Biofuels Association of Australia

Submission
30 April 2008

Submission by the Biofuels Association of Australia (BAA)
on
the December 2008 Consultation Paper of the Review of Australia's Tax System

The Biofuels Association of Australia (BAA) is the peak body for the biofuels industry in Australia. The BAA represents ethanol and biodiesel producers, feedstock suppliers, independent oil companies, major oil companies and other organizations interested in the Australian biofuels industry.

The BAA is grateful for the opportunity to provide a submission on the Tax Review Consultation Paper.

Summary

The Biofuels Association of Australia is concerned about the overall net negative impact of the currently legislated fuel excise arrangements due to be implemented from 1 July 2011, and the Carbon Pollution Reduction Scheme (CPRS), due to be implemented from July 2010. Essentially, any positive benefits from the CPRS for biofuels will be both delayed and capped in the early years of the scheme, while 1 July 2011 will see the application of net taxes on ethanol and biodiesel rising to 38.143 cents per litre in 2015. The details of the BAA concerns are at Appendix A.

The BAA further believes that it is critical for the Government to implement a policy of taxing transport fuels on their energy content. This would provide a fair go for consumers because, by and large, consumers are buying the energy content of the fuel and Government taxes should be aligned with that benefit. The energy banding approach is appropriate for transport fuels, with ethanol having a tax of 25 cents per litre, for instance.

High Level Issues

The BAA acknowledges that the excise system is being asked to meet too many different objectives and that it does none well. The BAA believes that it would be better to have greenhouse objectives met through the CPRS, but only if the CPRS is inclusive and covers all transport fuels. Furthermore, that the CPRS be allowed to include the full market price for carbon and not be capped at $A40 per tonne of carbon.

The BAA also believes that if the excise system is to exclude any support measures for biofuels, that a separate funding program is necessary to support the development of fledgling alternative fuel industries such as biofuels. Furthermore that such a program should be administered by the Department having policy responsibility for alternative fuels ie the Department of Resources, Energy and Tourism (DRET). However, it needs to be acknowledged that any new DRET alternative fuels program would need to provide a similar level of benefits for biofuels, to the current excise system, including that of the Fuel Tax Credit benefit to biodiesel blends that meet the diesel standard.

The BAA supports the concept of fuel industries being able to compete on a level playing field and that new industry benefits to alternative fuels should be withdrawn at a stage when all fuel prices truly reflect the full value of embedded carbon, and peak oil.

It should be noted that the graph on page 239 of the Tax Inquiry Consultation paper misrepresents the tax situation for diesel because 75% of diesel consumed has no net tax payable because of the Fuel Tax Credit that refunds the excise for the agriculture, mining and heavy vehicle on road sectors. In fact the tax situation averaged across the diesel fuel market would only be around one quarter of what is graphed. The flow on implications of this is that the Cleaner Fuels Grant payable to producers and importers of biodiesel is not effective in markets where the Fuel Tax Credit applies.

Of particular note is that if a suitable alternative fuels program that delivers similar benefits to the current excise and Fuel Tax Credit systems, is not developed, then it is likely that greenhouse potential greenhouse emissions from the agriculture, mining and heavy vehicle transport sectors will be higher by 7.2 million tonnes per annum, than other wise would have been the case.

Appendix A

In general the BAA would make the following main comments on the draft CPRS Bill:

- **The CPRS legislation, as it stands, will have very little if any impact on whether a consumer would choose to use ethanol/petrol or biodiesel/diesel blends in preference to higher carbon petrol and biodiesel**.
- The reason for this is that a stronger influence over fuel choice will be delivered by the excise rates for ethanol and biodiesel and the Fuel Tax Credit for diesel.
    - Net excise on ethanol and biodiesel will be implemented from 1 July 2011 and the magnitude of these tax increase will outweigh any positive benefit from the CPRS.
    - It is likely that biodiesel blends will no longer be eligible for a Fuel Tax Credit from 2010 and the magnitude of this effective increase in tax would dwarf any positive benefit from the CPRS

The net effect will be that biofuels are highly unlikely to be a part of the Australian transport fuel mix, probably from as early as 2010, thereby increasing the greenhouse emissions of Australian transport. The net effect of the CPRS and the excise rates for ethanol and biodiesel are summarised in the tables below.

Ethanol – net impact of CPRS and excise rates on margins in cents per litre (cpl)

	2010	2011	2012	2013	2014
CPRS	0	0	0	0	9.2
Net excise (current legislation)	0	-7.6	-15.2	-22.8	-30.4
Net effect	0	-7.6	-15.2	-22.8	-21.2

<u>Note 1</u>: Carbon price of $A40 per tonne in 2014 (capped by Government policy for first 5 years).
<u>Note 2</u>: Excise set at 20% of 38.143 cpl in 2011, 40% in 2012, 60% in 2013, 80% in 2014, 100% in 2015.

