RENEWABLE FUELS AUSTRALIA

(Biofuels Research & Industry Development)

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Submission

Australia's Future Tax System – Consultation Paper

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Background:

Until 4 July 2007, Renewable Fuels Australia (RFA) was the peak body representing the biofuels industry (ethanol and biodiesel) in Australia. Upon reaching an agreement with a remnant group of biodiesel producers a fully united industry association was formed under a new entity called the Biofuels Association of Australia (BAA).

Upon the formation of BAA, the Directors of RFA determined that the recognition and knowledge base established by RFA should not be lost and that the association be transformed into a Biofuels Research & Industry Development organization in support of a growing renewable fuels sector in Australia.

Due to the inability of the Biofuels Association of Australia (BAA) to reach an agreed consensus on Australia's future tax system, members that have invested heavily in support of biofuels production in Australia in accordance with the agreement between industry and the Government on taxation arrangements for Alternative Fuels under the **Energy Grants (Cleaner Fuels) Scheme Act 2004**, have engaged RFA to present a Submission to Treasury on these matters.

Australia's Future Tax System

Taxes from fuels, roads and transport represent a significant proportion of revenue in Australia, and have the capacity to improve the structures and efficiency of Australia's future energy security, and industry growth.

Taxes can also distort the market, or support the achievement of public good in terms of the externality impacts of petroleum fuels on public health and environmental grounds (including climate change), and choices that could lead to social and economically efficient transport as the world enters an historic era of transition from oil and petroleum products.

In 2004 the Australian Parliament enacted major reforms in tax arrangements (The Energy Grants Credits Scheme) designed to reduce costs for those who use petrol, diesel and alternative fuels in their businesses.

Ethanol was deemed, in the national interest, as an untaxed entity as a fuel in internal combustion engines in 1921,[1] and will effectively retain this status until it enters it scheduled Tax Regime on 1 July 2011.

The scheme replaced the diesel fuel rebate scheme (often called the off-road scheme) and the diesel and alternative fuels grants scheme (often called the on-road scheme) on 1 July 2003.[2]

For the purpose of this Submission, the focus will be on the impacts for the alternative fuels sector in Australia, and the key role these reforms have played in securing financial support for the growth of biofuels and gaseous alternative fuels in Australia.

[1] Excise Tariff Act 1921, Article 2(R).
[2] The Australian Taxation Office Guide to the Energy grants Credits Scheme, March 2006

In the ethanol sector alone these agreed arrangements between industry and Government have generated and supported over $300 million in financial investment in support of new ethanol production in Queensland and New South Wales over the last two years.[3]

A robust biofuels sector would have a significant and positive impact in reversing Australia's accelerating dependence on imported oil and petroleum products, and the certainty associated with the depletion of access to world oil supply in the future.

It also represents a potential source of revenue in the future.

Biofuels current production capacity in Australia exceeds 2.8% of current transport fuel use in Australia (36 billion litres per year) and gaseous fuels such as LPG approaching 5%. With appropriate policies a combined cleaner burning alternative fuels strategy in Australia could meet 50% of national transport fuel demand by 2030.

U.S. studies of renewable energy and energy efficient industry green collar jobs, show that biomass (mainly ethanol) has been responsible for 70% of the increase in green collar employment in America, followed by wind power, solar and photovoltaics.

Although the Energy Grants Credit Scheme reforms have had some distorting impacts on biodiesel in both the off-road and on-road sectors, the financial sector overall has seen these reforms as supporting future industry growth.

Under the reforms, a banded excise system has been put in place based on the theoretical energy content of fuels capable of being used in internal combustion engines – with different rates for high, medium, and lower energy fuels.

Under the banded excise system:

- High energy fuel such as petrol, diesel, biodiesel, and GTL diesel with energy content above 30 megajoules per litre attract a full excise rate of 38.143 cents per litre (cpl).

  As an alternative fuel, biodiesel received a discount of 50% on the full energy content rate, driving its excise rate down to 19.1 cpl.

