underground drills, seven integrated tool carriers, three agitator trucks, 10 wheeled loaders, two water carts, five 50 seater buses, five graders, four excavators, five roadtrains and more than 50 light vehicles.

'Removal of the fuel tax credits, particularly to a remote operation so reliant on diesel, will greatly impact profitability. This impact will then flow on to both the Northern Territory Government and the Traditional Owners through lower royalty payments,' Jarrod says.

'Everything on Green Island Resort is powered by diesel from the air-conditioning in the hotel rooms to the water desalination plant.'

Tony Baker
Quicksilver Group, QLD

Case study 3

Diesel underpins maritime industries

Maritime Industry Australia

Australia relies on sea transport for 99 per cent of its exports and a quarter of domestic freight is moved by ship to service geographically diverse populations and industries.

More than 5,000 cargo ships made a total of 38,073 calls at Australian ports in 2012-13 and 1.26 billion tonnes of cargo moved across Australian wharves.

Tasmania is particularly reliant on shipping to transport imports and exports to and from domestic and international markets.

'Any increase in fuel cost will directly affect the cost of shipping goods across Bass Strait and increases the cost burden on Tasmanian businesses and the community,' Chief Executive Officer of Maritime Industry Australia Ltd, Teresa Lloyd, says.

Across Australia more than 64 ports require a range of on-water services, tugboats and dredges particularly to keep our channels clear and ports accessible. Without tugs, Australian ports come to a halt.

Increasing the cost of running these essential services increases the cost of doing business in Australia.

'The cost to the towage sector is estimated to be more than $11 million per annum if fuel tax credits are abolished.

'This cost would have to be passed on; ultimately to the consumers who buy the goods that arrive by ship and trading partners purchasing our bulk commodities,' Teresa says.

Also affected by fuel cost rises is the broader maritime industry in Australia, including:

- Offshore oil and gas sector vessels
- Cruise and tourism vessels
- Remote community supply vessels
- On-water defence and border protection activities.

'Australian maritime businesses operate with Australian overheads and from an Australian cost base,' Teresa says. 'But they compete in a global market. Any increases in costs undermine the idea that Australia is "open for business".'

Bipartisan support for fuel tax credits

'[T]he government does not consider the diesel fuel rebate as a subsidy at all … It is recognition that you should not charge businesses an effective road-user charge if they do not use public roads.'

Senator the Hon. Mathias Cormann

'Unjustifiably taxing business inputs is inefficient. It distorts investment decisions, affects Australia's export competitiveness and creates uncertainty for businesses large and small.'

The Hon. Gary Gray AO MP

'[T]here are no fossil fuel subsidies in our tax system … The diesel fuel rebate has the effect of preventing the taxation of a "business input" … which is an accepted principle of good taxation policy … There is no preferential treatment for the resources industry in our tax system…'

Senator the Hon. Sam Dastiyari

'[E]ach year Treasury compile what is called a Tax Expenditures Statement, a summary of all the reductions in tax rates we provide to particular sectors and how much that costs the budget … It is very important to note that, while that document is not per se about subsidies themselves, Treasury do not include the diesel fuel tax rebate as part of their assessment … [C]onsistent with Treasury practice, the Productivity Commission do not measure or estimate the fuel tax rebate as a subsidy. They have had ample opportunity to do so over many years.'

Senator Matthew Canavan

'If fuel tax credits were abolished, our ability to survive in a high cost domestic environment would be severley compromised.'

David Carter
Austral Fisheries, WA

Fuel tax myths

MYTH

Excise does not fund public roads, off-road users should pay

FACT

Fuel excise is an implicit road user charge. That is why a 'road-user charge' applies to businesses using public roads in the form of reduced fuel tax credits.

As the Henry Review stated:

> *'This combination of annual motor vehicle registration and fuel excise could be viewed as a crude 'two-part tariff' for road usage. While road taxes are not hypothecated (that is, earmarked) to road spending, revenue from these taxes does cover the direct cost of infrastructure spending on roads and bridges...'*

MYTH

Fuel tax credits encourage fossil fuel use

FACT

All businesses have an incentive to minimise costs including by limiting fuel usage.

Diesel is an essential business input that cannot be avoided for use in many regional businesses. Large agricultural and mining equipment, ships, fishing vessels and ferries require diesel.

Businesses and homes in remote areas off the electricity grid rely on diesel generators.