Biodiesel – net impact of CPRS and excise rates on margins in cents per litre (cpl)
Mining (B20 blend)

	2010	2011	2012	2013	2014
CPRS	1.08	1.08	2.16	2.16	2.16
Net excise (current legislation)	0	-1.52	-3.04	-4.56	-6.08

Fuel Tax Credit	-7.6	-7.6	-7.6	-7.6	-7.6
Net effect	-6.52	-8.04	-8.48	-10.0	-11.52

Note 1: Carbon price of $A20 per tonne for 2010-2011 and $A40 per tonne in 2012-2014 (capped by Government policy for first 5 years).
Note 2: Excise set at 20% of 38.143 cpl in 2011, 40% in 2012, 60% in 2013, 80% in 2014, 100% in 2015.

Biodiesel – net impact of CPRS and excise rates on margins in cents per litre (cpl)
Agriculture (B20 blend)

	2010	2011	2012	2013	2014
CPRS	0	0	0	?	?
Net excise (current legislation)	0	-1.52	-3.04	-4.56	-6.08
Fuel Tax Credit	-7.6	-7.6	-7.6	-7.6	-7.6
Net effect	-7.6	-9.12	-10.64	-12.16	-13.68

Note 1: Carbon price of $A20 per tonne for 2010-2011 and $A40 per tonne in 2013-2014 (capped by Government policy for first 5 years).
Note 2: Excise set at 20% of 38.143cpl in 2011, 40% in 2012, 60% in 2013, 80% in 2014, 100% in 2015.

Background

Fuel Tax Credit Eligibility
The Australian Taxation Office has an eligibility criteria of meeting the diesel standard, if an end user wishes to claim a Fuel Tax Credit (equal to the excise tax of 38.143 cents per litre) – essentially for the agriculture, mining and heavy vehicle sectors.

Currently, biodiesel blends are eligible for a Fuel Tax Credit if the blend meets the diesel standard. However, during the next 12 months, the Department of Environment, Water, Heritage and Arts will be developing a separate fuel standard for biodiesel blends above 5% and up to 20%. This means that a biodiesel blend above 5% and up to 20% will no longer be eligible for a Fuel Tax Credit.

These 5-20% biodiesel blends currently are 90% of the biodiesel blend market. The greatest growth in the biodiesel blend market is the mining sector and heavy vehicle sector and biodiesel blends will not be competitive with fossil fuel diesel in these sectors if they are not eligible for the Fuel Tax Credit. A 20% biodiesel blend that is not eligible for a Fuel Tax Credit is likely to be around 7.6 cents per litre more expensive than fossil diesel.

Hence, **if the ATO does not change its eligibility criteria**, then a new biodiesel blend standard being developed by DEWHA for perfectly legitimate reasons, will close down the mining, agriculture and heavy vehicle markets for these biodiesel blends. **<u>The greenhouse emissions of these sectors will therefore rise at that time</u>**.

<u>Excise Tax increases</u>

From 1 July 2011 the current Federal Government legislation will lead to an increase in excise taxes on a range of alternative fuels including ethanol and biodiesel. The current legislation will impose from 1 July 2011 a net excise on ethanol and biodiesel of 20% of the tariff rate (38.143 cents per litre) ie 7.6 cents per litre. The net excise rate will increase by 7.6 cents per litre each year until it reaches 38.143 cents per litre.

If these excise tax rises are imposed from 1 July 2011, then it is likely that sales of ethanol and biodiesel blends will decrease, leading to a rise in greenhouse emissions in the Australian transport sector. It is also likely that production plant closures will result.

<u>Carbon Pollution Reduction Scheme</u>

The issue here for the biofuels industry is that fossil fuels have been exempted from the CPRS for a minimum of several years. What this means is that the positive value of pricing carbon in fossil fuel such as petrol and diesel will not improve the competitiveness of biofuels that have lower greenhouse emissions. In addition, any carbon value is to be capped during the first 5 years of the CPRS to $40 per tonne.

What this means is that while we wait for the CPRS the increased excise taxes will drive down the margins in the biofuels industry, decrease sales of biofuels and possibly close production facilities before the CPRS has a chance to work on truly valuing the carbon content of biofuels in the market place.

The net result of the CPRS and excise settings could decimate the industry and raise greenhouse emissions in the Australian transport sector before fuels are included in the CPRS.

Yours sincerely

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