- Mid-energy content fuels such as LPG, LNG, ethanol and dimethyl ether with energy content of between 20 – 30 megajoules received a formal excise rate of 25 cents per litre – but with LPG, ethanol and LNG as alternative fuels also receiving the 50% discount (due to their national domestic benefits), and thus a final excise rate of 12.5 cents per litre.

[3] The Manildra Group Ethanol refinery at Nowra (NSW), and the Dalby BioRefinery in QLD.

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- The transition path for fuels entering into the new Excise System is scheduled to commence on 1 July 2011, with an annual increase in excise units of 2.5 cpl for LPG, LNG and ethanol until a final excise rate of 12.5 cpl is reached in 30 June 2015.

- Higher energy content fuels such as biodiesel will enter its new excise regime with annual rates of 3.8cpl in 2011, until its final excise rate of 19 cpl is reached in 2015.

The tariffs for imported biodiesel and ethanol under this regime were to remain at 38.143 cpl for biodiesel, as imported biofuels would not meet the criteria associated with the 50% discount for domestically produced alternative fuels in terms of their domestic national benefits (e.g. environmental benefits and carbon pollution reduction) - and the tariff for imported ethanol at 25cpl.

- In this regard, some distortions remain with respect to the import of biodiesel.

New Factors

A new factor has been introduced with the pending introduction of a Carbon Pollution Reduction Scheme (CPRS) to address climate change.

The treatment of renewable fuels and cleaner burning alternative fuels such as LPG and CNG under the CPRS has yet to be clearly resolved.

- Biofuels have been assigned the status of being neutral under the current CPRS. This is considered inconsistent with the proven net carbon reduction benefits of biofuels.

On behalf of the biofuels sector RFA has proposed that due to the benefits that biofuels offer due to their already proven capacity to provided net reductions in carbon pollution in the transport sector, that they offer a much more positive role as part of an early deployment strategy of demonstrated net pollution reduction technologies under the CPRS in Australia.

In the Government's announcement of its decision on 4 May 2009[4] to defer the CPRS starting date for one year, the Prime Minister, Treasurer and Minister for Climate Change and Water also announced that:

> "To encourage carbon pollution reductions before the scheme starts, reforestation will be eligible to voluntarily generate permits for carbon stored from 1 July 2010, creating economic opportunities in regional Australia."

[4] Prime Minister, Treasurer, and Minister for Climate Change and water Press Release, 4 May 2009 – Page 1 under reference to 'CPRS start deferred to 2011 and permit price fixed art $10 for one year to allow the economy to recover from the impacts of the global recession.

In its Submission to the CPRS, RFA has recommended that biofuels and cleaner burning alternative fuels also be deployed early to secure net reductions in carbon pollution emissions from the Transport sector, and to create economic opportunities in regional Australia.

For consistency, it is recommended that biofuels and cleaner burning alternative fuels also be made eligible to voluntarily generate permits for carbon stored or reduced from 1 July 2010.

Industry Options

BAA has raised the option of moving the support measures for biofuels to the department of resources, Energy and Tourism (RET) in a manner that provides 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.

There are also strong views in BAA that seeking change to existing government structures and responsibilities is not a matter that the biofuels industry should be directly involved in.

There is also a strong view that the focus of the biofuels sector should be on working with the Government in securing, in the national interest, an active role for biofuels in the approaching transition from oil, and as part of a reformed tax system strategy for securing net carbon pollution reductions in the Australian Transport Sector as part of a national CPRS strategy.

Recommendations in support of achieving these goals should include:

- Working closely with Treasury and the ATO to address the anomalies and loose ends that have been identified under the current Energy Grants Credits Scheme, including the required changes to excise rates as outlined in the Australian parliament 2004 announcements.

- With a view to the impacts of the global financial crisis, deferral of the entry of biofuels and cleaner burning alternative fuels into their scheduled excise regime from 2011 to 2015.

- To encourage carbon pollution reductions, biofuels and clearner burning alternative fuels such as LPG and LNG/CNG be introduced as eligible to voluntarily generate permits for net carbon reduction from the Australian transport sector, creating new green employment, and economic opportunity in regional Australia.

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