SUBMISSION

AUSTRALIA'S FUTURE TAX SYSTEM

Background

Who are we?

The Gull Group (Gull) is a 33 year old family owned suite of companies operating in Western Australia, Queensland and New Zealand. In Australia, we own and operate one of the 60 Australian petroleum terminals, are one of the 10 fuel importers and excise remitters, and own and operate a biodiesel manufacturing plant. We operate over 110 Service Stations in Western Australia and over 35 in New Zealand.

Gull pays fuel tax

Gull remits fuel excise for fuel distributed through our terminal in Kwinana, south of Perth and biodiesel produced at our Biodiesel plant in Narangba Queensland.

Key Submission Points

This submission's primary focus is the treatment of biofuels. (The wording has predominately been reproduced from a BAA submission made to this review in October 2008.)

Differential Treatment of Imported Biodiesel Versus Imported Ethanol

Currently unlike imported ethanol when compared with its domestic equivalent, imported biodiesel attracts the same effective tax rate as domestic biodiesel. Imported biodiesel has for a number of years depressed local prices forcing a number of Australian biodiesel producers out of business. Often the imported biodiesel has enjoyed a government subsidy, or is being sold at discounted rates for a variety of reasons. We have recently closed our Narangba plant down as a result. Please find attached a recent press release on this matter.

There is no logic to this differential treatment of biofuels and it should be removed immediately. The government is effectively picking winners and potentially redistributing capital by altering the normal course of investment in biofuels. If the intent is to encourage investment in alternative low carbon fuels, and with the increased dieselisation of the transport fleet all biofuels should be equally encouraged.

Recommendation 1: Domestically produced biodiesel should be differentiated from imported biodiesel in the same way ethanol is as soon as possible.

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 diesel in these sectors if they are not eligible for the Fuel Tax Credit. A biodiesel blend that is not eligible for a Fuel Tax Credit would be 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. The greenhouse emissions of these sectors will therefore rise at that time.

We would like to see the ATO change the eligibility criteria for a Fuel Tax Credit so that biodiesel blends can remain competitive with fossil diesel and furthermore, that higher blends up to B100 are eligible for a Fuel Tax Credit as there are an increasing proportion of diesel engines that are compatible with higher biodiesel blends with consequentially higher reductions in greenhouse emissions.

There is a counter argument used by some to try and demonstrate that biodiesel blends do not deserve a Fuel Tax Credit because the Cleaner Fuels Grant already reduces the excise tax on 100% biodiesel to zero as a way to allow biodiesel to compete with fossil diesel. However, this policy never allowed for the fact that 80% of fossil diesel pays no tax (in the agriculture, mining and heavy vehicle sectors because of the Fuel Tax Credit).

Recommendation 1**:** That the ATO (or Treasury which has the policy responsibility) changes the eligibility criteria for a Fuel Tax Credit to include all biodiesel blends.

<u>Excise Tax increases</u>

From 1 July 2011 the Federal Government will be imposing excise taxes on a range of alternative fuels including ethanol and biodiesel. We have an issue with the start date for the following reasons:

- The biodiesel industry received a severe set back in 2007 and 2008 when feedstock prices more than doubled. Such a rise in input costs is very difficult for start up companies to cope with, meaning that the implementation date should be delayed until 2016.

- The negative impact on the biodiesel industry margins will be 3.8 cents per litre in 2011, 7.6 cents per litre in 2012, rising eventually to 19.1 cents per litre in 2015. The current margins in the biodiesel industry are not sufficient to offset these margin reductions.

- 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.

There is a counter argument that if the ethanol and biodiesel industries are not economic without excise support then they should not be supported. However, this does not take into account that the value of biofuels will re-rated in the future as a price for carbon is fully valued in the fuel market, and the value of biofuels is fully realised as peak oil becomes factored into the market (not likely now until after the world economy recovers).

Recommendation 2: That excise tax rises are not implemented until 2016.

Carbon Pollution Reduction Scheme

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.

We could decimate the industry and raise greenhouse emissions in the Australian transport sector before fuels are included in the CPRS.

Recommendation 3: That the cent for cent compensation for petrol and diesel users also be applied to biofuels so that the anticipated re-valuing of the lower carbon biofuels still go ahead in 2010 but without raising petrol and diesel prices for consumers.

I would be available to discuss these issues further at your convenience.