

20 March 2009

AFTS Secretariat
The Treasury
Langton Crescent
PARKES ACT 2600

To the Review Panel

CONSULTATION ON THE TAXATION OF 'FUELS, ROADS AND TRANSPORT'

I am writing in relation to the December 2008 Consultation Paper on 'Australia's Future Tax system,' on behalf of the Australian Institute of Petroleum (AIP).

AIP was established in 1976 as a non-profit making industry association. AIP's mission is to promote and assist in the development of a sustainable, internationally competitive petroleum products industry, operating efficiently, economically and safely, and in harmony with the environment and community standards. AIP's four core member companies are BP Australia Pty Ltd, Caltex Australia Limited, Mobil Oil Australia Pty Ltd and The Shell Company of Australia Ltd.

AIP and its member companies welcome the opportunity to comment on the Consultation Paper. This submission makes some brief comments in relation to fuel taxation (Section 12, Q 12.2), as AIP member companies will make submissions themselves on the broader suite of tax issues relevant to their specific business activities and operations. AIP member companies are also members of other peak organisations which will be making substantive submissions to this review process, particularly in relation to the structure of the tax-transfer system and on issues related to tax mix and international competitiveness.

FUEL TAXATION

Fuel Tax Policy Principles:

From a tax policy principles perspective, AIP supports a fuel tax system that:

- is efficient (causes minimum distortions), equitable (fair) and simple (easily understood);
- is practical and workable and minimises compliance and administration costs for business and government; and
- supports clarity, consistency and stability in the policy settings relevant to the downstream petroleum industry.

AIP's long held view is that, if road transport fuels are to be taxed, this should be on a comprehensive and neutral basis, consistent with energy content, so that consumers can make informed decisions about fuel choice.

2.

Fuel Tax Framework:

Consistent with AIP's overarching fuel tax policy principles:

- AIP supports energy content as an appropriate and neutral basis for taxing transport fuels; and
- AIP does not oppose the introduction of excise for alternative transport fuels according to the timetable announced in 2003.
 - AIP notes that in the *2008 Tax Expenditure Statement*, Treasury forecasts that the current exemption from excise of alternative fuels (eg. LPG, Ethanol, CNG) is expected to cost the Commonwealth Budget \$830 million in 2008-09 and \$3.6 billion over the next 4 years.

Significant investments and current and future business plans have been made on the basis of the previously announced fuel tax framework and timetable and, if there are to be any changes, they should not result in any existing or committed projects (at the date of any policy change) being made worse off.

The previously announced fuel tax framework also includes a long term 50% excise concession for alternative fuels on environmental (greenhouse) grounds. As the planned introduction of the Carbon Pollution Reduction Scheme (CPRS) is intended to establish a carbon price, AIP notes that there would appear to be little basis for continuing this excise concession on these grounds.

AIP acknowledges that government may consider there is a case for financial assistance for alternative fuels, in order to overcome barriers to development, that may help to address government energy security, environmental or other legitimate development objectives. However, AIP believes that such government assistance (eg. subsidies or grants):

- should be transparent;
- should be regularly reviewed to ensure the objectives of assistance are still relevant;
- should allow for a sufficient transition period prior to an appropriate expiry date; and
- could also address any adverse consequences for existing or committed projects arising from any fuel tax changes.

Fuel Tax and the CPRS:

AIP made a detailed submission to the CPRS Green Paper; the submission is available from: <http://www.aip.com.au/pdf/submissions/AIP%20Response%20to%20CPRS%20Green%20Paper%2010%20Sept.pdf>). The Government's CPRS White Paper has since been released.

The White Paper says that for private motorists *"the Government will cut fuel taxes on a 'cent-for-cent' basis to offset the initial price impact on fuel of introducing the Carbon Pollution Reduction Scheme. For three years, the Government will assess periodically the adequacy of this measure and adjust the offset accordingly. At the end of the three years, the Government will review this adjustment mechanism. Reductions in fuel tax made during this transition period will become permanent after three years."* The excise offset would also apply to other categories of users for a period ranging from one to three years.

3.

The excise offset commitment is to be delivered by a six monthly adjustment of the excise rate that is based on an average carbon price over the previous six months. The reduction is to be based on the diesel emission factor that would over-compensate petrol users. If the carbon price was lower than excise adjustment, the White Paper said that the government would not claw back the level of over-compensation.

AIP considers that the proposed framework for delivering the “cent-for-cent” commitment would only be truly “cent-for-cent” if the carbon price was stable over extended periods of time and the mechanism accurately reflected carbon emissions from each fuel. We consider that there is a strong risk, even with the inherent bias towards over-compensation in the proposed mechanism, that motorists will consider that the reduction has not been effectively passed on in the fuel price.

In its Green Paper submission, AIP indicated that there were other ways to deliver the “cent-for-cent” commitment that would ensure exact matching of the carbon price and excise offset at the bowser. This could involve leaving the excise rate the same but hypothecating the carbon revenue to the government carbon trading account. The White Paper asserted that this would remove these carbon permits from the trading system and was therefore, unacceptable. As noted in the AIP Green Paper submission, an alternative mechanism could involve primary fuel suppliers and large users being allocated permits (via regulator entries into registry accounts) which are priced at a fee explicitly linked to the price of carbon under the CPRS. Such a mechanism would apply when the fuel moves through the excise taxing point and could provide a robust, watertight and administratively simple way for motorists’ emissions to remain part of the trading system.

AIP is also concerned about the complexity and likely controversy which will arise around retail fuel pricing at the time of the excise changes, particularly at commencement of the CPRS when changes of the order of 8-10 cents per litre will be made. This complexity will arise because of the time period of several weeks for “excise-paid” fuel to fully clear through the wholesale and retail distribution systems, particularly in regional Australia.

Fuel Tax Administration:

In relation to fuel tax administration, AIP supports the establishment of a single administration point for fuel taxation in Australia. In this regard, we note that the 2002 Fuel Taxation Inquiry recommended a single administration point and a transfer to the ATO of the administration of customs duty collection on all imported fuel products. AIP member companies believe that a single administration point would ensure a consistent and integrated approach is taken to fuel taxation issues and that administration for industry and government is simplified.

4.

CONTACT DETAILS

Should you have any questions in relation to this submission, or require additional information from AIP, the relevant contact details are outlined below.

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AIP is happy for our submission to be made publicly available on the AFTS website.

If it would be helpful for the current review's considerations, AIP would also be pleased to meet with the Review Panel or the Secretariat to provide a background briefing on the downstream petroleum sector and on the future drivers of the fuels market more specifically.

Yours sincerely

A handwritten signature in black ink, appearing to read "John Tilley". The signature is fluid and cursive, with a large loop at the beginning and a long, sweeping tail.

Dr John Tilley
Executive Director